

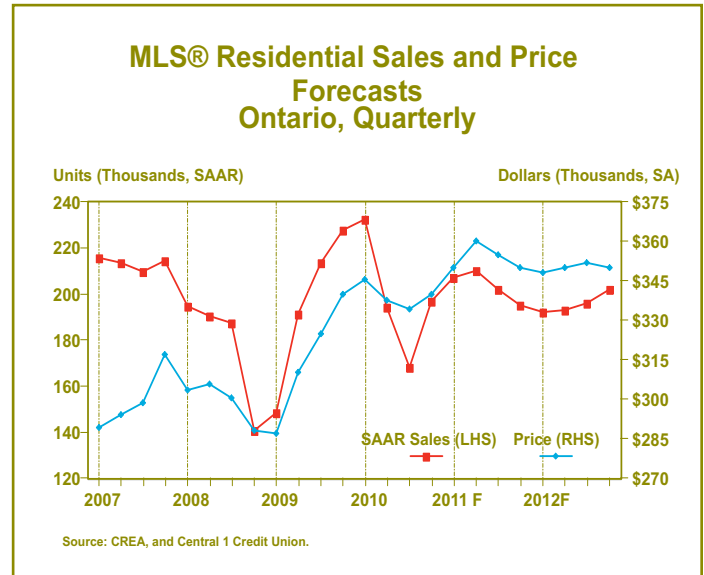


# Ontario Housing Outlook 2010-2012

## Ontario Housing Forecast

Housing market activity in Ontario is forecast to rise into the first half of 2011 after declining sharply from an early year record setting pace. A gradual improvement in economic growth, employment levels and continuing low mortgage rates will boost 2011 sales slightly above 2010 levels by 5%, before pulling back in 2012. Home prices are forecast to reach a new record high in 2011, before decreasing slightly in the latter half of the year.

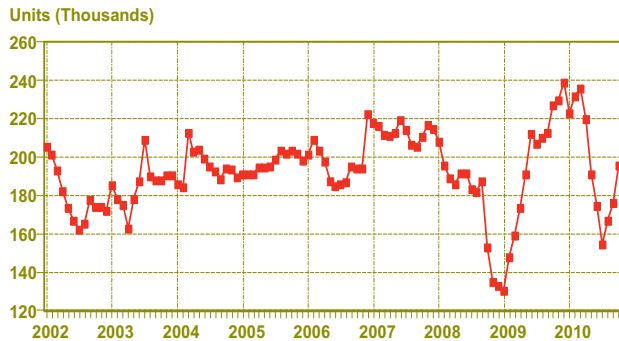
Higher resale market demand will drive new home builders to increase housing starts by 9% to 66,000 units in 2011, and a further 7% in 2012. However, new home construction levels will remain modest compared to activity observed over the last decade, contributing to potential undersupply in the housing market near the latter part of 2012.



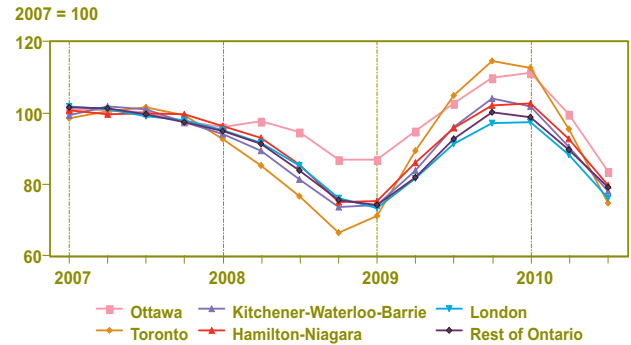
Housing Summary					
	2008	2009	2010E	2011	2012
MLS® Sales <sup>1</sup>	181,001	195,840	194,000	204,000	197,000
% change	-15.2	8.2	-0.9	5.2	-3.4
MLS® Price (\$)¹	302,354	318,366	342,100	356,500	365,000
% change	0.9	5.3	7.5	4.2	2.4
MLS® New Listings¹	366,770	319,967	350,000	352,000	360,000
% change	5.9	-12.8	9.4	0.6	2.3
Housing Starts²	75,076	50,370	61,000	66,300	70,700
% change	10.2	-32.9	21.1	8.7	6.6
Single-Detached²	31,108	22,634	28,400	29,900	32,200
% change	-17.9	-27.2	25.5	5.3	7.7
Multis²	43,968	27,736	32,600	36,400	38,500
% change	45.5	-36.9	17.5	11.7	5.8
Rental Vacancy Rate: Apartments (%)²,³	2.7	3.5	3.8	3.7	3.0
Change in Average Rent: Apartments (%)²,³	1.9	2.0	1.4	1.6	2.0
<sup>1</sup> Sources: CREA and Central 1 Credit Union					
<sup>2</sup> Sources: CMHC and Central 1 Credit Union					
<sup>3</sup> October Estimate					



