

HOUSING MARKET INSIGHT

London and Windsor CMAs



CANADA MORTGAGE AND HOUSING CORPORATION

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"The large difference between listings in London and Windsor in recent years was mainly due to demographic trends and the cost to upgrade to a new single-detached home in each region."



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Factors Affecting Listings in London and Windsor

Key Findings

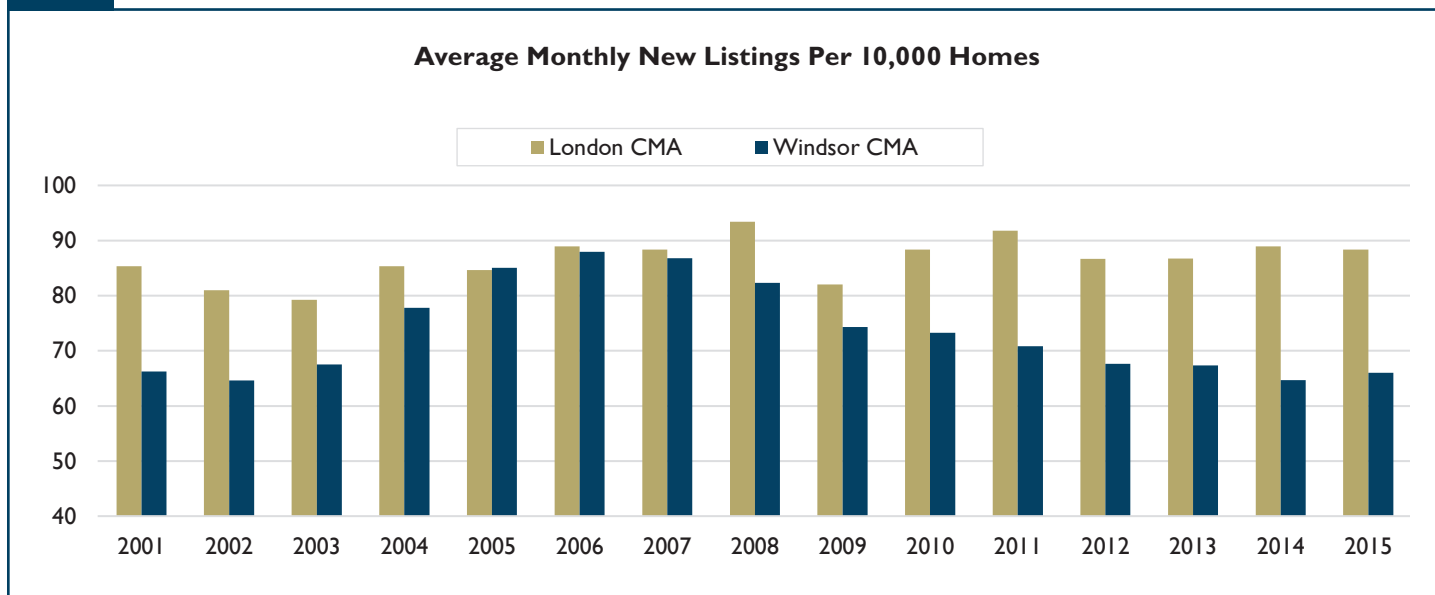
- London typically has higher average monthly new listings per 10,000 homes¹ than Windsor.
- One consistent factor throughout the 2001 to 2015 period was that a larger proportion of London's population was employed, therefore it was easier for its homeowners to find a buyer.
- Two additional factors led to a greater separation between London and Windsor's average monthly new listings per 10,000 homes in the 2011 to 2015 period.
 - The difference between the costs of upgrading to a new single-detached home in the two respective markets was greater.
 - People 25 to 54 years old, which head the majority of households that list their homes for sale, have made up a larger share of London's population than Windsor's population.
- A shortage of listings can lead to bottlenecks in the housing continuum and restrain job growth.

Greater Separation between Listings in London and Windsor

London had higher average monthly new listings per 10,000 homes compared to Windsor nearly every year from 2001 to 2015. One factor that contributed to the difference throughout the period was that a larger proportion of London's population was employed. A larger share of London's homeowners

¹ Annual number of homes equals households from 2001 Census plus new home completions since 2001, minus that year's CMHC rental market universe.

