

# HOUSING MARKET OUTLOOK

## Greater Toronto Area



Canada Mortgage and Housing Corporation

Date Released: Fall 2007

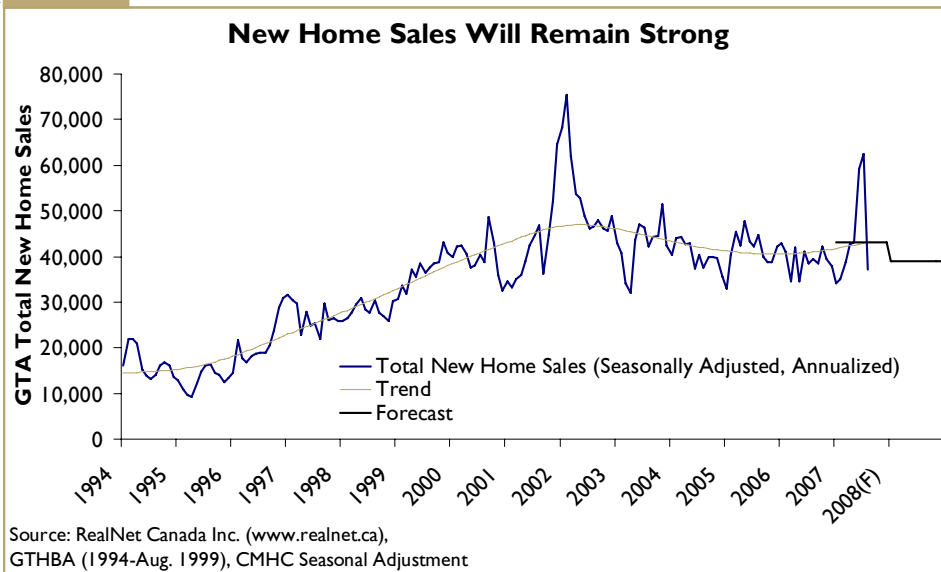
## New Home Market

### Strong New Home Sales

Total new home sales will edge lower to 38,000 from a forecast total of 43,000 in 2007. The spill-over of buyers from the existing home market into the new home market will not be as strong in 2008, since choice in the resale market is forecast to increase as listings growth outpaces that of sales. At 19,000, pre-

construction high-rise apartment sales will account for half of the total new home sales. Low rise sales (i.e., those for single-detached, semi-detached and row/town houses including stacked townhouses) will account for the other 50 per cent of pre-construction sales. On the whole, single-detached homes will account for only 30 per cent of homes sold in the GTA next year, the lowest ever.

Figure 1



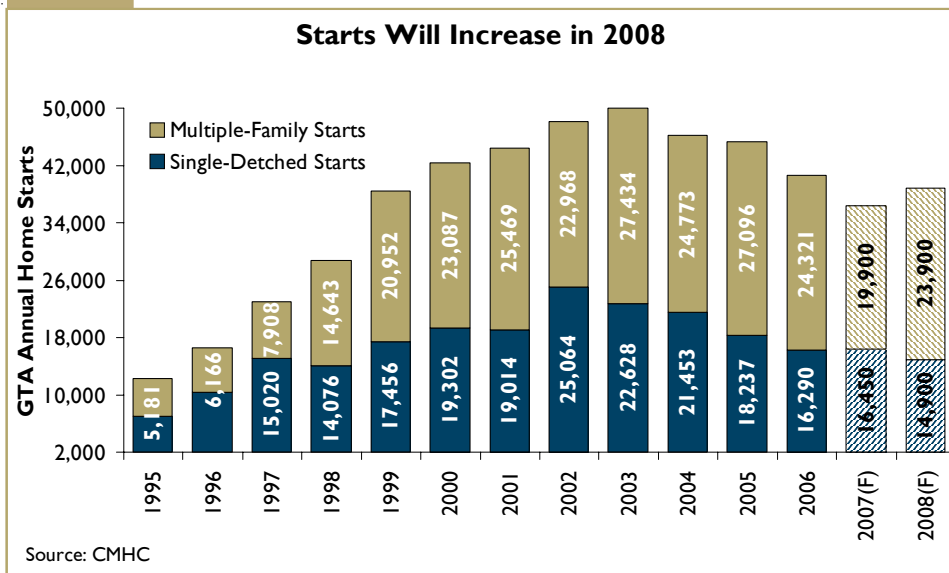
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Figure 2



