



Will Housing Prices Ever Drop? Here's What Homebuyers Should Expect for the Rest of 2022

Description

It's the question renters, millennials, and frustrated homebuyers across the country are dying to know: will the housing market correct in 2022? Will prices drop back to pre-pandemic levels?

To be sure, the market in Canada is heavily overvalued. In fact, according to [Moody's Analytic](#), it's overvalued by around 91%. That might seem like bad news for sellers; after all, in normal circumstances, an overvalued market would seek to be corrected. But the bad news falls squarely on homebuyers. Moody's Analytic doesn't think the Canadian real market will face a correction in 2022, nor do they think it will happen in 2023.

Correction or not, could house prices drop in 2022? I doubt it. Let's take a look at why prices will likely keep rising this year.

Will house prices drop in 2022?

Taking the Canadian housing market as a whole, it's highly unlikely prices will drop.

But if we look at the housing market at more granular level, we might see corrections in certain places. For example, Moody's Analytic forecasts a 5.29-7.21% decline in prices for the Montreal market, the only major metropolitan area this crediting agency predicts will drop.

Aside from a few corrections, house prices as a whole will continue to appreciate. The cause is the same one that brought house prices up by 26.6% in 2021: low supply and exuberant demand.

But the gap between these two is growing wider. While it's true that construction companies are working around the clock to build more homes, it's unlikely they'll build enough to please buyers. Infact, housing starts decreased by 3% in January, producing around 15,000 fewer units than expected. For perspective, that's the sixth time in the last seven months that housing starts were less than expected — the sole exception being November, when housing starts were a whopping 26% over goal (301,279 units).

In their own survey, [RBC](#) estimated that the housing market was short between 180,000 to 250,000 units at the end of 2021. The deficit of homes carried over into 2022, and we would need to *triple* active listings if we wanted to rebalance supply and demand. With a slow start in January, it's unlikely we'll be able to build enough homes to satisfy demand.

Most experts agree that housing prices will *decelerate*. If that's true, the rate at which prices grow will decline, even if houses grow more expensive. RBC, for instance, projects a 6.2% increase in Canada's benchmark price, which would be little more than a third of the 17.8% increase we saw in 2021. House prices would still grow. But at least they wouldn't balloon as they did last year.

What factors will influence house prices in 2022?

Perhaps the biggest turning point in 2022 will be the Bank of Canada's decision to raise interest rates. As of writing this (March 1), I'm still certain we'll see interest rates rise. The war in Ukraine might make the Bank of Canada bearish on how steep they hike rates. Even so, it's likely the new benchmark rate will be 0.50% by the end of the week.

That should help tone down demand, though it could take a few more rate hikes to notice a difference. A larger mortgage payment, coupled with the enormous price tags on homes, will shy buyers away, not to mention disqualify those with less down payment.

Another factor that could affect housing prices is stricter regulation. We're already hearing policymakers talk of banning foreign buyers, taxing properties that are "flipped," and otherwise curbing speculative activities. If the government clamps down on "investment properties" that could open the door to more buyers.

In sum, if you're expecting home prices to decline in 2022, I wouldn't hold your breath. More than likely, prices will continue to go up until early 2023. Anything could happen in the next year, but unless something satiates our demand for homes, prices are unlikely to drop.

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