ECONOMIC VIEWPOINT

Desjardins Housing Outlook:

Recovery Without a Rebound

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

HIGHLIGHTS

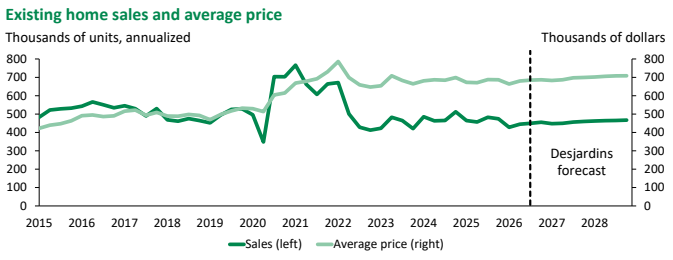
- Home sales should gradually recover in 2027 and 2028, but balanced market conditions and still-elevated borrowing costs are expected to keep price growth modest.
- Ontario and BC are expected to regain momentum as activity normalizes from weak levels, while several Atlantic and Prairie markets may soften from recent strength.
- Quebec's housing market is gradually rebalancing, but limited supply continues to support prices.
- Slower population growth could weigh on housing demand, although some previously suppressed household formation may provide an offset.
- Housing starts are expected to remain elevated, supported by government policy and strong rental construction even as condo development weakens further.

Canada's housing market has struggled to gain traction in 2026, as elevated borrowing costs and slower population growth combined with trade and economic uncertainty to keep buyers cautious despite affordability improving. Meanwhile, housing starts have retreated from recent highs but are expected to remain elevated as government support and a changing mix of new construction help cushion the slowdown. Together, these conditions set the stage for a modest recovery in resale activity over 2027 and 2028, even as regional housing conditions, population trends and the composition of new construction continue to shift.

A Gradual and Uneven Resale Recovery

Home sales are on track to decline for a second consecutive year in 2026, while the national average resale price has been broadly flat. High borrowing costs continue to constrain demand, and the improvement in affordability since the height of the pandemic housing boom has not yet been enough to bring buyers back in large numbers. We expect that to begin changing over the next two years, although the recovery is likely to remain modest by historical standards (graph 1). Continued household income growth should provide another source of support for demand, although our latest Desjardins Affordability Index shows that higher incomes alone are unlikely to restore homebuying affordability to pre-pandemic norms.

Graph 1
Canada's Housing Recovery Is Expected to Remain Modest



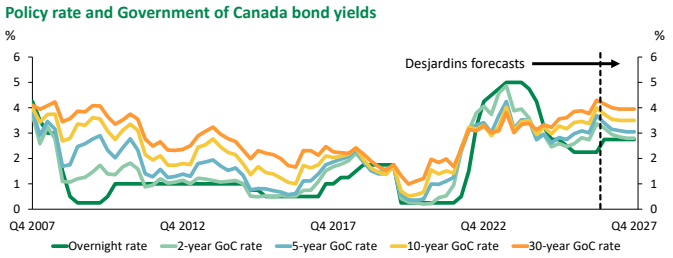
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Borrowing costs should remain an important constraint on housing demand. Fixed mortgage rates are heavily influenced by government bond yields, which are expected to remain well above their pre-pandemic levels even as longer-term yields gradually ease (graph 2). Variable mortgage rates, meanwhile, are more closely tied to the Bank of Canada's policy rate and could face some near-term upward pressure. As a result, financing costs should continue to limit purchasing power for prospective buyers.

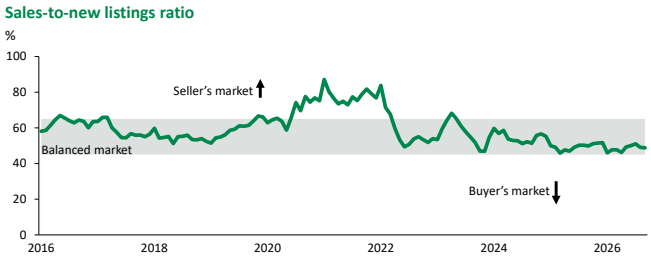
Graph 2
Borrowing Costs Are Expected to Remain Elevated



Bank of Canada and Desjardins Economic Studies

At the same time, the supply of homes for sale should help contain price pressures. Canada's sales-to-new-listings ratio has moved from strong seller's-market conditions during the pandemic boom to the lower end of the range normally associated with a balanced market (graph 3). With buyers having more choice than they did earlier in the decade—thanks to higher inventories of homes listed for sale—a recovery in sales need not immediately translate into sharply higher prices.

