ECONOMIC VIEWPOINT

Desjardins Housing Outlook:

Entering a Fragile Recovery Phase

By Kari Norman, Senior Economist, and Maëlle Boulais-Préseault, Senior Economist

HIGHLIGHTS

- Canada's housing market enters 2026 with mortgage rates now likely near their cyclical floor but affordability constraints still firmly in place.
- In the existing home market, sales are expected to recover gradually in 2026. Provinces that entered 2025 with lower home prices relative to incomes generally saw stronger price growth, underscoring the role of affordability in shaping demand dynamics. Modest national-level price growth is expected in 2026.
- Despite insufficient population growth to drive much in the way of demand for new housing, we anticipate that government policies and funding will continue to prop up the homebuilding sector—particularly for below-market and purpose-built rental construction—but that homebuilding will remain well below federal government and CMHC targets.
- Risks are skewed toward continued stagnation—subdued sales and price growth—rather than renewed overheating, paired with mediocre residential construction.

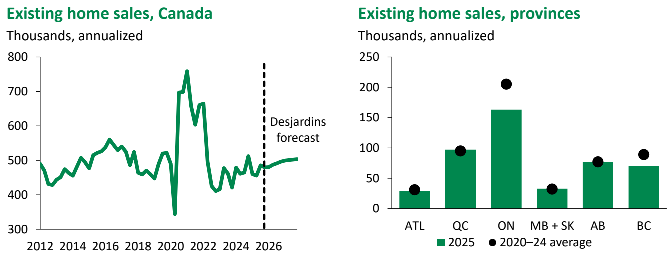
Canada's housing market enters 2026 with mortgage rates now likely near their cyclical floor but affordability constraints still firmly in place. Accelerating existing home sales in 2024 were driven by tumbling interest rates as inflation was brought to heel, allowing the Bank of Canada to slash its policy rate. By 2025, activity across the existing home market stalled as uncertainty regarding the effects of changing trade policy set in. Our cautiously optimistic outlook for 2026 no longer hinges on monetary policy relief—as none is expected—but rather on pent-up demand from households who remained on the sidelines but should benefit from continuing household income gains and lower asking prices in key markets. Improvements in housing market activity are expected but characterized as incremental rather than transformative. Risks are skewed toward continued stagnation rather than renewed overheating.

Residential construction showed surprising strength in 2025, though builders in Ontario and BC would beg to differ. With population growth no longer acting as a driver of demand for new housing, we anticipate that government policies and funding will continue to prop up the homebuilding sector—particularly for below-market and purpose-built rental construction. But as in the existing home sector, risks are skewed to the downside.

Existing Home Sales: A Reluctant Recovery

Existing home sales are expected to recover gradually in 2026, though from different starting points across the country. Following sharp declines in 2022 and again in 2023, activity turned around in 2024 as borrowing costs fell and some sidelined buyers cautiously returned to the market. However, sales softened again in 2025, probably due to hesitation from ongoing trade policy uncertainty. Looking ahead, sales are projected to gain more momentum in 2026 and reach about 500k in 2027 but remain well below pandemic-era peaks (graph 1). The latest Survey of Consumer Expectations shows that 16.5% of respondents are thinking of buying a house or condo in the next 12 months—the second-highest reading since the question was introduced in 2020. Ontario is expected to outperform as buyers waiting in the wings take advantage of improved affordability to enter the market.

Graph 1
Home Sales Should Gradually Recover in 2026



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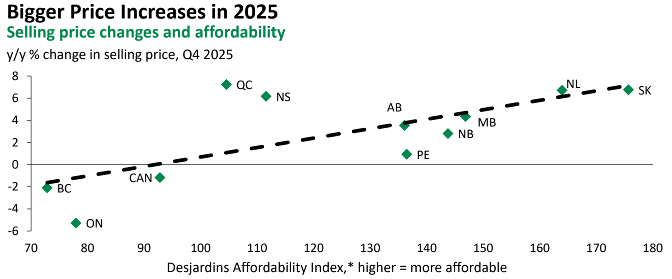
Existing Home Prices: Gradually Gaining Ground

