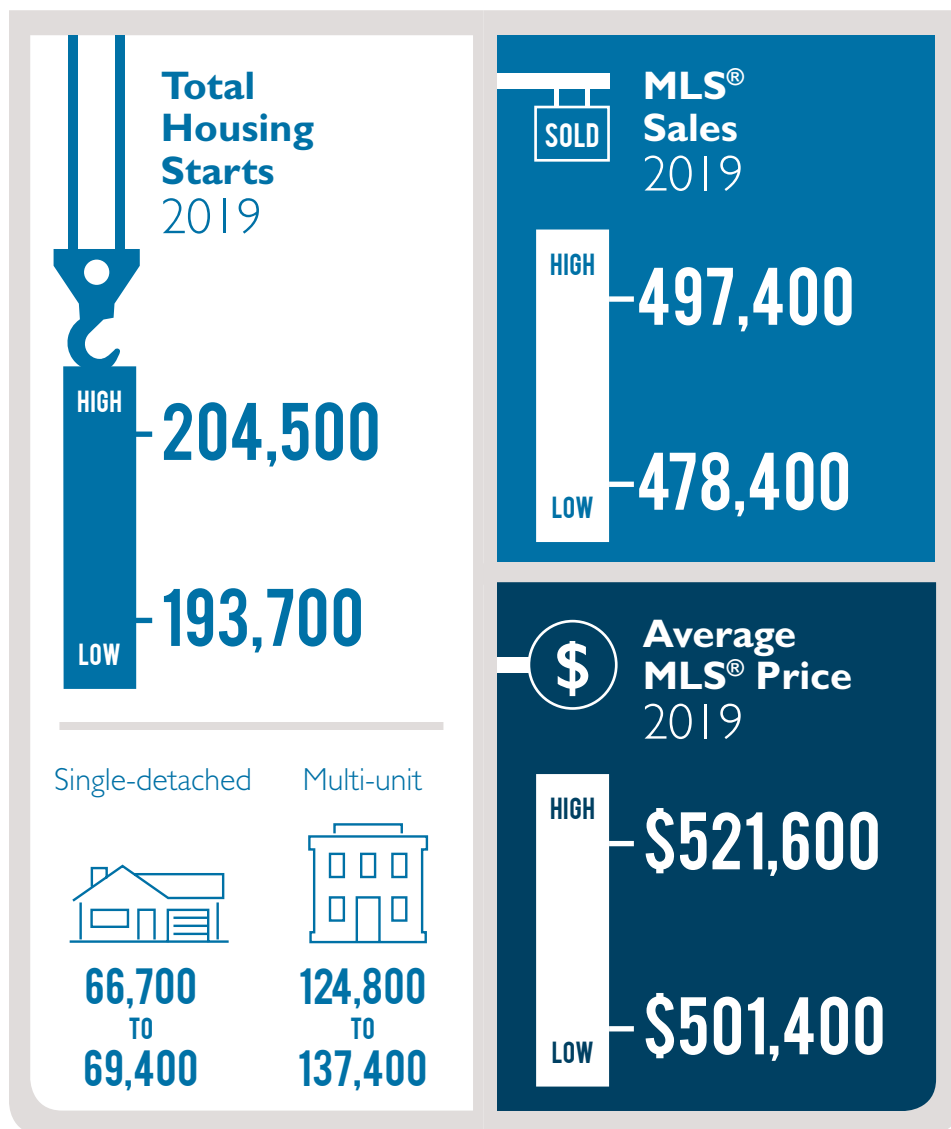


HOUSING MARKET OUTLOOK

Canada



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2018¹

Housing activity is expected to moderate from 2018 to 2020.

“Over our forecast horizon, housing starts are projected to decline from elevated levels recorded recently. Resales should also moderate while house prices are expected to reach levels that are more in line with the fundamentals.”

