RESEARCH BRIEF
CANADA HOUSING

IPA INSTITUTIONAL PROPERTY ADVISORS
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Muted Housing Activity Lends Further Support to Additional Interest Rate Cuts

Canada's housing market little changed. Following an uptick in activity in June amid the Bank of Canada's first rate cut and some sellers looking to get ahead of the higher capital gains tax, home sales edged back 0.7 per cent monthly in July. While a clearer path for financing costs has materialized, elevated home prices in more unaffordable cities continue to temper the nation's housing market. However, with borrowing costs likely to fall further over the remainder of the year, sellers are looking to capitalize on pent-up demand that is currently sidelined. The number of newly listed properties inched up 0.9 per cent monthly. While the sales-to-new-listings ratio continued to suggest a balanced market, the median price of a single-family home rose for the second consecutive month, edging up 0.1 per cent. On an annual basis, prices were down 4.1 per cent. With markets expecting additional rate cuts at each of the central bank's remaining policy meetings in 2024, purchasing activity and price appreciation are likely to gain momentum heading into 2025.

Quiet housing market a promising sign for central bank. The median price of a single-family home has largely held unchanged since the beginning of the year, despite a clearer interest rate outlook forming. With the Bank of Canada stating that housing costs continue to be a main inflationary risk, this muted housing market activity lends support to additional interest rate cuts. Combined with an easing labour market, below-potential GDP growth and stagnating consumption, markets are now pricing in rate cuts at each of the Bank's remaining three policy meetings in 2024. Canada's key lending rate is anticipated to end the year at 3.75 per cent.

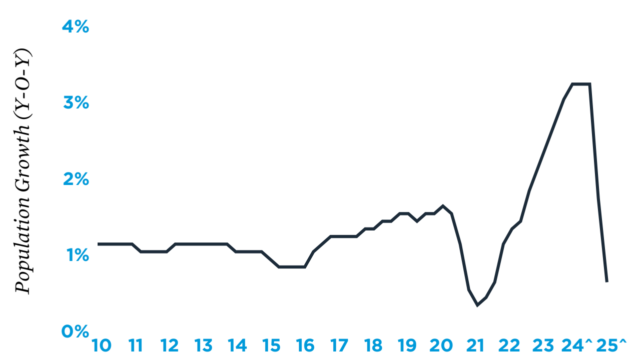
Commercial Real Estate Outlook

Supply-side measures could provide some balance to market. Given underbuilding within Canada's apartment rental market since the late 1980s, the nation's vacancy rate held well below equilibrium levels at 1.5 per cent as of the end of 2023. In recent years, however, government incentives and healthy rent growth have encouraged more development, with completions now sitting at an all-time high. Supply growth in Canada's for-owned condo market — which tends to act as a secondary source of rental supply — has also been elevated since the early 2000s and is approaching all-time highs this year as well. Consequently, these supply-side dynamics could help stabilize Canada's multifamily market over the course of 2024. Nevertheless, as Canada continues to experience elevated population growth, vacancy is forecast to hold at a sub-2 per cent level, supporting annual rent growth in the range of 5.0-6.0 per cent. Multifamily will continue to hold as a preferred investment option as a result.

Demand likely to ease. While historic population gains over the past two years will continue to act as a tailwind for multifamily demand, recent changes in Canada's immigration policies will cause these demand pressures to ease over the coming years. Population growth reached 3.2 per cent annually as of the second quarter, with it forecast to slow to roughly 1.5 per cent by year-end and 0.5 per cent in 2025. At the same time, declining borrowing costs will allow some households to transition out of the rental market and into homeownership. Consequently, Canada's multifamily vacancy rate could inch up marginally over the coming years, causing annual rent growth to return to a more balanced level.

Housing Supply Growth at All-Time Highs

Population Gains to Ease Amid Change in Policy



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** Through June; ** Trailing 12-month sum; ^ Forecast provided by Capital Economics*
Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada