Economics | Forecast / Outlook Reports

Economic Analysis of Ontario

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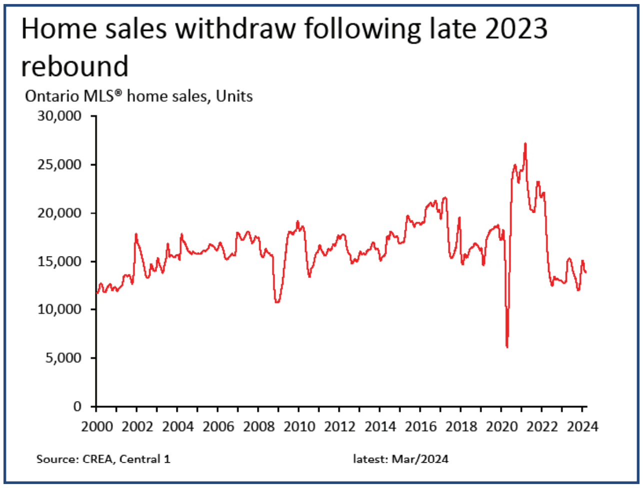
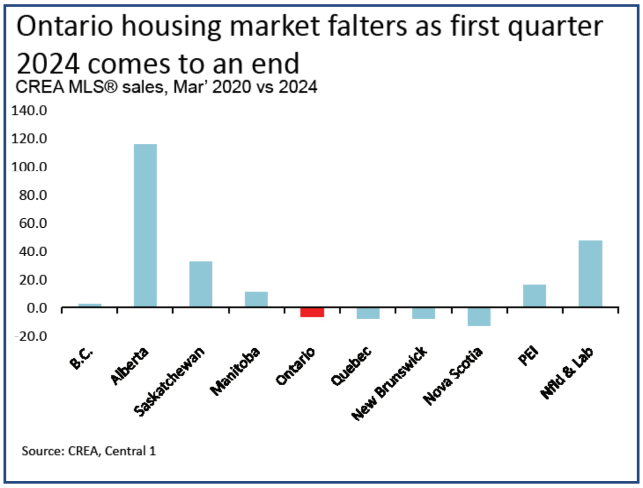
Ontario Housing Outlook 2024-2026

Performance in the Ontario housing market was notably weak in 2023 as home sales plunged to levels last seen since 2001. The stunning ascent in interest rates since 2022 pushed financing-constrained buyers from entering the market while easing prices were insufficient to restore affordability. Accelerating population growth in a time of low housing and rental supply have all factored in keeping home values lifted in the province. We expect housing sales and prices to rise as the first interest rate cuts materialize by mid-year. Pent-up demand and high population growth underpins housing demand in 2024 and through to 2026, supporting high prices in the market. Severe affordability constraints will persist.



Housing market posts worst performance since early 2000s

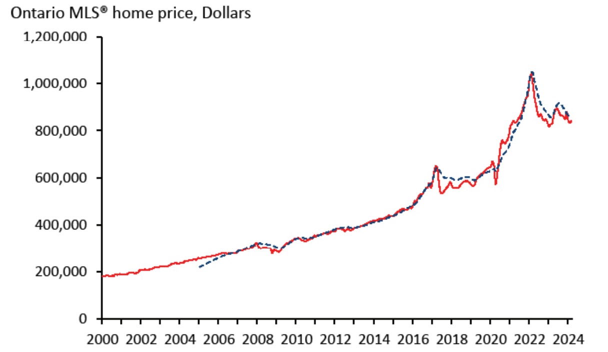
The Ontario housing market performance faltered sharply in 2023, especially when compared to some of its provincial counterparts. The province which saw home sales skyrocket during the peak period of the pandemic buying frenzy, experienced a stark pullback in home purchases by the end of 2023. Early year market momentum that lasted till May 2023 retrenched by mid-year following the resumption of Bank of Canada rate hikes in June 2023. By the last quarter of the year, home sales had plunged beyond the lows of 2022, when the first interest rate increases occurred. October was the worst performing month of sales in the year with unit sales down 55.5 per cent from historical peak in March 2021. In fact, outside of the pandemic and 2007/08 financial crisis troughs, home sales had sunk to levels seen only in the early 2000s. By year end, annual home sales came in at 162,784 units in 2023. This was a 12.4 per cent decline from the previous year. While not as stark as the 32.1 per cent annual pullback in 2022, sales were stunningly at a level unseen since 2001 when the population base was much smaller.



