

HOUSING MARKET OUTLOOK

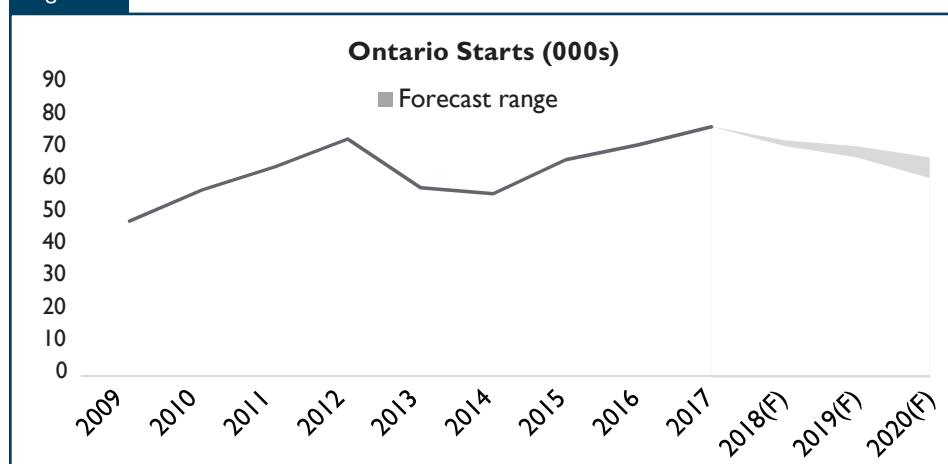
Ontario Region Highlights



CANADA MORTGAGE AND HOUSING CORPORATION

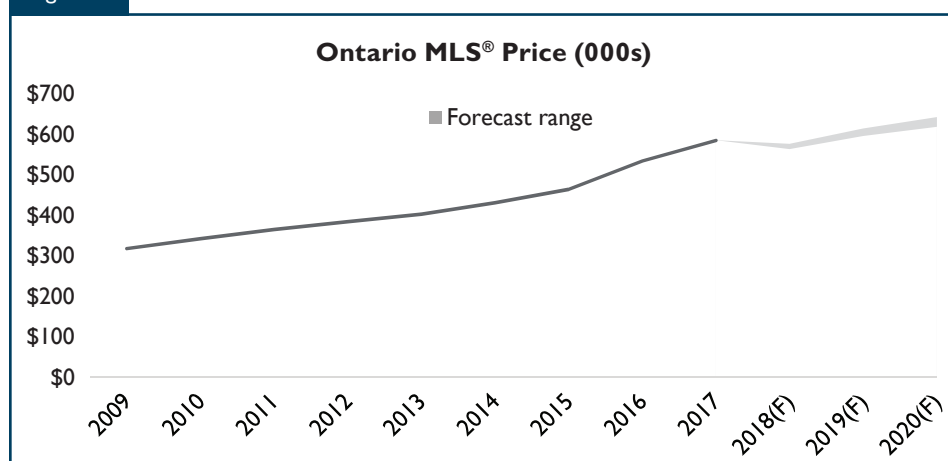
Date Released: Fall 2018¹

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

- Ontario condominium and rental construction will remain elevated before slowing in 2020.
- Existing home sales and prices will partially recover but prices will grow more moderately.
- Rental vacancy rates will remain low from a historical perspective.
- Prospective buyers should expect more choice by 2020 while owners and investors should dampen their price and return expectations.

Apartment starts will remain elevated while row starts will dominate longer term

Ontario residential starts will remain elevated later this year and into the first half of 2019. Less choice in the resale market, good job growth and stronger than expected growth in new households formed in recent years will support housing starts. By 2020, weaker full time job growth, rising interest rates and more choice in the resale market will dampen total housing starts.

¹ The forecasts and historical data included in this document reflect information available as of October 5, 2018.

Multi-unit starts will continue to command a larger share of construction activity in the short run. A relatively more affordable apartment segment, less choice in the apartment resale and rental markets will support high-rise construction. However, weaker investor and first time buyer demand, owing to slower condominium price growth, rising interest rates and more high density options, will dampen condominium starts longer term. This combined with the need among repeat buyers for more ground oriented affordable housing options will mean townhome construction will outpace both apartment and single detached starts activity by 2020.

We remain bullish on Eastern Ontario construction markets. A combination of relatively affordable markets, fewer market imbalances and stronger local economies bode well for these housing markets. Alternatively, relatively more expensive markets in the GTA and surrounding communities will experience cooler market conditions.

Risks to the construction outlook are tilted to the downside. More pronounced increases in interest rates, rising construction costs and fewer serviced single detached lots available for residential development could pull starts below the forecast range. Alternatively, stronger household formation, a better than expected job market, owing to stronger exports and business spending, could support stronger than expected starts activity.

A recovery in existing home sales and prices is underway

After hitting record levels of activity in 2016, Ontario existing homes sales hit a trough in the second quarter of 2018 and are now slowly recovering. We expect home sales to continue trending higher before easing by 2020. Some prospective buyers sitting on the sidelines early this year will be re-entering the market as they slowly adjust to tighter mortgage market conditions. Also, the lagged effects of a strong job market and high levels of in-migration will continue supporting existing home demand before eroding affordability and a slower growing economy dampen housing demand by 2020.

