Altus Group

quarterly FORECAST ISSUE

HOUSING REPORT

Vol. XXIX No. 8 February 2020
(Outlook Finalized March 5, 2020

Lower Interest Rates Will Help Housing Starts Withstand Growing Economic Uncertainty

COVID-19 Statement

Dear Reader: Your forecast team began work on this analysis in early February and finalized all the material in early March. Since that time Canada has been coping with extraordinary economic disruption due to the COVID-19 crisis and the current oil price shock. While the economic forecasts in this publication will certainly require updating, we encourage you to digest the analysis with the understanding that it describes a relatively healthy and improving economy going into the current situation, and that this may help minimize the depth or length of the inevitable downturn.

Forecast Summary

- Canada's economy is forecast to advance by 1.8% this year and accelerate modestly into 2021. While last year's job growth will not be repeated, still-above average growth of 230,000 net new jobs this year and 190,000 next is expected.
- On net, total Canada-wide housing starts in 2020 are forecast to match last year on the strength of Ontario, Alberta and Saskatchewan. In 2021, expect weakness in Quebec, Manitoba and Atlantic Canada to be offset by gains elsewhere.

Analysis

- Just as trade tensions have eased, the threat of COVID-19 is raising economic uncertainty again. Recent interest rate cuts (with the Bank of Canada's slicing the target for the overnight rate by 50 basis points on March 4) should help, and the expectation is for rates to remain fairly low (or be cut further) thereafter.
- An exceptional pace of immigration lately will have positive effects on housing need ahead, as will the strong job growth, even as it eases off from a remarkable 40-year high in 2019. However, capacity constraints in some markets will limit upside growth.
- Canada's housing market is turning the corner and is poised to improve in 2021. The momentum from sturdy existing and new homes sales in 2019 is forecast to continue this year, leading to higher ownership starts. Continued stronger investment in purpose-built rental housing will boost starts next year.
- Falling resale inventories in major markets, downward price adjustments in Western provinces and modest price appreciation in Central Canada will also lure more home buyers into the new homes market during the forecast period.

Total Starts, Canada

2019	208,685
2020f	209,000
2021f	214,200

Starts Trends by Type

	2020	2021
Total	●	▲
Single-family	▲	▲
Apartment	▼	▲

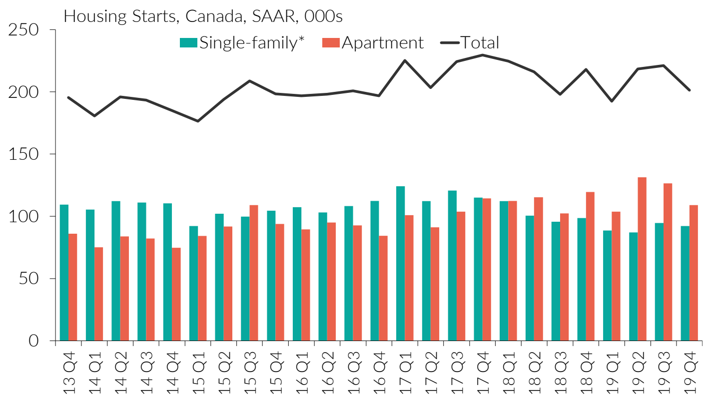
Starts Trends by Region

	2020	2021
B.C.	▼	▲
Alberta	▲	▲
Sask.	▲	▲
Manitoba	▼	▼
Ontario	▲	●
Quebec	▼	▼
Atlantic	▼	▼

Altus Group
33 Yonge St., Suite 500
Toronto, ON M5G 1G4
(416) 596-7676
datasolutionsinfo@altusgroup.com
altusgroup.com

Chart 1

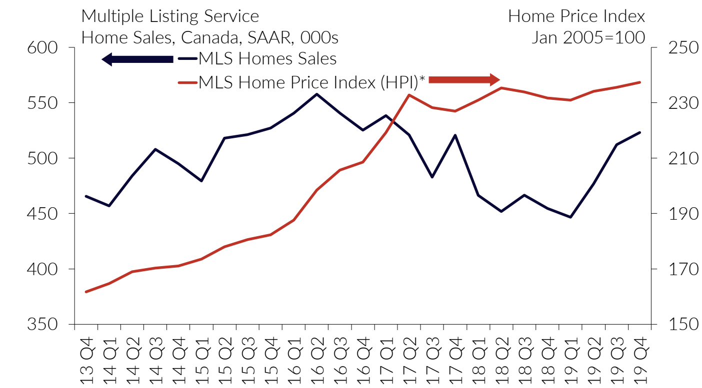
Both Single Family and Apartment Starts Drifted Lower in Q4 2019