That said, the last two months of the year were marked by rising sales as anticipation of rate cuts led to declines in fixed mortgage rates which fueled some increase in sales. But by March 2024, home sales reversed course as hopes for early rate cuts dissipated and home buyers remained reluctant to purchase given uncertainty of timing of rate reductions. In particular, condominium sales saw an even worse outcome than other home types during the month, especially in the Greater Toronto Area where they hit a 10-year low.

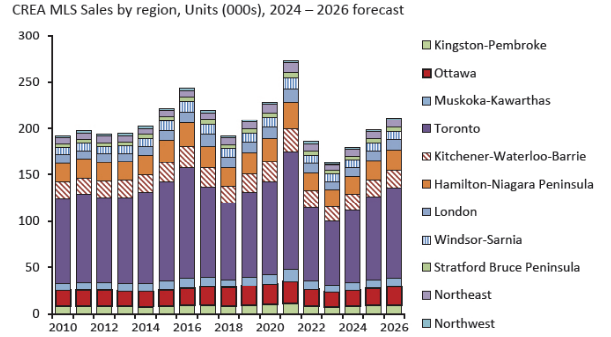
The average MLS® price had risen to the yearly peak of $895,804 in June 2023 after rising back-to-back from the start of the year although still below the all-time peak in February 2022 by 13.9 per cent. Prices then took a turn by the end of the second quarter, moving in the same trajectory as home sales Annually, the average price was $870,779 in 2023, down from the 2022 peak by 6.2 percent. It should be noted that average prices vary with sales composition. Seasonally adjusted benchmark prices, which factor in home attributes and product composition unlike average prices, have been falling since August 2023, as the downward trend in Ontario home values persists.

Housing prices remain lifted in Ontario



Source: CREA, Central 1 latest: Mar/2024

2023 annual sales lowest since 2001, slow return for 2024



Source: CREA, Central 1

Regionally, MLS sales receded in all economic regions in Ontario annually, although these declines were not as steep as those in 2022. The Toronto economic region saw a decrease of 12.3 per cent, although not as sharp as the 37.9 per cent drop in 2022. The largest yearly decline was seen in the Northeast region, with a drop of 19.0 per cent in annual sales, as the economy in the region faltered from its pandemic-related drivers dissipating. Stratford Bruce home sales decreased the least, down by 5.2 per cent in 2023. Regarding annual price trends, prices in the economic regions were down in all regions but the Northwest, which noted an increase of 2.1 percent during the year. The region also has the lowest home values in the province and is the most affordable area. However, home values decreased in Toronto (-5.2 per cent) and in nearby markets like Hamilton-Niagara Peninsula (-10.1 per cent), London (-9.9 per cent), and Ottawa (-4.9 per cent). Prices fell in other regions too annually. Looking at monthly price patterns in the regions, the 3-month trend in most areas in the province was on the decline as of March 2024, signifying downward pressure on home prices.

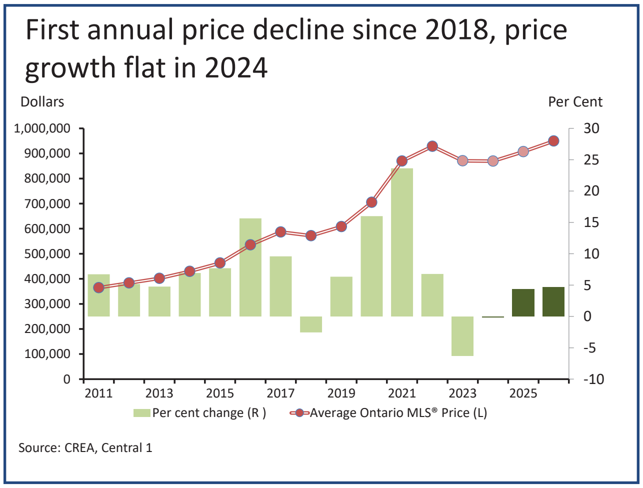
We would expect Ottawa and Toronto area and surrounding regions to see greater sales in 2024, stemming from still bubbling population growth and immigration, as these regions usually receive the largest form of immigration and relocators due to business, work and study opportunities. This would push up sales and by extension prices in these regions, curbing affordability even further. That said, the recent cap on non-permanent residents may taper some of the possible gains. However, the trend of trading spaces from dense urban to smaller regions has faded with fully remote work trends declining in favour of in-office or hybrid environments, including in the government which will mean relatively strong urban area performance.