## Ontario MLS® Residential Sales Monthly



## Indexed Regional MLS® Residential Sales Quarterly



## Housing Sales

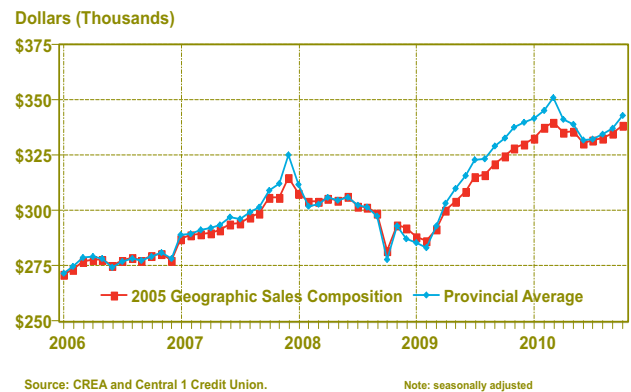
Housing sales have shifted higher in recent months after a steep decline from the record setting pace reached late last year. Annualized sales reached a seasonally-adjusted pace of just under 240,000 units in December 2009, reflecting sharp declines in mortgage rates and a bringing-forward of future demand, due to rigid mortgage insurance rules for both owner-occupied and investor-owned properties, bargain hunting by prospective buyers, and consumer expectations of a rise in future mortgage rates.

Over the course of the first seven months of the year, the pace of MLS® sales fell by 35% to reach a bottom of 155,000 units in July. Seasonally-adjusted MLS® residential housing sales in Ontario have since climbed for three consecutive months ending October 2010, as further reductions in mortgage rates, improved affordability, and a stronger economy contributed to increased demand.

While current sales levels remain modest, the recent upswing in Ontario's MLS® sales trend is forecast to extend into the first half of 2011, before tailing off during the second part of the year. Low mortgage rates, an improving economy and employment, and pent-up demand will push sales up to an annualized rate of 210,000 units in the second quarter. Sales enthusiasm is expected to dampen thereafter as elevated prices and forecasted increases in mortgage rates erode affordability.

Annual MLS® sales in Ontario are forecast to remain flat in 2010 at 194,000, down 0.9% from 2009. Sales in

## MLS® Residential Average Sales Price Ontario, Monthly



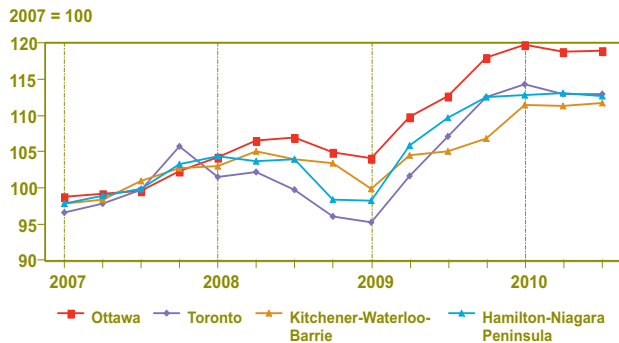
2011 are forecast to rise 5% to 204,000 units on stronger first half sales, but fall back 3% to 197,000 sales in 2012.

## Home Prices

The steep pull-back in the pace of sales during the first half of 2010 had only a modest impact on home price levels in Ontario markets. Lower sales activity was met with a drop in the flow of new listings, which mitigated resale market oversupply and minimized the downward pressure on prices.

