HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2018[1]

Figure 1

Toronto, Starts

■ Forecast range

Source: CMHC, F=forecast

Figure 2

Total Units Under Construction, Toronto CMA
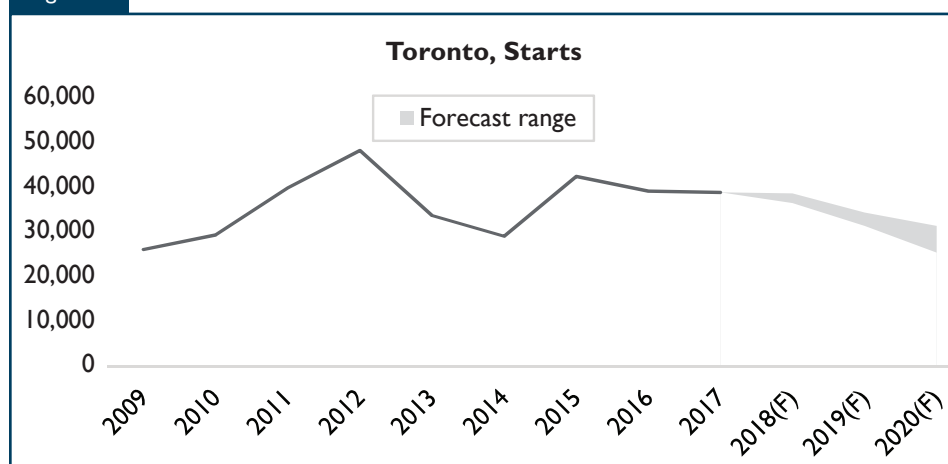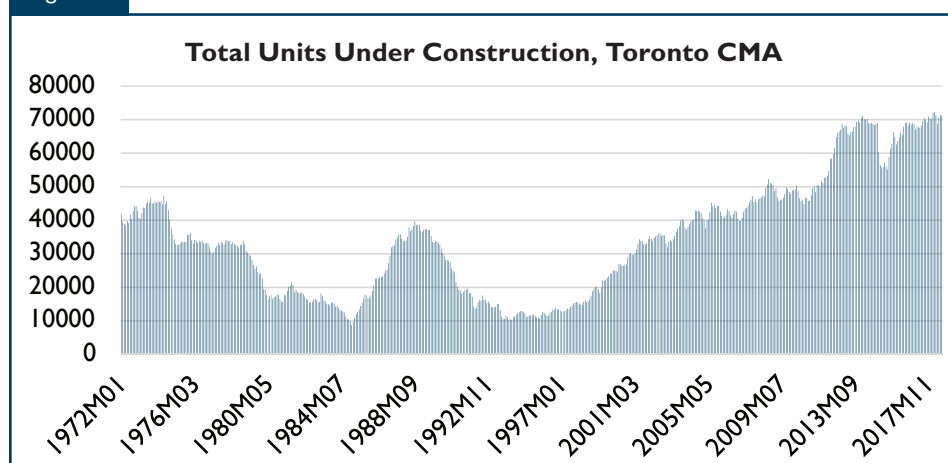
Source: CMHC

Highlights

- Condominium apartment starts will dominate construction over the forecast period albeit at a slower pace

- Balanced conditions in the resale home market will yield moderate price and sales growth

- Rising costs of homeownership will result in strong rental demand while new supply will add some upward pressure on vacancy rates

- Buyers will have more choice in the housing market while builders should see more activity concentrated in high rise projects

Condominium Apartment Starts Will Remain High

New home starts in the Greater Toronto Area (GTA) are expected to slow considerably throughout the forecast horizon mainly due to fewer single-detached home starts. Low rise new home sales (particularly single-detached homes) have trended lower in recent years and townhomes have begun to fill the void created through a lack of single-detached home starts. Higher house prices, a policy shift towards high density construction and

Canada

shortages of serviceable land are key reasons behind fewer site openings in the recent past. Condominium apartment starts will be lower in 2019 and 2020 than 2018, but will remain strong and continue to dominate construction given strong sales of pre-construction units. Typically, sales of new condominium apartment units convert to starts within a 24 month period. Strong pre-construction condominium sales in 2016 and 2017 have led to elevated condominium apartment starts so far in this year and this momentum will continue into 2019 (year-to-date 2018 condominium apartment starts are the 2nd highest observed since 1990). As of late, however, pre-construction sales have been trending downwards. Increasing price gaps with newer resale market alternatives, a better supplied resale market, less investor demand, and a declining number of site openings will contribute to lower pre-construction sales activity throughout the forecast period, ultimately leading to fewer starts. Expect to see heightened construction activity continue in urban 416 areas which typically lend themselves to high rise projects. Given that fewer single-detached

starts are expected over the forecast horizon, suburban 905 areas, which are popular neighbourhoods for low rise subdivisions, will see less construction activity over the next two years.

