RESEARCH BRIEF
CANADA HOUSING

IPA INSTITUTIONAL PROPERTY ADVISORS
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Canada's Housing Market Could be Nearing the Corner Amid Stabilizing Financial Conditions

Housing prices show first sign of stabilization. The median price of a single-family home was flat on a month-over-month basis in February, ending a streak of five consecutive drops. The number of home sales rose 19.7 per cent year over year, facilitating a 1.6 per cent annual price gain — the largest increase since September 2022. While February 2023 had one of the lowest sales totals for that month in the past two decades, this uptick does indicate that buyer appetite is returning amid stabilizing borrowing costs. February home sales were only 5.0 per cent below the nation's long-term average and the sales-to-new-listings ratio sat at 55.6 per cent, indicating a balanced housing market. With the spring market just around the corner, a shift to upward pressure on prices may materialize over the coming months. This price growth, however, is likely to be muted, as borrowing costs will hold in restrictive territory and affordability remains stretched.

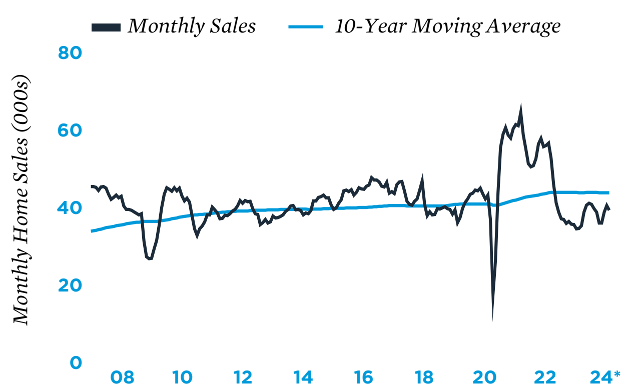
Stabilizing financial markets set to aid housing recovery. Since October of last year, Canada's five-year government bond yield has dropped roughly 85 basis points as of the end of February. This has pushed fixed-rate mortgages down, which helped drive the uptick in sales activity seen in the early months of this year. In addition, with the Bank of Canada largely believed to cut interest rates as early as June, variable-rate mortgages are also set to fall over the coming months. As a result, opportunistic buyers may be looking to get ahead of the market. The combination of limited supply, the upcoming spring market and stabilizing financial conditions are all set to support upward price pressure over the second half of the year.

Commercial Real Estate Outlook

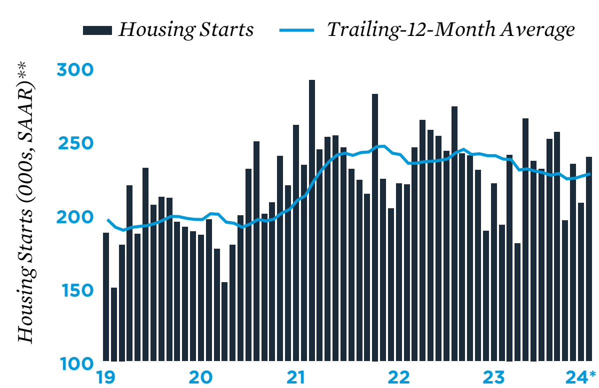
Supply cannot keep pace with demand. Housing starts in Canada came in higher than expected in 2023 despite being highly sensitive to interest rates. While on a year-over-year basis starts were down roughly 11 per cent, they remained well above the nation's long-term average. As of February, year-to-date housing starts were also up 9.1 per cent compared to last year's level. While housing construction activity has held relatively healthy compared to historic standards, Canada's housing supply-demand gap has widened significantly and is set to continue to do so over the coming months. The 1.3 million surge in the population last year implies that Canada needed to add 500,000 new homes; however, total completions were less than 200,000. In addition, building permit data has also been trending down since mid-2023 and new home sales data has been weak, suggesting building activity could slow further over the coming months. Consequently, this market imbalance is one factor that could drive price appreciation over the latter parts of 2024.

Multifamily development leads the way. As of February, housing starts have mainly been fueled by a roughly 15 per cent year-to-date increase in multifamily construction. This can largely be attributed to healthy fundamentals, as the national vacancy rate reached an all-time low of 1.5 per cent in 2023, supporting historic annual rent growth of 8.4 per cent. The recently announced GST Rental Rebate and the expansion of low-cost financing provided by the CMHC have also improved the feasibility of new projects. These factors have made multifamily development more attractive and could provide some balance to Canada's housing market over the long term.

Sales Activity Returning to Long-Term Average



Population Growth Outpacing Housing Starts



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** Through February; ** Housing starts in census metropolitan areas with at least 10,000 people*
Sources: IPA Research Services; Altus Data Solutions; Capital Economics; CMHC; CoStar Group, Inc.; CREA; Statistics Canada