

## HOUSING MARKET OUTLOOK

## Southwestern Ontario



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2018<sup>1</sup>

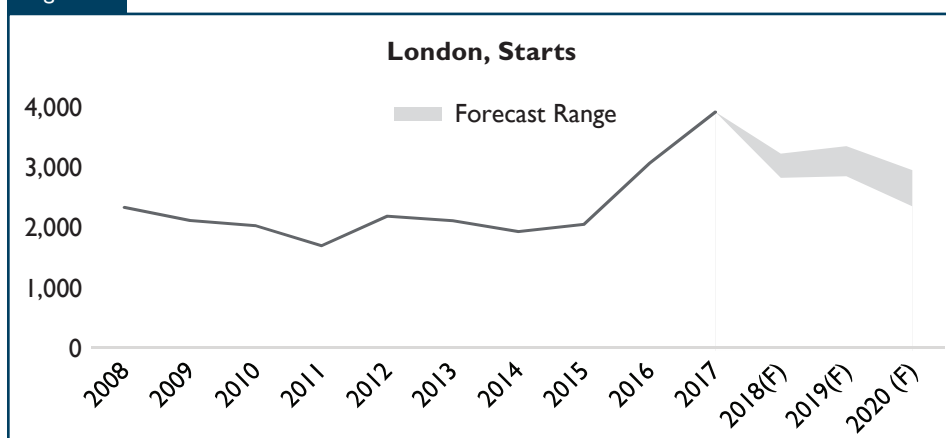
## Highlights

- Total housing starts will remain steady in London and Windsor due to strength in multi-unit segments
- Existing home sales in both regions will remain above average, but 2018 and 2019 will be lower than 2017 levels
- Despite higher prices, Southwestern Ontario<sup>2</sup> markets continue to offer affordable housing options for prospective buyers
- Vacancy rates<sup>3</sup> in both London and Windsor will fall in 2018, followed by modest increases next year

## Apartments will support housing starts

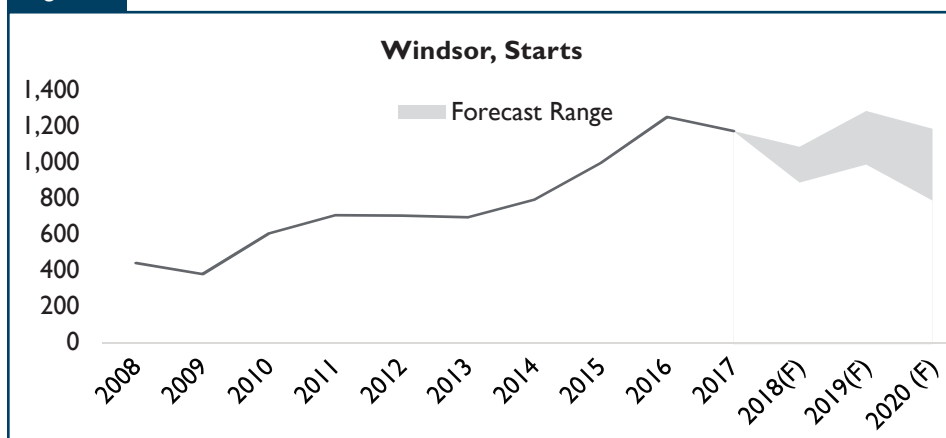
Total housing starts in London and Windsor Census Metropolitan Areas (CMAs) are expected to finish 2018 below the high levels recorded a year ago. In 2019, we will see a strong number of multi-unit starts, which will compensate for some of the weakness in single-detached starts. Housing starts will trend lower into 2020 as slower economic and population growth lead to weaker demand for new housing.

Figure 1



Source: CMHC (F): Forecast

Figure 2



Source: CMHC (F): Forecast

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

<sup>2</sup> Southwestern Ontario includes the Census Metropolitan Areas of London and Windsor.

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

Apartments will play an important role in new housing starts next year. In London, a tight rental market is attracting greater interest in purpose-built rental construction. While in Windsor, development incentives will result in some of the most significant apartment construction in many years. Single-detached and row starts are expected to remain steady in both regions next year as spillover from supply constrained existing home markets continue, yet to a lesser extent than in 2017. Demand for ground-oriented homes will wane in 2020 as higher home prices and financing costs put a certain amount of sand in the gears.

Downside and upside risks are balanced. Slower than expected migration to Southwestern Ontario, higher than expected construction costs, and fewer than expected serviced lots available for development could pull starts below projected levels. Alternatively, stronger migration and rental demand has the potential to see the start of a greater than expected number of new apartment units.

## Existing home market to remain steady in 2019

Existing home sales in London and Windsor CMAs trended higher throughout 2018, yet will finish the year at much lower levels compared to last year. In both regions, home sales have eased from the extraordinary levels of 2017 and

will be more aligned with economic fundamentals. Lower sales this year and going forward can be partially attributed to less spillover demand from the Greater Golden Horseshoe region.

In 2019, existing home sales will remain strong and near current levels, however growth will be kept in check by increasing mortgage rates and home price growth that will erode affordability for some potential buyers. Sales will start to move lower in 2020 towards long-term averages, as pent up demand is exhausted. Additionally, global economic growth is expected to cool, which will dampen employment growth in the region.

London and Windsor's average MLS® prices will move higher, albeit at a slower pace than 2018. Home price growth will face pressure from increased supply. The number of active listings is currently low and is providing strong upward lift to prices, however, increased new housing completions and slower existing home sales activity will allow active listings to accumulate. In Windsor, the relative affordability of housing could see home prices grow faster than expected.

Economic fundamentals in Southwestern Ontario remain supportive. Solid economic conditions in the U.S. and globally, offer brighter prospects for export oriented sectors. The low Canadian dollar will continue to provide export

competitiveness. A recent agreement in principle on a new trade agreement with the United States and Mexico should deliver renewed confidence for business investment. The subsequent growth in employment and incomes will continue to sustain elevated housing market activity.

A number of announced construction projects including the Gordie Howe International Bridge in Windsor, and later in our forecast period the proposed Bus Rapid Transit Line in London, will likely result in a greater number of construction jobs. In London, robust employment and housing activity, combined with a brighter investment outlook could see a greater boost to its large financial services industry. Another industry with the potential for economic growth in London is the technology sector that is seeing incremental, but important growth. Southwestern Ontario in general is also expected to benefit from stronger demand for agriculture products.

Should darker scenarios surrounding the global economy arise, or interest rates increase faster than expected, existing home sales and prices could be lower than expected. Additionally, the perennially strong contributor to employment growth has been the education and health care sectors, which may provide less than expected employment growth in our forecast period due to budget deficits that may require spending restraints.

## SUBSCRIBE NOW!

Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.

Get your [myCMHC account](#) today!

## **Rental market to remain tight on strong demand**

The vacancy rate in London and Windsor CMAs declined steadily over the past decade. This trend is set to continue in 2018 because a healthier economy will attract migrants who will absorb unoccupied units. Greater enrollments at local post-secondary institutions, many of whom are international students, will also add to rental demand. Moreover, increased mortgage borrowing costs are likely going to keep a greater number of renters from entering the homeownership market.

Nevertheless, as a result of supply growth, the vacancy rate in London and Windsor is expected to bottom out in 2018 and move higher into 2020. Relatively higher rents and persistently low vacancy rates has encouraged greater investment in new rental apartments, more so in London. As of September 2018, the past year has seen marked growth in newly completed rental apartments, with a large number still under construction. These new units will go a long way to providing more choice in the market.

The average two-bedroom rent will see growth this year and next. Vacancy rates tended to be the lowest among new buildings as renters appreciated the new amenities that these buildings offer. Consequently, these newer units are able to fetch a higher rent, which will continue to support newer developments.

Forecast Summary London CMA Fall 2018									
	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
<b>New Home Market</b>									
<b>Starts:</b>									
Single-Detached	1,046	1,425	1,840	1,350	1,550	1,300	1,600	1,200	1,600
Multiples	1,058	1,691	2,127	1,450	1,750	1,550	1,850	1,100	1,500
Starts - Total	2,104	3,116	3,967	2,875	3,275	2,900	3,400	2,400	3,000
<b>Resale Market</b>									
MLS® Sales	9,499	10,375	11,248	9,500	10,100	9,200	10,100	8,700	9,700
MLS® Average Price(\$)	264,733	279,867	329,740	360,000	370,000	370,000	390,000	378,000	402,000
<b>Economic Overview</b>									
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)
<b>Rental Market</b>						
October Vacancy Rate (%)	2.9	2.1	1.8	1.5	1.9	2.2
Two-bedroom Average Rent (October)(\$)	963	1,002	1,041	1,065	1,080	1,100
<b>Economic Overview</b>						
Population	505,837	513,142	521,756	530,000	536,000	542,000
Annual Employment Level	252,000	245,900	245,800	252,000	255,000	256,500

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 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).

Forecast Summary Windsor CMA Fall 2018									
	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
<b>New Home Market</b>									
<b>Starts:</b>									
Single-Detached	709	804	760	600	650	600	700	500	700
Multiples	301	462	427	325	425	400	600	250	450
Starts - Total	1,010	1,266	1,187	900	1,100	1,000	1,300	800	1,200
<b>Resale Market</b>									
MLS® Sales	6,615	7,267	7,373	6,300	6,700	6,300	6,900	5,850	6,550
MLS® Average Price(\$)	197,107	222,277	260,387	293,000	297,000	304,000	313,000	309,000	320,000
<b>Economic Overview</b>									
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)
<b>Rental Market</b>						
October Vacancy Rate (%)	3.9	2.9	2.4	1.7	1.9	2.1
Two-bedroom Average Rent (October)(\$)	824	852	868	900	920	940
<b>Economic Overview</b>						
Population	336,391	340,245	344,747	350,000	354,500	358,000
Annual Employment Level	158,000	164,100	162,800	164,500	167,000	169,000

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 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).

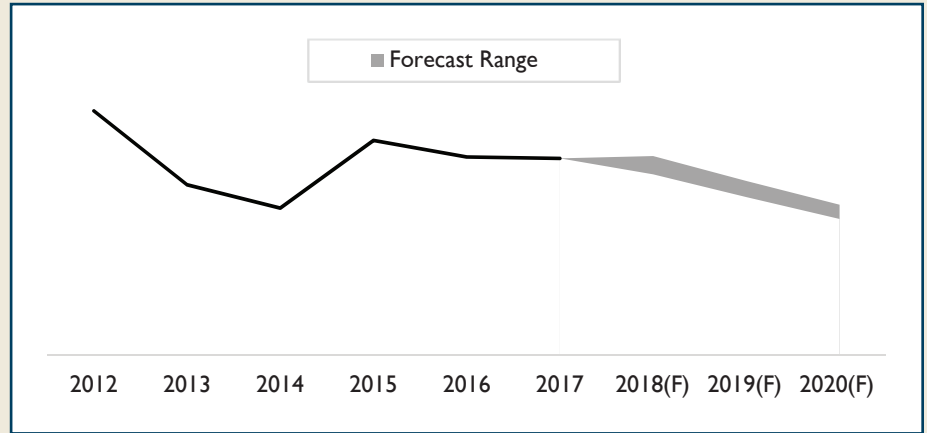
## Methodology for forecast ranges

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.



## CMHC HELPS CANADIANS MEET THEIR HOUSING NEEDS.

Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians meet their housing needs for more than 70 years. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer unbiased housing research and advice to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

For more information, visit our website at [www.cmhc.ca](http://www.cmhc.ca) or follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

©2018 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of this CMHC publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or the entire content of, this CMHC publication, please send a Copyright request to the Housing Knowledge Centre at [Housing\\_Knowledge\\_Centre@cmhc.ca](mailto:Housing_Knowledge_Centre@cmhc.ca). Please provide the following information: Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

# Housing market intelligence you can count on

## PUBLICATIONS AND REPORTS AVAILABLE ONLINE

*Local, regional and national analysis and data on current market conditions and future trends.*

- Housing Information Monthly
- Housing Market Assessment
- Housing Market Insight
- Housing Now Tables
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Northern Housing
- Housing Market Outlook, Canada and Major Centres
- Preliminary Housing Starts Data
- Rental Market Reports, Canada and Provincial Highlights
- Rental Market Reports, Major Centres
- Seniors' Housing Reports
- Mortgage and Consumer Credit Trends Report

## DATA TABLES AVAILABLE ONLINE

- Funding and Securitization Data
- Household Characteristics
- Housing Market Data
- Housing Market Indicators
- Mortgage and Debt Data
- Rental Market Data

## HOUSING MARKET INFORMATION PORTAL

*The housing data you want, the way you want it.*

- ✓ Information in one central location
- ✓ Desktop and mobile friendly
- ✓ Neighbourhood-level data

**[cmhc.ca/hmportal](http://cmhc.ca/hmportal)**

## SUBSCRIBE NOW

*Get email notifications when CMHC publications are released or updated. Sign up for a free myCMHC account for enhanced site access, including one-click subscriptions to the reports and tables that matter to you.*

**Get your myCMHC account today!**

**Get the market intelligence you need today!**

Find all the latest trends, research and insights at **[cmhc.ca/housingmarketinformation](http://cmhc.ca/housingmarketinformation)**

## Housing Observer

Featuring quick reads and videos on...

- Analysis and data
- Timely insights
- Updates to housing conditions, trends and much more!

Subscribe today to stay in the know!

**[www.cmhc.ca/observer](http://www.cmhc.ca/observer)**

