Ontario Economic Briefing

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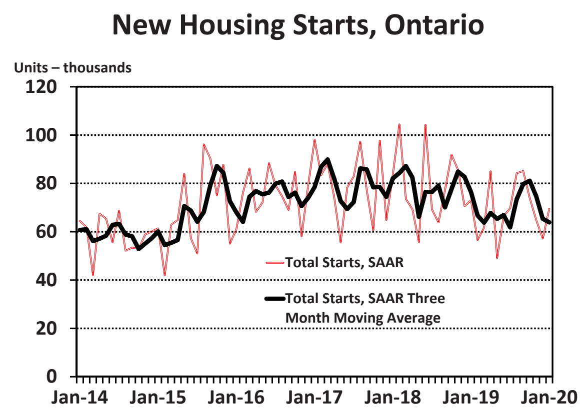
Highlights:

- Housing starts increased 21.6 per cent in January mostly due to increased condo apartment construction
- Non-residential building permit volumes increased by 17.0 per cent in 2019
- The average price of a resale home moved up 1.7 per cent to $653,625 and months of supply remained near record low



Source: CMHC, Central 1 CU. Latest: Jan.-20
SAAR = seasonally-adjusted at annual rate, all areas urban and rural

Housing starts rebounded strongly in January

After three consecutive months sliding to finish 2019, new housing starts rebounded in January. A total of 69,545 total housing starts at seasonally adjusted annual rate (SAAR) broke ground in Ontario, a strong 21.6 per cent rebound from December where starts fell by 11.9 per cent. Moreover, year-over-year sales in January were down 4.8 per cent - still a decline but one which seems to be slowing down. In January 2019 housing starts were down by 12.7 per cent compared to January 2018.

In January, nearly all the new housing starts in the province occurred in urban centres. A total of 68,890 housing starts SAAR broke ground in urban centres, a jump of 22.1 per cent from December. Condo apartment starts increased significantly in January, a 59.3 per cent increase from December, followed by single-detached starts, which showed a 1.1 per cent increase from December. Semi-detached and townhome/row housing starts both declined by 10.3 per cent and 8.0 per cent respectively.

Year-over-year, total starts in urban centres are a bit off pace, down 2.0 per cent from last year mainly due to weaker townhome/row numbers.

Housing starts in Ontario's urban markets went up in January due to strong growth in five large markets, the largest of them being Toronto. This more than offset the decreased activity in the province's 10 other metro markets. In Toronto, which represented nearly half of all the housing starts in urban markets, housing starts jumped 51.4 per cent. Below are the other four metro markets that posted increased new home construction to begin 2020:

- Barrie (up 27.4 per cent)
- Guelph (up 166.9 per cent)
- Hamilton (up 107.8 per cent)
- London (up 92.3 per cent)

The Greater Toronto Area (GTA) has posted very strong population growth numbers over the last few years, with many of the new residents coming from abroad. Increased demand for new housing is occurring in Toronto and many of its neighbouring markets which are accessible by public transportation or driving. Continuing affordability concerns in Toronto are a driving factor for buyers looking to markets in the GTA when deciding what and where to buy.

The average length of time to complete a new housing start increased in January over December from 17 months to 19.5 months. The significant backlog of units currently under construction in Ontario is putting a strain on resources. Skilled labour shortages are slowing down the completion of additional new units in Ontario.

Ontario's new single-detached average and median contract prices rebounded in January, much like housing starts, with each moving up 5.6 per cent and 0.4 per cent respectively. The rebound in January halted seven consecutive months of average and median price slides. With supply a concern in the resale market, potential buyers are buying in the new homes market and increased demand and competition is potentially starting to bid up prices. With only one month of data it is hardly a trend but something definitely to keep an eye on in 2020.

