ECONOMIC VIEWPOINT

Desjardins Housing Outlook:

What's Driving the Resilience of Housing Starts in the Face of Adverse Homebuilding Conditions?

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Highlights

- Housing starts are a key economic indicator, reflecting construction activity and new housing supply in the economy. In Canada, housing starts have been resilient in the face of adverse homebuilding conditions. The multi-unit segment, in particular, has been defying expectations.
- Mortgage and business lending rates remain high, despite recent interest rate cuts. The industry has also faced high building construction costs and must contend with an aging workforce. Uncertainty around the economic outlook, given the threat of tariffs and planned slower population growth, also has builders worried. Together, these are all contributing to low builder confidence.
- In practice, various structural, policy and market factors may sustain housing starts beyond what traditional economic frameworks would predict. For instance, tight rental market conditions paired with government incentives have spurred recent purpose-built rental construction.
- Looking forward, housing starts are likely to slow but remain elevated by pre-pandemic standards. We expect purpose-built rental construction to remain elevated, while the condo market experiences significant weakness for all of the reasons we've highlighted in this report. Single-family homebuilding represents a much smaller portion of the market and should continue to see interest from buyers, as mortgage rates are well down from their recent peaks.

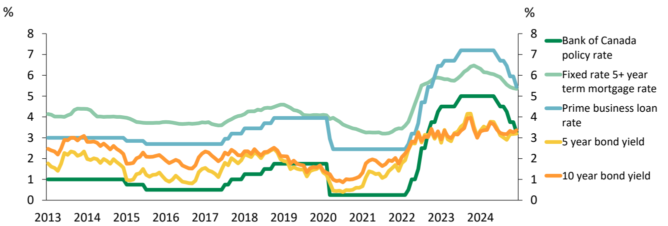
Housing starts are a key economic indicator, reflecting construction activity and new housing supply in the economy. In Canada, housing starts have been resilient in the face of adverse homebuilding conditions. The multi-unit segment in particular has been defying expectations. This report delves into the economic dynamics behind this apparent disconnect, examining the role of demand- and supply-side factors, government policies and industry behaviour.

Homebuilding Faces Significant Macroeconomic Headwinds

High (but Falling) Interest Rates

High interest rates drive up borrowing costs, making mortgages more expensive for homebuyers and business loans costlier for builders (graph 1 on page 2). Even as the Bank of Canada's policy rate falls—200 basis points (bps) since June 2024, with another 75bps expected through the rest of 2025—the lingering effects of previous hikes may continue to challenge the industry. By the end of the rate-cutting cycle, we expect borrowing costs to settle well above their pandemic lows. This is further exacerbated by

Graph 1
Interest Rates Remain Elevated for Homebuyers and Builders



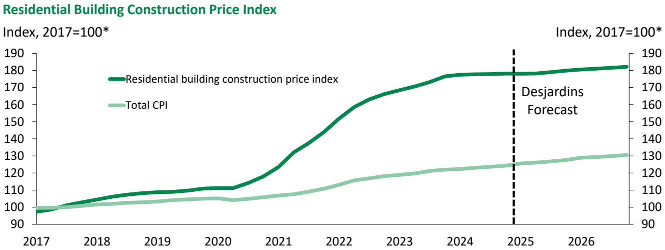
Bank of Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

rising longer-term rates south of the border, which could push up borrowing costs for homebuilders and homebuyers here in Canada.

Construction Materials Inflation

Residential construction costs rose significantly faster than general inflation in 2021 and 2022, creating financial challenges for developers. Prices went up across the board, including for concrete, wood and steel. Looking ahead, we expect further increases in residential construction costs to be minimal, but those earlier price gains are here to stay (graph 2). That said, if Canada chooses to apply aggressive retaliatory tariffs to US goods, inflation in construction costs—particularly lumber products, metals and paints—could reaccelerate in 2025–26.

