

# HOUSING MARKET OUTLOOK

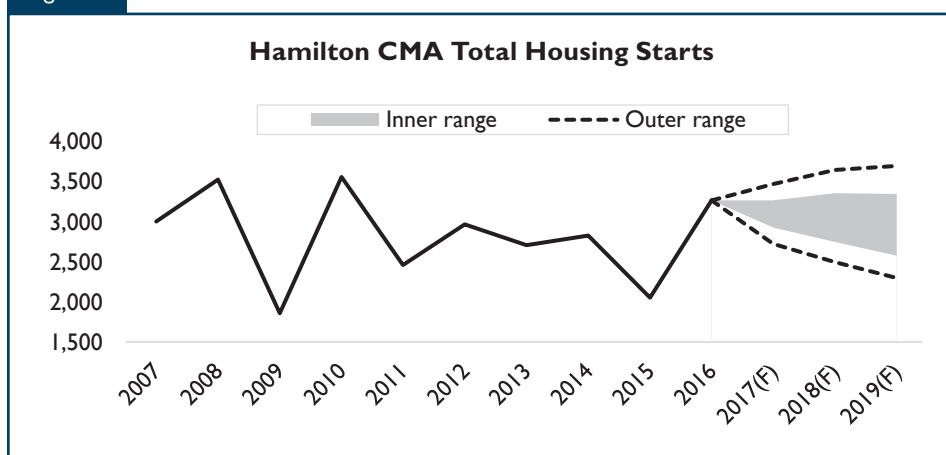
## Hamilton CMA



CANADA MORTGAGE AND HOUSING CORPORATION

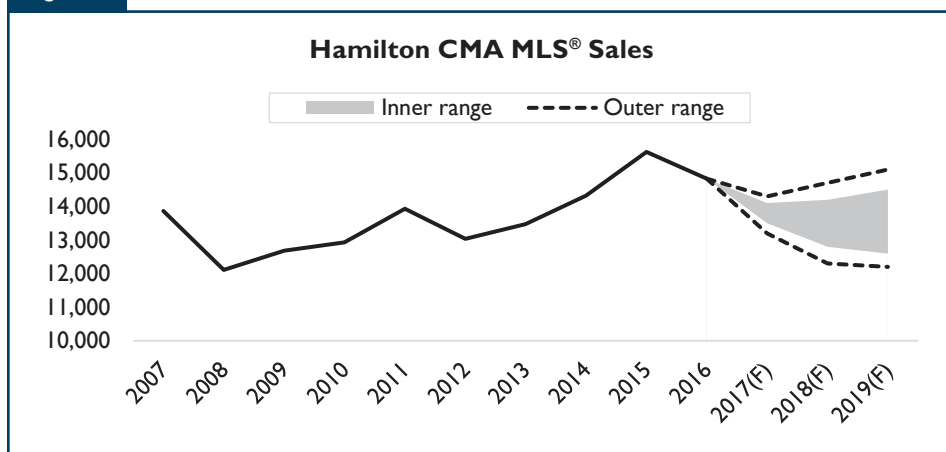
Date Released: Fall 2017

Figure 1



Source: CMHC (Starts and Completions Survey); (F)= CMHC forecast

Figure 2



Source: CREA; (F) = CMHC forecast

## Highlights<sup>1</sup>

- Total housing starts are unlikely to exceed 2017 levels in either 2018 or 2019.
- Similarly, MLS<sup>®2</sup> sales are unlikely to exceed 2017 levels in either of the next two years.
- Balanced resale market conditions will lead to modest growth in the average MLS<sup>®</sup> price over the next two years.

## New Home Market

- Builders have committed to completion dates ranging from the second half of 2019 to the end of 2020 on a large number of condo apartment projects which are more than 75% sold. Those projects are expected to start in 2018, as CMHC data show that apartments constructed over the past five years took an average of 1.5 to 2 years to complete.
- A relatively low number of townhome projects will be launched that could lead to starts in 2018 and 2019, as builders will focus on managing large inventories of soon-to-be-completed new townhomes which are unsold.

