Altus Group

quarterly FORECAST ISSUE

HOUSING REPORT

Vol. XXX No. 1 July 2020

Rebound in Housing Starts Exceeding Expectations, But Slower Next Year on Risks

Recent Activity

- In the 2nd quarter of 2020, total Canada-wide housing starts came in at 192,700 units seasonally adjusted at annual rate (SAAR) according to CMHC (Chart 1), down 6.6% from the previous quarter. Higher starts in Ontario, Manitoba, and PEI were more than offset by losses elsewhere.
- The number of existing home sales plunged 33% in the 2nd quarter of 2020, but home prices remained steady (Chart 2).

Forecast Summary

- Government-imposed pandemic containment measures led to major changes in spending patterns of Canadians, millions of job losses and a sudden and deep economic recession. Easing the restrictions on economic activity during the summer ushered in a gradual recovery of economic activity and jobs.
- Pent-up housing demand from the spring COVID containment measures boosted new home sales from June to September and residential construction resumed in earnest. A sellers' market emerged in the summer as low listings inventory and strong housing demand produced solid house price appreciation.

Analysis

- Strong new home sales and starts in some regions point to a sturdier 2020 starts outlook than previously expected. Massive government income support programs and a low interest rate environment created by government's coordinated policy response to the economic disruptions of the pandemic have shored up housing demand. Interest rate measures included cuts to the Bank of Canada overnight rate and an unprecedented central bank bond purchase program to provide liquidity to governments, businesses and financial markets. Relaxing the stress test mortgage rules and a decrease in mortgage rates by almost 100 basis points also created more purchasing power for home buyers.
- However negative risks remain. A second wave of COVID infections in the fall could result in further shutdowns that curtails construction and diminishes household income. Reduced international in-migration, a segment that has been a very important driver of housing demand in the past few years, is likely to adversely affect housing demand over the medium term.

Total Starts, Canada

2019	208,685
2020f	203,500
2021f	194,700

Starts Trends by Type

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

Starts Trends by Region

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

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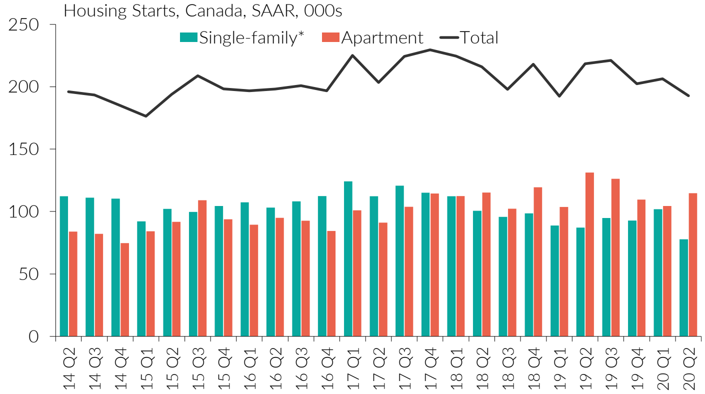
Chart 1

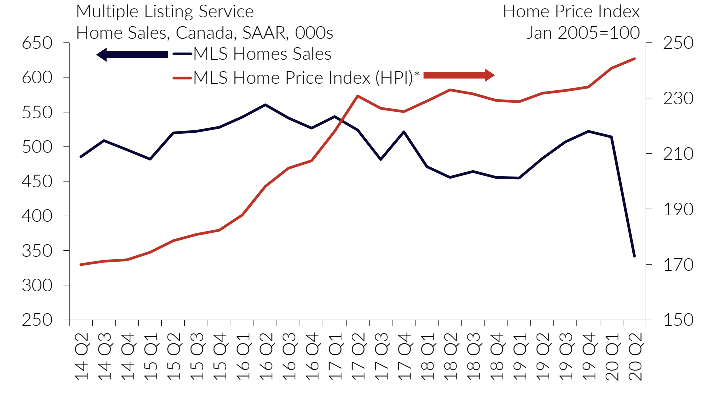
Single-family Starts Lower, Apartment Starts Higher in Q2 2020