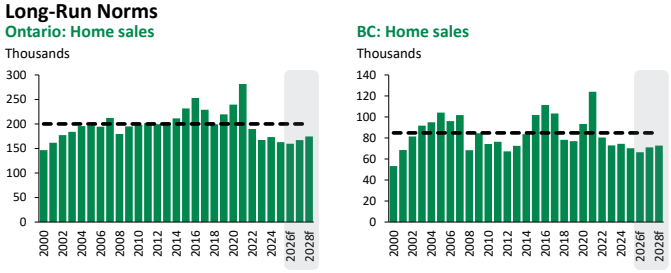
Graph 3
Canada's Resale Market Has Returned to More Balanced Conditions



Canadian Real Estate Association and Desjardins Economic Studies

The improvement in sales is also unlikely to be evenly distributed. Ontario and BC have experienced some of the largest pullbacks in housing activity and prices, and should see the strongest recovery in sales as affordability gradually improves. However, much of that increase would simply represent activity heading toward more typical levels after an exceptionally weak period, rather than the beginning of another housing boom (graph 4). More transactions aren't expected to immediately translate into sharply higher prices. Supply remains relatively plentiful in both provinces, while monthly ownership costs are still exceptionally high. By contrast, sales are expected to soften across several Atlantic and Prairie markets following a period of relatively stronger activity, even as prices may continue rising in some of these provinces. These differences reflect significant variation in local market economic conditions, affordability, existing supply and market balance.

Graph 4
An Improving Sales Growth Outlook Still Leaves Ontario and BC Below Long-Run Norms

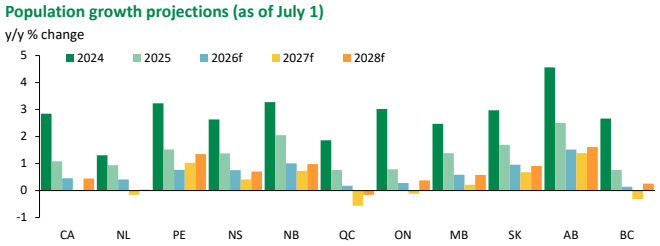


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A Very Different Demographic Backdrop

International migration surged after the pandemic and contributed to extraordinary housing demand. That driver has now faded as the federal government has reduced the number of temporary residents. Recent revisions to population estimates suggest the decline in non-permanent residents has so far been smaller than previously believed. Reducing their share of Canada's population to the federal government's 5% objective by the end of 2027 would imply population declines in some provinces (graph 5). Even if the target isn't met, slower population growth ahead should reduce demand for both ownership and rental housing.

Graph 5
Achieving Government's 5% Target Implies Population Declines in Some Provinces in 2027



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Note: Illustrative scenario assuming the 5% NPR commitment is achieved in 2027. Population forecasts for all provinces are benchmarked against Statistics Canada's M1 population projection scenario.
Statistics Canada and Desjardins Economic Studies

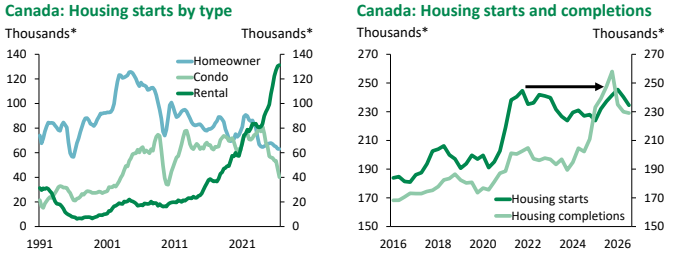
However, housing demand may not fall in lockstep with population growth. Years of tight and expensive housing conditions may have suppressed household formation, as some people delayed forming independent households. Greater availability and softer rental market conditions could allow some of that pent-up demand to emerge, partly offsetting the demographic slowdown.

