Altus Group

quarterly FORECAST ISSUE

HOUSING REPORT

Vol. XXX No. 3 September 2020

Rebound in Housing Starts Persists, But Risks Point to Slower Starts Next Year

Recent Activity

- In the 3rd quarter of 2020, total Canada-wide housing starts came in at 237,300 units seasonally adjusted at annual rate (SAAR) according to CMHC (Chart 1), up 22.2% from the previous quarter. Markedly higher starts in most provinces more than offset lower starts in Manitoba and PEI.
- The number of existing home sales rose sharply, up 93% in the 3rd quarter of 2020, while home prices increased by 4% (Chart 2).

Forecast Summary

- The sharp economic recovery, which coincided with the easing of restrictions in the 2nd quarter, has since stalled and is now expected to be steady but shallow through to 2021. The 2nd wave of COVID-19 that began in the fall, and the unavailability of effective vaccines before mid-2021, are hampering growth.
- Robust housing demand continued to rally new home sales and starts through to the end of September. Together with low inventory and supply bottlenecks, house price appreciation remained solid.

Analysis

- Starts are on track to exceed last year's total but a decline in new home sales, particularly new condominium apartments, signals lower starts next year. Despite low interest rates, which the Bank of Canada projects will remain at historic lows until 2023, steady appreciation in house prices is expected to put a dent in affordability and dampen housing demand. Additionally, jobs and incomes are not expected to grow as firmly as previously expected next year, while the government's massive income support programs are likely to be wound down. Financial institutions may also tighten credit standards next year with any deterioration in the labour market and household balance sheets.
- Negative risks are mounting. The second wave of COVID infections in the fall and further shutdowns could lead to permanent business closurers, stall employment growth and diminish household income. Reduced international in-migration, 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	210,200
2021f	192,300

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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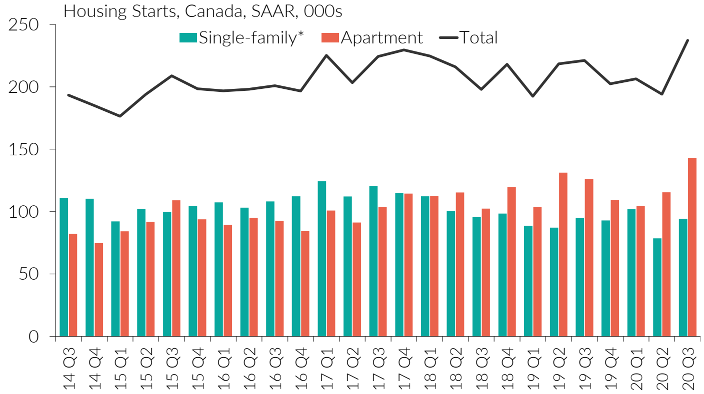
Chart 1

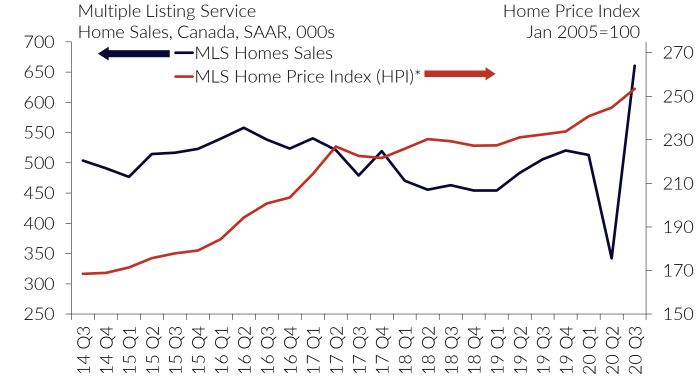
Both Single-family and Apartment Starts Higher in Q3 2020



