



HIGHLIGHTS

- High borrowing costs, elevated prices remain a drag on Ontario housing sales through 2024
- Housing sales and average prices gained traction in Q2 2023 but downward trend expected extend into early 2024
- Stronger than expected population growth, pause in interest rate hikes expected to support housing demand
- Housing starts to decline moderately in 2023 given strong gains in the first half of the year dominated by smaller multi-unit constructions
- Rental vacancy rate forecast to fall to 1.2 per cent with rents up 9.0 per cent

Ontario Housing Outlook 2023-2025

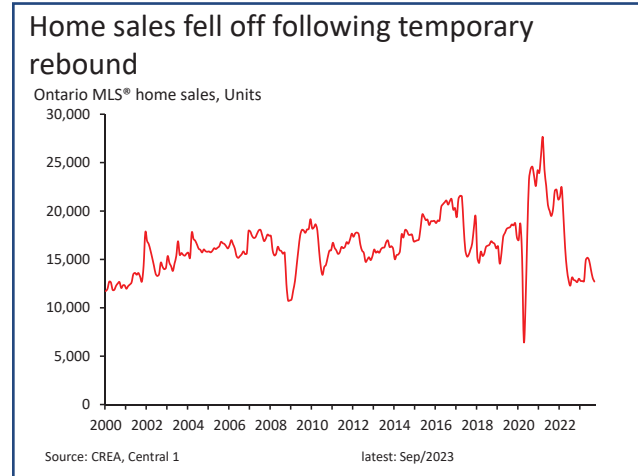
Ontario housing market experienced a robust rebound in resale transactions and average prices during the first half of 2023, injecting renewed optimism into the sector. However, more recent MLS® results through September has shown another retrenchment in terms of both sales and prices, as higher interest rates priced out buyers and confidence soured. Sales have declined to the lows seen in the latter stages of 2022. Weak housing market conditions are expected to remain a challenge for both buyers and sellers through the first half of 2024 before expected interest rate cuts and strong underlying demand from a swelling population drives activity higher.

Resale housing market slides again after spring bump

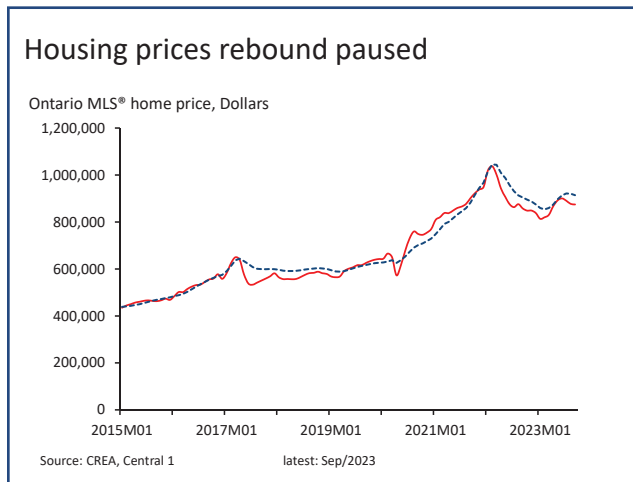
Housing market conditions ebb and flow with interest rate movements and consumer confidence but the sharp rise in rates over the past year have severely hampered activity. Following the falloff in home sales in 2022, Ontario reported a moderate 2.6 per cent seasonally adjusted quarterly growth during the first quarter and a surge of 26.1 per cent gain in unit sales in Q2 2023. While MLS® sales returned to a level consistent with Q2 2022, levels were below the transaction volume before Bank of Canada (BoC) rate

hikes. This rebound was fueled by pent-up demand, improved affordability amidst 2022 prices decline and temporary downshift in fixed mortgage rates, and robust population growth. That said, Ontario's upswing was less than provincial peers, a sign of more severe affordability erosion in the province which has also driven more residents to other regions of the country in search of housing.

Early year momentum has since retrenched with the Bank of Canada's summer rate hikes and a bond yield gone wild, pushing sales to 2022 lows. The Bank's policy rate sits at 5.0 per cent, marking a 22 year high, with variable rates sitting above six per cent and fixed rates in the five to seven per cent range dependent on term. At its pandemic low rate, were close to two per cent highlighting the rapid shift in borrowing conditions for buyers.