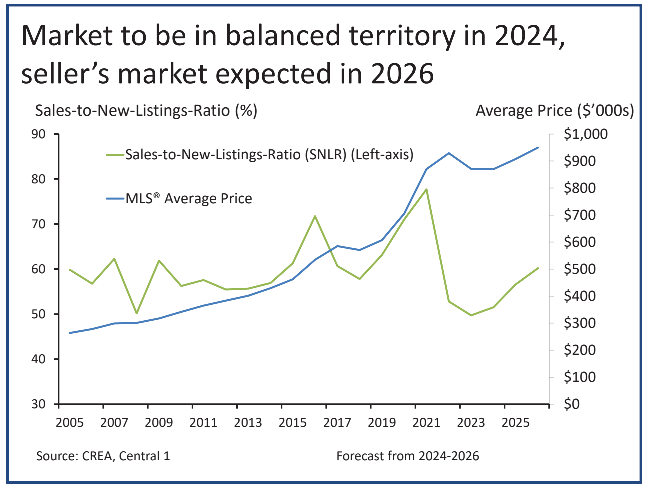
For most months with falling sales in 2023, new listings jumped in the province. New listings were on the rise from April 2023 till September 2023. During this time, market conditions were unbalanced given increased supply but subdued demand, with buyers having more negotiating power as seen in the sales to new listings ratio below 50 per cent. The lowest sales-to-new listings ratio recorded was in October at 38.4 per cent which was also the lowest figure since November 2008 during the financial crisis. Growing demand in the next months pushed up the ratio and by March 2024, the ratio sat at near 50 per cent as the market moved closer to balance. With a substantial portion of mortgages up for renewals in 2024 and 2025 at higher rates, some mortgage holders may be forced to sell due to inability to handle increased mortgage costs, adding to existing inventory. That said, the number of homeowners needing to resell due to higher mortgage payments may not be high as many have already cut spending and put aside savings to account for higher payments at renewal.

Positive road ahead for Ontario housing market in coming years

After a gloomy year for the Ontario housing market, marked with mediocre performance, we expect a brighter 2024 for the market and steadier growth in home sales into 2025 and 2026. A weak start to the year gives way to a late second quarter pickup in alignment with a first rate cut. Sales rise further in 2025 following multiple rate cuts before decelerating in 2026. We forecast a rise of 10.2 per cent in home sales in 2024, an acceleration in 2025 with an annual increase of 10.7 per cent and a 6.4 per cent growth in 2026 home sales.

Housing demand will keep being supported by high population growth while investor demand is dampened by stronger policy initiatives cracking down on speculative home purchases. Ontario's population rose by 3.4 per cent in 2023, and this pace will likely be consistent in the near future before falling sharply in 2025 and 2026. That said, like a pig in a python, the bulge in demand from prior population growth will still drive demand. New listings have gone higher since the





start of 2024, adding to the existing supply of houses while months of inventory have gotten longer. This will put downward pressure on prices in the short-term and buyers keep an eager eye on interest rate cuts to hop back in the market. Prices rise as demand increases in the second part of 2024. Home values will remain high through 2026, upheld by growing demand due to rising population and new entrants in the market after rate reductions. The average MLS price remains relatively flat in 2024, speeds up in 2025, up by 4.3 per cent during the year while prices grow by 4.7 per cent in 2026. That said, no boom is anticipated given persistence of unaffordability.

Affordability will remain a major talking point in the Ontario housing market. This will be most paramount in the Greater Toronto Area where average home values are upwards of a $1 million. Soaring interest rates have only made the impact of any price declines minor in relieving some of the affordability strain on potential buyers. Resale activity has remained subdued even with prices stabilizing in the first quarter of 2024. Affordability is off-norms and even with sales volumes down and buyers pulling away from the market, there seems to be only minimal effect on sticky prices. Affordability may ameliorate in 2026 with significant improvements in housing supply and as household incomes increase.

