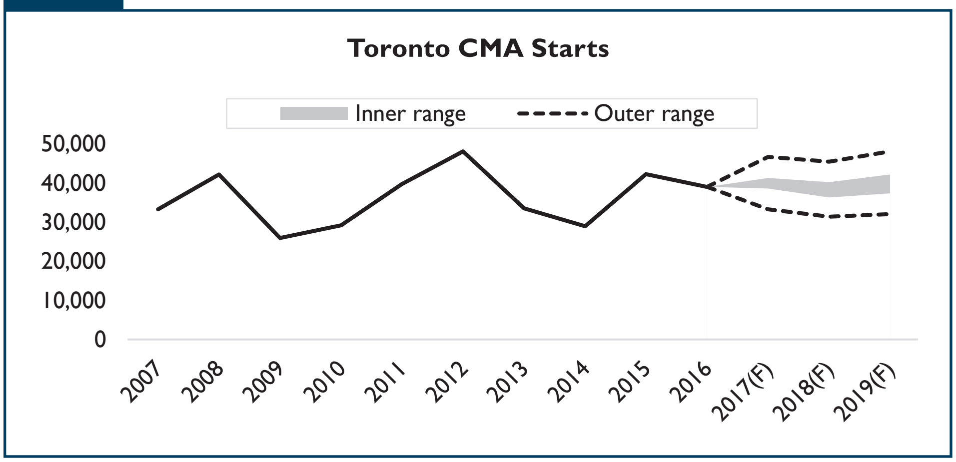
HOUSING MARKET OUTLOOK

Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

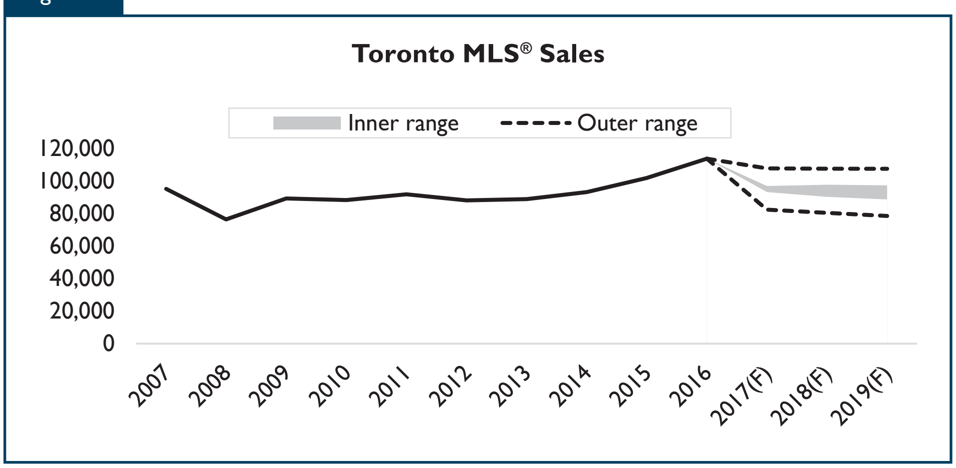
Date Released: Fall 2017

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)

Highlights[1]

- Condominium apartment starts will dominate new home construction
- Balanced conditions will ensue in the resale home market
- The average apartment vacancy rate will reach a historic low

New Home Market

The Toronto CMA new home market is unlikely to experience significant changes over the outlook period. Condominium apartment starts will continue to dominate construction throughout 2018 and 2019. Land constraints, servicing delays and labour constraints leading to higher costs will push back low-rise (particularly single-detached) home starts over the forecast horizon.

Close to 30,000 pre-construction condominium apartment units were sold in Toronto in 2016 – reaching an unparalleled record. An even higher number of sales is expected in 2017, as this housing option continues to appeal to price-sensitive homebuyers and investors. The typical two-year time lag between pre-construction

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

condominium sales and starts will ensure a record pace of high-rise construction in 2018 and 2019.

