Canadian housing market expected to moderate over next two years

By Linda Nguyen
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Canada Mortgage and Housing Corp. says the country's real estate market is expected to moderate over the next two years as the growth in housing prices begins to slow to be more in line with economic fundamentals.

In its annual outlook released Tuesday, the national housing agency forecasts housing starts and sales to both decline in 2019 and 2020.

It anticipates housing starts for single and multi-unit starts will fall to between 193,700 and 204,500 in 2019, while sales are expected come in between 478,400 and 497,400 units. Prices are anticipated to range from $501,400 and $521,600.

"Our key take away from this year's outlook is moderation in Canada's housing markets for 2019 into 2020," Bob Dugan, chief economist at the CMHC, said in a statement.

"Housing starts are expected to decline from the higher levels we've seen recently. We expect resales in 2019 and 2020 to remain below recent peaks while prices should reach levels that are more in line with economic fundamentals such as income, job and populations growth."

The agency expects the number of single-detached housing starts to decrease due to a number of factors including the availability of lot sizes, housing prices and higher borrowing costs.

Multi-unit starts were also expected to decline, partly attributed to smaller anticipated growth in the age group between 25 to 34, who make up a large proportion of first-time buyers. But some of the downward trend could be offset by an aging population looking to downsize.

The agency expects demand will continue to shift toward relatively less expensive housing options like apartment condominiums versus higher-end single-detached homes.

CMHC says it still sees global trade as a "risk" to the Canadian economy and the housing market, despite the recent trade agreement reached between Canada, the U.S. and Mexico.

Rising mortgage rates are also expected to affect housing demand and the resale market, it said.

In the outlook, CMHC says it anticipates housing prices will "rise slightly" after the some moderation.

"However, slower employment and GDP growth, as well as gradually increasing mortgage rates, will restrain the increase in demand for existing homes by 2020," said the report. "As demand moves to lower levels relative to new supply, market conditions are expected to ease."

It also warned that Canadian households remain vulnerable due to heavy debt loads.

"If interest rates or unemployment rates were to rise more than expected, heavily indebted households could face greater constraints on their consumption leading to downward pressure on the economy and housing activity," CMHC said.