RESEARCH BRIEF
CANADA HOUSING

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

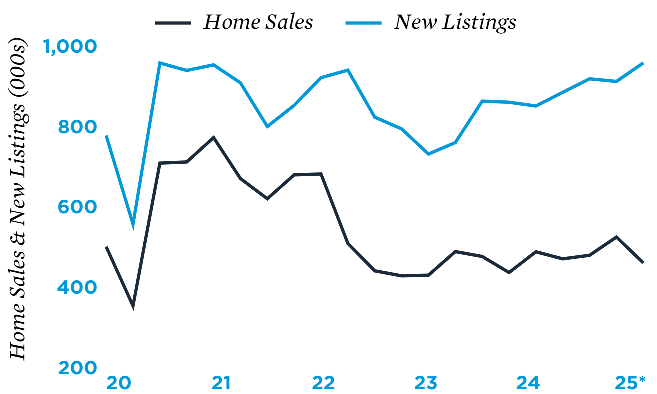
APRIL 2025

Despite Lower Interest Rates, Housing Still Grapples With Tariff Threats

Housing outlook has taken a turn. The Bank of Canada began its rate cutting cycle in June 2024, which has since pushed mortgage rates down from the 6.0 per cent to 7.0 per cent range to just above 4.0 per cent as of April. The combination of lower borrowing costs and softer prices drove a 10 per cent year-over-year jump in home sales over the final six months of last year. Amid a continued unwinding of interest rates, this trend was initially expected to continue into 2025, driving the average sale price higher. Since then, however, trade uncertainties and its implications on labour markets has curbed buyer demand. In March, home sales fell 4.8 per cent monthly. Having now declined for four consecutive months, this translates into a 21 per cent drop since November. Meanwhile, sellers have been eager to capture buyer optimism amid lower mortgage rates. New listings have largely trended up since mid-2024, sitting above the nation's long-term average. The median price of a single-family home fell 1.1 per cent monthly in March, representing a 1.7 per cent yearly drop.

Users drive softening. The sales-to-new-listings ratio fell to 45.9 per cent in March, proving initial forecasts for some price stabilization in the coming months too optimistic. Housing weakness also appears to be shifting to owner-occupiers. While investors last year pulled back amid falling condo rents, now it seems the single-family market is showing more weakness, given the average price had its biggest decline in over a year. With Ontario's automotive sector the most exposed, the heavily concentrated price decline in Ontario may suggest that tariff risks are weakening homeowner demand.

Eager Sellers Enter Market

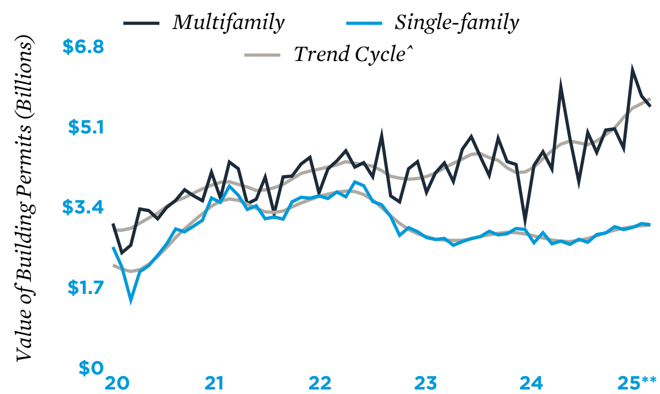


Commercial Real Estate Outlook

Ownership market spills over to rental dynamics. Home sales having trended down means some potential buyers stayed in the rental market. For reasons ranging from affordability to economic uncertainty, barriers to homeownership have recently been a source of apartment demand. On top of decades of underbuilding and historic immigration, Canada's multifamily vacancy rate hit 1.5 per cent in 2023 – its lowest reading on record – while annual rent growth peaked at 8.4 per cent. Looking ahead, trade tensions are likely to keep some in the rental market, but fundamentals are set to soften further. Canada is seeing an elevated number of apartments and condo deliveries, the latter of which tends to act as a secondary source of rental supply. Tighter immigration policies and labour market risks may also cause a pullback in demand. As a result, vacancy is forecast to rise, and annual rent growth will slow to the pace of inflation. That said, vacancy will hover around 3.0 per cent to 3.5 per cent, preserving the property type's attractiveness and indicating that more supply is needed.

Housing development slows. Housing affordability has been a major topic of discussion. An estimated 5.8 million additional housing units are needed by 2030, which is roughly 500,000 a year. Yet annualized housing starts fell 3.0 per cent monthly in March to just 214,000. While increasing permitting activity since mid-2024 suggests starts could rebound in the coming months, easing rental fundamentals and weak pre-construction sales are likely to pull starts down to 200,000 units in 2025 – well below the level needed to restore affordability.

Permitting May Push Starts Up



* Through 1Q; ** Through February; ^ Smoothed version of seasonally-adjusted time series
Sources: IPA Research Services; Altus Data Solutions; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada