



HIGHLIGHTS

- Ontario sales forecast to fall 15.4 per cent in 2022 and an additional 5.5 per cent in 2023
- Home sales forecast to return closer to 2020 level of activity
- More balanced market conditions will dampen average price growth, price growth to decelerate to 7.1 per cent in 2022 then fall by 5.9 per cent by 2023
- Housing starts to come off period peak and slide 14.7 per cent in 2022 and 11.8 per cent in 2023
- Rental vacancy rate to drop below three per cent over the next two years

Introduction

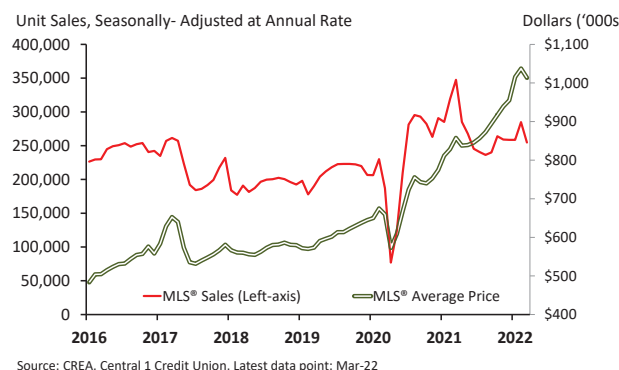
Ontario's resale housing market is forecast to record sharply lower sales and declining prices over these next two years. Tighter monetary policy will continue to take steam out of the market as costs of entry for buyers increase and budgets shrink. Sales are forecast to revert closer to 2020 levels as households still considering a purchase are pushed back to the sidelines.

Double-digit average price growth seen over 2020 and 2021 will also be a distant memory over the forecast horizon as the market rebalances from a very tight sellers' market to, at minimum, a well-balanced market on fewer sales and increased new listings.

Some geographical and compositional reshuffling will occur as well, as affordability concerns shifts demand from low-rise housing such as single-detached homes to higher-density housing such as condo apartments, particularly in large urban centres. Moreover, a portion of the households that fled the large urban centres during the pandemic will be returning as jobs recall them back. These households now priced out of the low-rise market in large urban centres will focus on high-density housing to regain a foothold in those markets.

Like the resale homes market, the new homes market will also come off its peak in 2022 and 2023 as new construction activity moderates on weaker demand for housing. Investors, a big driving force of new home construction, will largely step aside as market forces and new policies affect returns.

Market starting to show signs of cooling



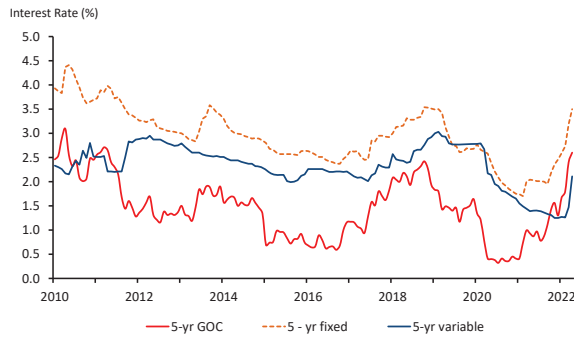
As expected, a moderating homeownership market for both resale and new, and increased flows of residents from other parts of Canada and abroad will retighten the rental market after two years of less than usual activity and make 2022 a landlords' year.

Tighter monetary policy has poured some cold water on Ontario's hot housing market and the tightening cycle has only started

The latest available data point for Ontario resale homes market from the Canadian Real Estate Association (CREA) is March 2022 but for the Toronto Regional Real Estate Board (TRREB), the latest date point is April 2022. TRREB data is usually a good litmus test for how the rest of Ontario will do once CREA numbers are released.

While March 2022 data for CREA pointed to possibly an inflection turn down for the market where sales fell 10.0 per cent m/m, the largest decline since June 2021, TRREB data for April has all but confirmed that the market is now entering a correction phase after very torrid activity for most of the last two years. Sales in the Toronto region fell a further 20.4 per cent m/m in April adding to the strong decline from March (down 12.3 per cent m/m). Moreover, the current downward turn in the fortunes of the resale homes market in Toronto is unlikely a blip. The last time the market had a turn down this severe was March and April 2020 at the onset of the pandemic when market sentiment changed given the uncertainty of the pandemic.

Rising interest rates upend the housing market boom

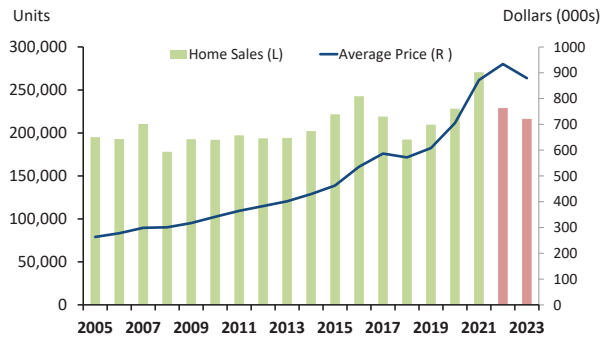


Higher bond yields and expectations of more rate tightening by the Bank of Canada (BOC) to quell inflationary flames has poured cold water in the nation's largest market and, by extension, the rest of the province. Exorbitant home prices and a tougher mortgage stress test pushing up monthly mortgage payments has spooked not only buyers but investors from the market and the BOC tighter monetary cycle is only starting.

According to March 2022 data the SNLR, a simple metric used to gauge the state of a market, Ontario's resale market moderated from an extreme sellers' market in February (75.4 per cent) to still a sellers' market but much closer to the top end of a balanced market (68.7 per cent) on a stronger contraction in sales relative to fewer new listings. Toronto's SNLR in April came in at 47.8 per cent, well within a balanced market and first time the SNLR in Toronto has been below 50 per cent since February 2019, a stretch of 39 months.

As expected, under more balanced conditions, market power is rotating back to the buyer. Buyers are being more discerning given less intense competition for units, unlike even three months ago, and are negotiating sale prices down. The incredible rise in home valuations for most of the last two years seems to have stopped. In Ontario, the average sale price fell 2.3 per cent m/m, the first time prices have fallen in eleven months. In Toronto, the correction down in sale price was even more pronounced in March 2022 as prices fell 3.4 per cent m/m and that correction has only continued into April as sale prices have given back a further 2.6 per cent value m/m. Notwithstanding the recent cooling in price, average home valuations are still significantly higher than pre-pandemic in Ontario and unlikely to fully retrace pre-pandemic levels. Compared to February 2020, the average sale price in March 2022 is still 50.2 per cent higher.

Resale homes market to correct in 2022 but not crash



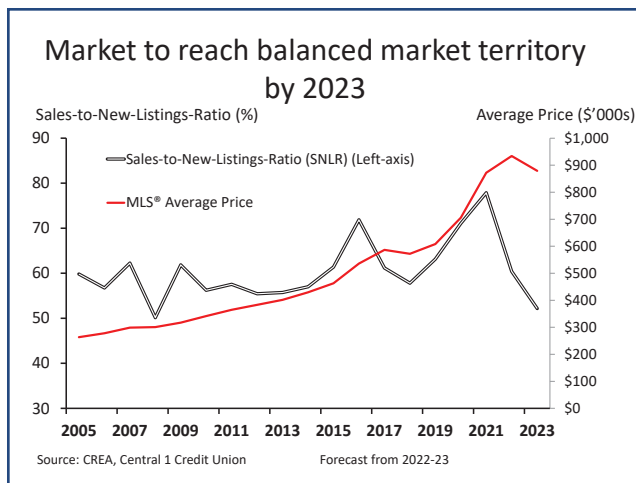
Resale homes market will continue to correct over next two years

Ontario's resale homes market is in for a correction, but not a crash, in 2022. Sales are forecast to fall 15.4 per cent in 2022 and an additional 5.5 per cent in 2023. With the forecast correction, sales figures over 2022 and 2023 will return closer in line to 2020 sales figures where just over 228,000 units were sold.