A strong post-recession housing rebound in most economic regions in the province pushed the average price of a home sold through the MLS® to a record high of \$350,000 in March. Since then, Ontario's average MLS®

### Indexed Regional MLS® Residential Price Quarterly, Selected Markets



Source: CREA, and Central 1 Credit Union.

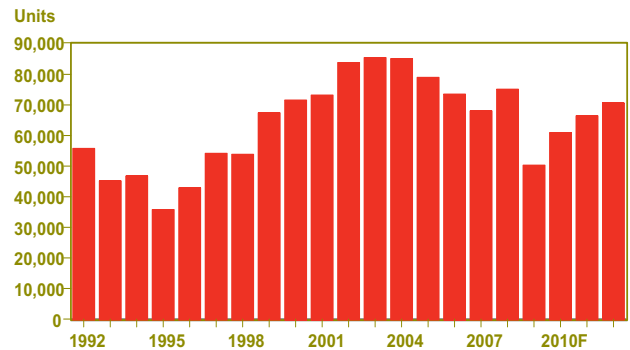
home price has dipped about 4.5% from March to June of this year, reflecting lower demand levels. While price levels broadly declined in markets across Ontario, the magnitude of the provincial decline was partly due to changes in the geographic composition of sales. A larger proportion of provincial sales in the higher-priced Toronto economic region in 2009 pulled average price levels higher in the province while a relatively steeper decline this year factored into lower provincial price levels. Holding the geographic sales composition constant at 2005 levels, provincial price levels fell about 2-3% between March and June of this year.

Seasonally-adjusted average prices in the province have risen for four consecutive months, ending October 2010. This upward trend in price levels is forecast to continue into 2011, reflecting higher demand and an elevated share of sales in the Toronto economic region. The average annual MLS® price is forecast to reach a record-high of \$342,000 this year, up 7% over 2009 levels.

In 2011, Ontario's average annual price will reach a new high of \$363,000, marking an increase of 4.5%. However, 2011 gains will largely reflect a stronger first half-performance, as price levels are expected to moderate in the second half of 2011.

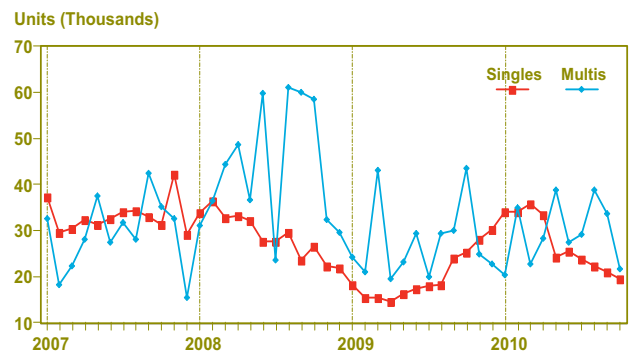
In 2012, the pace of sales will remain stable, but higher real incomes, stronger economic growth, and the emerging supply constraints in the new home market is forecast to lead to a moderate 2.4% increase in the average provincial price level.

### Annual Housing Starts Ontario



Source: CMHC and Central 1 Credit Union.

### Ontario Housing Starts Monthly



Source: CMHC and Central 1 Credit Union.

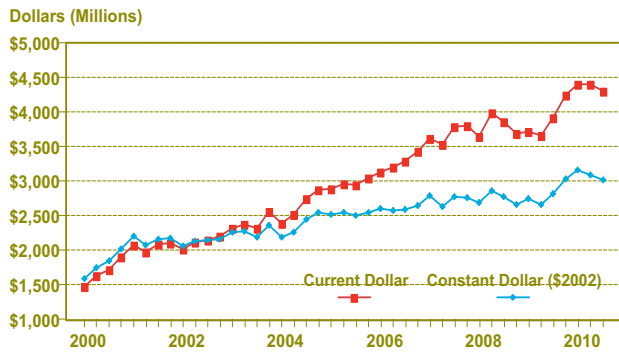
Note: seasonally adjusted at annual rate

### New Home Market

The pace of Ontario housing starts in Ontario tempered through most of 2010 after a quick start to the year. Housing starts in the province are expected to reach 61,000 units this year, representing a 21% gain from 2009. Despite the substantial increase, new home construction levels will remain modest and, excluding 2009, will be the lowest since 1998.

