

Canada's housing market outlook: A tale of two halves in 2024

Interest rates will continue to dictate the outcome of Canada's housing market in 2024 with the first and second halves showing different pictures. We expect slow activity and softer prices to persist in the early part of the year as the [Bank of Canada](#) maintains its policy rate at a two-decade high and [home ownership](#) stays out of reach for many potential buyers. But, a [pivot toward rate cuts](#) mid-year will get the wheels turning faster over the second half or perhaps even sooner. There will be a lot of pent-up demand to satisfy in the market once confidence returns, which could heat things up in a hurry. However, poor affordability conditions will restrain the recovery and make it a gradual liftoff. The larger window of opportunity for buyers is likely to open only after interest rates have dropped materially—something we foresee in the latter stages of 2024 or into 2025. That's especially the case for first-time buyers who may be more financially constrained.

Upside for supply

Improving sales prospects are bound to attract more sellers. Mortgage renewal payment shocks could also prompt more owners to put properties on the market. An influx of sellers would keep supply-demand conditions in balance, and temper any upward pressure on demand. For-sale inventories have been rebuilding over the past couple of years after reaching historical lows earlier in the pandemic.

Market to be a little busier in 2024

We project home resales in Canada to rebound 9.2% year-over-year to 484,400 units in 2024—partially reversing massive declines of 25.1% in 2022 and 11.1% in 2023. That number of transactions would still fall short of the level reached before the pandemic in 2019 (490,900 units). We expect the recovery to strengthen in 2025 to 562,100 units—a gain of 16%.

No quick turnaround for prices

Our outlook for prices calls for the national RPS Home Price Index to ease further by 1.0% this year, following a 2.6% fall in 2023. We see the market turnaround having a greater impact in 2025 with the HPI forecasted to rise 3.1%. Under this scenario, the national index would remain below its 2022 peak throughout the two-year projection horizon.

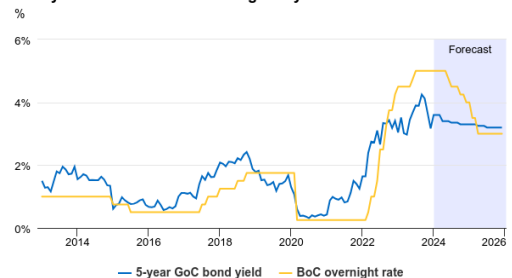
More ground to recover in B.C. and Ontario

The housing market situation varies considerably across the country and this is unlikely to change in the year ahead. Crushing home ownership costs have significantly depressed home resales in British Columbia and Ontario. There isn't much more vigour in Quebec. But other provincial markets have been broadly resilient. Activity remains near or above pre-pandemic levels in Alberta, Saskatchewan, Manitoba and most of Atlantic Canada.

Rebound already taking shape in Alberta and Saskatchewan

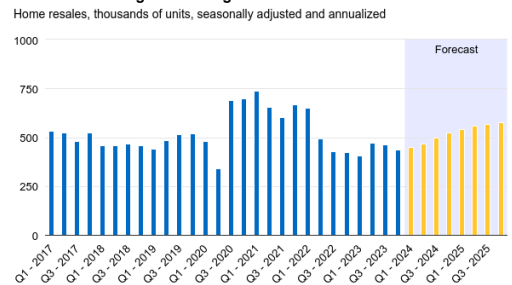
We expect lower interest rates to lift activity from coast to coast in 2024. A market uptrend is in fact already taking shape in Alberta and Saskatchewan—setting both up for above-average resales growth this year of 13.5% and 9.4%, respectively.

Policy rate to trend lower starting mid-year

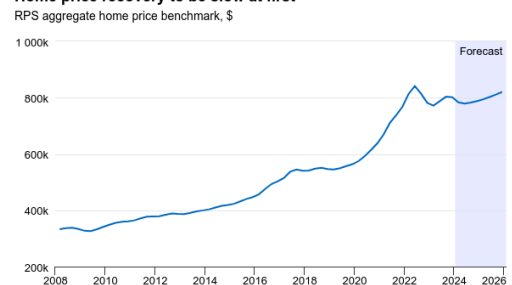


Source: Bank of Canada, RBC Economics

Canada's housing market to get busier later in 2024



Home price recovery to be slow at first



Source: RPS, RBC Economics

Broader strengthening in the second half of the year

Other provinces are likely to turn a corner by summer. We forecast residential transactions to rebound modestly this year in B.C. (up 6.4%) and Ontario (up 7.7%), though more robustly in Atlantic Canada (at growth rates as high as 15.8% in P.E.I. and 15.5% Nova Scotia) and Quebec (up 10.2%). We think it will take bigger rate cuts or deeper price drops to make a meaningful difference for buyers in expensive markets.