* Includes single-detached, semi-detached and row units
Source: Altus Group based on Canada Mortgage and Housing Corporation data

Chart 2

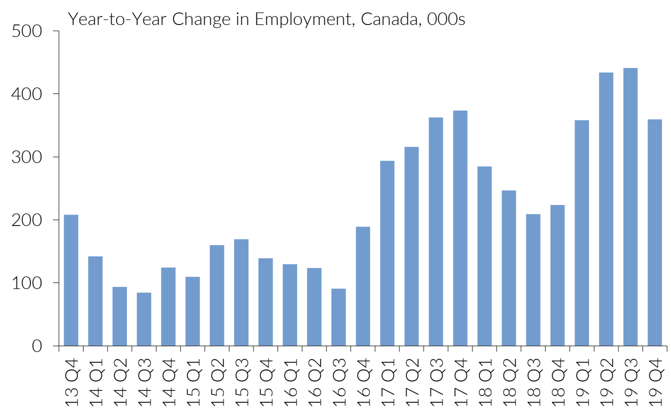
Existing Home Sales Continue to Recover



* Composite for 18 boards
Source: Altus Group based on The Canadian Real Estate Association data

Chart 3

Remarkable Job Growth in 2019 – a 40-year Record



Source: Altus Group based on Statistics Canada data

Chart 4

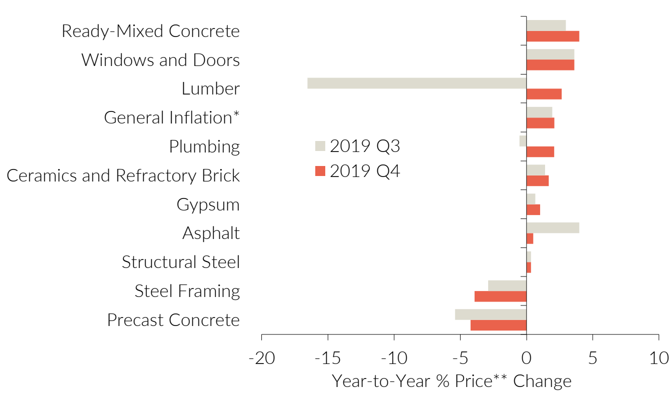
Moderately Stronger Economic Growth Ahead

	Average 2009-18*	2019	2020f	2021f
	Year-to-Year Change			
Real GDP (%)	1.7	1.6	1.8	1.9
Employment Growth (000s)	165	398	230	190
CPI (%)	1.6	2.0	1.5	2.0
Real PDI** per Capita (%)	1.2	1.5	1.3	2.5
	End of year			
1 Year Mortgage Rate (%)***	3.3	3.6	3.0	3.2
5 Year Mortgage Rate (%)***	5.1	5.2	4.8	5.1

* Annual average
** Personal disposable income *** Published rates
Source: Historical - Statistics Canada and Bank of Canada
Forecasts - Altus Group

Chart 5

Lumber Prices on the Rise Again



* Consumer Price Index (CPI) ** All prices are freight-on-board (FOB) basis
Source: Altus Group based on Statistics Canada data

Altus Group Building Products Price Monitor

- In the fourth quarter of 2019, year-over-year price growth accelerated for most of Canada's building products (Chart 5).
- Lumber prices increased in Q4, following four consecutive quarterly decreases.
- Year-over-year, the price of the majority of Canada's building products advanced more slowly than the general rate of inflation in 2019.