Bob Dugan,
Chief Economist

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

Highlights

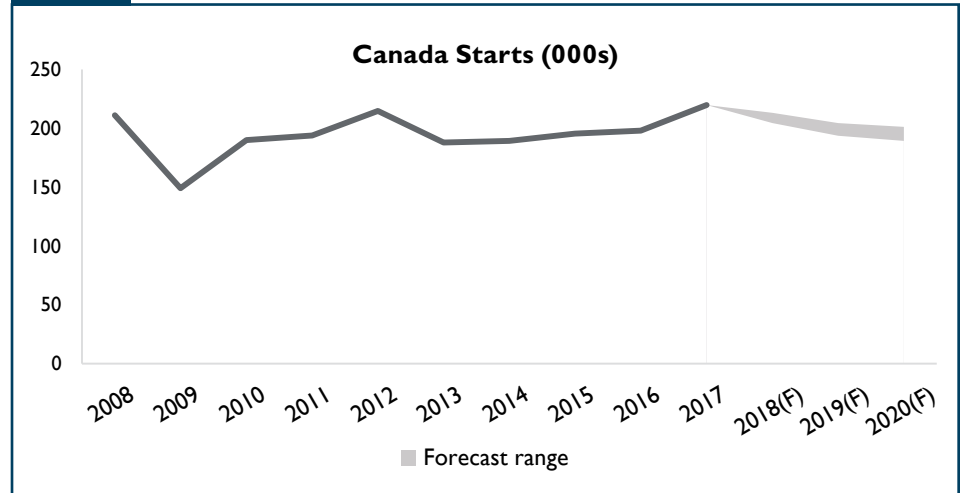
- Housing starts are projected to decline from elevated levels recorded in 2017.
- Sales of existing homes are expected to continue to gradually moderate from the historical high reached in 2016, in phase with slower growth in fundamentals.
- Average MLS® price growth will be modest.

Housing starts to level off by 2020

Housing starts are forecast to slow down gradually over the 2018 to 2020 forecast horizon, moderating from the 10-year high recorded in 2017 to levels more in line with a moderating economic outlook and demographic conditions. While income, employment and household formation will continue to support new residential construction, these fundamentals will see slower growth. As a result, housing starts will be brought closer to levels broadly in line with long-run averages by the end of 2020.

In particular, GDP² and household income growth are expected to soften and stabilize at a more sustainable pace. Population growth will continue to stimulate new construction, but at a slower pace than in previous years as a result of an expected decline in net international migration. Furthermore,

Figure 1



Source: CMHC; (F): Forecast CMHC

with mortgage rates forecast to continue gradually increasing, demand for housing will moderate and resale market conditions will ease.

Single-detached housing starts are anticipated to decrease over the forecast horizon. Construction of this housing type will continue to be limited by residential lot availability, but also by elevated price and borrowing costs in some major CMAs that represent an important portion of national starts.

Multi-unit housing starts are expected to trend down despite inventories³ of completed and unsold units per 10,000 population being at their lowest level since 2008 (3.9 units in the second quarter of 2018). In fact, smaller growth in the population aged 25 to 34, a large pool of first-time buyers, is expected to temper demand for this housing type.

Increasing demand for apartments and smaller dwellings due to population aging will partly offset this downward trend over the forecast horizon.

Amongst the risks to our outlook, we still see risk related to trade tensions. The recent trade agreement with the United States and Mexico should raise business confidence, investment, employment and incomes. In return, this could favour housing demand and higher housing starts. Nevertheless, global trade tensions have risen recently thereby increasing the risk that the global and Canadian economies perform less than expected, which could have a negative impact on housing activity.

² GDP growth is expected to slow and stabilize at a more sustainable pace of 2.3% in 2018 and 1.8% in 2019 and 2020 (from 3.1% in 2017).

³ The level of inventory discussed here is for urban centres with a population of 50,000 and over. The inventory of housing units is defined as a snapshot of the level of completed and unabsorbed units at a specific time. A dwelling is defined as being "absorbed" when a non-binding, non-conditional agreement is made to buy the dwelling. The definition of this concept was recently updated. Prior to 2013, a unit was defined as "absorbed" when an agreement was made to buy or rent the dwelling. However, data on absorption for multiple dwelling units intended for rent was not always available. Supply conditions in the owner and rental markets are now collected under separate, dedicated surveys (see CMHC's Rental Market Survey for rented accommodation and CMHC's Starts and Completions Survey for owned accommodation). In addition, the name was changed from "newly completed and unoccupied" to "newly completed and unabsorbed" as a result of the move toward counts based on the existence of a binding contract.