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

Chart 2

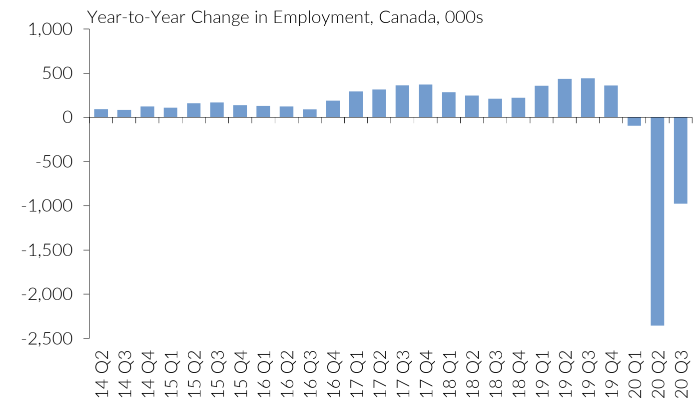
Existing Home Sales Rebound and Prices Increased in Q3 2020



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

Chart 3

Employment Bounced Back in Q3 After Unprecedented Q2 Job Losses but Remains Below Last Year



Source: Altus Group based on Statistics Canada data

Chart 4

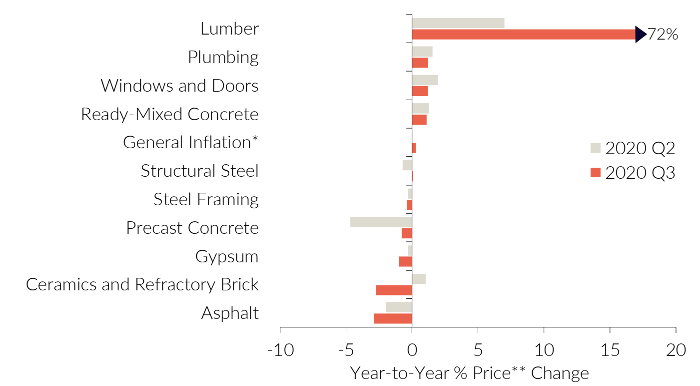
Economic Comeback to be Sharp But Insufficient to Fully Reverse Losses from COVID Period by End of 2021

	Average 2009-18*	2019	2020f	2021f
	Year-to-Year Change			
Real GDP (%)	1.7	1.7	(6.1)	5.1
Employment Growth (000s)	165	398	(991)	885
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	2.4	2.7
5 Year Mortgage Rate (%)***	5.1	5.2	4.2	4.6

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

Chart 5

Lumber Prices Soar in the Third 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 third quarter of 2020, year-over-year price growth exceeded inflation for 4 of Canada's 10 major building products (Chart 5).
- Year-over-year, lumber prices skyrocketed in Q3 2020 due to supply chain disruptions and an unexpected surge in demand, exacerbating housing affordability.
- Precast concrete prices decreased in Q3, the sixth 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	47.6	74.0	79.9	42.4	15.2
Alberta	45.5	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	103.9	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

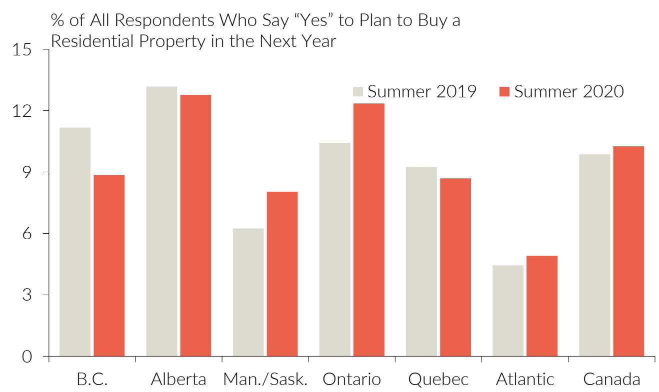
Chart 7

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 decelerated due to the pandemic-related closure of Canada's international borders (Chart 6).