Single-detached housing starts, which rose to elevated levels in late 2009 and early 2010 as buyers took advantage of low mortgage rates and raced to beat the HST, have declined for most of 2010. The pace of single-detached housing starts is expected to stabilize in 2011, but will continue to shrink as a share of total housing starts.

## Renovation Investment Spending Ontario, Quarterly



Source: Statistics Canada and Central 1 Credit Union.

Relatively lower price points and land constraints will continue to increase demand for apartment and townhome condominiums.

In 2011, builders will gear off rising housing demand and robust home prices during the initial part of the year and boost annual housing construction by 9% to 66,000 units. Housing starts are projected to rise by a further 7% in 2012. Despite this growth in activity, starts will be below the pace of new household formation. An undersupply in the new home market will place upward pressure on resale home prices, providing an incentive for builders to increase housing starts to near 80,000 units in 2013.

### Regional Housing Markets

The majority of housing markets in Ontario are forecast to observe gains in resale activity, home prices and housing

starts in 2011, as low mortgage rates and a continued economic recovery provide a lift to all markets. Price gains are forecast to rise at a relatively quicker pace in economic regions such as Toronto, Kitchener-Waterloo-Barrie, and Ottawa, reflecting a stronger post-recession employment rebound and stronger population gains.

### Renovation Market

Residential renovation spending is expected to edge back slightly this year by 1% on a constant-dollar basis, after rising 4% in 2009. The declines reflect both the significant drop in the pace of home sales during the first half of this year, which led to less associated renovation spending, and the expiration of the federal Home Renovation Tax Credit, which was available to consumers in 2009. Some homeowners likely pushed 2010 renovation spending into 2009 to take advantage of the credit.

Renovation spending is forecast to rise in 2011 by 2.9% on a constant-dollar basis, with further increases of 4.3% in 2012. Gains will reflect relatively high resale market activity and increased consumer confidence to make major household investments due to a strengthening economy.

### Residential Investment

Increased new dwelling construction in 2010 will be the primary growth driver of residential investment growth this year. In 2011 and 2012, rising new home construction, renovation spending, and acquisition-related costs will boost total residential investment and contribute positively to Ontario economic growth. Total residential investment spending is forecast to rise by 5% in each of the next two years, following a gain of nearly 8% in 2010.

#### Total Residential Investment (\$2002 millions)

	2008	2009	2010E	2011	2012
Total investment	30,388	27,912	30,103	31,744	33,328
% change	-3.1	-8.1	7.8	5.5	5.0
New Dwellings	13,412	10,822	13,115	14,246	15,179
% change	-3.4	-19.3	21.2	8.6	6.5
Renovations	14,290	14,894	14,745	15,173	15,824
% change	-2.9	4.2	-1.0	2.9	4.3
Acquisition Costs	2,486	2,039	2,084	2,163	2,161
% change	-4.3	-18.0	2.2	3.8	-0.1
Residential Investment Price Deflator (% chg.)	2.4	1.5	5.3	4.3	2.8

Sources: Statistics Canada and Central 1 Credit Union

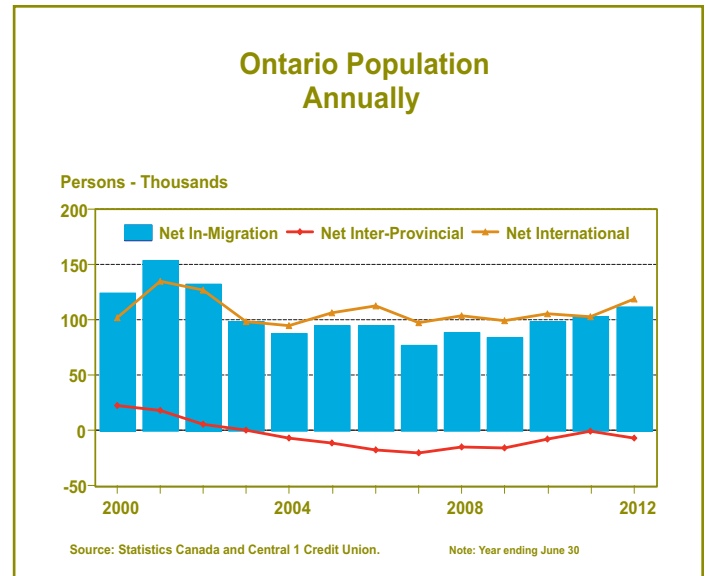
Construction costs in Ontario are expected to rise modestly over the forecast horizon. This year, costs are expected to rise by 5% due to a rebound in energy, materials, and other commodities relative to the previous year. In 2011 and 2012, costs are forecast to rise by 3% to 5%, as rising commodity prices and tighter labour markets lead to inflation construction wages and the cost of materials.