Chart 6

Net Migration Remained Strong in 2019

	Average 2007-2016	2017	2018	Jan-Sep 2018	Jan-Sep 2019
	Total Net Migration (Persons, 000s)				
British Columbia	45.4	66.2	67.0	63.0	69.2
Alberta	48.1	23.0	37.4	29.1	38.6
Saskatchewan	10.0	7.9	6.6	5.1	4.1
Manitoba	10.4	14.4	11.0	8.7	7.1
Ontario	94.5	179.5	216.2	187.7	188.4
Quebec	38.5	68.3	71.8	63.7	79.8
Atlantic Canada	5.5	16.7	19.1	18.2	22.4
Canada*	252.4	376.7	429.1	375.4	409.4

* Includes Northwest Territories, Nunavut and Yukon
Source: Altus Group based on Statistics Canada data

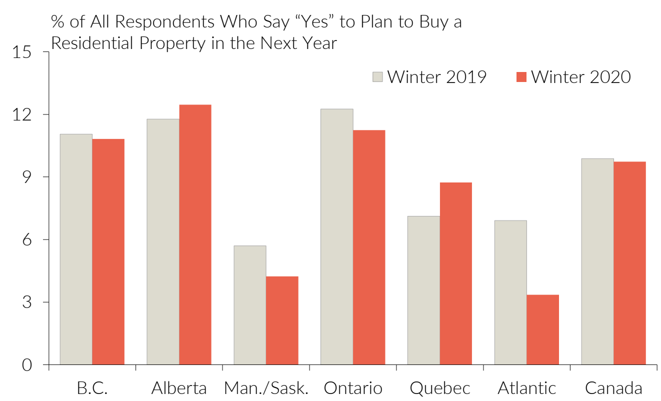
Chart 7

New Home Prices Softened in Western Provinces but Advanced in Central and Atlantic Canada

Source: Altus Group based on Statistics Canada data

Chart 8

Canada-wide Homebuying Intentions Similar to Last Year



Source: Altus Group

Outlook by Region

Net migration to Canada in 2019 likely at least matched the record set in 2018 (Chart 6).

British Columbia

- The housing recovery continues as price adjustments persist, mortgage rates remain low, and declining resale inventories provide less competition to the new home sector. Stronger economic growth and still solid immigration should lift starts next year.

Alberta

- As the economic recovery sets in with stronger growth this year and next, rising in-migration and sustained job growth will boost consumer confidence and help to increase new home construction, more so in 2021.

Saskatchewan

- Consumer spending is expected to increase on the heels of more favourable economic conditions, a tighter labour market and better commodity markets. Expect starts to recover from the lows of 2019.

Manitoba

- Economic challenges persist as modest GDP and job growth hamper consumer and investor confidence, pushing starts modestly lower this year and next despite low interest rates.

Ontario

- Starts are projected to exceed the 10-year average in 2020 and 2021, led by some resurgence in single-family starts. Robust immigration and employment growth, lower prices, purchase incentives and lower mortgage rates are fuelling housing demand.

Quebec

- Expect lower starts ahead as eroding affordability, limits on immigration and slower economic growth cool what has been a relatively hot housing market.

Atlantic Canada

- Housing starts are likely to move lower than last year, as job growth and migration fizzle.

