

The Pre-con Recon Report

01

Shifting Market

The current market

The pre-construction real estate market is ever-changing and the rush for homes, driven by low interest rates has settled into a more calculated pursuit.

Introduction

Buying a new home has evolved into a strategic, longer-term investment for the majority of buyers.

In this new landscape, the role of a strategic marketing partner has become more important than ever before. Crafting precise messages at the right time in the buyer journey is key to not only entice buyers into the market but also to establish your brand or community as the undeniable choice for prospective homeowners.

The pre-construction strategy team at Him & Her gathered to dissect recent changes in the market. Our goal was clear: to empower our clients with the tools to navigate market challenges effectively.

We explored current market conditions, observed how builders are adapting, and discussed the broader implications for marketing teams. We dove into the dynamics of interest rate shifts, rising construction costs, and how they influence both homebuyer aspirations and builder strategies, as well as ways to strike a balance between the two.



Question

01

With slower than anticipated sales through the first half of 2024, how can we navigate the fall market?

The Bank of Canada reduced the policy rate by 25 basis points in June, July, and September 2024, bringing the interest rate to 4.25%. Although, mortgage rates have slightly eased, with insured fixed rates currently as low as 4.19%, many prospective buyers remain hesitant or unable to commit to new home purchases due to ongoing uncertainty about the future.

Combined with the new government support measures, the gradual lowering of interest rates should stimulate new home purchases in the fall market. Despite these positive signs, the high land and construction costs will continue to pose challenges, keeping the balance between feasibility and affordability precarious for builders and buyers alike.

Whether you’re optimistic about better rates and a bustling fall market or taking a more pragmatic view, one thing is clear: builders must meet buyers halfway. It’s crucial to adopt a people-first approach in your sales strategy, understanding your buyers’ motivations and communicating effectively at the right moments with the right messages.

Market Snapshot
2024

4.19%
Lowest insured fixed-rate mortgage available

July 24
Bank of Canada reduced policy rate to 4.50%, marking the start of expected gradual interest rate cuts.

30 year
Amortizations now available for new construction homes. (For first-time buyers only)

Unbalanced
Supply of build-to-rent projects lag behind the surplus of demand due to population growth and affordability.

Increased
Demand for rentals as homeownership remains difficult.

Demand for Space
The desire for larger homes has grown, driven by millennial buyers and multigenerational households, particularly due to a surge in immigration, as they look to expand their families.

Shift in Demand
Toward lower priced homes in markets across Canada.

The CHBA Housing Market Index, reflecting building industry sentiment, paints a sombre picture, standing at a mere 34.9 - 37.9%, with reports of continued poor sales conditions, indicating a continuation of the downward trend in new starts for the year ahead.

While the Bank of Canada has initiated rate cuts this summer– Bank of Canada may initiate rate cuts this summer—recognizing the significant impact of interest rates on residential construction—any boost in new sales may not translate into increased housing starts for the current year, given the timing constraints.

Housing Market Index — Q2 2024

32.5%

for condominiums — down from 37.9% in Q1 2024

29.9%

For single-family — down from 34.9% in Q1 2024

48%

of builders said that reduced demand, driven by challenges with mortgage qualification have directly caused them to build fewer units

22%

of builders cancelled projects due to lack of sales

Residential Construction Costs — Since pre-pandemic

+51%

Increase in cost of residential construction in Canada.

22%

Ontario’s 2023 housing starts fell short of the annual target by 22%, largely due to significant increases in construction costs.

Question

02

How do Bank of Canada rate updates affect the fall market?

Inflation impacts both home purchasers and builders. The recent 50 basis point decrease in the policy rate is expected to enhance the purchasing power of those sidelined by unfavourable rate conditions. Home sales should improve in the coming months, but with rate adjustments proceeding more slowly than in the past, buyers are exercising greater caution regarding the debt they assume. Further rate reductions could bolster confidence but may also lead to increased competition, driving up home prices and construction costs.

