Housing Market Outlooks in Ontario

Prepared for:

Residential Construction Council of Ontario (RESCON)

By:

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1. Introduction and Summary

Introduction

This report has been prepared by Will Dunning Inc. for the Residential Construction Council of Ontario (RESCON). The report provides discussion of the evolving housing market and develops forecasts covering 2024 to 2028 for Ontario, as well as three Census Metropolitan Areas (or "CMAs"): Toronto, Hamilton, and Oshawa. CMAs are urban aggregations defined by Statistics Canada. The Appendix lists the municipalities that are included in each of these CMAs.

More than a decade ago, I had an idea for a research project on an emerging serious trend (inadequate housing supply). I asked RESCON if they would financially support it, and they kindly agreed. The report was published in 2012, and is available on my website:
https://www.wdunning.com/_files/ugd/ddda71_12fe7b18f5b64a1694bb2da1de188853.pdf

The central idea in that 2012 report is that in the Greater Toronto Area, the new homes market (for low-rise homes) had become divorced from economic fundamentals, which was causing new home sales (and thus construction) to be about 10,000 units per year less than it should be. The ideas in that report are still relevant and useful, and are expanded and updated in this report on the housing market outlook for Ontario.

Summary

The main conclusions in this report are:

- A prolonged period of interest rate reductions created "affordability space" in which home prices could rise without impairing affordability and therefore demand for resales and new homes could be sustained.
- There is no rule that says prices had to rise to fill that space. The outcome depends on the balance of supply and demand in the market. In the Toronto area and elsewhere, worsening supply shortages allowed prices to increase rapidly. Initially, the price increases more-or-less matched the space created by interest rates, but late in the previous decade, they exceeded the space.
- The process in the market is that initially a tight resale market causes increased selling prices. This has occurred especially in the Toronto area but also in many other areas of Ontario.
- The next effect is that increases in resale prices affect the prices that can be attained for new homes. This should have raised profitability for builders and stimulated a lot of new construction.
- But, a critical event has been that the price increases have largely been absorbed by increases in government-imposed costs (development charges, etc.) and land values. Due to those increased costs, the financial viability of new construction (for low-rise housing) has not improved by enough to cause an adequate supply response.
- Most recently, with large interest rate increases that started in the spring of 2022, layered onto high selling prices, affordability has become dreadful, which is crushing the prices that potential buyers can pay. Consequently, new home sales have been reduced severely.
- In order for new home sales to recover and meet the needs of our growing population, affordability needs to be returned to prior levels. This means there needs to be some combination of:

- Interest rates need to return to prior low levels (which seems very unlikely), and/or
- Government-imposed costs and land prices need to be significantly reduced, so that new construction can be financially viable at the lower prices that would be affordable in the market (this also seems very unlikely).

- There are multiple other factors that have impeded new housing supply and need to be addressed. These include delays in land use approvals and infrastructure, quantities of developable land that the owners make available for purchase by builders, and escalation of mortgage regulations during the past 12 years (which has reduced the amounts of mortgages that can be obtained by potential buyers and therefore has impaired sales of new and existing homes).[1]

- In addition, discussions about housing markets have recently been pre-occupied with the demand-side effects of rapid population growth. Recent adjustments in immigration targets should relieve that part of the pressures. But, this is just one piece in the current situation.

- Given this large set of issues and uncertainty about the extent to which they will be cured, there is also uncertainty about the outlook for housing markets. Considering the complexity of these issues, I expect that during the next few years new housing construction is likely to be weaker than previously (and a lot lower than is needed). Due the current very poor affordability situation, (caused by the combination of higher interest rates and high prices), there is risk that the supply shortage may get even worse.

- There is also uncertainty about the outlook for housing prices, which creates uncertainty about future housing starts. At present, housing prices aren't falling to the extent that they "should" (based on prior events). In the forecasts of starts or Ontario, two scenarios have been considered. In one scenario, prices fall by the full amount that is predicted by statistical analysis. In the second, prices reductions are limited to one-half.

- A further conclusion is that employment in new residential construction is currently at a peak level, and is very likely to fall (quite a lot) during the coming years.

Other conclusions include:

- In the broader economy, one of the most important issues at present is mortgage renewal, which is resulting in a gradual growth in the numbers of home owners whose mortgage payments have increased by large amounts. In consequence, consumer spending is weakening and this is now starting to weigh on the employment situation. That in turn can be expect to negatively affect home buying. This impact of renewals will continue to gradually worsen for some time.

- Reductions in employment in construction (plus additional job losses in the industries that provide goods and services to the construction process) may become a second substantive issue weighing on the broader economy.

- It is possible to imagine a scenario in which a deeper and longer downturn in the broader economy, with a corresponding loss of jobs, reduces the number of potential home buyers, causing a longer period of weak construction activity. In particular, in an economy in which there is a very large burden of mortgage debt, there is a risk that a significant drop in home values could have great effects on consumer spending (and could damage the financial system). In a modern economy, one of the greatest risks is a downward interaction between home values and employment. In the projections developed in this report, this outcome is considered unlikely.

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[1] My current list of impediments to new housing supply can be found on page 23 of this document:
https://www.wdunning.com/_files/ugd/ddda71_b47248fb0ea24d3d8982cb9c7255fdfc.pdf

- Alternatively, it is possible to imagine a more positive scenario, in which builders' costs are sharply reduced, through revolutionary changes in the production process that significantly raise productivity. No opinion is developed here about that prospect.

The body of this report provides two sets of forecasts for 2025 to 2028. In both scenarios, a further weakening of employment and new housing starts continues well into 2025, followed by a slow recovery of the economy and housing activity during 2026 to 2028. By the end of the forecast period (2028), conditions will not have fully recovered.

The two scenarios for housing starts in Ontario are summarized in the table on the next page. Total starts are higher in the first scenario, in which affordability is considerably better. The mixes (by type of dwelling) are different. Comparing these two scenarios:

- The larger reduction in prices in the first scenario causes low-rise starts (single-detached, semi-detached, and town homes) to be larger than in the second scenario, because the better affordability will result in more demand for new owner-occupied homes. In the first scenario, a larger share of low-rise starts will be single-detached homes, because the better affordability means fewer buyers have to substitute to lower-priced semi-detached and town homes.
- In both scenarios, low-rise starts are lower than in prior periods.
- In the first scenario, apartment starts increase by more than low-rises, because demand for apartments is more sensitive to the change in affordability. However, there is a risk that buying by investors could be significantly reduced, because their expectations about future growth of values would be negatively affected, and this could cause actual starts to be lower than projected.
- In both scenarios, starts of apartments are considerably lower than during 2020 to 2024, but similar to the 2010s, and much higher than during the 2000s.
- Both of these scenarios come with a caveat that achieving the projected volumes of starts requires reductions in costs (notably government-imposed costs and land values). As was discussed earlier, there is no certainty that those cost reductions can be achieved, and therefore it is uncertain that enough supply can be provided to support the forecasted volumes.

The table also provides forecasts of the "person years" of employment that will result in construction. In these estimates, the numbers of person years have changed by more than starts. This has occurred because of the shift away from the highest costs housing form (single-detached homes) to the lower cost forms, and especially to apartments (which have the lowest construction costs per unit, and therefore the lowest employment impact per unit).

It should be noted that those person years don't necessarily occur during the same year - the jobs result while the construction process occurs. For low-rise housing forms, the jobs occur over a period of about one year. For apartments, they might occur over 2 to 3 years. Therefore, the level of employment in residential construction will recover more slowly than housing starts and person years.

In the forecasts that are developed for the three Census Metropolitan Areas (Toronto, Hamilton, and Oshawa), only the second scenario is shown (it is assumed that price change is one-half of the rates that are indicated by the statistical analysis). This scenario seems more likely, since sellers resist price reductions, unless they are in desperate (have-no-choice) situations.

| | | | | | | Person |
Year	Single	Semi	Town Home	Apartment	Total Starts	Years of Construction Employment
Table 1						
Two Scenarios for Housing Starts in Ontario						
Actual						
2020	22,682	2,724	12,801	43,098	81,305	78,651
2021	31,353	2,893	15,210	50,110	99,566	99,393
2022	25,494	2,272	17,259	51,055	96,080	91,678
2023	17,915	1,729	13,190	56,463	89,297	79,256
2024	15,940	1,309	10,916	45,785	73,950	66,611
Scenario 1 - Full reduction in prices						
2025	16,098	1,810	4,522	27,808	50,238	50,068
2026	18,033	1,811	4,151	30,538	54,533	54,693
2027	20,173	2,099	5,867	28,520	56,658	58,481
2028	23,142	2,432	5,962	40,241	71,777	71,531
Average	19,361	2,038	5,125	31,777	58,301	58,693
Scenario 2 - Price reductions at one-half of expected rates						
2025	14,963	1,902	4,955	27,873	49,694	48,752
2026	16,529	2,024	4,674	29,803	53,030	52,450
2027	18,558	2,234	6,697	25,364	52,854	54,606
2028	20,373	2,466	7,059	33,013	62,912	63,189
Average	17,606	2,157	5,846	29,013	54,622	54,749
Prior Averages						
2000s	40,002	5,248	11,115	18,083	74,448	90,871
2010s	25,248	2,683	11,357	31,461	70,749	73,714
2020-2024	22,675	2,185	13,873	49,456	88,189	83,216

Source: historical data by the Canada Mortgage and Housing Corporation and Statistics Canada; forecasts by Will Dunning Inc.

About Will Dunning and Will Dunning Inc.

Will Dunning Inc. is an economic research firm. Based in Toronto, the firm specializes in housing market analysis. The firm is led by Will Dunning, who has been analyzing housing markets since 1982. His experience includes 16 years with the federal housing agency (Canada Mortgage and Housing Corporation). In September 2000, he established his own firm. Clients have included associations, governments, non-governmental organizations, financial institutions, investors and asset managers, and home builders.

Limitation of Liability

This report is submitted subject to a disclaimer of liability, that Will Dunning Inc. does not accept any liability in excess of the amount of professional fee received, for any information, analysis, conclusions, or recommendations contained in or arising from the report(s), letter(s) or, verbal communication(s). **IN NO EVENT SHALL WILL DUNNING INC. BE RESPONSIBLE FOR ANY INDIRECT OR CONSEQUENTIAL DAMAGES WHATSOEVER.**

2. Ontario Housing Markets

In this report, the analysis and forecasts of housing market are based on a model in which:

- The need and demand to occupy housing is influenced by multiple factors. The two most important appear to be:
  - The employment situation (which affects how many people and families can potentially afford to live independently), and
  - The cost of occupying housing (which affects what choices they can actually make).
- At some times and in some places, homebuying decisions (whether to buy, and what to buy) are influenced by an "investment motive" (by expectations about future price growth, and the possibility that buying a home provides not just a place to live, but will generate increased wealth). This doesn't affect just investors – owner-occupant buyers also give consideration to the prospects for future growth in property values. A variation of this is that when prices are increasing rapidly, buyers might accelerate their decisions out of fear that they might not be able to afford future prices. Alternatively, expectations that prices are going to fall is a deterrent to home buying.
- Most of the demand for housing is satisfied within the existing housing market.
- When conditions tighten in the existing housing market (as evidenced in the home ownership sector by a high sales-to-listings ratio and/or rapid price growth, and in the rental sector by a low vacancy rate and/or rapid rent growth), there is a need to expand the housing stock. In the circumstances, builders or investors should become more interested in producing new housing.
- This conceptual model leads to statistical analysis that can be used to interpret market trends and forecast future activity.

The Employment Situation

Statistics Canada produces several indicators of the employment situation that can be useful in analysis of housing markets. I use either growth in the number of people employed, or the percentage of adults who are employed.

During the time period shown in this chart, there has been a substantial amount of job creation in Ontario. That trend was harshly interrupted at the onset of Covid-19: employment suddenly dropped by 1.1 million, but it soon began to recover, and within a year and a half, it returned to the pre-covid level. During the past three years, the level of employment has grown at a quite healthy pace, which is highly supportive for housing demand. During the past two years (up to September), Statistics Canada's estimates of job growth in Ontario have been quite rapid (growth of almost 400,000, or

Employment in Ontario
Source: Staitstics Canada
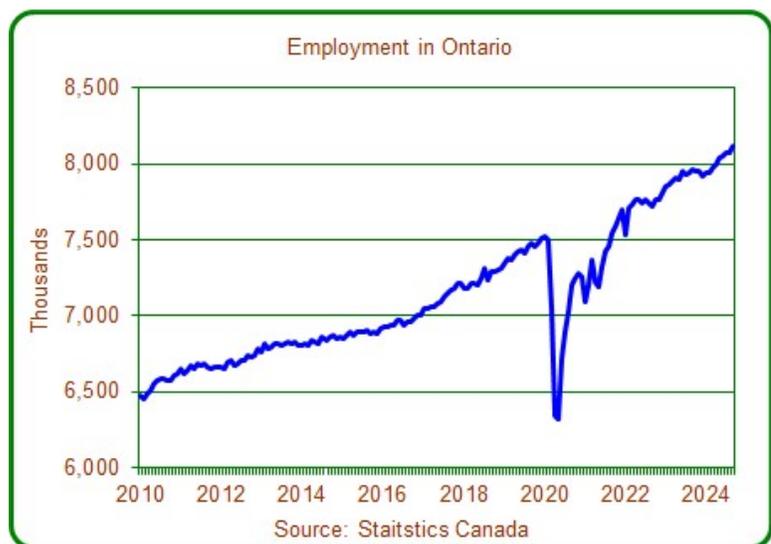
2.5% per year). By contrast, during the decade up to January 2020, the average rate was 1.5% per year.

The rapid growth in employment during the past two years is related to a sharp rise in the rate of population growth. Most of this growth is for people on temporary visas, for education or work, as well as refugees. Federal immigration targets have recently been reduced sharply. It is expected that population growth will slow from above average to below average. But, the numeric impact is impossible to predict at this time. The impacts on employment growth and on housing markets are uncertain.

Growth of the Adult Population in Ontario

Year-over-Year - Thousands

Source: Statistics Canada
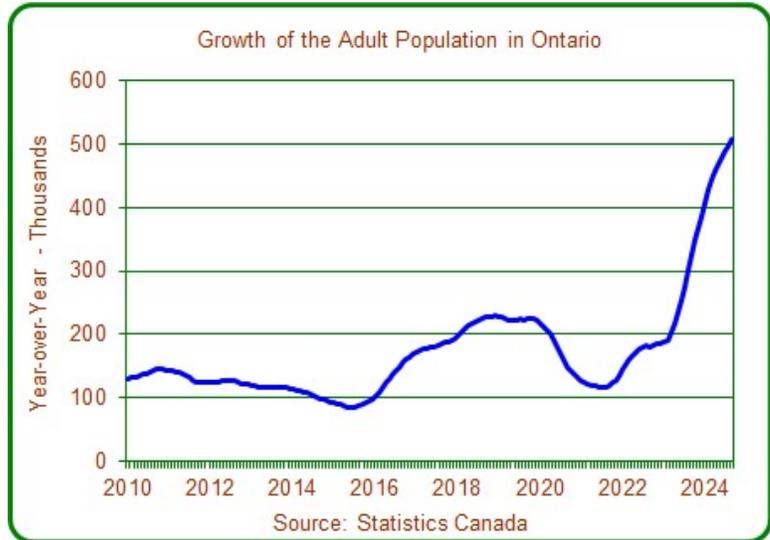
This brings us to a discussion of the share of adults who have jobs (which is known as the "employment-to-population ratio" or the "employment rate").