British Columbia

- Though dampened by the COVID recession, starts are expected to be solid in 2020 and hold steady in 2021. Despite remaining strong since restrictions were lifted, lower buying intensions and weakness in apartment sales are likely to stymie momentum in house sales and starts going into 2021.

Alberta

- Low oil prices and the COVID second wave will suppress Alberta housing demand and starts well into 2021.

Saskatchewan

- The 2020 rally in housing is expected to continue in 2021. Homebuying intentions remain high as negative economic effects from COVID continue to be mild.

Manitoba

- Manitoba's second wave COVID lockdown will stall its economic recovery but the drag on housing demand and starts in 2020 is not expected to persist in 2021.

Ontario

- Housing starts are on track to close out 2020 significantly higher than last year, due to a resurgence in single-family and apartment starts since the provincial reopening. Low mortgage rates and a resilient homebuyers job market have spurred housing demand.

Quebec

- Despite a COVID recession and low immigration, starts came in stronger than pre-pandemic expectations in every quarter. Housing starts are on track to reach a 10-year high this year but weak new condominium apartment sales point to lower starts in 2021.

Atlantic Canada

- Weaker migration in immigration-reliant Atlantic Canada, and energy sector woes in Newfoundland, are likely to 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	37,014	21,810	3,062	6,468	80,246	52,045	3,203	4,406	1,151	777	210,182
2021 f	37,225	22,300	4,225	6,525	70,700	42,925	2,725	3,875	625	1,125	192,250
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	13,589	14,635	1,912	3,918	37,671	14,120	1,553	2,556	626	677	91,257
2021 f	14,425	16,700	3,025	4,425	35,550	13,125	1,675	2,575	450	975	92,925
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	23,425	7,175	1,150	2,550	42,575	37,925	1,650	1,850	525	100	118,925
2021 f	22,800	5,600	1,200	2,100	35,150	29,800	1,050	1,300	175	150	99,325
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	33,614	19,038	2,370	6,760	78,852	45,812	2,785	2,882	1,487	531	194,131
3	39,262	23,018	4,083	6,036	93,808	59,084	3,728	6,125	1,278	864	237,286
4 f	39,000	22,000	3,000	7,000	79,000	52,000	2,950	4,000	900	1,000	210,840
2021 1 f	35,000	19,500	4,300	6,700	73,000	45,000	2,800	4,000	650	1,000	191,950
2 f	35,000	20,000	4,200	6,700	71,000	45,000	2,800	3,900	650	1,200	190,450
3 f	40,000	25,000	4,200	6,400	70,250	42,000	2,800	3,900	650	1,200	196,400
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	9,942	6,180	1,179	1,654	25,160	15,145	1,338	1,684	364	285	62,931
4 f	9,800	5,475	775	1,750	20,650	15,125	925	1,050	250	300	56,100
2021 1 f	7,300	4,175	850	1,425	15,400	7,350	150	825	100	75	37,650
2 f	9,750	5,200	1,075	1,750	17,875	12,575	700	950	175	300	50,325
3 f	10,125	6,700	1,225	1,750	18,850	10,775	1,000	1,075	175	400	52,075
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 economic weakness. Mixed results are also expected in 2021. Calgary will see higher starts, but other markets will see stable (Vancouver and Winnipeg) 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	21,625	10,000	8,350	4,525	39,850	10,125	27,275	2,750
2021f	21,425	9,050	9,375	4,525	33,900	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	6,625	6,600	5,500	2,350	11,650	6,550	4,350	1,150
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	15,000	3,400	2,850	2,175	28,200	3,575	22,925	1,600
2021f	14,350	1,900	2,800	1,850	22,725	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, dampening new housing starts for 2020 and 2021. Apartment starts have been particulary hard hit (down 33%). The combination of a 17% increase in resale home sales, lower inventory and steady demand have pushed existing home prices significantly higher.
- New house prices, though slightly lower, have already begun to stabilize. With employment steadily recovering, even with a second wave of the pandemic, starts are not forecast to be much lower 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 further weakened this year.
- Against the background of persistently weak home sales and prices, and flat condominium apartments starts from January to September, expect lower starts in 2020 and 2021, driven by a sharp fall off of apartment starts next year.

