Ontario Economic Briefing

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Highlights

- Growth in large urban markets helped propel October's housing starts
- Strong moderation in Toronto pulls down Ontario's non-residential permit volumes
- Toronto home sales increased by 7.7 per cent

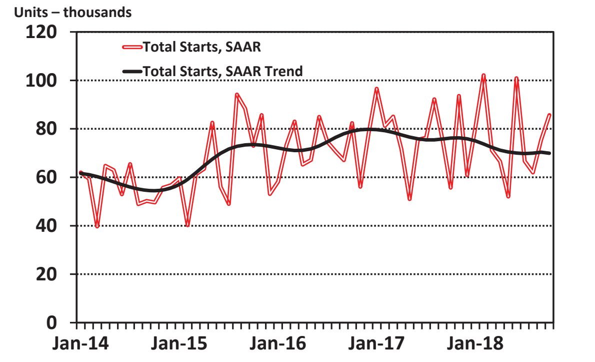
Housing starts posted strong gains in October

Housing starts growth has been inconsistent this year with periods of strong growth and periods of strong contractions. This is not uncommon as projects can take long-periods to get to the groundbreaking phase, which can alter growth from one month to the next. In October, Ontario posted a strong gain of 13.5 per cent in housing starts to reach 85,668 starts at seasonally adjusted annual rate (SAAR), adding to September's increase of 21.8 per cent. Strong row/townhome and condominium apartments construction boosted starts and increased by 9.2 and 35.9 per cent respectively. Low-rise housing, such as single-detached and semi-detached homes, declined for the fifth time this year posting 18.5 per cent fewer starts.

With the surge in new home construction, Ontario is currently on pace for more than 76,000 new starts, or 41 per cent above the long-term monthly SAAR average, but below the 79,100 actual starts posted in 2017. This current pace is in line with Central 1 Credit Union's (Central 1) forecast for 2018.

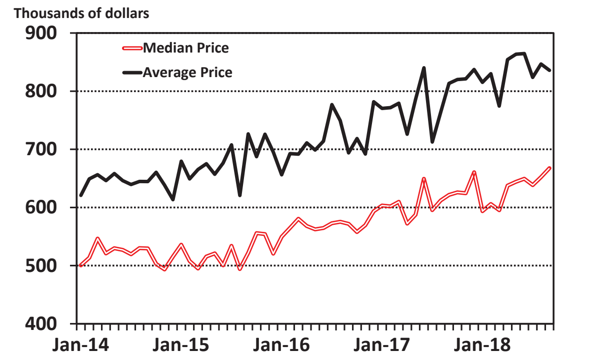
By metro area, this month's surge in new construction of higher-density housing was supported by a few large markets mainly: Ottawa-Gatineau (143.7 per cent jump and 20.3 per cent share), Oshawa (122.7 per cent jump and 5.8 per cent share), and Toronto (5.5 per cent jump and 55.1 per cent share). Metro markets posted 80,652 SAAR starts for a month-over-month jump of 16.1 per cent. Brantford and Guelph metro

New Housing Starts, Ontario



Source: CMHC, Central 1 CU. Latest: Oct.-18
SAAR = seasonally-adjusted at annual rate

New Single-detached Home Price, Ontario



Source: CMHC, Central 1 CU. Latest: Oct.-18
Seasonally-adjusted data, Prices are based on contract price.

markets representing just 3.1 per cent share of total activity and also posted significant gains, contributing to the large jump in activity this month.

Strong population growth, affordability concerns, and a lack of greenfield development land continues to support significant growth in higher-density construction in large urban markets across Ontario.

The seasonally-adjusted average and median contract price of a new single-detached home in Ontario increased in October following last month's declines. The median price increased by a modest 0.3 per cent and the average price increased by 2.7 per cent. The jump in average price could signify several high-price projects, such as custom homes breaking ground. With fewer potential buyers seeking single-detached homes, a few expensive projects can cause large swings in the market.

