3 Factors That Could Boost Housing in Early 2018

Description

Analysts continue to be anxious over Canadian housing after the Bank of Canada elected to raise the benchmark interest rate by 0.25% on January 17. The real estate industry was already bracing for a slowdown to begin 2018 after new mortgage rules were implemented by the OSFI. Now the housing market may be facing an even stiffer test to start the year.

Record high Canadian household debt has also generated a great deal of concern going forward. Alternative lenders **Home Capital Group Inc.** (TSX:HCG) and **Equitable Group Inc.** (TSX:EQB) have declined 10.5% and 11.5%, respectively, in 2018 as of close on January 18. However, there are still reasons for optimism in housing as we look beyond January.

Canadian home resales jumped 4.5% from November to December, and actual sales were up 4.1% year over year. Home prices also increased 9.1% from December 2016 to December 2017. There was a marked rise in activity with buyers looking to seal purchases before the new mortgage rules were triggered.

Let's look at three other factors that could drive Canadian housing in the coming months.

Buyers shifting from condos to detached homes

Ontario metropolitan areas have seen a particularly pronounced correction for detached homes following the foreign buyers' tax and other cooling measures implemented in the spring of 2017. The condo market, however, has continued to perform extremely well into 2018. Detached home prices fell by 20% from April to December, while condominiums dropped by 8%.

Real estate industry experts are predicting that new buyers will gravitate more towards detached homes as we head further into 2018. Strong economic and job growth should also have a positive impact in pulling buyers back into detached homes — young families in particular.

Supply remains an issue

High demand and lack of sufficient supply seem poised to drive growth in housing, at least in the short term. According to Ben Myers of Bullpen Research, a balanced supply and demand market in Toronto would require between 25,000 and 30,000 condo completions annually. There were 18,232 condo completions in 2017. Completions reaching the higher levels required are unlikely to be reached until 2020 at the earliest.

The federal government has set a target for 310,000 immigrants in 2018 and roughly 340,000 per year by 2020. This will mean that Canada will add nearly one million citizens through immigration by the beginning of the next decade. High immigration will continue to put a squeeze on supply, especially with major metropolitan areas attracting the highest concentration of newcomers.

Interest rate debate

Although the Bank of Canada decided to hike the benchmark interest rate on January 17, it indicated that it will continue to exercise caution going forward. Debt reduction is the highest financial priority for Canadians for the eighth year running, but analysts expect cutbacks for smaller purchases rather than a larger pullback in mortgages. Historically, borrowing rates are still reasonably low, which should be more than enough to carry prospective buyers in 2018.

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Date
2025/08/16
Date Created
2018/01/19
Author
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