Are Canadian Houses Getting Cheaper? Yes, But With a Catch

Description

The Canadian housing market is cooling off this year. Housing sales are way down already, and economists are slashing forecasts for the future.

On the surface, this seems like a departure from the norm. Canada's housing market has been on fire for decades, a cooldown is not what we're used to seeing. But on closer examination, we can see that we've been here before. If you've been following the Canadian housing market for some time, you've probably had the experience of reading a news headline that claims the housing market is down, only to discover in the article that prices are still up, despite sales volume declining. The upward march in Canadian house prices has seemingly been unstoppable. Even when sales go down, prices go up!

Is this time different?

Yes and no. While the average price of a Canadian home is down from February, the price, including interest, may not be. All-cash buyers are getting better deals now — for everyone else, the matter is more complicated.

House prices going down

First, let's get the most obvious point out of the way.

Average house prices have been declining nation-wide. It's not just a slowdown; it's a real correction this time. In February, prices peaked at $816,000 nation-wide. By May, they were down to $711,000. That's a $115,000 price decline, or 14% off the top. However, you need to keep a few things in mind:

1. These are just national averages. Some provinces may differ.
2. Oil prices are rising this year, which could lead to higher employment and more housing activity in oil-producing provinces.

In other words, although the national average is down, you may not yet be seeing bargains in your specific province. Additionally, there is one reason to believe that the true cost of housing hasn't gone down even in provinces where listing prices have declined. This point merits a more detailed explanation, so I will explore it in more depth in the next section.

Interest rates going up

A big part of why house prices are going down this year is because interest rates are going up. Higher interest rates normally make goods cheaper or at least slow their appreciation. But the total cost, including financing, doesn't necessarily go down.

Consider how the average person goes about buying a house. Their first step would be to go to a bank like **CIBC** (TSX:CM)(NYSE:CM) to see whether they qualify for a mortgage. If they qualified, they would start talking to real estate agents or maybe make direct contact with homeowners. Once they had a deal on their hands, they'd get a lawyer to handle the paperwork. Finally, they'd transfer the money to the seller.

It seems pretty straightforward. The problem here is the bank. Banks charge various interest rates for mortgages of different terms, and the rates are going up across all terms. If you walk into a CIBC branch on any day this year, you'll likely be quoted an interest rate much higher than what you'd have been quoted in 2020. This year, we're seeing mortgage rates as high as 5% — that's $25,000 on a $500,000 house! You'd be paying less on a $600,000 house at 2020 interest rates. Banks like CIBC are aware of this, too, and may reject buyers who can't afford these higher rates.

So, to answer the question we started with: are house prices lower this year than they were last year? Yes, but that doesn't mean that they're cheaper. When you have to borrow to make a purchase, price and cost are not the same thing.

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