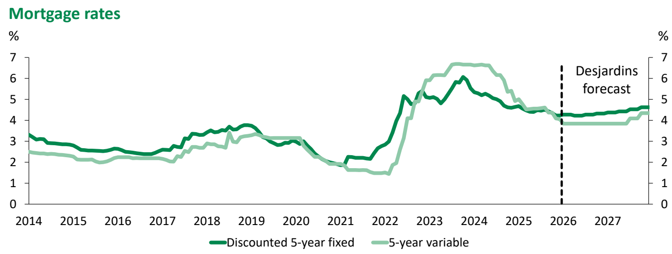
Provincial-level changes in home prices in 2025 closely tracked underlying homeownership affordability conditions. Provinces that entered the year with lower home prices relative to incomes generally saw stronger price growth, underscoring the role of affordability in shaping demand dynamics (graph 2). Mortgage rates declined meaningfully from their 2022–23 peaks but have settled well above the level of any point since the Global Financial Crisis—and they aren't expected to ease further in 2026 (graph 3). Looking ahead, the lack of additional mortgage rate relief is expected to constrain buyers' purchasing power, particularly in the most expensive markets. At the same time, any material deterioration of trade conditions with the US could pose downward risks to Canada's housing market, including to our forecast of modest price growth at the national level.

Graph 2
Provinces with Better Homeownership Affordability Generally Had Bigger Price Increases in 2025



* Assumes a 20% down payment
Canadian Real Estate Association, Statistics Canada, Bank of Canada and Desjardins Economic Studies

Graph 3
Mortgage Rates Are Expected to Remain Above Pre-Pandemic Levels

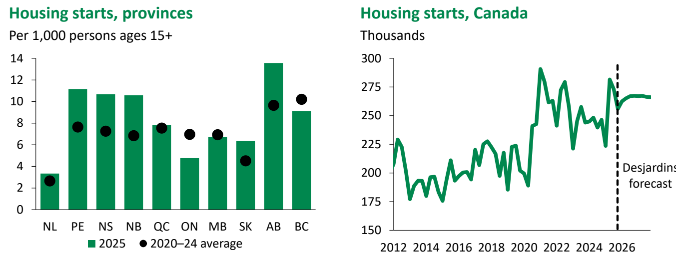


Bank of Canada and Desjardins Capital Markets

Housing Starts: Elevated but Insufficient

Housing starts accelerated in 2025, reaching their third-highest annual total. Most provinces posted above-average housing starts per capita, with Ontario and BC notable exceptions (graph 4, left). At the same time, the homebuilding sector continues to face significant cost pressures. Residential construction inflation far outpaced CPI over 2021–23, and although price growth has slowed, earlier increases are now embedded—particularly in Ontario and Alberta (graph 5 on page 3). Higher borrowing costs and softer condo demand in major urban markets remain barriers to new project launches. Offsetting these headwinds, early evidence suggests that recent government initiatives—including federal financing for purpose-built rental construction, tax relief for new rental supply, faster municipal approvals and zoning reforms aimed at supporting greater density—are beginning to support additional building, particularly of purpose-built rentals. These measures helped to lift construction in 2025 and should continue to bolster housing starts in the year ahead above the level that economic fundamentals would otherwise support (graph 4, right).

Graph 4
Housing Starts Are Expected to Grow Modestly



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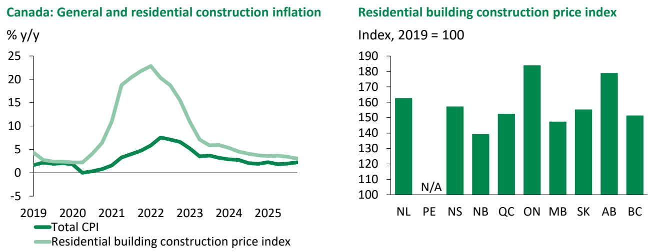
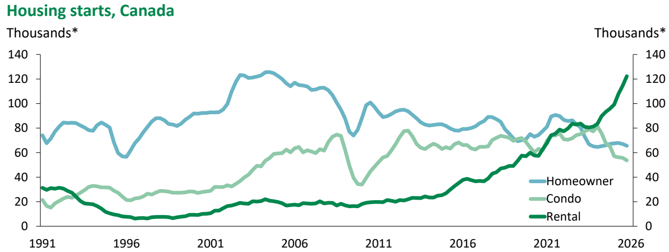
Graph 5
Residential Construction Costs Have Skyrocketed



CPI: Consumer price index
Statistics Canada and Desjardins Economic Studies

Purpose-built rental construction is anticipated to remain the strongest contributor to housing supply growth in 2026. This should help compensate for weaker activity in ownership-oriented segments (graph 6). Ground-oriented housing remains constrained by affordability, and condo development faces absorption challenges in several urban markets as small investors may find it less financially viable. Rental construction, supported by past population growth and government support, is positioned to remain the most resilient segment despite our outlook for cooling rent inflation. Even so, overall housing supply growth is poised to remain well below the Canada Mortgage and Housing Corporation's (CMHC) aspirational target of up to 480k units annually—the level they estimate would be needed to restore affordability to 2019 conditions.