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

Chart 2

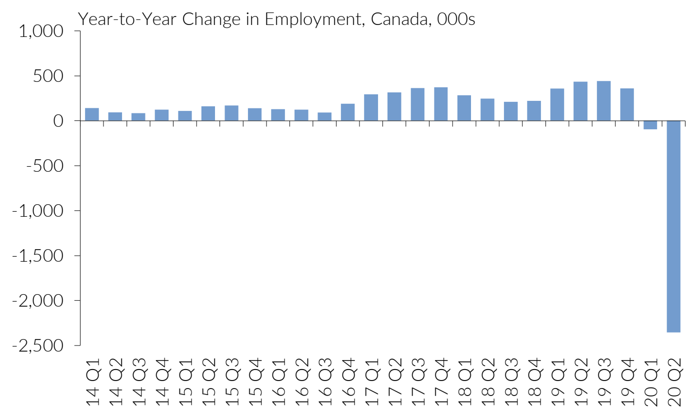
Existing Home Sales Plummeted But Prices Increased in Q2 2020



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

Chart 3

Unprecedented Quarterly Job Losses in Q2 2020 Amid Pandemic



Source: Altus Group based on Statistics Canada data

Chart 4

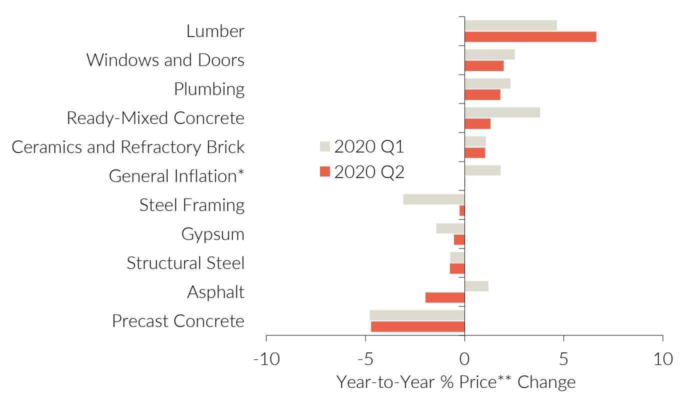
Economic Comeback to be Sharp but Insufficient to Fully Reverse Losses from COVID Period by End of 2021

	Average 2009-18*	**2019**	**2020f**	**2021f**
	Year-to-Year Change			
Real GDP (%)	1.7	1.7	(6.2)	6.0
Employment Growth (000s)	165	398	(953)	1,014
CPI (%)	1.6	1.9	0.7	1.6
Real PDI** per Capita (%)	1.2	1.4	(1.7)	2.9
	End of year			
1 Year Mortgage Rate (%)***	3.3	3.6	2.5	2.7
5 Year Mortgage Rate (%)***	5.1	5.2	4.3	4.6

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

Chart 5

Remarkably Lumber Prices Increased Notably in the Second Quarter



* 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 second quarter of 2020, year-over-year price growth exceeded inflation for 5 of Canada's 10 major building products (Chart 5).
- Year-over-year, lumber prices increased more notably in Q2 2020 than in Q1 2020. Those Q2 lumber prices trends have worsened significantly in the months since due to supply chain disruptions.
- Precast concrete prices decreased in Q2, the fifth consecutive quarterly decrease.

Chart 6

Net Migration to Slow in 2020 Amid Pandemic

	Average 2008-2017	2018	2019	Jan-Jun 2019	Jan-Jun 2020
	Total Net Migration (Persons, 000s)				
British Columbia	47.4	74.0	79.9	42.4	15.2
Alberta	45.6	35.3	46.5	18.8	7.7
Saskatchewan	9.8	6.3	6.1	1.6	(2.7)
Manitoba	11.0	11.2	9.9	5.4	(0.3)
Ontario	104.0	208.5	230.5	104.4	35.6
Quebec	43.0	81.0	93.3	49.0	17.0
Atlantic Canada	7.1	20.2	26.5	13.8	7.2
Canada*	268.1	436.8	492.6	235.4	80.1

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

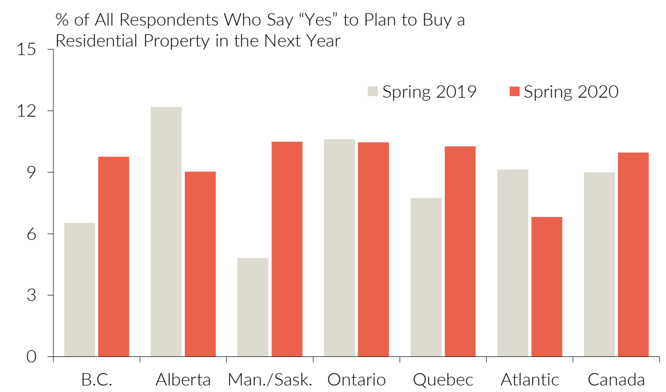
Chart 7

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 Up from Last Year



Source: Altus Group

Outlook by Region

Net migration to Canada in 2020 decelerate due to the pandemic-related closure of Canada's international borders (Chart 6).

