HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Greater Toronto Area

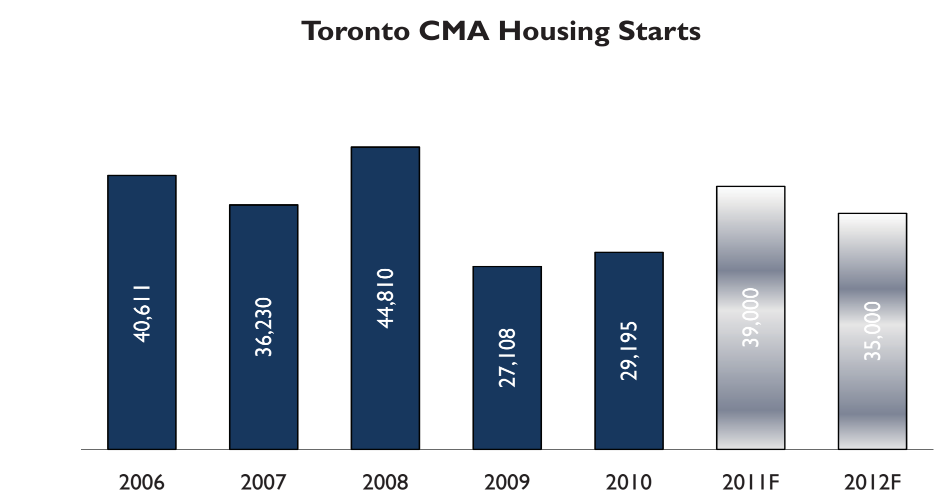
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2011

Market at a Glance

- Resale market activity will hold steady in 2012. Sales will remain close to previous years with a total of 88,500 transactions, while prices will remain fairly flat with annual growth of one per cent.
- New home construction will stay elevated next year at 35,000 units on the strength of condominium apartment construction. New home sales will moderate to 33,500 units in 2012.
- Total employment will see little growth next year amidst a slowing global economy. The unemployment rate will remain above eight per cent and net migration will stay muted at 64,500.

Figure 1



Source: CMHC

* The forecasts included in this document are based on information available as of October 5, 2011.

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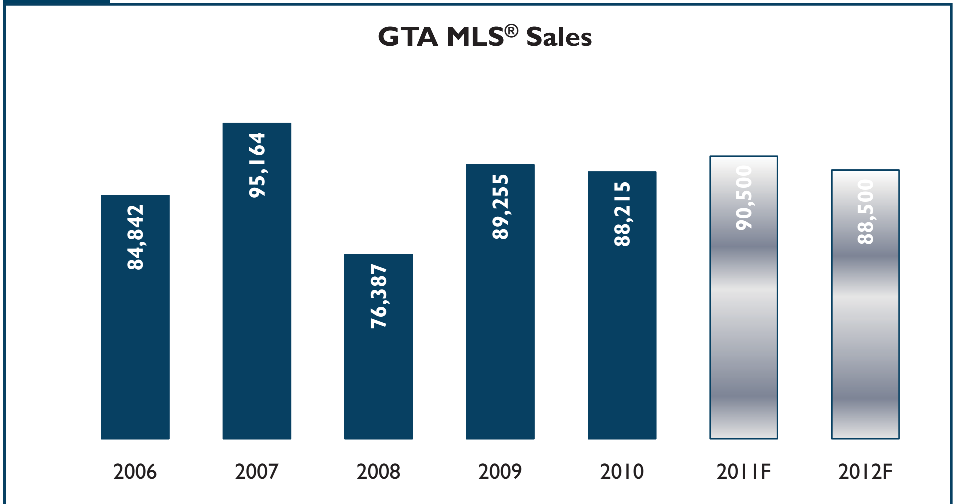