Chart 9

Altus Group Housing Starts Forecast by Province

		British Columbia	Alberta	Saskatch-ewan	Mani-toba	Ontario	Quebec	New Bruns-wick	Nova Scotia	Prince Edward Island	New-found-land	Canada
							Dwelling Units					
Total Starts												
Avg. 2010-19		*33,850*	*30,747*	*6,032*	*6,554*	*69,717*	*44,188*	*2,739*	*4,153*	*840*	*2,250*	*201,070*
2019		44,932	27,325	2,427	6,946	68,985	47,967	2,935	4,719	1,504	945	208,685
2020 f		40,150	27,875	3,375	6,750	76,525	45,050	2,600	4,625	875	1,175	209,000
2021 f		42,975	30,775	4,300	6,625	77,350	43,250	2,825	4,025	625	1,475	214,225
Single Family Starts (includes single-detached, semi-detached and row units)												
Avg. 2010-19		*15,242*	*22,136*	*4,174*	*4,301*	*39,494*	*17,609*	*1,845*	*2,336*	*554*	*1,866*	*109,556*
2019		14,418	16,967	1,706	3,835	34,687	13,742	1,600	2,483	768	828	91,034
2020 f		15,550	18,750	2,375	4,225	40,150	13,575	1,550	2,875	625	1,025	100,700
2021 f		15,500	20,375	3,075	4,500	40,075	13,050	1,800	2,750	450	1,275	102,850
Apartment Starts												
Avg. 2010-19		*18,608*	*8,612*	*1,858*	*2,254*	*30,223*	*26,580*	*894*	*1,817*	*286*	*384*	*91,515*
2019		30,514	10,358	721	3,111	34,298	34,225	1,335	2,236	736	117	117,651
2020 f		24,600	9,125	1,000	2,525	36,375	31,475	1,050	1,750	250	150	108,300
2021 f		27,475	10,400	1,225	2,125	37,275	30,200	1,025	1,275	175	200	111,375
Total Starts, Quarterly, Seasonally Adjusted at Annual Rates												
2019	1	42,319	21,758	2,044	6,386	62,608	49,859	2,111	4,093	618	588	192,384
	2	49,827	25,942	2,319	8,670	68,238	51,954	4,004	5,118	1,428	872	218,372
	3	44,193	30,816	2,778	6,278	78,691	47,283	3,377	4,612	2,106	929	221,063
	4	41,561	30,577	2,633	6,582	65,851	44,003	2,462	4,778	1,631	1,213	201,291
2020	1 f	39,000	26,000	2,800	6,000	75,000	44,000	2,750	4,600	900	900	201,950
	2 f	39,000	28,000	2,900	7,000	77,000	45,000	2,750	4,800	900	900	208,250
	3 f	41,000	28,000	3,900	7,000	78,000	45,000	2,800	4,500	900	1,350	212,450
	4 f	41,000	30,000	3,900	7,000	77,000	46,000	2,800	4,500	900	1,350	214,450
2021	1 f	41,000	31,000	4,500	6,700	75,000	45,000	3,000	4,200	650	1,500	212,550
	2 f	43,000	31,000	4,700	7,000	75,000	45,000	3,000	4,000	650	1,500	214,850
	3 f	43,000	31,000	4,300	6,500	80,000	42,000	3,000	4,000	650	1,500	215,950
	4 f	44,000	31,000	4,200	6,500	80,000	42,000	3,000	3,800	650	1,500	216,650
Total Starts, Quarterly, Actual												
2019	1	8,943	4,593	345	1,336	13,044	7,841	140	878	105	58	37,283
	2	14,522	6,908	614	2,247	17,455	14,519	847	1,289	371	217	58,989
	3	11,021	8,212	797	1,716	21,265	12,804	1,174	1,307	571	315	59,182
	4	10,446	7,612	671	1,647	17,221	12,803	774	1,245	457	355	53,231
2020	1 f	8,250	5,500	475	1,250	15,625	6,925	175	975	150	100	39,425
	2 f	11,375	7,450	775	1,825	19,700	12,575	575	1,200	225	225	55,925
	3 f	10,225	7,450	1,125	1,925	21,075	12,175	975	1,275	250	450	56,925
	4 f	10,300	7,475	1,000	1,750	20,125	13,375	875	1,175	250	400	56,750
2021	1 f	8,675	6,550	750	1,400	15,625	7,075	200	900	100	150	41,425
	2 f	12,525	8,250	1,250	1,825	19,175	12,575	625	1,000	175	375	57,800
	3 f	10,725	8,250	1,225	1,775	21,625	11,375	1,050	1,125	175	500	57,850
	4 f	11,050	7,725	1,075	1,625	20,925	12,225	950	1,000	175	450	57,175

Source: Canada Mortgage and Housing Corporation (historical) and Altus Group (forecasts)

Outlook for Selected Major Markets

This section presents Altus Group's latest outlook for housing starts for eight major markets. Highlights of the forecast include:

- For 2020, total starts are expected to come in higher than last year in three of the markets examined: Edmonton, Toronto and Ottawa. Other markets will see modestly lower starts.
- Mixed results are also expected in 2021. Calgary should start to see recovery from a long downturn, while renewed apartment starts will buoy Vancouver starts. Ottawa and Edmonton are also expected to improve due to a pick-up in single-family starts.