High prices for single-detached homes have resulted in increased sales and construction of multiple-family homes. Construction costs faced by builders have trended upward steadily since the late 1990s. These increased costs have been passed on to home buyers, in order to allow builders to remain profitable. The average price of a completed new single-detached home in the GTA will be \$540,000 next year. Adhering to the rule-of-thumb gross debt service ratio of 32 per cent, the annual household income required to carry this mortgage would be \$121,385<sup>1</sup>.

Many first-time buyer households and indeed owner households looking to purchase a home will have incomes below this threshold next year. In response, some buyers will opt for a less-expensive multiple-family home. Condominium apartments will remain the most popular choice.

### Starts Higher in 2008

Total home starts next year will amount to 35,000, with 13,500 being condominium apartments and

another 1,000 being rental apartments. Overall multiple-family starts will account for two-thirds of new construction. Multiple-family starts will be most popular in the more-expensive GTA sub-markets, including the City of Toronto and some municipalities in the western and northern GTA. Condominium apartments will account for the great majority of home starts in the City of Toronto. Single-detached starts will decline to 12,500 in 2008. Single-detached

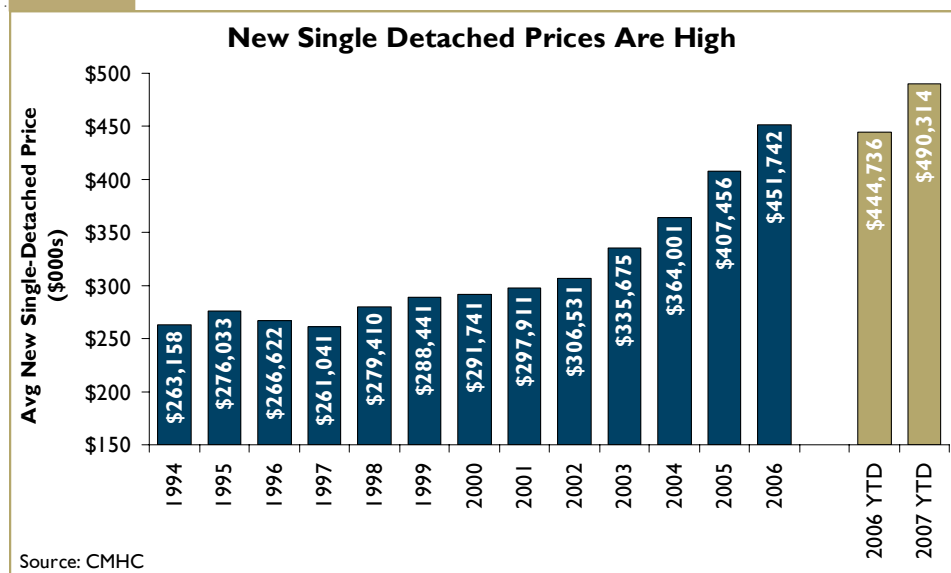
home construction will remain most popular in municipalities where home prices are below the GTA average, such as Durham Region.

Over the past year, the number of condominium apartments under construction remained near 25,000 – similar to the level experienced over the past two years. The difference, however, was that the number of completions was cut in half. This meant that builders were not able to shift as many resources to new projects. The number of projects waiting in the pipeline increased and, as a result, starts of condominium apartments were cut in half as well. This backlog is expected to diminish in 2008, allowing condo starts to rebound.

