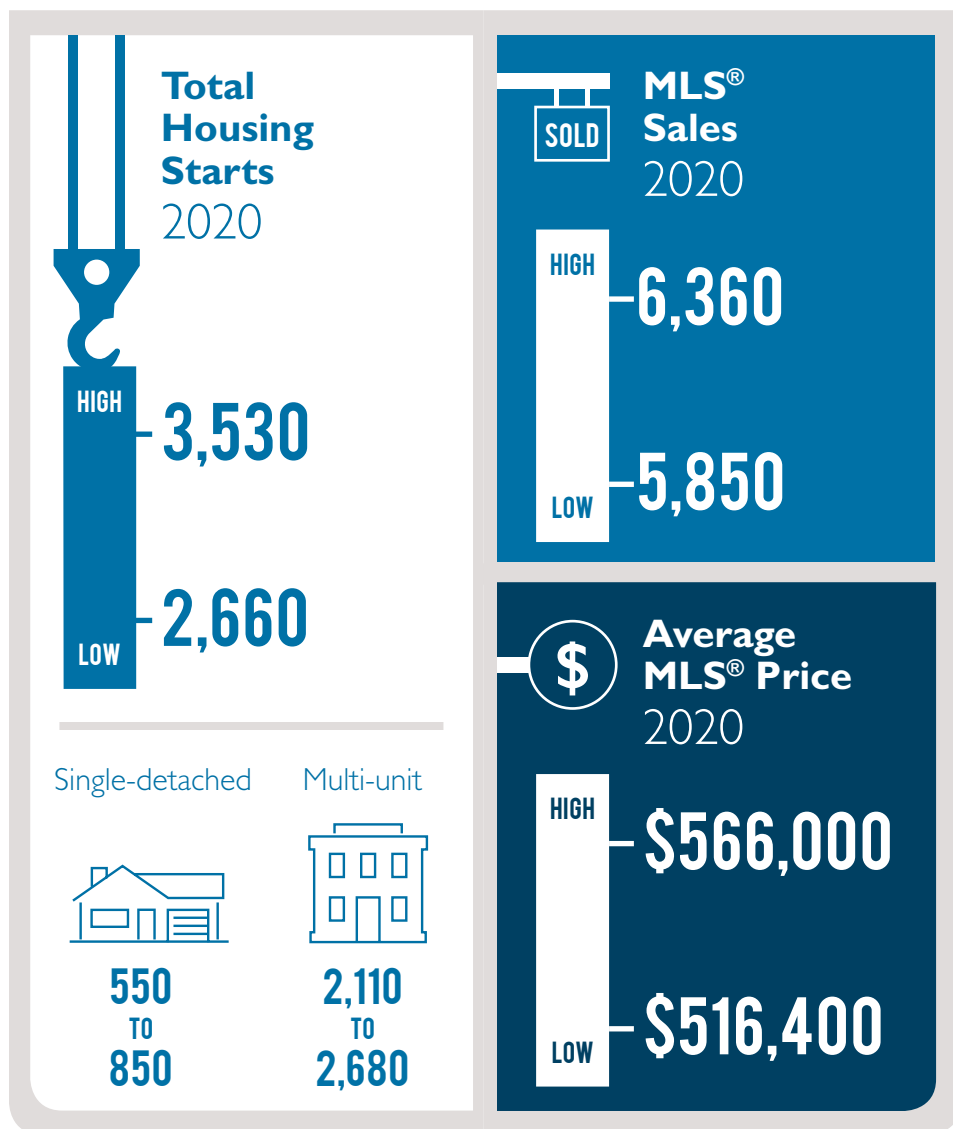


# HOUSING MARKET OUTLOOK

## Kitchener-Cambridge-Waterloo CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2019<sup>1</sup>

**The growing proportion of multi-unit starts is expected to continue into 2020.**

"Continued strong population growth and positive employment outlook will support housing demand, pushing sales and average MLS<sup>®</sup> prices up over the next two years."