Calgary

- A weak economy, significant job losses, reduced migration, still weak home prices, and declining existing and new home sales spell a lackluster performance in housing starts this year.
- New condominium apartments sales were down 9% in the first nine months of this year. However, condominium apartments starts are expect to be on par in 2021 while single-family starts are projected to tick up 12% as improving economic conditions and lower prices draw some homebuyers off the sidelines.

Winnipeg

- Lead by a 20% decline in apartment starts, housing starts weakened in the first nine months of 2020, and will certainly be lower than last year. Resales rallied in Q3 and prices of new and existing homes moved higher. Despite the soft second wave COVID shutdown on the way, starts in 2021 are expected to hold steady as an increase in single-family starts is likely to offset an expected decline in apartment starts.

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	-122.4	141.1
Edmonton	14.8	8.5	-67.5	23.7
Calgary	16.2	33.8	-56.8	21.9
Winnipeg	5.0	6.6	-13.0	4.6
Toronto/Oshawa	71.8	136.5	-169.1	223.8
Ottawa/Gatineau	10.4	33.4	-28.8	26.9
Montreal	31.2	17.9	-90.9	54.5
Halifax	2.6	6.5	-8.4	4.8

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

Chart 12

Inventories Down in All Markets as Resales Increase in All but Three Markets

	Number of Homes Sold Through MLS			Months of Resale Inventory	
	January - Sept		%	Sept	
CMA	2019	2020	Change	2019	2020
	Units (000)				
Vancouver*	28.1	32.9	17	5.5	3.2
Edmonton	13.3	12.9	-3	6.2	3.9
Calgary	16.9	16.1	-5	5.6	3.7
Winnipeg	10.3	11.1	8	4.1	1.8
Toronto	67.9	69.1	2	2.2	1.6
Ottawa	15.2	14.5	-5	n.a.	n.a.
Montreal	39.5	40.0	1	4.6	2.7
Halifax	5.3	5.5	4	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

Strong Demand Pushes House Prices Higher in Most Markets

	New House Prices			Resale House Prices		
CMA	2018	2019	2020**	2018	2019	2020**
	Year-Over-Year % Change					
Vancouver*	3.6	-1.4	-0.3	2.9	-4.9	8.6
Edmonton	-0.4	-1.3	-1.2	-1.4	-2.7	0.6
Calgary	-0.4	-1.7	-1.4	-0.6	-4.1	-0.2
Winnipeg	1.9	0.8	1.4	1.9	0.5	3.9
Toronto	-0.2	-0.9	0.3	-4.4	4.0	13.4
Ottawa	5.1	5.4	10.7	3.7	8.4	19.3
Montreal	2.6	3.9	7.5	3.8	4.5	13.1
Halifax	1.0	0.7	2.5	1.8	6.9	12.9

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

Toronto

- Toronto's housing market bounced back remarkably from the mandatory economic shutdowns earlier this year. By the end of September, starts were up 26%, led by apartment starts. An apparent post-pandemic shift in homebuyer preferences has resulted in an astonishing 65% increase in new single-family home sales as apartment sales faltered. Home resale prices increased by 13% as low inventory and strong post-shutdown sales did not keep pace with demand.
- However, reduced international in-migration, which has been vital to Toronto's housing demand, will likely temper demand and starts in 2021. Expect single-family starts to remain solid in 2021 and apartment starts to be scaled back in response to waning demand for condominium apartments.

Ottawa

- Ottawa's economy, which has a significant public sector footprint, has not been as badly affected by the public health crisis as other economies. The rebound in economic activity is expected to be sustained into 2021, despite COVID second wave risks. Single-family starts led a 31% increase in total starts between January and September, and are on track to surpass the record high achieved last year.
- Moreover, persistently strong housing demand fueled double digit gains in both new and existing home prices year-over-year through September this year. Expect only moderately lower starts next year.

