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Five reasons why home prices will rise 10% in 2025

If you are considering buying, it is time to get busy. Today is an opportunity that will look cheap a year from now

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There was a belief that when mortgage rates started falling, housing demand quickly follows suit. Instead, the demand side has been waiting patiently, adding more to the queue. PHOTO BY GRAEME ROY/THE CANADIAN PRESS

I aggressively predicted last year that the Bank of Canada would lower interest rates by two per cent and this would be the key theme of 2024. As it turns out, I was mostly correct since rates fell 1.75 per cent.

In 2025, the central bank has a little more room to lower rates, but the heavy lifting has been done.

This leads to the big theme of 2025: the powerful return of residential real estate. In particular, single-family detached residential real estate (not including condominiums). I believe there will be a 10 per cent increase in price year over year from 2024 to 2025. Here are the main five reasons.

Delayed purchases have built up demand

There is a natural life cycle of home-buying, which is almost like human nature. In Canada, once you are able to save some real money ($100,000 to $300,000, depending on the market), the cultural expectation is that you will buy a house of some kind.

While the economy has had some challenges, there are new people entering this group all the time. Once they have the money, they are prepared to buy, but other pieces need to be in place. As you will see below, the planets are getting aligned.

In 2019, residential sales activity across Canada was in the range of 500,000 units, according to the Canadian Real Estate Association. This jumped to the 600,000-to-750,000 range from the first quarter of 2020 through the first quarter of 2022 during the COVID-19 real estate boom. The numbers then dropped back to the 450,000 range for the past two and a half years, even though it was a time of meaningful population growth.

There was a belief that when mortgage rates started falling, housing demand would quickly follow suit. Instead, the demand side has been waiting patiently, adding more to the queue. That lineup is very long at the moment and lays the foundation for growth in 2025.

Greater sales activity is one part of the equation, but the other pieces are like a combination lock: things open up when everything is in place.

Price cap increase on insured mortgages

The increase in the price cap on insured housing to $1.5 million (along with 30-year amortizations for first-time home-buyers and new construction builds) from $1 million will provide a big push starting this month.

In markets such as Toronto and Vancouver, there have been a limited number of houses priced under $1 million. As a result, an insured mortgage was out of the question.

However, at a new cap of $1.5 million (effective Dec. 15), after a couple of years of flat and declining house prices, there is now a good percentage of decent entry-level houses that are insurable.

This means you can buy with as little as a five per cent down payment, and you can qualify for lower rates on insured mortgages.

Today, you can get a five-year fixed-rate mortgage that is insured for about 4.15 per cent, which is about 0.35 percentage points cheaper than rates on an uninsured mortgage.

Add it all up, and it requires saving a lot less money in order to buy a house and a smaller monthly hit to your cash flow. Whether this is a smart purchase is another story, but Canadians have shown that if the bank will lend them the money, they will borrow it.

Lower mortgage rates

As people waited for mortgage rates to fall, they were excited when they finally did. However, if they are falling, why jump in? Why not wait until you can get an even lower rate? That strategy applied for almost all of 2024.

I believe we will see some more declines on the variable-rate front and very small declines on the fixed-rate front, but either way, we can see the bottom from here, and the risks of waiting too long in a Donald Trump-inspired inflationary world could mean missing the bottom.

Now is a time to get into action. Coupled with the changes to the insurability of a mortgage as noted above, this will really kick-start buying, especially among first-time buyers.

House price declines have stopped

This is the main plot line. Why buy a house today if it will be priced lower tomorrow? That strategy has worked for more than two years.

In December 2019, the national average home price was $535,000, according to Canadian Real Estate Association data. After the first couple of months of COVID-19, the average price skyrocketed up to $604,000 in December 2020, a 12.9 per cent increase. In 2021, it jumped 28.5 per cent.

Prices peaked in February 2022 at $835,000 and then collapsed back down to $719,000 by December 2022, a 13.9 per cent fall. Today, almost two years later, prices have not moved much, sitting at $723,000 in November 2024, although this has inched up from $716,000 in May 2024.

I believe the bottom has already happened. Waiting for a better price is likely a poor strategy today. Things can heat up very fast when prices start to rise and there is pent-up demand. I believe this is where we are right now.

High immigration rates didn’t stop

The demand from new Canadians for housing is large. Immigration targets for 2024 peaked at 500,000 and the government is still targeting 395,000 newcomers in 2025. Immigration was in the high 200,000s to low 300,000s for most of the previous decade.

This jumped post-COVID-19 to 493,000 for a 12-month period covering parts of 2021 and 2022 and 468,000 the following year. This is huge growth over the previous periods and people need to live somewhere.

Those with some financial means will want to own real estate and join the Canadian tradition. This does not include the non-permanent residents, who now number more than three million, according to Statistics Canada, which is 600,000 more than one year ago.

Despite the name, this group also includes a percentage who are looking to buy a home. Much of this sizable boost in population happened after the peak price in February 2022.

I specifically did not mention condominiums here, although this may be more of a Toronto issue than some other markets. Because of the level of real estate investment in condominiums (as opposed to being owner-occupied), there has always been a greater risk of owners desperate to sell if the economics stopped working.

Well, that happened and there still appears to be a real backlog of sellers in the condominium space. This will lead to a longer period of flat to declining prices until the excess of investors leaves the market.

Looking at the five factors above for single-family, detached residential real estate, I don’t see a slow turnaround in housing prices. I see price growth that is more in line with the 2015-to-2016 period that had growth of 10.6 per cent and 15.8 per cent, respectively, but with a bit of a boost from the increase in immigration.

All told, that will lead to a 10 per cent price growth nationally.

What does all this mean?

If you are considering buying, it is time to get busy. Today is an opportunity that will look cheap a year from now.

If you are considering selling, you may want to hold off a little in listing your house if you can afford to wait. Just like buyers have a life cycle, so do sellers. You don’t want to wait forever, but even if you have to list now, don’t be afraid to hold out for your price.

In 2025, Canadian homeowners can resume their obsession with the value of their homes and take pleasure in watching it head back up.