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How Does the Canadian Housing Market Compare to the U.S. Right Now?

In the aftermath of the coronavirus pandemic, many real estate sector observers wondered if the US and Canadian housing markets were in a bubble. When the Federal Reserve and the [Bank of Canada \(BoC\) started raising interest rates](#), the widespread expectation was that both countries' real estate markets would cool down. Well, four years after the COVID-19 public health crisis and about two years since the tightening cycle started, industry experts have been closely monitoring the North American real estate market as conditions have been quite compelling.

Still, considering everything that has happened, from [bidding wars to blind bidding](#), the two countries are going through comparable experiences in their respective real estate industries. Most importantly, sales activity and price growth have been through the roof since the early days of the COVID-19 pandemic. Fuelled by historically low borrowing costs and changing

consumer trends, the housing gains in the *Great White North* and the *Land of the Free* have been monumental. And, in certain segments of the market, the growth had been record-breaking.

But just how similar is the Canadian housing market to the US real estate market right now? We're taking a deeper look at the numbers to find out:

How Does the Canadian Housing Market Compare to the US Right Now?

According to the National Association of Realtors (NAR), [existing-home sales](#) across the US rose 3.1 per cent to roughly four million units in December, following mostly a year of declines.

Prices also enjoyed substantial growth to kick off the year, buoyed by tighter inventories and reviving demand. NAR data highlighted that median existing house prices climbed by more than five per cent to a record \$379,100.

When it comes to housing stocks, the months of inventory clocked in at 3.0 months, up from 2.9 months in January 2023. This is an important measurement for industry observers because it gauges the number of months it would take to exhaust supplies at the current rate of sales activity. Recent data suggest that housing stocks could continue to be tight in the coming months.

The Department of Commerce [reported](#) that privately-owned housing starts were 14.8 per cent below the revised December estimate, clocking in at 1.331 million units. This was also nearly one per cent below the January 2023 rate of 1.34 million units.

Building permit numbers were not impressive at the start of the year. In January, privately-owned housing units approved by building permits in January fell 1.5 per cent month-over-month, totalling an annualised rate of 1.47 million units. However, building permits were up 8.6 per cent year-over-year.

American economists are cautioning that housing affordability is an intensifying problem in markets across the United States.



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necessary to restore affordability at the national level.

"The takeaway: If you are looking to buy a house in the United States, don't wait for or expect a home price crash. We don't foresee one coming (thankfully), nor do we think one is necessary to restore affordability at the national level. We think time and continued robust income growth can cure the problem on their own," said Joe Syedl, the senior markets economist at JPMorgan Chase, in a Nov. 2023 research note.

Now, how does this compare with the Canadian real estate market?

New data from the Canadian Real Estate Association (CREA) show that housing activity was robust while prices eased. In January, residential property sales advanced nearly four per cent, totalling approximately 40,000 units.

The MLS® Home Price Index (HPI) tumbled more than one per cent monthly and jumped 0.4 per cent on an annualized basis. The national average home price surged 7.6 per cent from January 2023 to nearly \$660,000.

Housing inventory levels slipped to start the year. The number of months of inventory clocked in at 3.7, down from 3.8 months at the end of December and 4.1 months at the end of November. Typically, the long-term average for this time of the year is around five months of supply.

That said, the number of newly listed residential properties increased 1.5 per cent from December to January. Unfortunately, new listings are hovering at their lowest levels since June 2023.

"The market has been showing some early signs of life over the last couple of months, probably no surprise given how much pent-up demand is out there," said Larry Cerqua, Chair of CREA, in a statement. *"There's a consensus that the market will probably look quite a bit different this year compared to 2022 and 2023."*

New housing construction activity levels were higher than they were a year ago. Still, housing starts fell by ten per cent month-over-month in January, falling short of economists' expectations of 235,000 units, according to the Canada Mortgage and Housing Corporation (CMHC).

"Despite the trend performance, actual starts saw strong year-over-year growth, driven by high multi-unit starts, particularly in Toronto. In fact, from a historical perspective, we observed the second highest number of housing starts for January going back to 1990," said CMHC chief economist Bob Dugan in the report.

Ultimately, both the Canadian and US housing markets are experiencing tight supplies, terrific price growth, and expectations of lower mortgages by the year's end. Even with higher prices, there is still demand, although prospective homebuyers may not witness much price relief. Remember, home prices are still higher than where they were before the coronavirus pandemic. With possible mortgage relief on the way, the Canadian and US real estate markets could enjoy revived activity.

Concerning Trends in US and Canadian Housing Markets?

The US and Canadian real estate markets each have individual and comparable trends that deserve a spotlight as we embark upon 2024.

Subprime Mortgage Crisis ... in Canada?

The subprime mortgage crisis in 2008 was one of the chief contributors to the Great Recession. More than a decade later, Canada is facing some subprime mortgage fears that some are calling an "accident waiting to happen." A 2021 analysis from Bloomberg Economics found an alarming trend of more Canadian borrowers taking on zero-down mortgages. Three years later, subprime borrowing has become one of the fastest-growing segments of the broader credit market. Although there are plenty of regulations that prevent subprime lending on a massive scale, the Bank of Canada (BoC) is warning that the quality of home loans had deteriorated throughout the pandemic amid a zero-rate environment, citing quarterly surveys of loan officers that revealed they loosened mortgage lending conditions. However, as the BoC started raising rates, mortgage lending tightened. Since many are anticipating negative homeowner equity for the most recent homebuyers, concerns are mounting among industry observers. Will this result in a crisis? Financial regulators do not appear to be worried.

A Housing Affordability Issue

The US and Canada are each suffering from an affordability crisis that is pricing out young families from achieving the dream of home ownership. In Canada, the average price of a home is approximately \$660,000, with valuations in the key markets of [Toronto](#) and Vancouver venturing north of \$1 million. Even accumulating a down payment is taking longer for many households: roughly eight years. Moreover, people cannot simply relocate to a small town or a rural community since prices in these areas have soared to levels unseen before the pandemic.

South of the border, under-building has led to an acute shortage of housing, industry reports say. Estimates suggest that the US real estate market is short between three and six million homes. This has undoubtedly metastasized into a generational issue, particularly since seniors are

more likely to own a home than older millennials. In addition, the current economic landscape has prevented homeowners from listing their properties. When rates were slashed to zero, families could scoop up cheaper single-family houses, townhomes, and condos at historically low [mortgage rates](#). Today, there is little incentive to move to a more expensive home at a higher mortgage rate.

Is the Economy Too Dependent on Real Estate?

Is real estate accounting for too much of the economy's growth? The real estate market accounts for nearly half of Canada's gross domestic product, and mortgage debt is poised to eclipse the nation's GDP.

In the United States, the economy is not as dependent on housing, although it still accounts for a large share of the GDP. Housing activity is estimated to contribute around 15 per cent to growth, comparable to the manufacturing sector. Still, the Federal Reserve warned in 2021 that the US economy, particularly following the devastating pandemic-induced meltdown, cannot afford a boom-and-bust cycle in real estate.

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