British Columbia

- Though Q1 and Q2 starts were dampened by COVID lockdowns, the outlook for the rest of 2020 has brightened. Starts and house sales have beaten expectations since lockdown restrictions were lifted.

Alberta

- The twin economic shocks of the pandemic and a collapse of oil prices will have lingering negative effects on Alberta housing demand and starts.

Saskatchewan

- Minor COVID effects on this economy are positive, and housing continues to rebound from lows in 2019.

Manitoba

- The COVID pandemic has exacerbated already weak economic conditions and housing demand despite low interest rates, pushing starts lower in 2020.

Ontario

- Despite COVID-related planning approval delays earlier this year, there has been a resurgence of both single-family and apartment starts since the provincial reopening. Low mortgage rates has also provided a lift to housing demand.

Quebec

- In spite of a brief full construction shutdown that disrupted starts, low immigration and an economic recession, Q1 and Q2 starts came in stronger than pre-pandemic expectations. Strong new house price appreciation has also pointed to surging 2020 starts.

Atlantic Canada

- Weaker migration in immigration-reliant Atlantic Canada, and energy sector woes in Newfoundland, will continue to negatively affect housing starts.

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		37,547	21,530	2,808	6,464	74,886	51,775	2,640	4,122	987	692	203,451
2021 f		37,225	22,250	4,225	6,525	72,625	43,525	2,675	3,925	625	1,125	194,725
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		13,747	14,605	1,933	3,864	36,886	14,275	1,440	2,372	562	592	90,276
2021 f		14,425	16,675	3,025	4,425	35,650	13,300	1,625	2,625	450	975	93,175
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		23,800	6,925	875	2,600	38,000	37,500	1,200	1,750	425	100	113,175
2021 f		22,800	5,575	1,200	2,100	36,975	30,225	1,050	1,300	175	150	101,550
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	38,007	24,250	2,563	6,114	69,221	54,908	4,987	4,727	899	701	206,377
	2	33,087	19,044	2,319	6,758	77,990	45,794	2,794	2,870	1,474	541	192,671
	3 f	46,000	24,000	3,200	6,000	80,000	63,000	2,250	5,500	725	600	231,260
	4 f	35,000	20,000	3,000	7,000	72,000	44,500	2,950	3,500	900	1,000	189,840
2021	1 f	35,000	19,500	4,300	6,700	75,000	45,000	2,800	4,000	650	1,000	193,950
	2 f	35,000	20,000	4,200	6,700	75,000	45,000	2,800	3,900	650	1,200	194,450
	3 f	40,000	25,000	4,200	6,400	71,000	42,000	2,800	3,900	650	1,200	197,150
	4 f	40,000	25,000	4,200	6,400	71,000	42,000	2,800	3,900	650	1,200	197,150
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	7,918	5,200	502	1,307	14,594	8,971	256	961	154	60	39,923
	2	9,354	4,955	606	1,757	19,842	12,804	684	711	383	132	51,228
	3 f	11,475	6,400	925	1,650	21,625	17,050	775	1,550	200	200	61,850
	4 f	8,800	4,975	775	1,750	18,825	12,950	925	900	250	300	50,450
2021	1 f	7,300	4,175	850	1,425	15,800	7,350	150	825	100	75	38,075
	2 f	9,900	5,200	1,100	1,750	19,075	12,575	675	975	175	300	51,725
	3 f	9,975	6,650	1,200	1,750	19,175	11,375	975	1,100	175	400	52,825
	4 f	10,050	6,225	1,075	1,600	18,575	12,225	875	1,025	175	350	52,175

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:

- In Toronto, Ottawa and Montreal total starts are expected to come in higher in 2020 than last year. Other markets will see decreased starts. All markets are being affected by the COVID crisis although there are regional variations in the intensity of the economic downturn. Mixed results are also expected in 2021. Calgary and Ottawa will see higher starts, but other markets will see stable (Vancouver and Edmonton) or decreased starts.
- Expect weaker apartment activity in all major markets in 2020, excluding Toronto, Montreal and Ottawa.