Non-residential building permit volumes declined by 0.6 per cent

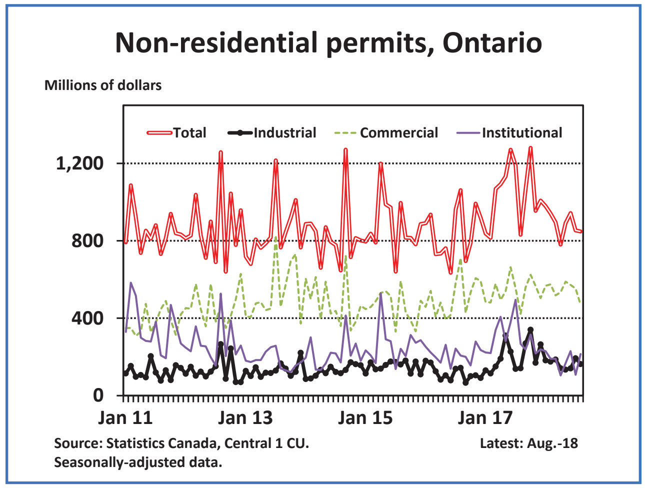
Non-residential building permit volumes continued to decline in August but at a much slower pace than July. Total volumes declined by 0.6 per cent (all data in this section seasonally-adjusted) to $848.3 million in August and follows a decline of 9.5 per cent in July. August's industrial and commercial permit volumes declined by 15.4 per cent to $163.4 million and 15 per cent to $470 million respectively. Doubling of institutional and non-governmental building permit volumes to $214.9 million mitigated the decline in the other two sectors.

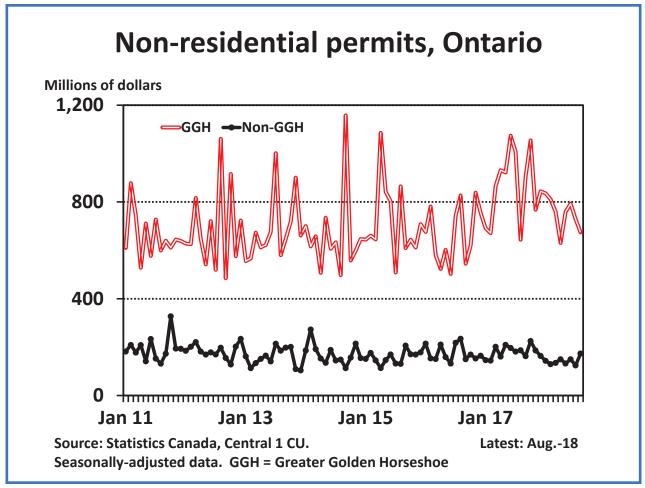
Year-to-date, non-residential permit volumes in Ontario were 13.4 per cent behind last year's pace and settled in August at $7.1 billion. Industrial and institutional and non-governmental building permits are 6.2 per cent and 45.1 per cent respectively off last year's pace. Total volumes were pulled down by a lull in industrial permit volumes from April to June relative to last year. An overall lull in institutional and non-governmental permit volumes compared to last year also weighed on total volumes. Commercial permit volumes remained 3.8 per cent above last year's pace due to stronger growth for five of the first eight months of 2018 compared to last year.

The decline in non-residential building permit volumes in August can be traced to decreased activity in metropolitan markets found in the Greater Golden Horseshoe (GGH). Together, these markets posted 7.5 per cent lower permit volumes (to $674.7 million) that could not be offset by the 39.6 per cent jump in activity in non-GGH markets (to $173.7 million). Over the first eight months of the year, GGH and non-GGH permit volumes are 12 and 20.3 per cent off last year's respective paces.

Toronto's metro market, which made up 51 per cent of non-residential permit volumes in August, declined by 15.6 per cent from July and pulled down Ontario's volumes in the process. Several smaller markets posted strong month-over-month non-residential permit volumes growth, but not enough to offset the decreased activity in Toronto. Among the markets that posted gains in August included the following:

- Barrie (39 per cent)
- Belleville (560 per cent)
- Brantford (260.8 per cent)
- Hamilton (57.7 per cent)





- Kingston (16.1 per cent)
- Oshawa (13.9 per cent)
- Ottawa-Gatineau, Ontario-only (72.1 per cent)
- Peterborough (116.3 per cent)
- St. Catharines-Niagara (2.3 per cent)
- Thunder Bay (105.3 per cent)

The jump in institutional and non-governmental permit volumes was due to the continued construction in healthcare related projects such as:

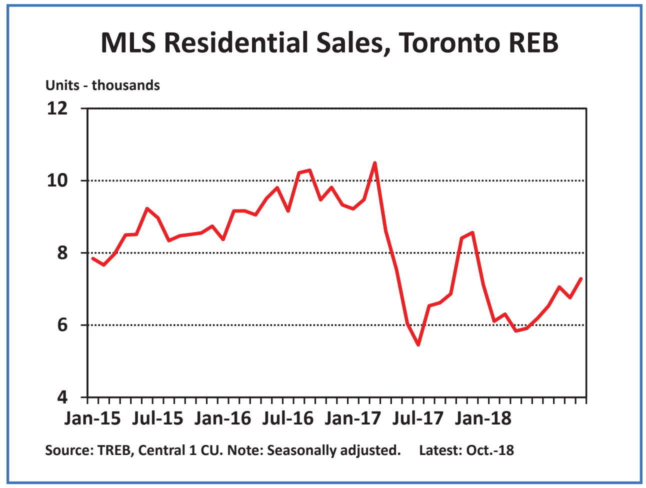
- Mackenzie-Vaughn hospital project that began in October 2016 and is expected to be completed by 2020.
- Centre for Addiction and Mental Health (CAMH) Phase 1C redevelopment that began in fall 2017 and is expected to be completed by 2020.
- Etobicoke General Hospital project that will add 250,000 square feet for several things like emergency services and intensive-care-units and is expected to be completed in 2018.

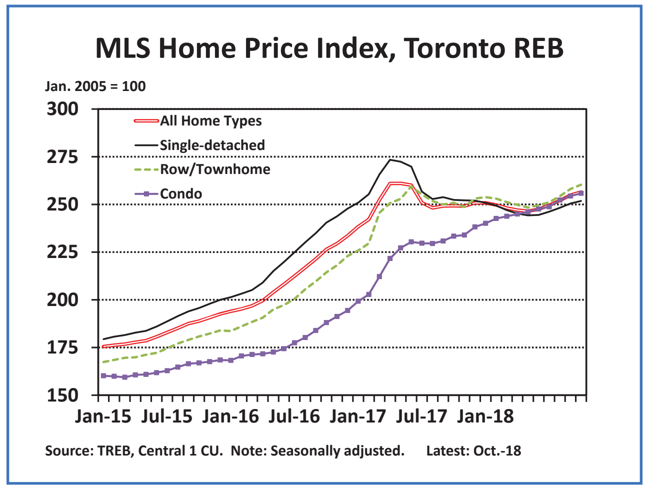
Toronto home sales growth jumped significantly

Toronto's existing home sales continued their recovery since May, despite last month's slow sales activity. In October, existing home sales increased a robust 7.7 per cent or 522 units (all figures in this section seasonally-adjusted), while new listings increased by 2.8 per cent or 377 units. With sales growth outstripping supply growth, the Sales-to-New-Listings-Ratio (SNLR) moved up 2.4 per cent to 51.9 per cent. October's SNLR is the second highest recorded this year and is proof that the market is recovering as supply falls short of demand. The average price of an existing home moved up by a modest one per cent, to $814,450 despite the brisk sales activity recorded in October. With the existing regulations, buyers are substituting expensive home options for higher-density housing or low-rise housing at lower prices, resulting in modest price growth month-over-month.

Benchmark home prices—a measure of quality-adjusted prices—increased by 0.6 per cent. This is below the 1.1 per cent month-over-month growth posted in September, pointing to a slowdown of underlying price conditions. By housing type, the row/townhome benchmark price increased 0.8 per cent in the month while condo apartments increased 0.6 per cent. Single-detached home price remained nearly unchanged. All home prices by type are below their respective long-term month-over-month average growth rates.

Year-to-date, sales are 15.3 per cent off last year's pace while the average price is 4.4 per cent down from last year. New listings are also below the pace at 7.7 per cent. According to the SNLR, the market is firmly balanced at 50 per cent down from 54.5 per cent in 2017. Even though the first half of the year has weighed on the year-to-date numbers since May, the market is recovering slowly each month. That said, this year's pace will be significantly lower when compared to last year, even with the strong results in the second half of the year.





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