The slump in home sales (-13.1 per cent) during Q3 2023 has coincided with a notable surge in new listings. While still modest, the rate of increase has accelerated, and more supply is coming on market. More sellers are seeking to exit the market by choice or necessity. The costs of carry mortgage debt become insurmountable, for some recent buyers or investors. Following the 13-month high in April (67.1 per cent) and May (63.4 per cent), the sales-to-new listings ratios in Ontario fell to below 50 per cent during summer. According to the September's updates, Ontario has become the first province moving back into a buyers' market with a 39.8 per cent sales-to-new listings.



Home prices have remained relatively firm after a 20 per cent peak-to-trough last year, gaining traction during the early year upswing. That said, the average MLS® price retrenched 0.3 per cent in Q3 following the 10.0 per cent growth in Q2 to \$894.9k in Ontario. The consecutive monthly declines from July to September were moderate, yet they offset the price gains since April this year. The benchmark value, which adjusts for geography and housing composition/quality experienced a similar trajectory. Following the growths during the first half of the year, Ontario HPI benchmark price dropped 1.1 per cent in Q3. Single-family home prices have led the decline in prices while apartments and townhomes have experienced minimum growths during Q3. Benchmark values tend to trail average price turns, and while the trend is yet steady, prices are expected to keep dropping in coming months amidst weakening demand and as the impact of cumulative rate hikes set in.

Regional patterns consistent with provincial picture, while large declines in sales and steady prices growth seen in markets outside Toronto

Regionally, home sales resumed broadly across Ontario real estate markets during Q2 2023, while showing signs of cooldown in Q3. MLS® sales grew more than 20 per cent quarterly in many Ontario Economic Regions in Q2. Moving into summer, the retrenchment in home sales concentrated in the markets where impacts on affordability sensitive households were more severe. From the latest Q3 updates, there was significant sales decline of approximately 20.3 per cent in Kingston-Pembroke, along with sales decreases of over 10 per cent in Hamilton-Niagara Peninsula and London. Toronto economic region reported 19.9 per cent decrease in sales when adjusted for seasonality, offsetting some of the gains during the previous quarter.

Like the provincial picture, home values among real estate market rebounded in the second quarter this year. Around 8.0 per cent quarterly growth in average MLS® prices were observed in the Toronto Economic Region (7.5 per cent) and surrounding markets, such as London (8.3 per cent) and Kitchner- Waterloo-Barrie (7.9 per cent). In Q3, the average price remained mostly steady among regions. Major markets such as Ottawa (5.6 per cent), London (4.7 per cent) and Hamilton-Niagara Peninsula (2.9 per cent) reported price gains during the quarter largely thanks to the price increases in July. On the other hand, recent monthly declines resulted quarterly decreases in regions such as Kingston-Pembroke (-2.2 per cent) and Muskoka-Kawarthas (-2.6 per cent). Toronto economic region saw a modest monthly growth in Q3 at 0.7 per cent to \$1.17mil.

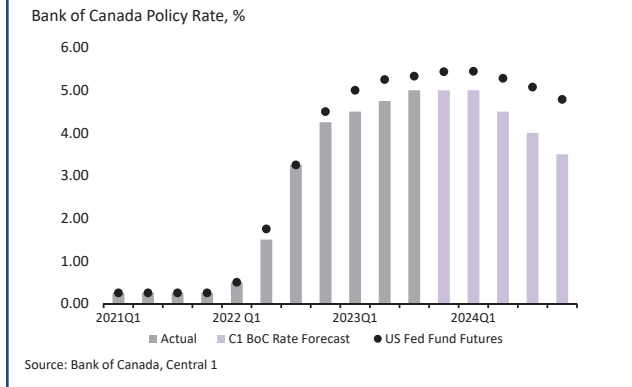
Housing market outlook

Ontario's housing market is vulnerable to near-term downturn which will contribute to ongoing weakness in 2024. Elevated inflation pressures and hawkish tone from the Bank of Canada is likely to keep the policy rate at the current level through Q1 2024. A surge in bond yields, while expected to partly reverse is expected to persist reflecting strong U.S. economic conditions, and more entrenched inflation, which is driving market sentiment of higher rates for longer. The Israel – Hamas war has added to global uncertainty, potentially lifting oil prices and inflation.