Graph 2
Residential Construction Costs Are Expected to Remain High in 2025–26

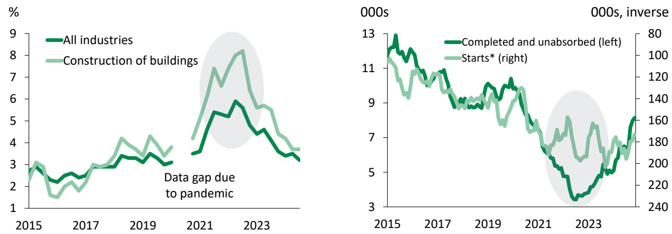


* Index covering major census metropolitan areas (seasonally adjusted)
Statistics Canada and Desjardins Economic Studies

Labour Shortages

Skilled labour shortages, paired with an aging workforce, can prevent developers from ramping up construction to meet increases in demand. Multi-unit housing starts typically ramp up when completed and unabsorbed units trend down, notionally signalling that demand is outpacing supply. But new construction couldn't keep up in 2021–22, when the sector faced significant challenges filling job vacancies (graph 3). The Canada Mortgage and Housing Corporation (CMHC) recently cited the tight labour market as one of the reasons that condominium apartments have experienced growing backlogs and longer construction times since the start of the pandemic, though it also noted that conditions improved in 2024.

Graph 3
Construction Labour Shortages Were Associated with a Gap in the Multi-Family Market



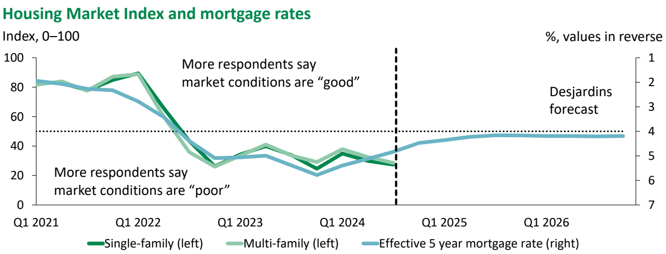
* Multi-family starts are shown as a 4-quarter moving average
Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

BuildForce reports that more than 20% of the construction workforce is poised to retire by 2033, potentially creating not only a labour shortage, but also a skills gap. These challenges could be mitigated through targeted immigration, although in the past the US has been more successful at this than Canada has (see our recent report). As a long-run approach to addressing this problem, Canada could do a better job of encouraging young women to enter the industry: currently, just 15% of workers in the construction of buildings sector are women. Innovations in construction, such as modular or prefabricated components, could alleviate some of the need for more workers and increase labour productivity.

Homebuilder Sentiment

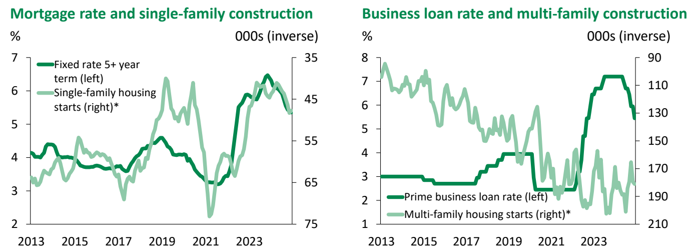
The Canadian Home Builders Association's latest survey showed poor homebuilder sentiment in both the single-family and condo segments. Builders noted that falling interest rates alone won't be enough to restore affordability to a level that would significantly boost sales. If homebuilder sentiment continues to follow the forecast path of mortgage rates, there will likely be an even split between those viewing market conditions as good and those viewing them as poor through the next two years (graph 4 on page 3). Additionally, nearly 40% of builders are considering a shift to rental construction, suggesting that some of the new rental supply being supported by recent government initiatives may come at the expense of ownership units.

Graph 4
Homebuilder Sentiment Is Weak



Canadian Home Builders' Association and Desjardins Economic Studies

Graph 5
Single-Family Construction Is More Sensitive to Lending Rates



*3-month moving average
Bank of Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

[Future Headwinds]

With the inauguration of President Trump for a second term, there is a material risk of hefty import tariffs in Canada's near future. And the larger the tariff or the sooner it's introduced, the more detrimental the economic impact. Our pessimistic scenario of a 25% targeted tariff on all Canadian exports to the US could tip Canada's economy into recession as early as the middle of 2025. If this were to occur, inflation could hit 3% y/y and the unemployment rate would likely jump to levels not seen since the COVID-19 pandemic.