Several factors will contribute to weaker sales over the forecast horizon: increased costs of entry (i.e., higher mortgage rates), a shallower pool of buyers, and increased economic uncertainty faced by many households as inflationary pressures run feverishly high.

The Bank of Canada (BOC) has started to act on persistently high inflation by tightening monetary policy and this will be a motif for several months. Central 1 Economics is forecasting the BOC's policy rate to successively climb over the course of seven hikes over 16 months to 2.50 per cent by June 2023. Fixed-mortgage rates had been going up prior to the BOC tightening cycle started and now variable rates will increase with Bank of Canada hikes. The full effects will likely be observed in the second half of 2022 when locked-in mortgage rate pre-approvals expire. Higher priced markets will correct and those heavily exposed to secondary or vacation properties will see a slowdown in resale market activity over the forecast horizon, but smaller markets will take a larger correction as remote work fades and hybrid or full-time in-person work schedules return and people try to return to large urban centres.

Over the course of the pandemic, the relatively cheap cost of borrowing enticed many buyers to move their purchases many years forward therefore hollowing out the pool of potential buyers. Even with increased immigration expected to arrive over the forecast horizon, it will take time for the pool of potential buyers

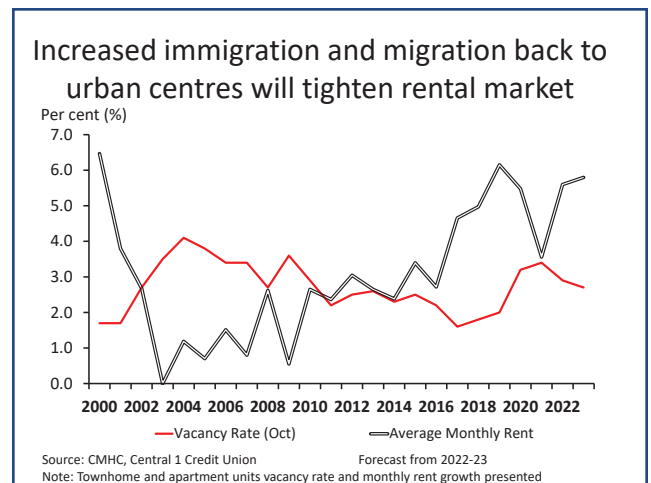


to sufficiently replenish and want to enter homeownership thus adding to the downward pressures on the market.

Finally, inflationary pressures have flared up and remained persistent due to the pandemic and other well-documented reasons (e.g., conflict in Europe). With the cost of living not keeping up with wages and eroding savings, many households will be compelled to tighten budgets. Big ticket purchases such as a home will have to wait, further eroding sales over the forecast horizon until inflation is tamed and brought back to neutrality.

A rebalancing of the market towards a balanced or buyers' market over the next two years will eat away at profits for investors. With the population expected to swell as immigrants return in greater numbers, some investors will eschew putting their investment property/ies up for sale and instead place them in the secondary rental market given higher expected returns in that market. Others will cut losses altogether and list homes. New listings are forecast to climb 9.2 per cent in 2022 and 9.5 per cent by 2023. With lower sales and increased supply, the sales-to-new-listings-ratio (SNLR) will decrease substantially coming in at 60.4 per cent in 2022 and remain in balance through 2023.

Home price growth will benefit from more balanced conditions over the forecast horizon. Average price growth in 2022 will increase by 7.1 per cent to \$933,809, a much slower pace of growth than the nearly 20 per cent per annum growth seen over 2020 and 2021. Even with much of the price correction taking effect in 2022, strong growth in home valuations to end 2021 and into the first quarter of 2022 will ensure that while price growth slows during this correction, it does not decline in 2022. By 2023, average home prices will decline 5.9 per cent to \$878,797 reverting back to 2021 level.



Price growth will dampen from fewer buyers and buyers pivoting to different home types. In large urban markets, affordability will be a very important concern for potential home buyers and they will pivot away from large homes to more modest homes and from low-rise housing to high-density housing. The push for greater demand for condo apartments in these large urban markets will also come from previous residents that left during the pandemic but now are having to return as office workers are recalled on hybrid work schedules.

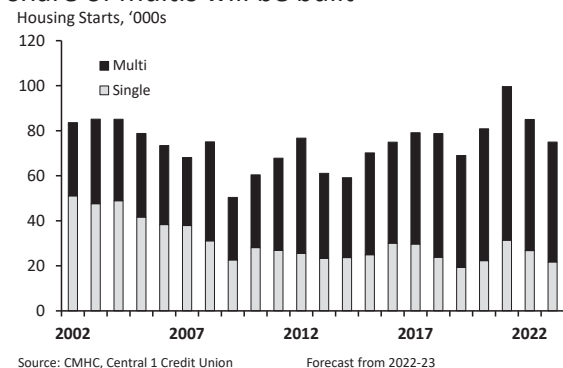
Regionally, the largest sales contractions in 2022 will occur in Toronto (down 20 per cent), Muskoka-Kawarths (down 17.7 per cent) and Hamilton-Niagara Peninsula (down 15 per cent). High price tags in the GTA and Hamilton-Niagara Peninsula will scare away a smaller pool of cautious buyers while less investment in secondary vacation homes will slow down activity in Muskoka-Kawarths.

The sales decline in 2022 will be most muted in areas farthest away from the GTA. Sales will decline 3.0 per cent in the Northwest, 4.0 per cent in Windsor-Essex and 6.0 per cent in London. These areas saw some pandemic-era frenzy but not to the extent of the GTA and nearby bedroom communities, and the correction will therefore be more muted.

New home construction to come off period peak in 2022

New home construction in Ontario will come off the period peak over the next two years. Total housing starts are forecast to fall 14.7 per cent in 2022 to 85,000 units and fall a further 11.8 per cent by 2023 to 75,000 units. The mix of new construction will also change, shifting away from single-detached housing to increased construction of multi-family units. The growth in more multi-family units is supported by government policy as governments have committed to alleviating the housing affordability problem via increased supply. The share of multi-family new construction is forecast to climb up to 71.0 per cent by 2023.

New home construction to decline, greater share of multis will be built



Over the last two years of the pandemic, new housing buyers, end users and investors shifted away from multi-family housing towards single-detached homes given a weaker rental market for condo apartments and an outflow from large urban centres. These trends will begin to reverse in 2022 as increased costs to enter housing will compel end user buyers to consider multi-family housing. Investors will also step aside as market forces and new policies affect returns. Worth considering too, is ongoing supply chain issues and skilled labour shortages that will dampen the scope of new home construction.

Of those investors that remain active in the market, a rebounding rental market will rotate demand from low-rise housing to high-density housing such as condo apartments, a trend that has recently intensified in urban centres.

2022 will be a landlords' market as demand will be strong for rental

After two difficult years for landlords both in the purpose-built and secondary rental markets, the rental market will rebound starting in 2022. Immigration is forecast to increase substantially as is interprovincial migration back into Ontario and this will be supportive

of demand for rental. Moreover, increased costs of entry into homeownership via high average prices and continually increasing mortgage rates (i.e., fixed and variable rates) will also shift demand from homeownership back to rental as many potential buyers step to the sidelines to save money towards a home purchase several years into the future.

Moreover, many people that assumed that remote work was here to stay will be compelled to return to the large urban centres for work as employers recall many workers back to at least hybrid-style work schemes. These people will likely have to enter rental markets in urban centres while they sell or rent their homes purchased during the pandemic in smaller or rural markets.

The purpose-built and secondary market universe will continue to grow as new projects are finished and brought online, but demand will remain robust meaning that even as new units become available, competition for those units will be significant and it will be a landlord's market: the opposite of what has been the case for the last two years from pandemic.

In 2022, the purpose-built rental vacancy rate is forecast to fall to 2.9 per cent and by 2023, will fall further to 2.7 per cent. Barring any more social and/or economic shocks, the sub two per cent vacancy rate seen prior to the pandemic will not be achieved until probably 2024. The average monthly rent will climb 5.6 per cent in 2022 and 5.8 per cent in 2023.