## Rental Market

After rising last year for the first time since 2004, the provincial vacancy rate in Ontario will remain elevated in 2010 before turning lower in 2011. While employment levels in Ontario have largely rebounded to pre-recession levels, the same cannot be said for the province's younger workers (aged 15 – 24). Youth employment plunged during the recession and, after a brief rise earlier this year, has declined again. Current youth employment levels are about 88% of pre-recession peaks, and the youth unemployment rate has hovered near 18% since the middle of 2009. While the overall unemployment rate in the province has also increased, the gap between the age cohorts has widened.

Young adults are a key component of rental demand and weak job prospects will lead to a delay in household formation. Rather than enter the rental market, younger individuals will be more likely to stay longer in the family home or economize by sharing living quarters with roommates. This will push vacancy rates higher in 2010 to 3.8%. Continued international migration and a lower net interprovincial outflow of residents will provide some stability.

In 2011 and 2012, employment prospects will continue to strengthen, along with the improving economy. While this will fuel increased homeownership activity, drawing some young households out of the rental market, increased youth employment will keep vacancy rates flat at 3.7% in



2011, with further declines to 3% in 2012. Higher vacancy rates will result in low rent growth of 1% to 2% over the forecast horizon.

## Population Growth

Ontario's housing market will continue to be supported by population gains. The province's population is forecast to expand at a relatively constant rate of about 1% a year over the forecast horizon. Ontario is expected to add more than 100,000 net international migrants to the province annually. This growth will offset declining interprovincial migration and slowing net natural increases. Since the main recipients of international migration inflows are the largest urban municipalities, population growth within the province will be uneven. Population growth in the northern regions and in some southwest regions looks to remain below 1% or stay negative.

Ontario will continue to lose more residents than it gains to other provinces over the forecast period, but the

Population components: Ontario					
	2008	2009	2010F	2011F	2012F
Population, 000s	12,932.3	13,064.9	13,210.7	13,360.4	13,517.4
% change	1.1	1.0	1.1	1.1	1.2
Net Migration, 000s	89.2	84.0	98.8	103.4	111.9
Net International, 000s	104.0	99.6	106.1	103.5	118.8
Net Interprovincial, 000s	-14.8	-15.6	-7.3	-0.1	-7.0

Statistics Canada, Central 1 Credit Union

## Economic Forecast Summary: Ontario

	2008	2009	2010F	2011F	2012F
Real GDP, % chg.	-0.9	-3.6	3.7	2.4	2.5
Nominal GDP, % chg.	0.1	-1.1	5.5	4.8	5.6
Employment, % chg.	1.4	-2.4	1.7	1.9	2.1
Unemployment Rate, %	6.5	9.0	8.8	8.3	7.6
Population, % chg.	1.1	1.0	1.1	1.1	1.2
Housing Starts, units, 000s	75.1	50.4	61.0	66.3	70.7
Retail Sales, % chg.	3.9	-2.5	4.9	4.6	6.0
Personal Income, % chg.	2.7	-0.2	4.2	3.6	3.8
Consumer Price Index, % chg.	2.3	0.4	1.9	1.6	1.6