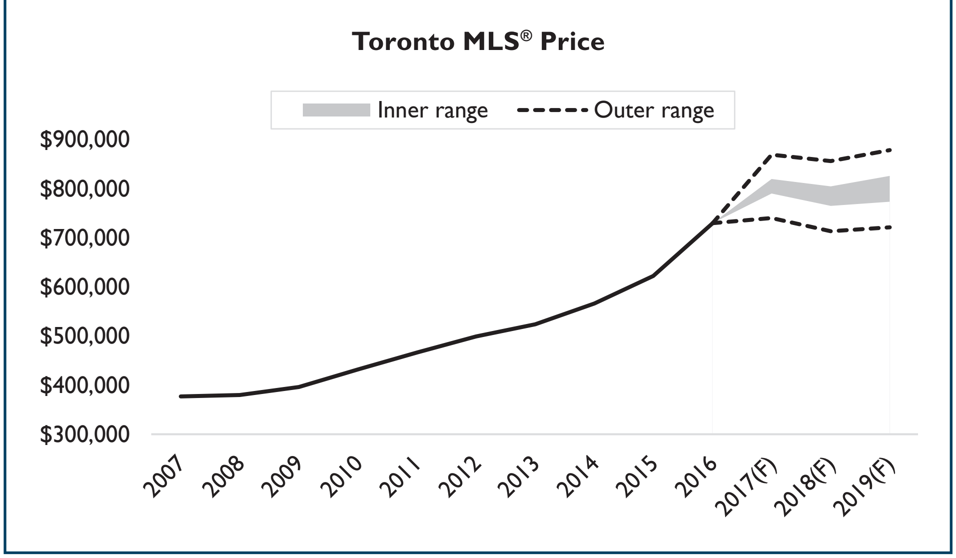
Affordability concerns, declining number of site openings, increasing price gaps with resale market alternatives and a better-supplied resale market will restrain pre-construction sales activity and will weigh on low-rise starts in 2018. New home sales activity of ground-oriented homes should pick up to some extent in 2019 as anticipated tightening in the resale home market will result in some spillover demand into the new home market. The ensuing result will be stronger low-rise home starts in 2019.

Given lengthy delays in getting low-rise projects off the ground (particularly in the 905 areas where servicing delays are more evident), there is a greater downside risk to low-rise housing starts in the forecast horizon. Limited supply of single-detached homes and townhouses (and the resulting upward price pressures) will force more buyers to look towards the condominium apartment market. Therefore, more condominium apartment sales are expected to materialise in the future. These units will begin construction towards the end of the forecast period and provide an upside risk to the current forecast. Other upside risks to the housing starts forecast include stronger than expected job growth, lower than anticipated increases in interest rates and more serviced land becoming available.

Resale Home Market

While the initial reaction to the changes announced through the Ontario government's Fair Housing Plan in April 2017 was swift, homebuyers and sellers will adjust their expectations to suit new market conditions. The Greater Toronto Area (GTA) resale market showed a great degree of transformation in

Figure 3



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

2017. The year started with prices soaring at unprecedented rates and sales reaching new record highs. The demand and supply conditions reversed following a series of legislative reforms aimed at cooling the housing market. House prices began to recede from their peak as a record number of homeowners rushed to sell their houses in anticipation of a market cooling and many buyers postponed their home purchases until a clear sense of the market's direction was regained. New listings will grow at a much slower pace in the second half of 2017 and 2018 as fewer sellers will feel the need to sell at any cost. While more buyers are expected to regain confidence and be lured back by more attractive prices, sales will stabilize over the forecast horizon as a result of anticipated higher interest rates and tighter borrowing conditions.

With balanced market conditions, Toronto home prices will grow more in line with inflation over the forecast horizon. Also, a shift in the sales mix towards more multi-family dwelling homes will also restrain the average price appreciation over the forecast horizon. The condominium market, which is an affordable alternative, is currently in sellers' market territory and is likely to post above average price growth.

There is a risk that Toronto home prices could grow at a slightly faster pace if the local economy boasts strong growth, low-rise home inventories rise and growth in interest rates remain modest. Alternatively, prices could be closer to the bottom end of our range if more restrictive housing policies are implemented over the forecast period.

Rental Market

Demand for rental accommodation in Toronto is expected to grow faster over the outlook period. It will continue to get support from strong immigration inflows. High price levels and rising interest rates will slow the transition from renting to owning. Furthermore, the Rental Fairness Act introduced in 2017, which will expand rent control to all private rental units and offer additional protection for tenants will make rentals a preferable choice for more dwellers. As a result, the average vacancy rate for purpose-built rental apartments in 2017 and 2018 will edge lower to around one per cent, the lowest level in more than 15 years. Over the next few years, the private rental apartment supply is expected to grow at their fastest pace since the early 90s as strong demand will encourage more developers to supply the market with more rental units.

