**5 Factors That Reveal Where The Real Estate Market Is Really Headed**

In a July release, the Canadian Real Estate Association reported that home sales had fallen for three months in a row after reaching an all-time high in March.1 So could one of the world’s hottest real estate markets finally be headed for a downturn?

We wouldn’t bet on it. That’s because even though sales have slowed, it was still the strongest June on record—and 13% higher than last year.1

"Don't be fooled — this is still an extremely strong level of demand," Bank of Montreal Economist Robert Kavcic told CBC News. "Home sales have backed off extreme levels seen in recent months, but demand is still historically strong and driving strong price growth. We believe that sales activity will continue to gradually cool in the year ahead, but it's going to take higher interest rates to soften the market in a meaningful way."1

So what can we expect from Canadian real estate? Here are five factors that illustrate where the housing market is today and is likely heading tomorrow.

**HOME PRICE INCREASES MAY LEVEL OFF NEXT YEAR**

The Canadian Real Estate Association predicts the national average home price will reach $677,774 by the end of 2021, which would be a 19.3% increase over last year. “While market conditions have eased a little in recent months, they nonetheless continue to favour sellers to some extent in virtually all local markets,” the association says.2

But for the remainder of 2021 and into 2022, the association anticipates pricing trends will head toward more normal territory. “Limited supply and higher prices are expected to tap the brakes on activity in 2022 compared to 2021,” according to the association.2

That translates into the association’s forecast of only a 0.6% uptick, to $681,500, in the national average home price for 2022.2 If that happens, it could prompt some buyers who had been reluctant to make purchases this year to enter the market next year.

***What does it mean for you?***

If you’re a homeowner, now might be the time to look at selling. That’s because the number of available homes continues to be relatively low, and price appreciation has begun to slow. We can help you prepare and market your home to take advantage of the current seller’s market.

**HOME SALES ARE TAPERING OFF**

If the 2021 home market in Canada is a wildfire, then 2022 could be more like a campfire. The Canadian Real Estate Association anticipates a slowdown in home sales activity in 2022 following an extremely busy 2021.3

An estimated 682,900 properties are expected to trade hands through Canadian Multiple Listing Service systems in 2021, which would be an increase of 23.8% from 2020, the association says.3

Next year is shaping up to be much less active, with national home sales forecast to decline 13% to around 594,000 properties in 2022.3

“This easing trend is expected to play out across Canada,” the association says, “with buyers facing both higher prices and a lack of available supply, while at the same time the urgency to purchase a home base to ride out the pandemic continues to fade alongside the virus itself.”3

The “easing trend” is already happening. Across the country, a record-high 69,702 homes were sold in March. But just a month later, the national number of homes sold slipped 12.5% to 60,967.⁴ Home sales volume dropped another 7.4% in May to 56,156.⁵

“One of the world’s [most active] housing markets appears to be slowing down,” the Bloomberg news service proclaimed in June in a report about the Canadian home market.⁶

***What does it mean for you?***

Are you struggling to buy a home in today’s highly competitive market? If so, 2022 might be a good time to pursue a purchase because you may face less competition. However, one drawback of waiting is that mortgage rates are expected to go up. We can help put you on the right path toward homeownership, whether you want to buy now or next year.

**SUPPLY OF HOMES REMAINS LOW**

The housing shortage in Canada persists.

Before the pandemic, the number of available homes nationally sat at a 14-year low and the number of months of inventory had fallen below four months, according to the Canadian Real Estate Association.3

Inventory below four months puts the supply in “seller’s market territory,” the association says.3 Inventory refers to the number of months it would take for the current supply of homes on the market to be sold at the existing pace.⁷

In June, the Canadian Real Estate Association reported the national inventory of available homes was close to two months, reflecting an “unprecedented imbalance of supply and demand.”3 National inventory hit a record low of 1.7 months in March, compared with the long-term average of more than five months.⁷

“At a time where so many markets are struggling with historically low inventory, sales activity depends on a steady stream of new listings each month,” the association says.⁷

***What does it mean for you?***

A tight supply of available homes puts sellers in a strong position as long as demand stays high. So, if you’re a homeowner, placing your home on the market when demand exceeds supply could bring you a higher price. We can help you figure out when to sell so that you extract the maximum value from your home.

**HOME CONSTRUCTION ON THE VERGE OF STABILIZING**

Newly built homes add, of course, to the supply of homes available to buyers. And it appears that home construction in Canada is on the upswing.⁸

For all of 2021, construction is projected to begin on as many as 230,000 new homes in Canada, up from a little over 217,800 in 2020, according to the Canada Mortgage and Housing Corp. (CMHC). Even more homes could get underway in 2022 (as many as 234,500) and 2023 (231,900).⁸

“Housing starts will stabilize at levels consistent with household formation by the end of 2023,” according to CMHC.⁹

***What does it mean for you?***

More newly built homes coming on the market could mean an opportunity for buyers, as construction boosts the supply of available properties and eases the strain on demand. Bottom line: An influx of new homes may open more doors to homeownership. We can give you a hand in locating a new or existing home that fits your budget and your needs.

**MORTGAGE RATES ARE SET TO RISE**

Low mortgage interest rates help entice buyers to make a home purchase. That’s certainly been the case in Canada in recent months. However, mortgage rates are poised to creep up this year and next year, and even into 2023.10

An analysis from Mortgage Sandbox indicates five-year Canadian mortgage rates are expected to remain low by historical standards, but they are expected to continue rising in 2022 and 2023. The analysis indicates the fixed rate for a five-year mortgage could climb to 3% in the third quarter of 2022.¹¹

Low mortgage rates typically make it easier for homebuyers to qualify for a mortgage, as well. But on June 1, the Office of the Superintendent of Financial Institutions raised the mortgage “stress test” qualifying rate from 4.79% to 5.25%.12

According to the Toronto Sun, “It was intended in part to slow down the overheated housing market and likely in part because inflation (and higher interest rates) are on the horizon.”12

In a recent report, the British Columbia Real Estate Association forecast, “rising Canadian inflation — and the extent to which that inflation is a temporary phenomenon — is set to shape how rates evolve over the next year.”13

***What does it mean for you?***

Given the prospect that Canadian mortgage rates may go up during the rest of this year and into 2022, now might be the right time to think about borrowing money to buy a home. When interest rates rise, you pay more to borrow money. Whether you’re buying a new home or up for a renewal, you can lower your risk by locking in a fixed-rate rather than variable-rate mortgage.

**ARE YOU THINKING OF BUYING OR SELLING?**

It can be tough to sort out the Canadian housing market—where are home prices heading, are mortgage rates going up, is it the right time to buy or sell? We can help you answer all of those questions, and more. We then can work with you to come up with a plan tailored to your unique situation. Let us be your partner in the homebuying or home-selling journey.

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