For the entire adult population (15 years and older - the thick blue line in this chart) the employment rate was similar to the prior peak until recently, but it is now slightly below that peak and below the long-term average. However, this is partly the result of rapid growth of the young adult population (who have entered Canada primarily for education rather than for work – this has lowered the employment rate). Looking at the "prime working age" group (25 to 54 years – the orange line), the employment rate was noticeably above the prior peak until recently. While it has fallen during the past year, it is still higher than at any time before 2020.

Employment-to-Population Ratio in Ontario

Per Cent

— 15 Years +
— 25-54

Source: Will Dunning Inc.
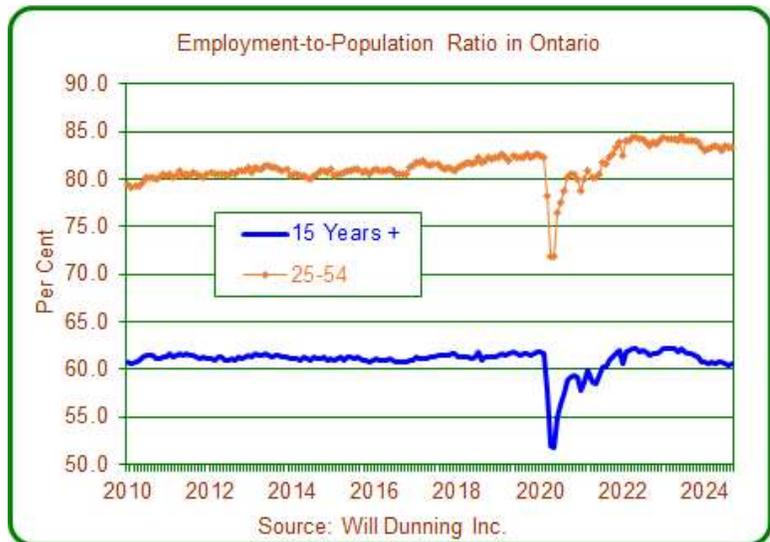
Looking at the employment situation of the 25 to 54 years bracket has the benefit of focusing not just on the prime working ages, but also on the prime home buying ages. The data shows that since 2022, the employment situation has been highly favourable for home buying, although there has been a slight diminution during the past year. Actual home buying of course depends on multiple factors. As is discussed below, the affordability situation is now highly unfavourable: this factor has been dominant and has resulted in very weak home sales during the past two years.

A different examination of employment data (from Statistics Canada's "other" employment survey, the Survey of Employment, Payrolls and Hours) looked at job growth from 2019 to 2024, by categories of major industries. This analysis found that:

- Most of the job growth (62%) was in four industries that have high wages (15% or more above average).[2] This data is encouraging: the quality of job growth in Ontario is supportive of housing demand, including home ownership. (Unfortunately, affordability is currently a major negative factor.)
- But, the three highest-wage industries had negligible job growth.[3]
- The five industries with the lowest wages in combination lost jobs (-5%) during the period.[4]
- There was however, a significant amount of job growth (36% of the total) in two industries that have wages slightly below average.[5]
- Four industries in the middle of the wage distribution accounted for just 5% of growth.[6]

Rapid growth in the population and employment is creating a need for additional housing supplies. Meanwhile, home buying has become much more difficult. This has resulted in intense challenges in the rental sector. During 2022 and 2023 (which is the most recent available data), the Ontario vacancy rate has been very low (at 1.8% and 1.7% respectively). During the entire period shown in this chart, the average vacancy rate was 2.6%.
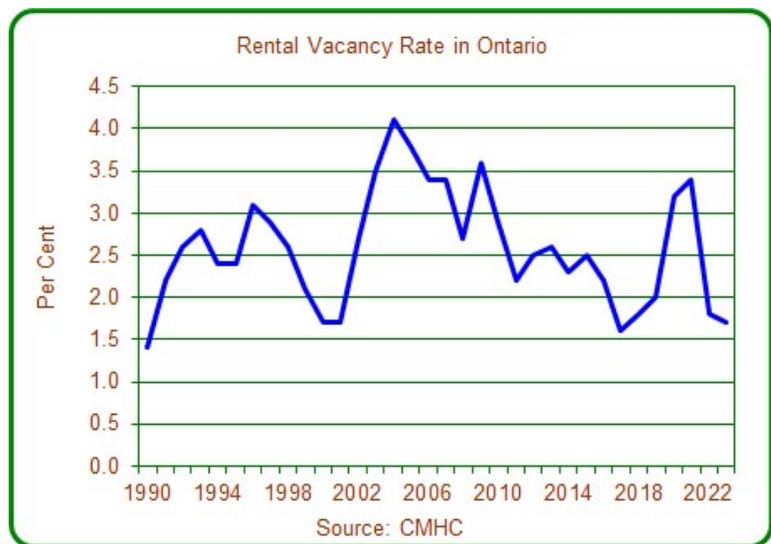
Statistical analysis indicates that the balanced market vacancy rate for Ontario is about 3.25%. (This is the vacancy rate at which we should expect rents to increase by 2% per year). The balanced market vacancy rates differ across communities: they tend to be lowest in the largest and most expensive cities. For Toronto, the balanced market rate is estimated at about 2%. Smaller communities often have vacancy rate thresholds that are above the provincial average.

Rental Vacancy Rate in Ontario
Source: CMHC

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[2] "Construction", "Finance and insurance", "Public administration", and "Professional, scientific and technical services".

[3] "Information and cultural industries", "Mining, quarrying, and oil and gas extraction", and "Utilities".

[4] "Accommodation and food services", "Arts, entertainment and recreation", "Trade", "Administrative and support, waste management and remediation services", and "Other services (except public administration)".

[5] "Health care and social assistance" and "Educational services".

[6] "Transportation and warehousing", "Real estate and rental and leasing", "Forestry, logging and support", and "Manufacturing".

Low vacancy rates have enabled landlords to increase rents rapidly. The average rent for all occupied apartments and town homes in Ontario is estimated to have increased by 8.1% in 2023. For units in which there was a change of occupant ("turnover units"), the average increase is estimated at 35%. These very high turnover rents are now making it very difficult for tenants to move.

Source: CMHC

Resale Activity

The Canadian Real Estate Association ("CREA") extracts data from the MLS® system that is used by real estate boards across the country, to create statistics on resale market activity.

Within this chart of sales activity, there are month-to-month random variations, but there are also clearly waves of strength and weakness. For example:

Source: CREA / Will Dunning Inc.

- During the middle part of the 2010's, there was a pronounced upward trend in sales, which can be attributed to conditions that were highly favourable (a healthy employment situation and low interest rates).
- On the other hand, a period of weakness started in late 2016. While the employment situation was still very healthy, there was a more powerful negative factor: access to mortgage finance was impeded by increases for mortgage interest rates and the mortgage stress tests further limited the amounts that people could borrow.
- From mid-2020 until early 2022, sales activity was extremely strong, due to exceptionally low interest rates and an increasingly robust employment situation.
- Since the spring of 2022, sales have been extremely weak, due almost entirely to Bank of Canada interest rate policies that have resulted in very large increases in mortgage costs. During this phase, the employment situation was quite healthy for part of the time, although during the past year it has weakened, as the consequence of high interest rates. Looking forward, the effects on employment might begin to negatively affect housing demand.
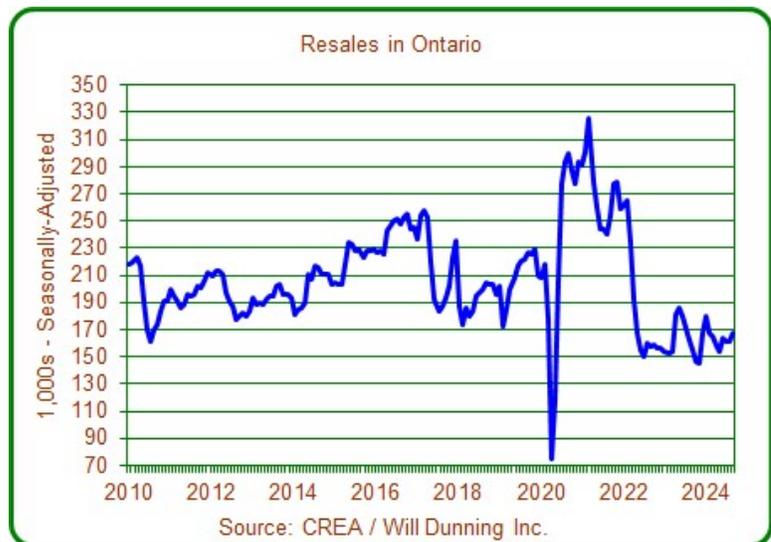
Sales activity has generally trended upwards over time, in part due to growth of the population (which increases the numbers of potential buyers). As well, on-going housing construction means that there are more existing homes that could potentially be purchased. In consequence, it is useful to look at sales on a population-adjusted basis. This data also shows waves. At present, sales are now extremely weak in population-adjusted terms: during the first nine months of this year, sales in Ontario were 30% below the population-adjusted average.
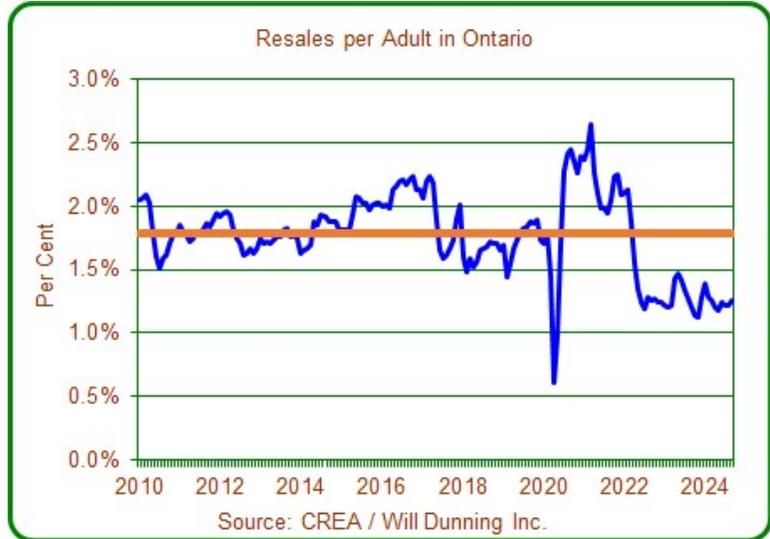
Data on home prices also shows waves. Home prices behave very much in a way that economists expect: price changes are closely related to the balance between demand and supply. The state-of-balance can be illustrated using a ratio of sales divided by listings (the listings sales-to-listings ratio). There are two concepts of listings that could be used:
- Active listings (the total available listings at the end of each month).
- New listings (number of listings that flow into the market each month).

Historically (and across multiple locations), the new listings concept has done a much better job than active listings in statistically "explaining" growth of house prices. In this chart, year-over-year price change is contrasted with the average sales-to-new-listings ratio over the same period of 12-months. This is a very strong relationship. Of course, the statistical relationship isn't perfect. For example, during 2011 to 2015, the numeric relationship was different compared to 2016 to 2022. At appears that the relationship has shifted again during the past year. Pricing is flat, or

perhaps falling fractionally (about 1% during the past year). But, based on the statistical relationship, we might expect that prices should have fallen by 5%. The better-than-expected actual outcome is likely because there are few owners who need to sell (due to financial hardship) and therefore sellers are mostly able to be firm on their price expectations (if those expectations are realistic in the current market).

Dreadful Affordability for Home Buying

A few organizations have housing affordability indexes that consider the monthly costs of ownership (including mortgage costs as well as utilities and realty taxes), in comparison to incomes. I prefer to use a simpler approach, which uses only mortgage costs in the comparison with incomes. (Mortgage payments are the largest of the costs, and show the most variation, over time and for differing locations).

In my affordability index, two slightly different calculations are made: the first uses the total mortgage payment and the second uses just the interest component of the payment. The rationale for this is that the "true" cost of finance is the interest part; the principal part of the payment should be seen as a form of saving, rather than a cost. Most home buyers are well-enough educated to be able to understand this distinction. For sure, the buyer must be able to make the entire payment, and therefore, the rationale for having two indexes is that purchase decisions will be influenced by both the total payment and the interest cost.

(In 2019, I wrote a paper that used data from a consumer survey to explore the thought processes of home buyers.[7] This data made it clear that in their decision-making, home buyers give a lot of consideration to a lot of factors ("buying a home is hard work"). The survey data showed that the factors considered include the total mortgage payment, as well as how much principal will be repaid and how much interest will be paid.)

> **Methodology My Affordability Indexes**
> Estimated home values are taken from the Canadian Real Estate Association's House Price Index (except for Oshawa, for which the average selling price is used). The HPI data starts in 2005. Incomes are based on the average weekly wages for full-time work, for the province, as reported by Statistics Canada's Labour Force Survey. Interest rates are from my proprietary database of typical "special offer" interest rates from major lenders, for uninsured 5-year fixed rate mortgages.
> Amortization periods are assumed to be 30 years. The calculated cost-to-income ratios are converted to an index with a base of 2005 = 100. This methodology means that communities can't be compared. The estimates highlight the extent to which affordability has changed within each location.

The analysis here covers the period since 2005 (the starting date for CREA's House Price Index).

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[7] The report can be found here:
https://www.wdunning.com/_files/ugd/ddda71_72f5f563bc1c40d3ab99dd942210d336.pdf
The relevant survey data is shown in a table on Page 20; the discussion is on Pages 17-19.