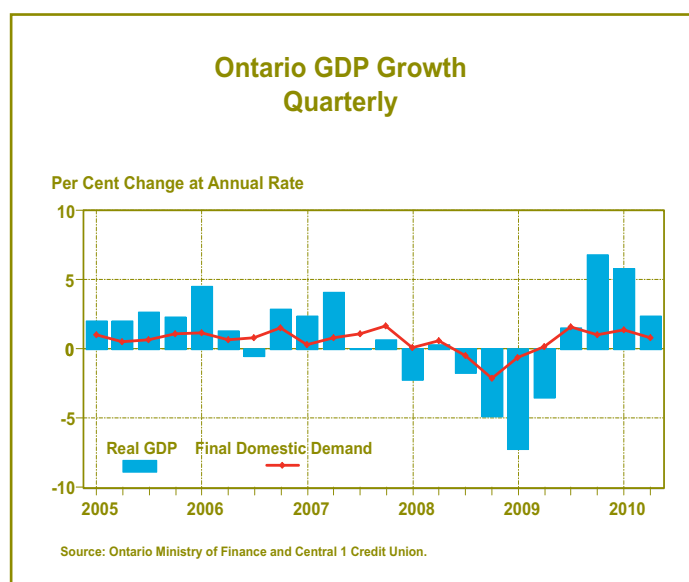
*Statistics Canada, Central 1 Credit Union*

magnitude of losses will be lower than observed from 2006 to 2009 when the province recorded net outflows of 15,000 to 20,000 individuals, annually. However, interprovincial migration is a volatile and less predictable component of population, and could decrease further if economic conditions and labour markets are more favourable in the western provinces.

### Economy

Growth in Ontario's real Gross Domestic Product (GDP) will remain positive but slow to 2.4% in 2011 from 3.7% in 2010. The North American economic slowdown is forecast to end in the first half of 2011, driving up economic growth into 2012. Economic growth in the province will be more dependent on consumer and business demand over the forecast horizon, as a consolidation of government spending to lower deficits and challenging conditions in the trade sector due to an elevated Canadian exchange rate and a relatively weak US economy, temper growth.

Improving economic conditions are forecast to push employment levels in Ontario up in 2011 by 1.9%. The modest growth rate reflects a continued shift of part-time employees to full-time status. In periods of excess labour capacity, employers often adjust their labour needs by extending hours, rather than increasing new hires. Once this adjustment is complete, employment gains will rise at a faster pace of 2.1% in 2012. The unemployment rate will dip from 8.8% in 2010 to 8.3% in 2011. A further decline to 7.6% in 2012 is forecast.



### Mortgage Rates

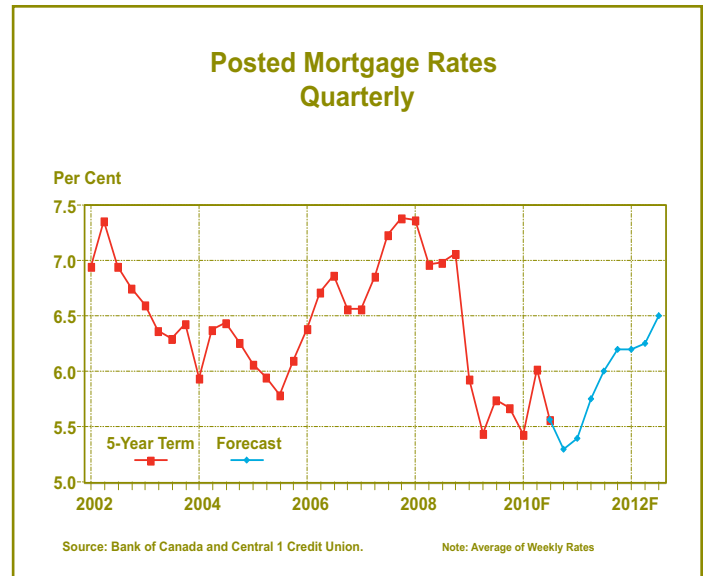
Mortgage rates will remain well anchored and conducive to housing demand over the forecast horizon. Posted rates in 2011 will range from an average of 5.4% in the first quarter to 6.2% in the fourth quarter. Rates are projected to rise to a modest 6.5% by the fourth quarter of 2012.

Variable mortgage rates reflect the prime lending rate, which is influenced by the Bank of Canada's determination of its policy interest rate. The policy rate has been increased 3 times in 2010 in 25 basis point increments, pushing the rate to 1%. The next rate hike will most likely be a 25 basis point increase, and will occur at the Bank's April 12, 2011 rate-setting meeting. While the Bank of Canada will

resume its rate normalization process in 2011, the path will not be smooth. Central 1 expects the policy rate to reach 2.25% by the end of 2011. After a projected six – nine month pause, the policy rate is expected to rise to 2.75% to 3% by the end of 2012.

