RESEARCH BRIEF
CANADA HOUSING

IPA | INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

JANUARY 2024

Canada's Housing Market Shows Signs of Strength to Close Out the Year

Home sales performed better than expected to end the year. As mortgage rates have largely stabilized, Canada's housing market showed some strength in December. National home sales jumped 8.7 per cent monthly, while inventory levels fell from 4.2 months in November to 3.8 months in December. The number of newly-listed properties also dropped 5.1 per cent when compared to November, continuing to suggest that forced sales have not yet occurred. As a result, the sales-to-new listings ratio tightened to 57.8 per cent, just slightly below what is considered a sellers market. While the median price of a single-family home did contract 1.0 per cent monthly in December, the monthly pace of decline began to moderate. On an annual basis, home prices remained up 1.2 per cent. Price drops of late have been predominantly located in Ontario markets, particularly the Greater Golden Horseshoe, and to a lesser extent British Columbia. Elsewhere in Canada, prices are mostly holding firm, with Alberta continuing to see gains amid historic population growth.

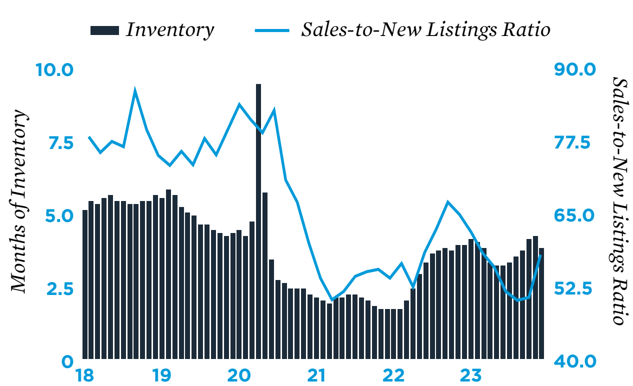
Home prices could stabilize as spring market approaches. The Bank of Canada's policy rate, along with mortgage rates, are forecast to fall as early as the start of the second quarter. Combined with the uptick in sales activity that tends to happen in the spring months, further price declines are likely to be limited. As borrowing costs revert to a more neutral level over the coming year, coupled with limited housing supply and robust population growth, Canada's home prices are likely to stabilize over the first half of 2024, before seeing modest gains over the latter months of the year.

Commercial Real Estate Outlook

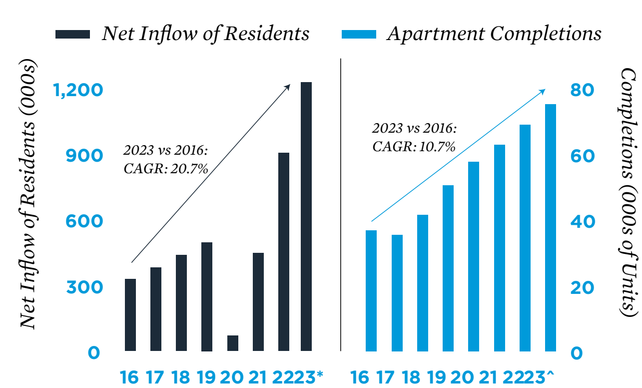
Housing supply-demand imbalance to persist. Housing starts held up better than expected last year, despite being highly sensitive to interest rates. Starts were only down 7.9 per cent year-to-date as of November when compared to the same time period in the prior year. Additionally, starts were up roughly 20 per cent over the course of last year when compared to the nation's long-term average. Despite building activity remaining at a solid level on a trend basis, Canada's housing supply continues to lag demand. It is estimated that Canada needs to build roughly 5.8 million new homes by 2030 to reach affordability, which is well above the current pace of construction of 2.3 million. With the nation's population also growing at a record-setting pace of 3.2 per cent annually as of September 2023, Canada's housing supply-demand gap has widened. As a result, the need for purpose-built rentals continues to grow as these property types tend to offer a more affordable housing solution.

Multifamily to hold as a preferred investment option. Given Canada's lack of housing supply, homeownership hurdles and record population growth witnessed last year, apartment rental performance has remained robust. In 2023, the nation's vacancy rate hovered just below 2.0 per cent, helping annual rent growth reach roughly 7.0 per cent. Among major commercial property types, multifamily accounted for 23 per cent of total dollar volume transacted last year, only trailing industrial. Apartment vacancy is forecast to remain relatively stable, while rent growth is expected to outpace inflation. Positive investor sentiment is likely to hold for Canada's multifamily sector.

Housing Sector Nearing a Sellers Market



Canada Immigration vs Rental Completions



*Trailing 12 months through 3Q; ^Estimate
Sources: IPA Research Services; Altus Data Solutions; CMHC; CREA; Capital Economics; CoStar Group, Inc.; Statistics Canada