Figure 1



Source: CMHC, adapted from CREA and Statistics Canada

listed their homes for sale because it was easier for them to find a buyer. Windsor's average monthly new listings per 10,000 homes was elevated between the years 2005 to 2007, as a high number of lay-offs in the manufacturing sector led to an irregular number of consumer bankruptcies. As a result, a significant number of listings were generated due to financial distress. Listings began to decline in Windsor in 2007, despite consumer bankruptcies remaining high until 2010. The price premium² on a new single-detached home in Windsor grew significantly from 2007 to 2010. This discouraged a number of homeowners in Windsor from listing their home for sale because the cost to upgrade to a new detached home was too high. The price premium on a new single-detached home in Windsor has remained elevated since then. Listings in London were far steadier from 2007 to 2010, as the cost to upgrade to a new single-detached

home in London wasn't as volatile. It decreased on average since 2010, exerting upward pressure on listings in that region. People 25 to 54 years of age, which head the majority of households that list their homes for sale, are making up a smaller and smaller share of Windsor and London's populations. Their share of Windsor's population has been less than their share of London's population since 2010, contributing to the larger gap in listings in the 2011 to 2015 period.

Larger Concentration of 25 to 54 Year Olds in London Compared to Windsor Since 2010

Censuses consistently show that the majority of households that move are headed by a person 25 to 54 years of age. Therefore, the majority of new listings are likely generated by these households. Many are upgrading to a

larger home, as households headed by a person 25 to 54 years old tend to have a greater number of people.

People 25 to 54 years of age are making up a smaller and smaller share of Windsor's population, as the number of 25 to 54 year olds living in Windsor has declined every year since 2006, while the remainder of Windsor's population has grown. During the years 2006 to 2011, the number of 25 to 54 year olds living in Windsor decreased, as falling employment during most of that period caused a greater number of 25 to 54 year olds to move out of Windsor than move into the region. Since 2011, just as many 25 to 54 year olds have moved into Windsor as moved out due to recovering employment. However, its population of 25 to 54 year olds continued to decrease slightly, as fewer people joined the age group at the young end than left it as they grew older.

² Average price of a new single-detached home divided by average MLS® price. For example, London's 2015 average price of a new single-detached home \$400,794 divided by its 2015 average MLS® price \$265,370 equals a price premium of 1.51. Windsor's 2015 average price of a new single-detached home \$403,489 divided by its 2015 average MLS® price \$196,664 equals a price premium of 2.05.

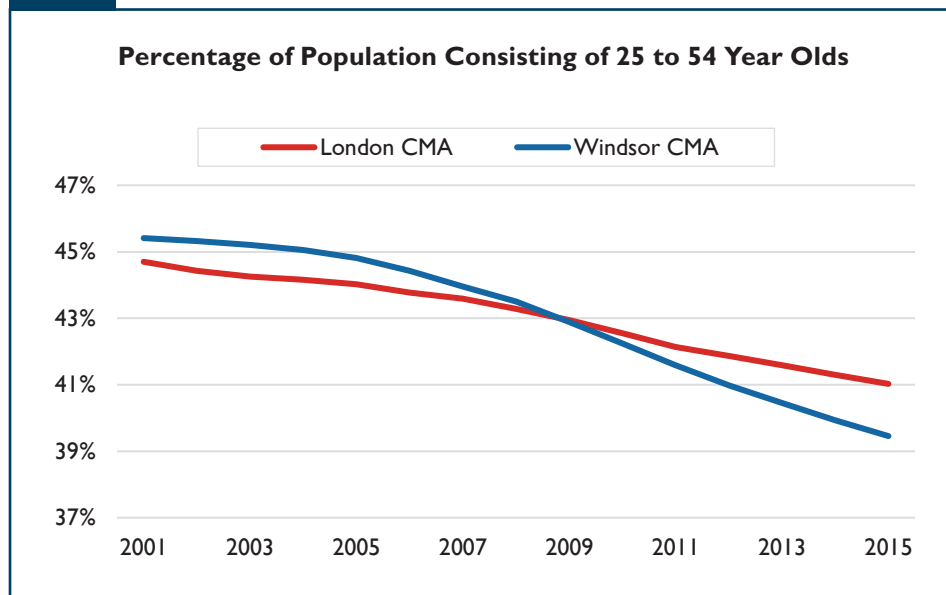
Their share of London's population has decreased at a slower rate because London's population of 25 to 54 year olds has been relatively steady since 2001. A greater number of 25 to 54 year olds moved into London than moved out the region every year, with the exception of 2009. Despite positive net migration of 25 to 54 year olds to London, the number of people in that group has failed to grow, since, as in Windsor, fewer people joined the age group at the young end than left it as they grew older.

Larger Gap in Price Premiums in 2011 to 2015 Period

Since the majority of households that list their home for sale are likely moving to a larger home, such as a new single-detached home, the price premium for that home can have a significant influence on the number of listings in a market. When the price premium rises, fewer homeowners have sufficient equity in their existing home to qualify for a mortgage on a new single-detached home.