Provinces at different points of the price cycle

Our outlook for prices (RPS HPI) runs the gamut of outcomes across Canada this year. We project gains in Alberta (up 2.2%), New Brunswick (up 0.7%), Nova Scotia (up 0.2%) and Saskatchewan (up 0.1%); losses in Ontario (down 2.0%), Manitoba (down 1.8%), Newfoundland and Labrador (down 0.6%), B.C. (down 0.3%) and Quebec (down 0.2%); and no change in P.E.I.

Next year looks more uniform with moderate price advances projected in every province.

Booming population vs poor affordability

Major forces are working in opposite directions in the housing market. On one side, booming population growth sustains strong underlying demand for shelter (including rentals). On the other, high housing costs restrict many Canadians' path to homeownership. In 2024, that path is likely to widen once interest rates fall meaningfully. The severe loss of affordability—arising from soaring prices earlier in the pandemic and the run-up in interest rates since March 2022—has been the dominant force in the past two years plunging the market into a deep correction and causing a significant buildup in pent-up demand.

We believe the federal government's recent decision to cap for two years the issuance of study permits to international students will have a marginal impact on overall homebuyer demand in Canada. But pressure on local rental markets near post-secondary institutions in Ontario and B.C. could ease as a result.

Mortgage renewal payment shock

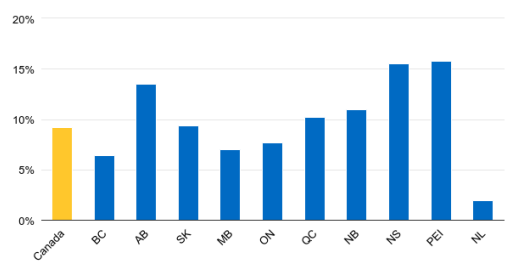
Steep payment increases that await fixed-rate mortgage holders at term renewal will hit many Canadians hard. These increases could be too much for some owners who may have to sell. But we see the risk of wave of distressed sellers as contained. Most mortgage holders have been stringently stress-tested against a spike in rate—qualifying at a rate at least 2 percentage points above the rate they received—at origination. Indeed, this prudence factor has significantly contributed to maintaining mortgage delinquencies historically low in this country to date. In any case, for-sale inventories have plenty of room to rise before they reach problematic levels.

Homebuilding key to longer-term balance

While we don't expect the current booming rate of population growth to be sustained, demographic factors are likely to remain strong for the foreseeable future in Canada. They could easily heat up the housing market to an uncomfortable degree again once the cyclical downturn has run its course. Whether they do will come down to the supply response. We estimate Canada will need to grow its housing stock by an average of 315,000 units every year between now and 2030 just to keep up with household formation. That's more than a third above the pace of housing completions in the past few years (which ranged between 220,000 and 240,000 units annually). Needless to say it's a tall order, especially considering the labour challenges the construction industry is facing.

Broad market recovery in 2024

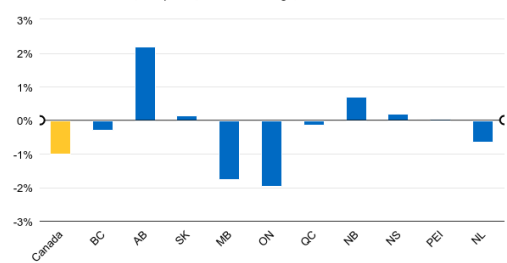
Home resales, annual % change



Source: Canadian Real Estate Association, RBC Economics

Alberta prices seen rising the most this year

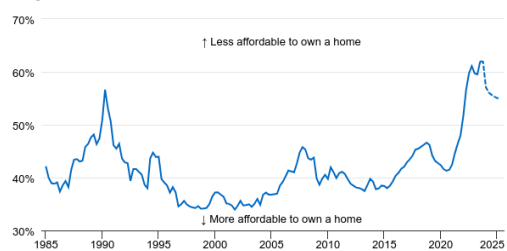
RPS Home Price Index, composite, annual % change, 2024



Source: Canadian Real Estate Association, RBC Economics

Modest affordability relief on the way

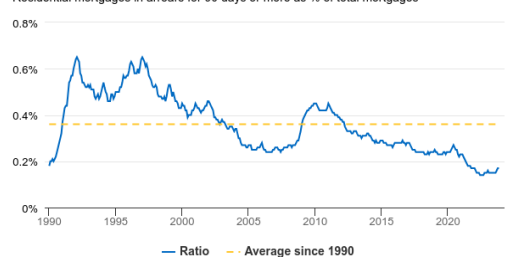
Ownership costs as % of household income, Canada, composite of all housing categories



Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

So far, Canadians are meeting their debt obligations

Residential mortgages in arrears for 90 days or more as % of total mortgages



Source: Canadian Bankers Association, RBC Economics

Home resales forecast (units)