Source: CREA, CMHC Forecast

Resale Homes Market

Flat Sales and Higher Listings will Slow Price Growth

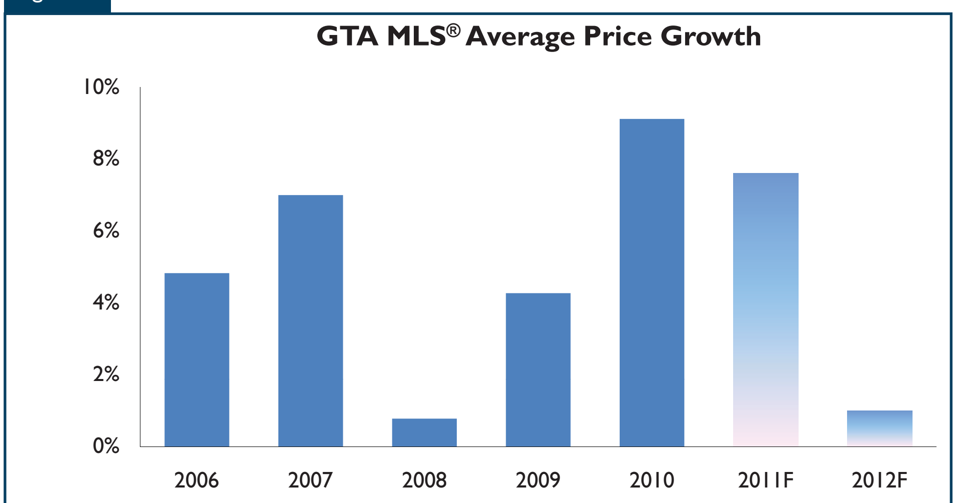
The market for existing homes will continue along its steady path in 2012. The biggest movers of ownership demand — interest rates and employment — are expected to see little change next year. Weakened financial market conditions and a slower profile for economic growth won't provide any stimulus for the housing market, however the lasting need for low interest rates will alleviate pressures on affordability. Increased supply and slower growth in prices should also help keep the door open for would-be homebuyers. All-in-all, resale market activity in 2012 will be largely unchanged from annual results tallied over the past few years.

In fact, excluding some volatility in 2007 and 2008, annual sales totals have remained within a tight range of between 85,000 and 90,000 since 2004. So it would appear that housing market activity in the GTA has settled into a sustainable pace. Particularly when considering that as a share of the stock of housing (which has continued to grow), sales are converging back to their longer-term average of roughly six per cent. A slowing in the turnover rate of existing housing reflects less activity from first-time buyers in comparison to previous years. A good chunk of the pool of potential buyers from the past few years have already bought in advance of a couple rounds of mortgage policy changes as well as anticipated increases in borrowing costs. While we could see activity rise in early 2012 as a reaction to improved affordability and higher listings, expect the number of potential owners to see limited expansion with the creation of fewer full-time positions and slower immigration (see Local Economy section).

As sales activity normalizes, expect supply to do the same and move higher. New listings in the resale market have been unusually low this year, although some improvement has been made in recent months. More homes should come on the market as existing homeowners continue to take advantage of favourable selling conditions. By the second half of next year, market conditions are expected to be more balanced — less competition between buyers and more competition between sellers. This will result in slower growth for housing prices throughout 2012. There is a chance that continued economic and financial market uncertainty may lead some homeowners to put off their decision to move. In any case, prices should still remain fairly flat as buyers feel less compelled to offer higher bids following a lengthy period of seller market conditions.

One particular area of the market

Figure 3



Source: CREA, CMHC Forecast

that could experience relatively softer conditions in the face of broader concerns about the economy and world markets is the high end. The biggest ticket items within any category of goods are usually scaled back the most in these situations due to their highly discretionary nature. Worries at home may also postpone purchasing decisions from wealthy foreigners, whom anecdotally have been representing an increasing share of high-end home purchases in the GTA. With the share of homes sold for above a million dollars already moving lower in recent months, we can expect this trend to even out at best in the absence of a spurt of optimism next year.

Relatively affordable areas are likely to continue experiencing above-average growth next year as first-time buyers remain price-conscious. These include below-average priced areas within some sections of Scarborough, the north-west end of the City of Toronto, and Burlington — all of which have seen prices appreciate by more than 20 per cent over the past few years.

