

# RESEARCH BRIEF

## CANADA HOUSING

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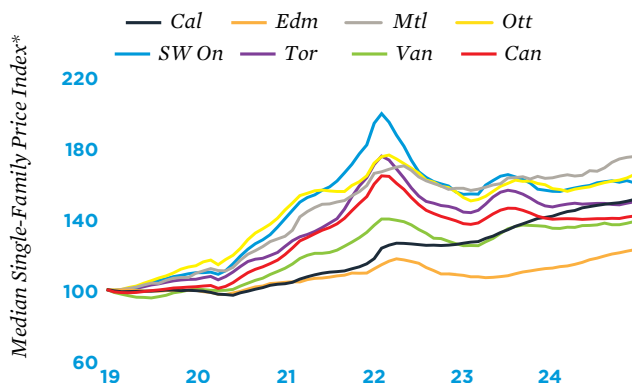
JANUARY 2025

### Housing Market Appears to Have Turned the Corner, Modest Gains Expected in 2025

**Green shoots sprout in housing sector.** Coming off a 0.6 per cent monthly increase in November, the median price of a single-family home jumped 0.4 per cent in December. This translated into a roughly 1.0 per cent year-over-year rise, adding to the sense that prices have found a floor. Meanwhile, gains were broad-based, with all of Canada's major metros seeing modest price increases. While a less restrictive monetary environment and falling mortgage rates could partially be aiding this momentum, it could also be related to the more relaxed mortgage rules that came into effect in December, including longer amortization periods and the rise in the price cap for insured mortgages. Regardless, forecasts from many economists and major banks call for continued price appreciation in 2025, with year-end figures suggesting 4.0 per cent to 4.5 per cent growth.

**Lending conditions to be monitored.** Despite the expectations of ongoing price growth, December's data suggests a sluggish recovery out of the gate, as home sales fell 5.8 per cent monthly. Though the central bank is likely to continue its monetary easing cycle – bringing variable rate mortgages down – the five-year bond yield has crept up in recent months amid ongoing inflation concerns, pro-growth policies stemming from the United States and large government deficits. There is some risk that fixed-rate mortgages will rebound as a result, tempering demand in the short term. That said, some economists judge this increase to be temporary. It is still widely believed the Bank of Canada will continue to cut interest rates to the 2.5 per cent range, which would potentially pull down longer-term yields and help fuel home sales over the latter parts of the year.

### Home Prices Appear to be Turning the Corner

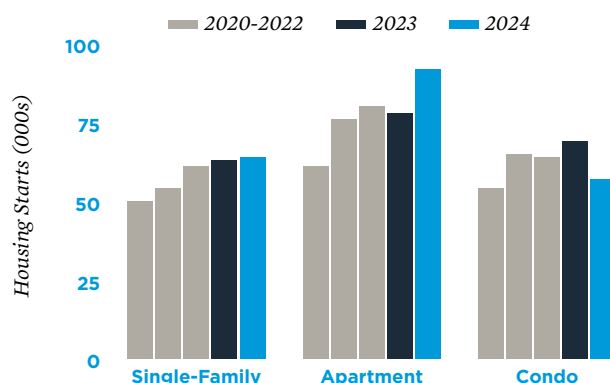


### Commercial Real Estate Outlook

**Purpose-built rentals a favoured build type.** After falling by 7.0 per cent in 2023, housing starts increased 2.0 per cent last year; however, development varied across property types. Weak pre-construction sales and recent ample openings caused starts within Canada's for-owed condo market to fall 17.2 per cent annually in 2024. In contrast, amid falling borrowing costs, healthy rent growth in recent years and ongoing government incentives, purpose-built rental starts surged 17.5 per cent. Looking ahead, condo starts are likely to trend down further as historic supply continues to enter the market and investor demand remains soft. The outlook is better on the purpose-built rental side, given sub-2.5 per cent vacancy and rapid rent appreciation over the last three years, but starts here could still level off. On top of still-elevated construction costs and interest rates, rent growth is also likely to ease as population growth slows due to Canada's new immigration policies.

**Sound multifamily outlook holds.** The combination of record-setting supply growth and easing demand set off a modest softening in multifamily fundamentals last year. The vacancy rate inched up 70 basis points to 2.2 per cent, causing annual rent growth to soften from 8.4 per cent in 2023 to 6.7 per cent in 2024. While further easing in fundamentals is expected throughout 2025, because Canada is still a growth market, the sector's long-term outlook remains favourable. Not only will past population gains act as a tailwind for apartment demand, but Canada also ranks among the top G7 nations in GDP, employment and population growth over the coming five years, upholding the property type as a preferred investment option.

### Apartment Rentals Drive Construction Activity



\* January 2019 = 100

Sources: IPA Research Services; Altus Data Solutions; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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