Economics | Forecast / Outlook Reports

Economic Analysis of Ontario

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central 1 Economics

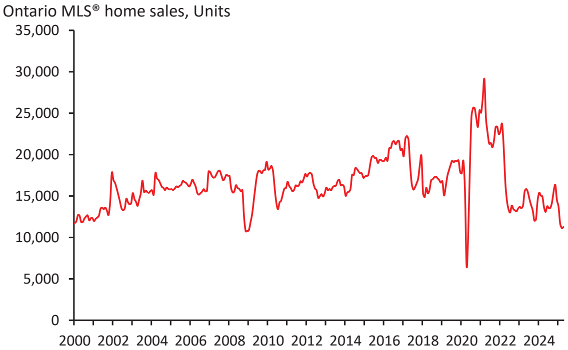
Ontario Housing Outlook 2025-2027

As Canada navigates the economic downdraft from the trade war, Ontario is in an unfavourable position with an economy more heavily exposed to U.S. goods exports and an auto sector in the Trump administration's crosshairs. A significant slowdown in the economy and high levels of household and business uncertainty will continue to weigh on the provincial housing market, extending current weakness.

That said, modest improvement is forecast later this year and through 2027, as uncertainty eases. Higher sales are sustained by pent-up demand that has been on the sidelines for more than two years, while moderate population growth supports sales as well. Hopes for a strong recovery for the housing market will be tainted by expectations of a mild recession in Ontario. Housing affordability and supply constraints still limit home sales growth. Nonetheless, resilient pent-up demand will boost sales even further into 2026 and 2027, if trade war escalation is averted.

Home sales plummet in first quarter of 2025, economic uncertainty stifles growth

Ontario MLS® home sales, Units



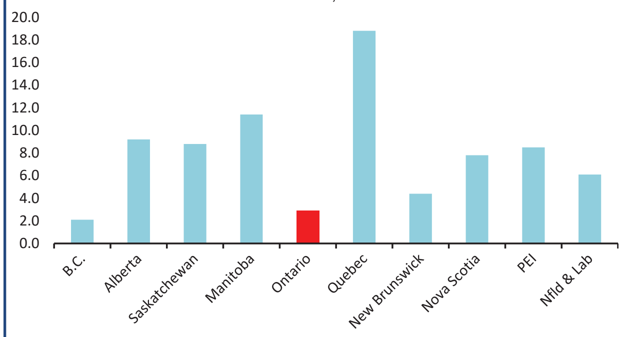
Source: CREA, Central 1 latest: April/2025

2024 home sales went up slightly; sales plummeted in first months of 2025 as economic uncertainty grows

Home sales in Ontario dwindled sharply in the first three months of 2025 as buyer confidence was eroded by quickly changing and uncertain global trade tensions. Monthly sales began receding in December, and declines were recorded from January to March. First quarter sales were down 21.3 per cent quarter over quarter and were the lowest recorded since the onset of the pandemic in the second quarter of 2020. That said, April was the first month where sales