The detailed starts forecasts are shown below (Chart 10).

Key factors underlying the outlook for each market are discussed on the next 2 pages. For context on the commentary for each market, refer to the accompanying charts on trends in employment (Chart 11), existing home sales and months of inventory (Chart 12), house prices (Chart 13) and condominium apartment key metrics (Chart 14).

Total Starts Trends

	2020	2021
Vancouver	▼	▲
Edmonton	▲	▲
Calgary	▼	▲
Winnipeg	▼	▼
Toronto	▲	●
Ottawa	▲	▲
Montreal	▼	▼
Halifax	▼	▼

Chart 10

Altus Group Housing Starts Forecast, Selected Major Markets

	Vancouver	Edmonton	Calgary	Winnipeg	Toronto	Ottawa	Montreal	Halifax
				Dwelling Units (000s)				
Total Starts								
Avg. 2010-2019	*21,655*	*11,997*	*11,780*	*4,402*	*37,114*	*6,364*	*21,106*	*2,596*
2019	28,141	10,720	11,909	4,965	30,462	7,782	25,112	3,143
2020f	21,925	11,200	11,100	4,775	36,850	8,550	22,900	2,700
2021f	26,100	12,100	12,650	4,550	37,300	8,900	21,875	2,300
Single Family Starts (includes single-detached, semi-detached and row units)								
Avg. 2010-2019	*7,469*	*8,531*	*7,719*	*2,509*	*15,437*	*4,231*	*5,232*	*995*
2019	6,820	6,838	6,526	2,286	8,619	5,454	4,473	1,085
2020f	7,825	7,300	7,350	2,525	12,850	6,250	4,150	1,100
2021f	8,200	8,150	8,300	2,700	13,200	6,500	4,075	1,150
Apartment Starts								
Avg. 2010-2019	*14,185*	*3,466*	*4,062*	*1,893*	*21,677*	*2,133*	*15,874*	*1,602*
2019	21,321	3,882	5,383	2,679	21,843	2,328	20,639	2,058
2020f	14,100	3,900	3,750	2,250	24,000	2,300	18,750	1,600
2021f	17,900	3,950	4,350	1,850	24,100	2,400	17,800	1,150

Source: Canada Mortgage and Housing Corporation (historical) and Altus Group (forecasts)

Vancouver

- With house price declines moderating, sales of existing homes up, and resale inventory declining, confidence in the Vancouver housing market is returning.
- A significant easing in new condominium sales and softer purpose-built rental investment are setting the stage for lower apartment starts this year. Starts are forecast to begin to recover in 2021 with increases in both single-family and apartment starts.

Edmonton

- Despite flat home resales and weak new condominium apartment sales, housing starts were solid in 2019.
- Improved affordability (due to lower house prices and more favourable interest rates), alongside strong in-migration and employment growth in 2019, are expected to lift new home sales and starts both this year and next.

Calgary

- Housing starts in 2020 are forecast to dip slightly below last year, but expect new home construction to turn up next year. Homebuying intentions are up on the back of improved affordability (due to lower house prices and lower mortgage rates) and steady in-migration.
- While new townhouse sales were up last year, new condominium apartment sales did not follow suit, dropping by 29% for the year as a whole. Stronger sales in the 4th quarter of 2019, however, suggest that the worst may now be over. Improved new single-family and apartment sales as the year progresses will set the stage for higher starts next year.

Winnipeg

- Pulled down by fewer single-family condominium apartment starts, total housing starts declined by 8% in 2019.
- Lingering economic weakness and lower net migration will likely suppress 2020 sales activity.
- 2020 and 2021 starts are projected to continue to fall but remain above the 10-year average.

