RESEARCH BRIEF
CANADA HOUSING

IPA INSTITUTIONAL PROPERTY ADVISORS
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Housing Market Continues Broad-Based Pickup as Lowering Interest Rates Feed Through

Residential sector gaining momentum across most segments. Home sales inched upwards in November, jumping 2.8 per cent monthly. This comes after sales surged nearly 7.0 per cent in October, as lower borrowing costs – which have been trending down since June – have prompted some buyers to return from the sidelines. The median price of a single-family home jumped 0.7 per cent in November, marking the sixth-consecutive monthly increase. Some risks do remain in Canada's residential sector, however, especially in the for-owned condo market. This segment has seen sale prices drop for nearly 14-consecutive months, which – on an annual basis – translated into a 4.0 per cent price decline in November. The combination of weakening investor demand amid negative cash flow and an abundance of new supply has put a drag on the sector at large.

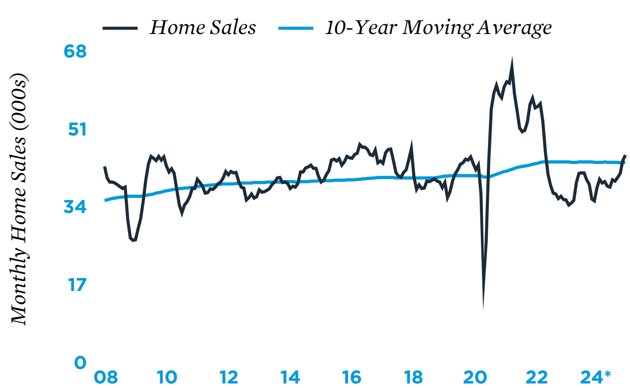
Policy likely to support further market activity. A main driver of the current momentum in Canada's housing market has been easing monetary policy. As the central bank lowered its key interest rate from 5.0 per cent in June to 3.25 per cent in December, both variable and fixed rate mortgages have trended down, spurring buyers to reenter the market. While further interest rate cuts are likely to support additional momentum, recent policy changes will also act as a tailwind. In August, new first-time home buyer rules allowed for 30-year amortization. Additionally, effective in December, the federal government increased the $1 million price cap for insured mortgages to $1.5 million. These factors are likely to support buyer activity over the coming year, as they allow for lower monthly mortgage payments as well as a smaller upfront down payment.

Commercial Real Estate Outlook

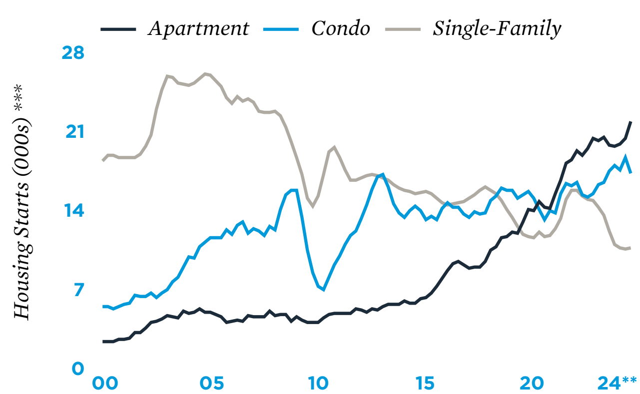
Purpose-built rentals driving housing construction. While homebuilders continued to face many challenges – such as labour shortages, elevated material prices and still-restrictive interest rates – total housing starts were up 8.3 per cent month over month and 2.0 per cent year to date as of November. This increase has largely been fuelled by purpose-built rental construction, which has seen starts jump 16 per cent annually over the trailing 12 months ended the third quarter. Not only has strong rent growth and stabilizing borrowing costs encouraged development, but low-cost financing provided by the CMHC, along with the elimination of the GST/HST on new purpose-built rental construction, has also helped stoke building intentions. In contrast, weakness seen in the for-owned condo market caused housing starts in this segment to fall by 15 per cent over the past yearlong period ended September.

Multifamily to hold as a preferred investment. With apartment construction starts surging over the past decade, a wave of new supply has been coming to market, which is expected to continue in 2025. Combined with recent changes to Canada's immigration policies, population growth is set to slow notably, which is likely to push vacancy up and cause annual rent growth to slow. Despite ample policies acting as a tailwind for apartment rental construction, softening fundamentals could cause development to slow modestly. This potential pullback in development will likely stoke Canada's widespread housing imbalance over the long term. As such, multifamily vacancy is set to hold well below equilibrium, preserving the property type as a preferred investment option.

Buyers Appear to be Returning to the Market



Purpose-Built Rentals a Preferred Build Type



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* Through November; ** Through 3Q; *** 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