Looking at Ontario, for the year-to-date in 2024, the estimated "Composite" price has increased by 235% in comparison to the average for 2005. The most rapid price growth occurred during two periods (early 2016 to early 2017, and mid-2020 to early 2022). It isn't a coincidence that both of those were periods when interest rates were unusually low. After interest rate increases started during the spring of 2022, the price index started to fall (that phase lasted about a year). Since then, prices have shown less variation. Prices remain much higher than they were prior to 2020.
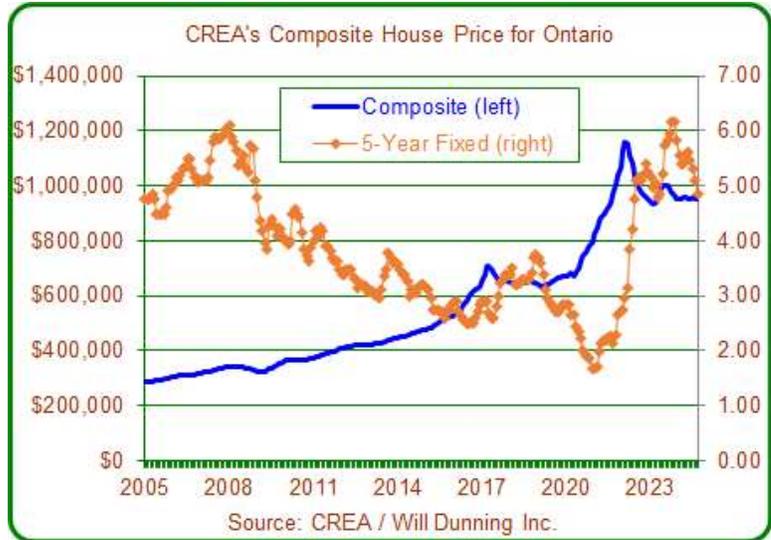
By contrast, the average weekly wage (for people who are employed in full-time jobs) has increased at a slower rate than house prices, by 77%. Prior to the start of Covid-19, the growth rate for wages averaged 2.5% per year. Since then, wage growth has been faster, at an average of 4.8% per year over the past four years.
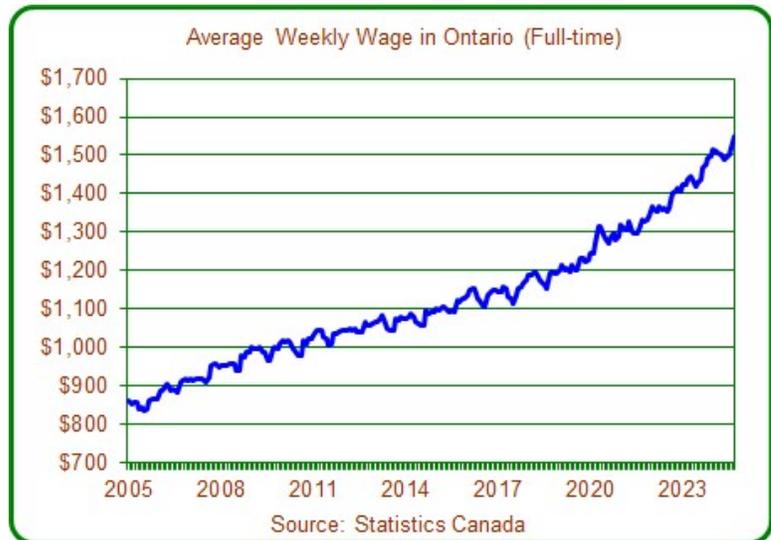
Combining the data, in Ontario the Composite price increased from 6.08 times the annual wage in 2005 to 11.02 times this year. The ratio peaked early in 2022 and has subsequently fallen considerably (due to a combination of the partial retreat of prices and the rapid growth of wages.) The ratio is still quite high in historic terms.

In a lot of commentary, the high level of the ratio is seen as evidence that affordability has deteriorated badly.

CREA's Composite House Price for Ontario
Source: CREA / Will Dunning Inc.

Average Weekly Wage in Ontario (Full-time)
Source: Statistics Canada

Ratio of House Prices to Annual Wages in Ontario
Source: calculations by Will Dunning Inc.

But, affordability should be measured in a different way: it should be based on the monthly costs of living in housing (in comparison to incomes).

As was noted earlier, this discussion of affordability compares mortgage costs associated with a home purchase, versus wages. Two versions are shown, using total mortgage costs and interest-only costs. Calculations are made for single-family homes (shown in the two charts at the bottom of this page) and for apartments (in the charts on the next page).

To generalize, the calculations indicate that affordability was roughly flat until the end of 2015: house prices were rising more rapidly than wages, but reductions in interest rates tended to offset the higher house prices.

Another way to put this is that falling interest rates created "affordability space" in which house prices could rise (therefore, the rise in the price-to-income ratio did not damage affordability).

There is no rule that says prices must increase when interest rates fall: what happens to prices is determined by the balance between supply and demand. Similarly, there is no rule that prices must fall when interest rates rise.

Rising house prices should have caused an increase in housing construction, but this was blunted by issues on the supply side of the housing market. If there had been an adequate supply response, price growth would have been slower. In a market with well- functioning supply, affordability should have performed much better during 2017 and beyond.

The data for 2016 into early 2017 is interesting. Interest rates fell during the period. The cost-to-income ratios should have fallen. But, those lower interest rates evoked such a strong demand reaction that prices increases became extreme. A related (but even more extreme) situation occurred when interest rates fell to historically very low levels during 2021 and into 2022.

Interest rates began to rise early in 2022. This caused affordability to worsen. In theory, this should have caused significant reductions in prices (which would gradually offset the higher interest rates). While there was some erosion, the response was blunted by the supply shortages. Thus, the affordability indexes were sustained at a very high (severely unaffordable) level for almost two years. More recently, interest rates have begun to retreat and affordability has begun to improve: the mortgage cost indexes have fallen, but are still much higher than previously.

Mortgage Affordabilty Index for Single-Family Homes in Ontario — Source: CREA / Will Dunning Inc.

Interest-Only Index for Single-Family Homes in Ontario — Source: CREA / Will Dunning Inc.

Mortgage Affordabilty Index for Apartments in Ontario — Source: CREA / Will Dunning Inc.

Interest-Only Index for Apartments in Ontario — Source: CREA / Will Dunning Inc.

The severally damaged affordability has resulted in a prolonged period of extremely weak home buying in Ontario: as was discussed earlier, resales activity is far below the population-adjusted average during (by 30% during the first nine months of this year).

A comparison of the affordability indexes for Ontario and Alberta is instructive: Alberta appears to have a more responsive supply function and therefore its cost index has increased less sharply than Ontario's. During the second half of the period shown, Alberta's house prices did not fill the "affordability space" to the same extent as in Ontario. The early period with an extreme rise in the Alberta index was during a time when oil prices were extremely high, the provincial economy became super-charged. in-migration caused very rapid population growth (triple the national

Mortgage Affordabilty Index for the Housing Composite in Alberta versus Ontario — Source: CREA / Will Dunning Inc.

average). At that time, housing demand increased very sharply in Alberta and supply was inadequate.

A critical question for the future of the Ontario housing market is whether housing affordability can be returned to prior levels, to allow sales of existing homes and pre-construction sales of new homes to return to healthier levels.

A recovery of affordability requires some combination of reductions in prices and reductions in interest rates. I can imagine three scenarios for future affordability.

1) *If interest rates stay at current levels (4.85% in September), how much would prices need to fall to return affordability to the level seen during 2005 to 2013, or the level for 2017 to 2019?*

The next table shows the results of the calculations. To get back to the affordability of 2005 to 2013, prices would need to fall by almost one-half. In the less attractive outcome of a return to the 2017 to 2019 level, the required price reductions would still be quite large.

We have seen a few situations in which home values fell by smaller amounts - for example, following end of "The Boom" (in the GTA) of the late 1980s, a 25% price reduction in home values had enormous economic consequences. The US "sub-prime crisis" of the late 2000s was similar. In both cases, the reductions in housing values were disastrous to consumer finances and the financial systems, and resulted in very sharp economic downturns that lasted for half a decade. This kind of an outcome would result in attractive

Falling Prices Hurt Employment at the End of "The Boom"

Avg Price (left)
Emp:Pop Ratio (right)
6 per. Mov. Avg. (Avg Price (left))
Source: CREA / StatsCan / Will Dunning Inc.

affordability, but because of the economic damage, the housing market (and housing construction) would be very badly impaired.

Therefore, we have to hope that this scenario will not play out.

Table 2 Calculation of Price Reductions Required to Restore Affordability				
	Single Family Homes		Apartments	
	Indexes, based on…		Indexes, based on…	
	Mortgage payment	Interest only	Mortgage payment	Interest only
Estimated Index for September 2024	182.4	185.2	180.1	182.8
Index for 2005-2013	102.8	99.5	105.7	102.2
Required change in price	-44%	-46%	-41%	-44%
Index for 2017-2019	134.2	108.0	139.6	112.5
Required change in price	-26%	-42%	-22%	-38%
Source: calculations by Will Dunning Inc.				

2) *If prices stay at current levels, how would reductions in interest rate affect affordability?*

The next table shows the estimates. Recalling that home buyers consider both the total mortgage payment as well as the interest-only part of the payment, two sets of calculations are made.

Using the index that is based on total payments:

- There is no conceivable interest rate that will return affordability to the 2005-2013 level, for either single family homes or apartments.

- Affordability could be returned to the 2017-2019 level at an interest rate in the area of 2.5% for single family homes, and 2.75% for apartments.

Using the index that is based on interest-only:

- Achieving the affordability for 2005-2013 requires an interest rate below 2.75% for both single family homes and apartments.
- The affordability for 2017-2019 requires an interest rate of about 2.8% for single family homes and just under 3% for apartments.

The vast majority of economists expect that future interest rates will be well above these required levels. Moreover, the Bank of Canada is focused on the risk of rekindling inflation (it is much less concerned with the housing needs of Canadians or future housing supply). Therefore, it seems highly unlikely that interest rates can fall to these required levels in the near to medium term future.

Table 3 Calculation of Price Reductions Required to Restore Affordability				
	Single Family Homes		Apartments	
	Indexes, based on…		Indexes, based on…	
	Mortgage payment	Interest only	Mortgage payment	Interest only
Estimated Index for September 2024	182.4	185.2	180.1	182.8
Index for 2005-2013	102.8	99.5	105.7	102.2
Index for 2017-2019	134.2	108.0	139.6	112.5
Calculations based on interest rate of…				
4.75	180.3	181.4	178.0	179.1
4.50	175.3	171.9	173.0	169.7
4.25	170.2	162.5	168.1	160.4
4.00	165.3	153.0	163.2	151.0
3.75	160.4	143.5	158.4	141.7
3.50	155.6	134.0	153.6	132.3
3.25	150.9	124.5	148.9	122.9
3.00	146.2	115.0	144.3	113.5
2.75	141.6	105.5	139.8	104.1
2.50	137.1	95.9	135.4	94.7
2.25	132.7	86.4	131.0	85.3
2.00	128.3	76.8	126.7	75.8
Source: calculations by Will Dunning Inc.				

3) *Since the first two scenarios are (1) too horrible for the economy or (2) too unlikely, some other outcome is more likely.*

The scenario tested here assumes that in two years (by September 2026):
- Prices are assumed to have fallen by 10%.

- Mortgage interest rates might have fallen to 4.0%, which is a substantial further reduction from the current typical rates (4.75% for 5-year fixed rate uninsured mortgages, as of late October).
- Economists' current expectations do not point to rates below 4% anytime soon. Out of six large Canadian Banks, only one (National Bank of Canada) expects bond yields to fall to a level that would be consistent with a 4%

Opinion Estimates of Typical Mortgage Interest Rates

— 5-Year Fixed
— Variable Rate

Source: Will Dunning Inc.

mortgage rate. That would occur around the middle of next year, and then rates would start to rise again. The Royal Bank bond yield forecast implies a mortgage rate of about 4.25% (and it would start to rise during the second half of next year). The forecasts of bond yields from TD Bank and Bank of Montreal are consistent with rates bottoming at about 4.5%. The Scotiabank and CIBC yield forecasts are higher and point to mortgage rates at 5% (or higher).

- Incomes (average weekly employment earnings) are assumed to have increased by 5% during a period of two years.

In these calculations (shown in the next table), by September 2026 affordability would be considerably better than at present, which would allow for some recovery of housing construction. However, affordability would still be much worse than during the better times of 2005 to 2013, and it would still be poor even in comparison to 2017 to 2019. In this scenario, therefore, only a partial recovery of housing construction seems possible.

While this scenario is partially encouraging, it is still uncertain that even it might be achievable, because of the impacts on costs (and therefore on the pricing that is required by builders) due to the very high levels of government-imposed costs and uncertainty that those costs can be reduced, and similarly due to prices for development lands.

| Table 4				
One Scenario for Future Housing Affordability Indexes (1)				
	Single Family Homes		Apartments	
	Indexes, based on…		Indexes, based on…	
	Mortgage payment	Interest only	Mortgage payment	Interest only
Projected in 2 Years (September 2026)	141.7	131.1	139.9	129.5
Actual Index for September 2024	182.4	185.2	180.1	182.8
Index for 2005-2013	102.8	99.5	105.7	102.2
Index for 2017-2019	134.2	108.0	139.6	112.5
Source: calculations by Will Dunning Inc.				
Note: (1) based on a 10% reduction of home prices and a 4% mortgage interest rate				

New Housing Construction

Two main conclusions arise in this discussion:

- While housing starts have been reduced by high interest rates (as well as the weakened supply-demand balance in the resale market), the downward adjustment is probably not yet complete, especially for apartments.
- During the past decade and a half, construction of new low-rise homes has been much lower than should be expected based on the conditions that exist: the tight supply-demand balance and rapid price growth should have resulted in much higher volumes of new construction. The supply response has been blunted, due to a complex set of factors that includes:
  - The price growth has been captured by government-imposed costs and land values, which means that the price growth hasn't sufficiently encouraged increases in new construction.
  - Inadequate supplies of development land being offered for sale (at prices that are low enough to support financial viability).
  - Delays in land use approvals and installation of infrastructure.
  - Escalating mortgage regulations.
  - Other issues that further constrain supplies.

During the past eight years, total housing starts in Ontario have been relatively strong in historic terms. However, they have not kept up with the quantities that have been required by the growing population. In addition, the mix, by type of dwellings, has not included enough family-friendly housing.

During the recent past, total starts peaked in 2021, at almost 100,000 units. This was the fifth highest annual total in the 70 years of this dataset. Since then, total starts have fallen each year. The total for 2024 (in the area of 75,000) would be 25% lower than in 2021, although it would still be above the long-term average (68,440 per year).
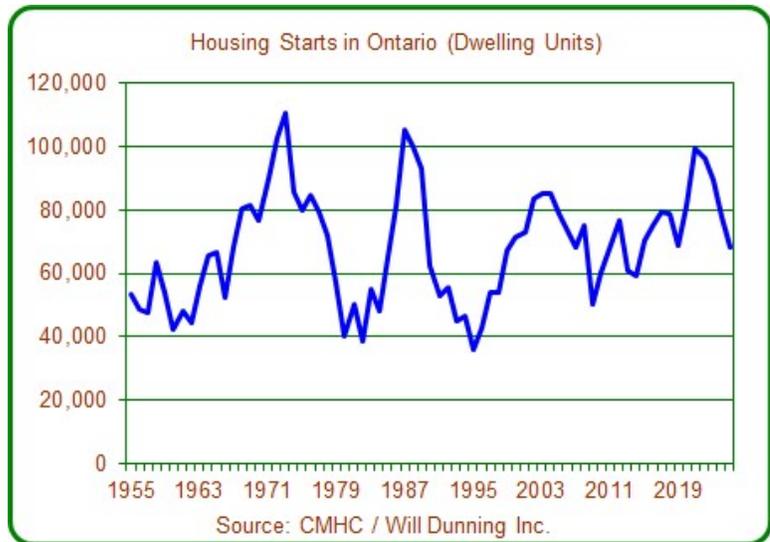
The recent strength has been entirely due to apartments, which have been at the highest levels ever. Apartments starts have exceeded even the levels of the 1970s, when rental investments received highly favourable treatment for income taxes, and social housing programs were very active. During the past three decades, multiple factors have contributed to the rising trend for apartment starts:

- A wider range of options has been created in condominium apartments, which has attracted more young buyers.

![Will Dunning Inc. Economic Research]

- More investors have been attracted to buy condominiums and offer them for rent (due to high levels of attainable rents and growth of property values, and greater awareness of these conditions).
- To some extent, in response to poor affordability for low-rise dwellings, owners have substituted out of the low-rise sector into apartments.

Construction of low-rise homes (including single-detached, semi-detached and town homes) has been below average during the past decade and a half, due to adverse affordability and the multiple factors that have impeded new supply.