New Homes Market

Condos Will Keep New Home Construction Strong

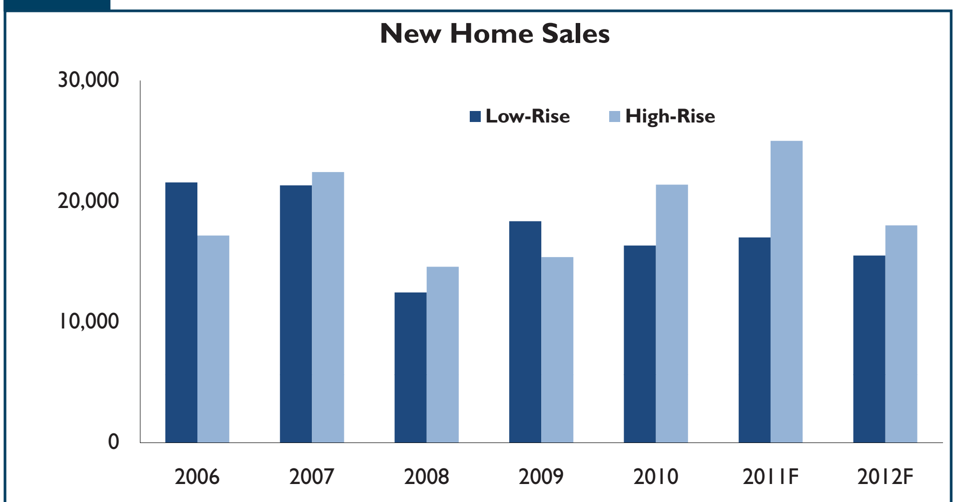
The shift towards more affordable product occurring in the resale market will hold true for new development in 2012. Overall housing starts will slow by about 10 per cent next year, although the multi-family segment will remain steady and keep total construction elevated in comparison to the last couple years. Condominium apartment starts over the 2011-2012 period will be the highest ever recorded over a two year span. New condominium sales, however, should scale back after a record year to 18,000 units in 2012. The weakest link for new housing development in 2012 will be found in the single detached segment, which will limit low rise sales to 15,500 units.

While single-detached starts will prove to be higher than originally expected this year, strong headwinds will prevent the construction of these homes from growing in 2012. The shortage of resale options that gave new single-detached homes a bit of a boost in 2011 should be absent next year. As more listings arrive in the existing market, new homes will face greater competition from their resale equivalents, which can better compete from both a price and location standpoint. Also, the large amount of renovation spending undertaken by households over the past couple years would point to a rising quality of new listings in the resale market. In the end, the biggest competitor to the construction of new single-detached homes is available land. Inventory levels are shrinking fast. Developers currently have fewer than 4,000 singles ready to build — 1,000 less than last year and half the level from 2009. Inventories have declined dramatically in Markham and Vaughan, so expect Brampton to take on an even greater share of single-detached development. The Durham Region is another area with a high concentration of active sites, however most are located in the further reaches and experience a relatively slower sales pace.

The inventory of lots for town homes is more evenly distributed throughout the GTA and hasn't witnessed the same dramatic decline as new singles. This will help starts for rows to hold steady in 2012 and capture their highest share of low rise construction in recent history. Row homes also support the province's growth management plan and offer average prices that allow buyers to receive the full New Housing Rebate on HST. While buyers have shown to gravitate towards new town homes over the past year, supply hasn't been able to keep up, which will restrain construction in comparison to loftier levels seen over the past decade.

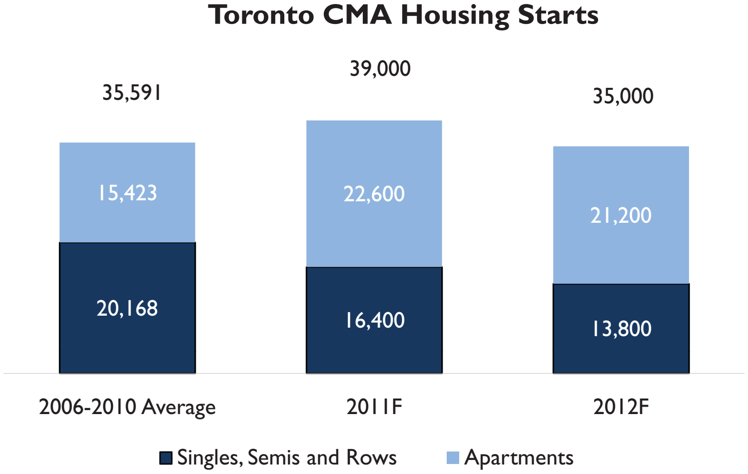
As low rise housing starts fall below 15,000 units next year for only the second time since the early 1990s, condos will be relied upon to bring forward enough new homes to meet the needs of an expanding population. They're certainly on track with total apartment starts expected to hit nearly 23,000 units this year and over 21,000

