HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

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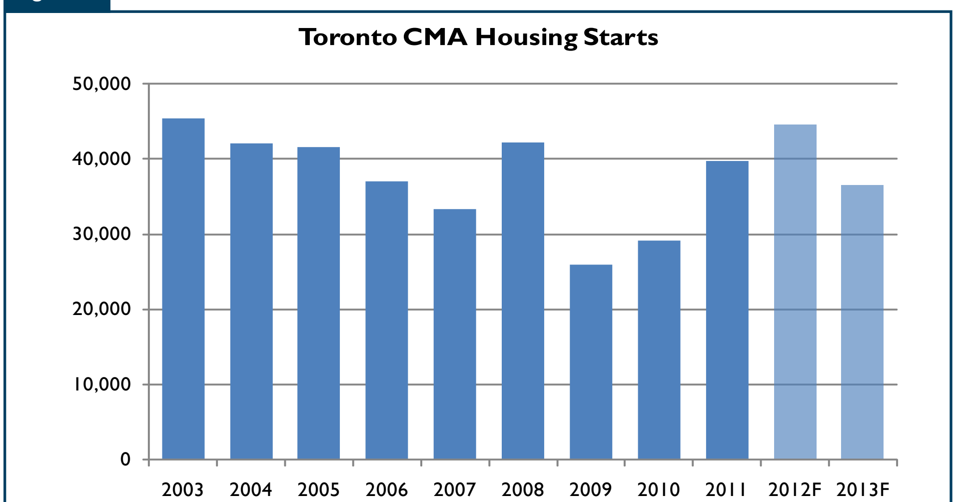
Market at a Glance

- Both resale and new home construction activity will reach high annual levels in 2012; however momentum will slow in the second half of the year and into 2013.
- MLS sales will total 95,000 this year at an average price of $500,000.
- New home construction will reach 44,500 units in 2012 due to increased condominium apartment starts.
- Employment and net migration will slow in 2012, but are set to improve in 2013.

Figure 1



Source: CMHC

*The forecasts included in this document are based on information available as of April 27, 2012.

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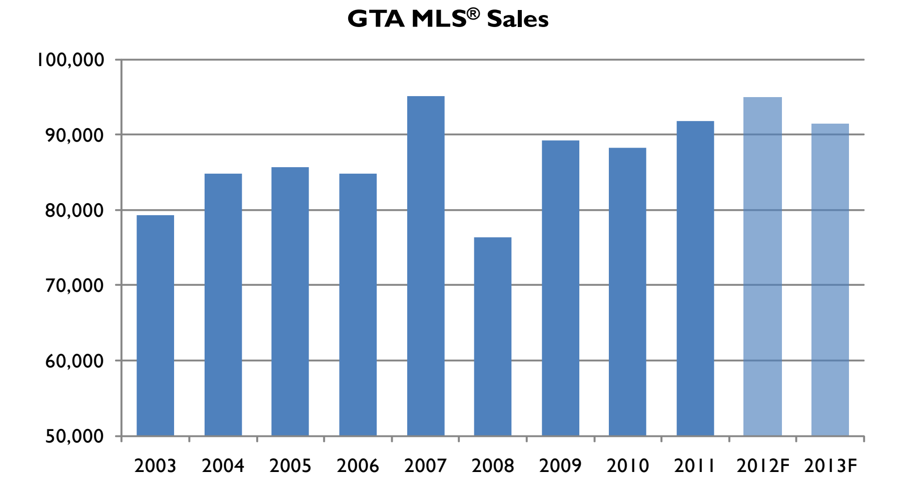
Resale Market

Slower price growth expected

The levels reached by the existing home market in the Greater Toronto Area (GTA) in 2012 will be accompanied by a gradual easing in the underlying trend during the second half of the year. Sales activity will stay close to recent levels, however the stimulative effect of historically low mortgage rates will begin to fade. Furthermore, previous strength in housing price growth coupled with a recent slowdown in employment should lighten demand for homeownership in the months ahead. Continued low mortgage rates and an improving job market and net migration flow will ensure only a mild downward adjustment in 2013.