	2016	2017	2018	2019	2020	2021	2022	2023	2024f	2025f
Canada*	539,900 6.4	515,400 -4.5	461,200 -10.5	490,900 6.4	551,800 12.4	666,300 20.8	499,000 -25.1	443,500 -11.1	484,100 9.2	561,900 16.1
British Columbia	111,500 9.4	103,400 -7.3	78,100 -24.5	77,000 -1.4	93,400 21.3	124,000 32.8	80,500 -35.1	73,100 -9.2	77,800 6.4	90,300 16.1
Alberta	55,600 -7.5	57,800 4.0	53,500 -7.4	53,500 0.0	55,800 4.3	85,600 53.4	84,000 -1.9	76,500 -8.9	86,800 13.5	89,100 2.6
Saskatchewan	12,200 -5.4	12,000 -1.6	11,100 -7.5	11,300 1.8	14,100 24.8	17,500 24.1	15,400 -12.0	14,900 -3.2	16,300 9.4	16,800 3.1
Manitoba	14,500 3.6	14,400 -0.7	13,500 -6.3	14,700 8.9	16,800 14.3	19,700 17.3	15,700 -20.3	14,200 -9.6	15,200 7.0	16,000 5.3
Ontario	243,100 9.6	219,700 -9.6	192,500 -12.4	209,700 8.9	227,600 8.5	271,200 19.2	184,300 -32.0	161,700 -12.3	174,100 7.7	220,600 26.7
Quebec	78,100 5.4	82,500 5.6	86,500 4.8	96,100 11.1	111,900 16.4	109,100 -2.5	86,800 -20.4	75,800 -12.7	83,500 10.2	95,700 14.6
New Brunswick	7,900 12.9	8,300 5.1	8,400 1.2	9,500 13.1	10,800 13.7	13,200 22.2	10,500 -20.5	9,100 -13.3	10,100 11.0	11,200 10.9
Nova Scotia	10,100 8.6	10,600 5.0	11,100 4.7	12,300 10.8	14,000 13.8	15,900 13.6	12,500 -21.4	10,300 -17.6	11,900 15.5	13,500 13.4
Prince Edward Island	2,100 23.5	2,200 4.8	2,100 -4.5	1,900 -9.5	2,100 10.5	2,400 14.3	2,000 -16.7	1,900 -5.0	2,200 15.8	2,400 9.1
Newfoundland & Labrador	4,200 0.0	3,900 -7.1	3,700 -5.1	4,100 10.8	4,700 14.6	6,800 44.7	6,300 -7.4	5,400 -14.3	5,500 1.9	5,500 0.0

* Includes sales in the Territories.

Annual percent changes are in italics.

Source: Canadian Real Estate Association, RBC Economics

Home price forecast

	2016	2017	2018	2019	2020	2021	2022	2023	2024f	2025f
Canada	482,500 10.8	534,300 10.7	546,600 2.3	553,600 1.3	605,400 9.4	721,200 19.1	812,400 12.6	791,100 -2.6	783,100 -1.0	807,000 3.1
British Columbia	712,100 17.6	769,700 8.1	810,500 5.3	778,400 -4.0	839,800 7.9	987,900 17.6	1,126,000 14.0	1,118,300 -0.7	1,115,200 -0.3	1,153,100 3.4
Alberta	425,200 -1.6	428,900 0.9	427,800 -0.3	419,100 -2.0	419,000 0.0	441,400 5.3	476,100 7.9	481,900 1.2	492,400 2.2	508,100 3.2
Saskatchewan	331,100 0.1	328,300 -0.8	324,700 -1.1	319,500 -1.6	321,300 0.6	335,200 4.3	346,500 3.4	343,600 -0.8	344,100 0.1	354,800 3.1
Manitoba	287,600 2.0	296,000 2.9	298,200 0.7	303,100 1.6	312,100 3.0	344,800 10.5	374,300 8.6	359,700 -3.9	353,400 -1.8	362,000 2.4
Ontario	506,400 13.1	589,700 16.4	596,800 1.2	619,100 3.7	692,700 11.9	847,900 22.4	955,300 12.7	910,200 -4.7	892,300 -2.0	917,800 2.9
Quebec	313,200 3.4	324,700 3.7	337,500 3.9	355,500 5.3	391,700 10.2	463,400 18.3	522,000 12.6	525,500 0.7	524,700 -0.2	542,400 3.4
New Brunswick	205,700 3.8	206,100 0.2	212,700 3.2	215,200 1.2	220,500 2.5	262,100 18.9	324,800 23.9	343,600 5.8	346,000 0.7	352,200 1.8
Nova Scotia	259,700 2.3	270,100 4.0	273,700 1.3	280,100 2.3	303,000 8.2	378,800 25.0	463,100 22.3	472,600 2.1	473,500 0.2	485,400 2.5
Prince Edward Island	214,700 5.1	239,500 11.6	265,700 10.9	276,600 4.1	312,600 13.0	364,200 16.5	416,300 14.3	428,800 3.0	429,000 0.0	442,700 3.2
Newfoundland & Labrador	298,300 -0.1	294,500 -1.3	284,500 -3.4	272,600 -4.2	272,000 -0.2	290,300 6.7	320,500 10.4	325,500 1.6	323,400 -0.6	329,000 1.7

Annual percent changes are in italics.

Source: RPS, Statistics Canada, RBC Economics

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