### Condominium Apartment Investment

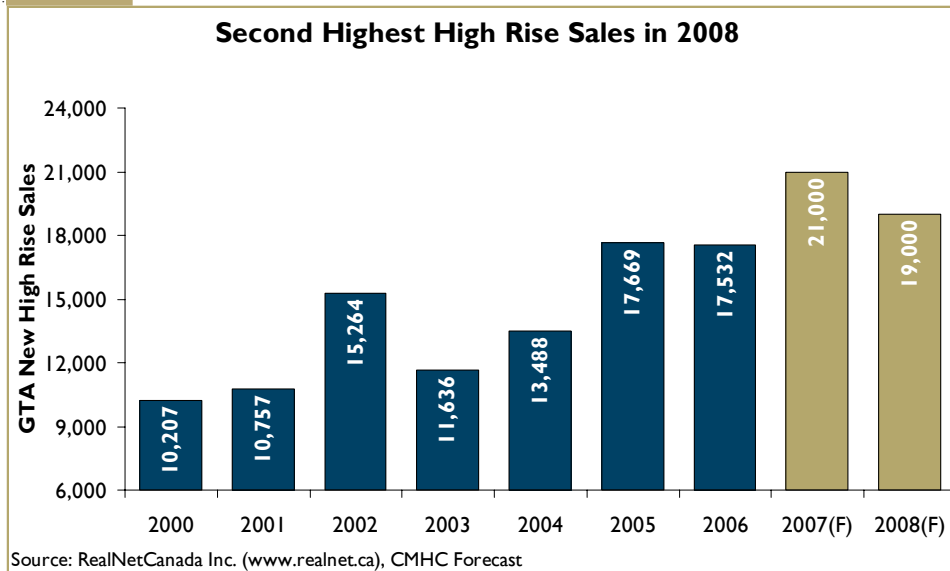
As condominium apartment completions rebound in 2008, the share held by investors will be of interest. If many investors list their units for sale shortly after completion, there could be downward pressure on pricing.

Figure 3



<sup>1</sup> Mortgage carrying cost based on ten per cent down, 25 year amortization, five-year fixed mortgage rate discounted one percentage point, and average price for single-detached house.

Figure 4



Based on CMHC's Fall Rental Market Survey, investors owned between 20 and 21 per cent of registered condominium apartment stock and could hold a greater share in unregistered projects.

As projects complete, some of these investors will choose to sell their apartments in order to take advantage of increases in market value which occurred during the construction period. These increased sales are not forecast to result in declining values for condominium apartments. Currently, the resale market is very tight, with sales accounting for half of active listings. Moreover, the number of completed and unoccupied units is very low, ranging between 1,500 and 2,000 units. These tighter market conditions have resulted in average condominium apartment prices growing at an annual rate of close to 10 per cent in 2007. As more supply comes onto the market over the next year, however, the rate of price growth will moderate to approximately five percent or 2.5 times the rate of inflation.

## Resale Market

### Near Record Sales in 2008

Following a record breaking year in the Greater Toronto Area (GTA) in 2007, sales of existing homes will edge slightly lower in 2008, but remain at a near record above 95,000.<sup>2</sup> Sustained growth in jobs

and labour income, a diversity of mortgage products which keep borrowing costs low and ample choice will keep the demand for resale homes strong over the next year.

### More Choice in Resale Market

While MLS® sales will be slightly lower next year, the pace of new listings growth will increase. Home owners will list their homes in greater numbers in order to take occupancy of completed new homes or to trade up or downsize on the strength of strong equity gains experienced since the late 1990s. More listings relative to sales will result in more choice for buyers.

The better-supplied existing home market will be associated with moderate annual price growth. When buyers have more homes to choose from, they are less likely to make offers at or above list, or to enter into "bidding wars" with other buyers. The average existing home sale price in 2008, across all housing types from

Figure 5



<sup>2</sup> Existing home sales for the Greater Toronto Area are the sum of sales reported by the Canadian Real Estate Association (CREA) for the Toronto CMA and Durham Region, and sales for the City of Burlington provided by the Realtors Association of Hamilton and Burlington.