Homebuilding Is Holding Up, but What We Build Is Changing

Housing starts have declined in 2026 year to date but remain elevated by historical standards. Economic and demographic conditions would normally point to a more pronounced slowdown, yet starts have remained around 245k over the past three quarters. That experience suggests homebuilding may remain stronger than conventional demand drivers alone would imply. With economic growth expected to strengthen, unemployment to decline, fixed mortgage rates to ease and policy to stay supportive, we expect housing starts to remain near current levels through 2028.

The composition of construction helps explain some of this strength. Purpose-built rental starts have climbed to record levels, helping compensate for a sharp retreat in condominium development (graph 6). Rental projects have benefitted from government financing and tax incentives, while higher borrowing costs, weaker investor demand and softer expected returns have undermined the presale model that finances many condo projects. As we recently noted, the shift is keeping builders active and adding needed rental supply, but purpose-built rentals cannot replace condos as a source of entry-level homeownership. The effects of the condo downturn will take time to become fully visible. Completions reflect projects launched several years earlier and have only recently peaked, while fewer ownership projects have entered the pipeline.

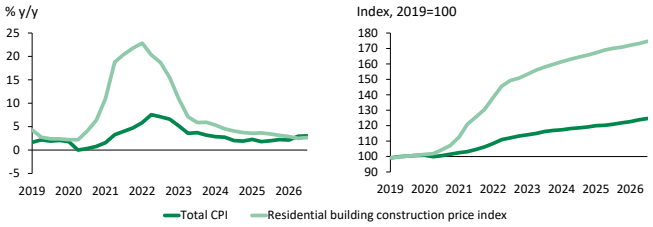
Graph 6
Rental Construction Is Holding Up Starts as Condo Development Retreats



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

The development environment nevertheless remains challenging. Residential construction cost inflation has slowed sharply from its 2022 peak, but costs remain dramatically higher than before the pandemic and have risen far faster than overall consumer prices since 2019 (graph 7). Financing costs are also elevated, raising the cost of carrying land and financing construction. The Canada–US trade conflict could put renewed upward pressure on some material costs. As discussed in our recent Provincial Economic Outlook, trade exposure varies significantly across the country, creating additional regional uncertainty.

Graph 7
Construction Cost Pressures Have Eased, but Earlier Increases Haven't Reversed



CPI: Consumer price index
Statistics Canada and Desjardins Economic Studies

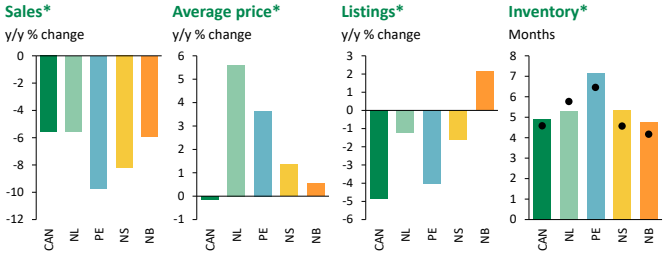
Government policy is working in the opposite direction. Preferential financing and tax treatment have already supported purpose-built rentals, while tax relief on new home sales, lower development charges in some municipalities and other measures could improve the economics of ownership construction. These policies won't eliminate the challenges facing builders, particularly in the condo sector, but they may help explain why construction has remained stronger than underlying economic conditions might otherwise suggest. Combined with an improving economic backdrop, that support should help keep Canadian homebuilding elevated over the next two years.

ATLANTIC REGION

Existing home sales have declined across Atlantic Canada in 2026, while average prices have continued to rise. Sales have fallen most sharply in PEI and Nova Scotia, while Newfoundland and Labrador has recorded the strongest price growth (graph 8). The migration tailwinds that supported housing demand earlier in the decade have faded considerably, despite a recent pickup in international migration to Nova Scotia and New Brunswick (graph 9). With demand cooling and market conditions becoming less tight, price growth is expected to moderate from the strong pace recorded in recent years.