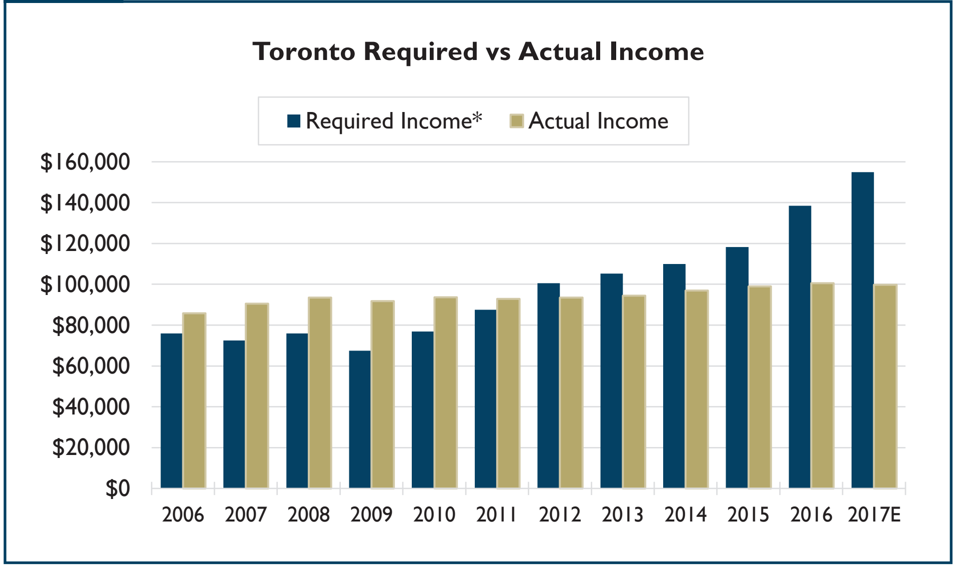
Economy

Employment levels in Toronto are expected to show positive but relatively modest gains over the next two years, keeping the rate of unemployment at around seven per cent. The level of household indebtedness will reach a new high in 2017 and household net worth will be negatively impacted by a cooling housing market and sluggish performance of equity markets. Over the outlook period, in light of tightening borrowing conditions, households' ability to sustain consumption at the same levels and ability to handle higher interest rates will weaken. Furthermore, as the housing market slows it will curtail spending on a range of items associated with moving into a new home. A slowdown in consumer spending will lead to less hiring in the service sector.

Relatively robust and steady economic growth in the United States should support exporters, while some may still face headwinds from the stronger Canadian dollar, growing competition from other economies, and potential changes to trade agreements. Overall, business activity is expected to recover to a stronger level and at least partly offset a slowdown in consumer demand.

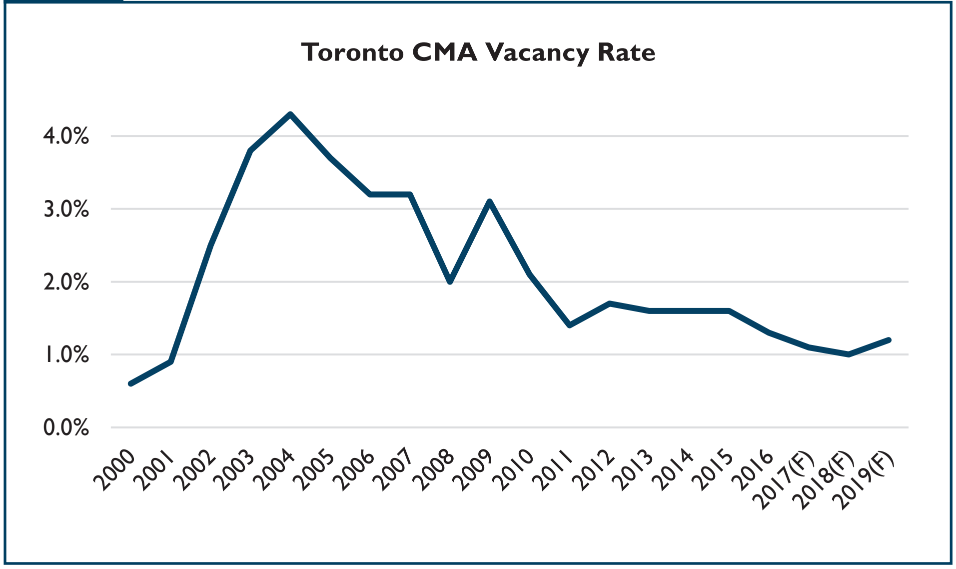
There are some downside risks to the Toronto CMA economy. A more disorderly correction in home prices could spill into other sectors of the economy resulting in weaker job growth. Also, geopolitical and trade tensions could intensify, dampening business confidence, investment and job growth. Alternatively, a stronger US economy, lower than expected interest rates and stronger housing market could result in a stronger than expected job market.

