

HOUSING MARKET OUTLOOK

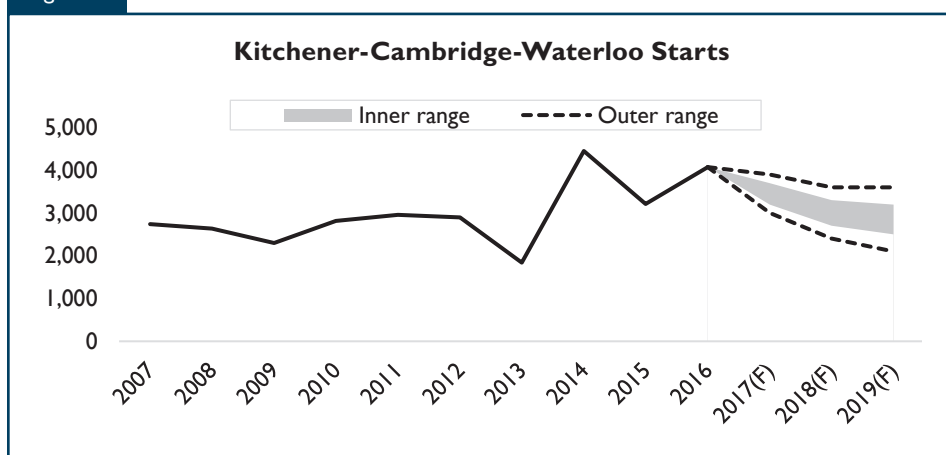
Kitchener-Cambridge-Waterloo CMAs



CANADA MORTGAGE AND HOUSING CORPORATION

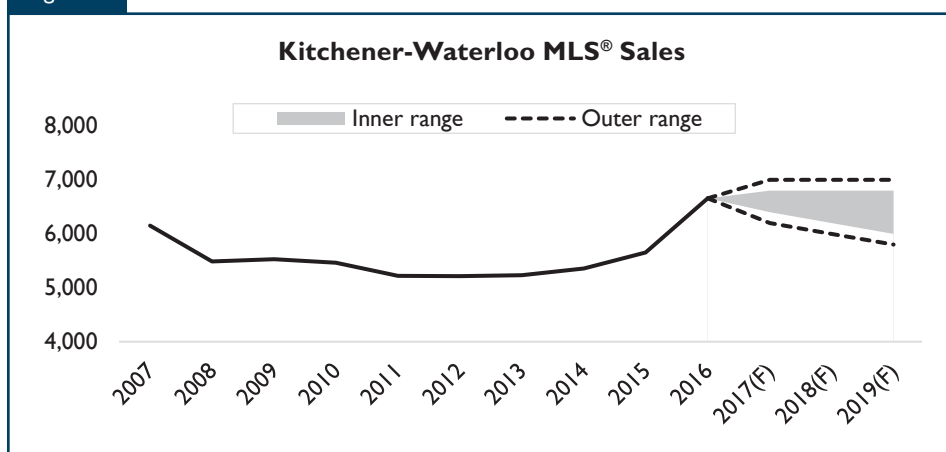
Date Released: Fall 2017

Figure 1



Source: CMHC; (F) = CMHC Forecast

Figure 2



Source: CREA; (F) = CMHC Forecast; ® MLS is a registered trademark of the Canadian Real Estate Association (CREA)

Highlights¹

- Housing starts will range between 2,700 and 3,300 in 2018 and between 2,500 and 3,200 in 2019
- Resale demand will remain strong, with sales ranging between 6,200 and 6,800 in 2018 and between 6,000 and 6,800 in 2019
- The resale market will be balanced in 2018 with the average price ranging between \$445,000 and \$459,000 and between \$451,000 and \$469,000 in 2019
- The average vacancy rate will increase in 2017 to 2.3% and increase to 2.4% in 2018 and 2019

