RESEARCH BRIEF
CANADA HOUSING

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Housing Market Stakeholders Taking a Cautious Approach in the Face of Tariffs

Canada's housing market in a lull. As the central bank began its easing cycle in June 2024, lower interest rates were fuelling housing market momentum. These changing dynamics prompted buyers and sellers to reenter the market – listings and sales rose for three consecutive quarters to end last year – helping to stabilize the median price of a single-family home. With interest rates inching lower in the early parts of 2025, this trend was expected to continue to drive a housing market recovery over the course of this year. Recent trade uncertainties clouding Canada's economic outlook, however, have led market participants to transition back into a wait-and-see approach. In February, national homes sales dropped 9.8 per cent – the second-consecutive monthly drop – due to tariffs threatening labour market conditions. Meanwhile, newly listed properties also fell 12.7 per cent monthly, as sellers are looking for more certainty surrounding buyer confidence. Consequently, the median price of a single-family home decreased 0.9 per cent, the largest monthly drop since late 2023.

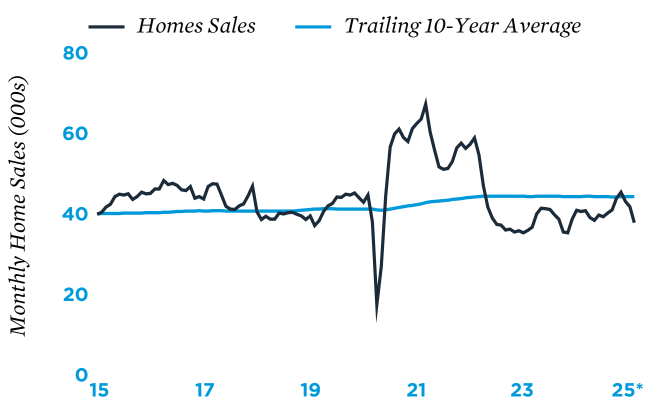
Housing sector presents opportunities. While both the number of sales and new listings dropped last month, the ratio between the two edged up to 49.9 per cent, consistent with a balanced housing market. Lower interest rates were initially expected to fuel a recovery in 2025, but tariff threats are likely to temper this amid buyers becoming more cautious. Nevertheless, the combination of still-soft prices and a more friendly monetary environment creates an opportunity for well-capitalized buyers to enter the market, which could still drive a recovery this year, albeit at a more gradual pace.

Commercial Real Estate Outlook

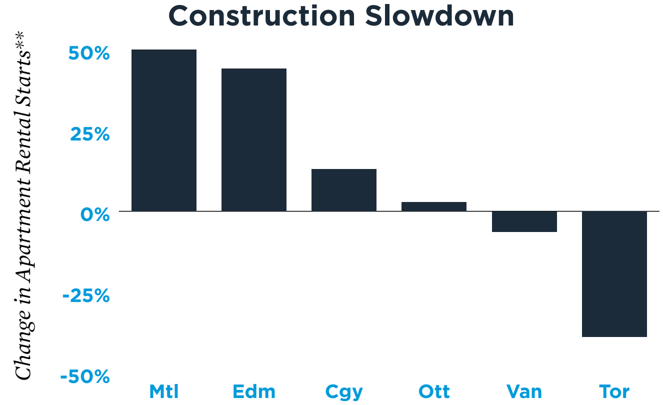
Building could slow. Housing starts in 2024 for metros with at least 10,000 people were up 2.0 per cent annually, sitting 25 per cent above the nation's long-term average. Strong demand and government policy helped starts despite a restrictive cost environment, especially in the purpose-built rental sector. Lower interest rates were expected to support further growth in 2025, but recent policy changes and ongoing uncertainties are impacting the sector. Annualized starts fell 5.0 per cent monthly in February, translated into a 12 per cent year-over-year drop. Not only is tighter immigration slowing population growth, but widespread uncertainties stemming from protectionist U.S. trade policies also pose a risk to labour market conditions and overall housing demand. At the same time, tariffs on steel and aluminum will increase costs and hurt project feasibility. Looking ahead, these factors have curbed developer confidence, which means supply growth could remain sluggish in a time when further housing is greatly needed.

Construction impact greater in select markets. Though rental starts increased nationally in 2024, higher-cost markets like Toronto and Vancouver are showing some weakness. In February, trailing 12-month rental starts in Toronto fell nearly 40 per cent, while Vancouver recorded a 6.0 per cent drop. This is largely due to higher land values and overall costs in these markets, with easing demand amid slowing population growth and renters' stretched budgets also contributing. Feasible rent levels are hard to obtain as a result. In some cases, rents are dropping in new builds, making projects harder to pencil and putting downwards pressure on starts.

Trade Uncertainties Hault Momentum



Higher-Cost Metros Drive Construction Slowdown



*Through February; ** Trailing 12-months through February
Sources: IPA Research Services; Canada Mortgage and Housing Corporation; Canadian Real Estate Association; Capital Economics; Statistics Canada

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