Figure 6



single-detached through condominium apartments, will be \$388,000 or a 4.6 per cent increase over 2007.

It should be noted that in a metropolitan area the size of the GTA, there will continue to be sub-regional diversity in terms of market tightness and, by extension, price growth. The City of Toronto will continue to be the tightest market across all housing types. Average price growth in the City will be close to three times the rate of inflation. In contrast, Durham Region will continue to offer the most choice for home buyers. With Durham on the cusp between a seller's and balanced market next year, price growth will be limited to approximately 1.5 times the rate of inflation. The Regions of Halton, Peel and York will continue to experience seller's market conditions, but not as tight as in the City of Toronto. Expect average price growth to be in the range of two to 2.5 times inflation.

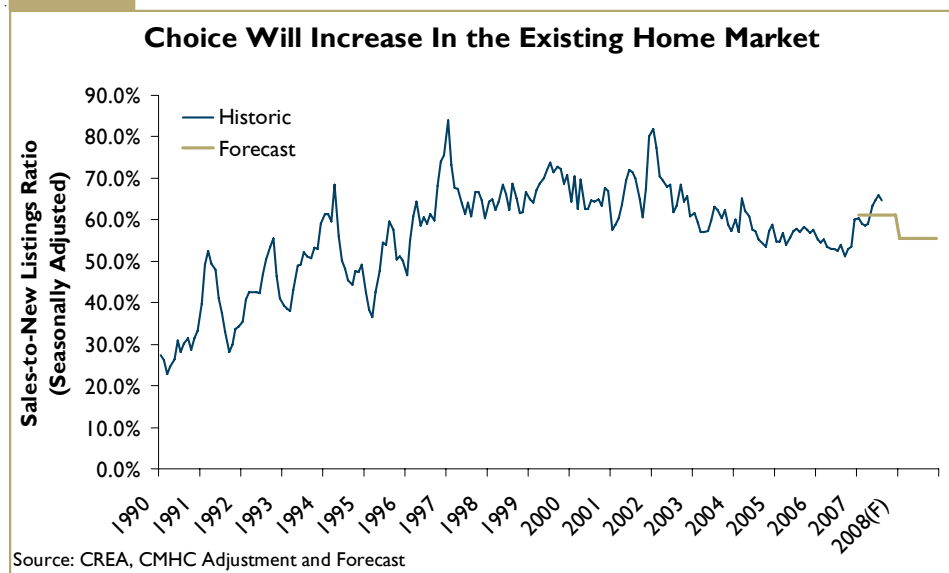
### Cost of Home Ownership Key to Strong Demand

The cost of home ownership will remain manageable for the average household in the GTA over the next year. Home prices will continue to grow at more than twice the rate of inflation, but low borrowing costs will moderate these increases to a great degree. The required household

income to carry a mortgage on a home priced at the forecast average of \$388,000 will be \$87,217<sup>3</sup>. It is approximately six per cent less than the estimated average household income in the GTA. This suggests that a great number of households in the GTA planning on purchasing a home with a conventional mortgage (i.e. a down payment equal to or greater than 25 per cent of the purchase price) will be able to comfortably manage home ownership. Moreover, the considerable gap between required income and average household income suggests that many households considering higher ratio mortgages will also be able to comfortably qualify for a mortgage and pay for their home over the long term.