Figure 4



Source: CMHC, adapted from Statistics Canada, CREA, E=Estimate
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32% gross debt service ratio.
Mortgage carrying costs are calculated on the average MLS® price, a 10% down payment, the fixed five-year mortgage rate and the longest available amortization.

Figure 5



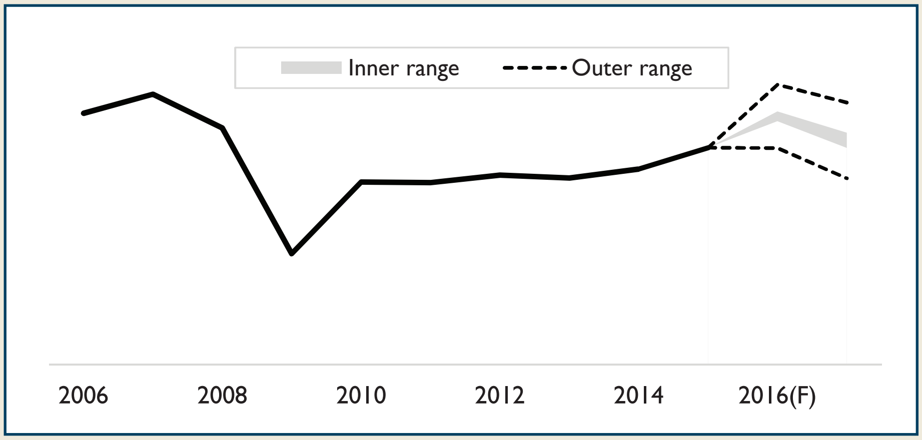
Source: CMHC; (F) = CMHC Forecast

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
Toronto CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	8,830	10,223	11,884	9,500	10,500	4,400	5,800	5,200	6,900
Multiples	20,099	32,064	27,143	29,100	30,900	31,900	35,000	31,900	36,300
Starts - Total	28,929	42,287	39,027	38,600	41,300	36,300	40,200	37,400	42,200
Resale Market									
MLS® Sales	93,278	101,846	113,725	93,100	96,900	90,200	97,800	88,700	97,300
MLS® Average Price($)	566,491	622,046	729,591	790,300	819,700	765,000	805,000	773,800	826,200
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 (%)	1.6	1.6	1.3	1.1	1.0	1.2
Two-bedroom Average Rent (October)($)	1,251	1,288	1,327	1,370	1,410	1,440
Economic Overview						
Population	6,054,920	6,123,930	6,242,273	6,370,000	6,485,000	6,600,000
Annual Employment Level	3,087,400	3,176,700	3,215,000	3,268,000	3,310,000	3,351,000

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).

Forecast Summary Oshawa CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,141	1,418	945	1,000	1,200	750	1,050	850	1,200
Multiples	530	1,169	1,546	1,200	1,400	750	1,000	850	1,150
Starts - Total	1,671	2,587	2,491	2,250	2,600	1,600	2,000	1,800	2,300
Resale Market									
MLS® Sales	10,343	11,368	12,096	9,900	10,400	9,200	9,900	9,400	10,300
MLS® Average Price($)	388,610	439,842	528,475	610,900	631,100	591,200	622,800	601,800	638,200
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 (%)	1.8	1.7	1.7	1.6	1.6	1.7
Two-bedroom Average Rent (October)($)	1,010	1,035	1,109	1,160	1,185	1,215
Economic Overview						
Population	383,831	388,563	393,977	400,000	406,000	411,500
Annual Employment Level	201,400	196,400	214,000	212,300	217,200	219,800

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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. Oshawa MLS® data are taken from Durham Region. 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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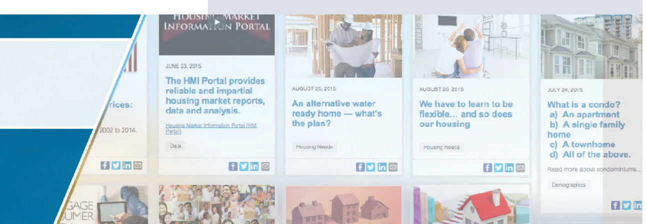

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