**Jennifer Y. Tsao**  
Senior Analyst, Economics

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

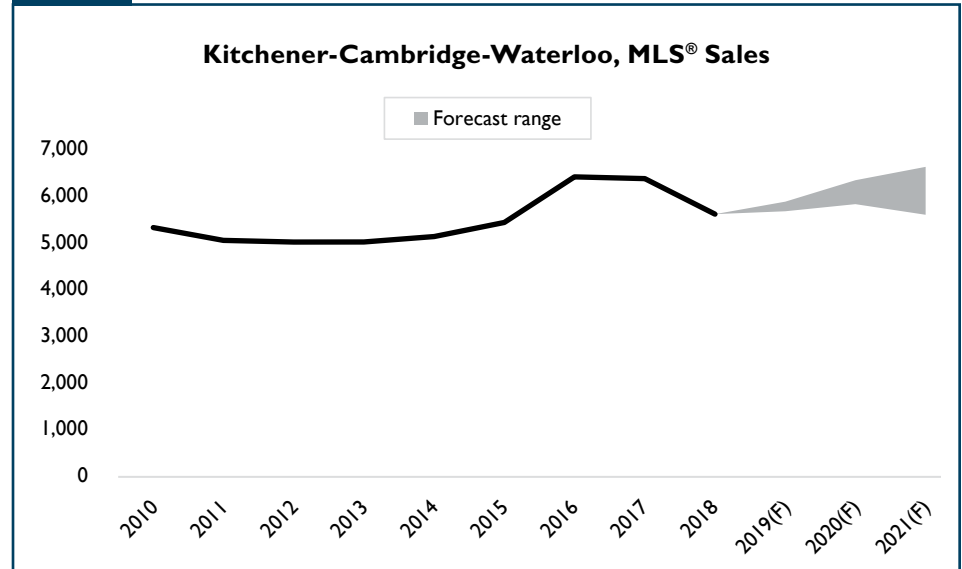
## Highlights

- Existing home sales will remain above historical averages, with the range of forecasts rising incrementally in both 2020 and 2021 above expectations for 2019.
- New home construction will moderate in 2020 relative to the number of starts experienced in 2019. Total housing starts will remain steady in KCW CMA due to strength in multi-unit segments.
- Steady population growth and the increasing proportion of seniors will contribute to keeping rental market conditions tight.

## Resale prices to continue climbing at a moderate pace

Seasonally adjusted average prices in Kitchener-Cambridge-Waterloo (KCW) CMA have been climbing since the fourth quarter of 2018. For the next two years, the resale market in KCW will be characterized by a steady increase in sales and prices. Population growth is expected to continue to be a strong driver of housing demand. KCW's population in 2018 grew by 2.6 percent over its 2017 levels, which is well above the provincial growth rate of 1.8 percent during the same period.<sup>2</sup> Admissions of new permanent residents will continue to contribute to the population increase, resulting in robust sales over the coming two years. The prevailing decline in the unemployment rate will also support housing demand. Employment outlook is generally positive due to the strength of the technology sector. While borrowing costs are forecasted to rise, this downside risk will likely

Figure 1



Source: CREA  
(F): Forecast

be balanced by solid economic fundamentals, which will support demand in the resale market and continue to push up sales and prices.

## New home construction will moderate in 2020 following a strong 2019

Total housing starts in KCW CMA are expected to finish 2019 above the moderate levels recorded in 2018. Notably, 62 percent of total starts in between January to August of 2019 occurred in Kitchener alone, where the same ratio has typically been around 43 percent over the last five years. The above average construction activity in Kitchener this year reflected numerous permit applications submitted before the development charges exemption ended in early 2019. In fact, April 2019 alone saw 1,026 apartment starts in Kitchener, the second highest being half that amount recorded in June 1990.

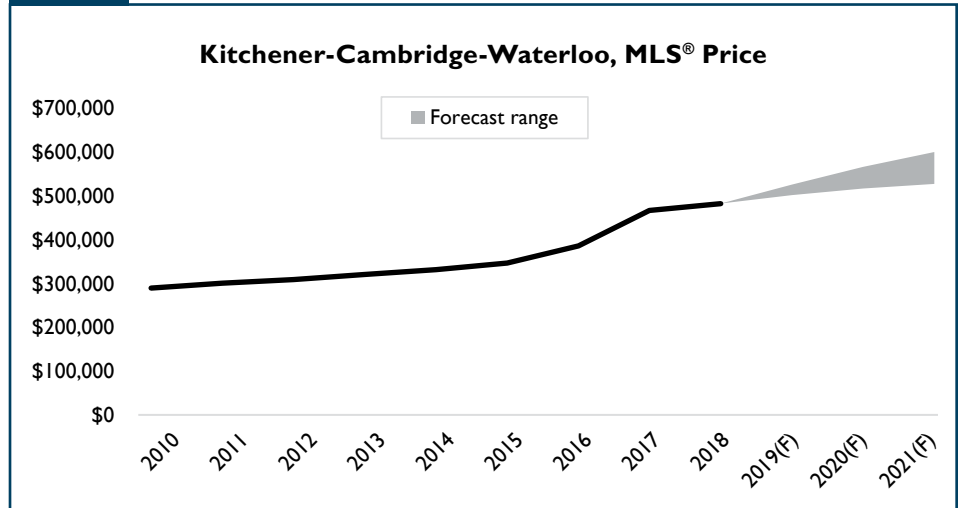
In 2020, the range of starts in KCW forecasted are expected to be moderate compared to 2019, but overall, total starts are expected to remain above the 10-year historical average. The growing proportion of dwelling starts in the multi-unit (semi-detached, rows, and apartments) category is expected to continue. Interest rates are forecasted to climb in 2020. Higher borrowing costs and the elevated number of units under construction will contribute to starts normalizing in 2020. The provincial economy will exhibit modest growth in 2019, but be back on track in 2020 through to 2021 at 1.8 percent growth per annum, contributing to our expectation of increased housing starts in 2021. Projected robust growth in real disposable income per household, as well as steady growth in household formation will both contribute to healthy demand for new homes.