Question

03

Does this align with what you are seeing in the market?

In our work with builders across a diverse range of community types, sizes, and price ranges, a notable trend has emerged. Projects that were planned during the market’s peak are proving to be less profitable or are not feasible in the current landscape. Many projects are being paused, either to await more favourable conditions or to reimagine communities in a way that’s more tailored to the current market’s demands.

Traditionally, our portfolio has been dominated by high-rise condo launches. However, with the sharp rise in interest rates, builders are shifting their focus towards lower-density projects with reduced carrying costs and upfront capital requirements.



High Rise
Condo



Lower
Density



Build to
Rent

We’ve also noticed an uptick in builders considering a shift toward build-to-rent projects as a strategic response to the demands of a market facing financial constraints. This trend has been spurred by government incentives and the persistent challenges of affordability hindering home ownership.

The builders who have launched their projects in the current market are experiencing extended sales cycles and notably reduced absorption rates. This trend often necessitates a re-evaluation of strategy, prompting an intensified focus on marketing efforts to effectively address these challenges.

Question

04

So, what does that mean for selling homes?

More than ever, owning a home can be perceived as a symbol of success and affluence. What was once a rite of passage has become a marker of achievement, reserved for those with the financial means to attain it. This shift doesn't imply that every home is opulent; rather, it underscores the increasing unattainability of homeownership for many Canadian families.

In this context builders can no longer rely on a 'build it and they will come' mindset. Imagine the experience you'd expect at a luxury car dealership, then amplify it tenfold. A new home purchase is the single largest investment for most individuals, yet historically, and especially in recent times, this aspect has been overlooked.



Luxury Then



Luxury Now

Question

05

How can builders kickstart their marketing toward more successful home sales and community development?

A lot of it comes down to positioning and customer experience. In a market where you are competing with other builders for a very limited number of interested and qualified buyers, you'll need to understand the needs and aspirations of people in the area more than ever before. Use this information to identify the potential target audience, not just the ideal one.

It's crucial to know what resonates with your audience and what fits within their budget constraints. Then, if the market alone can't sustain the community, determine the unique selling points (price, product, location) that would entice buyers away from other urban centres.

price

product

location

Perceived value plays a pivotal role in buyers' decision making and can shape their assessment of whether a home or community aligns with their lifestyle. By aligning the offering with the desires and priorities of potential buyers, builders can create a more compelling narrative that resonates with their target audience, ultimately leading to greater interest and engagement in the properties being developed.