Posted Fixed Term Mortgage Rates					
	2008	2009	2010E	2011F	2012F
1-Year	6.73	4.07	3.05	3.85	4.80
3-Year	6.92	4.62	4.30	4.68	5.60
5-Year	7.10	5.70	5.62	5.84	6.30

*Bank of Canada, Central 1 Credit Union*



*Appendix:*

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**Annual MLS® Residential Sales - Economic Regions**

	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011F</b>	<b>2012F</b>
Ontario	181,001	195,840	194,000	204,000	197,000
% change	-15.2	8.2	-0.9	5.2	-3.4
Ottawa	15,325	16,430	16,125	16,900	16,100
% change	-6.1	7.2	-1.9	4.8	-4.7
Kingston-Pembroke	7,797	7,771	7,425	8,200	8,100
% change	-10.9	-0.3	-4.5	10.4	-1.2
Muskoka-Kawathas	7,596	8,071	8,075	8,600	8,300
% change	-17.9	6.3	0.0	6.5	-3.5
Toronto	81,520	94,724	92,525	96,300	92,300
% change	-19	16.2	-2.3	4.1	-4.2
Kitchener-Waterloo-Barrie	18,880	19,703	19,600	20,700	20,200
% change	-14.3	4.4	-0.5	5.6	-2.4
Hamilton-Niagara Peninsula	20,103	20,372	20,650	21,900	21,200
% change	-12	1.3	1.4	6.1	-3.2
London	10,270	9,829	10,025	10,600	10,600
% change	-11	-4.3	2.0	5.7	0.0
Windsor-Sarnia	7,418	7,355	7,475	8,000	7,700
% change	-10	-0.8	1.6	7.0	-3.8
Stratford -Bruce Peninsula	3,572	3,663	3,775	4,000	3,900
% change	-18.4	2.5	3.1	6.0	-2.5
Northeast	6,547	5,881	6,200	6,700	6,600
% change	-12.4	-10.2	5.4	8.1	-1.5
Northwest	1,973	2,041	2,125	2,100	2,000
% change	3.7	3.4	4.1	-1.2	-4.8

*Sources: CREA and Central 1 Credit Union*

### Average Annual MLS® Residential Price (\$) - Economic Regions

	2008	2009	2010	2011	2012
Ontario	302,354	318,366	341,800	356,500	365,000
% change	0.9	5.3	7.4	4.3	2.4
Ottawa	277,075	290,566	313,900	327,000	336,800
% change	6.3	4.9	8.0	4.2	3.0
Kingston-Pembroke	212,424	216,925	225,900	225,000	228,500
% change	4.1	2.1	4.1	-0.4	1.6
Muskoka-Kawathas	257,569	264,224	283,400	282,000	286,200
% change	-3.8	2.6	7.3	-0.5	1.5
Toronto	384,844	400,689	435,500	460,000	473,800
% change	1	4.1	8.7	5.6	3.0
Kitchener-Waterloo-Barrie	261,462	262,415	281,600	297,000	305,900
% change	4.3	0.4	7.3	5.5	3.0
Hamilton-Niagara Peninsula	251,708	261,217	276,400	284,000	289,700
% change	3.4	3.8	5.8	2.7	2.0
London	210,478	212,391	224,700	235,000	239,700
% change	4.1	0.9	5.8	4.6	2.0
Windsor-Sarnia	160,870	155,857	161,300	165,000	168,300
% change	0.2	-3.1	3.5	2.3	2.0
Stratford -Bruce Peninsula	203,569	204,249	217,700	218,000	221,300
% change	2.5	0.3	6.6	0.1	1.5
Northeast	176,413	177,825	189,200	185,000	188,700
% change	10.7	0.8	6.4	-2.2	2.0
Northwest	132,470	138,090	144,300	145,000	147,200
% change	7.5	4.2	4.5	0.5	1.5