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Sales to moderate in line with slowing growth in fundamentals

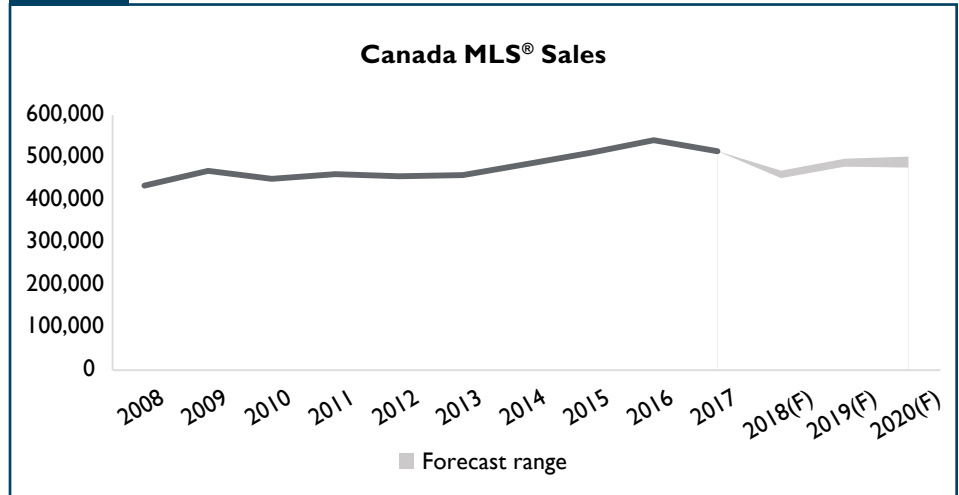
The number of Multiple Listing Service (MLS®) sales declined in 2017, after having reached record levels in 2016⁴. In 2018, resales are forecast to continue to moderate to levels in line with still-favourable, but less stimulative economic conditions than in the past two years. Sales are then expected to rise slightly. However, slower employment and GDP growth, as well as gradually increasing mortgage rates, will restrain the increase in demand for existing homes by 2020. As demand moves to lower levels relative to new supply, market conditions are expected to ease.

In addition to risks related to trade tensions, the high ratio of household debt to personal disposable income increases the vulnerability of households to fluctuations in the economy and is also a risk to housing activity. If interest rates or unemployment rates were to rise more than expected, heavily indebted households could face greater constraints on their consumption leading to downward pressure on the economy and housing activity.

Price growth to remain modest

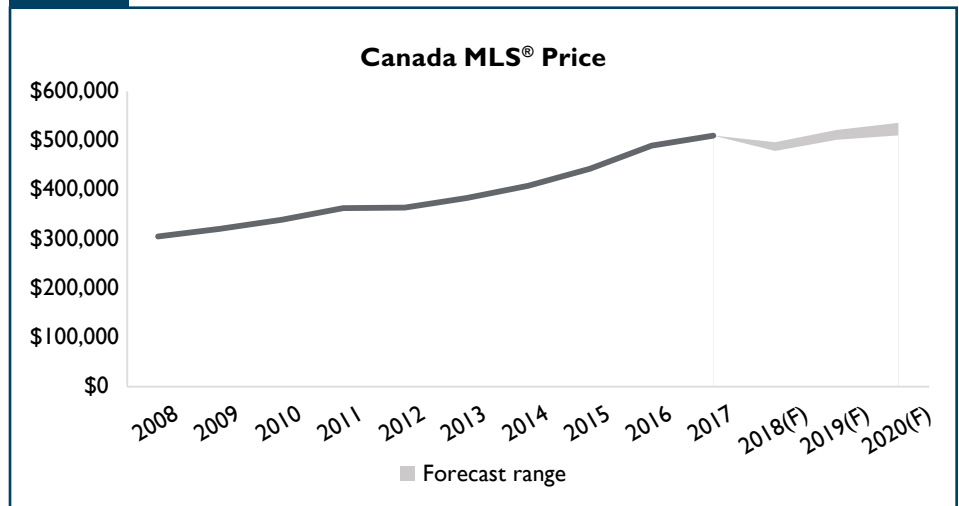
In the past two years, growth in sales of higher-end single-detached homes in several major markets has led to strong average MLS® price growth. In 2018, this composition effect has been fading (as shown in figure 4 and 5). As a result, in combination with higher borrowing costs and slower income growth, MLS® price growth is forecast to slow at the national level this year. By 2020, demand is expected to continue to

Figure 2



Source: CREA; (F): Forecast CMHC

Figure 3



Source: CREA; (F): Forecast CMHC

shift towards relatively less expensive housing options such as apartment condominiums. This combined with slowing growth in economic conditions will lead to modest average price growth over the forecast horizon.

