

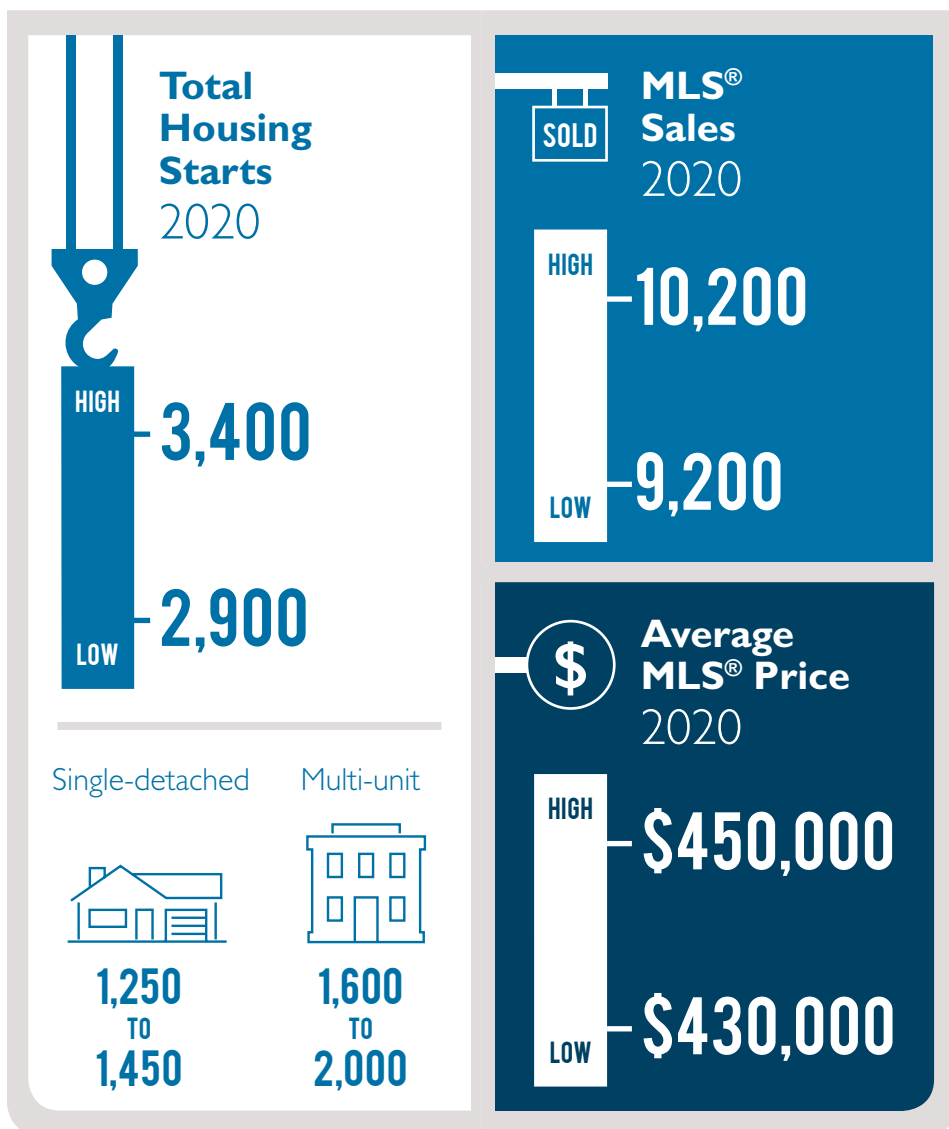
HOUSING MARKET OUTLOOK

London CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2019¹



Housing activity is expected to remain elevated in 2020.

“Over our forecast horizon, less multi-unit construction will lead to fewer total housing starts. Home sales should steady as fundamentals underpin the existing home market.”

Andrew Scott
Senior Analyst, Economics

¹ The forecasts and historical data included in this document reflect information available as of September 12, 2019.

Highlights

- Lower multi-unit starts will be offset by higher single-detached starts next year.
- Existing home sales will remain above average, but lower than the recent high recorded in 2017.
- The rental market vacancy rate² will remain relatively stable.

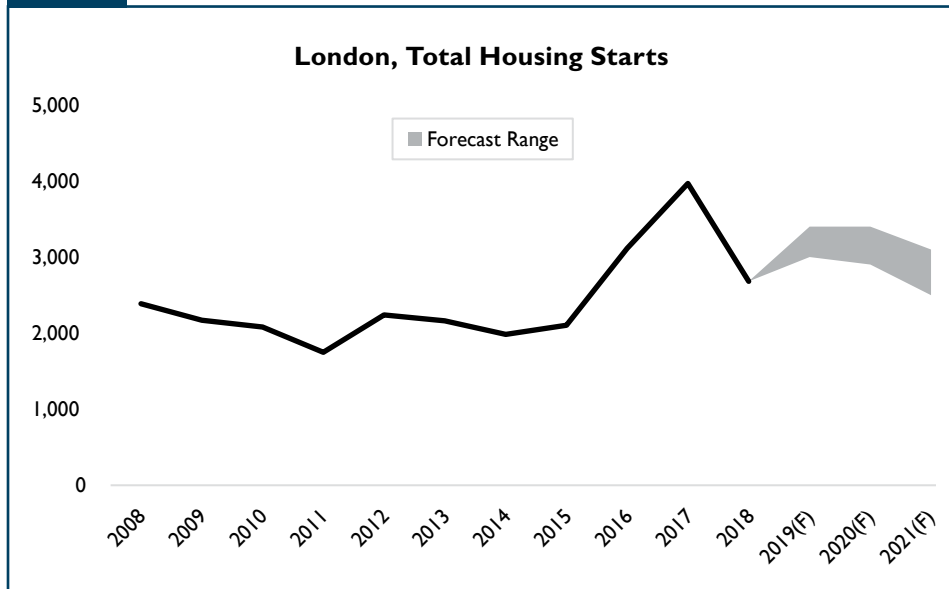
Housing starts to trend lower into 2021

Total housing starts in London Census Metropolitan Area (CMA) are expected to finish 2019 significantly higher than in 2018. This year's level of multi-unit starts is unlikely to be repeated in 2020, however a greater number of single-detached starts should keep the total number of starts stable next year. Moving into 2021, slower economic and population growth, as well as more choice in the existing home market, are likely to lead to less demand for new housing.

Apartment starts will play a diminished role in the next two years, yet still an important one. So far this year, homebuilders have responded strongly to a persistently low vacancy rate. As homebuilders continue to focus on completing the high number of current projects, their ability to start work on new projects will be limited, particularly in 2021.

After two years of decline, single-detached starts are expected to see growth next year. Sustained income gains and continued consumer confidence will support ground-oriented starts in 2020.

Figure 1



Source: CMHC
(F): Forecast

Homebuilders are currently funneling demand toward existing unsold inventory and will build more next year, when demand is expected to strengthen. The recent slowdown has eased constraints on the supply of single-detached lots, thus increasing the likelihood of greater capacity for new starts. Nevertheless, any recovery in this space will be limited due to elevated prices and modest increases in borrowing costs. It is also possible that this expected recovery in ground-oriented starts shows up more so in row homes, as buyer preferences and budget constraints shift more demand to this dwelling type.

Downside and upside risks surrounding our housing starts forecast are generally balanced. Slower than expected migration or higher than expected construction

costs could pull starts below projected levels. Alternatively, stronger migration from higher priced housing markets and less supply in the existing home market have the potential to push the number of starts higher than our forecast.

Existing home sales to remain steady

Existing home sales in London CMA gained strength throughout 2019, as lower borrowing costs and accelerating wage growth increased demand. After a period of change in 2018, existing home sales are expected to remain steady into 2020, with a slight decline anticipated in 2021. A relatively benign economic outlook for London CMA does not portend a major shift in the level of existing home sales activity.

² In apartment structures with three or more units purpose-built for the rental market.

Home sales will be kept in check by modest increases in mortgage rates, during a time when a rising population among first-time homebuyer demographics will offer key support.

The average MLS® existing home price in London CMA will continue to move higher, albeit at a slower rate of growth than in 2019. Home price growth will be constrained by an increase in new listings. The number of active listings is currently low, providing upward lift to prices. However, the expected sideways move in existing home sales will allow listings to accumulate in the next two years.

Overall, robust population increases, modest employment growth and rising incomes will continue to sustain relatively elevated housing market activity. These same factors could also provide upside risks to the forecast. However, if darker scenarios surrounding the global economy arise, or interest rates increase faster than expected, existing home sales and prices could be lower than our forecast.

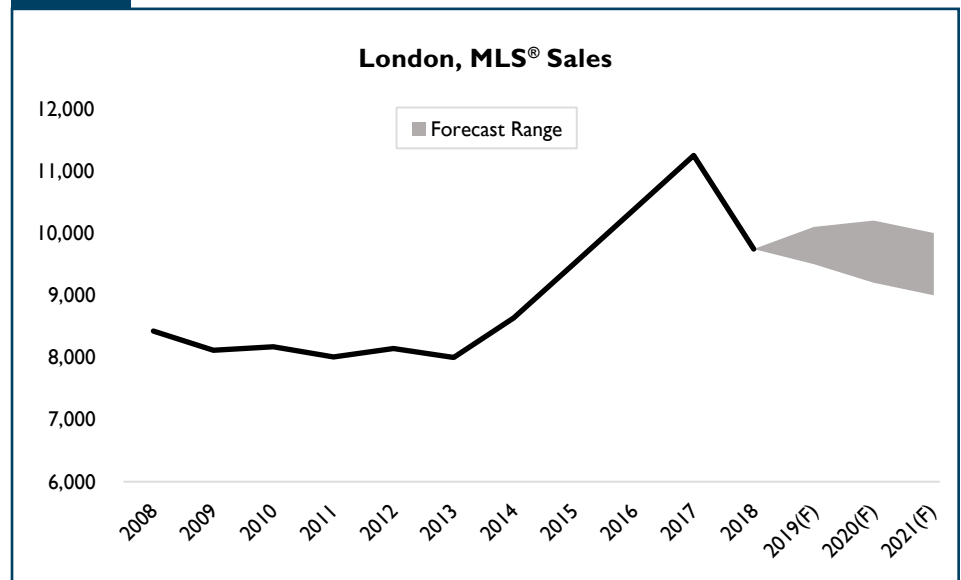
New completions will relieve downward pressure on the vacancy rate

Pressures on the direction of the vacancy rate appear balanced going forward. Population growth, driven by migration is expected to continue, although at a lower rate than in recent years. Greater enrollments at local post-secondary institutions will also add to new rental demand. The forecasted growth in demand for rental accommodation is expected to be absorbed into a growing rental housing stock. The number of rental apartments under construction continues to increase and an elevated number of completions will result over the next two years.

Economic growth is expected to slow among major trading partners

Uncertainty surrounding trade disputes and weaker investment intentions will restrict growth in London CMA's goods producing sectors. Manufacturing in the London region is likely to remain a source of some employment growth due to announced investments in the defense and food-processing sectors. The provincial government's 2019 budget outlined spending restraint, which will likely mean stable employment levels for the large health care and education industries in London.

Figure 2



Sources: CREA, CMHC
(F): Forecast

To access regional and CMA housing market outlook reports, click on the following link: <https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/housing-market-outlook-highlights>

Forecast Summary London CMA Fall 2019									
	2016	2017	2018	2019(F)		2020(F)		2021(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,425	1,840	1,415	1,150	1,250	1,250	1,450	1,200	1,500
Multiples	1,691	2,127	1,264	1,850	2,150	1,600	2,000	1,200	1,700
Starts - Total	3,116	3,967	2,679	3,000	3,400	2,900	3,400	2,500	3,100
Resale Market									
MLS® Sales	10,374	11,247	9,742	9,500	10,100	9,200	10,200	9,000	10,000
MLS® Average Price(\$)	279,867	329,765	369,086	405,000	415,000	430,000	450,000	440,000	470,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.66	4.78	5.27	5.00	5.60	5.40	6.20	5.50	6.50

	2016	2017	2018	2019(F)	2020(F)	2021(F)
Rental Market						
October Vacancy Rate (%)	2.1	1.8	2.1	2.2	2.3	2.5
Two-bedroom Average Rent (October)(\$)	1,002	1,041	1,087	1,130	1,160	1,180
Economic Overview						
Population	508,988	520,409	532,984	542,000	549,000	556,000
Annual Employment Level	245,900	245,800	252,900	248,000	252,000	253,000

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 12th September 2019. (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 (2019-2021).

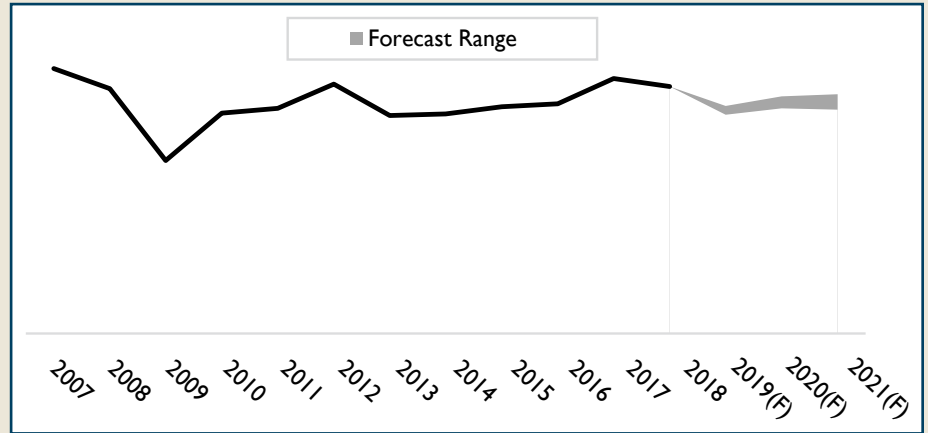
Methodology for forecast ranges

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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- 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
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