Business

Canada home prices set to recover as demand stays strong, Reuters poll shows

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A for sale sign is displayed outside a home in Toronto, Ontario in Toronto, Ontario, Canada December 13, 2021. REUTERS/Carlos Osorio/

Summary

poll data

Feedback

BENGALURU, June 5 (Reuters) - Average home prices in Canada are set to fall around 9% this year and then rise into 2024 and beyond as buyers bet interest rates have already peaked alongside strong demand for housing, according to property analysts polled by Reuters.

The Bank of Canada raised rates rapidly from near-zero early last year to 4.25% in January, but that has failed to be a significant drag on home prices, which ...ve fallen about 15% since last March after surging over 50% since the start of the COVID pandemic early in 2020.

Since the Canadian central bank opted for a conditional pause on rate rises in January - even while the U.S. Federal Reserve continued raising - home prices in Canada have started climbing again, and are up a cumulative 17% so far this year on one measure.

The May 15-June 5 Reuters poll of 11 analysts predicted around a 9% fall in home prices in 2023, milder than the 12% fall forecast in a poll three months ago and the 12% decline in April from a year earlier reported by the Canadian Real Estate Association.

Average home prices were expected to rise about 2% and 4% in 2024 and 2025, respectively, similar to median predictions in the last poll.

"Spring 2023 increasingly looks like the turnaround point for Canada's housing market after a year-long slump. And perhaps more importantly, demand-supply conditions suddenly appear tight," said Robert Hogue, assistant chief economist at RBC.

"Resurging demand and low inventories have put sellers back in the driver's seat in most major markets...It appears buyers are quickly regaining confidence in both markets now that the Bank of Canada has paused its aggressive rate hike campaign."

Although most analysts expect the BoC to keep rates on hold throughout this year, evidence that the economy is performing well and still generating strong inflation could force the central bank to hike rates again, a separate Reuters survey showed.

Rising immigration could further boost demand relative to supply, suggesting affordability will not improve any time soon.

All analysts who responded to an extra question said delinquency rates among highly indebted households would rise moderately this year.

"Canada's housing affordability problem is not easing...and the problem is unlikely to go away under current settings," said Douglas Porter, chief economist at BMO Capital Markets.

"While most will argue for a supply-side fix, our longstanding view has been it's wishful thinking to believe an industry, already running at full capacity, can simply double output in short order, flood the market with new units and bring prices and rents down."

(For other stories from the Reuters quarterly housing market polls:)

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