The sales-to-new listings ratio was quite low by historical standards in 2023 as more sellers entered the market while sales receded. That said, as sales rise in the latter months of 2024, the ratio will move higher given limited inventory. The proposed increase to the capital gains inclusion rate may cause some secondary homeowners angst and prompt some to consider selling quickly before the proposed changes go into effect in June 2024. On the other hand, some owners may choose to cling to properties to avoid larger taxation. This tax increase may raise listing supply in the short-term, although the long-term impact is still uncertain. New listings rise by 6.3 per cent in 2024 while market conditions are nearly balanced, with a sales-to-new listings ratio slightly above 50 per cent.

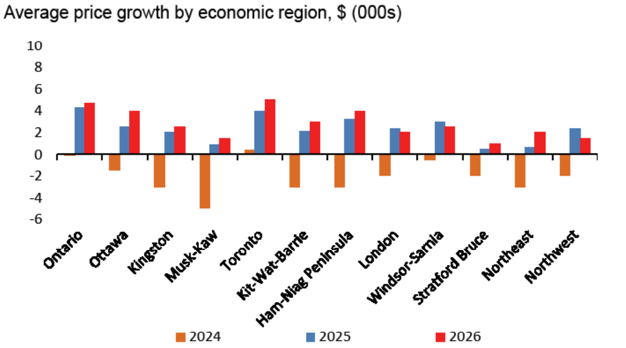
Housing starts and building permits remain subdued in 2024, uptick in 2025 and 2026

Ontario's annual housing starts in 2023 fell for the second year in a row as home construction activity softened during the year. Although housing starts figures fluctuate widely from month to month, the trend of the six-month moving average was significantly lower than the prior year as high borrowing costs reduced potential activity in the construction sector. The average began declining in September from 97,454 units and by March 2024, the average was 79,801 units. In particular, the 6-month moving average of Toronto housing starts has plummeted sharply from September 2023.

Annually, Ontario saw 7.1 per cent less housing starts in 2023 versus 2022. This was due to fewer single-family housing starts which fell by 29.7 percent during the year, while multi-family housing starts increaed faintly by 1.1 percent. It should be noted that single-family housing starts reflect current market conditions as they adjust quicker than multi-family housing units which are planned years in advance. In addition, real residential construction investment has trended down for the past two years and receded to historical lows by mid-2023. A pickup was seen in the last half of 2023, but January 2024 saw a turn in momentum with a decline in investment values.

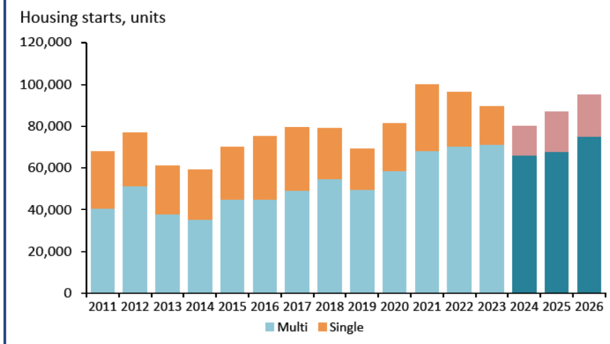
Within Ontario's Census Metropolitan Areas (CMA), Toronto posted a 7.7 per cent increase in yearly housing starts in 2023, while Ottawa saw a similar increase of 7.9 per cent. Large yearly increments were also recorded in areas like St. Catharines-Niagara, Brantford, and Barrie. In contrast, sharp declines were noted in the majority of other CMAs.

Price declines anticipated in majority of Ontario's real estate markets in 2024



Source: CREA, Central 1 calculations

Financing costs to stall housing starts in 2024, rebound expected in 2025 and 2026



Source: CMHC, Central 1

With regards to building permits which like housing starts are a good measure for the performance of the construction industry, permits in the province have remained muted since the latter months of 2022, likely due to the prevalence of higher interest rates making it less profitable and disincentivizing builders to take on new projects. Although monthly building permit figures tend to be volatile, the 12-month average has shown unremarkable changes for over a year, with the largest change being an increase of 2.5 per cent in October 2023. Looking closer at the 12-month moving average for just residential permits in Ontario, home construction has been on a gradual decline since August 2022. In particular, the average for Toronto residential building permits remained flat through most of early 2023 but declined slightly in the last quarter of 2023 and into January 2024.

