RESEARCH BRIEF
CANADA HOUSING

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Sellers Hoped to Capitalize on Better Market Conditions, but Tariffs Weigh on Sales

Uncertainties halt housing recovery. After stronger showings over the latter parts of 2024, Canada's housing market momentum paused in January. Lower interest rates, rising prices and increased buyer activity at the end of last year prompted some sellers to enter the market, with the number of newly listed properties up 11 per cent monthly; yet the total number of sales fell for the second consecutive month, down 3.3 per cent compared with December. As this drop was largely seen in the final week of the month, it appears uncertainty surrounding potential tariffs delayed purchasing decisions. Given this backdrop, the nation's sales-to-new-listings ratio fell to 49.3 per cent, consistent with a balanced housing market. As a result, the median price of a single-family was largely unchanged month over month and was up 1.0 per cent year over year in January.

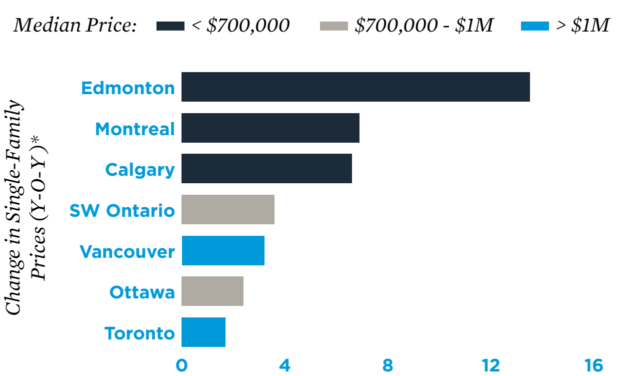
Gradual price recovery expected in 2025. Many of Canada's prominent banks are forecasting annual home price appreciation ranging anywhere from 1.5 per cent to 6.0 per cent this year. Tariff uncertainties and its implications for the economy and labour market may temper expectations and keep some prospective buyers on the sidelines, but a softer price environment and lower interest rates should unlock some pent-up demand. As such, a gradual housing market recovery is still expected over the coming year; however, it will likely be bifurcated across markets. More expensive cities such as Toronto and Vancouver – where affordability remains stretched despite falling interest rates – will likely see a more gradual uptick than lower-cost regions like Edmonton, Calgary and Montreal.

Commercial Real Estate Outlook

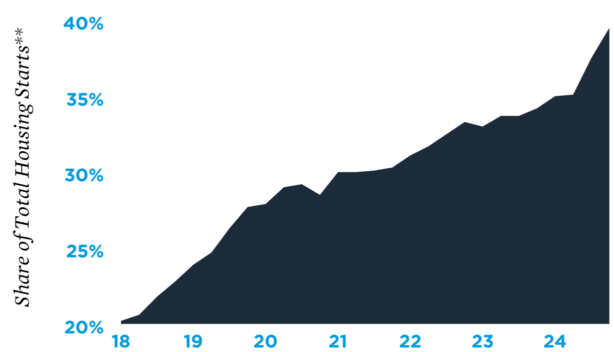
Development activity segmented across metros and formats. The market consensus is that residential construction starts should drop in 2025 compared with last year. Elevated construction costs and ongoing labour shortages have caused developer confidence to wane, as have economic uncertainties and slowing population growth amid potential tariffs and tighter immigration policies. However, building intentions began the year strong. Construction starts rose 3.0 per cent monthly in January, and record-setting permitting activity in December suggests this trend will likely continue in the months ahead. This uptick is largely being fuelled by the purpose-built rental sector, as lower borrowing costs, government incentives and still-healthy fundamentals are making it a preferred build format. On aggregate, more affordable metros are likely to see starts keep trending up, while higher-cost markets like Toronto and Vancouver could pull the national total down in 2025.

Multifamily to hold as preferred investment option. Over the course of 2024, tighter immigration policies, stretched affordability and surging new supply caused multifamily fundamentals to soften. Canada's vacancy rate increased 70 basis points to 2.2 per cent, which caused annual rent growth to ease from a record high of 8.4 per cent in 2023 to 6.7 per cent last year. Looking ahead, this market rebalancing is likely to continue as population growth slows further and deliveries remain elevated. Vacancy is forecast to approach 3.0 per cent, with annual rent growth hovering around the pace of inflation. Nevertheless, Canada's housing shortage will remain acute, maintaining the property type as a preferred investment vehicle.

Lower-Cost Markets Drive Housing Recovery



Apartment Rentals a Preferred Build Type



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