Altus Group

quarterly FORECAST ISSUE

HOUSING REPORT

Vol. XXX No. 7 Spring 2021 Forecast

Soaring Housing Demand to Push Sales and Starts Higher This Year

Recent Activity

- In the 1st quarter of 2021, total Canada-wide housing starts came in at 296,200 units seasonally adjusted at annual rate (SAAR) according to CMHC (Chart 1), up 24% from the previous quarter. Markedly higher starts in most provinces more than offset lower starts in Alberta and Nova Scotia.
- The number of existing home sales continues to rise, up 14% in the 1st quarter of 2021, while home prices increased by 9% (Chart 2).

Forecast Summary

- Despite 2nd and 3rd waves of COVID-19 infections and renewed public health measures, the economic recovery persists. Application of new technologies, sustained government stimulus, robust consumer spending, and vaccine-access optimism have kept the economic engines revving.
- Relatively low mortgage rates, sky-high household savings and more millennials seeking single-family homes continue to fuel housing demand, breaking new and existing home sales records, and rallying starts. Low inventory and a dearth of new housing projects are also pushing house prices higher.

Analysis

- Starts are forecast to increase 10% higher than last year's total but rising mortgage rates, deteriorating housing affordability, and a slowdown in sales are likely to dampen housing demand and starts next year. The Bank of Canada has signaled its intention to begin raising the overnight rate in 2022 and 5-year mortgage rates are tracking to reach pre-pandemic levels by the end of 2022.
- Government stimulus, improved household balance sheets, effective remote work and COVID-19 vaccines have brightened the outlook, but economic fragility lingers as the pandemic continues to pose downside risks. Some economic scarring and a transient spike in inflation could slow the pace of growth in 2022. However, post-pandemic in-migration will likely sustain housing demand. Immigration to Canada has been down significantly during the pandemic but is expected to bounce back quickly when travel restrictions are lifted, maybe even exceeding pre-pandemic trends.

Total Starts, Canada

2020	217,802
2021f	238,200
2022f	215,400

Starts Trends by Type

	2021	2022
Total	▲	▼
Single-family	▲	▼
Apartment	▼	▼

Starts Trends by Region

	2021	2022
B.C.	▲	▼
Alberta	▼	▲
Sask.	▲	▲
Manitoba	▲	▲
Ontario	▲	▼
Quebec	▲	▼
Atlantic	▲	▼

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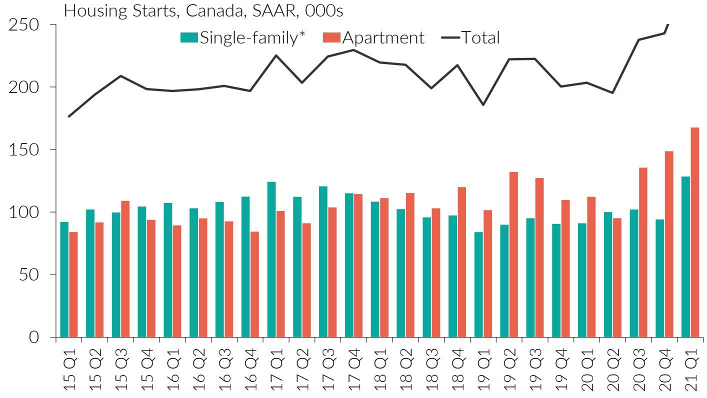
Chart 1

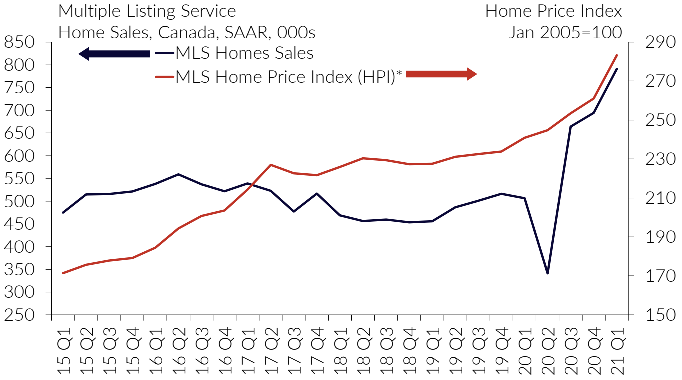
Highest Quarterly Single-family and Apartment Starts in Over Three Decades



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

Chart 2

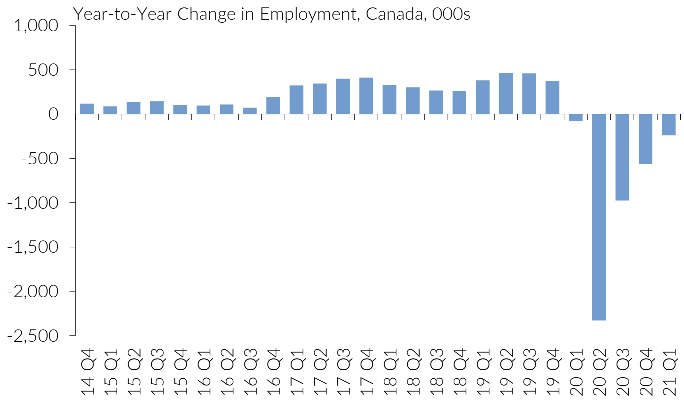
Existing Home Sales and Prices Soar in Q1 2021



