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Buying a home may remain out of reach for many Canadians for the foreseeable future

House prices on average are up more than 30 per cent since April 2020

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Even with expectations that the Bank of Canada will keep cutting interest rates in the coming months, the issue of home affordability — which has strangled Prime Minister Justin Trudeau's poll numbers — is unlikely to fade before the next election. (Carlos Osorio/Reuters)

Buying a house may remain out of reach for many Canadians for the foreseeable future, with mortgage costs unlikely to fall enough to offset lofty home prices and weak spending power, economists and real estate agents say.

Even with expectations that the Bank of Canada will keep cutting interest rates in the coming months, the issue of home affordability — which has strangled Prime Minister Justin Trudeau's poll numbers — is unlikely to fade before the next election.

The mandate for the Liberal minority government ends at the end of October 2025, but an election could come well before then, with the Conservative opposition spoiling to end Trudeau's nine-year run at the top.

"You won't get back to an affordable range for housing on a sustained basis for a decade," Tony Stillo, director at forecasting at analysis group Oxford Economics, said last week at a conference.

Many Canadians have been priced out of the housing market since interest rates started rising two years ago. At the same time, a huge influx of immigrants has pushed Canada's population to record levels, further boosting housing demand and prices.

With interest rates now starting to ease, the cheapest mortgage interest rate — the five-year fixed — now sits at about 4.75 per cent, down 150 basis points from a year ago. Even so, the decline — and expectations of further easing — has failed to trigger an uptick in home buying.

For "the majority of potential buyers who are on the sidelines, if it means $50 or even $100 less a month thanks to lower interest rates, it's still unaffordable," said Robert Hogue, assistant chief economist at the Royal Bank of Canada.

In the most expensive markets of Toronto and Vancouver, many potential buyers are still priced out, he said. Some of them should be able to buy a house next year, but not enough to restore balance.

Housing affordability is a function of house prices, interest rates and a borrower's income. For prospective buyers, those metrics have skewed unfavourably since the start of the COVID-19 pandemic in 2020.

Canadian house prices on average have increased by more than 30 per cent since April 2020, while interest rates soared by 4.75 basis points until they started coming down in June.

Calculations based on average house prices from the Canadian Real Estate Association show that monthly interest payments on a five-year fixed-rate mortgage are still 40 per cent higher than in January 2020, even after a drop in mortgage costs from last year's highs.

During the same period, real or inflation-adjusted household income has risen by 2.3 per cent, while nominal income has increased by 21 per cent, according to estimates from Statistics Canada.

For affordability to return to pre-pandemic levels, house prices would need to come down by at least 10 per cent and mortgage interest costs would have to drop by half from current levels.

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No crazy market

Home sales in Toronto — often considered the bellwether of the Canadian real estate market — are at about 20-year lows due to sky-high prices, said John Pasalis, president of Realosophy Realty, a Toronto-based real estate brokerage.

"It's unbelievably unaffordable," he said, adding that activity would likely pick up as interest rates keep coming down, but it would not be a "crazy market."

The cheapest five-year mortgage rates have fallen substantially, but many borrowers — especially those with higher risk profiles — only qualify for mortgages carrying higher rates that are still hovering between six per cent and seven per cent, Pasalis said.

Earlier this month the federal government changed one of its rules on mortgage payments, allowing first-time buyers or people purchasing a newly built home to take loans with 30-year amortizations, instead of 25 years.

Although the move is intended to lower monthly payments and make home ownership affordable to more people, critics say it may have the opposite effect by boosting demand and raising prices.

At a conference last week, Finance Minister Chrystia Freeland disputed that claim. She said the measure would support supply by encouraging builders to construct more homes to meet a rising demand for new homes.