The tariff headwind to economic activity would be further exacerbated by Canada's recent policies to slow population growth and the impending wall of mortgage renewals starting this year. At the federal level, we also have a prorogued parliament, a Liberal Party leadership race and the prospect of an early election. This leaves a void in federal leadership for much of the first half of 2025, at a time when risks coming from south of the border are extremely elevated. These multiple headwinds on the horizon could dampen our housing outlook if they come to pass.

How Key Factors Are Helping Housing Starts Beat the Odds

In practice, various structural, policy and market factors may sustain housing starts beyond what traditional economic frameworks would predict.

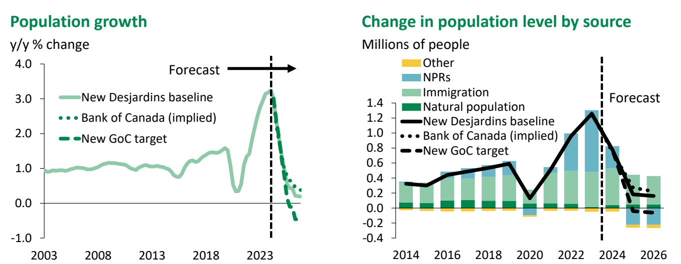
Interest Rate (Un)Sensitivity and Institutional Investment in Multi-Unit Housing

High interest rates disproportionately affect single-family housing starts, as more elevated monthly mortgage payments weigh heavily on buyers (graph 5). New policies such as the mortgage stress test and the limits on foreign investment in real estate contributed to a break in this relationship starting in 2018. Disruptions to construction during the early months of the pandemic further delayed the return of the historical relationship between homebuilding and mortgage rates. Multi-unit projects, often financed through institutional capital, may be less sensitive to high or rising business lending rates if the expected return increases commensurately. Real estate investment trusts (REITs) and other institutional investors may view purpose-built rental housing as a stable, long-term investment.

Population Growth

In recent years, Canada has experienced a significant influx of newcomers, with a substantial proportion settling in large urban centres where housing demand was already high. About three-quarters of non-permanent residents (NPRs) are renters, significantly more than other immigrants (31%) or Canadians (24%). The policy change that brought in large numbers of NPRs spurred additional purpose-built rental construction. Meanwhile, the population boom may have pushed some renters to consider homeownership, and investors may have spurred additional homebuilding by purchasing units to rent out. While the federal government has announced significantly lower immigration targets going forward, we expect Canada's population will still increase—but at a slower rate, which should keep demand strong for rental housing (graph 6).

Graph 6
Population Boom Has Boosted Demand but May Slow Sharply Ahead

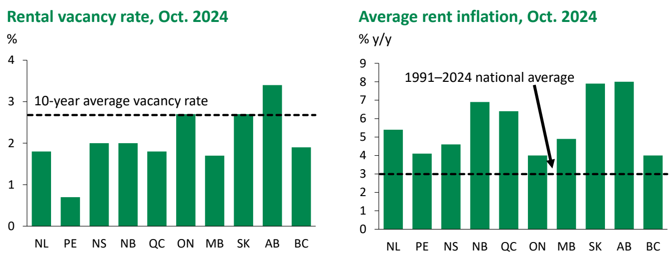


Note: Annual population is presented on a calendar-year basis.
NPRs: Non-permanent residents; GoC: Government of Canada
Government of Canada, Statistics Canada, Bank of Canada and Desjardins Economic Studies

Tight Rental Markets

Canada's rental markets have experienced low vacancy rates, with most provinces at or below the 10-year average (graph 7). Lower vacancy rates are typically associated with higher inflation in the rental market. Our recent work is a deep dive into the drivers of rent inflation. We found that, while rent growth is expected to slow going forward, the level of rents is likely to remain elevated.

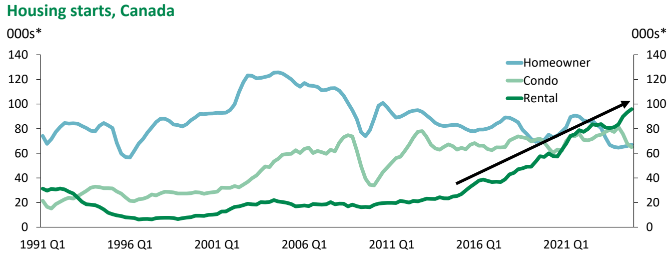
Graph 7
The Rental Market Has Low Vacancy Rates and High Inflation



Note: Primary rental market statistics
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Tight rental conditions may incentivize developers to prioritize purpose-built rental construction, keeping construction high in the multi-unit segment (graph 8). Policies such as the Apartment Construction Loan Program and removing the GST/HST add further support for purpose-built rental construction.