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Terms

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	2018	2019	2020	2021	2022	2023
Multiple Listings Service						
Sales	192,457	209,831	228,311	270,737	228,978	216,493
Growth (%)	-12.4	9.0	8.8	18.6	-15.4	-5.5
New Listings	332,879	332,199	321,141	347,600	378,884	414,878
Growth (%)	-8.1	-0.2	-3.3	8.2	9.0	9.5
Average Price (\$)	\$571,825	\$608,089	\$705,370	\$871,863	\$934,139	\$879,205
Growth (%)		6.3	16.0	23.6	7.1	-5.9
Sales-to-New-Listings-Ratio (%)	57.8	63.2	71.1	77.9	60.4	52.2
Housing Starts ('000s)	78.7	69.0	81.3	99.6	85	75
Growth (%)	-0.5	-12.3	17.8	22.5	-14.7	-11.8
Single-detached Starts	23.8	19.3	22.3	31.4	26.8	21.8
Growth (%)	-19.9	-18.9	15.6	40.9	-14.7	-18.8
Multi-family Starts	55.0	49.7	58.6	68.2	58.2	53.3
Growth (%)	11.2	-9.6	17.9	16.4	-14.7	-8.5
Purpose-built Rental Vacancy Rate (%)*	1.8	2.0	3.2	3.4	2.9	2.7
Purpose-built Average Monthly Rent (%)*	5.0	6.2	5.5	3.6	5.6	5.8
Population Growth(%)	1.7	1.6	1.4	0.5	1.7	1.7
Unemployment Rate (%)	5.7	5.6	9.6	8.0	5.9	5.8

Sources: CREA, Statistics Canada, CMHC, Central 1 CU, 2022 and 2023 are forecasts.

*Includes townhomes and apartments

Forecasts

Forecasts

MLS Sales

	2018	2019	2020	2021	2022	2023
Ottawa	20,285	21,526	22,113	23,814	21,671	21,129
Kingston-Pembroke	8,469	8,891	10,018	11,300	9,718	9,232
Muskoka-Kawarthas	8,166	8,831	10,656	11,217	9,232	8,493
Toronto	82,293	92,055	99,593	126,792	101,434	96,362
Kitchener-Waterloo-Barrie	18,123	19,739	22,546	25,252	21,919	20,384
Hamilton-Niagara Peninsula	20,378	22,659	25,050	28,015	23,813	21,789
London	11,153	11,654	12,229	14,072	13,228	12,500
Windsor-Sarnia	9,645	10,080	10,254	12,029	11,548	10,994
Stratford Bruce Peninsula	4,530	4,558	5,113	5,382	5,005	4,790
Northeast	7,212	7,635	8,657	10,450	9,071	8,572
Northwest	2,203	2,203	2,082	2,414	2,342	2,248
Ontario	192,457	209,831	228,311	270,737	228,978	216,493

MLS Sales Growth

	2018	2019	2020	2021	2022	2023
Ottawa	2.1	6.1	2.7	7.7	-9.0	-2.5
Kingston-Pembroke	-10.6	5.0	12.7	12.8	-14.0	-5
Muskoka-Kawarthas	-17.0	8.1	20.7	5.3	-17.7	-8
Toronto	-15.6	11.9	8.2	27.3	-20.0	-5
Kitchener-Waterloo-Barrie	-14.5	8.9	14.2	12.0	-13.2	-7
Hamilton-Niagara Peninsula	-12.5	11.2	10.6	11.8	-15.0	-8.5
London	-13.4	4.5	4.9	15.1	-6.0	-5.5
Windsor-Sarnia	-9.3	4.5	1.7	17.3	-4.0	-4.8
Stratford Bruce Peninsula	-13.3	0.6	12.2	5.3	-7.0	-4.3
Northeast	-3.2	5.9	13.4	20.7	-13.2	-5.5
Northwest	-3.0	0.0	-5.5	15.9	-3.0	-4
Ontario	-12.4	9.0	8.8	18.6	-15.4	-5.5