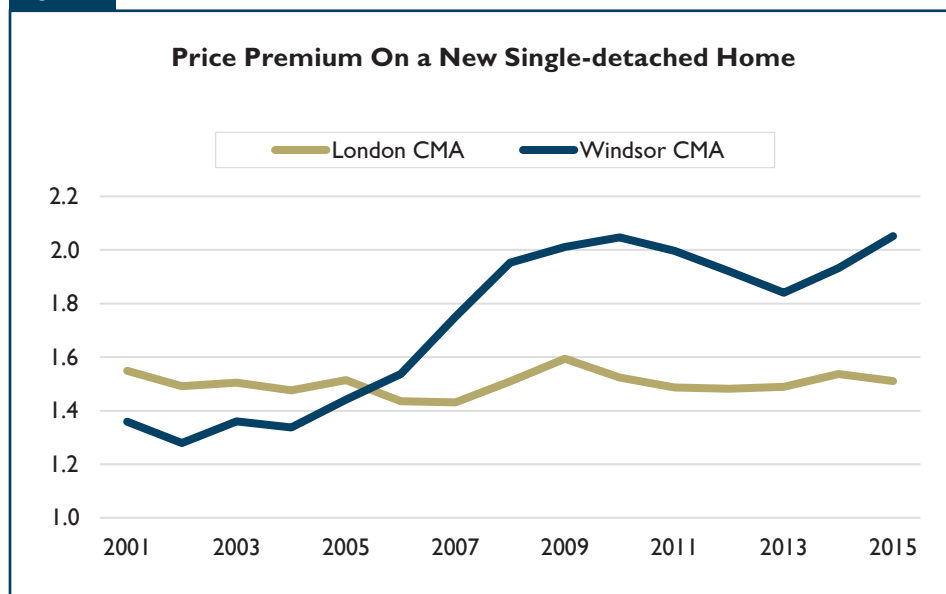
From 2007 to 2010, Windsor's price premium on a new single-detached home increased substantially, becoming much higher than London's price premium. New single-detached homes in Windsor were nearly twice as expensive as resale homes in Windsor. A large decrease in Windsor's employment led to much lower housing demand. New listings decreased but the resale market remained oversupplied, causing Windsor's average MLS^{®3} price to decrease one per cent annually, on average. The average annual price increase of new single detached homes in Windsor during that period was seven per cent, likely due to

Figure 2



Source: Statistics Canada (Estimates of Population by Census Metropolitan Area)

Figure 3



Source: CMHC, adapted from CREA

rising fixed costs for building new homes in Windsor. Developers responded by starting fewer homes at the higher prices. London's price premium on a new single-detached home barely increased in

the 2007 to 2010 period. London's average MLS[®] price grew five per cent annually, on average, per year, while the average annual price increase of new single-detached homes was six per cent.

³ MLS[®] is a registered trademark of the Canadian Real Estate Association (CREA).

The difference between the price premiums in the two markets was greater in the 2011 to 2015 period. Windsor's price premium on a new single-detached home has been, on average, steady in the 2011 to 2015 period, remaining a major constraint on its listings. Similar growth in Windsor's average MLS® price and Windsor's average price new single-detached homes has kept the price premium relatively unchanged at a high level. London's price premium on a new single-detached has been, on average, lower since 2010 due to slightly higher growth in London's average MLS® price than London's average price of new single-detached homes. New single-detached homes in London were on average one and a half times as expensive as resale homes in London.

Low Listings Leads to Slower Outflow from Rental Market into Homeownership

A shortage of listings can lead to bottlenecks in the housing continuum. In particular, a shortage of low priced homes listed for sale restricts the number of first-time buyers in a market. Many potential first-time buyers will either remain in the parental home or in the rental market for a longer period of time, unless builders can add new homes at a price point they can afford. A slower outflow of households from the rental market into homeownership leads to low vacancies, particularly in the higher rent quintiles. First-time

buyers are more likely to come from units in the higher rent quintiles, as their monthly rent is similar to the monthly mortgage payment on lower priced resale homes.

