Ontario Economic Briefing

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Highlights

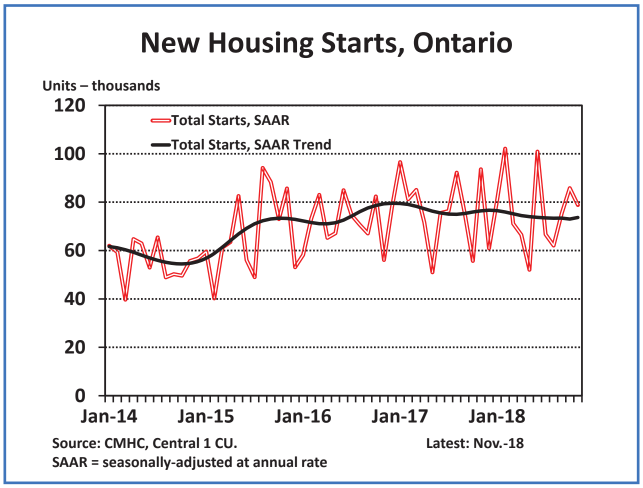
- **Ontario's housing starts down 8.1 per cent in November**
- **Non-residential permit volumes increased 3.9 per cent in October**
- **The share of non-resident owners low but the average price of a home is higher**

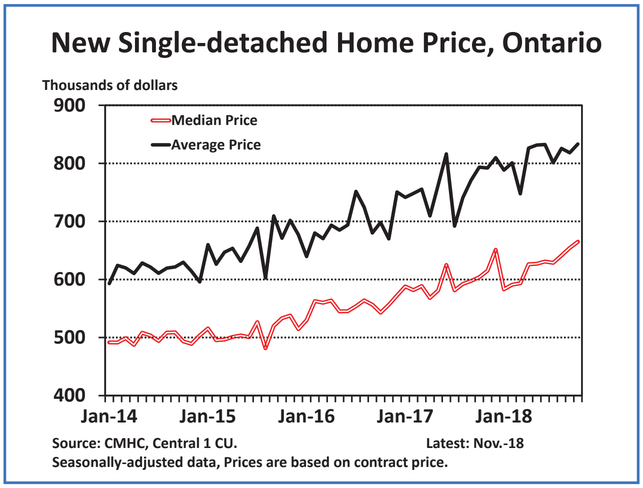
Housing starts down in November

Following two months of double-digit growth, housing starts declined in November by 8.1 per cent to 78,824 units at a seasonally-adjusted annualized rate (SAAR). The decreased new construction was due to fewer new apartments and row/townhome projects breaking ground. These two types historically make-up a sizeable share of all new home construction in Ontario and has been expanding over the last few years. For example, from January 2010 to November 2018, the monthly share of these two housing types of all new construction averaged 58.8 per cent of all new construction, well above the long-term monthly average of 45.6 per cent since January 1990. Therefore, any moderation in either segment—but mostly apartments—will cause large swings in total new construction in Ontario. This was evidenced in November where row/townhome construction declined by 6.8 per cent and apartment construction declined by 12.7 per cent. Semi-detached construction stayed flat in November increasing by only 0.3 per cent or six units. Single-detached homes increased by three per cent or 558 units.

Over the first eleven months of 2018, housing starts in Ontario were 1.4 per cent off last year's pace. Strong double-digit moderation in ground-oriented housing (all home types excluding apartments) in 2018 relative to last year, has pulled down year-to-date figures. Apartments are up 28.5 per cent from last year.

New home construction across Ontario's census metropolitan areas (CMA) declined by 4,884 units SAAR in November. While housing starts increased in some markets such as Toronto, where starts jumped up by 3,651 units, other areas such as Ottawa-Gatineau (9,470 units decline) and Hamilton (1,727 units decline)



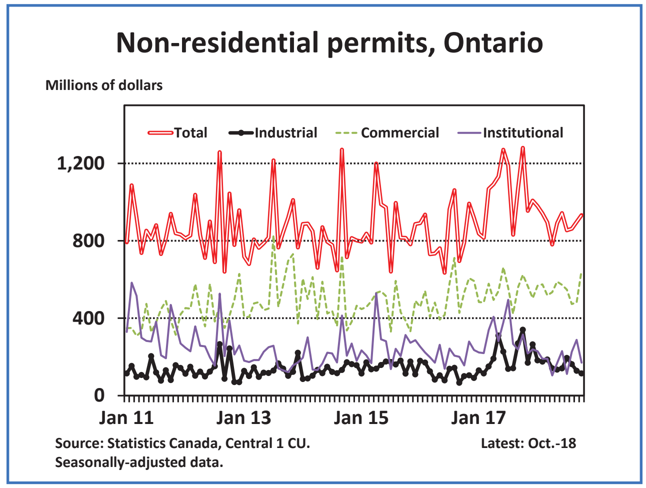


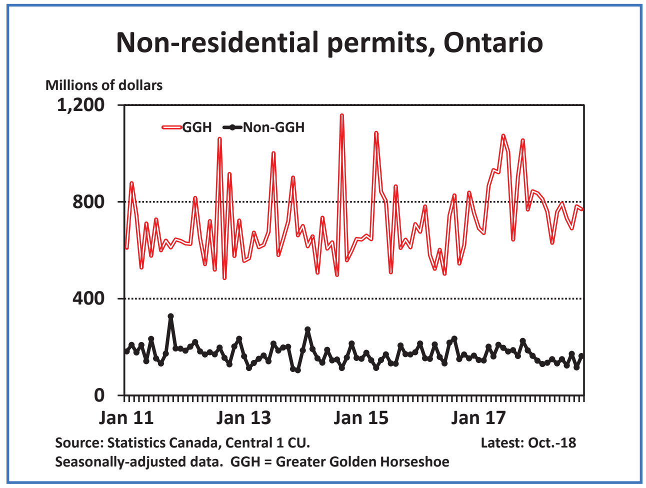
posted very strong moderations erasing gains in other areas. Other markets that posted strong movements, either up or down, in the month included:

- Guelph (217 units decline)
- St. Catharines-Niagara (997 units decline)
- Oshawa (133 units decline)
- Kitchener-Cambridge-Waterloo (2,368 units increase)
- Windsor (702 units increase)
- London (172 units increase)

Builders' resources stretched thin coupled with declining homeownership demand are factors putting downward pressure on housing starts. In November, apartments under construction were up 10.3 per cent year-over-year and well above the 6.3 per cent year-over-year average rate of growth from January 1990 to November 2018. As builders are busy completing these large projects and market demand is slowing down, they are decreasing the rate that new projects are brought to showrooms. Builders would not want to bring too many new projects to market for sale in case many will remain unsold.

The seasonally-adjusted average and median contract price of a new single-detached home in Ontario increased in November by 2.0 and 1.1 per cent respectively, building on the growth posted last month. Price appreciation from homes that were purchased several months or years in advance, is still funneling through the data. Newly completed homes with large price tags at purchase are continuing to skew up the average.





Non-residential permits increase due to commercial permits growth

Ontario's non-residential building permit volumes increased by 3.9 per cent (all figures seasonally-adjusted) in October to $932.4 million building on last month's growth of 4.1 per cent. This now marks three consecutive months that volumes have increased month-over-month. The total volume jump in October can be traced to an impressive 34.6 per cent jump in commercial permit volumes to $647.5 million. The increase more than offset the month's declines to industrial (10.8 per cent decline to $114.8 million) and institutional and non-governmental permit volumes (40.9 per cent decline to $170.1 million).

Year-to-date, non-residential permit volumes are 15.2 per cent off last year's pace. Industrial and institutional and non-governmental permit volumes have lagged for most of 2018 to pull down the total compared to last year. Commercial permits have bounced up and down during the year with five different months where volumes were higher in 2018 than last year. Despite the variability of month-to-month commercial permits when compared to 2017, the magnitude has kept commercial permits 1.9 per cent above last year's pace.

Toronto's total non-residential permit volumes remained relatively unchanged in October declining by 0.1 per cent. Even with Toronto's nearly unchanged volumes—a region that accounts for 62 per cent of all volumes in Ontario metro areas—the gains in other metro areas was enough to lift total volumes up. Metro markets that posted gains included:

- Greater Sudbury ($24.4 million increase)
- Hamilton ($3.9 million increase)
- Kingston ($6 million increase)
- London ($6.1 million increase)
- Oshawa ($30.2 million increase)
- Ottawa-Gatineau ($11.8 million increase)
- Thunder Bay ($239,000 increase)
- Windsor ($3.0 million increase)

Together, the above metro markets posted $85.7 million more in permit volumes in October. more than offsetting the decline of $50.9 million in Toronto and a few other markets resulting in a net gain of $34.7 million in non-residential permit volumes.

The share of non-resident homeowners in Ontario is relatively low

New data from the Canadian Housing Statistics Program at Statistics Canada provides a glimpse into the extent of homeownership by non-residents in Ontario and its metro markets. Non-resident owners in this data set are either individuals or non-individuals (read businesses) whose primary residence or main location of economic activity occurs outside the economic territory of Canada. Therefore, non-residents can include foreign nationals and Canadians living permanently abroad.

In Ontario, of the 4.8 million residential properties 4.7 million or 97.8 per cent are owned by residents. Moreover, resident homes are worth more than those owned by non-residents by average assessment value. Residents' homes are worth $450,000 while non-residents' homes are worth $430,000, or 4.4 per cent less. This is due to non-residents buying a greater share of higher-density homes compared to residents. Discussed in greater detail below.

By home type, non-residents own 4.8 per cent of Ontario's condo apartments while only 1.5 per cent of single-detached homes, 1.6 per cent of semi-detached homes, and, 1.9 per cent of row/townhomes. In absolute terms, non-residents buy more condo apartments than other housing types at 29 per cent compared to 12 per cent for residents and pay 23.5 per cent more for those condo apartments than residents at $420,000 average assessment value. On average non-residents pay more for the homes they buy, regardless of tenure, and the higher-density the home type the more they pay. For example, non-residents pay 4.2 per cent more than residents for a single-detached home at $500,000 average assessment value compared to 23.5 per cent extra for condo apartments.

In Ontario's metro areas, 1.9 per cent of its 3.4 million residential properties are owned by non-residents. Brantford has the lowest share by specific census metropolitan area (CMA) at 0.7 per cent while Kingston has the highest share at 2.7 per cent. Kingston's share is slightly higher than Toronto's 2.6 per cent share and St. Catharines-Niagara's 2.2 per cent share. In non-metro markets the share of non-resident owners is the highest at three per cent.

Many non-resident owners are occasional visitors who may holiday at their vacation home or visit family and friends in Ontario—hence the higher share of non-resident homes in non-metro areas. For example, in Ontario's cottage country, Muskoka Lakes has a non-resident ownership rate of 5.6 per cent and Rideau Lakes has a non-resident ownership rate of 9.7 per cent.

The higher than average share of non-residents in St. Catharines-Niagara, Toronto, and Kingston metro markets could be both vacationers and foreign secondary and post-secondary students.

Finally, the relative higher price tag paid by non-residents is a result of these buyers willing and able to buy more expensive vacation, secondary homes and in some cases, custom built homes.

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