Downside risks to the forecast will dominate given eroding affordability and lack of serviceable land, particularly for low rise homes. Rising labour and material costs, a shortage of construction workers and competing resources (particularly large machinery) may put some projects on hold. As of August 2018, the total number of units under construction in the GTA (at over 71,000 units) is the second highest level on record. The finite number of skilled labour and resources involved in current projects under construction will need to be reallocated to new projects and that may pose some challenges in the short term as many of these projects are large in scale and will take long to complete. Lengthy construction delays or project cancelations as a result of financing constraints may also pose downside risks to the forecast and pull down total starts to the lower boundary of the range.

Some upside risks to the forecast include faster completion of projects that free up construction resources, and stronger than anticipated employment growth.

More Balanced Market Conditions to Ensue In the Resale Home Market

Sales of resale homes are expected to recover in 2019 as buyers and sellers adjust to new market conditions as a result of rising borrowing costs which have curbed housing market activity. This growth in sales is expected to slow down slightly in 2020, driven by potentially lower employment growth and rising interest rates.

GTA home prices will grow more in-line with inflation over the forecast horizon as a result of more balanced market conditions. A shift in the composition of sales towards relatively affordable higher density homes will also weigh down average price appreciation. The condominium market, which is currently in sellers' market territory, is likely to experience above average price growth. The City of Toronto and downtown cores of some 905 areas (such as Markham and Mississauga) will continue to see stronger average price appreciation given their higher concentration of condominium apartment sales. More suburban areas such as York, Durham and Peel will likely see lower average price appreciation owing to higher concentrations of sales in single-detached homes.

Figure 3
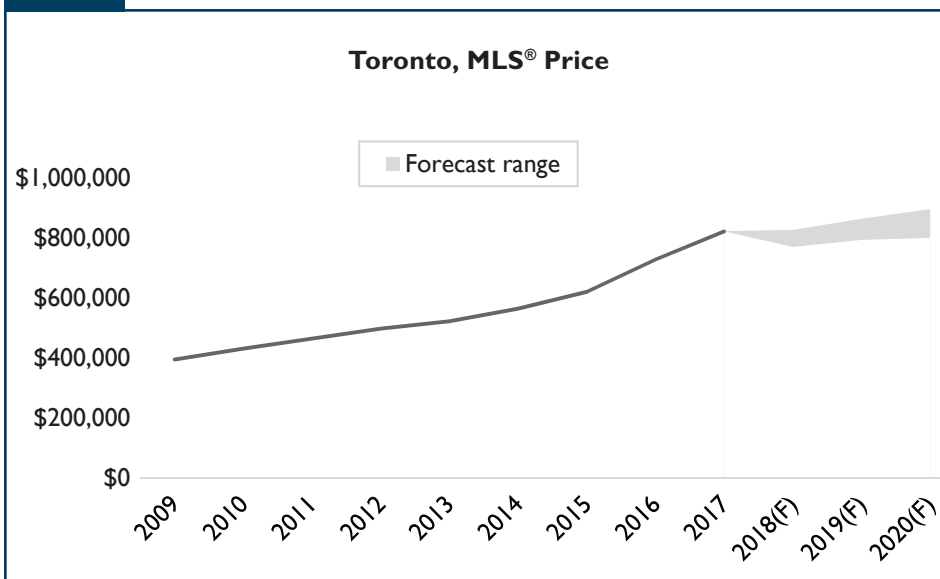
Toronto, MLS® Price

Source: CMHC, F=forecast

Upside risks are likely to dominate (including the new USMCA[2] agreement and strong job growth particularly brought on through investment in information technology industries) and could push sales and prices to higher than expected levels over the forecast horizon. Manufacturing employment saw a significant decline last year given trade uncertainties, partially brought about via uncertainty surrounding NAFTA[3] renegotiations. The introduction of the new agreement is likely to quell some of these uncertainties and strengthen manufacturing employment as a result. So too will a stronger US economy which will support local exporters and create jobs. Conversely, while employment in finance, insurance, and real estate industries remains strong and has experienced significant gains in the past three years,

growth slowed recently due to the decline in housing market activity. As such, downside risks include a slowdown in employment and rising borrowing costs which could dampen home buying activity and reduce price growth.