Combining 2023 and 2024, apartment starts were more than double the long-term average while single-detached starts were 47% below average and semi-detached starts were 62% below average. On the other hand, town home starts were 50% above average.
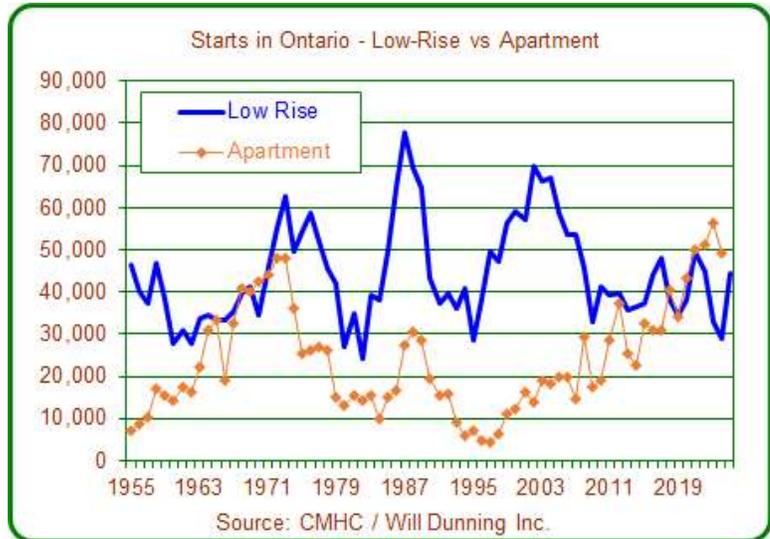
As was discussed earlier, my theory of the housing market holds that construction of new homes should be related to the state of the resale market, especially the sales-to-listings ratio: when inadequate supplies are available for resales, potential buyers pay more attention to new construction. Moreover, tightness in the resale market causes price rises, which should create incentive for builders to construct more new homes.

The charts shown below explore this theory. In these charts, the seasonally adjusted rates for housing starts are shown with a thin blue line. Because the starts data is volatile, trend lines (the thick red lines) have been added. (The trend lines are 12-month moving averages). For the sales-to-new-listings ratio, the data is shown by the orange line. as a 12-month moving average.

For total starts, there was a strong relationship during the first half of the period shown. But, during the second half, total starts responded less forcefully during periods with high sales-to-listings ratios. Housing construction was insufficient during the second half of the period and housing shortages developed. At the end of the dataset, it appears that starts are stronger than they should be. But, this is more likely because starts of apartments (and possibly town homes) have responded slowly to a sudden change in conditions. This is discussed further a bit later.

At the bottom of this page and on the next page, four charts look at the structural types of homes.

For single-detached and semi-detached housing, there were strong relationships during the first half of the period shown, but during the second half the relationships were broken: starts were much lower than should have been expected.

For town homes, the highly volatile data for starts makes interpretation difficult, but it appears that the relationship has been more stable. It is possible that the relationship has weakened during the past decade. Town home activity might have been less affected because reduced affordability caused more buyers to substitute into town homes instead of more-expensive singles and semis.

For apartments, the interpretation is even more challenging, due largely to the long-term uptrend in market acceptance of condominium apartments. In addition, there are much longer pre-construction processes for apartments than for low-rises (including decision-making, site acquisition, approvals, marketing, and mobilizing construction - the lengths of the lags vary). The lags make it very difficult to compare housing starts to the sales-to-listings ratios. During the second half of the period, it looks like apartment starts have been slightly influenced by movements of the ratio (but with long lags).

Intriguingly, during the final two years, while the sales-to-listings ratio was quite low, apartment starts remained very strong. This lack of response is attributable to long pre-construction periods – starts continued to reflect decisions and commitments that were made when interest rates were much lower. A key question for the outlook is at what date, and to what extent, will apartment construction begin to show the effects of high interest rates and reduced pre-construction sales? (The last few data points hint at the start of a downturn, but it is too soon to draw that conclusion, as this might be just random variation in the data.)

It is possible that differences in the land markets are causing apartment construction to behave differently than the low-rise market. The ownership of potential apartment sites is atomistic (many owners, who have smaller sites), and they may have greater willingness (or urgency) to sell the sites.

Given the continued low level of the sales-to-new-listings ratio, as well as the horrible state of affordability, and considering the disruption that is caused by high government-imposed costs and land prices, it appears highly likely that housing starts will continue to weaken for a while.

Source: CMHC / CREA / Will Dunning Inc.

Source: CMHC / CREA / Will Dunning Inc.
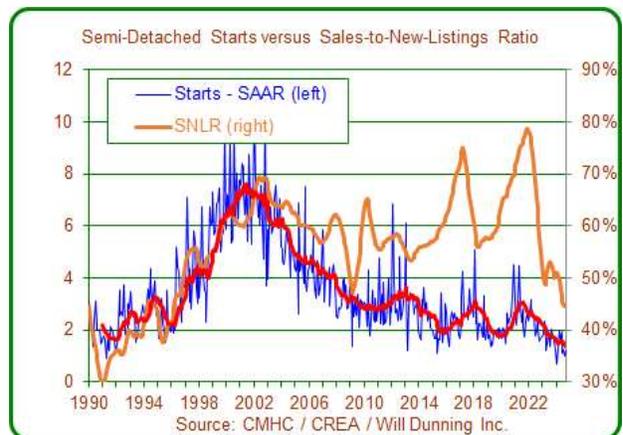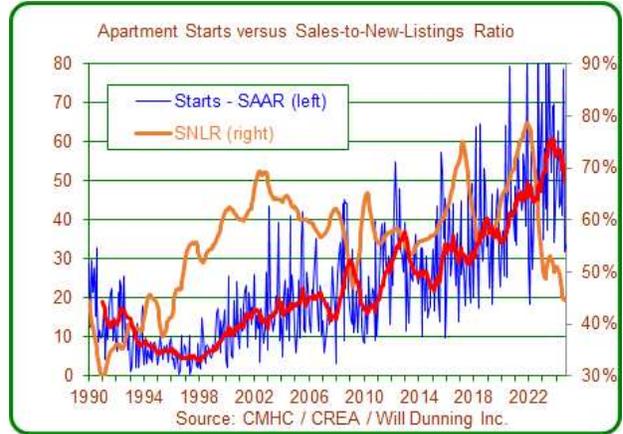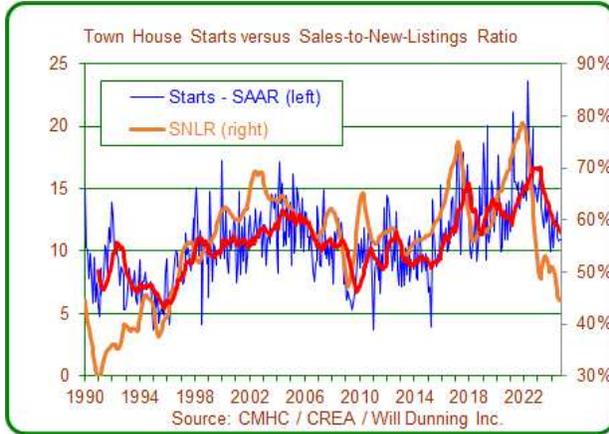
The Uncertain Outlook for Land Values

During 1997 to 2000, I worked at a boutique real estate consultancy. Most of my work was doing feasibility studies for potential residential developments. Mostly, I was assessing market parameters (pricing, but also product characteristics). Sometimes, I did financial feasibility analysis.

In the financial feasibility work, the objective was usually to calculate the "residual land value", which is: expected revenue minus costs (expected construction costs, soft costs, a reserve allowance, and a profit target). The mantra in those days was "land value is always a residual".

I think that has to be fine-tuned, to "a builder should never pay more than the residual value for land".

In the current situation, I expect that calculated residual land values should be a lot lower than two years ago (and earlier):

- The sharp rise in interest rates has reduced the prices that can be paid by buyers (owner-occupants and investors).
- Government-imposed costs (development charges, etc.) have increased a lot.
- Hard and soft costs probably haven't fallen materially. (In fact, the cost of construction finance has increased a lot.)
- Therefore, there is much less residual available for land value.

Today, the more salient issue is: how many land owners are willing to sell for the residual values and how much land supply will be offered at those reduced values?

That depends on the expectations, goals, and financial capacities of the land owners. In a lot of situations, these considerations aren't creating much pressure to sell land:

- There seems to be a widespread expectation that the GTA housing market will remain highly pressurized, and that while homes sales are weak and pricing has softened, there will be stronger conditions in future.
- The land owners are often private companies, and their decision-making is about getting the best outcomes over long periods of time (decades, not years).

- How much does it cost to hold onto raw land (in terms of realty tax, interest costs, management expenses, opportunity costs of invested capital, etc., minus revenues that can be generated by that undeveloped land). How many land owners are experiencing pressures that cause them to sell at lowered expectations?

It appears that for low-rise sites there are few land sales happening at present. Many of the owners are being patient and aren't offering sites at the current (much reduced) residual values.

On the other hand, data published by Bullpen Research & Consulting (https://bullpenconsulting.ca/) and Batory Management indicates that for apartment sites, current estimated values (on a per buildable square foot basis) are lower than during 2018 to 2021 (there are enough high-rise transactions to generate estimates). There are suggestions that those land sales are often out of necessity (financial distress).

Depending on locations, contrary to that old mantra, land value isn't always determined by the residual that can be calculated from the expected selling prices of the housing. In some places (especially in the GTA, and especially for low-rise sites), the arrow points in the other direction - home values are influenced by exogenous costs, including the price expectations of the land owners, as well as government-imposed costs. And, because of the way the housing market works, those exogenous costs for new homes affect pricing for resales.

In terms of increasing new housing construction, affordability has to be improved by a large amount (that is, reducing prices for new homes, and consequently in the existing homes market): costs of creating new housing need to fall (or interest rates need to return to the extreme lows seen earlier). But,

- While interest rates have farther to fall, it's highly unlikely that they will fall by enough to support current pricing.
- Hard and soft costs of construction aren't likely to change a lot.
- It would be great for land values to fall, but there is no guarantee that will happen.
- The best real opportunity is to substantially reduce government-imposed costs (even so, eliminating them completely would be only a partial solution).
- Another possibility (I have no opinion on the likelihood of this) is revolutionary changes in the construction process that sharply reduce costs.

We don't have data on recent values for low-rise development sites. But, anecdotal commentary indicates that prices have increased very rapidly, probably more than doubling during the decade of the 2000s, and increases might have been even more rapid during the 2010s. It appears that land values have increased by much more than the selling prices of the homes, and consequently, land represents an increased share of sales revenues for new low-rise homes.[8]

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[8] Statistics Canada produces an index of selling prices for new homes, and the data includes separate calculations for land and the house-only. The data can be obtained here:
https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810020501
It has been known for a long time that due to a defective methodology, this data vastly under-estimates price changes for new homes. For example, that data shows that in Toronto new home prices have increased by about 3% per year during the past decade and a half. It is obvious that actual increases have been much larger (as is explored in the section below on prices for new homes). The StatsCan index for land values also vastly under-estimates growth, at about 2% per year.

Sharp Rises in Government-Imposed Costs

A recent study by the Altus Group, completed in September for the Building Industry and Land Development Association (BILD) provides estimates of current municipal charges for new homes within the Greater Toronto Area.[9]

For the municipalities that participated in the research, the average charge was $164,920, which was about $42,000 higher than in 2022. For apartments, the current figure is $122,387 ($32,000 higher than in 2022).

As well, the study provided estimates of the costs of delays in approvals. These vary, by municipalities within the GTA, from $2,672 to $5,576 per month of delay in approval (applied to typical lengths of delays, this adds $43,000 to $90,000 per unit).

The late 1960s to early 1970s was a golden age for housing construction in Ontario. During that period, new infrastructure wasn't funded by the home buyers, it was financed by debt (issued by CMHC), which was serviced out of municipal realty tax revenues. We need to return to something similar.

Taking government-imposed costs out of the prices of new homes would have a very substantial impact on the prices required for new construction. Within a larger set of issues, it is a necessary change, but it would not be a complete solution.

Impacts of Higher Costs on Prices for New Homes

The theory is:

- When costs of production increase (including not just construction costs, but also costs like municipal charges, delays, and land prices), builders can't afford to start new projects at current prices.
- The prices that they can obtain are related to prices for the competition that exists within the resale market (and at other new home projects).
- They must delay new projects until attainable prices catch up to the increased costs.
- This reduction in availability of new housing supply adds to pressures in the housing system, which causes prices to rise for resales.
- Consequently, there is a relationship between prices for resale and new homes (however, we should expect that a new home is more valuable than a resale that is similar in location and characteristics). Over the long term, the percentage rates of growth in prices for resales and new homes should be similar.

The best available data on new home prices is from CMHC, which reports prices for new single-detached and semi-detached homes.[10] At the outset, it needs to be noted that these prices reflect the prices at the time of the sale, which usually occurs prior to the start of construction. The prices are reported as of the date that construction has been completed and the new owner has taken possession. In other words, the prices shown in this data aren't current selling prices, they actually

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[9] Available here: https://www.bildgta.ca/wp-content/uploads/2024/09/2024-GTA-Municipal-Benchmarking-Study-Our-number-7147-Final.pdf

[10] As was discussed earlier, Statistics Canada's New Housing Price Index produces unreliable data.

show prices from 1 or 1.5 (or even more) years ago. Consequently, in periods of rapid change, the CMHC data will be slower to react than the CREA data.

This chart tests the theory by comparing the average prices for new single-detached homes in Ontario, versus CREA's House Price Index for single family homes in Ontario.

Over the time period shown in this chart, CREA's price index for single family homes increased by an average of 6.8% per year. Average prices for new single-detached homes increased by 6.7% per year. (The data on new home prices is volatile at the end of the period. Taking the average for the last three months - the average growth rate was 6.6% per year.)

Prices for New and Existing Single Family Homes in Ontario

Source: CREA / CMHC / Will Dunning Inc.
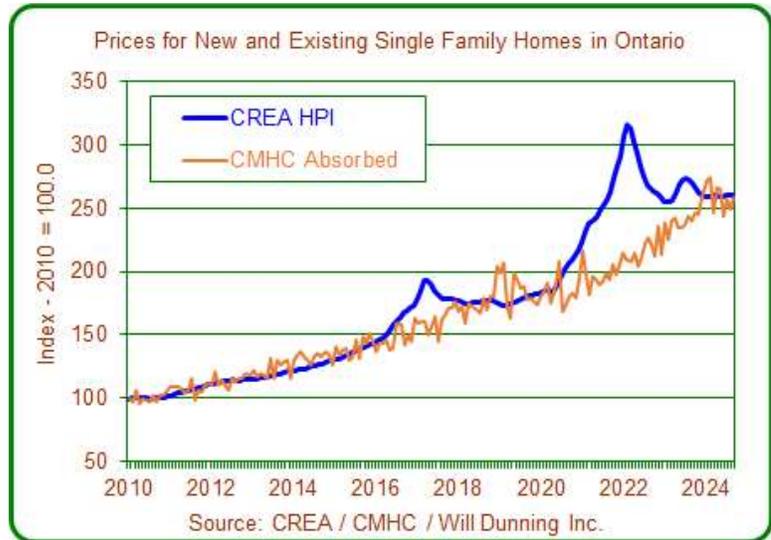
This data appears to vindicate the theory, in the long-term. In the short-term, there are variations.

