RESEARCH BRIEF
CANADA HOUSING

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

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Housing Market Quiet in March; Spring Ramp-Up Expected in the Coming Months

Housing market holds stable in March. Home sales activity and positive pricing pressure will gain some momentum in the coming months with the arrival of the spring season. Positive seasonal impacts, along with potential interest rate cuts over the second half of the year, will prompt some buyers to return from the sidelines to capitalize on lower prices. Despite this, housing activity was largely unchanged in March. Home sales inched up 0.5 per cent monthly, while the median price of a single-family home dipped 0.1 per cent, translating into a 1.6 per cent year-over-year gain. The number of newly-listed properties declined 1.6 per cent, which pushed up the sales-to-new listings ratio to 57.4 per cent, an indication of a balanced housing market. While the official March numbers were quite flat, preliminary estimates suggest that activity ramped up in April.

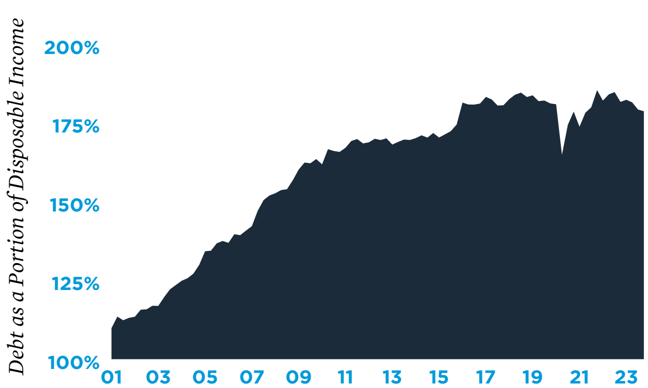
Bank of Canada keeping an eye on housing market. Despite inflation falling by more than expected over the past two months and the unemployment rate hitting a 26-month high in March, Canada's Central Bank held its overnight rate at 5.0 per cent. The monetary authority cited shelter inflation as one of its main concerns. One reason why the Bank of Canada may have maintained its policy rate is because it could be wary about stoking housing demand and putting further upward pressure on inflation. Nevertheless, the Central Bank will likely begin cutting interest rates by midyear. Housing prices could experience upward momentum over the latter parts of 2024 as opportunistic buyers take advantage of falling variable rate mortgages; however, given elevated household debt levels, price gains are likely to be modest.

Commercial Real Estate Outlook

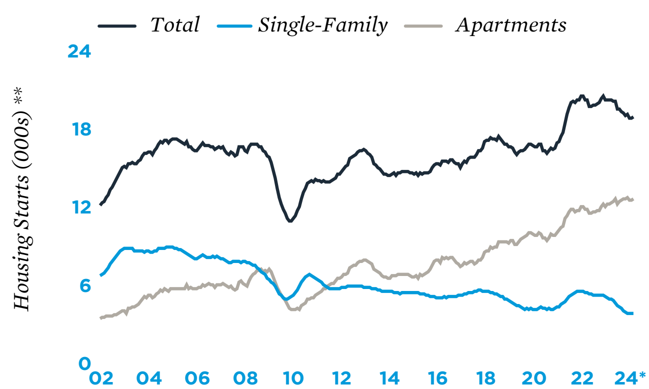
Single-family housing shortage to support price gains. Despite being highly sensitive to interest rates, housing starts have held up better than expected. While starts were down roughly 7.0 per cent in 2023, they continued to sit well above the nation's long-term average. In addition, housing starts were up 6.0 per cent over the first two months of 2024. However, this resilience has solely been driven by multifamily construction, with single-family starts trending down since 2001. Canada now has a severe shortage of single-family homes, which is likely to support modest price gains over the latter half of the year. The nation's population also grew by 3.2 per cent in 2023 — a level not seen since the 1950s. Given the lack of alternative housing options, the multifamily sector is playing an increasing role in absorbing housing demand. The national vacancy rate hit an all-time low of 1.5 per cent in 2023, helping annual rent growth reach a record level of 8.4 per cent.

Federal government takes action. Housing affordability has reached an all-time low in Canada. As a result, the federal government has announced multiple policies to speed up construction in order to address growing affordability concerns. These policies include $100 million to support home building technologies, $6 billion to improve infrastructure for housing development, $1.5 billion to preserve existing affordable rental units, an additional $15 billion for low cost development loans, extending the GST exemption to student housing, and a tax incentive that will allow home builders to increase the capital cost allowance from four to 10 per cent. Consequently, building activity is likely to grow over the coming years.

Elevated Debt Levels to Cap Housing Gains



Lack of Single-Family Homes Driving Imbalance



* Through February; ** Trailing-12-month average
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada