

WHAT TO EXPECT IN 2025

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In summary, 2025 indicators point to healthy economic growth, an improvement in borrowing costs, a moderate increase in home sales as well as a moderate increase in average sale prices. There will also be regulatory changes affecting the real estate industry providing enhanced consumer protection and transparency. The future is also clouded with challenges and uncertainties, particularly as a result of political upheaval being experienced in Canada and political change in the United States.

It is strongly anticipated that the Bank of Canada will continue lowering its overnight lending rate in 2025. The year begins with the rate at 3.25 percent. By year end the overnight rate should be down to 2.25-2.50 percent. This will have a positive impact on fixed mortgage interest rates, bringing the five-year mortgage rates to around 4 percent. Although substantially lower than borrowing costs that plagued borrowers through most of 2024, 4 percent is a long way from pandemic rates of 2 percent or lower that drove the real estate resale market to frenzied, record levels in 2021.

2025 will also see the cap on insured mortgages increase to \$1.5 million from the previous cap of \$1 million. This will enable, primarily, first-time buyers to purchase properties with substantially lower down payments, a hurdle that has marginalized buyers in expensive markets like Toronto and Vancouver.

The combined impact of lower borrowing costs and easier entry into the resale market with lower down payments will see the resale market improve compared to 2024. Sales are anticipated to increase by 6 to 8 percent bringing the total number of sales to the range of 72,600 to 74,000 properties. A welcome improvement over the 2024 total of 68,500, but a long way from the 90,000 sales (on average) achieved annually in the decade before the pandemic.

However, the on-going impediment to sales growth will be affordability. The demand is there. Population growth in the greater Toronto area has been enormous over the last few years, substantially greater than available supply. Unfortunately, household income has not kept pace with borrowing costs and the cost of housing. Even with lower borrowing costs and broader entry into the resale market, buyers will require a household income in excess of \$250,000 to qualify to buy the average priced property in the greater Toronto area.

As in the case of sales growth, the growth in average sale prices in 2025 will be modest, somewhere in the range of 3 to 5 percent. The year will begin with the average sale price coming in at \$1,120,000 and end in the range of \$1,150,000 to \$1,175,000. Once again growth in average sale prices will be constrained by affordability. Buyers may want to pay more but the cost of financing will restrain their ability to do so. Home prices for detached and semi-detached properties will be substantially higher, averaging close to \$1,300,000 in the greater Toronto area and more than \$250,000 higher in the City of Toronto, exceeding \$1,500,000.

Politically, an election will take place in Canada in 2025, and with that a new government which may develop new housing policies that will impact sales and average sale prices. Whatever housing policies are promulgated, their impact will not be felt until 2026. South of the border a new administration will be taking office. It's possible that the new administration's policies will create inflationary pressures which will, unfortunately, have an impact on borrowing costs. These pressures, assuming they materialize, will impact the economy in 2026 and beyond.

Ontario's provincial real estate regulator will be bringing in Phase III of the changes to the Trust In Real Estate Services Act. The new regulations will further enhance transactional transparency, eliminate the financial incentive for inappropriate realtor behaviour, implement administrative penalties for minor realtor infractions, raising the bar on realtor qualifications, and making the regulator, the Real Estate Council of Ontario, subject to ombudsman oversight. These changes are anticipated but not certain. Regardless, the ultimate legislation will provide heightened consumer protection and transparency.

2025 begins positively and optimistically, but not without its uncertainties, especially on the political front. Affordability will remain the real estate market's major concern, but with welcome signs of amelioration, albeit moderate, ahead.