Graph 8
Purpose-Built Rental Construction Has Overtaken Condo and Owned Homes Construction
Housing starts, Canada



* Four-quarter moving sum
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Housing Affordability

As affordability challenges mount, more households may be turning to condo units as an alternative to single-family homes. Developers have responded to this shift in demand by focusing on multi-unit construction. Easing monetary policy, paired with recent supportive federal policies for mortgages, may lead builders to expect more would-be homebuyers to go ahead with their purchases. As we recently reported, while we do anticipate average home prices to rise modestly in each province over the next two years, higher incomes and lower mortgage rates should prevent any further deterioration in affordability.

Construction Momentum

The current multi-unit housing starts figures may represent projects initiated when economic conditions were stronger, and potentially with financing arrangements locked in at more favourable rates. Developers with significant backlogs of approved permits or under-construction projects are likely to continue building to fulfill contractual obligations and mitigate sunk costs.

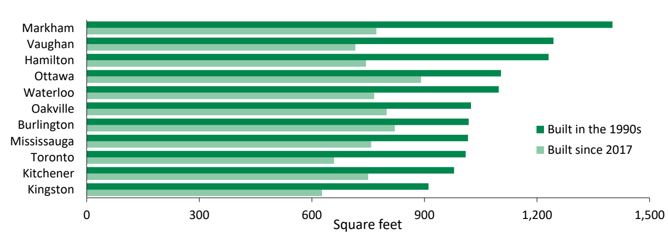
Multi-unit construction takes many years from initial planning to final completion. The approvals process alone takes an average of more than a year, with CMHC reporting an average approval timeline of 32 months in Toronto. In Montreal, approval times can also be lengthy, with several boroughs taking a year or more to grant permits. Developers may also be discounting current economic challenges and anticipating demand to stay strong in the future, given the large supply-demand imbalance in housing.

Incentives May Be Driving Up Units per Plot of Land

Maximizing the size of the building on a given plot of land may help to lower the average cost of each unit overall, resulting in high-rise towers that are somewhat taller than initially planned. A recent CoStar report stated that investors are perceived to prefer smaller condo units because the rent per square foot of living area tends to be higher. In turn, developers have responded to investor demand by building smaller units (graph 9). Naturally, they can fit more of these small units into the same size building envelope, which mechanically increases the number of multi-unit housing starts.

Graph 9
Ontario Condos Have Become Much Smaller

Average size of high- and mid-rise condo units



Municipal Property Assessment Corporation and Desjardins Economic Studies

Municipal governments have increasingly granted zoning variances that allow construction of taller or higher-density buildings, in exchange for other considerations. Taken together, there are many incentives for developers to plan for as many units as possible in a given construction project.

Government Policies

Federal and provincial policies provide funding and incentives for affordable and rental housing projects. These incentives often prioritize multi-unit developments, including purpose-built rental apartment buildings, and are designed to sustain activity in the segment regardless of broader economic challenges. Our recent analysis concluded that government policies could add over 200k extra homes between 2024 and 2028 above our no-new-policy projection. To put this 200k in perspective, homebuilding was only marginally higher than this in 2019, before the pandemic. That means federal housing supply policies may contribute an extra year's worth of housing starts over the next five.

Conclusion

The resilience of housing starts in Canada, particularly in the multi-unit segment, highlights the complex interplay of demand- and supply-side considerations, government policies and structural market dynamics. While adverse homebuilding conditions may dampen construction activity, these additional factors have helped Canada experience sustained housing starts beyond expectations. Looking forward, housing starts are likely to slow but remain elevated by pre-pandemic standards. We expect purpose-built rental construction to remain elevated, while the condo market should experience substantial weakness for all of the reasons we've highlighted here. Single-family homebuilding represents a much smaller portion of the market and should continue to see interest from buyers, with mortgage rates well below their recent peaks. That said, risks are to the downside, given the possible economic impacts of steep tariffs or a trade war with the United States.

