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Dear clients,

I hope all of you are enjoying our extended winter.

In the past year, we have all been wondering the same thing: Will home prices decrease?

Below are some factors expected to keep the market more balanced in 2018.

1. Stress Test rules

The government regulator known as the Office of the Superintendent of Financial Institutions now requires all homebuyers taking out mortgages from the lenders that it regulates to meet a "stress test". That means buyers going to a Big Five bank for a mortgage will need to prove they can afford the Bank of Canada prime rate, even if their lender plans to give them a lower rate. For example, if the prime rate is 4.99 per cent, a buyer would need to show he or she can afford a 4.99 per cent interest rate even if they have such excellent credit that they're offered a mortgage at 2.99 per cent interest.

That two percentage point difference might not sound like much, but it would translate to hundreds of dollars per month on a typical mortgage, thereby reducing the amount for a house many people can afford.

That could push prices down somewhat, and first-time homebuyers could benefit because they usually don't have a 20 per cent down payment, which means that they have long been subject to the same stress test when taking out mandatory mortgage insurance.

2. Interest Rates

The amount of interest that lenders charge homebuyers reflects the cost of borrowing from the Bank of Canada, so when the Bank of Canada raises rates (usually when the economy is growing), lenders pass that cost on to consumers with higher mortgage rates. The higher the rate, the lower the number of people who can afford homes. When fewer people are buying, prices fall.

Overall, the impact of rising rates on prices will be modest. Mortgage rates will still be lower than they were 10 years ago and five years ago. This leads me to believe that rates will not have the impact on the market as initially expected.

the Mortgage Group Inc.

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3. 'Peak millennials'

The children of the baby boomers, known as millennials, make up one of the biggest demographics in history, and they're reaching home-buying age in record numbers.

Statistics Canada reports that there will be a projected 2,559,200 people between the ages of 25 and 30 in 2018 -- up 150,000 from five years earlier.

The pent-up demand for housing from millennials is enormous,. It's just such a large cohort of people that are moving into the prime first-home space.

Royal LePage hired a company to survey 1,000 millennials and they found that only 35 per cent of them already owned a home. Of those who didn't yet own, 69 per cent said they wanted to buy within the next five years.

That means that even if some people are pushed out of the market by things like the OSFI stress test and rising interest rates, there could be many other first-time buyers looking to take their place, pushing prices up.

4. Immigration growth

Another factor that can push prices up is immigration.

Canada added between 236,800 and 281,000 immigrants annually between 2004 and 2014. The Liberals boosted the number to 296,000 in 2016, an expected 300,000 in 2017, and are targeting 310,000 in 2018.

Immigration will continue to increase demand, pushing prices up, particularly in the big cities where new immigrants are most likely to settle.