We do not anticipate another hike from the Bank of Canada as economic trends have clearly softened even as inflation is uncomfortably high. Cumulative rate hikes are still working though the economy and inflation. Economic growth is forecast to slow through 2024 with GDP growth tracking lower than 2023 at below one per cent, with Ontario roughly in line with the national performance. Higher indebtedness of Ontario households means greater sensitivity to the challenges of inflation, interest rate pass through and softening labour market which will keep many buyers on the sidelines. For sellers, this environment could translate into more panic selling by investors which would curb home prices.

That said, latent demand is still growing in Ontario due to robust population growth suggesting softening conditions are temporary rather than long-term pattern. Population growth is forecast to remain strong, even as it slows from the historic pace of the last year. This continues to support demand for existing homeownership, although financing constraints keep buyers on the sidelines. Rental demand and high rents continue to support price levels, although pricing is likely to decline into 2024.

Policy interest rates forecast to hold steady through 2023 before declining



Immigration largely flows into Canada's large urban markets, and we see Toronto largely being supported by these flows. In contrast, some of the high-flying pandemic markets in suburban and smaller market are susceptible to a more pronounced price slump. Pandemic drivers of work-from-home has slowed or reversed, requiring more workers to be closer to corporate offices, while those seeking affordable markets are increasingly priced out of even these markets. Indeed, more Ontario residents are making the trek east to the Atlantic or west to Alberta in search of affordable housing, which will likely continue.

Despite considerable short-term headwinds, the long-term drivers of insufficient housing supply in Ontario as estimated by CMHC means affordability is unlikely to materialize over the forecast period as underlying demand drivers remain robust. A short-term decline in prices is expected to give way to higher sales and prices, while housing starts decline over the next two years before picking back up.

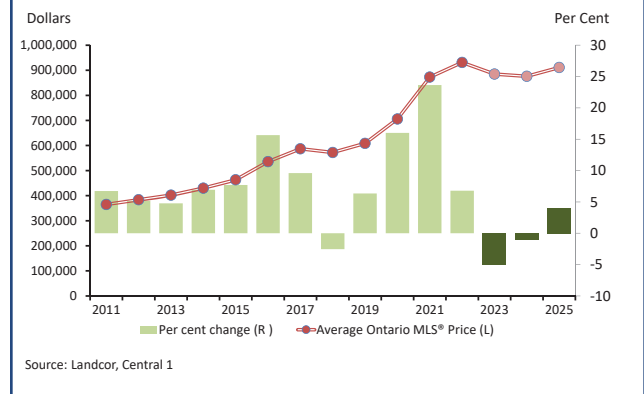
Resale Forecast

Recent drops in sales and average prices have set a negative tone for the rest of 2023. Despite housing demand driven by pent-up demand and population growth, the market will continue to face headwinds, particularly due to economic uncertainty and high interest rates.

During the rest of 2023, high home prices and by extension need for larger loans in markets like Ontario are forcing more buyers to the sidelines due to high interest rates, while also fueling more new listings. As September sales-to-new listings ratio suggested, Ontario has entered the buyers' market, and will likely experience a more pronounced price downturn comparing to the rest of Canada heading into 2024. While buyers expecting further price adjustments to take place, housing activities are likely to pause for the coming months.

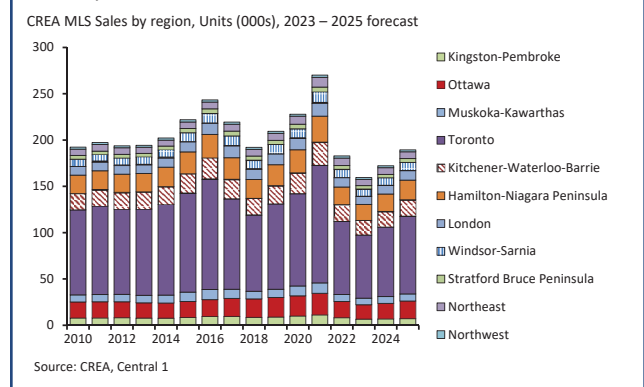
As a result, we expect a 13.0 per cent annual decline in sales and a 5.0 per cent decline in average prices in Ontario for 2023. The decline in home prices could be the first year-over-year decline in Ontario since 2018, but largely due to the base year effect in 2022. Going into 2024, home sales may see a rebound if interest rate cuts are announced or anticipated, while average prices may take longer to be adjusted. Total housing starts are expected to drop by 6.0 per cent in 2023, driven almost entirely by decrease in single-detached housing starts (-22.0 per cent). Multi-unit housing projects led the new constructions in Ontario this year, however, given the economic slowdown, larger development projects may decline in 2024 (-6.3 per cent).