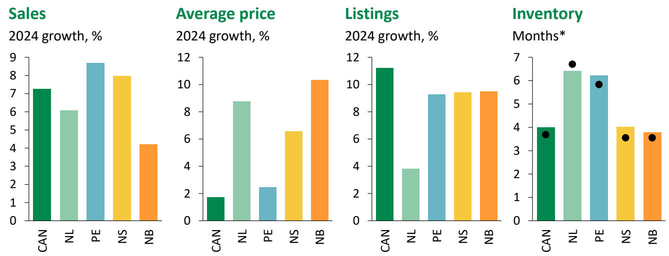
ATLANTIC REGION

The 2024 housing market in the Atlantic provinces experienced notable growth and dynamism. Home prices across the region saw significant growth, driven by tight market conditions and decreasing mortgage rates. The average home price increased significantly faster than the national average, particularly in Newfoundland and Labrador, Nova Scotia and New Brunswick (graph 10). Listings grew at a slower rate than the national average in all Atlantic provinces, while sales were mixed.

New Brunswick's residential construction reached record levels in 2024, buoyed by rising home prices and rent inflation (graph 11). Housing starts in Nova Scotia seem to have reached their peak and look to have dropped back since, despite still-strong fundamentals in the resale market.

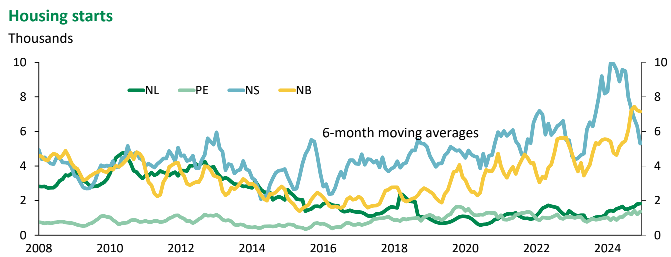
Economic activity has been stronger in Atlantic Canada than in most other provinces, with consumer spending well supported by strong job gains and low debt levels. Momentum should persist in 2025, as lower interest rates spur further household consumption. The rebound in consumer spending will likely drive growth more significantly in the Atlantic provinces, where it constitutes a larger share of GDP than in the rest of the country. But tailwinds should dwindle in 2025 and into 2026, with population growth set to slow sharply due to changes in immigration policies, although the relatively low share of non-permanent residents in the region should help maintain above-national average population growth. Interprovincial migration trends pose potential headwinds as in-migration to the Atlantic provinces drops, potentially reverting back to the pre-pandemic trend and leading to net interprovincial migration loss in the Atlantic provinces. The threat of US tariffs will also hang over the region but should impact the individual Atlantic provinces very differently, as New Brunswick is the most export exposed province in Canada while Newfoundland and Labrador is the least.

Graph 10
Resale Home Prices Grew Faster in Atlantic Provinces



* Bars are 2024; dots are 2023
Canadian Real Estate Association and Desjardins Economic Studies

Graph 11
Housing Starts Are Growing Rapidly in New Brunswick



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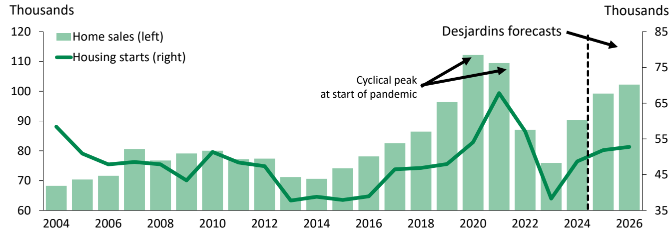
QUEBEC

Housing starts in Quebec were surprisingly strong until the end of 2024. Though we do expect them to cool slightly from this exceptionally high year-end level, they should remain strong throughout 2025, from a historical standpoint. As the entire province grapples with the housing crisis, municipalities across Quebec have been adopting measures to stimulate construction of new units. These measures seemed to have an effect in 2024, offsetting the high financing and construction costs that had previously discouraged builders. From tax credits to prefabricated miniature houses, the efforts to promote new homebuilding are reflected in housing starts and will continue to maintain activity at a higher level on average in 2025 (graph 12).

