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How interest rates will drive Canada's housing market in coming months

'The only thing that matters right now are interest rates'

Noella Ovid || October 8, 2023

A 'For Sale' is sign is displayed in front of a house in the Riverdale area of Toronto. PHOTO BY EVAN BUHLER/THE CANADIAN PRESS FILES

Lower interest rates might be the only thing that could revive Canada's housing market as supply outpaces demand in the country's largest real estate markets, experts say.

For example, Toronto home sales plummeted as new listings surged in September. Sales were down 12 per cent from August and 7.1 per cent year over year, according to Toronto Regional Real Estate Board (TRREB) data. There were also 16,258 new listings, a 32 per cent increase from August and 44.1 per cent higher than a year ago.

Vancouver had a similar jump in inventory last month, with 5,446 new listings, a 28.4 per cent increase from September 2022, according to Real Estate Board of Greater Vancouver data. September sales totalled 1,926, which is a 13.2 per cent increase from the same month last year, but still below the 10-year seasonal average and a 16.1 per cent drop from August.

“Sales are really weak, technically up year over year, but that’s comparing to a horrible September of 2022,” Steve Saretsky, a realtor at Oakwyn Realty Ltd. in Vancouver, said in an interview with the Financial Post’s Larysa Harapyn.

Prices are up in both Vancouver and Toronto from the same time last year, but weak sales combined with high inventory are starting to put downward pressure on prices.

The average price in Toronto was up roughly three per cent month over month and year over year at about $1.1 million. The composite benchmark home price in Metro Vancouver was $1.2 million, a 4.4 per cent increase from the same month last year, but a 0.4 per cent decrease from August.

“Interest rates are going to be the main factor driving the trends in house prices” in the next 12 months, John Pasalis, president of Realosophy Realty Inc. Brokerage in Toronto, said in the same interview.

He believes longer-term factors such as immigration won’t impact the market until the economy is past its current high-rate environment.

“These are not going to help the housing market in the short term,” Pasalis said. “The only thing that matters right now are interest rates, quite frankly, and the impact that’s having on the number of people who are buying homes, which is unbelievably low, and the number of people who are forced to sell because they’re over-leveraged.”

Saretsky agreed: “In the near term, a 6.5 per cent mortgage rate is going to trump what’s happening on the immigration side. Structurally, I still think we’re going to be talking about housing affordability or lack thereof over the next five to 10 years.

He added that the rapid changes in interest rates will also affect new housing supply.

“The huge move in interest rates is going to slow new construction and, I think, ultimately, it’s going to hit housing demand and developers are going to pull back,” he said.

Looking ahead, Pasalis isn’t banking on the federal government’s spring budget to revive the housing market.

“The big driver right now is interest rates and there’s not much the Feds can do to get around that,” he said.