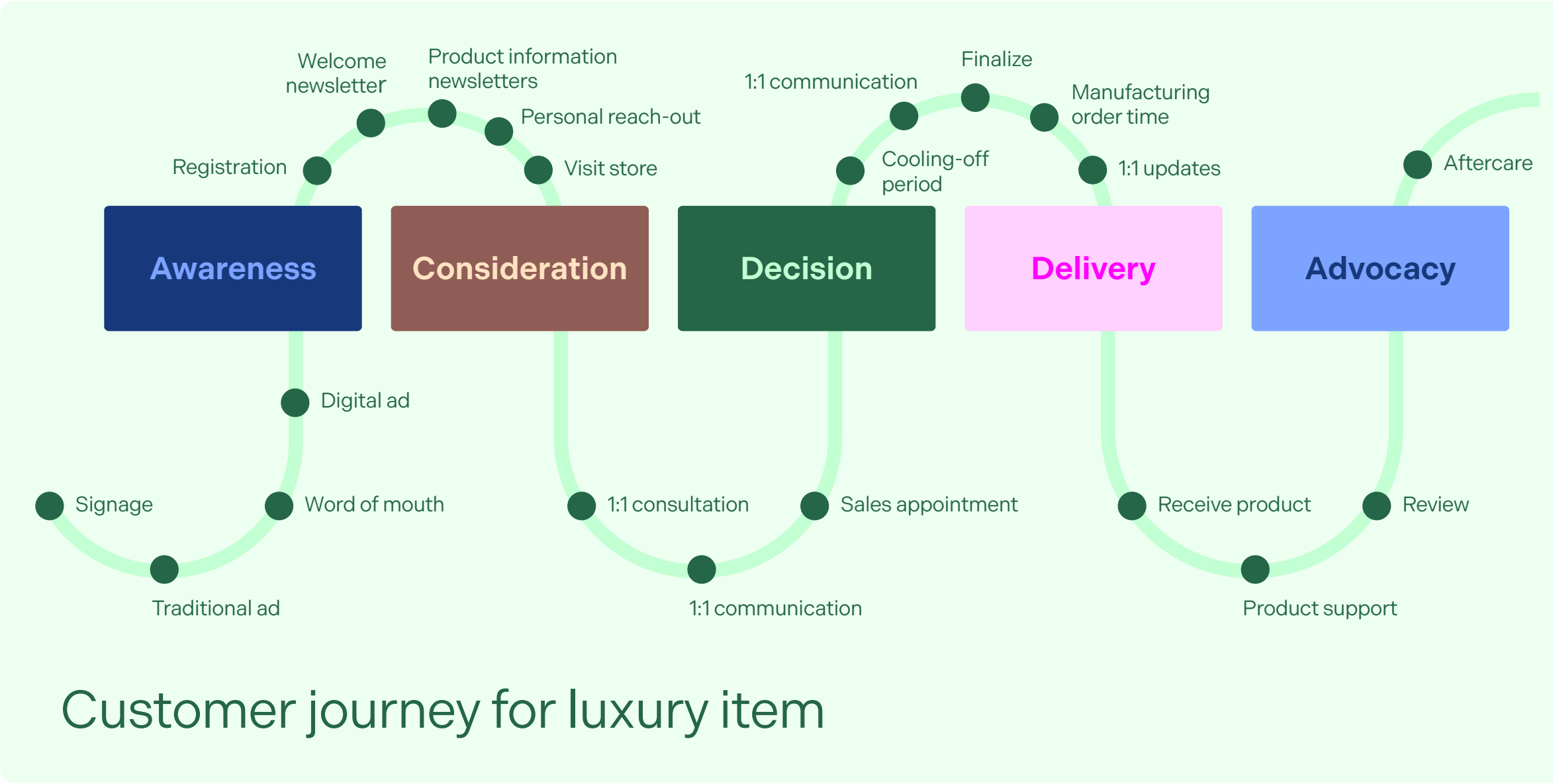
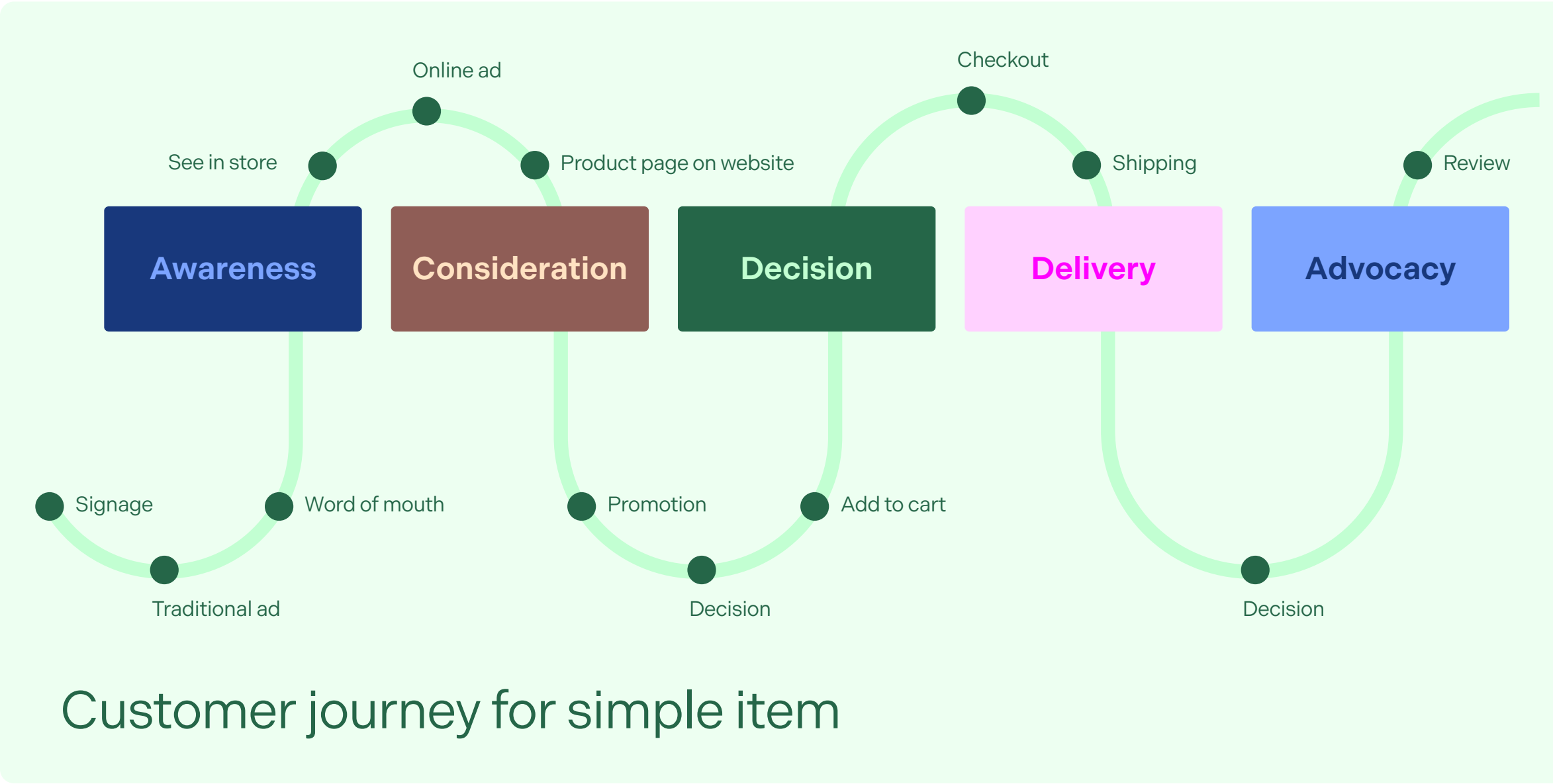
Question