Chart 11

Job Growth to Ease in 2020, After Strong Gains in 2019

CMA	Ann. Avg. 2009-2018	2019	2020f	2021f
	Change in Employment (000s)			
Vancouver	23.2	48.3	15.4	20.6
Edmonton	13.9	8.5	12.9	10.5
Calgary	12.2	33.8	11.9	11.3
Winnipeg	4.2	6.6	5.3	3.6
Toronto/Oshawa	52.6	136.5	96.9	62.7
Ottawa/Gatineau	6.1	33.4	14.9	8.4
Montreal	28.0	17.9	18.4	34.1
Halifax	2.4	6.5	1.6	2.7

f = forecast
Source: Altus Group based on Statistics Canada data

Chart 12

Competition from Resale Inventories Declining

	Number of Homes Sold Through MLS			Months of Resale Inventory	
	January - Dec		%	Dec	
CMA	2018	2019	Change	2018	2019
	Units (000)				
Vancouver*	39.3	40.0	2	8.1	3.9
Edmonton	16.6	16.6	0	8.7	7.1
Calgary	20.9	21.3	2	7.5	6.1
Winnipeg	12.0	12.8	7	6.0	4.4
Toronto	78.0	87.8	13	3.1	1.7
Ottawa	17.7	18.9	7	n.a.	n.a.
Montreal	46.7	51.3	10	6.8	4.1
Halifax	5.9	6.7	13	n.a.	n.a.

* Greater Vancouver and Fraser Valley Real Estate Boards
Source: Altus Group based on The Canadian Real Estate Board and local real estate boards

Chart 13

House Prices Continue to Adjust Down in Vancouver, Edmonton and Calgary

	New House Prices			Resale House Prices		
CMA	2017	2018	2019	2017	2018	2019
	Year-Over-Year % Change					
Vancouver*	6.2	3.6	-1.4	1.7	2.9	-4.9
Edmonton	-0.3	-0.4	-1.3	0.4	-1.4	-2.7
Calgary	0.0	-0.4	-1.7	0.7	-1.2	-3.8
Winnipeg	3.1	1.9	0.8	4.0	1.9	0.5
Toronto	7.2	-0.2	-0.9	12.9	-4.4	4.0
Ottawa	3.2	5.1	5.4	5.6	3.7	8.4
Montreal	1.2	2.6	3.9	5.3	3.8	4.5
Halifax	1.3	1.0	0.7	2.0	1.8	6.8

* Greater Vancouver and Fraser Valley Real Estate Boards for resale
Source: Altus Group based on Statistics Canada, The Canadian Real Estate Board and local real estate boards

Toronto

- Starts were down 26% in 2019, reflecting with a lag the slowdown in new home sales that characterized both the single-family and apartment sectors in 2018.
- Total new home sales however rebounded by 47% in 2019 (with single-family and apartment sales contributing equally on a unit basis to the improvement). Stronger new home sales in 2019 will boost housing starts in 2020.
- Lower mortgage rates are providing some reprieve to homebuyers from rising prices. Elevated in-migration and remarkably strong job growth are also supportive of new home sales, which should keep starts elevated in 2021.

Ottawa

- Of the markets examined here, Ottawa saw the strongest price increases in 2019, for both existing and new homes. Strong job growth however kept demand for new homes elevated. Homebuying intentions are up this year, among both current homeowners and potential first-time buyers.
- Apartment starts are expected to hold steady in 2020 and edge up slightly in 2021, with single-family starts rising in both years.

Montreal

- Solid job growth in 2020 and 2021, and low mortgage rates will help to maintain relative strength in Montreal's housing market (with starts remaining above the 10-year average). However, expect annual levels in 2020 and 2021 to be below 2019.
- Above-inflation price appreciation in the resale and new home markets has negatively impacted affordability (offset partially by lower mortgage rates), at the same time as immigration restrictions begin to have their impact on population growth.
- Apartment starts in 2020 will be pulled down by the 18% decline in new condominium apartment sales in 2019 and not likely to improve in 2021.

Halifax

- Total housing starts in Halifax increased by 10% in 2019 to reach a 30-year high, boosted by single-detached starts, and to a lesser extent, townhouses.
- Solid economic growth, in-migration and affordability will continue to buoy Halifax single-family housing starts in 2020 and 2021. However, expect apartment starts to retreat this year and next due to fewer purpose-built apartment starts.