Graph 6
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

Risks Are Skewed Toward Stagnation

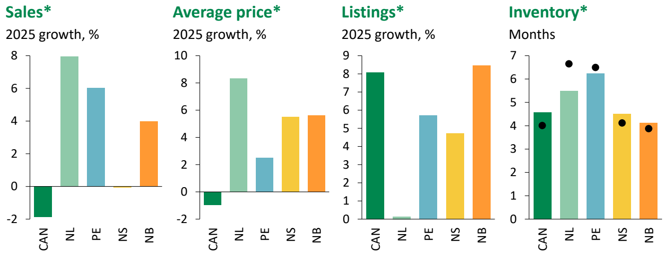
Risks around the housing market outlook appear skewed toward continued stagnation rather than renewed overheating. With mortgage rates now around their floor for this cycle and affordability well below pre-pandemic levels, demand-driven upside in the existing home sector is limited unless household incomes rise, population growth reaccelerates and/or financial conditions ease. At the same time, sticky seller pricing behaviour and households' continued preference for owning their homes reduce the likelihood of a sharp correction. Risks are similarly skewed toward stagnation in the homebuilding sector, as a deterioration in economic conditions could offset government support.

ATLANTIC REGION

Conditions in Atlantic Canada continue to normalize following the volatility of the pandemic period. Home sales were strong across the region in 2025, with the exception of Nova Scotia (graph 7). Average selling prices also posted respectable gains across the region last year. Entering 2026, sales are expected to ease as activity moves closer to longer-term norms. The region no longer benefits from the outsized migration-driven tailwinds that characterized the early 2020s (graph 8). Housing demand remains supported by relatively lower price levels compared with central Canada, but earlier affordability advantages have narrowed, limiting further upside in prices.

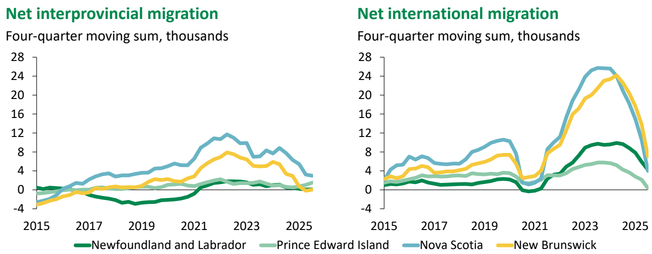
Residential construction remains elevated but shows signs of plateauing. Housing starts held up through 2025, supported by purpose-built rental construction in Nova Scotia and New Brunswick. With demand no longer accelerating, construction activity in 2026 is expected to remain steady.

Graph 7
The Existing Home Market Outperformed in the Atlantic Provinces



* Bars are 2025; dots are 2024
Canadian Real Estate Association and Desjardins Economic Studies

Graph 8
Interprovincial and International Migration Booms Continue to Fade



Statistics Canada and Desjardins Economic Studies

QUEBEC

The resilience of Quebec's market has been one of the few bright spots in Canadian housing over the past year. Despite economic turbulence and uncertainty, the province's real estate sector continued to perform well in contrast to other provinces.

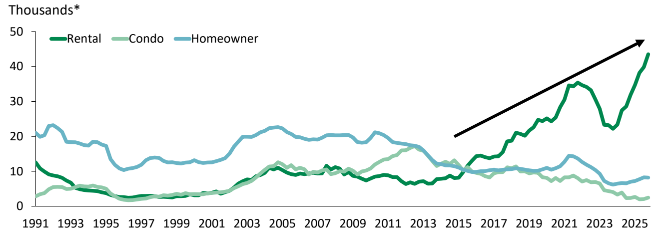
Residential construction in Quebec remained robust, with housing starts rising 22.9% in 2025—almost matching the 25% increase recorded in 2024 and far outpacing the national average of 5.6%. This strength continues to come from the market's heavy concentration in purpose-built rental projects and the wide range of measures implemented by the provincial government and municipalities. However, limited infrastructure capacity and elevated construction costs could temper activity in the year ahead.

