Yes, the Housing Market in Canada Could Be Cooling Off: Here's What You Should Know

Description

Prospective homebuyers are finally hearing good news: after two years of feeling the heat of a hot market, in which home prices increased by nearly 52%, the housing market in Canada is showing signs of cooling off.

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Real estate agents in hot housing markets, such as Toronto and Vancouver, have already reported more sellers in the market, helping to rebalance supply and demand. And a recent report by Oxford Economics, a global forecasting agency based out of the United Kingdom, sees a 24% drop in Canadian home prices by mid-2024, caused by higher interest rates and lower affordability.

That could be good news. But is it premature? While it's too early to tell (or celebrate, if you're a homebuyer), here are the factors that could be cooling the market right now.

Interest rates will continue to rise

The biggest factor cooling housing demand is the incremental rise in interest rates. So far, we've seen an increase of 25 basis points from 0.25% to 0.50%. But that's been enough to slow demand in hot housing markets such as Toronto and Vancouver, both of which have seen fewer houses sold than houses listed for sale this month.

According to **Reuters**, some real estate agents have even seen less of a turnout at house showings in Toronto, which might indicate homebuyers are no longer competing for houses newly listed.

And interest rates will only go higher. On April 4, the Bank of Canada will reconvene and announce changes to the benchmark rate. The "rising-path" approach that governor of the Bank of Canada Tim Macklem has mentioned before likely means we can expect at least another hike of 25 basis points. **Bank of Montreal**, however, believes the hike could be higher at around 50 basis points more.

As interest rates rise, we'll likely see demands for houses go down, as higher borrowing costs will not only turn off homebuyers but also speculators. Both parties will no longer get a “deal” on historically low interest rates, which could very well depopulate an overcrowded buyer’s market.

Less affordability could turn off homebuyers

Even with higher interest rates, it’s unlikely we’ll see a significant drop in home prices. In fact, it’s unlikely we’ll see a drop at all in 2022. More than likely, higher interest rates will only decelerate the capital appreciation of homes, bringing prices only slightly higher as we close out the year.

Oxford Economics predicted that, in the summer market, home prices will become 38% higher than what most Canadians can afford. If that’s true, then Canadians will leave the market, not because they’re not getting a “deal,” but because, well, they simply don’t have the money to buy a house.

As Oxford Economics noted, less affordability could be the leading factor in a mass decrease in home prices. According to the report, we could see a 24% decrease by the summer of 2024. Even so, that would still be 15% higher than pre-pandemic years but low enough to draw in homebuyers who were previously shut out by high prices.

Should you wait to buy a home?

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My verdict: yes. 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 now than if you wait later. While I don’t think you’ll have negative equity (that is, you owe more than the house is worth), I also don’t think that if you wait, you might have more selection, helping you get a house you want rather than one you choose out of desperation.

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