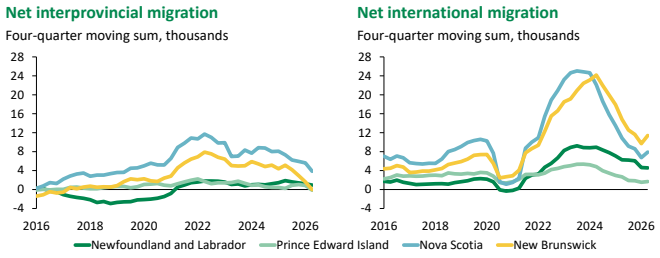
Homebuilding is also retreating from recent highs. Starts have fallen considerably in Nova Scotia in 2026 year to date and have begun declining in New Brunswick, while activity has held up better in Newfoundland and Labrador and PEI. Further moderation is expected as population growth slows and recently added supply is absorbed. However, strong non-residential investment and a pipeline of major resource projects could provide some support to regional economic activity and, in turn, housing demand in the medium term.

Graph 8
Home Prices Continued to Rise Despite Weaker Sales in Atlantic Canada



* January to September 2026 average, compared to the same period in 2025.
Canadian Real Estate Association and Desjardins Economic Studies

Graph 9
Atlantic Canada's Migration Tailwinds Are Fading



Statistics Canada and Desjardins Economic Studies

QUEBEC

After three quarters of 2026, one trend is becoming clear in Quebec's resale market: uncertainty appears to be weighing on demand. Between January and September, the number of transactions declined by about 7% compared with the same period a year earlier. Typically, weaker demand tends to ease price pressures. However, that has not been the case so far. The average selling price instead rose by 5.6% across the province over the same period. The supply of properties for sale remains insufficient to bring about a meaningful rebalancing of the market, which continues to put upward pressure on prices. In this context, affordability remains a significant challenge amid the slowdown in transactions. These trends are expected to continue through the end of the year and into 2027 (graph 10).

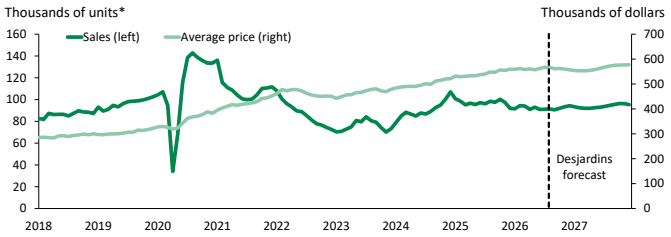
On the residential construction front, growth in housing starts is beginning to slow and should gradually return to a more sustainable pace. Construction costs remain high, however, and continue to weigh on builders. Economic uncertainty and less favourable financing conditions are also holding back developers' investment decisions. Conversely, municipalities that have introduced measures to facilitate residential development, including faster approval processes, generally continue to attract more projects.

Rental housing remains the main driver of residential construction, while condominium starts are still near their lowest levels in recent years (graph 11). This is partly due to various programs supporting rental construction, but also to developers' stronger interest in this segment, where the outlook remains more favourable than for condominiums. However, the current strength in purpose-built rental construction could begin to ease in some markets. Vacancy rates are rising, particularly among newly completed, higher-priced rental units, as demand struggles to absorb the substantial increase in supply at prevailing rents. This contrasts with the continued scarcity of older, more affordable rental accommodation, pointing to an increasingly segmented market rather than a broad-based improvement in rental housing availability. The resulting challenges in absorbing new units could weigh on the financial viability of future rental developments. Nonetheless, the near-term outlook for residential construction remains favourable, supported by the significant number of projects that are still on track to break ground in the remainder of 2026 and in 2027.

Graph 10

Sales Are Expected to Stabilize over the Coming Months, but Prices Remain Elevated

Quebec: Resale market



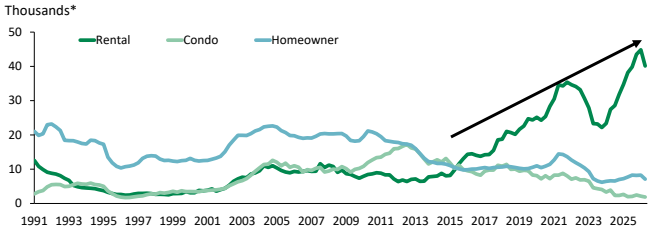
* Annualized.

Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Graph 11

Rental Construction Has Outpaced Single-Family and Condominium Construction for Several Years Now

Quebec: Housing starts



* Four-quarter moving sum.

Canada Mortgage and Housing Corporation and Desjardins Economic Studies

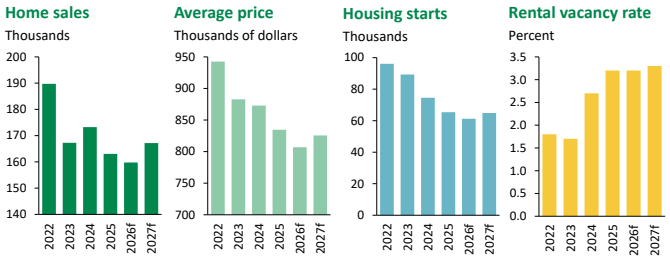
ONTARIO

Ontario's resale market has remained weak in 2026, with sales and average prices expected to wrap up the year below already subdued levels (graph 12). Activity is expected to improve next year as rising household incomes, earlier price declines and gradually improving affordability allow some sidelined buyers to return. However, available supply should keep the province's housing market in balanced territory with some local markets—especially Toronto—favouring buyers. Sales could therefore recover more quickly than average prices, allowing transactions to increase without immediately reversing recent affordability gains.

Homebuilding has also weakened, but construction may begin recovering from a low base (graphs 12 and 13). Toronto condo starts have fallen sharply as weak investor demand and presales have made projects more difficult to finance, while ground-oriented house construction has trended lower elsewhere in the province. Purpose-built rentals have provided a partial offset. Any recovery is expected to remain modest, but Ontario benefits from significant policy support: HST relief, lower development charges in some municipalities and ongoing government support for rental construction could improve project viability and support new home demand.

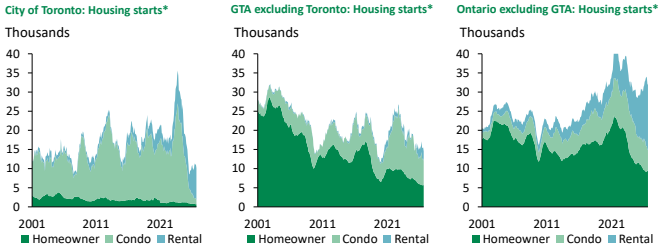
Slower newcomer arrivals are likely to weigh on rental demand, but the headline vacancy rate masks important differences within the market. Vacancy rates are considerably lower for larger and more affordable units, suggesting there is still demand for housing that better meets the needs and budgets of some households, while some previously suppressed households could also enter the market. Our recent Ontario Housing Outlook provides a more detailed regional assessment.

Graph 12
Ontario's Housing Market Is Expected to Begin Recovering in 2027



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Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Statistics Canada and Desjardins Economic Studies

Graph 13
Rental Construction Is Partly Offsetting Weaker Ownership-Oriented Starts



* Annualized as a 12-month moving sum.
GTA: Greater Toronto Area
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

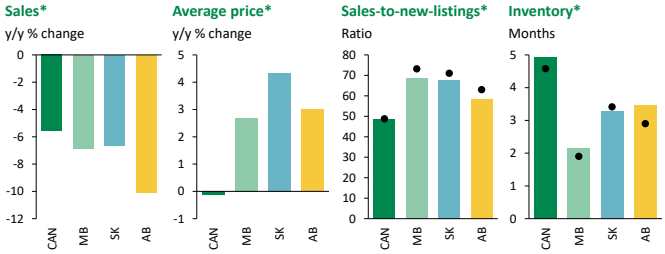
PRAIRIE PROVINCES

Resale activity has weakened across the Prairies in 2026, although tighter market conditions continued to support rising home prices (graph 14). The divergence is most pronounced in Alberta, where sales have fallen sharply while prices are about 3% higher than a year ago. Saskatchewan has posted the strongest price gains despite weaker sales, while Manitoba's low inventory continues to point to comparatively tight conditions. If listings gradually catch up with demand, price growth could moderate, although Alberta's supportive labour market and investment outlook may help cushion the expected regional slowdown in housing demand.