Figure 2



Source: CREA, CMHC forecast

Higher home prices to delay new entrants

Record-low interest rates will remain a key driver of demand in the near-term — particularly since very little job growth will be recorded this year — but will exert less force on the market. Because prices have been outpacing incomes, the carrying costs associated with buying have become more expensive and reduced the pool of potential buyers. The share of sales under $400,000 and within the reach of the average first-time buyer in the 25-34 age range has declined from roughly 70 per cent in 2008 to less than half in the first quarter of 2012. Meanwhile the savings needed to keep pace with the market and buy the average priced home with five per cent down payment has risen to $25,000 (an extra $5,000 compared to two years ago). Although inter-generational transfers of wealth may be helping some boomer children enter the market, parents may be less willing or able to assist as their accumulation of home equity begins to slow as price growth moderates.

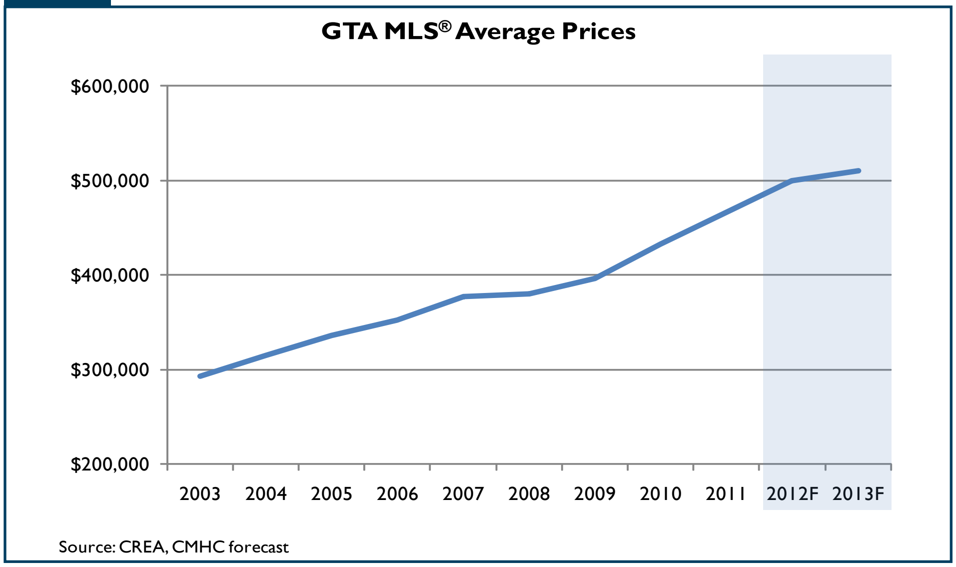
Value areas and housing types gain importance

With an increasing number of neighbourhoods and housing types becoming pricier for first-time buyers, homes offering the best relative value will gain more attention. Buyers tend to be more willing to sacrifice on size or location as price differentials between housing options widen. Expect detached housing in Halton Hills, Brampton, Newmarket, the west end of the former City of Toronto, Scarborough, and Oshawa to outperform as prices in these areas are offered at considerable discounts in relation to neighbouring municipalities. The same logic can be applied to multi-family housing types in relatively expensive areas such as central Toronto, where row homes, semis and condos sell for less than half the price of singles.

Condo price growth faces stronger headwinds

Despite the price and location advantages that should support a fairly stable outlook for condo demand, resale price growth will be challenged by increasing supply pressures. Appreciation has already slowed considerably — the quarterly growth profile for prices has flattened out and annual rates are half the levels recorded during the past two years. A big factor has been the increasing number of units listed for sale as more projects are completed and registered. The demand response to these newer, higher-priced and often smaller units has been tepid, pushing unsold listings higher and softening overall resale conditions. As completions remain close to record highs (approximately 18,000/year) in the coming years, there will be limited potential for condo prices to rise by more than inflation.

Figure 3



Market conditions will support prices for singles

Single-family home price appreciation appears to have better upside potential than condos as existing homeowners continue to move up in the market and supply growth remains limited. Improvements to affordability in recent years have allowed a lot of first-time buyers to get into the market. Also, strong price appreciation has allowed them to accumulate a considerable amount of equity in a fairly short period time, putting many in a position to be able to move-up in the market. So while the average single detached price has risen above $600,000 in the GTA, the carrying cost with a 20 per cent down payment is easily affordable for owner households earning the average income (approximately $120,000).