New Ownership Market

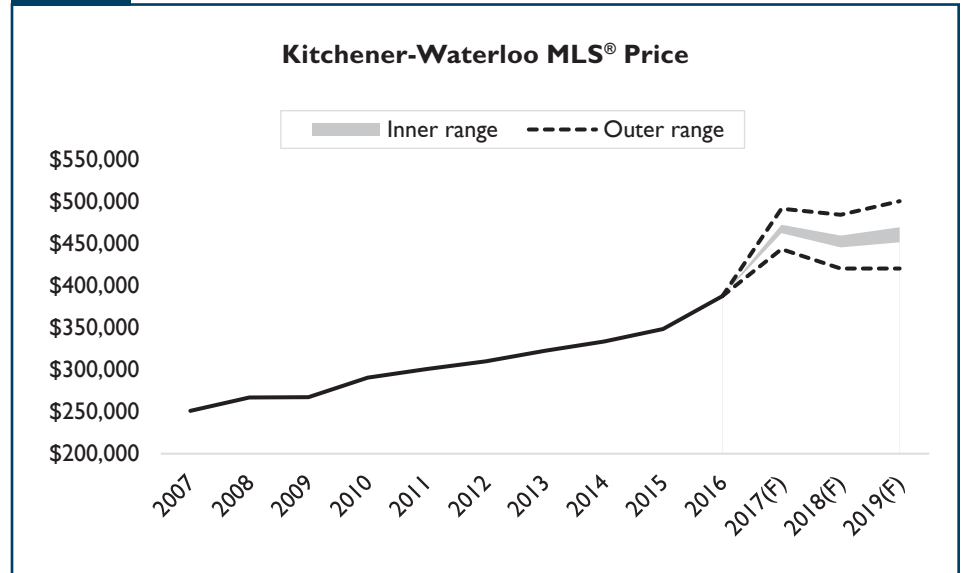
Total housing starts in the Kitchener-Cambridge-Waterloo Census Metropolitan Area (CMA) are expected to trend lower through 2019. Apartment starts will decline further from the above-average levels recorded in the last few years. Single-detached starts will decline from 2016 and level off through the forecast period.

¹ The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Starts of single-detached homes increased strongly in 2016, reaching the highest level in five years. Single-detached starts will move lower in 2017, and continue this trend through 2019. Demand has been driven by GTA households looking for more affordable housing and a tight resale market. More intra-provincial migration from the GTA has increased demand for single-detached homes. People are moving to KCW as the average price of a newly completed single-detached home in the Toronto CMA is approximately 85% higher than in KCW. However, a more balanced resale market in recent months has meant less spillover demand to the new home market. In addition, new low-rise home sales² have slowed in the past few months, an indication that starts will be lower next year. Growth in single-detached starts will be restrained somewhat by Places to Grow and the Region of Waterloo Official Plan which require increased higher-density housing, thus limiting the land available for single-detached construction.

Multi-unit starts are expected to decline over the forecast period, but remain well above the ten-year average. The apartment sector will lead this decline. Starts of rental apartments will continue to trend lower and may be further negatively impacted by Ontario's *Fair Housing Plan* as new rental projects may be converted to condos. With so many apartment units constructed in the past five years geared mainly for students, supply has met the pent-up demand. However, condominium apartments will continue to be planned and built. Demand for townhouses, which are more moderately priced than singles, will result in increased

Figure 3



Source: CREA; (F) = CMHC Forecast; ® MLS is a registered trademark of the Canadian Real Estate Association (CREA)

starts for this housing type in 2018. Rising inventories could delay additional projects resulting in starts trending closer to the bottom end of the range.

Existing Home Market

Sales through the Kitchener-Waterloo Association of Realtors® (KWAR) (Kitchener, Waterloo and Woolwich/Wellesley/Wilmot Townships) will trend lower through 2019. After a hectic early 2017, with price growth of more than 30%, expectations changed. Listings increased as homeowners wanted to sell their homes to take advantage of the equity growth. In addition, the perception of the impact of Ontario's *Fair Housing Plan* slowed demand. With less demand and more supply, bidding wars and sales significantly above asking price have slowed, resulting in a decline in the average price. With a lower average price, many buyers are remaining on the sidelines. The resale market

is shifting back to normal demand patterns. With lower prices and more mortgage rate increases on the horizon, some first-time buyers who were priced out of the market, may make the move to homeownership soon rather than later. This will keep sales in 2017 near record levels. Wage growth has not kept pace with the growth in home prices and affordability has eroded as the required income to purchase a home is growing at a faster pace than actual income. Sales in 2018 and 2019 will be slightly lower than in 2017 as fewer GTA purchasers buy in KCW as the price differential between homes in the GTA and KCW falls. Faster erosion of affordability due to higher mortgage rates could push sales lower.