- During the first six years, price movements were very similar for new and resale homes.
- There was a price spike in the resale market during early 2016 to early 2017. The new homes data was (as expected) slow to respond because of the built-in lags between pre-construction sales and the actual closings. There was a delayed and small (incomplete) price response in the data for new homes. The resale price spike was caused by a combination of falling interest rates (which meant that affordability was more-or-less unchanged by the higher prices), very strong economic conditions, and housing shortages[11]. There might also have been some "irrational exuberance" during this period. This event was short-lived, and the price relationship was re-established during 2018 and 2019.
- A very similar situation occurred during late 2020 into early 2022, when the same conditions existed (especially including record low interest rates). New home prices belatedly and partially adjusted to resales. Once again, the relationship between resale and new home prices has been re-established.

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[11] A further factor was that construction periods got longer during this period, which further slowed the adjustment of CMHC's reported selling prices (which became even more unrepresentative of current pricing).

The Forecasts for Ontario

The forecasting system includes several modules that forecast employment growth and housing activity. Within that system, there are several key assumptions. These include:

* Mortgage rates (5-year fixed rates, for uninsured mortgages) are expected to fall to 4.0% by late in 2025 (versus the current typical rate of 4.75% as of late October. The rate had peaked at about 6.0% in late 2023.
* It appears that the rate of population growth is now beginning to slow. Using the estimates of the adult population (15 years and older) that are incorporated with Statistics Canada's Labour Force Survey, the peak was in the third quarter of this year, at almost 4%. The growth rate is assumed to be about 1.75% by late 2026.During the 10 years up to the first quarter of 2020, the average was 1.3% per year.

<u>Employment Growth</u>

The employment situation within Ontario has weakened during the past year, as measured by the share of the adult population that has jobs (the employment-to-population ratio). The ratio has fallen from a peak close to 62% and is now close to 60%. It is projected to weaken a bit more in the coming months, then be flat during 2025, and recover quite gradually during 2026 to 2028. By the end of 2026, it would be similar to the period from 2010 to 2019, and then stronger during 2027 and 2028. These projections are used in both of the scenarios for the housing market.

Table 5			
The Outlook for Employment in Ontario			
Year	*Population Growth (1)*	*Employment (1)*	*Employment to Population Ratio (2)*
2016	168.8	96.8	60.9
2017	194.3	207.1	61.3
2018	229.1	100.6	61.3
2019	221.0	182.5	61.6
2020	131.8	-224.5	57.5
2021	134.9	386.1	59.9
2022	184.5	131.9	61.8
2023	385.8	161.9	61.8
2024	466.6	185.6	60.6
2025	295.2	235.0	60.5
2026	261.2	286.5	61.5
2027	258.9	278.2	62.3
2028	255.5	293.3	63.2
Source: historical data by Statistics Canada; forecasts by Will Dunning Inc.			

Notes:
  (1) Growth in 1,000s, Q4 to Q4
  (2) Annual average			

The Resale Market

Due to the reductions in interest rates that have occurred since the spring, some improvement in the market can be expected. But, the statistical analysis suggests that the increase in sales will be quite gradual, under the influences of continued very poor affordability and the more-recent weakening in the employment situation. Sales are projected to increase during each year of the forecast period. On a sales per adult basis, there will also be improvement. But, by 2028, the ratio will be about 20% below the long-term average for 2006 to 2019.

At the same time, flows of new listings into local housing markets are projected to increase at about the same rate as sales. This will leave the sales-to-new-listings ratio at a low level (in the mid-40s in the first scenario and slightly higher in the second one). The SNLR will be far below the balanced market threshold, which is estimated at 55%. Consequently, some further price erosion is projected. The average price in 2028 would be 21% lower than in 2024 in the first scenario, and 10% lower in the second scenario. Price reductions of the magnitudes expected (especially for the first scenario) create risks for the broader economy.

Sales are projected to be slightly higher in the second scenario, which may seem paradoxical, since prices will be higher and affordability will be worse. But the statistical analysis indicates that slower price reductions will raise confidence among potential buyers about the outlook for prices in the future, and this will positively influence their decisions.

Table 6					
The Outlook for Resale Activity in Ontario (1)					
Year	Resales	New Listings	Sales-to-New-Listings Ratio	Average Price	% Change
Actual					
2016	243,108	338,346	71.9%	$533,052	16.0%
2017	219,698	362,045	60.7%	$582,737	9.3%
2018	192,456	332,830	57.8%	$570,923	-2.0%
2019	209,743	332,170	63.1%	$607,652	6.4%
2020	227,638	320,309	71.1%	$714,219	17.5%
2021	271,195	348,195	77.9%	$870,483	21.9%
2022	184,618	348,684	52.9%	$919,742	5.7%
2023	162,942	328,137	49.7%	$862,224	-6.3%
2024	160,262	365,500	43.8%	$865,770	0.4%
Scenario 1 - Full reduction in prices					
2025	161,047	379,909	42.4%	832,851	-3.8%
2026	167,386	397,614	42.1%	778,712	-6.5%
2027	180,219	417,495	43.2%	728,823	-6.4%
2028	199,344	438,956	45.4%	685,108	-6.0%
Scenario 2 – Price reduction at one-half of expected rates					
2025	164,752	378,718	43.5%	$839,693	-3.0%
2026	177,267	396,797	44.7%	$813,836	-3.1%
2027	189,290	414,070	45.7%	$793,764	-2.5%
2028	203,324	431,988	47.1%	$776,176	-2.2%
Source: historical data by the Canadian Real Estate Association; forecasts by Will Dunning Inc.					
(1) Resale data is based on sums/averages of seasonally-adjusted data and therefore varies from annual actuals reported by CREA					

Housing Starts

As has been discussed, to this point housing starts have adjusted slowly to the sharp increase in interest rates and the severe deterioration of affordability. Therefore, it is projected that there will be a further slowing of starts that lasts until the end of 2025. The expectation is that a recovery will begin slowly in 2026 and then more rapidly in 2027 and 2028.

As is shown in the next table (which repeats the table shown on page 5), for 2025 and 2026, total starts are expected to be far below the figures seen during the 2000s and 2010s.

In the first scenario (in which a large reduction in prices brings a significant improvement in affordability), by 2028, starts will be similar to those prior averages. But, for all four years of the forecast period, average annual starts will be below prior averages, and especially low in comparison to 2020 to 2024.

In the second scenario (with smaller reductions in prices and affordability that is less favourable), starts will improve more slowly, and will remain low in historic terms for the entire period.

Apartments are projected to account for more than one-half of total housing starts during 2025 to 2028, compared to 24% in the 2010s and 44% in the 2010s.

Thinking about the impacts on employment in new residential construction:

- The average costs of construction vary by type of dwelling. Based on Statistics Canada's data on construction values (from building permits), semi-detached homes are estimated to cost 33% less than a single, town homes cost 49% less, and apartments cost 58% less.
- Correspondingly, it is expected that singles will generate the most jobs on a per unit basis.
- With the shift away from single-detached construction, and especially towards apartments, the average number of jobs per dwelling unit has fallen over time.
- Using economic impact factors that are created by Statistics Canada, combined with data on average construction costs per unit, it is calculated that the number of jobs ("person years") per unit averaged 1.22 during the 2000s, 1.04 during the 2010s, and may be just 1.0 during 2025 to 2028.
- Combining the expected housing starts with the calculated factors for job creation per unit:
  - It appears that the starts that occur during 2025 will result in a job impact that is about 35% lower than during the 2010s in the first scenario and 40% in the second.
  - The slowdown in employment will occur gradually. Actual employment depends on how much housing is under construction at the time. A large share of starts is for apartments, and apartments have longer construction periods than low-rise homes (typically 1.5 to 3 years, depending on project size). In consequence, the wind-down of construction activity (and therefore employment) will occur much more slowly, after the slowdown in housing starts. The reductions in employment are likely to extend into 2027.
  - By 2028, with a substantial recovery in starts, the person years generated show large recoveries. But, the upward adjustment of construction employment will occur more gradually.

Table 7
Two Scenarios for Housing Starts in Ontario

Year	Single	Semi	Town Home	Apartment	Total Starts	Person Years of Construction Employment
Actual						
2010	28,089	3,006	10,255	19,083	60,433	69,388
2011	26,884	3,142	9,288	28,507	67,821	73,135
2012	25,567	3,397	10,577	37,201	76,742	78,195
2013	23,270	3,116	9,427	25,272	61,085	65,268
2014	23,691	2,742	9,975	22,726	59,134	64,285
2015	24,953	2,090	10,439	32,674	70,156	72,670
2016	30,079	2,375	11,676	30,822	74,952	80,949
2017	29,713	2,988	15,428	30,994	79,123	84,219
2018	23,786	2,484	11,819	40,653	78,742	77,713
2019	19,287	1,815	13,585	34,298	68,985	66,990
2020	22,682	2,724	12,801	43,098	81,305	78,651
2021	31,353	2,893	15,210	50,110	99,566	99,393
2022	25,494	2,272	17,259	51,055	96,080	91,678
2023	17,915	1,729	13,190	56,463	89,297	79,256
2024	15,940	1,309	10,916	45,785	73,950	66,611
Scenario 1 - Full reduction in prices						
2025	16,098	1,810	4,522	27,808	50,238	50,068
2026	18,033	1,811	4,151	30,538	54,533	54,693
2027	20,173	2,099	5,867	28,520	56,658	58,481
2028	23,142	2,432	5,962	40,241	71,777	71,531
Average	19,361	2,038	5,125	31,777	58,301	58,693
Scenario 2 - Price reductions at one-half of expected rates						
2025	14,963	1,902	4,955	27,873	49,694	48,752
2026	16,529	2,024	4,674	29,803	53,030	52,450
2027	18,558	2,234	6,697	25,364	52,854	54,606
2028	20,373	2,466	7,059	33,013	62,912	63,189
Average	17,606	2,157	5,846	29,013	54,622	54,749
Prior Averages						
2000s	40,002	5,248	11,115	18,083	74,448	90,871
2010s	25,248	2,683	11,357	31,461	70,749	73,714
2020-2024	22,675	2,185	13,873	49,456	88,189	83,216

Source: historical data by the Canada Mortgage and Housing Corporation and Statistics Canada; forecasts by Will Dunning Inc.

3. Toronto CMA

The Employment Situation

Due to very high home prices and the associated large mortgage amounts, the economy in the Toronto CMA is much more-sensitive to interest rates than most other communities in Canada (and Ontario is more interest rate sensitive than the eight other provinces that have lower home prices).[12] As changes in interest rates affect consumers' debt service costs, the impacts on consumer spending and consequently on the employment situation are larger n Toronto CMA, than elsewhere, in both positive and negative situations.

As one illustration, this table shows that during the period of low interest rates (2017 to 2021), retail sales grew more rapidly in the Toronto CMA than in all of Canada, than all of Ontario, and especially in comparison to Ontario excluding the Toronto CMA. Similarly, during the period of high interest rates, the slowdown in spending was greater in the Toronto CMA. High interest rates are beginning to weigh on the employment situation in Canada, and moreso in Ontario and Toronto.

Table 8 Annualized Growth Rates in Retail Sales January 2017 to August 2024				
Period	Canada	Ontario	Toronto CMA	Ontario excluding Toronto
1st 5 years	4.6%	5.1%	6.1%	4.4%
Subsequently	2.1%	1.0%	0.7%	1.3%
Entire Period	3.7%	3.7%	4.2%	3.3%
Source: Statistics Canada, calculations by Will Dunning Inc.				

Toronto CMA has an employment-to-population ratio (the percentage of adults who have jobs) that is higher than for all of Ontario. During the period shown in this chart, the average rate for Toronto was 62.0% while the average for Ontario was 60.9%. Until recently, the employment situation was quite robust, as the rates for both Toronto and Ontario were above average. However, during the past year, the rates have fallen. In Toronto, the rate for September (61.0%) was 1 point below the long-term average. For Ontario, the current rate (60.5%) was 0.4 point below the average.
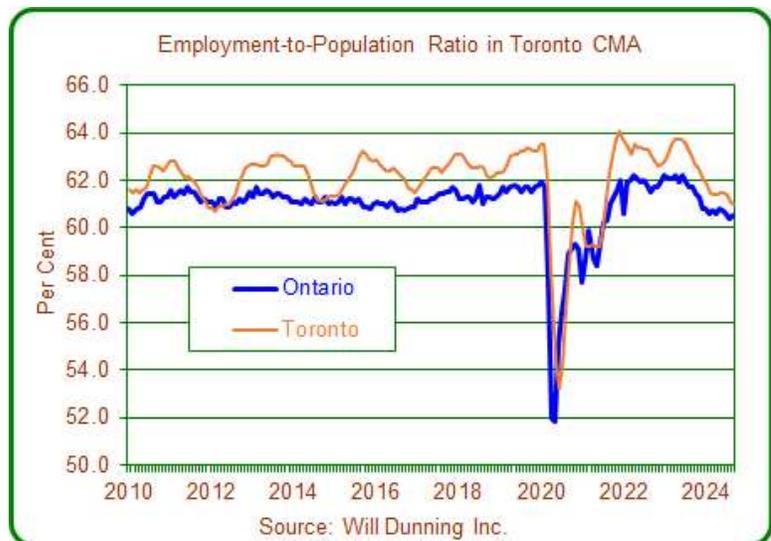

[12] British Columbia has higher home prices than Ontario, and Vancouver has higher prices than Toronto.

During the past year and a half, Canada (especially including the Toronto CMA) has experienced rapid growth in the adult population. That growth is largely young adults (under the age of 25), who are entering Canada for education and therefore aren't necessarily looking for work. Therefore, the recent drop in the employment rate is somewhat artificial (for people who are interested in work, the situation is healthier than the data suggests).
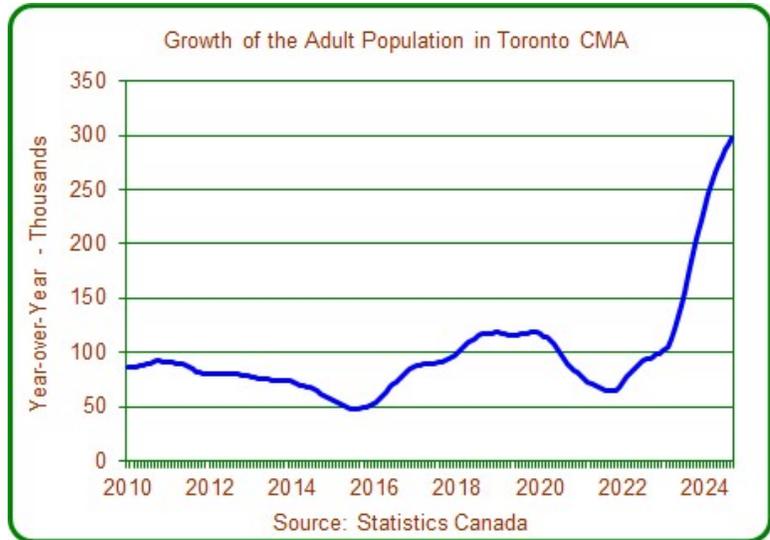
Growth of the Adult Population in Toronto CMA
Source: Statistics Canada

Combining the data for growth of the population with the falling employment rate, it appears that employment continues to expand in the Toronto CMA, but less rapidly than earlier. This can reasonably be attributed to the impact of high interest rates. Until recently, the employment situation was a strongly positive factor for housing demand and for home buying. It is now becoming less favourable, at a time when interest rates and affordability were already highly unfavourable. In itself this could cause the slowdown in the housing market to worsen.

A further negative factor is that with the federal government's announced changes to its immigration targets, the rate of population growth will slow sharply during the coming two years, as will growth of employment.[13] But, falling interest rates and improving affordability will tend to offset these negative factors.