On the resale side, demand was initially expected to soften in early 2025 as consumer confidence weakened due to the trade dispute with the United States. Yet buyers in Quebec proved more resilient than elsewhere in the country, and home sales ultimately rose 7.8% over the year compared with a nearly 2% decline at the national level. Activity did moderate in the final months of 2025, suggesting that uncertainty is beginning to weigh on the resale market. Limited supply and persistent affordability challenges are also contributing to this slowdown, which is likely to continue—especially now that mortgage rate cuts are no longer stimulating demand.

Though increased supply should help ease price pressures somewhat, overall affordability remains extremely strained. Rental construction dominates: only 20% of new units built in 2025 were intended for sale (graph 9). Strong demand has fuelled especially sharp price increases in Quebec's most affordable cities, including Trois Rivières, Sherbrooke and Saguenay.

Given current economic conditions and ongoing uncertainty, Quebec's real estate market should cool in the coming months. High construction costs, worsening affordability and inadequate municipal infrastructure will also constrain activity. Price growth is expected to slow, potentially creating opportunities for first-time buyers (graph 10). However, persistently high construction costs and a limited supply of properties for sale will continue to put upward pressure on segments such as single-family homes and plexes.

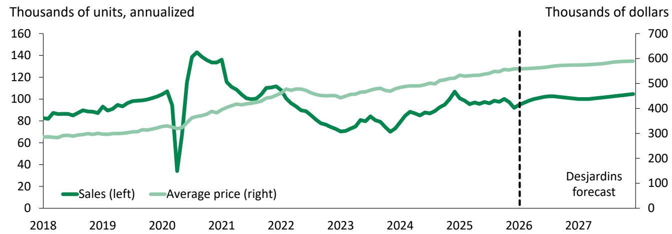
Graph 9
Purpose-Built Rental Construction Has Outpaced Single-Family and Condo Construction in Recent Years
Quebec – Housing starts



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

Graph 10
Home Sales Are Expected to Stabilize in the Coming Months

Quebec



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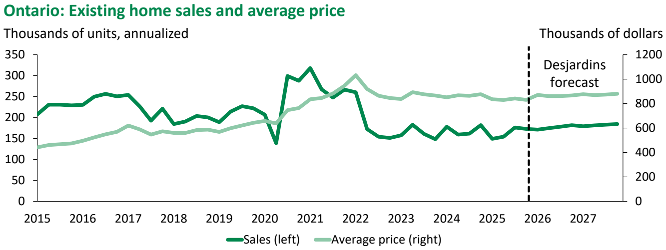
ONTARIO

Ontario's housing market remains one of the most constrained by affordability. Sales continued to soften in 2025, but the bulk of the decrease was concentrated in Toronto. Prospective buyers in the Big Smoke are expected to watch the spring market carefully for signs of renewed price growth, particularly as seasonally adjusted average selling prices appear to have bottomed out last October. With mortgage rates around their floor for this cycle, resale activity in 2026 is expected to increase steadily, driven by a growing acceptance among qualified buyers still on the sidelines that conditions are unlikely to meaningfully improve (graph 11). However, this doesn't imply a broad unlocking of pent-up demand, as some households remain unable to qualify at current income and stress-test thresholds. Even if growth outpaces the national average, the very weak starting point implies that sales will probably remain well below historical norms.

Home prices continued lower in 2025 but are anticipated to pick up through 2026. Available inventory at the start of 2026 should limit price increases early in the year, but stronger demand is expected to start pushing prices up as conditions return to balanced market territory.

Residential construction has undergone a pronounced adjustment. Housing starts fell sharply and remained weak through 2025 in Toronto but stabilized in the rest of the province (graph 12). This likely reflected exceptionally soft presales and higher absorption risks in Toronto's condominium market. Rental construction provided some offset at the provincial level (graph 13). Construction is expected to pick up the pace in 2026, supported by ongoing government incentives, particularly in the primary rental market. See our recent reports on Ontario's economy and housing markets for a deeper regional look.