In the existing property market, the number of transactions has increased as interest rates fall. This relationship should continue in 2025. As is the case across Canada, the slight improvement in affordability driven by the lower rates has been enough for some potential buyers who were waiting to make their move. However, low inventory is driving some prices to new highs, especially in Quebec City. The area's number of active listings also reached a new low in December. Elsewhere in the province, even though listings have increased to reach their 10-year average, sales have climbed well above their average, pushing prices up.

Graph 12
Residential Real Estate Will Continue to Heat Back Up, but Won't Return to Its 2020 Highs
Quebec housing starts and home sales



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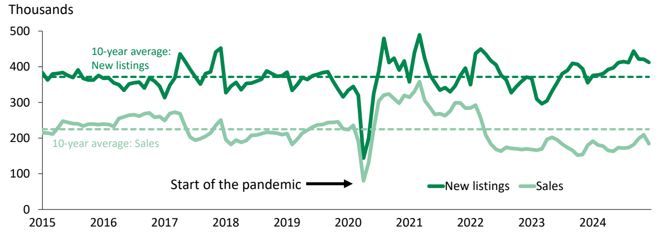
ONTARIO

The housing market in Ontario was characterized by an unusual dynamic in 2024: the number of homes listed for sale significantly outstripped the 10-year average, but sales figures continued to lag behind their long-run average (graph 13). This imbalance between supply and demand created a buyer's market, where would-be homeowners had more options to choose from, and sellers had to be more competitive with their pricing. Consequently, the benchmark home price in Ontario saw a modest decline of 2.1% in 2024 (versus a 1.6% drop nationally). This trend was observed across most major centres in the province (graph 14). The softening in prices, paired with falling mortgage rates, provided some relief to prospective buyers who had been grappling with declines in affordability in recent years.

Looking ahead, Ontario is expected to be particularly hard hit by the federal government's planned reduction in non-permanent residents. Our recent work showed that rent inflation is strongly influenced by population growth, particularly when driven by newcomer admissions. Consequently, while lower interest rates are expected to drive a rebound in consumer spending and investment in Ontario, providing a much-needed reprieve for rate-sensitive sectors and heavily indebted households, a sharp decline in population growth will hold the province's economy back relative to its peers. For these reasons, we expect a stronger pullback in housing starts in 2025–26, but ongoing momentum and a supportive policy environment should soften the blow. And depending on the tariff regime going forward, a high and rising unemployment rate could also weigh on housing market activity in Canada's most populous province.

Graph 13
Property Supply Remains Above the 10-Year Average, While Demand Lags Behind
Ontario resale market



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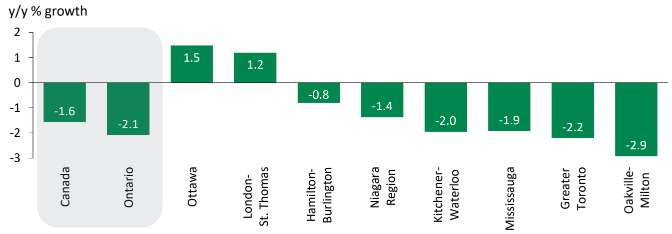
Graph 14
Ontario Home Prices Fell in Most Major Centres in 2024

Ontario benchmark home prices



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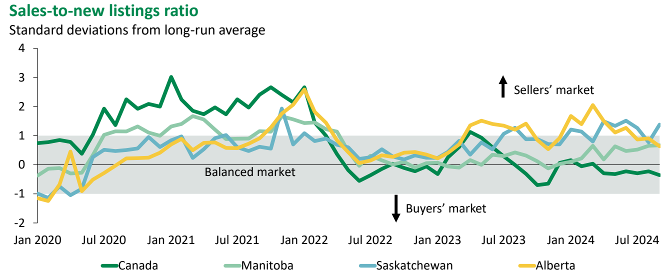
PRAIRIE PROVINCES

The housing market in the Prairie provinces experienced mixed conditions in 2024. Home sales were up over the year prior. Edmonton's market is really hot right now, with sales in 2024 up 25% y/y, but the slight decline in Calgary's home sales brought the provincial average down. Manitoba and Saskatchewan both had strong years, up 11% and 9% respectively in 2024. At the same time, Saskatchewan was the only province in the country that experienced a decline in new listings last year. Listings in Manitoba were flat, while Alberta's listings growth lagged its sales growth. As a result, each of the Prairie provinces tended towards a seller's market in 2024 (graph 15). Nevertheless, all three provinces remain significantly more affordable than the national average (graph 16).