Resale Activity

The greatly changed economic conditions have resulted in very weak resale market activity during the past two years.

Resales in the GTA
Source: CREA / Will Dunning Inc.

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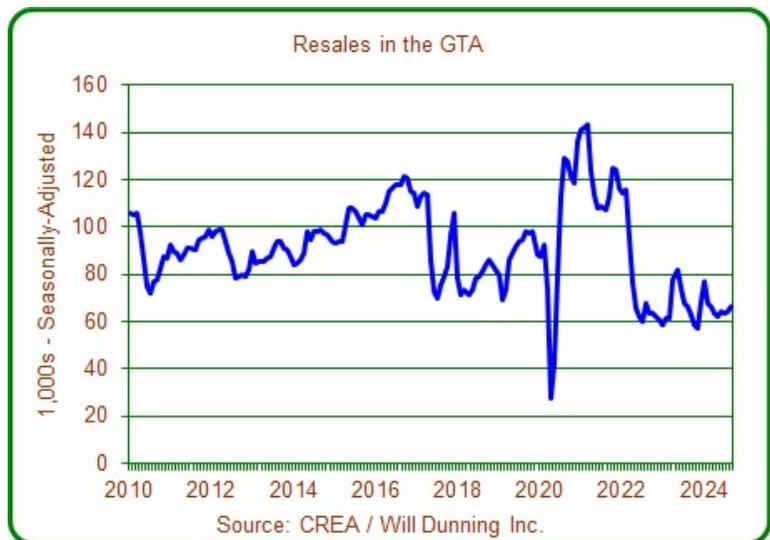
[13] I have written elsewhere that for Canada (and therefore for Toronto and elsewhere) Statistics Canada will have trouble incorporating the slowdown in population growth within its estimates of employment growth, and will likely produce over-estimates: https://www.wdunning.com/_files/ugd/ddda71_398c4c9baa1a4beeb0065d04cc38cd78.pdf

During the past two years, sales on a population-adjusted basis, have been extremely weak, at about 40% below average.

Resales per Adult in the GTA

Source: CREA / Will Dunning Inc.
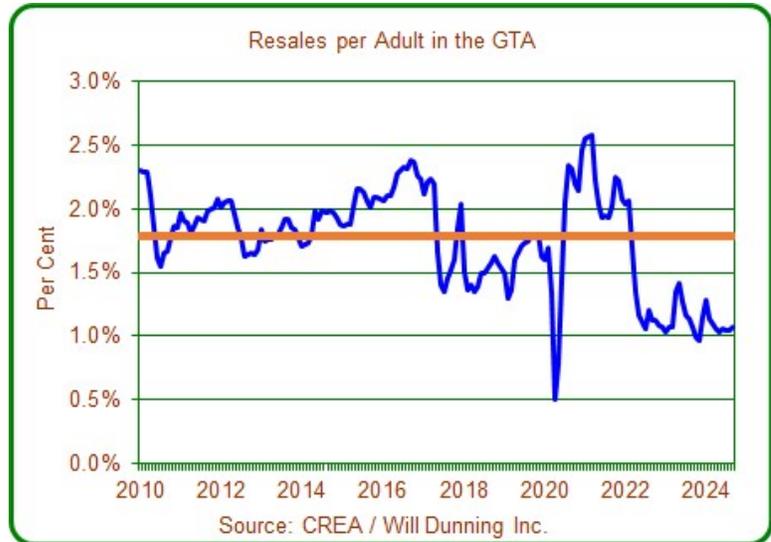
As was seen in the data for Ontario, there is a strong relationship between the sales-to-new-listings ratio and growth of home prices. During the past few months, the ratio has fallen further and now the 12-month moving average (just above 40%) is falling far below the balanced market threshold, which in Toronto is estimated to be slightly above 50%. There is a risk that prices could soon start to fall, but this is far from certain: sellers tend to resist price reductions, unless they are in desperate situations. Given the recent data on mortgage arrears, it appears that few home owners will be forced to sell.

Price Change vs. Sales-to-New-Listings Ratio in the GTA

% Price Change (left)
SNLR (right)

Source: CREA / Will Dunning Inc.

New Housing Construction

Similar to the Ontario situation, in the Toronto area there was a relationship between starts of low-rise homes versus the sales-to-new-listings ratio.

But, during the second half of the period shown in this chart, starts have moved much less forcefully than we should expect. It can be seen in this chart that new low-rise housing has been underproduced by a very large amount.
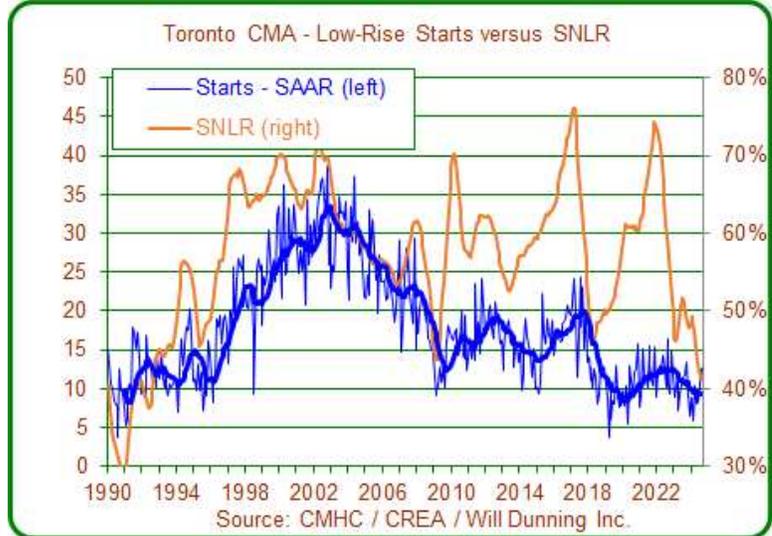
The data for apartment starts is very difficult to interpret, due to extreme month-to-month volatility, but also because starts have trended upwards, due to increased acceptance by owner-occupants and increased interest from investors. In the last 10 years of data, it appears that apartment starts do respond to changes in the SNLR, but quite a lot later (perhaps a year and a half to two years). It remains to be seen whether (and when and to what degree) apartment starts will fall in response to the recent very low levels of the SNLR. From anecdotal

commentary, it is clear that sales are extremely weak. The starts data for the last few months hint that a downturn might now be developing.
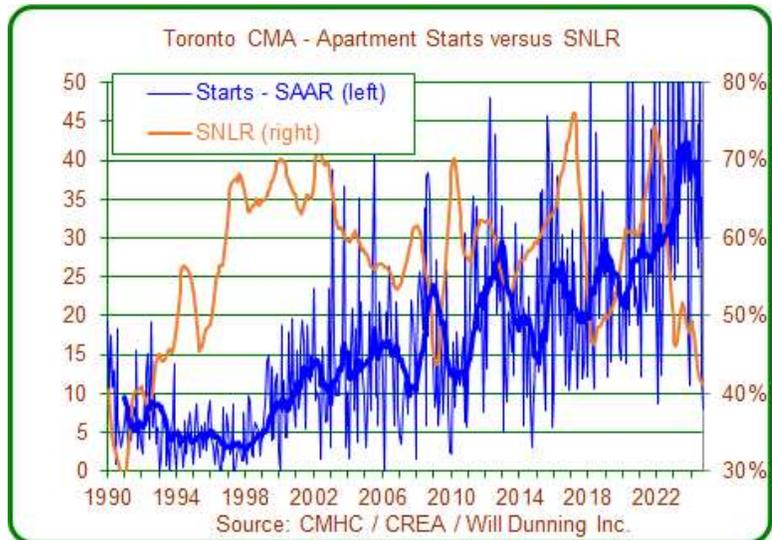
The Forecasts for Toronto CMA

Employment Growth

The employment-to-population ratio is expected to weaken a bit more, but then begin a slow recovery late in 2025. By the end of the forecast period, the employment rate will still be lower than it was previously.

Based on an assumption that the rate of population growth will slow (but still be quite rapid in historic terms), employment growth is also projected to be quite rapid. But, there is a great amount of uncertainty here, because it is unclear to what extent the federal government will be able to achieve its new targets for immigration. Actual population growth and employment growth could be faster or slower than these projections.

Table 9			
The Outlook for Employment in the Toronto CMA			
Year	*Population Growth (1)*	*Employment (1)*	*Employment to Population Ratio (2)*
2016	86	-13	62.1
2017	98	143	62.6
2018	118	32	62.5
2019	119	120	63.1
2020	81	-73	58.6
2021	68	221	61.2
2022	100	-19	63.1
2023	222	108	63.1
2024	286	83	61.1
2025	253	155	60.5
2026	199	157	60.9
2027	155	131	61.6
2028	159	129	62.0
Source: historical data by Statistics Canada; forecasts by Will Dunning Inc.			
Notes: (1) Growth in 1,000s, Q4 to Q4 (2) Annual average			

The Resale Market

The forecasting system suggests that a slow recovery of resales should begin soon. The employment situation (notably the below average employment to population ratio) and affordability are both negative factors, but affordability is now becoming less dreadful. In addition, the employment situation is expected to begin a gradual improvement about a year from now. Because overall conditions will remain less positive than previously, it is projected that sales on a population-adjusted basis will be 27% below average during the projection period (which would be less-bad than the current 40%).

The analysis suggests that the gradual strengthening of market conditions will encourage more flows of new listings into the market, and the sales to listings ratio is expected to remain well below

the balanced market threshold. As a result, in this scenario, price erosion is projected. The scenario developed here shows that by 2028 the average price will have fallen by 11% compared to 2024, but it will still be higher than in any year prior to 2021.

Year	Resales	New Listings	Sales-to-New-Listings Ratio	Average Price	% Change
2016	113,726	154,886	73.4%	$725,532	17.5%
2017	93,157	179,049	52.0%	$812,530	12.0%
2018	78,476	156,631	50.1%	$784,133	-3.5%
2019	88,222	152,712	57.8%	$818,177	4.3%
2020	95,578	156,383	61.1%	$935,849	14.4%
2021	122,124	166,460	73.4%	$1,092,778	16.8%
2022	75,643	152,760	49.5%	$1,158,533	6.0%
2023	66,312	140,720	47.1%	$1,113,202	-3.9%
2024	66,794	162,079	41.2%	$1,117,032	0.3%
2025	79,711	179,479	44.4%	$1,084,128	-2.9%
2026	87,314	194,476	44.9%	$1,051,074	-3.0%
2027	90,418	204,029	44.3%	$1,024,156	-2.6%
2028	94,980	214,497	44.3%	$994,742	-2.9%

Table 10
The Outlook for Resale Activity in the Greater Toronto Area (1)

Source: historical data by the Canadian Real Estate Association; forecasts by Will Dunning Inc.

(1) Resale data is based on sums/averages of seasonally-adjusted data and therefore varies from annual actuals reported by CREA

Housing Starts

The scenario created here expects that starts of new low-rise housing will remain constrained, due to a continuing disconnect between costs (driven by government-imposed and land prices) and attainable selling prices. Some recovery is projected for single-detached and semi-detached homes, but they will remain very low compared to the 2010s. Town homes (with their lower prices) are projected to recover more substantially.

For apartments, it is expected that during 2025 starts will finally show the consequences of high interest rates and extremely weak pre-construction sales. While economic conditions will become more favourable during the forecast period, improvement in starts will be delayed (due to lags between sales and actual construction).

As is shown in the table, for 2025 to 2027, total starts are expected to be far below the figures seen during the 2000s and 2010s. By 2028, starts will be closer to those averages, but still considerably lower compared to 2020 to 2024.

For the entire forecast period, average annual starts are projected to be 23% less than during the 2010s and 31% compared to 2020 to 2024. Apartments are expected to account for two-thirds of total starts during the forecast period, as single-detached homes and semi-detached homes will remain quite weak. Town home starts are expected to be above historic averages.

With the shift away from single-detached construction, and especially towards apartments, the average number of jobs per dwelling unit will fall. Combining the expected housing starts with the factors for job creation per unit:

- It appears that the starts that occur during 2025 to 2028 will result in a job impact that is 33% lower than during the 2010s, and 31% lower than for 2020-2024.
- As discussed for Ontario, the slowdown in employment will occur gradually, especially because a very large share of the activity will be for apartments, which have longer construction periods than low-rise homes. The slowing phase for employment in construction is likely to extend until late-2027, at which point a quite gradual recovery could begin.

Year	Single	Semi	Town Home	Apartment	Total Starts	Person Years of Construction Employment
2016	11,884	898	4,925	21,320	39,027	38,333
2017	10,172	1,410	6,982	20,174	38,738	37,062
2018	6,405	926	4,137	29,639	41,107	34,532
2019	4,209	459	3,951	21,843	30,462	25,135
2020	5,848	803	3,873	28,063	38,587	32,234
2021	6,920	786	3,955	30,237	41,898	35,458
2022	6,329	514	5,648	32,618	45,109	37,214
2023	4,721	328	4,860	37,519	47,428	37,085
2024	3,401	375	4,439	31,104	39,319	30,371
2025	2,878	354	4,023	18,048	25,304	20,407
2026	3,262	411	4,527	19,561	27,761	22,510
2027	3,779	476	5,245	19,136	28,636	23,713
2028	4,379	551	6,078	23,915	34,922	28,645
Averages						
2000s	15,890	3,825	5,354	14,083	39,152	43,353
2010s	9,232	1,385	4,762	22,615	37,994	35,343
2020-2024	5,444	561	4,555	32,098	42,659	34,600
2025-2028	3,574	448	4,968	20,165	29,156	23,819

Table 11
The Outlook for Housing Starts in the Toronto CMA

Source: historical data by the Canada Mortgage and Housing Corporation and Statistics Canada; forecasts by Will Dunning Inc.

4. Hamilton CMA

The Employment Situation

Hamilton CMA has an analysis issue that is shared with many other CMAs. The data on employment is created using a survey of the population, and because the sample sizes employed are relatively small, there is a lot of random variation in the estimates. These random variations create uncertainty about what is the "true" situation.

In the case of Hamilton, the trends are uncertain in these estimates, but it appears that the employment-to-population ratio might be quite similar data to the data for Ontario. During the period shown in this chart, the average rate for Hamilton was 61.1% fractionally higher than the average for Ontario (60.9%). As of September, the rates are below those averages (at 60.4% in Hamilton and 60.5% in Ontario). Higher interest rates are now impairing the Hamilton economy.
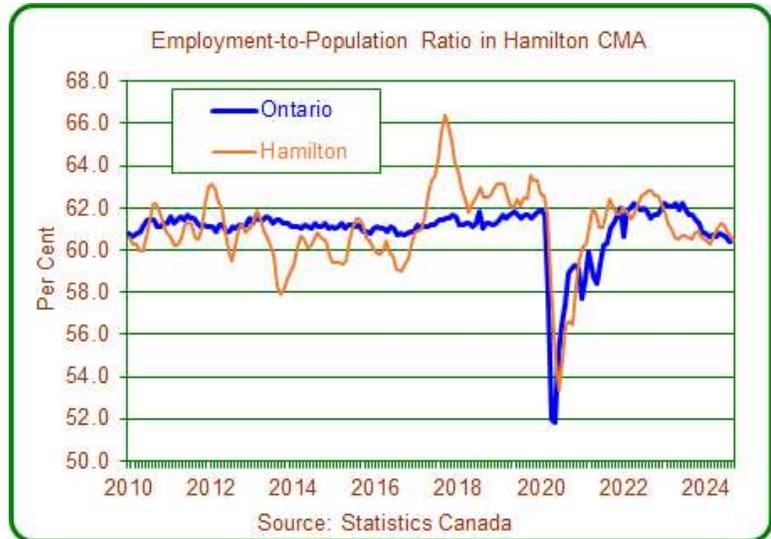
While it is creating the employment estimates, Statistics Canada is making assumptions about growth of the population of adults (it doesn't know with certainty what the population actually is).[14] This chart shows the evolving assumptions for Hamilton CMA. In general, these estimates look reasonable.