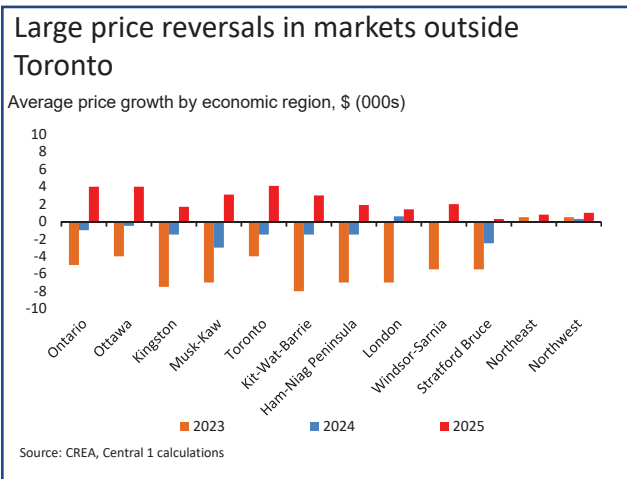
First annual price decline since 2018, with further correction into 2024



All regions in Ontario are expected to see decreases in home sales in 2023, yet at a smaller extent comparing to the declines in 2022. Toronto may see an annual decline at 13.5 per cent at the end of the year. Given the anticipation of recovery in the housing market, all regions are expected see home sales rebound by mid-2024, with larger markets such as Toronto (10.1 per cent) and Ottawa (8.0 per cent) seeing the rebounds first. Adjustments to home prices are expected to drag longer into 2024 for most of the markets in Ontario.

2023 annual sales expected to be lowest since 2001, slow return for 2024 and 2025





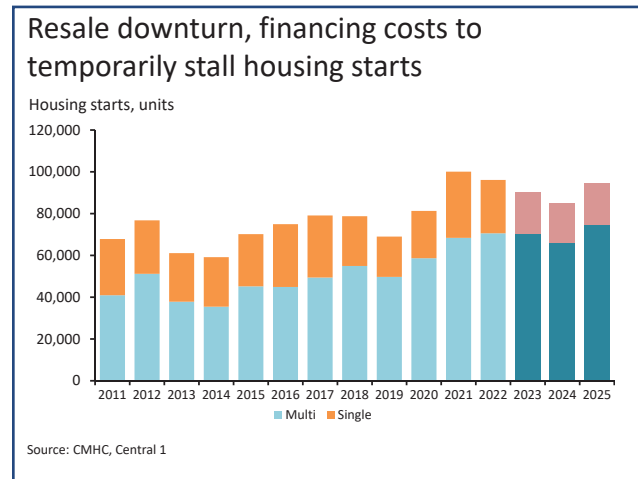
Later 2024 and 2025 may make a full return for home prices while major markets will still lead the growth in prices.

Housing starts to fall, yet supported by government affordable housing plan

As housing market showed signs of recovery earlier this year, there were also robust building activities, highlighting the expansions in future housing supply. While persistently high construction and labour costs kept many from building single-detached homes, multi-family constructions led the growth in Ontario housing starts in 2023. Ontario's actual unadjusted urban-area housing starts in the first nine months of 2023 edged down by 1.5 per cent to 66,295 units when compared to same period in 2022, driven entirely by the decrease in single-detached starts (-33.4 per cent). Multi-unit starts had 9.3 per cent more starts than the same period last year.

In June, Ontario reported a seasonally adjusted annualized pace of 116,756 units of urban-center housing starts, marked the highest level since last September. Consistent with the MLS® downturn, Ontario urban-area housing starts kept declining through July and August, slumping to a seasonally adjusted annualized pace of 79,893 units by the end of August. However, Ontario urban-area housing starts reported a surprising bounce through September, reaching a seasonally adjusted annualized pace of 98,801 units. With the monthly updates, provincial housing starts in September moved above the 6-month moving average of 94,335 units.