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	21,525	9,200	8,825	4,775	37,475	8,950	26,525	2,700
2021f	21,425	9,050	9,375	4,525	35,300	9,250	22,000	2,200
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	6,725	6,600	5,325	2,400	12,525	6,450	4,175	1,100
2021f	7,075	7,150	6,575	2,675	11,175	6,425	4,175	1,100
Apartment Starts								
Avg. 2010-2019	*12,396*	*3,152*	*3,562*	*1,665*	*20,780*	*2,013*	*14,990*	*1,456*
2019	21,321	3,882	5,383	2,679	21,843	2,328	20,639	2,058
2020f	14,800	2,600	3,500	2,375	24,950	2,500	22,350	1,600
2021f	14,350	1,900	2,800	1,850	24,125	2,825	17,825	1,100

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

Vancouver

- Worsened by COVID-19 economic distruptions, new condominum apartment sales continue to be very weak in 2020, dampening new housing starts for 2020 and 2021. Apartment starts have been particulary hard hit (down 31%). Though resale home sales have been flat, the combination of lower inventory and steady demand have push existing home prices higher.
- New house prices could be expected to firm up once the worse of the crisis is behind us. With employment already projected to decline for the year as a whole, a second wave of the pandemic could push starts lower still next year.

Edmonton

- Particularly weak economic conditions in Edmonton have taken a bite out of housing demand. Exceptionally weak new condominium apartments sales in 2019 weakened further in the first two quarters of 2020.
- Against the background of persistently weak home sales and a significant increase in new condominium apartments starts from January to June, expect lower starts in 2020 and little change in 2021.

Calgary

- Reduced migration, still weak home prices, significant job losses and declining new home sales spell a lackluster performance in housing starts this year and next.
- New condominium apartments sales were down 19% in the first six months of this year, following weak new house sales last year.

Winnipeg

- Housing starts weakened in 2019 and further still in the first six months of 2020 on account of an 11% decrease in apartment starts. Resales were also down and already low inventories declined further. Overall a bleak economic outlook and fears of a second wave of COVID infections do not bode well for a recovery of starts in 2020 or 2021.

Chart 11

Job Growth to Plummet in 2020 after a Record Setting Year

CMA	Ann. Avg. 2010-2019	2019	2020f	2021f
	Change in Employment (000s)			
Vancouver	28.8	48.3	-76.7	174.8
Edmonton	14.8	8.5	-71.2	23.3
Calgary	16.2	33.8	-79.0	21.2
Winnipeg	5.0	6.6	-33.4	6.7
Toronto/Oshawa	71.8	136.5	-140.5	253.1
Ottawa/Gatineau	10.4	33.4	-43.2	38.0
Montreal	31.2	17.9	-152.3	88.3
Halifax	2.6	6.5	-16.3	7.4

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

Chart 12

Inventories Down in Most Markets as Resales Increase

CMA	Number of Homes Sold Through MLS January - June 2019	2020	% Change	Months of Resale Inventory June 2019	2020
	Units (000)				
Vancouver*	17.3	17.5	1	6.6	4.2
Edmonton	8.4	7.0	-17	5.2	3.9
Calgary	10.8	8.9	-18	4.9	3.8
Winnipeg	6.4	6.1	-5	3.2	1.9
Toronto	43.9	36.1	-18	2.2	1.6
Ottawa	10.0	7.8	-22	n.a.	n.a.
Montreal	28.7	24.7	-14	4.2	2.8
Halifax	3.4	3.1	-10	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

CMA	New House Prices 2018	2019	2020**	Resale House Prices 2018	2019	2020**
			Year-Over-Year % Change			
Vancouver*	3.6	-1.4	-1.4	2.9	-4.9	6.1
Edmonton	-0.4	-1.3	-1.4	-1.4	-2.7	-1.9
Calgary	-0.4	-1.7	-1.7	-0.6	-4.1	-3.0
Winnipeg	1.9	0.8	0.9	1.9	0.5	0.1
Toronto	-0.2	-0.9	-0.2	-4.4	4.0	10.0
Ottawa	5.1	5.4	10.1	3.7	8.4	15.0
Montreal	2.6	3.9	7.9	3.8	4.5	9.5
Halifax	1.0	0.7	1.7	1.8	6.9	8.5

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

Toronto

- Toronto's housing market bounced back from the mandatory economic shutdowns much faster than expected. By the end of June, starts were up 27%, led by the single-family segment. Though not as significantly, apartment starts also increased when compared to the same period last year. Home resales prices increased by 10% as inventory declined and post-shutdown sales, though strong, did not keep pace with demand. In the wake of mandatory shutdowns, consumer housing preferences have been shifting from high-rise units towards detached & other low-rise units.
- However, reduced international in-migration, which has been vital to Toronto's housing demand, will likely temper demand and starts in 2021, particularly if it persists. Expect starts to be lower in 2021 though stronger than in 2019.