Graph 11
Ontario Home Sales and Prices Should Pick Up in 2026



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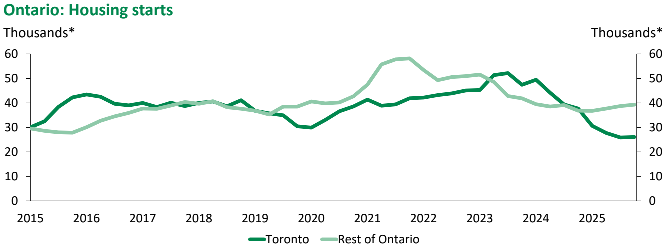
Graph 12
Homebuilding Activity Has Shifted Away from Toronto



* Four-quarter moving sum
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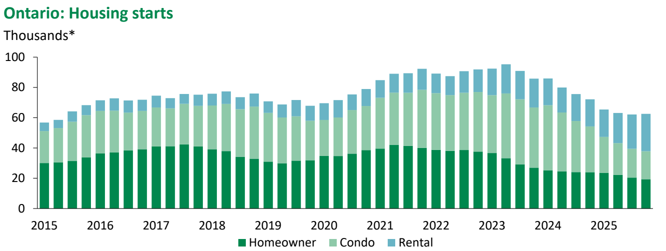
Graph 13
Purpose-Built Rental Construction Has Overtaken Condo and Owned Homes Construction



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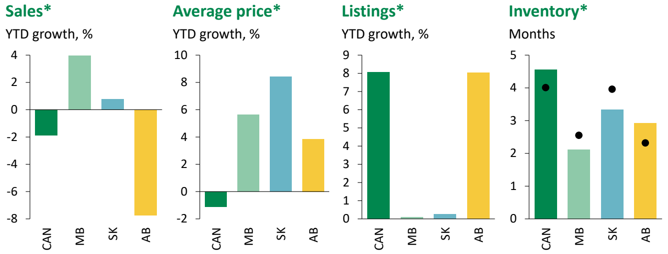
PRAIRIE PROVINCES

The Prairie provinces experienced mixed housing market conditions in 2025. Existing home sales grew in Manitoba and Saskatchewan, while they pulled back in Alberta following a strong print in 2024 (graph 14). Nevertheless, average selling price growth remained elevated in all three provinces, coming in well above the national average. Despite these price increases, each province in the region maintained much more favourable affordability relative to the national average (graph 15).

Homebuilding continued its upward trend in 2025 in Saskatchewan and Alberta (graph 16). Looking to 2026, Saskatchewan is positioned to keep outpacing its peers, underpinned by low unemployment, solid non-residential investment and the Government of Canada's recent trade deal with China. Alberta's economy faces an uncertain outlook in the oil and gas sector amid the recent regime shift in Venezuela, but homebuilding should show continuing strength in 2026 from projects already in the pipeline.

Graph 14
The Resale Home Market Is Strong in Western Provinces



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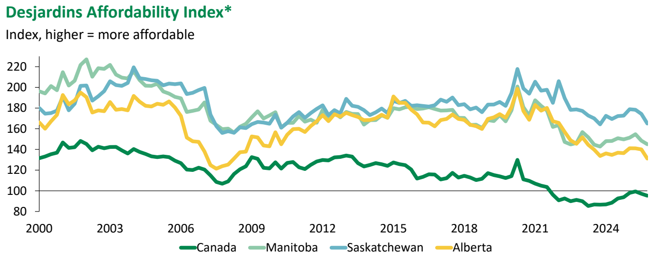
Graph 15
The Prairie Provinces Remain Significantly More Affordable



* Assumes a 20% down payment
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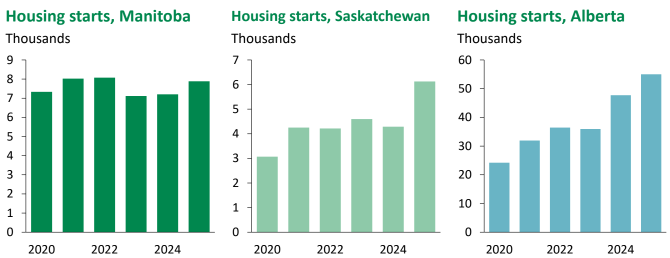
Graph 16
Housing Starts Grew in the Prairies in 2025



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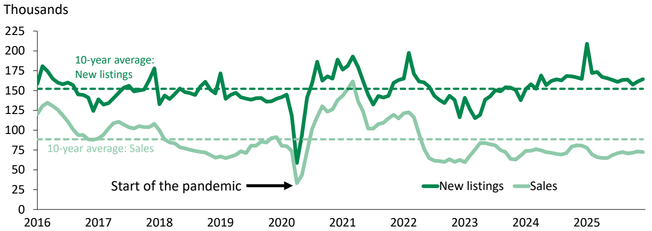
BRITISH COLUMBIA

Housing market activity in British Columbia remained subdued in 2025, reflecting acute affordability pressures and cautious buyer sentiment. With just over 70k existing home sales last year, it was the weakest showing since 2012. Meanwhile, as demand lagged, the supply of new homes listed for sale continued to outpace the long-term average (graph 17). The resulting buyer's market put downward pressure on average selling prices, which declined almost 3% year over year. Prices are expected to stabilize in 2026 on renewed demand as prospective homebuyers adjust their expectations to the stable-for-longer financing environment.