Among census metropolitan areas (CMAs), Toronto saw an increase of 20.1 per cent in housing starts in September to an annualized 58,477 units. Meanwhile, Kitchener-Cambridge-Waterloo housing starts almost tripled in September while Ottawa also saw an increase of 33.5 per cent more housing starts during the



same period. Hamilton, Windsor and Thunder Bay all reported declines of one thousand or few hundreds of units, likely due to the starts of large multi-unit complex from last month. While a variety of changes in housing starts' results were reported among the rest of the regions, the number of starts among those areas was much smaller compared to the major cities. Substantial growth in starts is somewhat surprising given market demand but largely reflects projects planned years in advance that have moved to construction stage. High mortgage rates will continue to limit any momentum.

While we anticipate starts to turn lower given fewer pre-sales in the past year and high interest rates impacting ability of buyers to purchase in the short term, building activities initiated by the government may dominate the residential market in the next while. In addition to the existing affordable housing strategies, a municipal agreement under the federal government's Housing Accelerator Fund was announced recently to create more than 2,000 housing units over the next three years in London and build thousands more in the years following. As 3.5 million additional housing units are needed in Canada by 2030 to restore affordability above what's already planned, policies and housing supply action plans will continue to support development of multi-family units across the country.

Rental market to remain tight

Rental market affordability has deteriorated further after already challenging conditions in 2022. Ontario consumer price index (CPI) for rent has averaged more than six per cent year-over-year in recent months, tracking even stronger than last year driven by poor homeownership affordability and strong demand. Moreover, this reflects rents paid while turnover rent growth has skyrocketed. September's [Rentals.ca](https://rentals.ca) report highlights the gains, with the annual rate of rent growth of 6.6 per cent in September to \$2,486. While likely skewing to higher urban properties, undoubtedly rents are sharply higher.

There have been some signs of monthly deceleration, but they have been modest. Growth in new listings and some population outflow into Alberta and Atlantic provinces have driven the change in rental demand. That said, the rental market will continue to play a significant role in the broader housing landscape. Persistent affordability challenges for potential buyers and a robust influx of international newcomers will keep the rental market tight in Ontario.

Based on CMHC data, annual rent growth for a 2-bedroom apartment is expected to be at an annual rate of 9.0 per cent in 2023, even more robust than the 6.3 per cent growth recorded last year given the steady gains seen over the past nine months and persistently tight market.

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Ontario Housing Summary Table

	2019	2020	2021	2022	2023	2024	2025
MLS Sales	209,118	227,664	270,139	183,219	159,401	172,153	189,368
% ch.	9.0	8.9	18.7	-32.2	-13.0	8.0	10.0
MLS Price	608,813	706,175	872,352	931,263	884,700	875,853	910,887
% ch.	6.4	16.0	23.5	6.8	-5.0	-1.0	4.0
MLS New Listings	330,998	320,153	346,614	345,845	332,011	365,212	379,821
% ch.	-0.2	-3.3	8.3	-0.2	-4.0	10.0	4.0
Sales-to-New Listings Ratio	63.2	71.1	77.9	53.0	48.0	47.1	49.9
Housing Starts - Total	68,985	81,305	100,089	96,080	90,315	84,896	94,235
% ch.	-12.4	17.9	23.1	-4.0	-6.0	-6.0	11.0
Housing Starts - Singles	19,287	22,682	31,701	25,494	19,885	18,891	19,666
% ch.	-18.9	17.6	39.8	-19.6	-22.0	-5.0	4.1
Housing Starts - Multi	49,698	58,623	68,388	70,586	70,430	66,005	74,569
% ch.	-9.6	18.0	16.7	3.2	-0.2	-6.3	13.0
Row and Apartment Vacancy (%)	2.0	3.2	3.4	1.8	1.2	1.4	1.7
2-bedroom apartment rent growth (%)	5.8	4.9	2.7	6.3	9.0	7.9	5.5

