



## 2 in 3 Canadians Believe Home Prices Will Keep Rising: But Will They?

### Description

By now, it's become a Canadian truism: the housing market is hot. Red hot. It's so hot, in fact, that we've seen home prices grow 11.3% since last year. And with supply shortages still rampant, and listings continuing to fall, many Canadians are convinced by another public truism: the belief that housing prices will just keep going up and up.

A new Yahoo/Maru Public Opinion survey, in fact, shows that the majority of Canadians (68%) believe house prices will rise gradually over the next year or two. Only 32% of those surveyed believe the real estate bubble will burst, with 67% of these believing the burst will happen in 2022.

But *will* house prices continue to go up next year? Is there any data to support this "hunch?" Or are the majority of Canadians engaging in groupthink?

### Will house prices continue to rise in 2022?

One thing is for certain: the housing bubble won't burst in 2021. Interest rates are still ultra-low, even after the recent bond-yield increase pushed them up. Demand is still fairly strong, and with the supply shortage still in effect, the price of a home is unlikely to drop for most of Canada.

That said, conditions could start to change in 2022.

For one, we're already seeing a surge in home constructions. In fact, according to research by **RBC**, over the last year alone, builders have poured the foundations for around 260,500 homes — a 26% increase compared to the average pace from 2015 to 2019.

That's more homes started since 1977. And if we take condos and apartments into consideration, the number of housing units under construction jumps to 320,000 — a 12% increase since the end of 2019.

Will this new supply cool down ultra-high demand? Probably not. Most of these units already have buyers, as hardly a builder will start a new project, unless they have solid sales agreements. Likewise,

the high price of a new home is likely to eliminate Canadian homebuyers of middle or low incomes — a big portion of homebuyers.

But there is some good news: the pandemic is receding. With lockdowns and restrictions easing up, Canadians are venturing out of the house once again. Kids are going back to school, and offices are opening up for workers. That could reverse a trend we saw last year — that of Canadians seeking a bigger space to better suit their stay-at-home lifestyles. If that holds true, we could see a decrease in demand, however slight it may be.

## Rising interest rates could reverse the surge

Perhaps the strongest factor that could curb rising house prices is a change in interest rates. We've already seen a slight rise in mortgage rates, though it's still too early to tell if that has had any effect on demand. The central bank, however, wants to hike interest rates as early as April of next year. If the cost of borrowing money goes up, we will certainly see a decrease in demand. That, in turn, will make housing prices go down.

That said, let's not forget the recent opening of the U.S.-Canadian border. With the border reopening, we may see a surge in foreign homebuyers. More homebuyers on the market will keep demands high, even if interest rates eliminate demand among certain demographics in Canada.

So, bringing all these factors together, I have to agree with the majority here. But only slightly. Based on what I'm seeing, I doubt the housing bubble will burst in the next year. I'm not convinced, however, that home prices will rise drastically in 2022. We will likely see a moderate increase in home values, with some areas experiencing higher-than-average growth. Demand is likely to remain high in 2022, but I'm optimistic a hike in interest rates will reverse the surge in house prices. Anything could happen in a year, but at this point, I'm convinced the housing market is going to start cooling near the third quarter of 2022.

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