RESEARCH BRIEF
CANADA HOUSING

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

MAY 2025

Market Sluggish as Tariff Uncertainties Replace Restrictive Interest Rates

Buyers remain sidelined. Home sales fell for the fifth consecutive month in April — down 0.1 per cent. Demand is now largely aligned with the late-2022 and early-2023 period, when elevated interest rates were taking hold. This time, though, restrictive lending conditions have been replaced by tariff uncertainties. Potential buyers that were waiting for lower mortgage rates have since stayed on the sidelines amid economic and labour market concerns. Sellers also wait for buyer confidence to return, resulting in the number of newly listed properties edging down 1.0 per cent in April. While the sales-to-new-listings ratio inched up slightly, it was well below the nation's long-term average. The median sale price of a single-family home was down 1.1 per cent monthly in April, translating into a 3.1 per cent year-over-year drop. More expensive metros, such as Toronto and Vancouver, have been the main drivers in the nation's overall price decline.

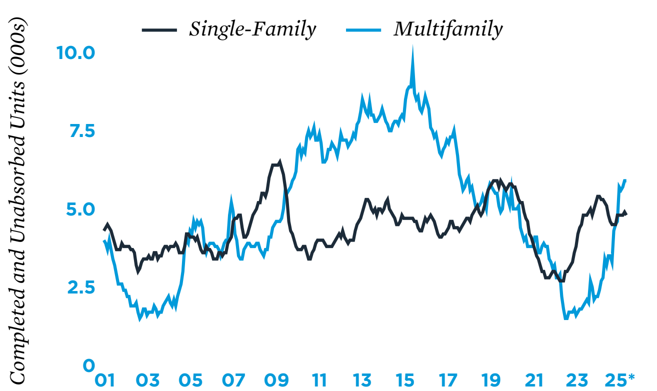
Uncertainty clouds potential recovery. Mortgage rates have largely been trending down since early 2024. Though now tempered by trade uncertainties, lower borrowing conditions were driving a housing market recovery heading into 2025. Looking ahead, the Bank of Canada is likely to cut its key policy rate by an additional 50 to 75 basis points by year-end, putting some further downward pressure on lending rates and supporting buyer demand. That said, housing unaffordability is still at near-record highs, and trade risks are curbing buyer confidence and could force more people to sell. Canada's housing market could see subdued growth in 2025.

Commercial Real Estate Outlook

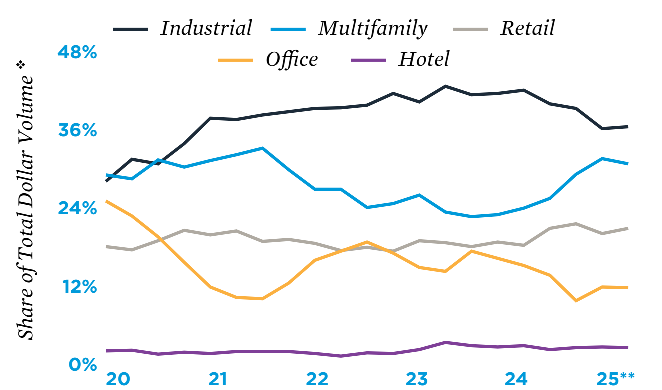
Housing starts surged. Consistent with the recent upswing in building permits, housing starts surged 30 per cent monthly in April to 278,600 units, blowing away the consensus estimate of 235,000. This rise was fuelled by a 35 per cent jump in multi-unit starts. Even with this strong monthly reading, however, starts for the first four months of 2025 were 3.0 per cent lower than the same period a year ago. Looking ahead, builders are likely to face some challenges, which could hinder development. Tighter immigration policies are curbing rental demand, while affordability challenges continue to push the inventory of completed and unabsorbed units higher. Moderating rental fundamentals, as well as softening single-family and condo prices, are likely to curb building intentions. That said, cost pressures from tariffs on steel and aluminum are forcing developers to diversify supply-chains, source domestically and become more efficient. These have long-term benefits, but a re-adjustment is likely in the short term.

Apartments a preferred investment. Canada's multifamily vacancy rate is forecast to rise to the 3.0 per cent to 3.5 per cent range this year — up from 1.5 per cent in 2022. Record supply growth and a pullback in demand amid tighter immigration policies are providing some balance. Annual rent growth has since slowed from 8.4 per cent in 2023 to a forecast rate of 2.7 per cent this year. Nevertheless, Canada is still faced with a widespread housing shortage, which has maintained multifamily as a preferred investment. Its share of total dollar volume among major commercial property types has increased since 2023.

Rising Inventories Putting Pressure on Sector



Investors Have Favoured Beds and Sheds



Follow Us on Twitter @IPA_USA

** Through April; ** Through 2Q; * Trailing-12-month total*
Sources: IPA Research Services; Altus Data Solutions; CMHC; Capital Economics; CoStar Group, Inc.; CREA; Statistics Canada