Recent measures of overvaluation for the major markets of Vancouver and Toronto as well as for those in their vicinity indicate an easing of vulnerabilities⁵, as prices have

been gradually aligning more with fundamentals in recent quarters. This reduces the risk of a sudden and disorderly readjustment of the housing market to imbalances that would threaten housing market and financial stability. However, the elevated household debt level combined with existing risks to the world economy continue to weigh on housing markets.

⁴ 535,000 MLS® sales were registered in 2016.

⁵ Housing market assessment reports can be found here: <https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/housing-market-assessment>

Provincial Outlook Highlights

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>

British Columbia

Housing starts activity and MLS® sales in British Columbia are anticipated to moderate as a result of slowing economic and population growth while MLS® average prices are anticipated to see a halt to growth as market conditions in parts of the province have softened considerably.

Prairies

Housing market conditions that favour the buyer in both Alberta and Saskatchewan are expected to gradually become more balanced with gradual growth in economic and demographic fundamentals. Balanced market conditions in Manitoba are expected to persist.

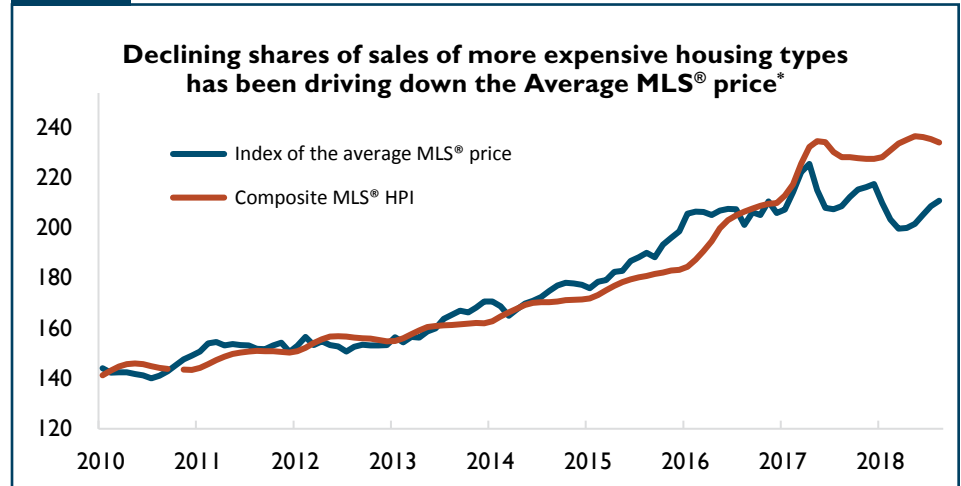
Ontario

Rising mortgage carrying costs dampened activity in the Ontario housing market in 2018. Single-family existing home sales and starts will post a partial recovery in 2019 as better than expected job growth and migration levels encourage buyers to re-enter the market before sales and starts ease further into 2020.

Quebec

Housing starts and sales of existing homes will both be sustained, however, slower economic growth and rising borrowing costs will moderate activity through 2020. Starts will continue to be dominated by the apartment market segment, while demand for resale single-detached homes will remain relatively strong.