Non-residential building permit volumes finished off 2019 strongly, up 31.1 per cent in December

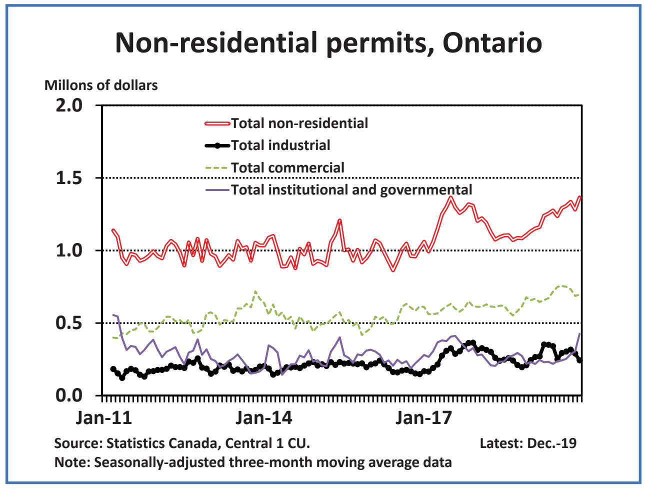
Non-residential permit volumes increased by 31.1 per cent in Ontario in December. This was the highest month-over-month rate of growth in 2019 and December's growth comfortably erased the 14.5 per cent contraction in November. While industrial building permit volumes declined by 53.2 per cent in December very robust growth to commercial (up 40.9 per cent) and institutional (up 93.2 per cent) building permit volumes more than picked up the slack to lift overall permit volumes.

In 2019, non-residential building permit volumes were comfortably above 2018 for almost the entirety of the year which allowed total volumes to finish 2019 17.0 per cent above pace. Industrial and commercial building permits finished 2019 16.5 per cent and 15.0 per cent above pace while institutional permit volumes also came in substantially above 2018 at 22.7 per cent growth.

In 2019, 84.4 per cent of Ontario's non-residential permit volumes originated in Ontario urban markets. Most of the activity occurred in Toronto, which accounted for over 60.0 per cent of all non-permit volumes in metro markets. Moreover, permit volumes in Toronto increased by 15.0 per cent. Other large metro markets in Ontario that posted robust non-residential permit volumes growth in 2019 included:

- Ottawa-Gatineau (up 5.7 per cent)
- Hamilton (up 27.8 per cent)
- Kitchener-Cambridge-Waterloo (up 30.5 per cent)
- London (up 110.5 per cent)
- St. Catharines-Niagara (up 34.8 per cent)
- Guelph (up 93.1 per cent)
- Windsor (up 42.3 per cent)

The increased growth in non-residential building intentions in Ontario has strained resources and lifted the costs of construction. Recent quarterly data on building construction prices alludes to this. Data from the final quarter of 2019 suggests that quarter-over-quarter higher material prices and labour shortages were reported by non-residential builders in Toronto. Moreover, year-over-year building costs in the fourth



quarter increased most nationally in Montreal, Toronto, and Ottawa-Gatineau. Again, Ontario, has experienced very strong population growth and the two markets mentioned are typically two key markets that attract the majority of these new residents.

Finally, in 2019, among metro markets surveyed, non-residential building costs increased most in Ottawa-Gatineau, moving up an additional 4.9 per cent. The rate of price growth slowed in commercial and institutional but ramped up in industrial. In Toronto, the only other metro surveyed in Ontario, the rate of growth of construction costs moved up 3.8 per cent in 2019. Commercial and industrial posted highest cost growth at 4.0 per cent respectively while institutional costs increased 3.4 per cent.

Year-over-year sales remained robust in Ontario

Ontario home sales recoiled again to start 2020 marking two consecutive months of lower sales activity. Home sales fell 2.0 per cent in January, adding to the 3.5 per cent decline in December. Year-over-year through January's sales were up a robust 6.5 per cent since January 2019 were and higher than the previous two Januaries in 2018 and 2019.