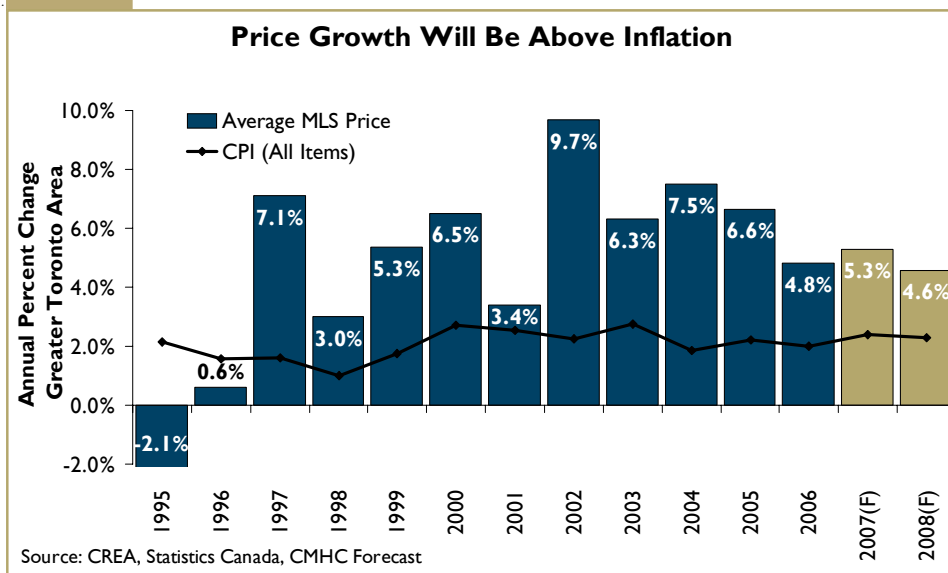
It is important to note that while the average principal and interest payment remains at a comfortable level relative to average household income in the GTA, the purchase of some housing types may still present a problem for some households. The

Figure 7



<sup>3</sup> Based on a five-year fixed mortgage rate discounted by 100 basis points (one percentage point), amortized over 25 years, with a 10 per cent down payment

Figure 8



The expansion of the services sector is one factor influencing a shift toward a greater share of multiple-family home purchases, particularly in the new home market. Incomes in the service sector are lower on average and grow at a slower pace historically than those of the goods-producing sector. However, it should be noted that in the GTA finance, insurance and real estate and business services are a relatively large part of the service sector. Many jobs in these industries are associated with earnings that could accommodate the purchase of more expensive home types in sub-markets with above-average prices.

average price for a single-detached home will be \$520,000 next year. Following the same mortgage assumptions discussed above, the required income to comfortably carry the mortgage on this home would be approximately \$116,890 – greater than the average household income. Many home buyers will be increasingly looking toward less expensive multiple-family homes, including semi-detached and row (town) houses and condominium apartments. This is especially the case in sub-regions with home prices above the GTA average, including the City of Toronto. This will continue a trend from 2007, during which time the greatest increase in existing home sales and price was in the condominium apartment segment of the market.

in 2008. Employment growth continues to be supported by domestic demand and a well-established services sector. The manufacturing sector will continue to be challenged given the recent cutbacks in the automotive industry and the impact of the high Canadian dollar on exports. Job growth in service-oriented industries will more than offset the job losses from the goods-producing sector.

The unemployment rate in Toronto is forecast at 6.4 per cent for 2007 and 2008 - below the average unemployment rate experienced over the past two decades. Average earnings will rise faster than inflation next year. Rising incomes suggest that households will continue to be interested in improving their housing situation.

## Local Economy

### Sustained Job Growth

Employment continues to rise and is forecast to grow 1.8 per cent in 2007 and more moderately at 1.5 per cent