The Prairie provinces continue to hold an advantage over the rest of the country in terms of population growth and economic momentum. Robust household spending, supported by strong job growth, has driven this outperformance. While population growth is expected to taper from its elevated levels, it should remain firm, as these provinces are less affected by the federal government's planned reduction of non-permanent residents. This should help keep the housing market strong in 2025. The Trans Mountain Expansion (TMX) project is expected to narrow the light-heavy differential, benefiting producer profitability and growth in Alberta and Saskatchewan's oil and gas sector, despite crude price volatility. Alberta also plans to keep expanding its investment and production in the oil and gas sector, given the strong demand for heavy oil. Of course, that assumes energy exports to the US will be largely exempt from US import tariffs. New home construction has been a bright spot for Wild Rose Country, up 33% from the year before. In Saskatchewan, investment remains a key growth driver, particularly in the resource sector, with the approval of the Jansen Stage II project for mining potash expected to boost growth prospects over the next few years. While Manitoba lags its Prairie peers, it is expected to see a steady recovery in 2025.

Graph 15
Prairie Provinces Tend Towards a Seller's or Balanced Market



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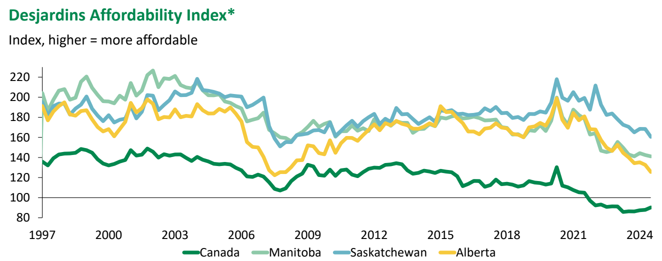
Graph 16
Prairie Provinces Remain Significantly More Affordable



* Assumes a 20% down payment
Canadian Real Estate Association and Desjardins Economic Studies

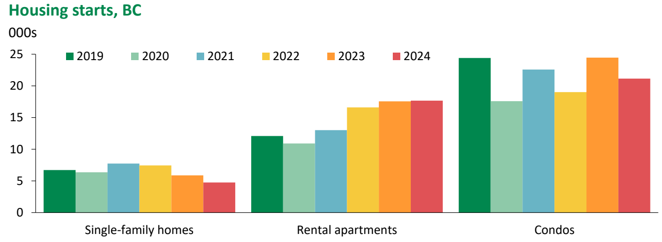
BRITISH COLUMBIA

Construction in BC pulled back in 2024, with housing starts down more than 9% from the year prior. As usual, new homebuilding was dominated by multifamily units. Rental construction has picked up the pace over the past few years, holding steady last year despite declines in the condo and single-family segments (graph 17). This will be welcome news, as the number of renter households grew faster than the national average in 2018–22, giving BC one of the highest propensities to rent across the country. Rent inflation came down in BC last year, in contrast to most major centres (graph 18).

The resale housing market experienced a great deal of weakness in 2024. But with the highest prices in the country, homeowners are likely to feel the pinch of sharply rising payments as they renew their mortgages, despite recent cuts in interest rates.

BC's outlook remains a mixed bag as the province experiences softness in consumer spending, residential investment, and employment. This weakness will likely continue as the province faces the most significant drop in population growth among all provinces, driven by sharp reductions in study and work permit issuances, which is expected to hinder growth over the next two years. However, there are some notable tailwinds ahead. For example, LNG Canada's upcoming operations in mid-2025 are set to enhance natural gas export capacity, further supported by a robust outlook for natural gas prices. BC also has among the lowest export exposure to the US of Canada's provinces, second only to Newfoundland and Labrador, leaving it less vulnerable to potential tariffs.