06

There’s been a lot of buzz around segmentation and personalization. Is this relevant to residential pre-construction marketing?

Absolutely. Think about it this way: You wouldn’t expect someone to walk into a luxury vehicle dealership, having seen one ad and receive one generic email, and then buy the first car they lay eyes on, would you? So why should home sales operate any differently?

The customer journey is filled with opportunities to educate, support, and truly understand your potential buyers. By providing them with tailored information that speaks directly to their unique needs, you’ll not only foster a stronger sense of trust—which naturally leads to smoother sales conversations—but you also gain the ability to qualify them more accurately. This allows you to better determine where to direct your attention and efforts for maximum impact.



Conclusion

We’ve witnessed how swiftly the landscape of the housing market can shift, bringing about changes in consumer behaviour and expectations, especially as homeownership is increasingly perceived as a luxury rather than a mere necessity. In such dynamic times, an unbiased understanding of your audience is critical. It not only lays the foundation for crafting personalized experiences for prospective buyers but also enables you to distinguish yourself from the competition, especially when market demand is low.

Looking ahead, the next Pre-Con Recon Report will delve deeper into the pre-construction planning and development process. We’ll explore how marketing teams can play a pivotal role in helping to create saleable communities that cater to the discerning needs of today’s buyers.

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your audience better and crafting
tailored experiences? Reach out to
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himandher.ca



CEO, Co-Founder

Justin Frenette

226 750 7102

jfrenette@himandher.ca

305 King St W, Suite 400 Kitchener, ON N2G 1B9