However, existing homeowners will face challenges in moving up as the ability to sell their current home is impacted by less first-time buying and overall new listings in the market remain close to current levels. Much has been said about the lack of listings for single family homes in relation to demand. However, as a share of the existing stock, listings are fairly close to their longer-term average and can be considered to be at an appropriate level given underlying economic conditions. While some modest improvement can be expected, growth in listings will continue to be held back by the marked down in low-density development adding fewer units to the resale stock.

New Home Market

Condos will push housing construction higher

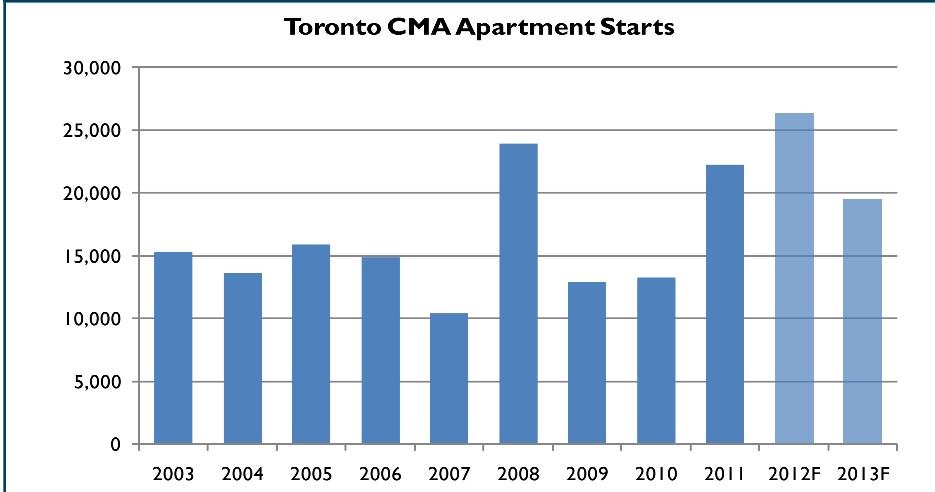
A strong start to the year will boost new home construction in 2012 before falling back in line with recent rates of household formation during the remainder of 2012 and next year. Condo starts will reach approximately 25,000 units in 2012 following a banner year in 2011 for pre-construction sales. An expected slowdown in new condo pre-sales will weigh down the number of projects beginning construction next year, however the level will remain fairly high as some projects opening this year face delays in getting started. The construction of singles will slide a bit this year then remain flat, while row home starts will move higher in comparison to the past few years.

Condo development set to gear down

The level of condo construction underway this year will mask the beginnings of a slowdown for the industry. Pre-construction activity will moderate as sales centre demand softens. With asking prices for new launches having escalated to an average of more than $600 per square foot in the first quarter (an extra $100 compared to two years ago)[1], the prospects for past rates of appreciation upon completion to continue have dimmed. Market conditions for newly completed resale units (discussed in the Resale Market section) are suggesting an average price ceiling for end-users of approximately $500 per square foot, which will be challenged to move higher as supply competition remains strong. As the slowdown in resale price appreciation becomes clearer in the months ahead, it will provide a signal to some buyers to resist purchasing at new project openings. Even those who buy with intentions of holding after completion should scale back as the up-front investment cost necessary to break even in the rental market has risen well above 20 per cent of the purchase price — the typical deposit that developers ask for.

[1] Data reported by Urbanation Inc.

Figure 4



Source: CMHC

The challenge of rising unsold pre-construction inventory

As pre-sales trend lower and unsold pre-construction inventory edges up, it will be important for developers to be cautious in opening new projects. Already, unsold units in pre-construction have moved back up to their highest point since the recession. Although measured against recent sales levels, unsold supply is low — approximately six months worth — a record number of new projects set to open this year could quickly see that metric double. Furthermore, it won't be as easy as it was in the early economic recovery period to bring inventory down by ramping up incentives due to quickly rising land costs and tighter conditions for financing. As a result, new projects could face delays or even cancellations.