Residential construction was little changed in 2025 relative to the prior year. Condo construction continued to outpace construction of purpose-built rentals in the province, in contrast to national trends (graph 18). With fewer than 5,000 ground-oriented ownership housing starts in each of the last two years, that leaves condominiums as the primary opportunity for prospective owners of new builds. However, Vancouver's presale condo demand is showing weakness, indicating potential softening in the condo pipeline and room to pivot towards more rental construction.

Graph 17
Property Supply Remains Above the 10-Year Average, While Demand Lags Behind
British Columbia: Existing home market



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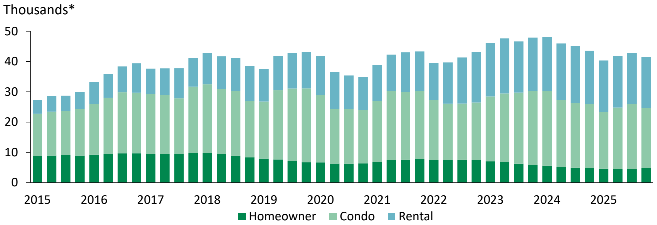
Graph 18
Condo Construction Still Outpaces Rental Construction in BC

British Columbia: Housing starts



* Four-quarter moving sum
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TABLE 1

Canada: Major Housing Indicators by Province

	2022	2023	2024	2025	2026f	2027f
ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)						
Existing Home Sales – Canada	**-25.5**	**-11.1**	**7.9**	**-1.9**	**4.5**	**2.5**
Newfoundland and Labrador	-7.1	-15.1	6.1	7.9	1.8	0.8
Prince Edward Island	-18.2	-5.4	8.5	6.0	2.1	0.4
Nova Scotia	-21.7	-17.4	7.8	-0.1	2.1	3.5
New Brunswick	-20.8	-13.9	4.4	4.0	2.8	4.0
Quebec	-20.5	-12.8	18.8	7.8	3.2	1.6
Ontario	-32.8	-12.0	4.8	-4.1	7.8	2.8
Manitoba	-20.1	-10.0	11.4	4.0	2.0	1.5
Saskatchewan	-11.7	-3.2	8.8	0.8	2.0	2.6
Alberta	-1.4	-9.1	9.2	-7.8	1.3	2.6
British Columbia	-35.1	-9.3	2.0	-5.7	3.9	2.7
Average Home Resale Price – Canada	**2.3**	**-3.7**	**1.0**	**-1.1**	**3.9**	**2.0**
Newfoundland and Labrador	6.8	0.7	8.9	7.9	4.4	3.1
Prince Edward Island	13.5	-1.4	2.0	2.7	2.3	2.0
Nova Scotia	14.7	3.0	6.0	5.3	3.2	3.1
New Brunswick	17.8	2.7	9.7	5.4	3.1	2.2
Quebec	11.3	-0.2	2.8	8.1	4.5	2.7
Ontario	6.8	-6.4	-0.9	-3.8	3.7	1.2
Manitoba	7.9	-3.2	5.9	5.6	4.3	5.2
Saskatchewan	0.8	-0.8	6.1	8.4	5.5	3.8
Alberta	5.1	0.8	9.6	3.8	1.6	2.9
British Columbia	7.5	-2.6	1.1	-2.9	2.5	1.7
Housing Starts (thousands) – Canada	**261.8**	**240.3**	**245.4**	**259.0**	**265.5**	**266.7**
Newfoundland and Labrador	1.4	1.0	1.7	1.6	1.5	1.5
Prince Edward Island	1.3	1.1	1.7	1.8	1.8	1.7
Nova Scotia	5.7	7.2	7.4	9.8	9.6	9.5
New Brunswick	4.7	4.5	6.2	7.6	7.5	7.5
Quebec	57.1	38.9	48.7	59.9	62.1	62.3
Ontario	96.1	89.3	74.6	65.4	68.0	68.5
Manitoba	8.1	7.1	7.2	7.9	8.0	8.1
Saskatchewan	4.2	4.6	4.3	6.2	6.5	6.6
Alberta	36.5	36.0	47.8	54.9	55.5	56.0
British Columbia	46.7	50.5	45.8	44.2	45.0	45.1

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