Figure 4



Source: RealNet Canada Inc, CMHC

Figure 5



Source: CMHC

next year. Following the slowdown during 2009 and 2010, condo starts over the 2011-2012 period will bring construction back in line with the 10-year average for annual net household formation (roughly 33,000 households). To some extent, 2011 has been a year of catch up for many projects that experienced delays following the effects of a global recession that tightened credit conditions. We are now seeing starts bear the fruit of very strong post-recession activity at pre-construction sales sites, which will keep new construction elevated through 2012.

The rising supply of condos also plays a critical role in satisfying rising demand for rental accommodations. As first-time buying pulls back and population growth for those aged 25-34 (which will become the largest cohort of renters) continues to pick up, rental demand will be at its strongest in several years. And since purpose-built rental units typically make up less than 10% of apartment starts, the market will turn towards condo investors to list their units for rent. About one quarter of newly completed condos are added to the rental pool, which has been expanding as condo completions are on track to hit a new record this year. Yet market conditions remain tight – the number of units rented through the MLS system has been rising even faster than the number of units listed. This suggests that vacancy rates have stayed low through the fall and the market remains supportive of this elevated level of new condo supply.

The market for both condo rentals and apartment ownership should see more balance in 2012, but will remain stable as demand holds steady. Condo rental supply will continue to grow as completions stay high and investors stay active in listing their units for rent. Since most units that are expected to complete next year were purchased at pre-construction in 2008 or 2009, average rents should still be able to cover total carrying costs. More investors may also be inclined to hold their units as price growth in the resale market begins to slow. A flat profile for demand combined with rising resale listings (10-15% of new units are listed for sale within 12 months after registration) will lead current rates of appreciation to moderate in the coming quarters.

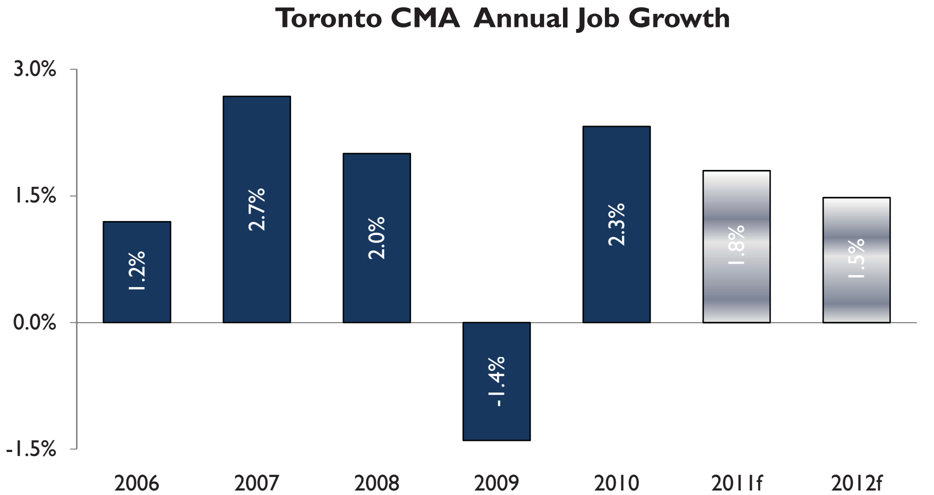
As investors begin to sense less potential for returns at completion, speculative buying at pre-construction will begin to scale back. We should also see a reduced presence of heavily-leveraged investors, as a 20 per cent deposit on today's prices isn't likely to allow carrying costs to be covered in the rental market at completion. However, investors are still expected to be the main purchasers of new condos. In light of the volatility in financial markets, capital preservation will be enough of a motivating factor to buy pre-construction units. End-user demand for pre-built condos is likely to be impacted as competition from a rising supply of newly completed, never-lived-in, units grabs their attention. In the end, a moderation in new condo sales to 18,000 units (from about 25,000 in 2011) will help ensure the supply of new housing remains adequate in the coming years while promoting balanced market conditions.