Annual home sales one of the weakest amongst the provinces

CREA MLS® annual sales 2023 vs 2024, %

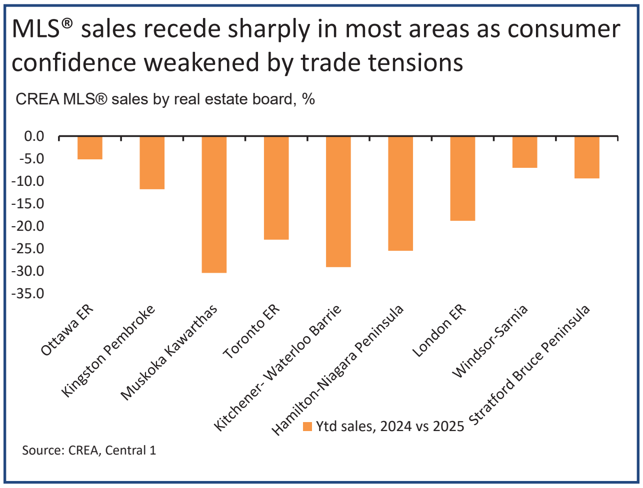


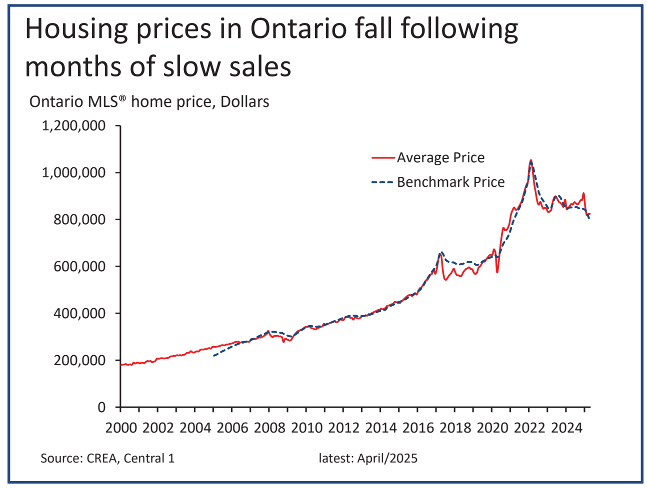
Source: CREA, Central 1

increased (+1.1 per cent m/m), since they began falling in late 2024. Year-to-date through April, home sales fell by 19.0 per cent.

Annual sales growth for Ontario in 2024 rose 2.9 per cent, one of the weakest amongst the provinces and below the national performance, since being upended by higher interest rates . Per capita sales in the province have fallen for three consecutive years, down by 0.3 per cent in 2024, but a better outcome than the 32.1 per cent and 12.4 per cent drop in 2022 and 2023, respectively. With some of the most expensive housing in the country, higher household indebtedness means the province's households are more affected by high interest rates. Home sales in the province had shown signs of improvement towards the latter part of 2024 following Bank of Canada rate cuts but reversed with fears of severe economic downturn. Benefits from additional federal measures recently introduced to improve home affordability and falling interest rates have been offset by this looming uncertainty.

Regionally, the Northwest has been the only region to see home sales rising year-to-date and this may be due to the region being the most affordable area in the province. Areas with significantly higher home prices such as Toronto and Muskoka Kawarthas have experienced sharp declines year to date, falling in April by 23.0 per cent and 30.4 per cent, respectively. More severe affordability issues in these markets constrain sales while investor demand has also rolled back. In areas like Muskoka-Kawarthas, demand for recreational and second homes has declined from pandemic-era highs. Employment trends in





key sectors in Southwestern Ontario and Ottawa also influence demand, with the former impacted by manufacturing sector volatility while strong public sector employment contributes to housing demand in Ottawa.

A shallow recession is expected in Ontario post-tariff imposition due to stronger trade ties to the United States compared to other provinces. This forecast has MLS® sales falling by 6.4 per cent this year after last year's 2.9 per cent gain. Growing higher once uncertainty eases, annual sales will be comparably weak and among the lowest over the past two decades despite population expansion.

Home prices also decreased from the 2024-high of $912K, down to $824K in April 2025. Compared to all-time high in February 2022, home values have tumbled by 21.3 per cent. It should be noted that average prices can vary widely due to sales composition, but quality-adjusted benchmark prices (which tend to lag average price trends) have also begun showing a sustained decrease; nevertheless at a slower rate. This benchmark price decline is especially sharper in the single-family market (which tends to be at a higher price point) in comparison to row/townhouse and apartment markets.

Regionally, home price trends have been mixed since the start of 2025. In Stratford-Bruce Peninsula, Toronto and Muskoka-Kawarthas, the three-month trend has been positive, but the opposite has been reported in areas like Kitchener-Waterloo Barrie, Windsor-Sarnia and Kingston-Pembroke. Affordability constraints still persist even as demand has rolled back in recent months. Home prices in Toronto hover above $1.0 million while surrounding regions also report home prices inching close to $800K.