Efforts are being made by the Ontario government to improve housing supply. In 2023, the government announced its proposal to build 1.5 million homes by 2031. To achieve this, approximately 150,000 homes will need to be constructed yearly but this has not been the case in recent years. As outlined in the 2024 budget of the Ontario government, additional funding is being put forward and the province expects to see 274,000 housing starts in the next three years. Strategies to boost housing supply include increasing building density to up to 3 residential units allowed on a residential lot without the requirement of a by-law amendment, a $1.2 billion Build faster fund for municipalities to speed up home construction and increased staffing to reduce backlog of Ontario Municipal Board Legacy cases. The Non-Resident Speculation Tax has been raised to 25 per cent and there will be a removal of GST portion for new home builds. There has also been a reduction of development charges on purpose-built rental units while more land is being acquired to support housing development. Other actions taken to protect renters include the introduction of a 2.5 per cent (below the inflation rate) rent increase cap in 2023 and 2024 while the maximum fines for bad faith evictions have been raised.

Nevertheless, we expect both housing starts and building permits to keep falling in 2024 as high borrowing costs restrict upward momentum in the province's construction sector. It will also take some time to see the impact of some of the new initiatives to grow housing supply. Housing starts fall by 10.4 per cent in 2024, resume growth in 2025 by 8.5 per cent and increase by 9.4 per cent in 2026.

Rental market remains tight in 2024

The most recent rental market reported produced by the Canada Mortgage and Housing Corporation's (CMHC) Rental Market Survey for 2023 showed the further tightening of Ontario's rental market, amidst growing population and inadequate supply. The vacancy rate in the province fell from 1.8 per cent in the previous year to 1.7 per cent and is now lower than the norm in a balanced market. Rising immigration means that rental housing demand has increased in Ontario in recent years as the province attracts many newcomers due to strong labour market prospects and in-demand tertiary institutions. As new residents adapt to new communities, they settle in rental units before making larger, costly home purchases. In addition, increasing unaffordability constraints which have persisted in recent years has made homeownership increasingly out of reach for aspiring homeowners, causing more individuals to remain in the rental market. In Toronto, the vacancy rate worsened, now down to 1.4 per cent from 1.6 per cent, while Kingston was the CMA with the tightest rental market, with a vacancy rate of 0.8 per cent in 2023. Regarding rent, growth in the average two-bedroom apartment rent in the province accelerated in 2023, growing by 8.1

percent to $1,697. The average rent for a two-bedroom purpose-built apartment in Toronto also sped up, rising by 8.7 per cent and the highest increase since 2000. Rents in Ontario will remain elevated in 2024 and 2025 with high immigration fueling rental demand while there may be a slight increase in rental supply due to new initiatives. That said, adjustments to immigration targets and the recent cap on international immigration will influence rental market dynamics in the coming years.

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Ontario Housing Summary Table

	2020	2021	2022	2023	2024	2025	2026
MLS Sales	229,193	273,419	185,748	162,784	179,319	198,501	211,214
% ch.	8.6	19.3	-32.1	-12.4	10.2	10.7	6.4
MLS Price	705,098	869,860	928,788	870,779	869,764	907,327	949,721
% ch.	16.2	23.4	6.8	-6.2	-0.1	4.3	4.7
MLS New Listings	322,703	351,855	351,728	327,391	348,000	351,000	351000
% ch.	-3.5	9.0	0.0	-6.9	6.3	0.9	0.0
Sales-to-New Listings Ratio	71.0	77.7	52.8	49.7	51.5	56.6	60.2
Housing Starts - Total	81,305	100,089	96,080	89,297	80,000	86,800	95000
% ch.	17.9	23.1	-4.0	-7.1	-10.4	8.5	9.4
Housing Starts - Singles	22,682	31,701	25,494	17,915	14,000	18,800	20,000
% ch.	17.6	39.8	-19.6	-29.7	-21.9	34.3	6.4
Housing Starts - Multi	58,623	68,388	70,586	71,382	66,000	68,000	75000
% ch.	18.0	16.7	3.2	1.1	-7.5	3.0	10.3