Forecasts

MLS Average Price						
	2018	2019	2020	2021	2022	2023
Ottawa	\$387,746	\$420,583	\$504,292	\$615,824	677,406	653,697
Kingston-Pembroke	\$330,095	\$354,055	\$423,550	\$566,263	651,202	619,293
Muskoka-Kawarthas	\$487,940	\$523,426	\$651,725	\$814,712	912,478	841,304
Toronto	\$797,670	\$828,494	\$940,955	\$1,109,422	1,198,176	1,132,276
Kitchener-Waterloo-Barrie	\$489,369	\$520,400	\$610,633	\$784,470	855,072	786,667
Hamilton-Niagara Peninsula	\$499,683	\$532,820	\$630,274	\$796,368	866,448	792,800
London	\$368,359	\$408,205	\$488,684	\$636,304	691,026	663,385
Windsor-Sarnia	\$285,020	\$319,505	\$389,996	\$512,703	574,227	540,922
Stratford Bruce Peninsula	\$348,431	\$384,611	\$458,046	\$613,722	673,867	641,521
Northeast	\$244,457	\$249,100	\$297,268	\$373,634	402,030	377,908
Northwest	\$233,035	\$239,256	\$262,028	\$301,764	326,508	310,183
Ontario	\$571,825	\$608,089	\$705,370	\$871,863	\$934,139	\$879,205

MLS Average Price Growth						
	2018	2019	2020	2021	2022	2023
Ottawa	3.9	8.5	19.9	22.1	10.0	-3.5
Kingston-Pembroke	9.3	7.3	19.6	33.7	15.0	-4.9
Muskoka-Kawarthas	3.6	7.3	24.5	25.0	12.0	-7.8
Toronto	-4.6	3.9	13.6	17.9	8.0	-5.5
Kitchener-Waterloo-Barrie	2.5	6.3	17.3	28.5	9.0	-8.0
Hamilton-Niagara Peninsula	1.8	6.6	18.3	26.4	8.8	-8.5
London	11.6	10.8	19.7	30.2	8.6	-4.0
Windsor-Sarnia	13.6	12.1	22.1	31.5	12.0	-5.8
Stratford Bruce Peninsula	15.4	10.4	19.1	34.0	9.8	-4.8
Northeast	1.6	1.9	19.3	25.7	7.6	-6.0
Northwest	-1.5	2.7	9.5	15.2	8.2	-5.0
Ontario		6.3	16.0	23.6	7.1	-5.9

Source: CREA and Central 1

Forecasts

MLS Sales						
	2018	2019	2020	2021	2022	2023
Ottawa-Gatineau	17,698	18,868	19,263	20,615	18,347	17,613
%ch	2.1	6.6	2.1	7.0	-11.0	-4.0
Kingston	3,661	3,767	4,109	4,395	3,868	3,713
%ch	-8.8	2.9	9.1	7.0	-12.0	-4.0
Peterborough	2,195	2,301	2,470	2,928	2,489	2,325
%ch	-13.6	4.8	7.3	18.5	-15.0	-6.6
Toronto	78,477	88,223	95,577	122,125	95,258	88,589
%ch	-15.8	12.4	8.3	27.8	-22.0	-7.0
Oshawa*	8,630	10,115	12,300	14,091	11,555	10,861
%ch	-19.7	17.2	21.6	14.6	-18.0	-6.0
KCW**	8,008	8,359	9,233	10,699	9,415	8,897
%ch	-13.1	4.4	10.5	15.9	-12.0	-5.5
Barrie	3,330	3,919	4,843	5,483	4,798	4,462
%ch	-18.1	17.7	23.6	13.2	-12.5	-7.0
Guelph	3,018	3,232	3,437	3,866	3,363	3,121
%ch	-12.0	7.1	6.3	12.5	-13.0	-7.2
Hamilton***	11,929	13,332	14,464	15,927	13,856	12,748
%ch	-12.1	11.8	8.5	10.1	-13.0	-8.0
SCN****	4,945	5,303	6,101	7,134	5,993	5,501
%ch	-11.9	7.2	15.0	16.9	-16.0	-8.2
Brantford	2,058	2,359	2,623	2,844	2,531	2,367
%ch	-17.6	14.6	11.2	8.4	-11.0	-6.5
London	9,230	9,577	10,056	11,671	10,854	10,203
%ch	-13.1	3.8	5.0	16.1	-7.0	-6.0
Windsor	6,637	7,011	7,121	8,257	7,968	7,649
%ch	-9.9	5.6	1.6	16.0	-3.5	-4.0
Greater Sudbury	2,496	2,673	2,918	3,506	3,331	3,131
%ch	2.5	7.1	9.2	20.2	-5.0	-6.0
Thunder Bay	2,203	2,203	2,082	2,414	2,342	2,248
%ch	-3.0	0.0	-5.5	15.9	-3.0	-4.0
All metro areas	164,515	181,242	196,597	235,955	195,967	183,429
%ch		10.2	8.5	20.0	-16.9	-6.4