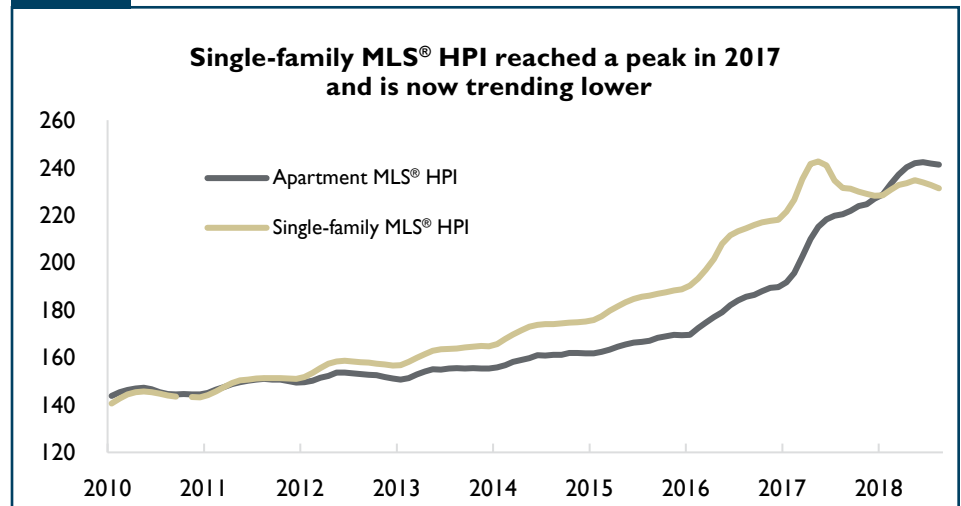
Figure 4



Note: MLS® HPI Index Jan 2005=100, MLS® average price is seasonally adjusted and represented as an index where Jan 2005=100. Source: CREA

* The MLS® HPI measure controls, among other things, for compositional effects while the MLS® average price measure does not. Therefore, the recent change in the composition of sales away from relatively more expensive single-detached homes towards relatively less expensive alternatives has resulted in greater downward pressure on the MLS average price than on the MLS HPI.

Figure 5



Note: MLS® HPI Index Jan 2005=100, MLS® average price is seasonally adjusted and represented as an index where Jan 2005=100. Source: CREA

Atlantic

The economic outlook will have a limited impact on growth in several regional markets. Activity will remain sustained, notably in Nova Scotia, where existing home sales and average prices will trend higher, and rental demand will drive growth in apartment construction.

Table 1 - Canada Forecast Summary

	2015	2016	2017	2018(F)		2019(F)		2020(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts									
<i>Single-Detached</i>	68,125	74,089	76,843	66,800	68,000	66,700	69,400	65,500	68,300
<i>Multiples</i>	127,410	123,827	142,920	135,500	147,300	124,800	137,400	120,700	136,100
<i>Starts - Total</i>	195,535	197,916	219,763	204,500	213,100	193,700	204,500	189,300	201,300
Resale Market									
<i>MLS® Sales</i>	503,421	535,219	515,853	451,700	469,300	478,400	497,400	476,400	502,400
<i>MLS® Average Price (\$)</i>	442,042	490,032	509,827	479,100	496,900	501,400	521,600	510,600	536,000
Economic Overview									
<i>Mortgage Rate (5 year) (%)</i>	4.67	4.66	4.78	5.00	5.60	5.40	6.20	5.50	6.50
Economic Overview									
<i>Population</i>	35,961,311	36,415,721	36,885,049	37,189,000		37,636,000		38,067,000	
<i>Annual Employment Level</i>	17,946,600	18,079,900	18,421,200	18,665,000		18,906,000		19,099,000	
<i>Net Migration</i>	210,814	340,331	379,562	344,800		330,600		316,900	
<i>Average Weekly Earnings</i>	922	940	956	986		1,006		1,029	

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

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: 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 due to rounding and volatility of the data.

The forecasts (F) included in this document are based on information available as of October 5, 2018.

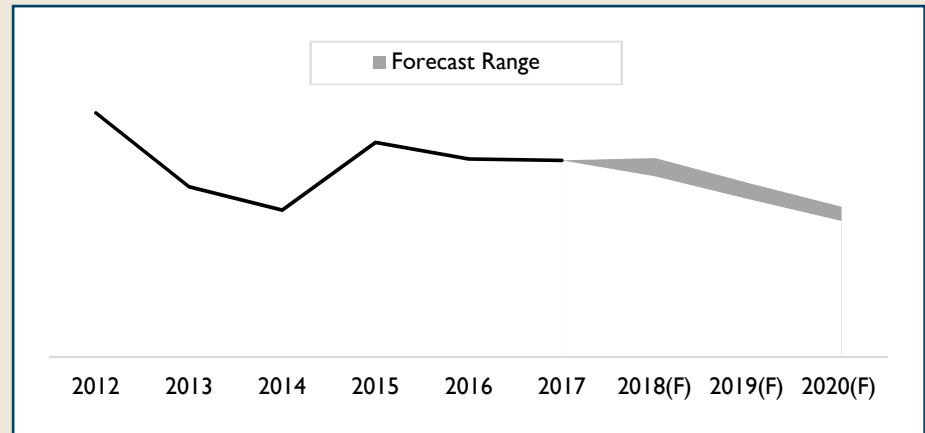
Methodology for forecast ranges

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, 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

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- Housing Market Indicators
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