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Canada's home prices haven't hit bottom yet, says CMHC

Prices expected to continue to decline until mid-year

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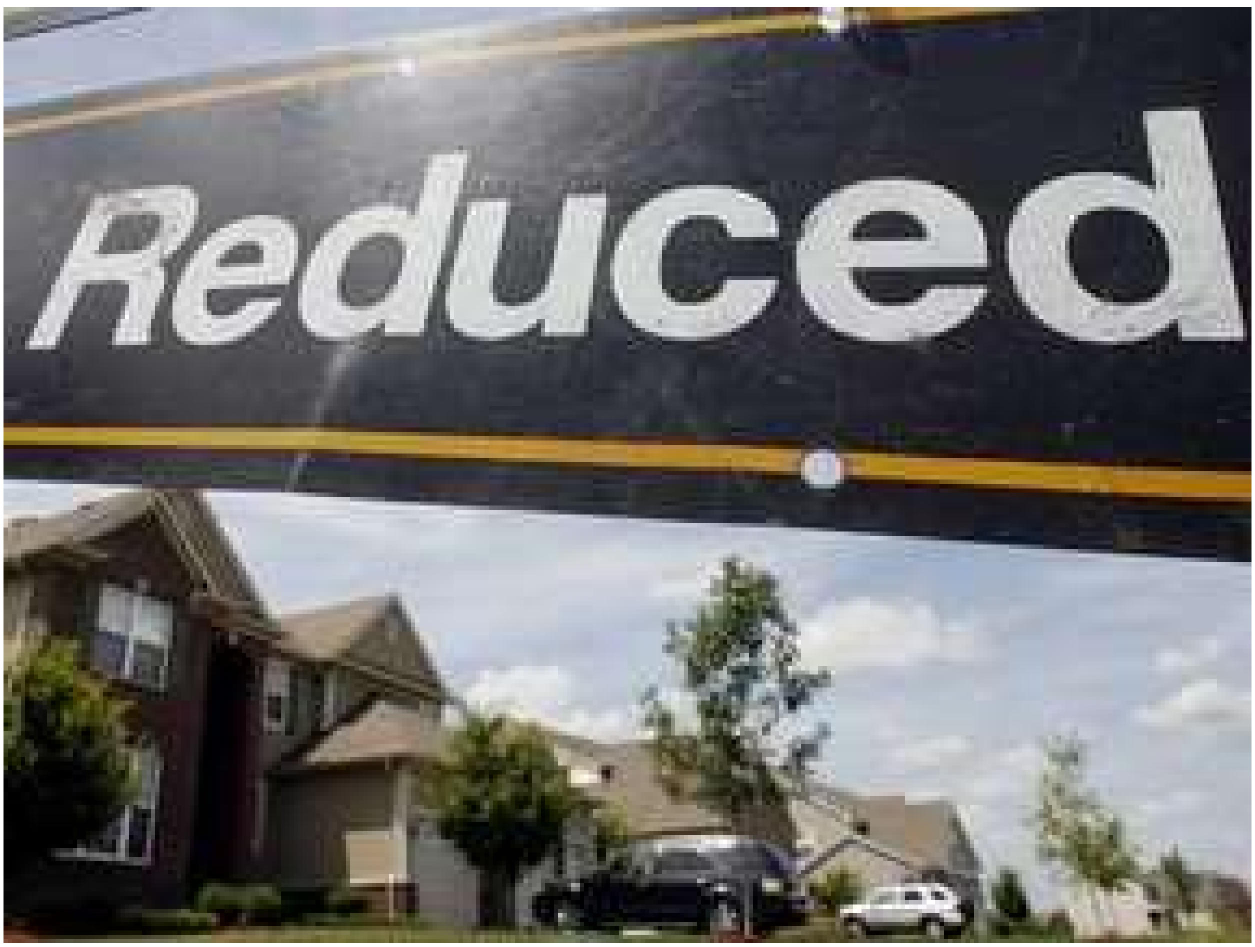

Canadian home prices will continue to decline until the middle of 2023, according to the Canada Mortgage and Housing Corporation's latest housing market outlook. PHOTO BY JEFF HAYNES/GETTY IMAGES

Canadian home prices will continue to decline until the middle of 2023 before they bottom out and start rising again through 2025, according to the Canada Mortgage and Housing Corporation's latest housing market outlook.

The national housing agency's annual forecast, released April 27, predicts that while the average home price for 2023 will end up below last year's level, a lack of supply and increasing demand will reinforce the country's housing affordability challenges.

The CMHC forecasts a decline in housing starts due to higher construction and borrowing costs, predicting that new supply will remain below 2021 and 2022 levels before seeing some recovery in 2024 and 2025.

"With demand for housing still well outpacing new housing supply, affordability challenges will persist for owners and renters," chief economist Bob Dugan said.

Higher mortgage rates and still-elevated price levels will make homeownership less affordable even while prices have declined, he said.

In an interview, Dugan said the housing agency forecasts that the Bank of Canada will hold interest rates steady throughout the rest of the year and will start to gradually bring them down in 2024. The central bank left its benchmark interest rate unchanged at 4.5 per cent on April 12.

"What's been done so far in terms of interest rate increases is going to slow the economy enough that's going to get rid of the excess demand and we're going to see inflation begin to move lower," he said.

Once the central bank eventually starts to cut interest rates next year, stable and declining interest rates will lead to an improvement in housing demand and a gradual increase in home sales albeit very tight supply in the market, Dugan added.

A lack of affordability will continue despite cooling inflation and a gradual decline in mortgage rates, which are both expected to help housing demand, he said.

As a result, many households will be forced to remain in the rental market, which is already facing severe supply shortages, especially in Toronto, Vancouver and Montreal, the CMHC said.

It also said the large declines in 2023 housings starts will be more severe in Ontario, British Columbia and Quebec, compared to other regions.

"This is where we see the biggest challenges in terms of housing starts over the next year or so," Dugan said. "So it concerns us that it's moving in the wrong direction to restore affordability."

He said the CMHC expects approximately two million starts will be built between now and 2030, while Canada needs an extra three and a half million starts to actually restore affordability to housing.

“I’m less optimistic because the environment for housing starts right now is fairly challenging,” Dugan said, explaining that the state of construction is affected by high interest rates, labour shortages and high material costs.

In terms of demand, he said Canada has reached the bottom and will see a stabilization of housing demand and house prices in the second quarter, with growth in demand picking up from there, thanks to stabilizing interest rates.