Chart 14

New Condominium Apartment Sales Down from Last Year Except in Toronto

	Vancouver		Edmonton		Calgary		Toronto		Montreal	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
New Condominium Apartments (Units)										
Starts*	10,268	15,261	1,467	2,308	3,491	4,430	26,349	17,857	8,810	7,415
Under Construction**	24,126	28,723	3,334	3,855	4,666	4,899	52,623	56,478	10,650	11,015
Completed But Unabsorbed**	766	926	500	899	915	801	44	241	1,360	1,345
Sales*	12,921	5,619	643	411	1,871	1,336	21,137	26,979	8,191	6,693
MLS Condominium Apartments* **										
Number of Units Sold*	12,771	12,447	4,180	4,141	2,661	2,682	22,930	23,578	16,453	18,840
Average Price ($000s)*	702	660	238	227	292	275	552	588	305	319
Inventory (Months)	7.0	3.1	n.a.	n.a.	9.8	8.4	2.0	1.3	6.0	3.7

* January to December
**End of December

*** Resale data for Calgary, Edmonton and Montreal includes townhouses; Vancouver price is MLS® benchmark apartment price for Vancouver

Source: Altus Group, Canada Mortgage and Housing Corporation and local real estate boards

Technical Notes

Sources:

All forecasts by Altus Group. Historical data provided by Altus Group, CMHC, Statistics Canada, The Bank of Canada, The Canadian Real Estate Association, The Real Estate Board of Greater Vancouver, The Fraser Valley Real Estate Board, The Edmonton Real Estate Board, The Calgary Real Estate Board Co-operative Limited, The Winnipeg Real Estate Board, The Toronto Regional Real Estate Board, The Real Estate Board of Ottawa-Carleton and The Greater Montreal Real Estate Board.

Definitions:

Ownership starts: Includes single-detached, semi-detached and freehold and condominium row and apartment units.

MLS: Multiple Listing Service. MLS is a registered certification mark of The Canadian Real Estate Association.

Months of MLS inventory: Number of active listings at month end divided by number of sales during the month.

House prices: Resale - average price of a home sold through MLS; New - price of a constant quality new home.

January Starts Jump

Canada-wide housing starts for the month of January were 214,000 units seasonally adjusted at annual rate (SAAR), up from the revised number for December, according to CMHC estimates. The increase was due entirely to higher apartment starts as the single-family sector retreated.

Regional highlights for January include:

- Atlantic Canada starts slipped in all provinces except New Brunswick;
- Starts in Quebec rocketed higher due to higher starts in the Montreal CMA while starts in the other areas of the province more than doubled;
- Ontario starts strengthened due almost entirely to higher activity in the Toronto CMA;
- Starts rose in both Manitoba and Saskatchewan;
- Alberta starts fell back again; and
- British Columbia starts dropped mainly due to fewer apartment starts in the Vancouver CMA.

Housing Starts by Type and Area

	January 2019	December 2019	January 2020
	Total Starts (000s), SAAR		
Canada, Total	202.0	195.9	214.0
By Type of Unit			
Single-family	92.1	94.1	89.8
Apartment	109.9	101.8	124.2
By Area			
British Columbia	43.1	42.9	26.3
Vancouver CMA	*25.4*	*27.7*	*13.2*
Other Areas	*17.8*	*15.2*	*13.1*
Alberta	24.8	39.5	22.5
Saskatchewan	2.5	2.8	3.7
Manitoba	7.0	6.0	7.6
Ontario	73.0	57.2	69.9
Toronto CMA	*39.3*	*21.1*	*32.0*
Other Areas	*33.7*	*36.1*	*37.9*
Quebec	44.5	36.0	77.4
Montreal CMA	*19.7*	*18.8*	*28.8*
Other Areas	*24.8*	*17.1*	*48.6*
New Brunswick	1.9	1.8	2.4
Nova Scotia	3.5	6.7	2.9
Prince Edward Island	0.9	1.9	0.6
Newfoundland	0.6	1.2	0.8

Source: CMHC and estimates by Altus Group

AltusAnalytics
SOFTWARE | DATA | CONNECTIVITY

Editor: Patricia Arsenault
Contributors: Peter Norman, Carlos Forte, Edward Jegg, Trevor Noskiewicz
The **Altus Group Housing Report** is a publication of Altus Analytics, Data Solutions in conjunction with Altus Group, Economic Consulting

DATA SOLUTIONS
ISSN 1183-8434