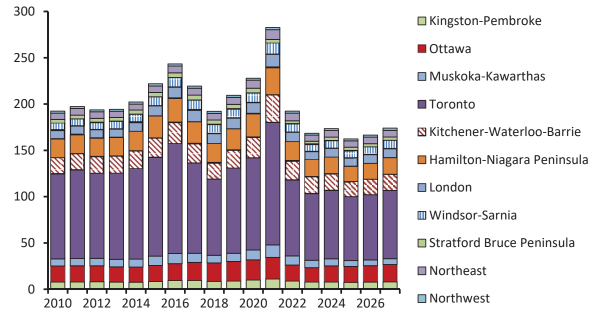
Housing supply proxied by new listings had jumped at the end of 2024, but sellers have become more reluctant to list homes in the down market in 2025. New listings fell by 2.0 per cent in April after the 18.4 per cent jump recorded between December 2024 and January 2025. Contributing to the supply was a surge in condominium projects reaching completion in 2023 and early 2024. Condominium completions surged by over 40.0 per cent year-on-year in 2023 and remained elevated through the first half of 2024. However, as interest rates remained high while demand tapered off from pandemic-era highs, unsold units/inventory are beginning to pile up in markets like Toronto. With pent-up demand continuing to wait on the sidelines, the sales-to-new listings ratio has fallen to 34.0 per cent, signifying a buyer's market. Inventory is also rising as less units are being sold. In April, the month-of-inventory sat at 6.0, the highest since the first month of 2009.

Home sales severely downbeat in the first quarter but future performance may be propped up by pent-up demand resilience

Consumer confidence will be the key theme dictating housing market trends throughout the rest of the year. Currently, as pent-up demand still sits on the sidelines, home sales remain soft in the near term. Although the overall annual performance in 2025 will be tempered by the weakness in the first half of the year, economic conditions moderate in the second half of 2025, boosting certainty and consumer confidence, prompting more potential buyers to resume their home search. Given firmer economic conditions and stabilization of trade relations, significant pent-up demand supports home sales in Ontario in 2026 and 2027. This may also be propped up government initiatives to boost affordability, including raising the $1-million price cap for insured mortgages to $1.5 million, which already went into effect on December 15, 2024. This reduced the percentage of downpayments to qualify for a mortgage while eligibility for 30-year mortgage amortizations is extended to all first-time homebuyers and to all buyers of new builds. The Bank of Canada continues to lower rates to its neutral rate, causing variable rates to fall further while fixed rates which are tied to bond yields drop in hopes of additional rate reductions. Home

2025 sales tempered by weak consumer expectations; pent-up demand supports growth in 2026 to 2027

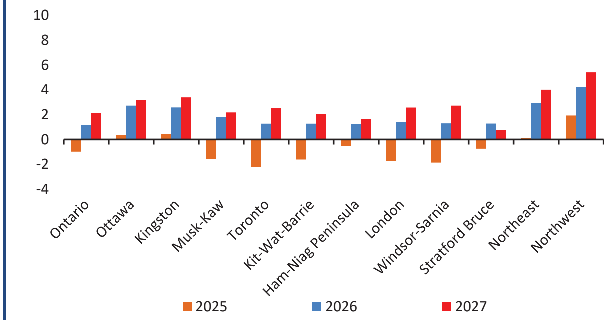
CREA MLS Sales by region, Units (000s), 2025 – 2027 forecast



Source: CREA, Central 1

Prices fall in 2025 on reduced sales; uptick expected in next two years as demand rises

Average price growth by region, $ (000s)



Source: CREA, Central 1 calculations

sales are projected to grow in 2026 and into 2027. We forecast MLS sales in 2025 to decline by 6.4 per cent, before growing by 2.5 per cent in 2026 and higher in 2027 by 4.5 per cent.