Source: CREA, CMHC, Central 1 calculations and forecast

MLS® Sales, Units by Economic Region

	2020	2021	2022	2023	2024	2025
Ottawa	21,693	23,241	17,480	15,557	16,802	18,986
Kingston-Pembroke	9,371	10,278	7,835	6,581	6,845	7,118
Muskoka-Kawarthas	11,031	12,142	8,269	7,029	7,275	7,711
Toronto	99,592	126,793	78,802	68,164	75,048	83,679
Kitchener-Waterloo-Barrie	22,561	25,311	18,111	15,847	16,956	17,957
Hamilton-Niagara Peninsula	25,028	27,989	19,155	17,335	18,809	21,254
London	12,305	14,136	10,079	8,718	9,154	10,253
Windsor-Sarnia	10,254	12,024	9,099	7,916	8,249	8,908
Stratford Bruce Peninsula	5,101	5,368	3,968	3,651	3,797	4,100
Northeast	8,646	10,443	8,164	6,694	7,230	7,375
Northwest	2,082	2,414	2,257	1,918	2,014	2,033
Ontario	227,664	270,139	183,219	159,401	172,153	189,368

MLS® Sales change, per cent, by Economic Region

	2020	2021	2022	2023	2024	2025
Ottawa	2.4	7.1	-24.8	-11.0	8.0	13.0
Kingston-Pembroke	12.3	9.7	-23.8	-16.0	4.0	4.0
Muskoka-Kawarthas	22.5	10.1	-31.9	-15.0	3.5	6.0
Toronto	8.2	27.3	-37.8	-13.5	10.1	11.5
Kitchener-Waterloo-Barrie	14.4	12.2	-28.4	-12.5	7.0	5.9
Hamilton-Niagara Peninsula	10.5	11.8	-31.6	-9.5	8.5	13.0
London	4.9	14.9	-28.7	-13.5	5.0	12.0
Windsor-Sarnia	1.7	17.3	-24.3	-13.0	4.2	8.0
Stratford Bruce Peninsula	12.6	5.2	-26.1	-8.0	4.0	8.0
Northeast	13.3	20.8	-21.8	-18.0	8.0	2.0
Northwest	-5.5	15.9	-6.5	-15.0	5.0	0.9
Ontario	8.9	18.7	-32.2	-13.0	8.0	10.0

MLS Average Price, Dollars, by Economic Region

	2020	2021	2022	2023	2024	2025
Ottawa	504,195	617,468	664,324	637,751	634,562	659,945
Kingston-Pembroke	427,718	551,654	620,228	573,711	565,105	574,765
Muskoka-Kawarthas	643,402	803,830	873,621	812,468	788,094	812,721
Toronto	940,952	1,109,388	1,204,894	1,156,698	1,139,348	1,186,061
Kitchener-Waterloo-Barrie	610,340	783,561	870,505	800,865	788,852	812,517
Hamilton-Niagara Peninsula	630,377	796,161	884,568	822,648	810,308	825,891
London	489,199	637,322	714,987	664,938	669,193	678,769
Windsor-Sarnia	389,996	512,615	572,031	540,570	540,570	551,381
Stratford Bruce Peninsula	457,680	613,763	677,031	639,794	623,799	625,851
Northeast	297,304	373,519	419,182	421,278	421,278	424,519
Northwest	262,028	301,764	333,033	334,698	335,702	338,930
Ontario	706,175	872,352	931,263	884,700	875,853	910,887

MLS Average Price Change, per cent, by Economic Region

	2020	2021	2022	2023	2024	2025
Ottawa	19.9	22.5	7.6	-4.0	-0.5	4.0
Kingston-Pembroke	20.9	29.0	12.4	-7.5	-1.5	1.7
Muskoka-Kawarthas	23.7	24.9	8.7	-7.0	-3.0	3.1
Toronto	13.6	17.9	8.6	-4.0	-1.5	4.1
Kitchener-Waterloo-Barrie	17.3	28.4	11.1	-8.0	-1.5	3.0
Hamilton-Niagara Peninsula	18.3	26.3	11.1	-7.0	-1.5	1.9
London	19.7	30.3	12.2	-7.0	0.6	1.4
Windsor-Sarnia	22.1	31.4	11.6	-5.5	0.0	2.0
Stratford Bruce Peninsula	19.1	34.1	10.3	-5.5	-2.5	0.3
Northeast	19.3	25.6	12.2	0.5	0.0	0.8
Northwest	9.5	15.2	10.4	0.5	0.3	1.0
Ontario	16.0	23.5	6.8	-5.0	-1.0	4.0