Vacancy Rates to Stay Low

The lack of a significant increase in purpose-built rental unit completions, rising costs of homeownership and a growing renter population (comprised of millennials and new immigrants) will fuel strong rental demand and keep vacancy rates low over the forecast horizon. Rising costs of homeownership will force more renters to delay their entry into the homeownership market. More rental completions are expected to materialise over the

next two years and provide some relief to the GTA's supply-strapped rental market and a slight easing of the vacancy rate is expected as a result in 2020. However, given the propensity of building activity to be strongly skewed towards condominium apartments, it is unlikely that a substantial amount of purpose-built rental units will start construction and reach completion to significantly increase the average vacancy rate over the forecast horizon. Additionally, higher than expected immigration and further eroding affordability could accentuate the downside risk to the forecast. With vacancy rates expected to remain at historically low levels, landlords will continue to have an upper hand in dictating rents. Therefore, expect rent levels to be high over the forecast horizon.

Figure 4

Toronto CMA Vacancy Rate
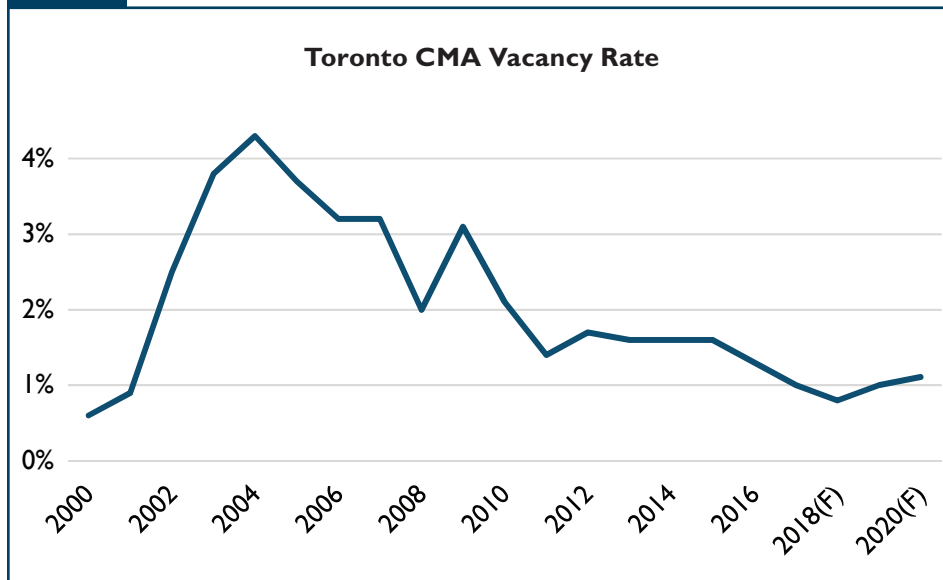
Source: CMHC

[2] United States-Mexico-Canada Agreement
[3] North American Free-Trade Agreement

Forecast Summary Toronto CMA Fall 2018									
	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	10,223	11,884	10,172	5,300	5,600	5,000	5,600	3,500	4,500
Multiples	32,064	27,143	28,566	31,000	32,900	26,200	28,600	21,700	26,700
Starts - Total	42,287	39,027	38,738	36,300	38,500	31,200	34,200	25,200	31,200
Resale Market									
MLS® Sales	101,846	113,725	93,158	82,200	87,800	91,500	98,500	87,100	98,900
MLS® Average Price($)	622,046	729,591	823,874	771,400	828,600	794,400	865,600	801,400	898,600
Economic Overview									
Mortgage Rate(5 year)(%)	4.67	4.66	4.78	5.00	5.60	5.40	6.20	5.50	6.50

	2015	2016	2017	2018(F)	2019(F)	2020(F)
Rental Market						
October Vacancy Rate (%)	1.6	1.3	1.0	0.8	1.0	1.1
Two-bedroom Average Rent (October)($)	1,288	1,327	1,404	1,463	1,535	1,602
Economic Overview						
Population	6,116,725	6,223,998	6,346,088	6,493,000	6,676,000	6,748,000
Annual Employment Level	3,176,700	3,215,000	3,289,600	3,353,000	3,404,000	3,436,000

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 5th October 2018. (L)= Low end of range. (H)= High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey - Market Absorption Survey - Rental Market Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2018-2020).