Much of the recent population growth in Canada has been people arriving on temporary permits (for education, work, and refugees). Hamilton's colleges and the university are likely to have attracted considerable number of the international students.
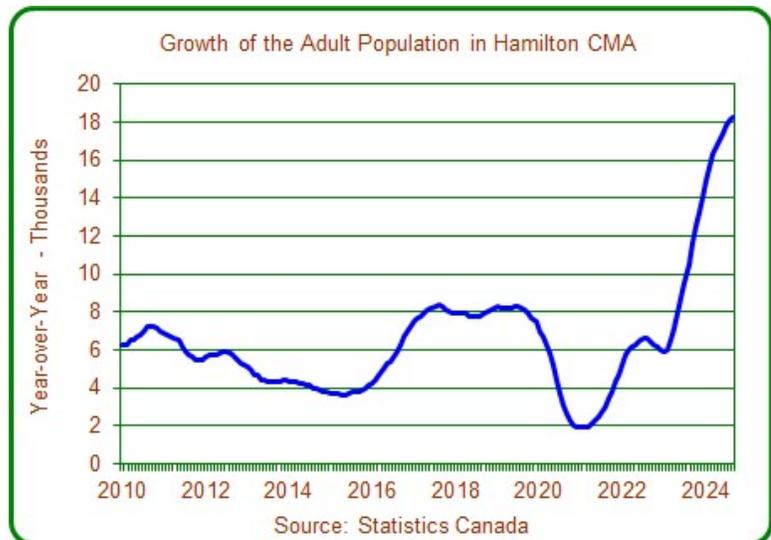
Combining the data for growth of the population with the falling employment rate, it appears that employment continues to expand in the Hamilton CMA. However, that job growth may have been

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[14] This is discussed in more detail here (using data for all of Canada):
https://www.wdunning.com/_files/ugd/ddda71_d39633f787454b739b19a9f7b1557eee.pdf

mostly by temporary residents, and therefore most of its impact might be within the existing rental sector, rather than creating demand to build new homes.

As elsewhere, due to changes in the federal government's immigration targets, the rate of population growth will slow sharply during the coming two years, as will growth of employment.

Resale Activity

High interest rates have weighed heavily on resale market activity during the past two years.

On a population-adjusted basis, sales have been extremely weak. During the past year, this rate has been 30% below the long-term average (this is not quite as bad as the 40% figure for Toronto, where the existence of much higher prices has meant that interest rates have been more impactful).
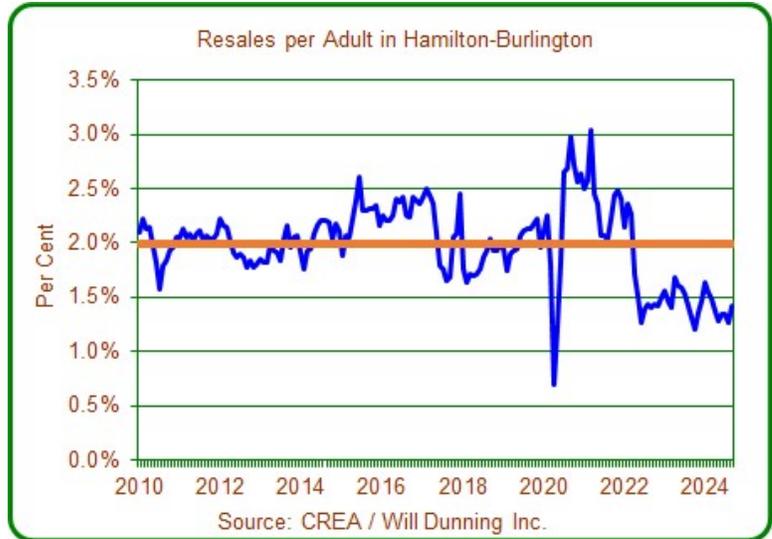
As has been seen elsewhere, the sharp drop for the sales-to-new-listings ratio isn't yet bringing a material reduction in home prices. During the past few months, the ratio has fallen, and now the 12-month moving average is below 50% This is far below the balanced market threshold (estimated at 62-63% for Hamilton). There is risk that prices could soon start to fall, but there is no certainty. Material price reductions tend to require that substantial numbers of buyers find themselves in desperate situations.

Price Change vs. Sales-to-New-Listings Ratio in Hamilton

Source: CREA / Will Dunning Inc.

New Housing Construction

Until about 2012, the sales-to-new-listings ratio and starts of low-rise dwellings moved in roughly similar directions, but statistically there wasn't a stable relationship. There was no relationship during the decade of the 2010s. However, during the past four years, starts have been a bit responsive to changes in the SNLR, but at levels that are much too low. At this time, it seems that low-rise starts in the Hamilton area are largely determined by non-economic factors (perhaps the availability of sites).

Hamilton CMA - Low-Rise Starts versus SNLR

Source: CMHC / CREA / Will Dunning Inc.
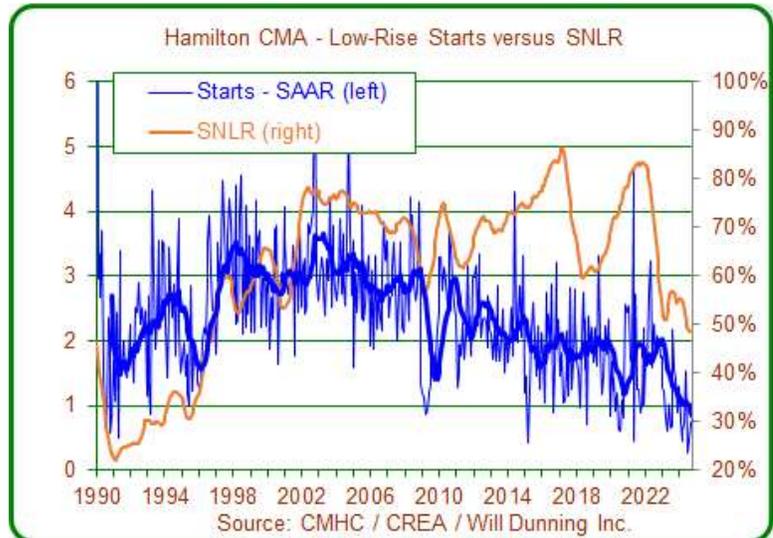
For apartments, during most of the period shown, low volumes of starts (and random volatility in the data) make it impossible to see a relationship. But, during the past decade, apartment starts have seemingly responded to market conditions (with a lag of about a year behind the SNLR). The SNLR has fallen very sharply, but apartment starts have not yet responded. Based on the recent market trends, it appears likely that there will soon be a significant reduction in apartment starts.

Hamilton CMA - Apartment Starts versus SNLR

Source: CMHC / CREA / Will Dunning Inc.
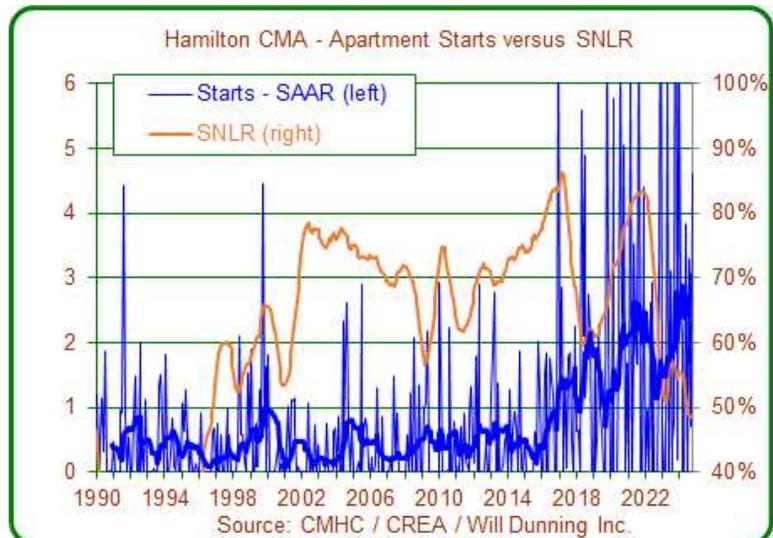
The Forecasts for Hamilton CMA

Employment Growth

The employment-to-population ratio is expected to weaken during the coming year, but then begin a slow recovery late in 2025. By the end of the forecast period, the employment rate will still be lower than it was previously.

Based on an assumption that the rate of population growth will slow, but the employment-to-population ratio will rise, employment growth is also projected to be a positive factor. As elsewhere, there is uncertainty about the ability of the federal government to achieve its new targets for immigration. Actual population growth and employment growth could be faster or slower than these projections.

Table 12			
The Outlook for Employment in the Hamilton CMA			
Year	Population Growth (1)	Employment (1)	Employment to Population Ratio (2)
2016	7.2	8.4	59.9
2017	7.9	26.5	63.9
2018	8.2	-1.3	62.6
2019	7.5	5.6	62.7
2020	1.9	-23.1	57.8
2021	4.7	16.9	61.6
2022	6.0	7.2	62.3
2023	14.0	-2.8	60.7
2024	17.4	6.9	60.6
2025	13.6	8.3	59.9
2026	9.5	9.7	60.3
2027	6.3	7.8	61.0
2028	6.4	7.3	61.4
Source: historical data by Statistics Canada; forecasts by Will Dunning Inc.			
Notes: (3) Growth in 1,000s, Q4 to Q4 (4) Annual average			

The Resale Market

The forecasting system suggests that there will be little change in resale activity. The statistical analysis indicates that potential buyers will be influenced by the expected reductions in prices. That effect will roughly offset the benefits of improvements for employment and affordability. It is projected that sales on a population-adjusted basis will remain about 27% below average during the projection period.

Meanwhile, the analysis suggests that there will be gradual growth for flows of new listings into the market. Consequently, the sales-to-new-listings ratio may weaken further. In this scenario, the continuing imbalance between supply and demand is expected to cause price erosion.   The

scenario developed here shows that by 2028 the average price will have fallen by 6-7% compared to 2024, but it will still be higher than in any year prior to 2021.

Year	Resales	New Listings	Sales-to-New-Listings Ratio	Average Price	% Change
2016	14,724	17,582	83.7%	486,287	16.3%
2017	13,568	20,166	67.3%	553,576	13.8%
2018	11,927	19,375	61.6%	561,558	1.4%
2019	13,329	19,525	68.3%	589,571	5.0%
2020	14,460	18,093	79.9%	697,379	18.3%
2021	15,933	19,404	82.1%	868,115	24.5%
2022	11,120	20,551	54.1%	930,168	7.1%
2023	9,994	18,489	54.1%	881,628	-5.2%
2024	10,515	20,262	51.9%	872,029	-1.1%
2025	10,353	20,488	50.5%	865,927	-0.7%
2026	10,300	20,928	49.2%	852,163	-1.6%
2027	10,503	21,149	49.7%	833,474	-2.2%
2028	10,961	21,392	51.2%	815,087	-2.2%

Table 13
The Outlook for Resale Activity in the Hamilton-Burlington Area (1)

Source: historical data by the Canadian Real Estate Association; forecasts by Will Dunning Inc.

(1) Resale data is based on sums/averages of seasonally-adjusted data and therefore varies from annual actuals reported by CREA

Housing Starts

The scenario created here expects that starts of new low-rise housing will begin to recover in 2025, and by 2028 will be stronger than at present. However, it is possible that the recovery will be constrained if land shortages and/or government-imposed costs keep builders' costs above attainable selling prices.

For apartments, unusually high volumes of starts were seen during 2020 to 2024. The forecasts suggest a significant downturn during 2025, with only a fractional recovery during the forecast period.

As is shown in the table, total starts are expected to be quite weak in 2025, but then begin to recover during 2026 to 2028. For the entire forecast period, average yearly starts will be 15% lower than in the 2010s, but considerably lower (30%) compared to 2020 to 2024.

Combining the expected housing starts with the factors for job creation job per unit:
- It appears that the starts that occur during 2025 to 2028 will result in a job impact that is 28% lower than during the 2010s, and 27% lower than for 2020-2024.
- As discussed for Ontario, the slowdown in employment will occur gradually. The slowing phase for employment in construction is likely to extend until early-2027, at which point a quite gradual recovery could begin.

						Person Years of Construction Employment
						Table 14
			The Outlook for Housing Starts in the Hamilton CMA			
Year	Single	Semi	Town Home	Apartment	Total Starts	Person Years of Construction Employment
2016	827	110	1,099	1,233	3,269	3,172
2017	704	92	929	1,168	2,893	2,773
2018	661	92	1,060	1,803	3,616	3,238
2019	691	68	1,191	1,254	3,204	3,000
2020	529	152	639	2,111	3,431	2,951
2021	738	232	752	2,465	4,187	3,701
2022	821	176	1,036	1,497	3,530	3,358
2023	303	52	770	2,576	3,701	2,903
2024	321	71	299	1,957	2,648	2,149
2025	337	62	382	1,273	2,055	1,774
2026	424	80	494	1,315	2,312	2,052
2027	515	97	600	1,400	2,613	2,361
2028	626	118	729	1,344	2,818	2,630
Averages						
2000s	1,730	131	1,006	353	3,221	3,973
2010s	1,008	80	927	874	2,890	3,048
2020-2024	542	137	699	2,121	3,499	3,012
2025-2028	475	89	551	1,333	2,449	2,204
Source: historical data by the Canada Mortgage and Housing Corporation and Statistics Canada; forecasts by Will Dunning Inc.						

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5. Oshawa CMA

The Employment Situation

The employment data for Oshawa CMA is very difficult to interpret – because it is a middle-sized CMA, the sample size in Statistics Canada's Labour Force Survey is small, which results in a lot of random variation in the estimates. Looking at the data for the entire period from 2006 to the present, the average of the employment-to-population ratio is 63.1%, well above the provincial average (60.9%) and the Toronto average (62.0%). Looking at the data for 2022 to the present. The Oshawa CMA average (63.3%) is still well above the provincial figure (61.5%). The

Employment-to-Population Ratio in Oshawa CMA
Source: Statistics Canada

employment rate in Oshawa is above average because it is largely a commuter community – people move there to work (which might be located in Toronto). Because of the random variation in the data, it is impossible to know if Oshawa is also experiencing a weakening economy.