Montreal

- Though Montreal is the major market that was most severely affected by the COVID related shutdowns, 2020 housing starts in Montreal will remain strong.
- Though residential construction rebounded quicker than expected after restrictions were lifted, starts increased by just 1% in the first nine months of 2020.
- Weakness in the housing market persists. New condominium apartment sales were down 18% in 2019 and down by double digits so far this year. This suggests that once existing projects wind down, apartment starts could be expected to retreat in 2021. Existing home sales, including condominium apartment sales, were virtually flat. Low resale inventory and steady housing demand saw prices appreciating by 13%. Expect deteriorating housing affordability in the absence of strong immigration to dampen demand going forward.

Halifax

- Housing starts in Halifax were down 8% year-over-year in the first nine months of the year, as a sharp decline in purpose-built rental units more than offset growth of single-family starts. Expect lower starts in 2020 and 2022.
- Weaker migration and significant pandemic-related job losses are expected to dampen housing demand and starts through to 2021, especially purpose-built rental starts.

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*	12,407	7,922	2,042	2,041	2,797	1,746	13,766	17,325	5,351	5,402
Under Construction**	28,043	27,037	3,771	2,061	4,564	4,332	55,472	59,063	10,409	11,309
Completed But Unabsorbed**	837	333	905	653	738	802	250	261	1,388	838
Sales*	4,350	3,808	346	129	871	792	17,710	15,570	3,580	2,105
MLS Condominium Apartments* **										
Number of Units Sold*	8,788	9,643	3,307	3,391	2,104	1,759	18,202	15,793	14,480	14,482
Average Price ($000s)*	664	683	227	221	274	256	580	637	314	346
Inventory (Months)	4.6	4.0	n.a.	n.a.	6.6	6.8	1.6	3.1	4.4	3.1

* January to September (Montreal sales January to June)
**End of September

*** 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.

September Starts Slump

Canada-wide housing starts for the month of September were 209,000 units seasonally adjusted at annual rate (SAAR), well off from the revised number for August, according to CMHC estimates. The decrease was almost entirely focussed in the apartment sector.

Regional highlights for September include:

- Atlantic Canada starts fell in all provinces except Nova Scotia;
- Starts in Quebec dipped as higher starts in the Montreal CMA were more than offset by a decline in the other areas of the province;
- Ontario starts also fell due to lower condominium apartment starts in the Toronto CMA as well as lower starts in the remainder of the province;
- Starts slipped in both Manitoba and Saskatchewan;
- Alberta starts moved higher; and
- British Columbia starts slid due to declines in both the Vancouver CMA as well as other areas of the province.

Housing Starts by Type and Area

	September 2019	**August 2020**	**September 2020**
	Total Starts (000s), SAAR		
Canada, Total	221.5	261.5	209.0
By Type of Unit			
Single-family	94.9	94.8	93.7
Apartment	126.6	166.8	115.2
By Area			
British Columbia	41.3	43.3	32.3
Vancouver CMA	*25.0*	*29.7*	*21.5*
Other Areas	*16.3*	*13.6*	*10.8*
Alberta	32.9	20.2	25.9
Saskatchewan	3.9	2.7	1.8
Manitoba	4.9	5.9	4.4
Ontario	85.1	116.9	80.2
Toronto CMA	*32.8*	*62.2*	*32.1*
Other Areas	*52.3*	*54.6*	*48.0*
Quebec	41.5	61.2	53.8
Montreal CMA	*18.8*	*27.2*	*32.6*
Other Areas	*22.7*	*34.0*	*21.2*
New Brunswick	4.5	4.5	2.5
Nova Scotia	4.4	3.8	6.7
Prince Edward Island	1.9	2.2	0.6
Newfoundland	1.2	1.0	0.8

Source: CMHC and estimates by Altus Group

AltusAnalytics
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