Forecasts						
MLS Price						
	2018	2019	2020	2021	2022	2023
Ottawa-Gatineau	\$408,974	\$443,368	\$531,552	\$648,031	716,722	684,470
%ch	3.7	8.4	19.9	21.9	10.6	-4.5
Kingston	\$363,880	\$390,214	\$460,667	\$582,711	652,636	616,741
%ch	9.9	7.2	18.1	26.5	12.0	-5.5
Peterborough	\$439,239	\$468,544	\$555,019	\$719,464	798,605	744,300
%ch	6.4	6.7	18.5	29.6	11.0	-6.8
Toronto	\$787,976	\$819,544	\$929,673	\$1,095,869	1,172,580	1,096,362
%ch	-4.4	4.0	13.4	17.9	7.0	-6.5
Oshawa*	\$591,172	\$606,390	\$701,283	\$918,713	1,001,397	956,334
%ch	-5.3	2.6	15.6	31.0	9.0	-4.5
KCW**	\$481,071	\$522,288	\$612,237	\$777,097	831,493	773,289
%ch	3.4	8.6	17.2	26.9	7.0	-7.0
Barrie	\$503,715	\$522,390	\$612,057	\$807,308	851,710	775,056
%ch	-4.4	3.7	17.2	31.9	5.5	-9.0
Guelph	\$534,295	\$566,014	\$659,688	\$825,760	881,912	811,359
%ch	1.2	5.9	16.5	25.2	6.8	-8.0
Hamilton***	\$563,294	\$590,946	\$692,303	\$868,357	924,800	850,816
%ch	0.6	4.9	17.2	25.4	6.5	-8.0
SCN****	\$413,845	\$456,840	\$549,764	\$704,153	746,402	680,719
%ch	2.3	10.4	20.3	28.1	6.0	-8.8
Brantford	\$420,379	\$455,161	\$549,182	\$724,720	771,827	706,222
%ch	5.2	8.3	20.7	32.0	6.5	-8.5
London	\$366,489	\$408,038	\$488,500	\$637,130	689,375	661,800
%ch	11.2	11.3	19.7	30.4	8.2	-4
Windsor	\$294,646	\$329,735	\$402,716	\$537,303	591,033	550,843
%ch	13.3	11.9	22.1	33.4	10.0	-6.8
Greater Sudbury	\$263,909	\$275,671	\$314,191	\$402,335	427,280	397,370
%ch	1.1	4.5	14.0	28.1	6.2	-7.0
Thunder Bay	\$233,035	\$239,256	\$262,028	\$301,764	326,509	310,183
%ch	-1.5	2.7	9.5	15.2	8.2	-5.0
All metro areas	\$606,376	\$642,514	\$742,224	\$914,008	\$966,650	\$902,963
%ch		6.0	15.5	23.1	5.8	-6.6
NOTE						
*Durham region as a proxy for Oshawa CMA						
** Sum of KW and Cambridge as a proxy for KCW CMA						
*** Hamilton-Burlington as a proxy for Hamilton CMA						
****St Catharines and Niagara as a proxy for SCN CMA						
Source: CREA and Central 1						