Local Economy

The Fundamentals have Slowed

The fundamental engine of housing demand — employment and population growth — have decelerated and are expected to maintain a slower profile next year. Heightened uncertainty regarding future business activity will lead business owners and senior managers to trim plans for new hiring. The labour market will maintain the impressive number of jobs recovered and created coming out of the recession, but will see little growth in 2012. The unemployment rate should hold steady at above eight per cent as fewer people look for work. Population trends available at the provincial level have indicated a significant slowdown in net migration this year. While immigration levels will improve next year, they will remain below normal levels, which will help

Figure 6



Source: Statistics Canada, CMHC Forecast

to prevent excess slack from building in the labour market. Earnings should therefore continue to grow by close to inflation, helping to keep ownership and rental costs within an affordable range for households.

Ironically, some of the sectors that helped the local economy recover quickly from the recession will temper growth in employment next year. A levelling out in consumer spending and a continued shift towards lower government expenditures will weigh on job creation in the service sector — notably the retail trade and public administration fields. Hiring in the finance, insurance and real estate sector should also pull back as first-time home buyers take a breather and companies linked to equity markets maintain a cautious outlook. On the production side, the recovery in manufacturing will slow in 2012 as U.S. consumption is restrained by elevated unemployment and continued weakness in housing markets. One apparent bright spot for employment in Toronto next year can be found in the construction industry. As more and more condo projects shift from the sales to construction phase, labour and trades will be in high demand.

Mortgage rate outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary Toronto CMA Fall 2011	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	76,387	89,255	88,214	90,500	2.6	88,500	-2.2
MLS® New Listings	163,169	136,096	154,167	150,000	-2.7	161,000	7.3
MLS® Average Price ($)	379,943	396,154	432,264	465,100	7.6	469,700	1.0
New Home Market							
Starts:							
Single-Detached	11,308	8,130	9,936	10,500	5.7	8,000	-23.8
Multiples	30,904	17,819	19,259	28,500	48.0	27,000	-5.3
Semi-Detached	2,362	2,032	1,654	2,000	20.9	1,800	-10.0
Row/Townhouse	4,612	2,918	4,365	3,900	-10.7	4,000	2.6
Apartments	23,930	12,869	13,240	22,600	70.7	21,200	-6.2
Starts - Total	42,212	25,949	29,195	39,000	33.6	35,000	-10.3
Average Price ($):							
Single-Detached	540,560	582,123	606,617	657,000	8.3	680,500	3.6
Median Price ($):							
Single-Detached	480,900	496,945	517,900	550,500	6.3	562,600	2.2
New Housing Price Index (1997=100) (Toronto-Oshawa)	3.5	-0.1	2.6	4.3		2.6	
Rental Market							
October Vacancy Rate (%)	2.0	3.1	2.1	1.9	-0.2	2.0	0.1
Two-bedroom Average Rent (October) ($)	1,095	1,096	1,123	1,134	-	1,165	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	2,893,500	2,853,100	2,919,400	2,971,000	1.8	3,015,000	1.5
Employment Growth (%)	2.0	-1.4	2.3	1.8	-	1.5	-
Unemployment rate (%)	6.9	9.4	9.1	8.4	-	8.2	-
Net Migration	64,897	63,757	72,295	60,000	-17.0	64,500	7.5

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

Forecast Summary Oshawa CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	8,797	9,328	9,479	9,210	-2.8	9,180	-0.3
MLS® New Listings	18,574	15,113	16,492	15,600	-5.4	16,000	2.6
MLS® Average Price ($)	272,429	278,505	299,983	315,700	5.2	318,000	0.7
New Home Market							
Starts:							
Single-Detached	1,500	836	1,540	1,295	-15.9	1,334	3.0
Multiples	487	144	348	468	34.5	566	20.9
Starts - Total	1,987	980	1,888	1,763	-6.6	1,900	7.8
Rental Market							
October Vacancy Rate (%)	4.2	4.2	3.0	2.8	-0.2	2.8	0.0
Two-bedroom Average Rent (October) ($)	889	900	903	916	-	935	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	184,200	178,100	188,200	191,400	1.7	194,100	1.4
Employment Growth (%)	2.7	-3.3	5.7	1.7	-	1.4	-
Unemployment rate (%)	7.2	9.0	10.0	8.9	-	8.6	-

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Toronto Real Estate Board, Statistics Canada (CANSIM)

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

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