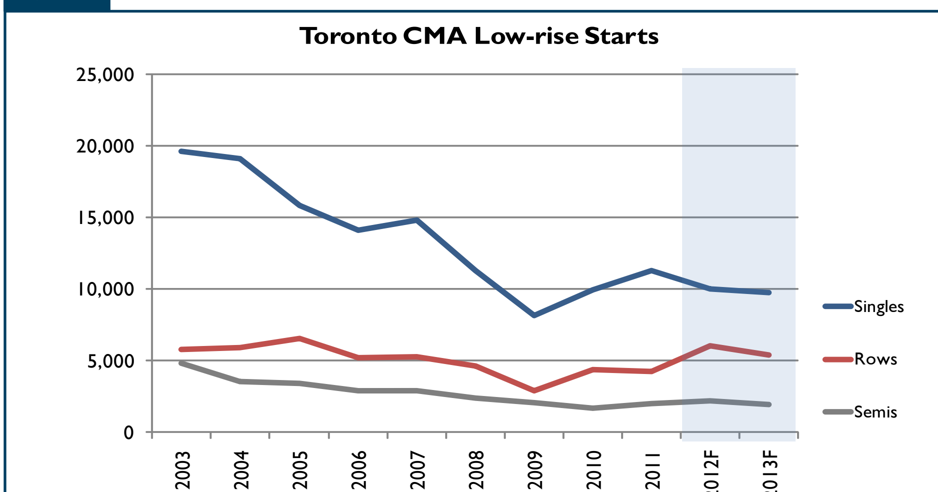
Construction of singles will continue to be held back

The potential for rising supply in the condo market is in stark contrast to what developers of low-rise housing (singles, semis and rows) are up against. They continue to struggle to keep up with demand as strong interest in upper-priced homes and limited listings in the resale market create line-ups at many new project openings. In the end, the number of single-detached homes that will begin construction this year will be down by over 10 per cent and the low-rise category will represent their smallest share of housing construction in decades. Reduced land zoned for low density housing and infrastructure capacity limits will continue to restrain the number of new developments available to buyers, regardless of demand. According to RealNet Canada Inc., remaining supply available in new single detached projects is half the level from five years ago. This will work to restrain starts to about one-third lower than levels reached over the past decade, capping new construction at 10,000 units over the next couple years.

Row homes will see growth

One area of growth within the low-rise segment will be the construction of row homes this year. Particularly tight market conditions for mid-priced resale homes and a limited new supply of larger-sized condos will boost row home starts by over 40 per cent. Row homes have developed a niche offering within the new home market by being able to supply relatively affordable ownership options within infill settings, which complies with the province's growth objective towards greater multi-family development. This form of new housing development has become especially popular in the York Region.

Figure 5



Source: CMHC

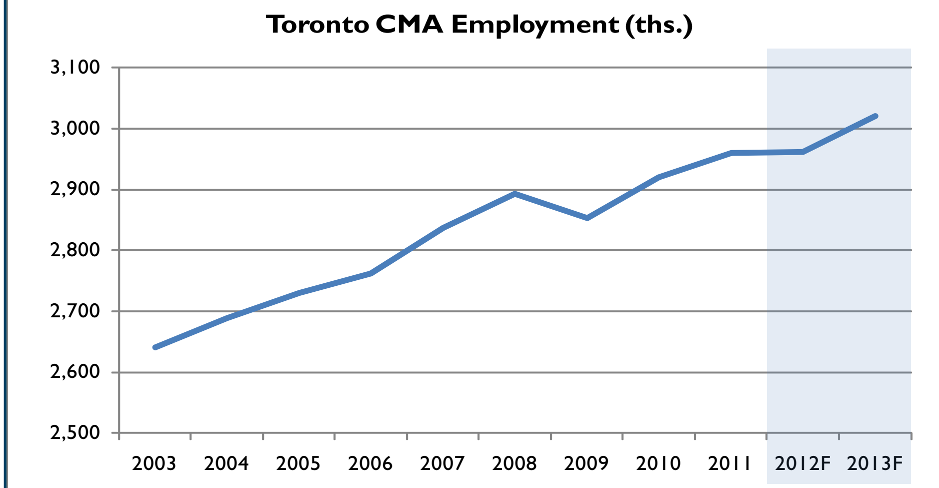
Local Economy

Conditions in place for job market improvement

Growth in the Toronto labour market will lag the rest of the province, and the country in general this year. The level of employment will remain virtually unchanged, keeping the rate of unemployment above eight per cent — almost a full percentage point higher than the Ontario and Canada averages. Labour market slack in Toronto will lead income growth to fall below the general rate of inflation this year and also attract the lowest level of net migration into the region in over ten years. However, the prospects for the job market appear to have brightened, setting the stage for an improvement in housing demand fundamentals in 2013 that will help support sales going forward.