Housing construction remains strong by recent historical standards, with rental development accounting for much of the increase (graph 15). Starts are expected to moderate slightly as population growth slows from the extraordinary pace of recent years (graph 16). The pullback could be most visible in Alberta following the rapid expansion of recent years, while Manitoba and Saskatchewan may experience more modest changes in overall activity.

Graph 14

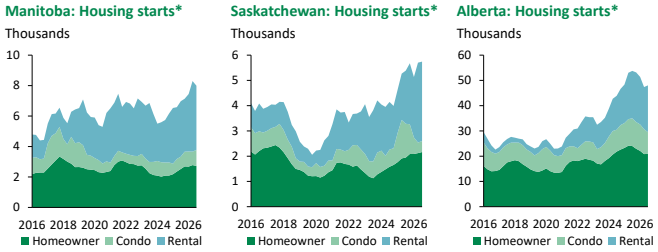
Tighter Housing Markets Kept Prairie Prices Increasing Despite Slower Sales



* January to September 2026 average, as compared to the same period in 2025.
Canadian Real Estate Association and Desjardins Economic Studies

Graph 15

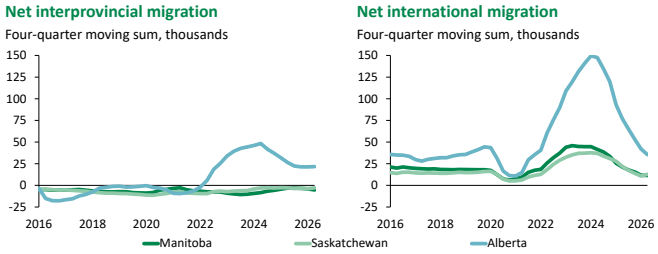
Homebuilding Remains Elevated Across the Prairies



* Annualized as a four-quarter moving sum.
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Graph 16

Migration Tailwinds Are Fading Across the Prairies



Statistics Canada and Desjardins Economic Studies

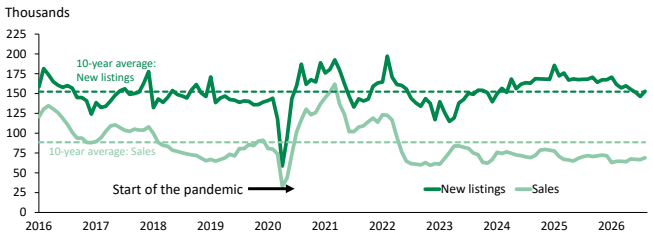
BRITISH COLUMBIA

BC's resale market has remained subdued in 2026, with sales running below their 10-year average while new listings have remained at or slightly above theirs (graph 17). The resulting buyer's market conditions have contributed to lower average prices and greater choice for prospective purchasers. Improving household incomes should gradually allow some buyers to return, and sales are expected to improve over the near term. But BC's severe affordability constraints and plentiful supply—with an average of about seven months of inventory year to date—should continue to limit price growth.

Homebuilding has held up better than resale activity, but its composition continues to change (graph 18). Ownership starts have trended lower across the province, while rental construction has expanded substantially, particularly in the City of Vancouver. Condo construction in Vancouver hasn't experienced the same abrupt decline seen in Toronto, but weak presales may weigh on future starts. Rental construction and projects already in the pipeline should provide some offset. As we recently reported, BC's proposed program to acquire approximately 2,200 unsold condos could help bring completed units into use and reduce pressure on developers.