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² Altus Data Solutions

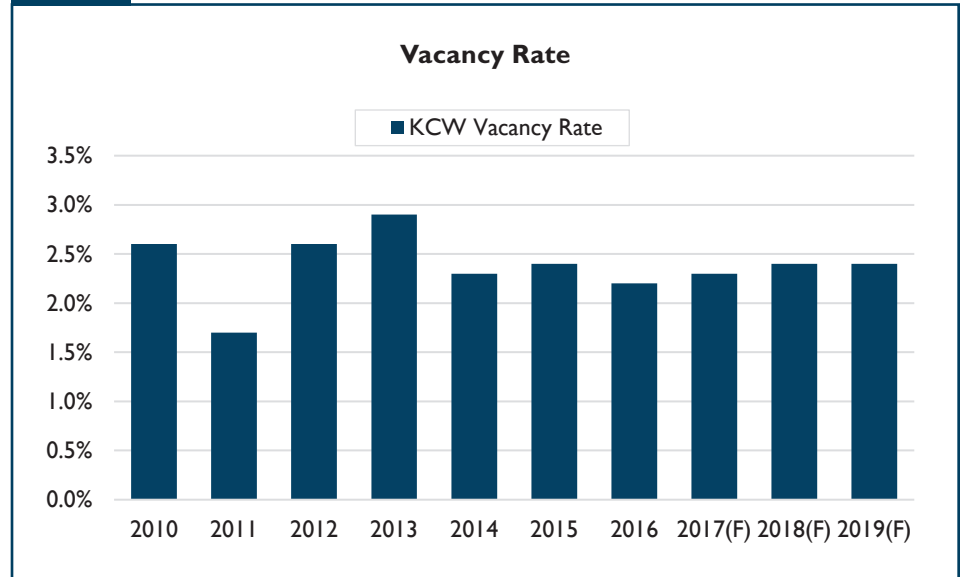
Housing market conditions will be more balanced. After a strong run up in prices in early 2017, the average resale price for 2017 will be significantly higher than in 2016. However, this strength has not continued, prices have moderated and the overall price in 2018 will be slightly lower than in 2017. With baby boomers' reaching an age associated with lower mobility, listings growth may slow, leading to price growth being stronger than expected. Higher-than-expected price growth in Toronto would also strengthen price growth in KCW.

Rental Market

The vacancy rate³ will increase slightly in 2017 and 2018, as the supply of rental housing will increase more than rental demand. Rental and condominium apartment completions increased over the last year. With more condominium apartment completions and more condos rented out, renter households in the primary rental market have more choice. Newer condominium apartments are attractive to many renter households who vacate their older rental units for newer units in condominium projects.

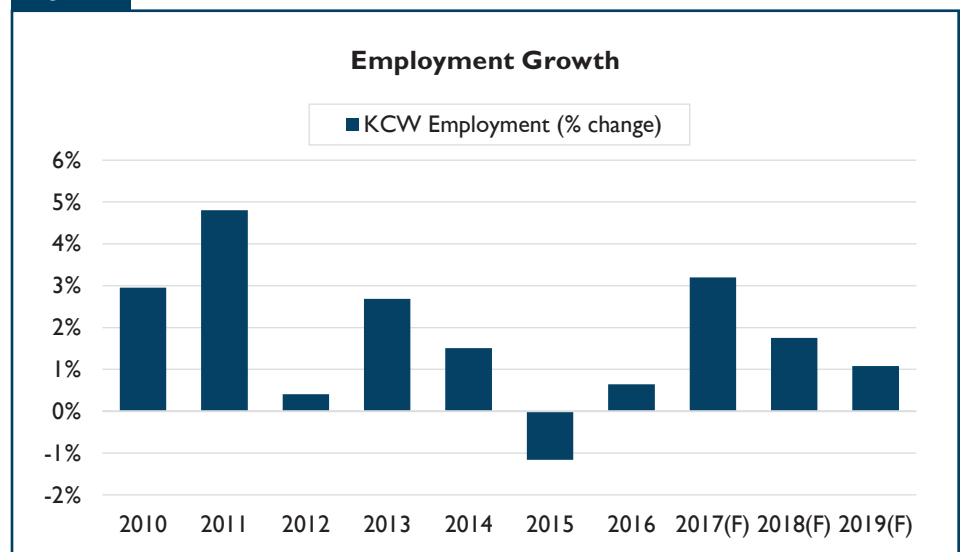
Rental demand will continue to increase at a moderate pace. Rental demand will be supported by students, immigrants, downsizing households, and young households who prefer to rent. The high level of potential supply will keep the vacancy rate slightly elevated over the forecast period. The supply of potential rental units coming on stream in the next 12 months will be high as there are more than 1,700 rental units and 1,300 condominium apartments currently under construction.

