



## Will House Prices Level Out in 2022? Here's Why Homebuyers Shouldn't Hold Their Breath

### Description

For many homebuyers, 2020 and 2021 will go down as the most challenging years to buy a home. *Period.* Homes are in short supply, mortgage rates are historically low, demands are ... well, everyone knows the story by now. The real estate market is hot, even in a traditionally cool winter market, and with demands still relatively high, many buyers are trying to lock into a home before prices go up even more.

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 rise next year? Is there a chance they could flatten or even drop?

### Will house prices drop in 2022?

It's possibly, but I highly doubt it.

In fact, I'm even hesitant to say, "it's possible." Demand is so high right now, with supply still low, I don't see house prices dropping until at least 2023, if that. If home prices were to drop at all in 2022, it would most likely occur in the third or fourth quarter of the year, and even then, I don't think they would drop significantly.

Besides, we've already seen such a massive increase in prices this year; by all estimates, with an 18.6% hike on the average price of home, it would take a serious drop to bring prices back down to pre-pandemic levels. The housing market can be as volatile as the stock market, true, but if prices dropped significantly next year, that could be a result of a deeper problem with the Canadian economy.

### What about mortgage rate hikes?

Yes, the Bank of Canada has sternly warned that mortgage rates will go up around the second quarter of next year. In theory, if the cost of borrowing money goes up, we could see a decrease in demand.

But I'm not convinced demand will tank after mortgage rates creep upward. Whereas mortgage rates will deter some speculators and investors from buying real estate property, those who leave the race will only be replaced by those waiting eagerly on the sidelines.

## Could home prices level out?

Again, it's possible, but I'm skeptical.

The only way home prices could level out in 2022, as in, values stop growing significantly is if higher mortgage rates and increased supply work together to curb demand. The former, we know is coming. The latter is a giant question mark. To be fair, we have seen builders pour the foundations for around 260,500 homes in 2021, or a 26% rise when compared to the average pace between 2015 to 2019. Will the rate at which we build homes be quick enough to outpace the surge in housing prices? Only the next year will tell.

I think we'll see a downward trend in home price growth. But that doesn't mean the price of a home will go down. That just means the rate at which house prices are going up will slow significantly. In 2021, we saw a 18.6% increase in the price of a house. But in 2022, I think that rate will drop to a single-digit growth.

## Should you buy a home in 2022?

I'd say examine your motives. If you can wait another year, I would certainly wait. Mortgage rates will most likely go up in 2022, which isn't ideal, as your mortgage payments will be higher, but it could mean a drop in demand or a drop in house prices. Anything could happen in a year, but at this point, I'm convinced the housing market will remain fairly warm until at least the third quarter of 2022.

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**Date**

2025/07/21

**Date Created**

2021/12/16

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