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

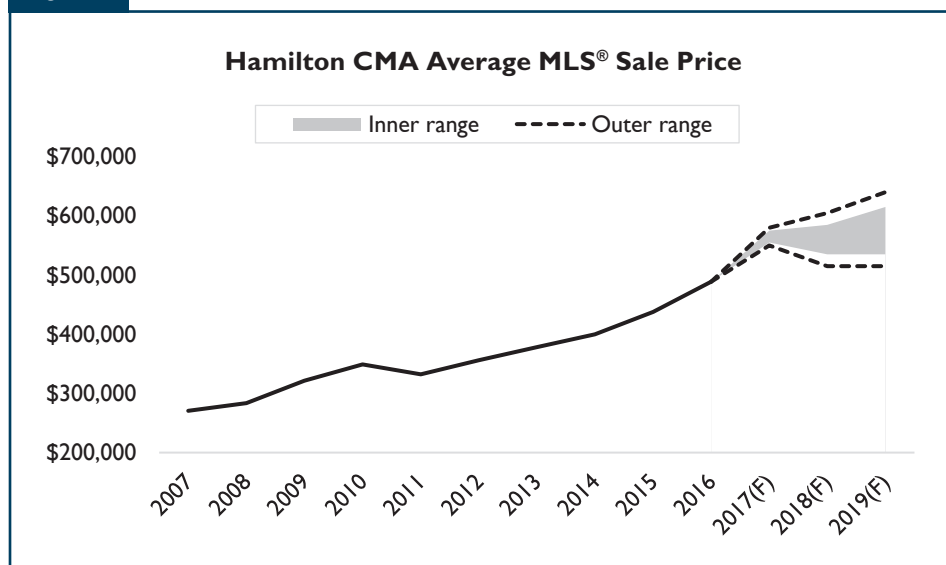
<sup>2</sup> Multiple Listing Service<sup>®</sup> (MLS<sup>®</sup>) is a registered trademark of the Canadian Real Estate Association (CREA)

- Starts in 2018 and 2019 will be constrained by modest employment growth and new homes becoming less affordable. In both years, mortgage carrying costs will rise faster than the average household income in Hamilton. Multi-unit starts (mainly townhomes and apartments) will hold up better than single-detached starts, as multi-unit homes generally are more affordable.
- Multi-unit housing starts will also be steadier than single-detached starts because rental housing starts will occur in 2018 and 2019, and all of them will likely be of multi-unit homes.
- Total starts could finish near the upper end of the outer range if the resale market favours sellers instead of being balanced, or if inventories of completed and unsold new townhomes do not become high.
- Total starts could be near the lower end of the outer range if some apartment projects are delayed.

## Existing Home Market

- MLS® sales are unlikely to increase over the forecast horizon as housing affordability, which was already low in Hamilton, will continue to erode.
- Employment growth will be modest in 2018 and 2019 and population growth, while remaining higher than the average of the past ten years, will slow.
- Toronto house prices are forecast to be slightly above Q3 2017 price levels over the next two years. As a result, low-rise homes in Toronto will remain too expensive for many potential first-time buyers there, keeping in-migration to Hamilton relatively high.
- MLS® sales could finish near the upper end of the outer range if employment is higher than expected, as the positive impact of government infrastructure spending is greater than expected, or if mortgage rates do not increase.
- MLS® sales could finish near the lower end of the outer range if in-migration to Hamilton is lower than expected due to decreasing house prices in Toronto.
- The average MLS® price will be significantly higher this year, primarily due to prices rising very quickly in Q1. Following the announcement of the Fair Housing Plan by the Provincial Government of Ontario in April 2017, existing home sales in the GTA and surrounding markets including Hamilton have regressed strongly. There is some evidence that buyer and vendor price expectations moderated leading up to the implementation of this new plan resulting in changing behaviour and a more balanced market after the policy came into effect.

Figure 3



Source: CREA; (F) = CMHC forecast

- Balanced market conditions will likely persist next year. The number of new listings will decrease from very high levels but will remain sufficient for the expected level of demand. As a result, the 2018 average MLS® price is not expected to be much higher than the average price in Q4 2017.
- The resale market will also be balanced in 2019. The number of new listings will stabilize at levels that are more in line with the size of Hamilton's housing stock and will continue to generally satisfy demand.
- The average MLS® price could finish near the upper end of the outer range if demand is greater

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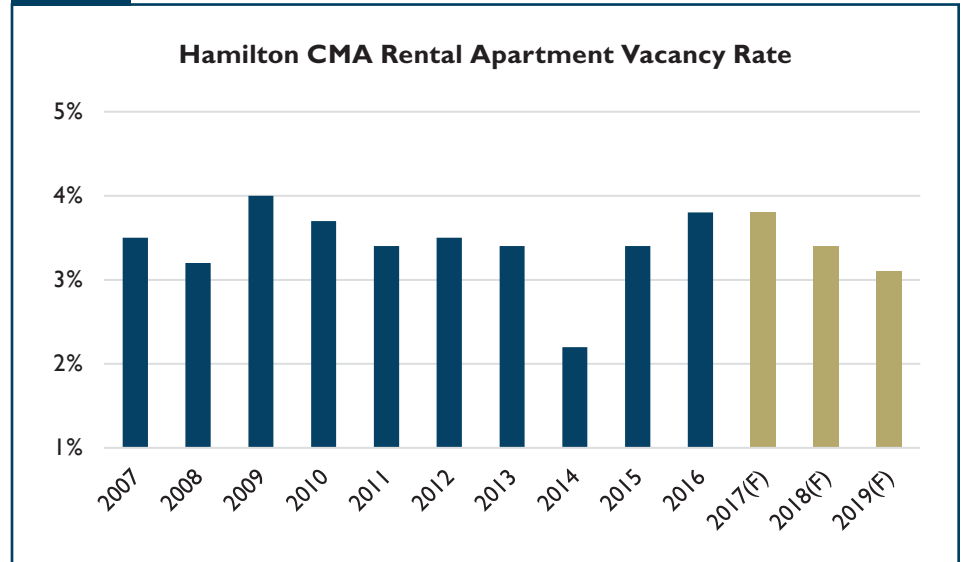
than expected, due to higher than expected employment or steady mortgage rates.