*Sources: CREA and Central 1 Credit Union*

### Ontario Housing Starts - Economic Regions<sup>1</sup>

	2008	2009	2010	2011	2012
Ottawa	7,200	6,024	6,380	6,830	7,230
% change	7.6	-16.3	5.9	7.1	5.9
Kingston - Pembroke	1,307	1,306	1,310	1,450	1,570
% change	-15.1	-0.1	0.3	10.7	8.3
Muskoka - Kawarthas	1,264	796	1,230	1,290	1,360
% change	3.0	-37.0	54.5	4.9	5.4
Toronto	44,199	26,929	31,210	34,280	36,930
% change	23.9	-39.1	15.9	9.8	7.7
Kitchener - Waterloo - Barrie	6,343	3,904	5,980	6,220	6,460
% change	11.8	-38.5	53.2	4.0	3.9
Hamilton-Niagara Peninsula	5,462	3,324	5,950	6,050	6,190
% change	5.1	-39.1	79.0	1.7	2.3
London	2,787	2,453	2,720	3,100	3,420
% change	-20.3	-12.0	10.9	14.0	10.3
Windsor-Sarnia	977	865	1,010	1,120	1,220
% change	-19.1	-11.5	16.8	10.9	8.9
Stratford - Bruce Peninsula	421	401	310	360	400
% change	0.0	-4.8	-22.7	16.1	11.1
Northeast	996	885	1,030	1,080	1,120
% change	0.3	-11.1	16.4	4.9	3.7
Northwest	177	196	250	270	290
% change	-33.0	10.7	27.6	8.0	7.4

Sources: CMHC and Central 1 Credit Union

<sup>1</sup>Includes urban areas only, see page 10 for details

### Housing Starts Geographies

Ottawa		London	
	Mississippi Mills		Ingersoll
	Ottawa		Tillsonburg
	Cornwall		Woodstock
			London
Kingston- Pembroke			
	Greater Napanee	Windsor-Sarnia	
	Petawawa		Lambton Shores
	PrinceEdward County		Leamington
	Kingston		Windsor
	Belleville		Chatham-Kent
			Sarnia
Muskoka- Kawarthas			
	Bracebridge	Stratford-Bruce Peninsula	
	Cobourg		Meaford
	Gravenhurst		North Perth
	Port Hope		Owen Sound
	Trent Hills		Saugeen Shores
	Peterborough		Stratford
	Kawartha Lakes		
		Northeast	
			Elliot Lake
Toronto			Temiskaming Shores
	Oshawa		Timmins
	Toronto		West Nipissing
			Greater Sudbury
Kitchener -Waterloo-Barrie			North Bay
	Centre Wellington		Sault Ste. Marie
	Collingwood		
	Erin	Northwest	
	Midland		Kenora
	Orillia		Thunder Bay
	Wasaga Beach		
	Barrie		
	Guelph		
	Kitchener		
Hamilton-Niagara Peninsula			
	Haldimand County CY		
	Brantford		
	Hamilton		
	St. Catharine-Niagara		
	Norfolk		

### Economic Regions - MLS® Sales by Real Estate Board Area

Ottawa		Hamilton-Niagara Peninsula	
	Ottawa/Carlton		Hamilton-Burlington
	Cornwall		Brantford-Region
			Niagara
Kingston-Pembroke			St. Catherines
	Kingston and Area		Welland
	Renfrew County		
	Bancroft	London	
	Quinte		London-St. Thomas
			Tillsonburg
Muskoka-Kawathas			Woodstock-Ingersoll
	Kawartha Lakes		
	Muskoka and Haliburton	Windsor-Sarnia	
	Peterborough		Windsor-Essex
	Cobourg-Port Hope		Chatham-Kent
	Georgian Triangle		Sarnia-Lambton
Toronto		Stratford -Bruce Peninsula	
	Toronto		Huron-Perth
	Oakville/Milton		Grey Bruce Owen Sound
	Less: Orangeville		
		Northeast	
Kitchener-Waterloo-Barrie			Parry Sound
	Kitchener - Waterloo		Sudbury
	Barrie		Sault Ste Marie
	Simcoe		Timmins
	Cambridge		North Bay
	Guelph		
	Midland-Penetang	Northwest	
	Orangeville		Thunder Bay
	Orillia		

### Economic Analysis of Ontario

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Chief Economist: Helmut Pastrick  
Economist: David Hobden  
Economist: Bryan Yu  
Production: Judy Wozencroft