<sup>2</sup> The population figures for 2016 and 2017 in this publication differ from those reported in CMHC's Housing Market Outlook – Central Ontario (Fall 2018) because a new series was used for forecasting.

## Rental market expected to remain tight

The rental market is expected to remain tight over the forecast horizon. While the purpose-built rental supply has expanded by 20 percent over the last four years, demand in the primary market is expected to keep pace. The effects of supply additions is unlikely to boost the vacancy rate over the forecast horizon. Strong population growth and the increasing enrollment of full-time international students will continue to contribute to rental demand. In addition, the fastest growing segment of the population, seniors (aged 65 and above), is expected to continue its steady growth and will make up just under 16 percent of the population in KCW by 2021. The recently completed LRT line represents both an upside and downside risk to the forecast. The LRT will likely alter the distribution of rental demand in Kitchener and Waterloo along the LRT corridor, but it is too early to see whether the vacancy rate will edge up or down as a result.

Figure 2



Source: CREA  
(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 Kitchener-Cambridge-Waterloo CMA Fall 2019									
	2016	2017	2018	2019(F)		2020(F)		2021(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
<b>New Home Market</b>									
<b>Starts:</b>									
Single-Detached	1,392	1,095	996	780	980	550	850	500	900
Multiples	2,682	2,755	2,107	2,660	3,070	2,110	2,680	2,150	2,850
Starts - Total	4,074	3,850	3,103	3,440	4,050	2,660	3,530	2,650	3,750
<b>Resale Market</b>									
MLS® Sales	6,604	6,541	5,833	5,700	5,900	5,850	6,360	5,625	6,650
MLS® Average Price(\$)	385,705	466,389	482,124	501,400	525,500	516,400	566,000	527,200	600,000
<b>Economic Overview</b>									
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)
<b>Rental Market</b>						
October Vacancy Rate (%)	2.2	1.9	2.9	2.7	2.6	2.5
Two-bedroom Average Rent (October)(\$)	1,050	1,093	1,210	1,240	1,270	1,300
<b>Economic Overview</b>						
Population	542,011	553,500	567,740	573,900	580,100	587,400
Annual Employment Level	281,600	287,800	292,200	295,200	299,300	303,700

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).

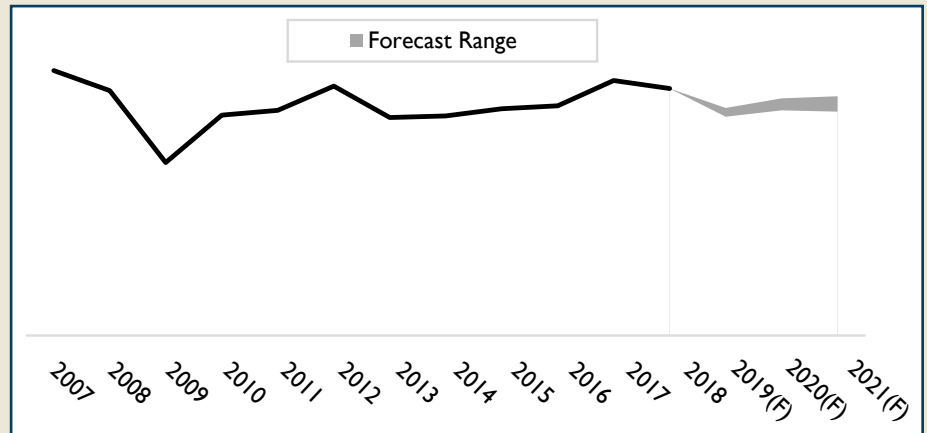
## Methodology for forecast ranges

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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