



Could the Housing Market Crash? This Expert Predicts a 40% Drop in Prices

Description

It seems like every day, someone new is sounding the panic alarm around the Canadian real estate market. We've heard predictions that the market will crash, that a correction is coming, that the bubble will pop, that it can't last like this forever, and so on and so forth.

But, eventually, *someone* will get it right. As the crediting agency Fitch noted long ago, the Canadian real estate market is severely overvalued. And it's only a matter of time — or a few interest rate hikes — before the rubber band pops and home values fall back into their rightful place.

When will that happen? Well, to toss another prediction into the mix, [Oxford Economics](#), the global forecasting agency, has given a pretty hefty forecast. And if it's true, Canadian homebuyers might see a massive drop in prices *this year*.

Home prices could drop by 24% by mid-2024

According to Oxford Economics, we could start a steady drop in home prices beginning in the fall of this year.

As the report noted, this drop will be triggered by none other than the extremely high prices themselves. If Oxford Economics is right, then home prices in the summer will become 38% higher than what most Canadians can afford. Less affordability will mean fewer Canadians will be able to even *think* about buying a house, which will leave home sellers with fewer buyers. Over time, demand will start to cool, and prices will fall even more.

If all this plays out, then home prices could drop back 24% by the summer of 2024. Here's the kicker: even if prices dropped by 24%, homes would still be 15% higher than pre-pandemic years.

Oxford Economics makes note of two other factors that contribute to this 24% reduction in homeprices. The most obvious is the Bank of Canada's interest rate hikes. Oxford Economics predicts theBank of Canada will take a very conservative approach to hiking these rates, with only three rate hikesin 2022. All in all, by mid 2024, the policy rate will rise to 2%, according to Oxford Economics.

The next factor is governmental regulation, which would curb real estate speculators with more taxes. A housing-flipping tax is already in the works, along with a temporary ban on foreign ownership and a tax on "underused" or vacant homes owned by non-Canadians.

Finally, if all this comes to pass, Oxford Economics doesn't see prices rising again — at least, not for the foreseeably (read: predictable) future. According to their analysts, Canadian construction will pick up from 2025 to 2030, and the supply of homes will start to exceed demands for them. That will make houses far more affordable, allowing more Canadians to enter the market.

What if prices continue to climb?

If Oxford Economics is *wrong*, if prices continue to climb after the summer, if interest rate hikes and high affordability doesn't curb buyer interest, then home prices could drop by 40%. While they don't supply much data around this prediction, they are currently conducting more research, and they plan to publish a second report with a more detailed "worst-case scenario."

Should you wait to buy a home?

If you're in the market for a home, I would certainly consider waiting before you make a final decision to buy. Home prices are unsustainably high, and with mortgage rates on the rise, you might end up paying far more than you should for a house.

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