Figure 4



Source: CMHC; (F) = CMHC Forecast

Figure 5



Source: Statistics Canada, Labour Force Survey; (F) = CMHC Forecast

As the average resale price has declined from the peak recorded earlier this year, more rental households are expected to move to home ownership ahead of anticipated higher mortgage rates. The Ontario Rent Review guideline

for 2017 was set at 1.5% and 1.8% for 2018, while resale prices are expected to increase by more than 20% in 2017. However, as the average resale price is expected to decline in 2018, the gap between owning and renting will narrow slightly.

³ In apartment structures with three or more units purpose-built for the rental market.

Economic and Demographic Trends

Statistics Canada's Labour Force Survey shows that employment growth picked up in 2017. Employment is expected to grow by 3.2% in 2017. Employment will grow by a more moderate 1.8% in 2018 and by 1.1% in 2019. The labour force will grow at a pace slightly below employment and the unemployment rate will decline to 5.2% in 2017 and hold relatively steady through 2019.

The goods-producing sector is leading the way this year, with manufacturing jobs trending higher, while employment in the services sectors has been flat. Other strong sectors this year are accommodation, health, and public administration.

Migration to KCW in 2016 was at the strongest level in ten years, supported by strong immigration and interprovincial migration. The population grew by 1.3% in 2016. While immigration has slowed

somewhat this year, interprovincial migration has remained strong as witnessed by the movement of GTA households to KCW. Relatively strong immigration and intra-provincial migration and positive inter-provincial migration will mean above average population growth. The population is expected to grow by 1.2% in 2017, 1.1% in 2018 and one per cent in 2019. Strong population growth will support the housing markets.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

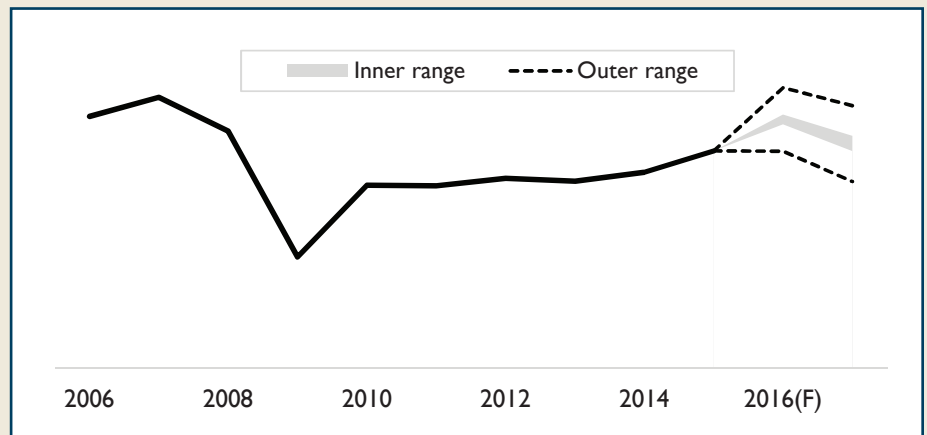
- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables,

given a specific set of assumptions for the market conditions and underlying economic fundamentals.

- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of

historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* 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.

Forecast Summary Kitchener-Cambridge-Waterloo CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	869	995	1,392	1,000	1,200	900	1,200	900	1,200
Multiples	3,581	2,217	2,682	2,200	2,500	1,800	2,100	1,600	2,000
Starts - Total	4,450	3,212	4,074	3,200	3,700	2,700	3,300	2,500	3,200
Resale Market									
MLS® Sales	5,359	5,656	6,657	6,400	6,800	6,200	6,800	6,000	6,800
MLS® Average Price(\$)	333,457	348,167	387,163	462,000	472,000	445,000	459,000	451,000	469,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	2.3	2.4	2.2	2.3	2.4	2.4
Two-bedroom Average Rent (October)(\$)	975	997	1,050	1,070	1,090	1,115
Economic Overview						
Population	506,499	510,794	517,316	523,700	529,700	535,200
Annual Employment Level	283,100	279,800	281,600	290,600	295,700	298,900

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 2nd October 2017. (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 and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2017-2019).

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.

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.

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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