Source: CREA, CMHC, Central 1 calculations and forecast

MLS® Sales, Units by Economic Region

	2021	2022	2023	2024	2025	2026
Ottawa	23,808	17,809	15,808	17,104	18,925	20,439
Kingston-Pembroke	10,649	8,364	7,288	8,017	8,578	8,921
Muskoka-Kawarthas	12,934	9,137	7,637	8,019	8,500	8,670
Toronto	126,797	78,793	69,112	78,788	90,514	97,755
Kitchener-Waterloo-Barrie	25,686	18,349	15,976	16,615	17,612	18,493
Hamilton-Niagara Peninsula	28,512	19,413	17,588	19,347	21,037	22,510
London	14,447	10,232	9,045	9,678	10,457	10,823
Windsor-Sarnia	12,237	9,222	7,908	8,580	9,095	9,459
Stratford Bruce Peninsula	5,493	4,022	3,813	4,080	4,325	4,498
Northeast	10,456	8,159	6,610	7,073	7,322	7,468
Northwest	2,400	2,248	1,999	2,019	2,136	2,179
Ontario	273,419	185,748	162,784	179,319	198,501	211,214

MLS® Sales change, per cent, by Economic Region

	2021	2022	2023	2024	2025	2026
Ottawa	7.7	-25.2	-11.2	8.2	10.6	8.0
Kingston-Pembroke	13.2	-21.5	-12.9	10.0	7.0	4.0
Muskoka-Kawarthas	17.3	-29.4	-16.4	5.0	6.0	2.0
Toronto	27.3	-37.9	-12.3	14.0	14.9	8.0
Kitchener-Waterloo-Barrie	12.3	-28.6	-12.9	4.0	6.0	5.0
Hamilton-Niagara Peninsula	12.3	-31.9	-9.4	10.0	8.7	7.0
London	15.6	-29.2	-11.6	7.0	8.1	3.5
Windsor-Sarnia	17.6	-24.6	-14.2	8.5	6.0	4.0
Stratford Bruce Peninsula	5.9	-26.8	-5.2	7.0	6.0	4.0
Northeast	20.9	-22.0	-19.0	7.0	3.5	2.0
Northwest	16.0	-6.3	-11.1	1.0	5.8	2.0
Ontario	19.3	-32.1	-12.4	10.2	10.7	6.4

MLS Average Price, Dollars, by Economic Region

	2021	2022	2023	2024	2025	2026
Ottawa	615,687	662,784	630,259	620,805	636,376	661,831
Kingston-Pembroke	560,715	633,003	576,695	559,394	570,939	585,212
Muskoka-Kawarthas	801,794	865,917	806,571	766,242	773,304	784,903
Toronto	1,109,397	1,204,844	1,141,777	1,146,344	1,192,198	1,251,808
Kitchener-Waterloo-Barrie	783,147	870,931	796,147	772,262	788,704	812,365
Hamilton-Niagara Peninsula	793,817	883,408	794,503	770,668	795,390	827,205
London	636,299	714,703	643,907	631,029	645,684	658,597
Windsor-Sarnia	511,467	571,725	526,841	524,207	539,994	553,494
Stratford Bruce Peninsula	612,502	676,510	630,903	618,285	621,377	627,590
Northeast	371,433	416,418	415,815	403,341	406,018	414,139
Northwest	299,815	330,665	337,712	330,958	338,731	343,812
Ontario	869,860	928,788	870,779	869,764	907,327	949,721

MLS Average Price Change, per cent, by Economic Region

	2021	2022	2023	2024	2025	2026
Ottawa	22.1	7.6	-4.9	-1.5	2.5	4
Kingston-Pembroke	30.1	12.9	-8.9	-3.0	2.1	2.5
Muskoka-Kawarthas	23.9	8.0	-6.9	-5.0	0.9	1.5
Toronto	17.9	8.6	-5.2	0.4	4.0	5
Kitchener-Waterloo-Barrie	28.4	11.2	-8.6	-3.0	2.1	3
Hamilton-Niagara Peninsula	26.2	11.3	-10.1	-3.0	3.2	4
London	30.2	12.3	-9.9	-2.0	2.3	2
Windsor-Sarnia	31.4	11.8	-7.9	-0.5	3.0	2.5
Stratford Bruce Peninsula	34.1	10.5	-6.7	-2.0	0.5	1
Northeast	25.4	12.1	-0.1	-3.0	0.7	2
Northwest	14.8	10.3	2.1	-2.0	2.3	1.5
Ontario	23.4	6.8	-6.2	-0.1	4.3	4.7