Graph 17

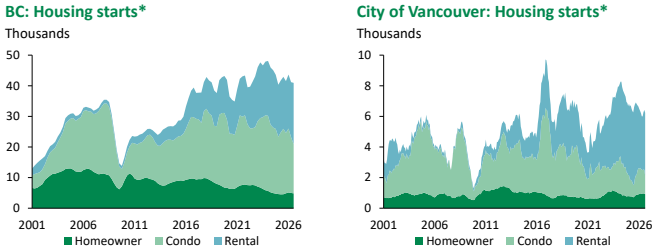
Property Supply Returns to the 10-Year Average, While Demand Lags Behind



Canadian Real Estate Association and Desjardins Economic Studies

Graph 18

Vancouver Has Shifted to Rental Construction, While BC Builds Fewer Houses



* Annualized as a moving sum.

Canada Mortgage and Housing Corporation and Desjardins Economic Studies

TABLE 1

Canada: Major housing indicators by province

	2022	2023	2024	2025	2026f	2027f	2028f
ANNUAL % CHANGE (UNLESS OTHERWISE INDICATED)							
Existing home sales – Canada	**-25.5**	**-11.1**	**7.9**	**-1.9**	**-5.1**	**2.0**	**2.5**
Newfoundland and Labrador	-7.1	-15.1	6.1	7.9	-6.5	-8.9	-8.0
Prince Edward Island	-18.2	-5.4	8.5	6.0	-11.7	-13.4	-2.3
Nova Scotia	-21.7	-17.4	7.8	-0.1	-8.1	-1.3	1.2
New Brunswick	-20.8	-13.9	4.4	4.0	-7.8	-8.6	-4.2
Quebec	-20.5	-12.8	18.8	7.8	-4.9	1.7	3.1
Ontario	-32.8	-12.0	4.8	-4.1	-2.1	4.6	4.4
Manitoba	-20.1	-10.0	11.4	4.0	-6.8	-4.8	0.7
Saskatchewan	-11.7	-3.2	8.8	0.8	-7.0	-2.5	0.5
Alberta	-1.4	-9.1	9.2	-7.8	-9.3	-1.6	0.9
British Columbia	-35.1	-9.3	2.0	-5.7	-5.4	7.0	2.4
Average home resale price – Canada	**2.3**	**-3.7**	**1.0**	**-1.1**	**-0.1**	**1.9**	**2.1**
Newfoundland and Labrador	6.8	0.7	8.9	7.9	5.7	4.1	1.8
Prince Edward Island	13.5	-1.4	2.0	2.7	2.9	-0.5	-0.1
Nova Scotia	14.7	3.0	6.0	5.3	0.7	2.4	1.9
New Brunswick	17.8	2.7	9.7	5.4	0.5	0.6	-1.7
Quebec	11.3	-0.2	2.8	8.1	3.6	0.7	3.7
Ontario	6.8	-6.4	-0.9	-3.8	-3.4	2.3	1.0
Manitoba	7.9	-3.2	5.9	5.6	2.6	2.7	2.7
Saskatchewan	0.8	-0.8	6.1	8.4	4.3	3.7	2.3
Alberta	5.1	0.8	9.6	3.8	2.4	0.8	0.3
British Columbia	7.5	-2.6	1.1	-2.9	-1.5	-0.1	0.0
Housing starts (thousands) – Canada	**261.8**	**240.3**	**245.4**	**259.0**	**245.4**	**239.7**	**244.2**
Newfoundland and Labrador	1.4	1.0	1.7	1.6	1.9	1.9	1.8
Prince Edward Island	1.3	1.1	1.7	1.8	1.8	1.2	1.2
Nova Scotia	5.7	7.2	7.4	9.8	6.9	6.3	6.5
New Brunswick	4.7	4.5	6.2	7.6	6.9	5.1	4.8
Quebec	57.1	38.9	48.7	59.9	58.1	58.4	58.9
Ontario	96.1	89.3	74.6	65.4	61.2	64.9	71.0
Manitoba	8.1	7.1	7.2	7.9	8.9	8.3	8.4
Saskatchewan	4.2	4.6	4.3	6.2	6.5	6.3	6.4
Alberta	36.5	36.0	47.8	54.9	49.0	45.1	43.8
British Columbia	46.7	50.5	45.8	44.2	44.0	42.3	41.6

f: forecasts

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