Compared to other provinces, Ontario sits in a relatively more exposed position as one of the provinces with the highest trade reliance to the United States. Its manufacturing-dominant economy is at risk to significant US-imposed levies, with greater probabilities of production curtailment and widespread job losses. In an expensive market like Ontario's, where choice of dwelling and mortgage payments are inextricably dependent on stable incomes, potential buyers are rightfully more reluctant to purchase given poor economic conditions.

Significant affordability issues still persist in the market, although the affordability index given by the ratio of home price-to-average household income in the province shows affordability moderating from worser times in 2022 with the ratio down from 9.7 to 8.4 in 2024. As rates fall, the downward trajectory in monthly mortgage payments is also expected to continue, loosening affordability constraints to an extent. That said, income growth will likely stall as the province enters a shallow recession. Housing demand forecasts are adjusted lower and a buyers' market sustained as inventory mounts, putting a lid on price growth until higher sales materialize. We forecast average homes prices in 2025 to fall by 1.0 per cent, before growing by 1.2 per cent in 2026 and going up in 2027 by 2.1 per cent.

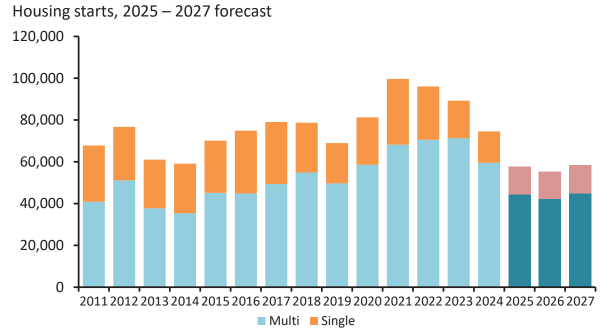
Regionally, the rebound in home sales is tempered in more expensive areas and those that are more susceptible to the impact of tariffs due to strong manufacturing presence and trade dependence, such as areas in Southwest Ontario. High-priced areas like Toronto and surrounding regions also feel the pinch. Buyers may turn their focus to more affordable areas, which may give way to comparably stronger sales in these regions. But lower immigration will also curb immigration-driven demand in some areas.

Housing supply remains constrained as construction declines in 2025 and 2026

As construction costs and interest rates stayed elevated in 2024, construction intensions were downbeat throughout the year. By year end, annual housing starts came in at 74,573 units, a 16.5 per cent slump from the previous year. This also marked the third consecutive decline and steeper than the 7.1 per cent dip in 2023. Both semidetached and multi-dwelling units saw similar declines during the year at just above 16.0 per cent, but the strongest pullback was noted in the "apartment and other" category where home starts fell by 18.4 per cent. The downtrend in housing starts is to continue in 2025, with first quarter starts down 39.4 per cent compared to same period in 2024, the largest amongst the provinces. A comparable trend is seen in residential building permits, which have seen a sustained decline in the six-month moving average since October 2024. This comes amidst high construction costs which will be further exacerbated by tariffs on imported materials, skilled-worker shortages, unfavourable borrowing conditions and already-tempered demand, uncertainty from the US-Canada trade war and the resulting economic fallout.

Investor demand, which usually drives pre-sales especially in condominium markets in urban areas, has rolled back in face of an uncertain economic future while interest rates are still relatively high and rate cut trajectory still dependent on the progression of trade disputes. Foreign demand will also continue being limited by measures like the Non-Resident Speculation Tax and foreign buyer bans by the federal government which has been extended to 2027. As pre-sales drop, so does the probability of funding from potential lenders, which has led to cancellations or halted project

Uncertainty and high costs suppress home starts even further in 2025 and 2026



Source: CMHC, Central 1

starts. This raises more concerns for supply shortcomings in the province. Initiatives to boost housing supply, such as revamped and more relaxed zoning laws will boost supply, but benefits from such initiatives may not be felt until years to come.