While it is creating the employment estimates, Statistics Canada is making assumptions about growth of the population of adults (it doesn't know with certainty what the population actually is).[15] This chart shows the evolving assumptions for Oshawa CMA. In general, these estimates look reasonable. Much of the recent population growth in Canada has been people arriving on temporary permits (for education, work, and refugees). Oshawa's colleges are likely to have attracted considerable number of the international students.
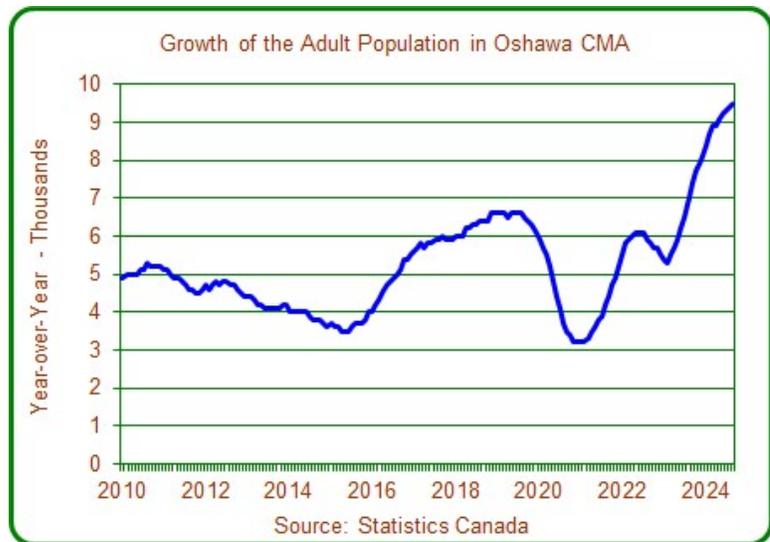
Growth of the Adult Population in Oshawa CMA
Source: Statistics Canada

Combining the data for growth of the population with the falling employment rate, it appears that Oshawa has continued to experience a rate of employment growth that is similar to the long-term average (about 3,000 per year). As elsewhere, due to changes in the federal government's immigration targets, the rate of population growth will slow sharply during the coming two years, as will growth of employment.

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[15] This is discussed in more detail here (using data for all of Canada):
https://www.wdunning.com/_files/ugd/ddda71_d39633f787454b739b19a9f7b1557eee.pdf

Resale Activity

High interest rates and poor affordability have reduced resale activity considerably.
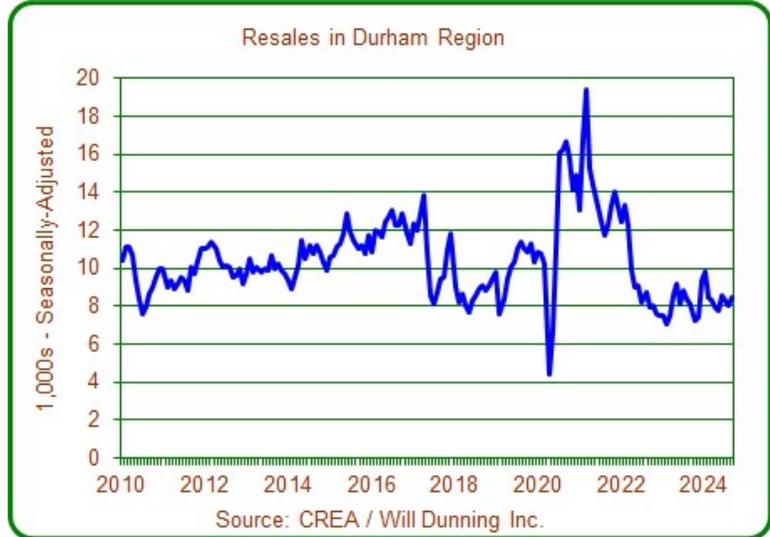
Resales in Durham Region

Source: CREA / Will Dunning Inc.

On a population-adjusted basis, sales have been extremely weak. During the past year, this rate has been 30% below the long-term average.

Resales per Adult in Durham Region

Source: CREA / Will Dunning Inc.
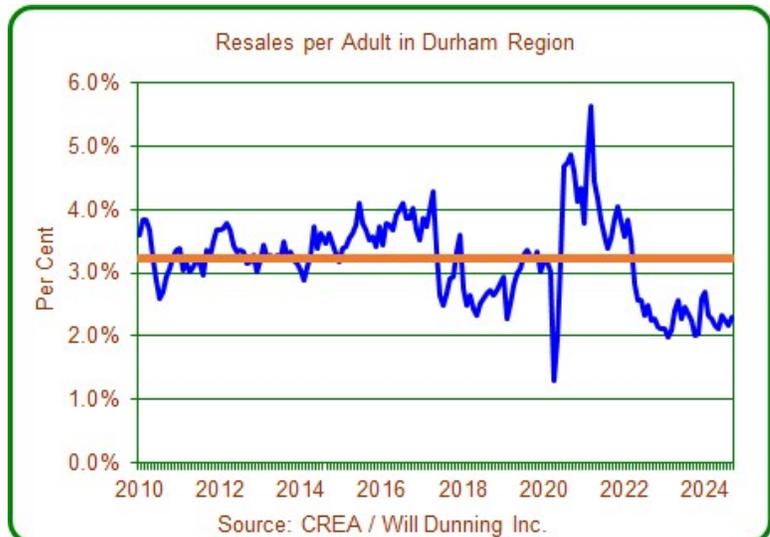
Within Durham Region, there has been a close relationship between the sales-to -new-listings ratio and price growth. During periods when the ratio is quite low, we might expect price reductions, but in actuality they have tended to flatten rather than fall. Potential sellers resist lowering their price expectations, unless they are in a desperate situation (due to job loss or financial hardship for some other reason). During the past few months, the ratio has fallen, and now the 12-month moving average is well below 50%. This is far below the balanced market threshold

Price Change vs. Sales-to-New-Listings Ratio in Durham Region

% Price Change (left)
SNLR (right)

Source: CREA / Will Dunning Inc.

(estimated at 58-59% for Durham Region). There is risk that prices could soon start to fall, but there is no certainty. Material price reductions require that increased numbers of buyers find themselves in desperate situations.

New Housing Construction

Within the Oshawa CMA, construction of new low-rise homes is influenced by the state of the resale market (measured by the sales-to-new-listings ratio). But, as has been seen elsewhere, the response of construction has become considerably less forceful. For almost two decades, low-rise starts have been much lower than they should have been. As elsewhere, it is presumed that rapid rises in costs (government-imposed costs and land prices) as well as availability of land, are distorting the functioning of the market.
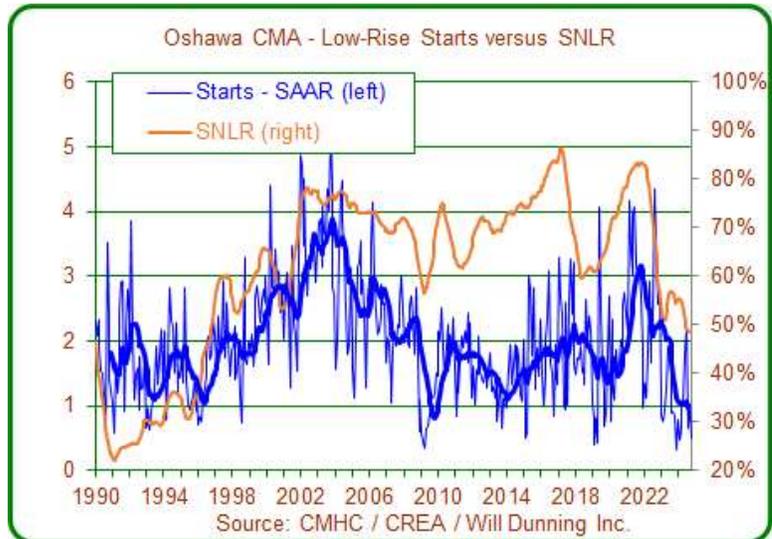
Oshawa CMA sees few starts of apartments. There has been more activity during the past decade, and that data hints that construction is responsive to market conditions, as starts have a loose correlation with the SNLR. In Oshawa, it appears that apartments starts are now slowing, in line with the drop in the SNLR (for Ontario, there isn't convincing evidence of a slowdown for apartment starts).

Oshawa CMA - Low-Rise Starts versus SNLR
Source: CMHC / CREA / Will Dunning Inc.

Oshawa CMA - Apartment Starts versus SNLR
Source: CMHC / CREA / Will Dunning Inc.
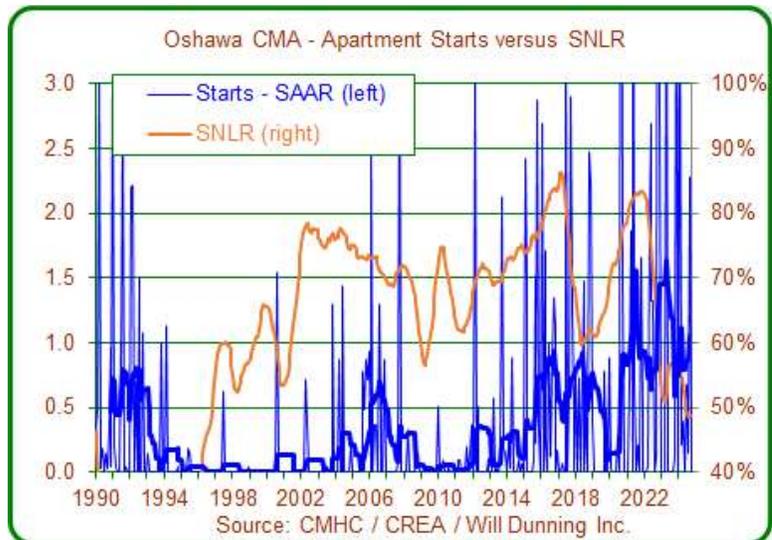
The Forecasts for Oshawa CMA

Employment Growth

The statistical analysis suggests that the employment-to-population ratio will weaken slightly by the middle of next year, and then a recovery will begin. By the end of the projection period, the employment rate is expected to be similar to the 2015-2019 period.

It has to be assumed that the rate of population growth will slow. But due to the relatively high employment rate in the area, it will remain attractive to seekers, and employment growth is projected to be a positive factor. Due to uncertainty about the ability of the federal government to achieve its new targets for immigration, actual population growth and employment growth could be faster or slower than these projections.

Table 15			
The Outlook for Employment in the Oshawa CMA			
Year	Population Growth (1)	Employment (1)	Employment to Population Ratio (2)
2016	5.5	16.3	65.9
2017	5.9	-7.7	63.6
2018	6.6	6.3	65.1
2019	6.1	-6.7	63.6
2020	3.2	6.0	60.1
2021	5.2	9.9	61.1
2022	5.5	4.1	64.5
2023	8.1	-1.3	62.6
2024	9.2	2.1	62.4
2025	7.9	5.6	61.6
2026	6.6	7.0	62.3
2027	5.6	6.2	63.0
2028	5.6	6.0	63.7
Source: historical data by Statistics Canada; forecasts by Will Dunning Inc.			
Notes: (5) Growth in 1,000s, Q4 to Q4 (6) Annual average			

The Resale Market

The forecasting system suggests that sales will be stronger during 2025 to 2028 than during 2023 and 2024, due to improvements for both employment and affordability. The pace of growth will be about the same as the growth rate for the population, and sales on a population adjusted basis will remain about 30% below average throughout the projection period.

The flow of new listings into the market is projected to increase gradually. The sales-to-new-listings ratio might decrease slightly, and would remain far below the balanced market threshold. The scenario developed here shows that by 2028 the average price will have fallen by 6%. This is less severe than the reductions projected for Toronto (11%). During 2028, the average price for Durham Region would be far above any year prior to 2021.

			Table 16		
		The Outlook for Resale Activity in Durham Region (1)			
Year	Resales	New Listings	Sales-to-New-Listings Ratio	Average Price	% Change
2016	12,096	14,830	81.6%	$526,440	20.1%
2017	10,744	20,283	53.0%	$617,914	17.4%
2018	8,630	17,291	49.9%	$590,213	-4.5%
2019	10,115	17,546	57.6%	$606,490	2.8%
2020	12,301	15,972	77.0%	$708,711	16.9%
2021	14,091	17,437	80.8%	$922,421	30.2%
2022	9,489	17,250	55.0%	$996,236	8.0%
2023	8,101	15,343	52.8%	$923,672	-7.3%
2024	8,773	18,036	48.6%	$925,071	0.2%
2025	9,374	18,604	50.4%	$902,186	-2.5%
2026	9,060	18,844	48.1%	$893,946	-0.9%
2027	9,123	19,207	47.5%	$882,269	-1.3%
2028	9,333	19,609	47.6%	$869,940	-1.4%
Source: historical data by the Canadian Real Estate Association; forecasts by Will Dunning Inc.					
(1) Resale data is based on sums/averages of seasonally-adjusted data and therefore varies from annual actuals reported by CREA					

Housing Starts

The scenario created here expects that starts of new low-rise housing will fall sharply during 2025 (most of the reduction will be for apartments). Starts will recover during 2026 to 2028. By 2027, low-rise starts will be much stronger than in 2023 and 2024. But, for 2025 to 2028, average annual low-rise starts are projected to be quite weak in historic terms. Moreover, it is possible that the moderate recovery that is projected will be blunted by land shortages and/or government-imposed costs.

For apartments, during the decade from 2015 to 2024, starts were much stronger than previously. Recent data hints that a downturn is now developing (due to affordability). Weakness is expected to persist for some time: a very gradual recovery is expected to start during 2026. For the entire forecast period, apartment starts will be much lower than during 2020 to 2024, but might be slightly higher than in the 2010s.

As is shown in the table, total starts are expected to be very weak during 2025, but then improve each year during 2026 to 2028. For the entire forecast period, average yearly starts will be below the prior averages.

Combining the expected housing starts with the factors for job creation job per unit:
- It appears that the starts that occur during 2025 to 2028 will result in a job impact that is 24% lower than during the 2010s, and 31% lower than for 2020-2024.
- As discussed for Ontario, the slowdown in employment will occur gradually. The slowing phase for employment in construction is likely to extend until late-2027, at which point a gradual recovery could begin.

					Table 17	
			The Outlook for Housing Starts in the Oshawa CMA			
Year	*Single*	*Semi*	*Town Home*	*Apartment*	*Total Starts*	*Person Years of Construction Employment*
2016	945	56	719	771	2,491	2,681
2017	1,208	60	824	743	2,835	3,173
2018	1,308	72	383	769	2,532	3,001
2019	876	38	650	139	1,703	2,070
2020	793	168	869	836	2,666	2,724
2021	1,407	200	1,322	934	3,863	4,179
2022	927	92	1,305	1,451	3,775	3,629
2023	614	74	423	742	1,853	1,907
2024	420	36	547	724	1,728	1,647
2025	373	36	443	316	1,168	1,212
2026	498	48	592	382	1,519	1,591
2027	665	64	790	510	2,029	2,125
2028	888	85	1,055	681	2,710	2,837
Averages						
2000s	2,107	54	395	171	2,727	3,868
2010s	1,147	48	467	434	2,096	2,562
2020-2024	832	114	893	937	2,776	2,817
2025-2028	606	58	720	472	1,857	1,941
Source: historical data by the Canada Mortgage and Housing Corporation and Statistics Canada; forecasts by Will Dunning Inc.						

APPENDIX
Municipalities Included in CMAs

Toronto CMA:

Ajax, Aurora, Bradford West Gwillimbury, Brampton, Caledon, Chippewas of Georgina Island First Nation, East Gwillimbury, Georgina, Halton Hills, King, Markham, Milton, Mississauga, Mono, New Tecumseth, Newmarket, Oakville, Orangeville, Pickering, Richmond Hill, Toronto, Uxbridge, Vaughan, Whitchurch-Stouffville

Hamilton CMA:

Burlington, Grimsby, Hamilton

Oshawa CMA:

Clarington, Oshawa, Whitby