Ontario home prices stabilized in the second quarter following declines since early 2017 and will post a modest recovery through the forecast horizon. While a tight condominium market rebalances owing to less first time buyer demand and more apartment listings, condominium prices will still grow and outpace the growth in single detached home prices. Nevertheless, single detached prices will firm up as new listings remain below recent highs due to elevated home owner price expectations combined with the desire among households to renovate versus to move into a new dwelling. Indeed, even in the face of weaker existing sales, Ontario renovation spending continues to grow according to recent data from Statistics Canada.

Risks to the resale market are tilted to the downside. A more pronounced erosion of affordability could dampen housing demand and prices by more than expected. Alternatively, an export driven boost to business confidence, investment and job creation due to a stronger US economy and new trade deal could push sales and prices to higher than expected levels – especially in 2019.

Ontario rental vacancy rate will remain near historic lows

Ontario rental vacancy rates will remain near historic lows while rents will continue to grow at rates above inflation. Growing rental demand will be addressed by rising completions of condominium and purpose-built rental, particularly in 2020. Rising mortgage carrying costs, strong renter household formation and an aging population will support growth in rental demand across the province.

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Forecast Summary Ontario Fall 2018									
	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	24,953	30,079	29,713	24,100	25,700	23,900	26,300	21,100	24,900
Multiples	45,203	44,873	49,410	49,100	52,000	45,700	49,300	42,500	46,500
Starts - Total	70,156	74,952	79,123	74,500	76,300	70,800	74,400	64,200	70,800
Resale Market									
MLS® Sales	226,956	245,845	221,396	189,800	193,200	205,000	214,600	196,000	211,600
MLS® Average Price(\$)	464,052	534,103	585,188	563,600	576,400	595,900	614,100	618,900	642,500
Economic Overview									
Mortgage Rate(5 year)(%)	4.67	4.66	4.78	5.00	5.60	5.40	6.20	5.50	6.50

	2015	2016	2017	2018(F)	2019(F)	2020(F)
Rental Market						
October Vacancy Rate (%)	2.3	2.0	1.5	1.2	1.4	1.5
Two-bedroom Average Rent (October)(\$)	1,149	1,185	1,245	1,289	1,338	1,385
Economic Overview						
Population	13,846,162	14,053,658	14,279,196	14,502,950	14,716,400	14,907,520
Annual Employment Level	6,923,200	6,999,600	7,128,000	7,241,400	7,355,900	7,431,800
Net Migration	94,785	175,136	192,636	183,498	168,000	152,900
Average Weekly Earnings (\$)	938	959	967	1,003	1,019	1,038

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Corresponds to universe of privately initiated rental apartment structures of three units and over. Historical and forecast values are an aggregate roll-up of the Census Metropolitan Area (CMA) historical data and forecasts from each province.

The forecasts (F) included in this document are based on information available as of 5th October 2018. (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 - Market Absorption Survey - Rental Market Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2018-2020).

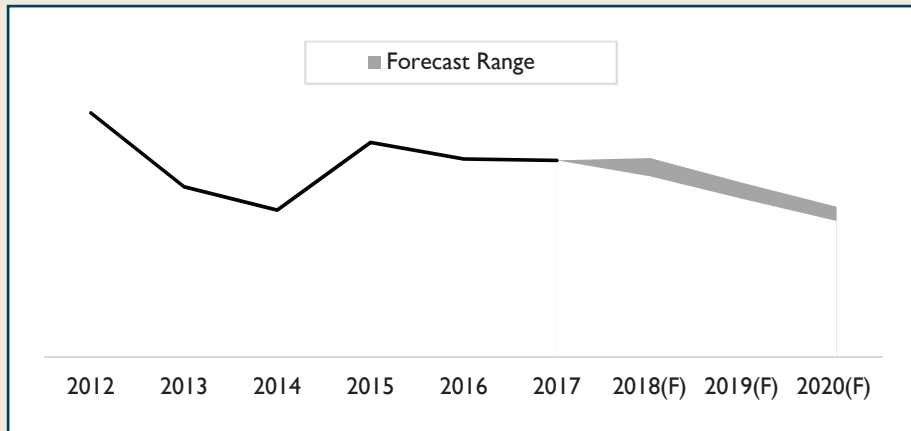
Methodology for forecast ranges

This edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. However, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available.

The range provides a relatively precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. The range is based on the coefficient of variation* of historical data and on past

forecast accuracy. It provides precision and direction for forecasts of housing variables,

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



* 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.

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.

Dwelling Types

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.

Intended Market

Freehold Start:

Refers to the commencement of construction of a residence where the owner owns the dwelling and lot outright.

Condominium (including Strata-Titled) Start:

Refers to the commencement of construction of an individual dwelling which is privately owned, but where the building and/or the land are collectively owned by all dwelling unit owners. A condominium is a form of ownership rather than a type of house.

Rental Start:

Refers to the commencement of construction of a dwelling constructed for rental purposes regardless of who finances the structure.

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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DATA TABLES AVAILABLE ONLINE

- Funding and Securitization Data
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