RESEARCH BRIEF
CANADA HOUSING

IPA INSTITUTIONAL PROPERTY ADVISORS
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Momentum Builds in Canada's Housing Market, But Sector Not Out of the Woods Yet

June marks second consecutive month of positive housing data. Canada's housing market recovery that began in late 2024 was curbed in the early parts of this year amid tariff threats and the corresponding impacts on labour markets and household finances. Nevertheless, with a clearer trade picture in May, the nation's housing market began gaining momentum. National home sales – while still below the long-term average – rose 2.8 per cent monthly in June, building on the 3.5 per cent gain recorded in May. This uptick in sales also helped to stabilize the median price of a single-family home, which only saw a 0.1 per cent month-over-month drop. Meanwhile, newly listed properties fell 2.9 per cent monthly, as potential sellers may be waiting for buyer confidence to return. This helped push the sales-to-new listings ratio up to 50.1 per cent, which is consistent with a balanced housing market. June was therefore another month that suggested the anticipated rebound in Canada's housing market may have only been delayed. That said, the latest 35 per cent tariff threat underscores the widespread uncertainty Canada continues to face.

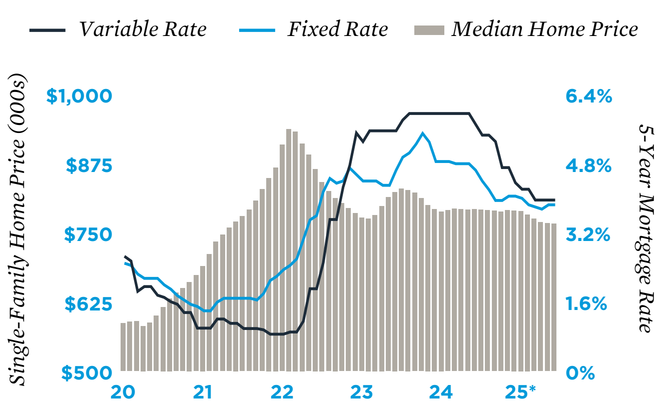
Lending conditions stabilizing. With recent employment data holding strong and inflationary pressures growing, the magnitude for further rate cuts from the Bank of Canada is narrowing. At the same time, bond yields are largely stabilizing; most major banks forecast slight upwards pressure over the coming year. Given the pricing connection between bond yields and mortgage rates, residential loan terms are also beginning to normalize. These current conditions present an opportunity for potential buyers to get ahead of the market.

Commercial Real Estate Outlook

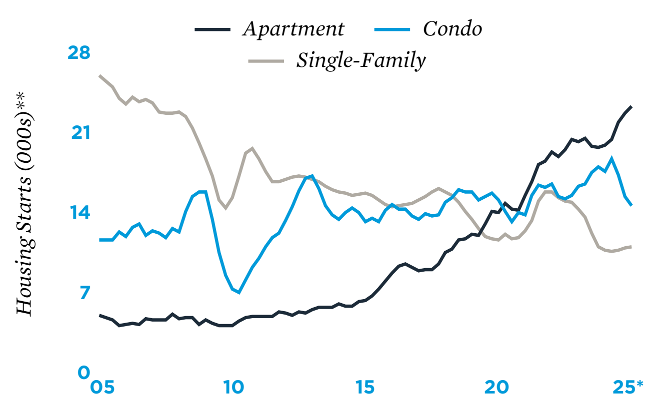
Construction differs across markets and product type. Despite falling home prices and softening rents, housing starts were up 14 per cent year over year in June. While this is positive amid Canada's housing shortage, the data differs across major metros and build types. Cities that suffer from greater affordability challenges like Toronto – which has been dealing with elevated construction costs, a sluggish condo market and stagnating apartment rents – saw a 40 per cent year-over-year decrease in starts in June. In contrast, more affordable regions that offer friendlier development conditions and have benefitted from strong population growth like Calgary, Edmonton and Ottawa saw housing starts jump 17 per cent, 82 per cent and 76 per cent, respectively. When breaking down the numbers further, the uptick in housing starts was largely driven by multi-unit starts, specifically within the purpose-built rental segment. This build-type is not only capturing a larger share of demand amid ownership challenges but also has access to more favourable financing through the CMHC.

Apartment dynamics currently evolving. Reflecting the focus of many developers, deliveries of apartment rentals hit an all-time high last year and are expected to stay elevated this year. Concurrently, tighter immigration policies are curbing demand. As a result of these evolving trends, multifamily fundamentals are softening. Vacancy is forecast to reach roughly 4.0 per cent by year-end, whereas annual rent growth is also likely to cool to roughly 1.0 per cent. Regardless, Canada's widespread housing shortage continues to support liquidity for the asset class, while the long-term outlook also remains sound.

Lending Conditions Could be Stabilizing



Developers Favour Purpose-Built Rentals



* Through June; ** Trailing-12-month average

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

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