Contrary to sales activity, new listings stopped sliding in January, putting an end to five consecutive months of fewer new listings. In January new listings moved up 3.4 per cent the largest month-over-month gain in new listings since April 2019. Year-over-year, new listings remained challenged, declining 10.4 per cent.

Despite the lower sales in January, the market remained tight which was evidenced by the months of supply metric staying near the record low of 1.6 months (in January it came in at 1.9 months). Also, compared to the long-term monthly average (from January 2001 to January 2020) sales in January were

4.7 per cent above average while new listings were 9.2 per cent below average.

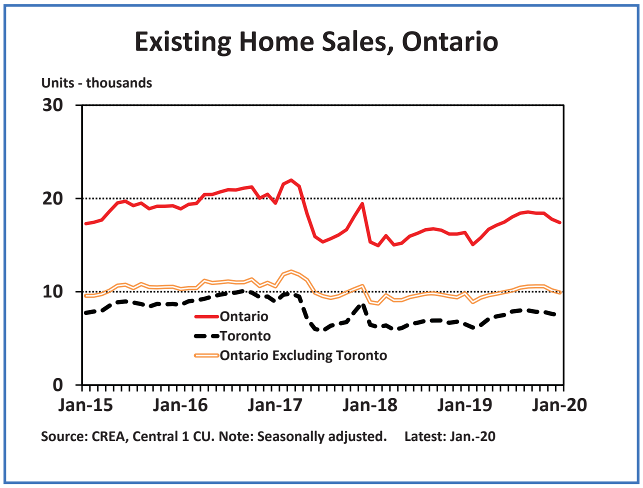
The tightness in the market has kept average price growth up. Moreover, the lack of supply in the market left less choice for buyers leaving them to bid up prices for those listings on the market. In January the average price of a resale home moved up 1.7 per cent to $653,625. With January's growth in average price this marked five consecutive months of price growth in Ontario. Year-over-year, average price moved up by double-digits again in January adding 14.2 per cent to last January's price.

According to the Canadian Real Estate Association's (CREA) same-quality housing price index (HPI), of the seven real estate boards surveyed in January, nearly all posted price growth, with Barrie the only market posting an HPI price decline, down 0.6 per cent. Ottawa posted the largest month-over-month appreciation at 1.7 per cent while all the other markets grew by a range between 0.4 per cent and 1.2 per cent. Year-over-year, HPI values were up across all seven real estate boards with Ottawa, Niagara, and Greater Toronto leading the pack with HPI growth of 13.5 per cent, 9.5 per cent, and 8.5 per cent respectively. Below are the year-over-year HPI growth rates for the remaining four real estate boards surveyed:

- Guelph (up 8.3 per cent)
- Barrie (up 1.5 per cent)
- Oakville-Milton (up 6.0 per cent)
- Hamilton-Burlington (up 7.9 per cent)

Year-over-year sales across all real estate boards were up an average of 5.3 per cent. Real estate boards located in the GTA posted strong double-digit sales growth such as Greater Toronto (up 14.9 per cent), Durham Region (up 13.7 per cent), York Region (up 27.6 per cent), and Mississauga (up 13.3 per cent). Not to be outdone markets outside of the GTA also did well such as:

- Brantford (up 15.4 per cent)
- Barrie (up 7.9 per cent)
- Grey Bruce – Owen Sound (up 17.8 per cent)
- Guelph (up 3.9 per cent)
- Hamilton-Burlington (up 5.0 per cent)
- London-St. Thomas (up 7.9 per cent)
- Peterborough and the Kawarthas (up 1.5 per cent)



Recent data released from Statistics Canada points to Canada continuing to become a highly urbanized country with the majority of people living in cities. This is also the case in Ontario where many new immigrants settle in large urban centres and put down roots there. The influx of people coupled with attractive mortgage rates, and a growing and relatively stable economy, despite some uncertainty, has kept the market tight and average price growth positive and at times growing robustly.

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