- The average MLS® price could finish near the lower end of the outer range if demand is lower than expected, due to lower than expected in-migration to Hamilton as a result of decreasing house prices in Toronto.

## Rental Market

- The rental apartment vacancy rate will decrease in 2018 and 2019, as the number of occupied rental apartments will increase in both years and the supply of rental apartments will not keep pace. Expect weak growth in the rental apartment universe in 2018 and 2019.
- The number of occupied rental apartments will grow over the forecast horizon due to relatively high levels of immigration, a growing number of downsizing seniors and fewer renters transitioning into homeownership. Student rental demand will also increase modestly in 2018 and 2019, due to slightly higher enrolment at both McMaster University and Mohawk College.
- Condominium apartment completions will increase in 2018 and 2019, resulting in a larger condominium rental

Figure 4



Source: CMHC (Fall Rental Market Survey); (F) = CMHC forecast

apartment universe and increased competition for purpose-built rental apartments in the high rent ranges.

## Economic Trends

- Strong job growth in 2017 in industries such as health care, finance and real estate, as well as construction, is unlikely to occur again in the next two years.
- Growth in finance and real estate employment will likely slow in 2018 and 2019, due to lower inflation adjusted spending from MLS® transactions.
- Construction employment will likely remain high despite less residential construction activity, due to a number of government infrastructure projects, primarily in the City of Hamilton.
- Employment in manufacturing, Hamilton's largest industry, is unlikely to increase over the next two years, due to slower US growth and the lagged effects of an appreciating Canadian dollar.

## 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:

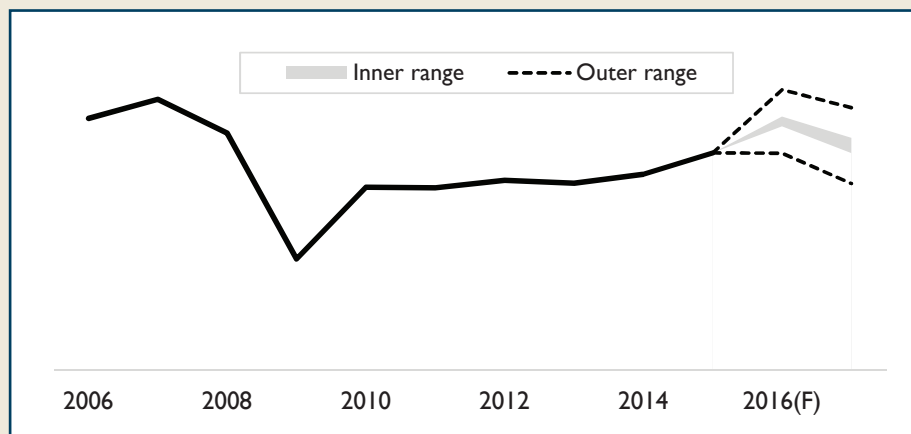
- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation\* of historical data and on past forecast accuracy. 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 Hamilton CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
<b>New Home Market</b>									
<b>Starts:</b>									
Single-Detached	1,153	1,122	827	630	700	550	680	530	680
Multiples	1,679	932	2,442	2,300	2,570	2,200	2,680	2,050	2,670
Starts - Total	2,832	2,054	3,269	2,930	3,270	2,750	3,360	2,580	3,350
<b>Resale Market</b>									
MLS® Sales	14,347	15,624	14,826	13,500	14,100	12,800	14,100	12,600	14,500
MLS® Average Price(\$)	400,035	437,888	488,713	555,000	575,000	535,000	585,000	535,000	615,000
<b>Economic Overview</b>									
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)
<b>Rental Market</b>						
October Vacancy Rate (%)	2.2	3.4	3.8	3.8	3.4	3.1
Two-bedroom Average Rent (October)(\$)	959	1,034	1,037	1,060	1,100	1,140
<b>Economic Overview</b>						
Population	764,695	770,156	778,417	785,500	792,000	798,000
Annual Employment Level	383,700	385,400	385,800	400,000	403,000	405,000

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 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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