That said, some funding from the federal government is expected to boost long-term financing in the province. For example, funding is to be allocated through Apartment Construction Loan Program to provide about $2.25 billion for rental units in Toronto to boost rental supply. A source of additional rental supply would be condominium units that have stayed unsold and vacant being added to the rental market. In 2024, condominium unit completions were a significant source of rental unit supply, and as supply outpaced demand, vacancy rate in the province grew from 1.7 per cent in 2023 to 2.7 per cent in 2024. Census Metropolitan Areas in the province experienced surges in condominium unit completions, prompting great competition and prompting apartment investors to accept lower rents and other concessions to secure rental agreements faster. Consequently, average rent for a two-bedroom grew at a slower pace in 2024 (8.1 per cent in 2023 vs 4.0 per cent in 2024). In fact, rent growth eased to 2.7 per cent in Toronto CMA, down from 8.8 per cent and in Hamilton CMA, down to 2.3 per cent from 13.7 per cent. We expect similar trends to continue in 2025, given higher inventory and especially given the federal government's efforts to reduce immigration by slowing non-permanent resident intake, which was usually a significant source of rental demand. We forecast the vacancy rate to continue rising in 2025 to 3.2 per cent.

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Ontario Housing Summary Table

	2021	2022	2023	2024	2025	2026	2027
MLS Sales	283,857	192,673	168,773	173,709	162,343	166445	173975
% ch.	19.4	-32.1	-12.4	2.9	-6.5	2.5	4.5
MLS Price	877,214	936,030	875,825	872,098	864000	874000	892500
% ch.	23.5	6.7	-6.4	-0.4	-0.9	1.2	2.1
MLS New Listings	365,556	368,910	343,904	386,306	410,235	478230	530780
% ch.	8.9	0.9	-6.8	12.3	6.2	16.6	11.0
Sales-to-New Listings Ratio	77.7	52.2	49.1	45.0	40.2	54.3	53.6
Housing Starts - Total	100,089	96,080	89,297	74,573	57,780	55350	58400
% ch.	23.1	-4.0	-7.1	-16.5	-22.5	-4.2	5.5
Housing Starts - Singles	31,701	25,494	17,915	15,018	13,180	13,050	13,600
% ch.	39.8	-19.6	-29.7	-16.2	-12.2	-1.0	4.2
Housing Starts - Multi	68,388	70,586	71,382	59,555	44,600	42300	44800
% ch.	16.7	3.2	1.1	-16.6	-25.1	-5.2	5.9
Vacancy rate	3.5	1.8	1.7	2.7	3.2	3.0	2.8

Source: CREA, CMHC, Central 1 calculations and forecast

MLS® Sales, Units by Economic Region

	2021	2022	2023	2024	2025	2026	2027
Ottawa	23,267	17,372	15,439	17,440	17,130	17,790	18,690
Kingston-Pembroke	11,954	8,993	8,047	7,932	7,500	7,695	8,060
Muskoka-Kawarthas	13,900	9,859	8,156	7,723	6,250	6,100	6,205
Toronto	132,217	81,953	71,889	73,806	69,100	70,500	73,870
Kitchener-Waterloo-Barrie	29,913	21,198	18,630	18,222	16,323	16,750	17,380
Hamilton-Niagara Peninsula	29,083	20,445	18,417	17,898	16,500	17,200	17,830
London	14,356	10,254	8,903	9,694	9,150	9,400	9,950
Windsor-Sarnia	12,237	9,221	7,907	8,271	8,050	8,310	8,810
Stratford Bruce Peninsula	4,010	2,946	2,735	3,552	3,390	3,470	3,610
Northeast	10,520	8,184	6,651	7,121	6,850	7,030	7,250
Northwest	2,400	2,248	1,999	2,050	2,100	2,200	2,320
Ontario	283,857	192,673	168,773	173,709	162,343	166,445	173,975

