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Posthaste: Get ready for the 'great adjustment' in Canada's housing market

Realtors see home prices regaining pandemic peaks once Canadians accept the 'new normal' in borrowing rates

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Royal LePage predicts that the aggregate price of a home in Canada will rise 5.5 per cent year over year by the end of 2024 to $843,684. PHOTO BY TYLER ANDERSON/NATIONAL POST

Home prices should climb back to pandemic peaks by this time next year, says a new report that surveyed real estate brokers across the country.

Royal LePage predicts that the aggregate price of a home in Canada will rise 5.5 per cent year over year by the end of 2024 to $843,684.

“Based on this forecast, by the end of next year, home prices will have essentially climbed back to their pandemic peak, reached in the first quarter of 2022,” said the report.

But first there is the “great adjustment.”

For the past four years Canada’s housing market has been on a “roller coaster,” realtors say.

After sales tanked during pandemic lockdowns, buyers flooded back to the market enticed by cheap borrowing rates. The spike in demand pushed prices to unprecedented highs. At the peak of the boom in February 2022, the average price hit $816,720, according to figures from the Canadian Real Estate Association.

Enter the Bank of Canada. The most aggressive interest rate hiking cycle in recent memory sent the market into an extended correction, that, but for a brief rally this past spring, continues today.

Buyers, discouraged by higher borrowing costs, remain on the sidelines and inventories are building across the country. Though sales are down 20 to 30 per cent in some regions, the decline in home prices is modest, said Royal LePage.

“Looking ahead, we see 2024 as an important tipping point for the national economy as the majority of Canadians acknowledge that the ultra-low interest rate era is dead and gone,” said Phil Soper, chief executive of Royal LePage.

“We believe that the ‘great adjustment’ to tolerable, mid-single-digit borrowing costs will have a firm grip on our collective consciousness after only modest rate cuts by the Bank of Canada.”

For many Canadians that adjustment will be great indeed.

Though the Bank of Canada’s current 5 per cent policy rate is far below the double-digit extremes of the 1980s and ’90s, it is still much higher than many Canadians are used to.

Since the great financial crisis in 2009, the Bank’s benchmark rate did not exceed 1.75 per cent until 2022. More than a decade of near-bottom rates preceded this latest hiking cycle.

Royal LePage pegs the new normal for mortgage rates at four to five per cent — a fair bit above the 2021 low of 1.4 per cent.

“For the last year, many Canadians have been fixated on the idea of interest rates needing to come down significantly before they can afford to enter or re-enter the housing market,” said Soper.

“Acceptance that a mortgage rate of four to five per cent is the new normal should untether pent-up demand as first-time buyers, flush with savings collected during the extended down market in housing, regain the confidence to go home shopping.”

That is not likely to happen until the second half of 2024, when Royal LePage predicts the Bank of Canada will begin to slowly ease interest rates in late summer or fall. Their forecast is later than many economists and markets who see cuts coming as early as March or April.

The third quarter will see the biggest gains, with home prices rising 3.3 per cent year over year. By the fourth quarter prices will be up 5.5 per cent.

Regionally, Calgary home prices will lead gains with an 8 per cent increase by the end of 2024.

“We expect that home prices will rise over the next year, and will outperform other major cities as Calgary’s relative affordability continues to attract buyers to the city,” said Royal LePage broker Corinne Lyall.

Affordability will remain an issue in markets such as Toronto where home prices are expected to rise 6 per cent to $1,198,012.

“We know there are still buyers on the sidelines waiting for interest rates to come down. What is unclear is how many can afford to jump back into the market at the first sign of a reduction, and how many truly cannot afford to transact in this environment,” said Karen Yolevski, chief operating officer, of Royal LePage Real Estate Services.

Gains will be even more modest in Vancouver, Canada’s most expensive housing market. By the end of 2024 the aggregate price will have risen 3 per cent to $1,281,732, says the forecast.