Forecast Summary Oshawa CMA Fall 2018									
				2018(F)		2019(F)		2020(F)	
	2015	*2016*	*2017*	*(L)*	*(H)*	*(L)*	*(H)*	*(L)*	*(H)*
New Home Market									
Starts:									
Single-Detached	*1,418*	*945*	*1,208*	*1,200*	*1,400*	*1,200*	*1,500*	*1,050*	*1,350*
Multiples	*1,169*	*1,546*	*1,627*	*800*	*900*	*1,000*	*1,300*	*750*	*1,150*
Starts - Total	*2,587*	*2,491*	*2,835*	*2,000*	*2,300*	*2,200*	*2,800*	*1,800*	*2,400*
Resale Market									
MLS® Sales	*11,368*	*12,096*	*10,744*	*8,600*	*9,000*	*9,300*	*9,900*	*9,100*	*9,800*
MLS® Average Price($)	*439,842*	*528,475*	*624,225*	*576,200*	*595,300*	*589,100*	*618,600*	*601,000*	*637,400*
Economic Overview									
Mortgage Rate(5 year)(%)	*4.67*	*4.66*	*4.78*	*5.00*	*5.60*	*5.40*	*6.20*	*5.50*	*6.50*

	2015	*2016*	*2017*	2018(F)	2019(F)	2020(F)
Rental Market						
October Vacancy Rate (%)	*1.7*	*1.7*	*2.2*	*2.0*	*2.0*	*1.8*
Two-bedroom Average Rent (October)($)	*1,035*	*1,109*	*1,179*	*1,222*	*1,253*	*1,275*
Economic Overview						
Population	*388,474*	*395,238*	*402,399*	*410,000*	*418,000*	*425,000*
Annual Employment Level	*196,400*	*214,000*	*210,400*	*222,000*	*226,000*	*230,000*

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Source: CMHC (Starts and Completions Survey - Market Absorption Survey - Rental Market Survey). Statistics Canada. Oshawa MLS® data are taken from Durham Region. CMHC Forecast (2018-2020).

Methodology for forecast ranges

This edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. However, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available.

The range provides a relatively precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. The range is based on the coefficient of variation* of historical data and on past forecast accuracy. It provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
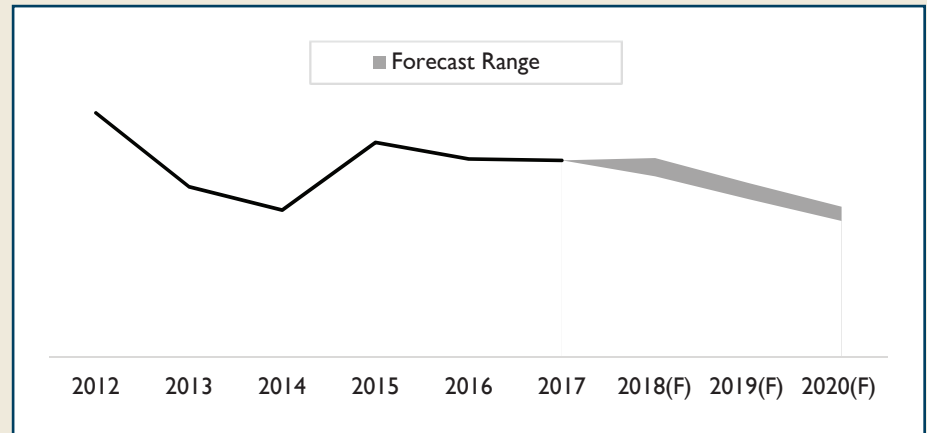
* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Dwelling Types

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Intended Market

Freehold Start:
Refers to the commencement of construction of a residence where the owner owns the dwelling and lot outright.

Condominium (including Strata-Titled) Start:
Refers to the commencement of construction of an individual dwelling which is privately owned, but where the building and/or the land are collectively owned by all dwelling unit owners. A condominium is a form of ownership rather than a type of house.

Rental Start:
Refers to the commencement of construction of a dwelling constructed for rental purposes regardless of who finances the structure.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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