Figure 9

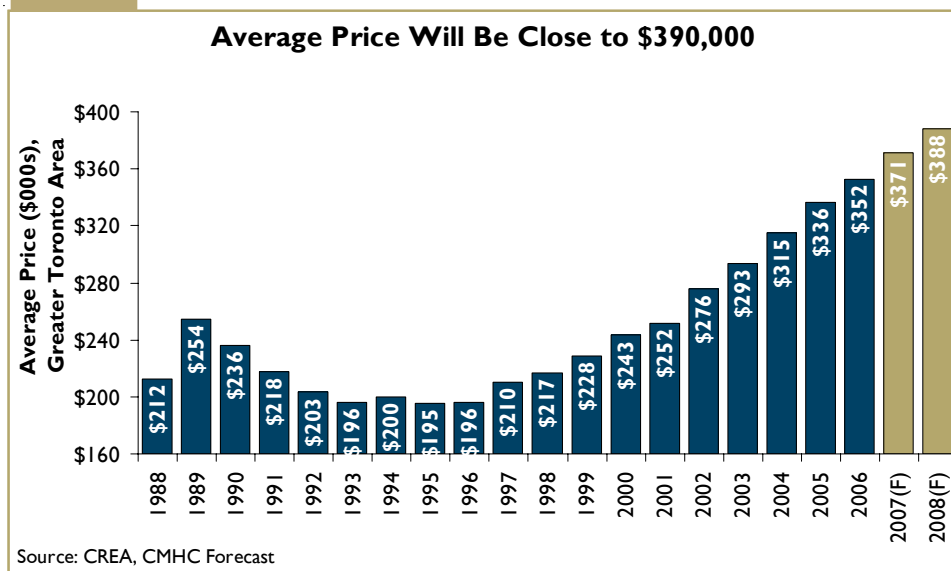
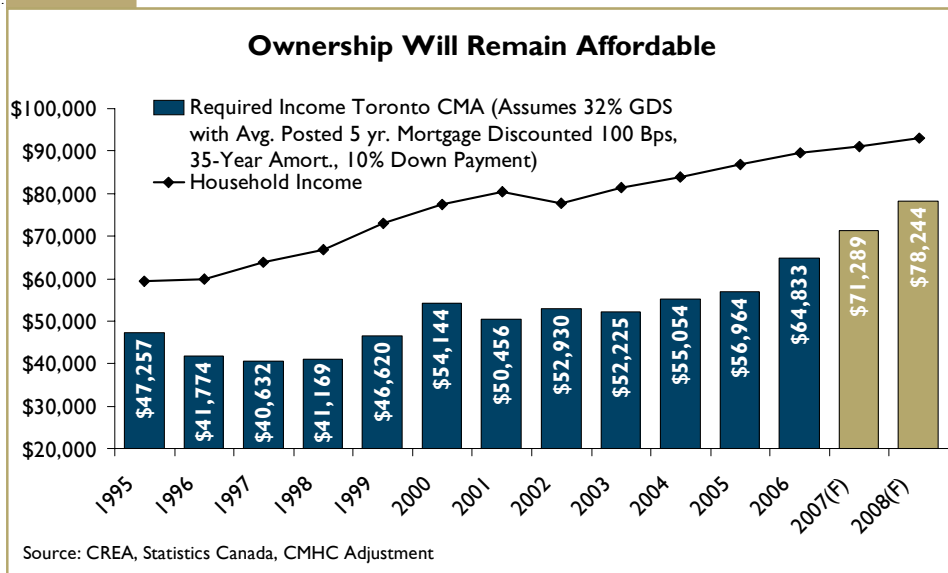


Figure 10



dren in 2006 in the Toronto CMA was 37.7 per cent, an increase from 34.5 per cent in 2001. However, as households in the suburban regions are growing in size, the number of one-person households in the City of Toronto is growing. In 2006, 30.2 per cent of total households in the City of Toronto consisted of only one person compared to 28.2% in 2001.