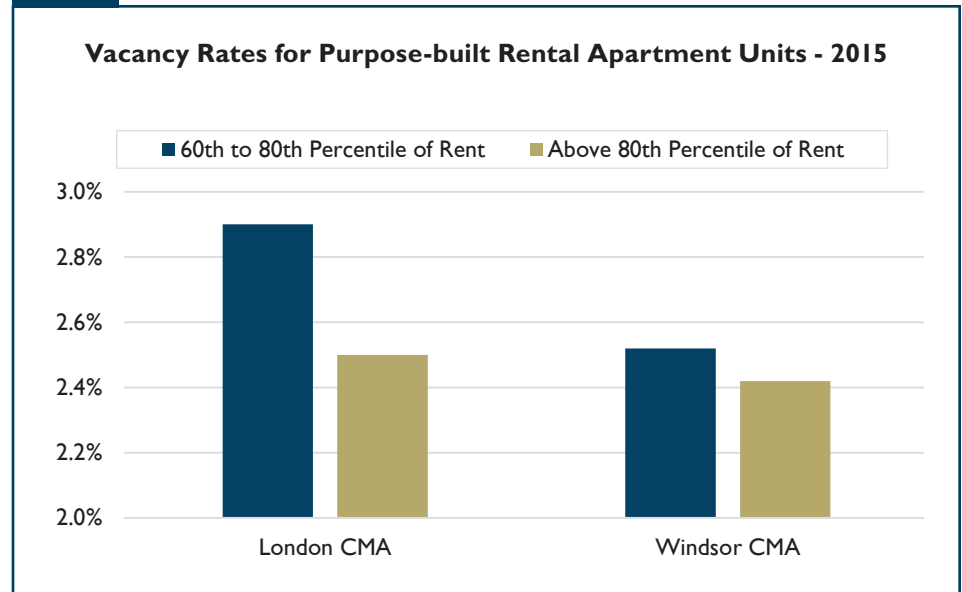
According to CMHC's 2015 Fall Rental Market Survey, the average vacancy rates in Windsor's two highest rent quintiles were 2.5 per cent and 2.4 per cent respectively. In comparison, the average vacancy rate in London's two highest rent quintiles were higher at 2.9 per cent and 2.5 per cent respectively. This can partly be attributed to Windsor's potential first-time buyers having fewer options to buy compared to London's potential first-time buyers.

Low Listings Can Restrain Job Growth

Job growth can be restrained by a low number of homes listed for sale, as it impedes the number of resale home transactions that can occur. Home renovation spending, which tends to be driven by the amount of resale homes that change hands, will also be impeded as a result of low listings. Deterred investment in residential real estate restrains job growth in industries directly affected by resale home transactions.

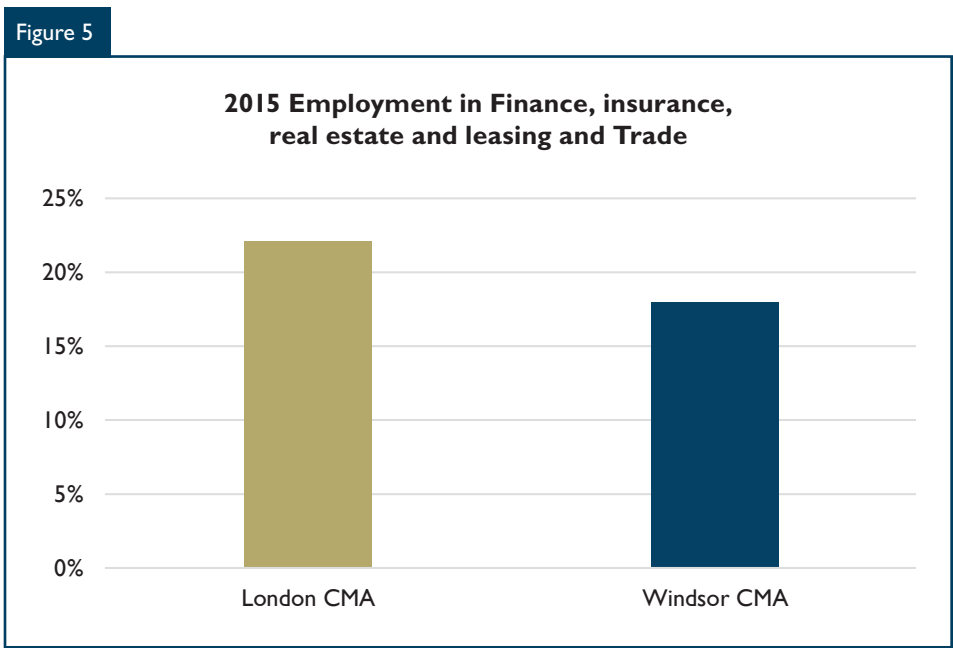
Two employment industries in London and Windsor, namely Finance, insurance, real estate and leasing (banks, realtors, appraisers) and

Figure 4



Source: CMHC (Fall Rental Market Survey)

Trade (wholesalers and retailers of building materials, furniture, home electronics and appliances), are significantly affected by the number of resale home transactions that occur there. Those two industries make up a larger share of London’s employment than Windsor’s employment, partly due to a greater share of London’s homes changing hands each year. In 2015, nearly one of every four jobs in London were in Finance, insurance, real estate and leasing and Trade. Less than one of every five jobs in Windsor were in those same industries in 2015.



Source: CMHC, adapted from Statistics Canada (Labour Force Survey)

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