MLS® Sales change, per cent, by Economic Region

	2021	2022	2023	2024	2025	2026	2027
Ottawa	8.4	-25.3	-11.1	13.0	-1.8	3.9	5.1
Kingston-Pembroke	13.9	-24.8	-10.5	-1.4	-5.4	2.6	4.7
Muskoka-Kawarthas	16.1	-29.1	-17.3	-5.3	-19.1	-2.4	1.7
Toronto	26.9	-38.0	-12.3	2.7	-6.4	2.0	4.8
Kitchener-Waterloo-Barrie	10.7	-29.1	-12.1	-2.2	-10.4	2.6	3.8
Hamilton-Niagara Peninsula	18.1	-29.7	-9.9	-2.8	-7.8	4.2	3.7
London	18.3	-28.6	-13.2	8.9	-5.6	2.7	5.9
Windsor-Sarnia	17.6	-24.6	-14.3	4.6	-2.7	3.2	6.0
Stratford Bruce Peninsula	-12.7	-26.5	-7.2	29.9	-4.6	2.4	4.0
Northeast	21.0	-22.2	-18.7	7.1	-3.8	2.6	3.1
Northwest	16.0	-6.3	-11.1	2.6	2.4	4.8	5.5
Ontario	19.4	-32.1	-12.4	2.9	-6.5	2.5	4.5

MLS Average Price, Dollars, by Economic Region

	2021	2022	2023	2024	2025	2026	2027
Ottawa	617,238	665,384	632,168	637,985	640,500	658,000	679,000
Kingston-Pembroke	568,107	632,537	579,492	577,379	580,000	595,000	615,200
Muskoka-Kawarthas	799,389	863,935	799,770	800,242	790,500	805,000	822,550
Toronto	1,115,382	1,210,971	1,146,045	1,135,815	1,110,900	1,125,100	1,153,400
Kitchener-Waterloo-Barrie	801,656	885,424	811,503	803,447	790,400	800,500	817,000
Hamilton-Niagara Peninsula	777,520	861,758	769,052	773,468	769,450	779,000	791,800
London	646,279	729,720	652,656	646,252	635,300	644,300	660,900
Windsor-Sarnia	511,467	571,720	526,850	538,492	528,500	535,400	550,000
Stratford Bruce Peninsula	613,678	676,937	634,019	760,923	755,250	765,000	778,000
Northeast	376,153	422,805	423,088	442,496	443,000	456,000	474,300
Northwest	299,815	330,665	337,712	350,411	357,200	372,250	392,400
Ontario	877,214	936,030	875,825	872,098	864,000	874,000	892,500

MLS Average Price Change, per cent, by Economic Region

	2021	2022	2023	2024	2025	2026	2027
Ottawa	22.0	7.8	-5.0	0.9	0.4	2.7	3.2
Kingston-Pembroke	30.0	11.3	-8.4	-0.4	0.5	2.6	3.4
Muskoka-Kawarthas	25.3	8.1	-7.4	0.1	-1.2	1.8	2.2
Toronto	18.2	8.6	-5.4	-0.9	-2.2	1.3	2.5
Kitchener-Waterloo-Barrie	28.6	10.4	-8.3	-1.0	-1.6	1.3	2.1
Hamilton-Niagara Peninsula	26.1	10.8	-10.8	0.6	-0.5	1.2	1.6
London	31.0	12.9	-10.6	-1.0	-1.7	1.4	2.6
Windsor-Sarnia	31.4	11.8	-7.8	2.2	-1.9	1.3	2.7
Stratford Bruce Peninsula	33.2	10.3	-6.3	20.0	-0.7	1.3	1.7
Northeast	22.4	12.4	0.1	4.6	0.1	2.9	4.0
Northwest	14.8	10.3	2.1	3.8	1.9	4.2	5.4
Ontario	23.5	6.7	-6.4	-0.4	-0.9	1.2	2.1

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