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Market Spotlight

Housing market affordability and investing in artificial intelligence

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Why housing market affordability may come at a cost to investors

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When the Canadian federal government introduced its 2024 budget, one of its goals was to boost housing affordability for both renters and homebuyers. It's almost a year later, and we're now seeing indications that housing is becoming more affordable across Canada.

A multifaceted approach to relieve housing pain

The Canadian government was looking to cool the housing market by introducing demand and supply measures. This included reducing the number of temporary residents by over 200,000 annually for three years and doubling new home construction to 3.87 million units by 2031. We subsequently witnessed a 35% reduction in foreign study permits to 364,000 last year. On the supply side, 2024 housing starts were up 1.9% Year-over-Year (Y/Y)—that's 28.6% above the historic average.

At the end of last year, a number of mortgage reform measures were introduced to further increase the prospect of home ownership in Canada. These measures included increasing the price cap for insured mortgages by 50% to $1.5 million and lowering the downpayment for some property types. This should ultimately result in larger buyer and renter pools—making home ownership and long-term rentals a possibility for more Canadians. These measures appear to have a positive effect on housing market affordability.

In February 2025, Canada-wide average rental prices declined 4.4% compared to a year ago. In urban areas we're seeing greater softness with asking 1-bedroom apartment rents down 6.0% in Vancouver, 6.3% in Toronto and 5.6% Y/Y in Calgary. For buyers, average home prices which had been increasing over 6% annually from 2003 to 2023, took a step back over the last two years.

Investor sentiment remains tepid on economic uncertainty

While the housing market may look more positive from a homebuyer or renter's perspective, what does it look like for investors? As of February 25, 2025, real estate index returns were lagging the TSX Composite Index by low-single digits Year-to-Date (YTD)—and 18% on a 1-year basis. Why the underperformance in an environment of lower interest rates that typically bodes well for homebuyers? The answer is potentially softer economic growth in Canada spurred by both potential tariffs and lower population growth.

We've seen a significant pull back in the share prices of companies that specialize in multi-family properties—down over 15% on a 1-year basis as of February 25, 2025. The good news is that valuations seem to be plateauing and discounts to net asset values are at trough levels—presenting a buying opportunity for medium to longer term investors. We're also seeing strength in retail real estate investment trusts—up mid-single digits YTD—which presents an investment opportunity.

The reasons why we're still bullish on investing in AI

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If you've been thinking about investing in artificial intelligence (AI) and are worried you may have missed the boat, it may be reassuring to know that new and exciting AI and AI-related investment opportunities are continuously emerging. Split between datacenter systems, autonomous vehicles, industrial applications, and gaming, it's estimated that the long-term available market opportunity for AI could be approximately US$1 trillion. In other words, we're still bullish on investing in AI.

The growing demand for AI infrastructure

Over the past two years, the revenues and the share price gains of the Magnificent 7 have been staggering. Is it reasonable for investors to expect they'll keep up this torrid pace? Although future growth can't be predicted, we feel it's still early days for investing in AI. If we look at Nvidia, one of the Magnificent 7, it has a significant microchip order backlog. This means Nvidia's current valuation and growth expectations are well-supported. But this current demand is just the tip of the iceberg.

We've yet to see the demand from large enterprises and sovereign nations that want to build out their own AI infrastructure. So, the next wave of demand for AI may be bigger than what we've seen so far—and that means there's continuous opportunity to invest in AI.

The big get bigger

One of the biggest myths in tech is that gains are spread out among all the players. In the PC era, 80% of industry operating profits went to Intel and Microsoft. In the smartphone era, 80% of industry operating profits went to Apple. The lesson here is don't bet against the leaders in the industry just because they're big. Large companies usually have more sustainable competitive advantages. The big tend to get bigger. There may be a time when we'll want to scale back positions in some of these names because the competitive advantages no longer seem as compelling. However, we do that when the facts change, not because the stock has climbed to great heights. In tech, we're usually working at great heights.

New opportunities for investing in AI

While the large-cap tech names should continue to outperform, new opportunities will emerge as AI adoption broadens. However, even though you may not be directly purchasing shares of big technology companies, you're likely already investing in AI. The technology industry is dominant in a number of broad-based indices. So, if you're invested in an index fund that follows a technology benchmark, you're most likely already investing in AI. You can also invest in AI through portfolio diversification such as with a technology sector focused mutual fund like the CIBC Global Technology Fund.

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