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Why the smart money is buying single-family homes

Robert McLister: Shortage of houses and surging population is setting up a big opportunity, for those with the financial means

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There's little argument among experts that single-family houses should appreciate faster than multi-family homes. PHOTO BY POSTMEDIA

"Location, location, location" is what real estate agents preach like a broken record, and for good reason.

But there's a new chant in town: "home type, home type, home type." It doesn't exactly roll off the tongue, but it's about to sway home appreciation more than usual for the next few years.

Whether you think Canadian home prices will rocket like an artificial intelligence stock, crash like a meteor, or something in between, there's little argument among experts that single-family houses should appreciate faster than multi-family homes.

Housing analyst Ben Rabidoux at Edge Realty Analytics notes that for every single-family home we've started building in the past year, Canada has added 20 people to the population. That's just about as lopsided of a supply-demand relationship as you'll see in real estate.

"Single-family housing starts don't look set to improve any time soon," Rabidoux says.

"Building permits are leading indicators for housing starts, and it's notable that they remain at 40-year lows nationally."

Sure, the spectre of housing risk looms large, with mortgage rates almost double their 10-year average. Yet, for qualified prospective home buyers, it may pay to look beyond the short-term gloom.

It's no coincidence that most economists and real estate analysts are now projecting higher house prices in the next year despite record unaffordability. The deficit of single-family residences combined with rising incomes should lead to detached home price outperformance as rates ease.

Sideline syndrome

Thousands of hopeful Canadians are on the sidelines, waiting for lower rates to buy a house. For some, that might be a mistake.

If you've got the financial fitness to jump into the single-family home arena, playing the waiting game for 'lower prices' or 'lower rates' is a pure gamble. Lots of other folks are doing the exact same thing and cheaper borrowing costs will ultimately unleash more pent-up demand.

While no one knows where rates and prices are headed, it's rational to expect the record shortage of houses to manifest in price appreciation relative to more plentiful property types like condos. That's even more true in desirable locations.

Moreover, despite the current updraft in bond yields, mortgage rates will likely be on the downswing later this year. Canadian core inflation is trending down, unemployment is rising (which should slow inflation and impact renters more than homeowners), and paycheque growth is still strong among home buyers.

What's more, the bond market's crystal ball is fully pricing in a cut this summer. And let's remember, when a monetary easing cycle starts, the Bank of Canada has the same approach to cutting rates as I do to potato chips — never just one.

And finally, a word to the wise: those with means, including investors, like to buy on dips. And when they do, they push up prices for everyone else. That's exactly what's been happening in several markets as of late. It's making 2024 potentially a short-term window of opportunity for fringe middle and upper-middle-class buyers to afford houses.

Buying right

Location is still king, but sometimes, you're better off buying a house or townhouse a bit further away from where you want to be than a more plentiful high-rise condo. You may also find value in a detached fixer-upper where you can build sweat equity. Much depends on supply and demand in your region and the upside and lifestyle you want.

When sizing up house location, eventual resale potential should be paramount. That hinges on buying in areas that check more than just one of these boxes:

- Above-average population growth relative to home building
- Solid employment growth
- Proximity to amenities
- Access to nature
- A strong school district
- Scenic views
- Nearby public transportation
- Low crime rates
- An economy not tied to just one industry.

And who's winning in this location lottery today? Calgary's cowboy charm, Halifax's salty sea breezes, Quebec City's *joie de vivre*, and St. John's rugged shores are all examples of real estate markets drawing crowds.

Hopping the house-buying hurdle

If that white picket fence seems too high a bar to clear, here's how some folks are getting a leg up into the land of homeownership:

Family favours: Far and away, the most common house-buying hack is a family down payment donation. This includes well-off parents who gift or loan their kids money (note: loans must be factored into your mortgage debt ratios and can prevent you from qualifying). It also includes grandparents — some of whom are putting reverse mortgages on their homes to gift their grandchildren a living inheritance — which I often don't recommend.

Co-signing: Getting the folks or a relative to co-sign on a mortgage is sometimes another option, as long as the co-signer understands the potential impact on their own credit, finances and home buying potential.

Buddy system: More Canadians are buying houses with friends or relatives. Some are even buying with strangers, using a co-ownership matchmaking service. Of course, you'll want to trust and know the background of who you're getting in bed with. And you need an iron-clad co-ownership contract that contemplates worst-case scenarios (like your roommate not paying their share of the mortgage).

Shared equity: In some regions, you can find shared equity providers that'll grant you an interest-free down payment top-up to get you to the 20 per cent. That lowers your payments and helps you avoid costly default insurance. In exchange, you give up a percentage of your future appreciation until you buy the shared equity company out.

Rent-to-own (RTO): This is where you rent a property for a set period, during which a portion of your rent payments go toward a future down payment. Be aware of the risks, check the company's reputation and always have a real-estate lawyer review any RTO agreement in advance.

So, given Canada's drum-tight medium-term housing outlook, buying a house over a high-rise condo may be the better play for qualified homebuyers who can solve the affordability riddle. And given national average home prices are still 15 per cent below the 2022 peak, it's a riddle worth solving sooner than later.