Perhaps the clearest signal comes from the Conference Board of Canada's Help Wanted Index, which measures growth in online advertised job postings and has been outstripping employment growth for several months now. It seems fitting that local businesses would be gearing up to hire following considerable strength in corporate profits and business investment in recent quarters. Non-residential building permits in Toronto have trended up sharply to a new high while average vacancy rates in the office market have declined to just five per cent. According to Colliers International, most of the office space under construction is located downtown. This should help provide a lift for financial services employment in the city, which has been one of the main drags on jobs as of late. Goods-producing industries also appear set to increase hiring as auto sales in the U.S. have rebounded — which will lead to relatively stronger growth in Durham Region employment — and labour demands remain high from the record number of condos under construction.

Figure 5



Source: Statistics Canada, CMHC forecast

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Toronto CMA Spring 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	89,255	88,214	91,760	95,000	3.5	91,500	-3.7
MLS® New Listings	136,096	154,167	148,048	157,500	6.4	159,000	1.0
MLS® Average Price ($)	396,154	432,264	466,352	500,000	7.2	510,000	2.0
New Home Market							
Starts:							
Single-Detached	8,130	9,936	11,247	10,000	-11.1	9,750	-2.5
Multiples	17,819	19,259	28,498	34,500	21.1	26,800	-22.3
Semi-Detached	2,032	1,654	2,010	2,200	9.5	1,900	-13.6
Row/Townhouse	2,918	4,365	4,231	6,000	41.8	5,400	-10.0
Apartments	12,869	13,240	22,257	26,300	18.2	19,500	-25.9
Starts - Total	25,949	29,195	39,745	44,500	12.0	36,550	-17.9
Average Price ($):							
Single-Detached	582,123	606,617	658,063	685,000	4.1	702,000	2.5
Median Price ($):							
Single-Detached	496,945	517,900	557,990	580,500	4.0	595,500	2.6
New Housing Price Index (1997=100) (Toronto-Oshawa)	-0.1	2.6	4.7	4.0		2.5	
Rental Market							
October Vacancy Rate (%)	3.1	2.1	1.4	1.3	-0.1	1.5	0.2
Two-bedroom Average Rent (October) ($)	1,096	1,123	1,149	1,187	-	1,217	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	2,853,100	2,919,400	2,960,000	2,962,000	0.1	3,020,000	2.0
Employment Growth (%)	-1.4	2.3	1.4	0.1	-	2.0	-
Unemployment rate (%)	9.4	9.1	8.3	8.2	-	8.0	-
Net Migration	64,987	68,094	60,530	58,500	-3.4	61,000	4.3

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 Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	9,328	9,479	9,604	10,000	4.1	9,600	-4.0
MLS® New Listings	15,113	16,492	15,767	16,000	1.5	16,150	0.9
MLS® Average Price ($)	278,505	299,983	314,450	329,000	4.6	335,000	1.8
New Home Market							
Starts:							
Single-Detached	836	1,540	1,384	1,320	-4.6	1,420	7.6
Multiples	144	348	475	682	43.6	494	-27.6
Starts - Total	980	1,888	1,859	2,002	7.7	1,914	-4.4
Rental Market							
October Vacancy Rate (%)	4.2	3.0	1.8	1.7	-0.1	2.0	0.3
Two-bedroom Average Rent (October) ($)	900	903	941	975	-	995	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	178,100	188,200	193,500	199,400	3.0	203,000	1.8
Employment Growth (%)	-3.3	5.7	2.8	3.0	-	1.8	-
Unemployment rate (%)	9.0	10.0	8.1	7.8	-	7.4	-

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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