Graph 17
Rental Apartment Construction Shows Continued Strength



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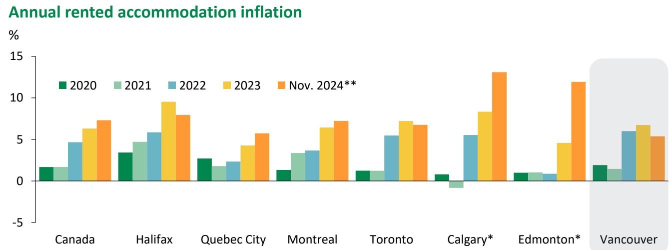
Graph 18
Vancouver's Rent Inflation Declined in 2024



* Provinces without ongoing rent control policies
** Nov. 2024 inflation since Nov. 2023
Statistics Canada and Desjardins Economic Studies

FORECAST TABLES

TABLE 1
Canada: Major housing indicators by province

	2020	2021	2022	2023	2024	2025f	2026f
ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)							
Existing Home Sales – Canada	**12.9**	**21.0**	**-25.4**	**-11.3**	**7.3**	**5.8**	**4.6**
Newfoundland and Labrador	14.4	45.8	-7.1	-15.1	6.1	5.9	3.8
Prince Edward Island	9.8	14.9	-18.2	-5.4	8.7	3.6	2.4
Nova Scotia	13.2	14.0	-21.7	-17.4	8.0	7.3	5.9
New Brunswick	13.4	21.8	-20.4	-13.6	4.2	4.7	2.0
Quebec	16.4	-2.4	-20.5	-12.8	19.0	9.8	3.2
Ontario	10.0	19.9	-32.2	-12.6	3.1	3.9	4.3
Manitoba	14.3	17.2	-20.1	-10.0	11.4	6.6	4.2
Saskatchewan	24.6	24.1	-11.7	-3.3	8.8	4.5	3.5
Alberta	3.9	53.6	-1.4	-9.1	9.2	7.7	6.7
British Columbia	21.2	32.7	-35.1	-9.2	2.1	4.7	5.1
Average Home Resale Price – Canada	**11.6**	**23.2**	**0.8**	**-3.1**	**1.7**	**3.5**	**3.4**
Newfoundland and Labrador	1.3	10.5	7.1	0.9	8.7	5.7	2.3
Prince Edward Island	17.9	22.6	13.9	-1.7	2.5	6.4	3.3
Nova Scotia	12.5	24.1	13.4	3.4	6.6	6.7	4.6
New Brunswick	9.5	27.1	16.9	2.6	10.3	7.1	3.9
Quebec	15.0	20.4	9.7	0.3	7.4	5.6	4.1
Ontario	14.6	25.7	4.2	-5.2	-0.1	3.2	3.1
Manitoba	4.0	10.2	6.9	-2.7	6.3	5.1	4.7
Saskatchewan	2.0	7.1	0.4	-0.8	6.4	4.8	4.1
Alberta	0.9	9.3	4.5	1.3	10.0	7.3	4.0
British Columbia	10.5	19.9	5.3	-1.4	1.8	5.4	3.5
Housing Starts (thousands) – Canada	**217.8**	**271.2**	**261.8**	**240.3**	**245.4**	**235.7**	**240.1**
Newfoundland and Labrador	0.8	1.0	1.4	1.0	1.7	1.3	1.2
Prince Edward Island	1.2	1.3	1.3	1.1	1.7	1.3	1.4
Nova Scotia	4.9	6.0	5.7	7.2	7.4	7.0	7.2
New Brunswick	3.5	3.8	4.7	4.5	6.2	5.9	6.0
Quebec	54.1	67.8	57.1	38.9	48.7	51.9	52.8
Ontario	81.3	99.6	96.1	89.3	74.6	71.3	73.8
Manitoba	7.3	8.0	8.1	7.1	7.2	7.1	7.3
Saskatchewan	3.1	4.2	4.2	4.6	4.3	4.1	4.2
Alberta	24.0	31.9	36.5	36.0	47.8	42.5	41.2
British Columbia	37.7	47.6	46.7	50.5	45.8	43.3	45.0

f: forecasts
Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Desjardins Economic Studies