## Mortgage Interest Rates

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

## Population Growing through Migration

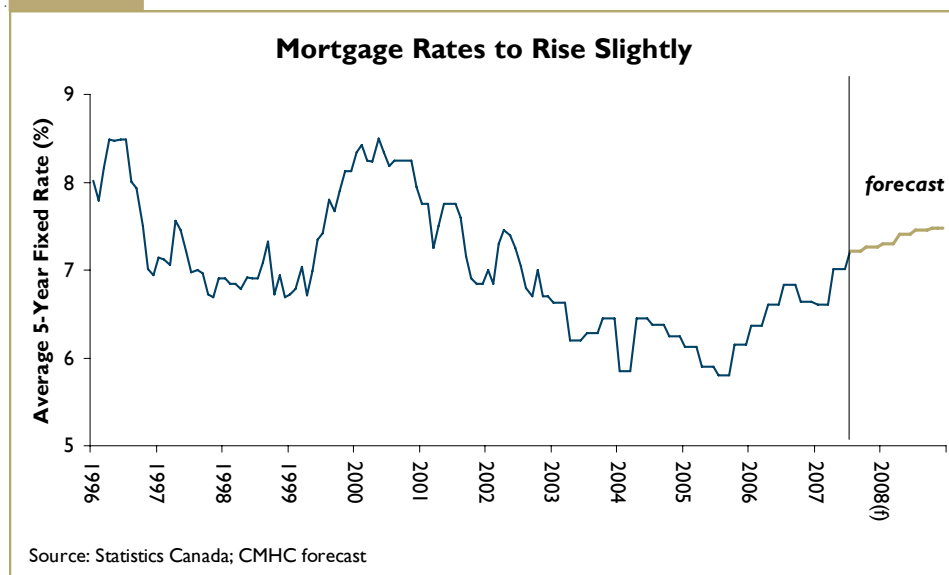
Migration of households into the local economy is composed of international immigration, inter-provincial migration (migration between provinces) and intra-provincial migration (migration within a province). In Ontario, inter-provincial out-flows have substantially outweighed inter-provincial in-flows, with many people choosing to move to the fast growing economic hubs in western Canada. While the net inter-provincial outflow has been more than offset by international migrants settling in the Toronto CMA, net migration did dip in 2007. Next year, westward movement is expected to be more moderate and immigration is expected to increase. The result will be a 62,000 net increase in population due to migration in 2008.

Census results show an increase in households with couples and children in some suburban municipalities of the Toronto CMA. The proportion of households with couples and children was above 40 per cent in Vaughan, Markham, Richmond Hill, Brampton, Oakville and Mississauga, compared to 25.5 per cent in the City of Toronto. The average number of households with couples and chil-

## More Households With Children in Suburbs

The 2006 Census of Canada indicates that household make-up has changed in the Toronto area since the 2001 census. At the sub-regional level, the

Figure 11



Forecast SUMMARY							
Greater Toronto Area							
Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
<b>Resale Market</b>							
MLS® Sales	84,854	85,672	84,842	95,000	12.0	90,000	-5.3
MLS® New Listings	145,023	151,352	158,097	155,725	-1.5	161,950	4.0
MLS® Average Price (\$)	315,266	336,176	352,388	371,000	5.3	388,000	4.6
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	21,453	18,237	16,290	16,450	1.0	14,900	-9.4
Multiples	24,773	27,096	24,321	19,900	-18.2	23,900	20.1
Semi-Detached	3,668	3,433	2,996	3,085	3.0	2,630	-14.7
Row/Townhouse	6,738	7,171	5,872	6,270	6.8	5,975	-4.7
Apartments	14,367	16,492	15,453	10,545	-31.8	15,295	45.0
Starts - Total	46,226	45,333	40,611	36,350	-10.5	38,800	6.7
<b>Average Price (\$):</b>							
Single-Detached	364,001	407,456	451,742	500,000	10.7	540,000	8.0
New Housing Price Index (1997=100) (Toronto-Oshawa)	5.9	4.5	3.8		2.5		2.0
<b>Rental Market</b>							
October Vacancy Rate (%)	4.3	3.7	3.2	3.5	0.3	3.0	-0.5
Two-bedroom Average Rent (October) (\$)	1,052	1,052	1,067	1,085	1.7	1,105	1.8
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	2,707,300	2,763,400	2,802,100	2,853,000	1.8	2,895,000	1.5
Employment Growth (%)	2.2	2.1	1.4	1.8	0.4	1.5	-0.3
Unemployment rate (%)	7.5	7.0	6.6	6.4	-0.2	6.4	0.0
Net Migration	66,513	63,335	64,504	58,000	-10.1	62,000	6.9%

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

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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