Ottawa

- It appears that Ottawa's economy, which has a significant public sector footprint, has not been as badly affected by the public health crisis as other economies. Prior expectations of a strong rebound in the second half of this year and into 2021 have already begun to materialize. Single-family starts led a 15% increase in total starts between January and June.
- Starts are on track to surpass the 17-year high achieved last year. Moreover, persistently strong housing demand fueled double digit gains in both new and existing home prices year over year January to June this year.

Montreal

- Though Montreal is the major market that was most severely affected by the COVID related shutdowns, housing starts in Montreal are now projected to come in above the recent highs of the past two years.
- Residential construction rebounded quicker than expected after restrictions were lifted. Starts increased by 37% in the first six months of 2020, led by single-family starts.
- However, weakness in the housing market persists. New condominium apartment sales were down 18% in 2019 and another 41% year-over-year January to June 2020. This suggests that once existing projects wind down, apartment starts could be expected to taper, likely in 2021. Existing home sales, including condominium apartment sales, were also down by double digits. Low resale inventory and steady housing demand saw prices appreciating by 10%.

Halifax

- Housing starts in Halifax were very weak in the first half of the year, down 38% year-over-year, led by a sharp decline in purpose-built rental units, suggesting a weak year in 2020.
- Weaker migration and significant pandemic-related job losses are expected to dampened housing demand and starts through to 2021.

Chart 14

New Condominium Apartment Sales Down Significantly from Last Year

	Vancouver		Edmonton		Calgary		Toronto		Montreal	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
New Condominium Apartments (Units)										
Starts*	9,593	4,303	741	1,393	1,441	913	9,246	9,522	4,335	3,520
Under Construction**	27,871	26,086	2,833	3,159	4,603	4,211	55,140	57,323	12,144	12,371
Completed But Unabsorbed**	578	723	945	742	706	950	230	221	1,168	721
Sales*	2,885	2,462	203	78	603	488	12,325	8,347	3,580	2,105
MLS Condominium Apartments* **										
Number of Units Sold*	5,263	5,315	2,075	2,090	1,291	1,032	11,787	8,717	10,426	8,814
Average Price ($000s)*	669	684	229	216	271	256	577	640	308	334
Inventory (Months)	6.4	4.7	n.a.	n.a.	6.8	6.8	1.7	2.4	3.7	4.2

* January to June
**End of June

*** 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.

July Starts Sizzle

Canada-wide housing starts for the month of July were 245,400 units seasonally adjusted at annual rate (SAAR), up from the revised number for June, according to CMHC estimates. The increase was focussed in the apartment sector but single-family starts also rose.

Regional highlights for July include:

- Atlantic Canada starts surged in New Brunswick and Nova Scotia, moved higher in Newfoundland but slumped in P.E.I.;
- Starts in Quebec nudged higher as lower starts in the Montreal CMA were more than offset by gains in the other areas of the province;
- Ontario starts strengthened as higher starts in the Toronto CMA countered a dip in the remainder of the province;
- Starts slipped in Manitoba but surged in Saskatchewan;
- Alberta starts jumped higher; and
- British Columbia starts climbed due to an increase in the Vancouver CMA as well as other areas of the province.

Housing Starts by Type and Area

	July 2019	June 2020	July 2020
	Total Starts (000s), SAAR		
Canada, Total	221.0	213.2	245.4
By Type of Unit			
Single-family	90.2	86.2	93.7
Apartment	130.8	127.0	151.8
By Area			
British Columbia	50.8	38.9	42.4
Vancouver CMA	*31.8*	*23.5*	*24.4*
Other Areas	*19.0*	*15.4*	*18.0*
Alberta	29.2	15.0	22.8
Saskatchewan	1.6	2.6	8.2
Manitoba	7.1	8.3	7.2
Ontario	69.7	78.7	84.2
Toronto CMA	*32.8*	*39.7*	*48.3*
Other Areas	*36.9*	*39.0*	*35.9*
Quebec	52.6	61.7	64.0
Montreal CMA	*24.9*	*39.4*	*35.7*
Other Areas	*27.7*	*22.3*	*28.3*
New Brunswick	3.2	2.5	7.2
Nova Scotia	4.3	2.6	7.9
Prince Edward Island	1.8	2.1	0.6
Newfoundland	0.8	0.7	1.0

Source: CMHC and estimates by Altus Group

AltusAnalytics
SOFTWARE | DATA | CONNECTIVITY

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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