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

Chart 3

Employment Continues to Recover but Remained Below Last Year in Q1



Source: Altus Group based on Statistics Canada data

Chart 4

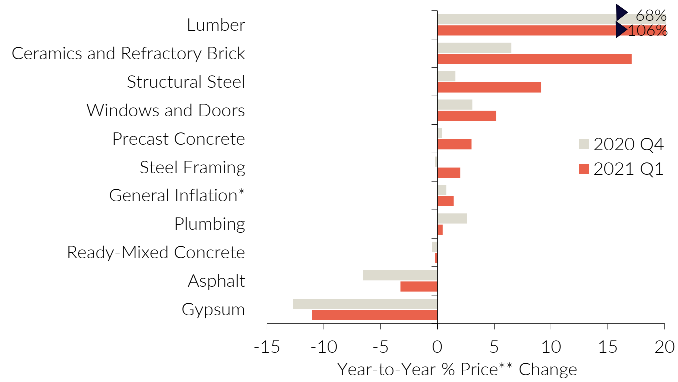
Economic Snapshot: Recovery Cycle Through 2021-2022

	Average 2010-19*	2020	2021f	2022f
	Year-to-Year Change			
Real GDP (%)	2.2	(5.4)	6.2	4.1
Employment Growth (000s)	233	(996)	885	189
CPI (%)	1.7	0.8	1.6	2.3
Real PDI** per Capita (%)	1.2	6.5	(0.2)	1.1
	End of year			
1 Year Mortgage Rate (%)***	3.3	3.1	3.0	3.4
5 Year Mortgage Rate (%)***	5.1	4.8	4.9	5.3

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

Chart 5

Lumber Prices Continue to Skyrocket in the First 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 first quarter of 2021, year-over-year price growth exceeded inflation for 6 of Canada's 10 major building products (Chart 5).
- Year-over-year, lumber, brick, and steel prices soared in Q1 2021 as supply struggles to keep pace with demand, pushing construction costs higher.
- Asphalt and gypsum prices decreased in Q1, the fourth consecutive quarterly decrease.

Chart 6

Net Migration to Slow in 2020 Amid Pandemic

	Average 2008-2017	2018	2019	2020
	Total Net Migration (Persons, 000s)			
British Columbia	47.6	74.0	79.9	10.8
Alberta	45.5	35.3	46.5	9.5
Saskatchewan	9.8	6.3	6.1	(0.5)
Manitoba	11.0	11.2	9.9	0.7
Ontario	103.9	208.5	230.5	31.6
Quebec	43.0	81.0	93.3	14.1
Atlantic Canada	7.1	20.2	26.5	3.9
Canada*	268.1	436.8	492.6	70.4

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

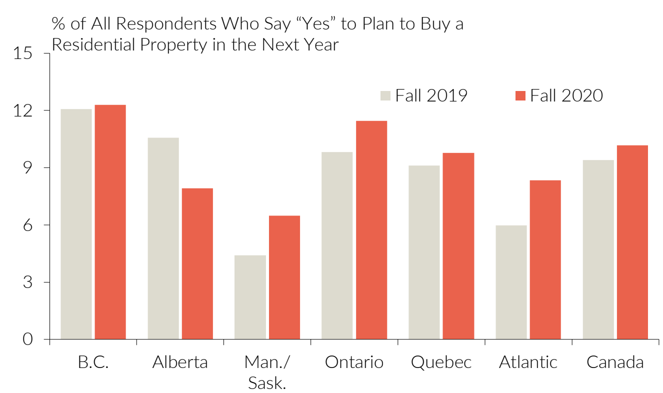
Chart 7

New Home Prices Rise Across the Country, But Less So in Alberta and Saskatchewan

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 is expected to begin rising when the pandemic subsides as Canada set higher targets for 2021 to 2023 (Chart 6).

British Columbia

- Despite vigorous new home sales and very tight single-family inventories, 2021 starts are expected to increase just slightly above 2020 levels as rising construction costs, eroding affordability, lower buying intentions and high apartment inventories take a bite out of demand and slow house sales.

Alberta

- Starts to retreat in 2021 on the heels of relatively weak sales and clearing of high-rise inventories as consumer preferences shift to more spacious low-rise housing.

Saskatchewan

- Housing is expected to continue to rally higher in 2021 and 2022. Sales and homebuying intentions remain high as economic conditions strengthen.

Manitoba

- Economic resilience, strong consumer balance sheets and low interest rates to lift housing demand and starts through 2021 and 2022, despite COVID 3rd wave.

Ontario

- With housing supply struggling to keep pace with demand and home sales breaking records, housing starts are on track to reach a 20-year high this year, on the strength of single-family starts. Millennials' transition to single-family housing and low mortgage rates are fueling housing demand across the province.

Quebec

- Despite a COVID 3rd wave, Q1 starts came in stronger than previously expected as house sales and prices soared. This year, housing starts are now expected to surpass last year's 10-year high, led by the single-family segment. Starts to retreat in 2022.

Atlantic Canada

- Remarkably strong single-family sales and starts in the first quarter point to higher starts this year despite economic woes and lower international in-migration.

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*
2020		37,734	24,023	3,087	7,314	81,305	54,066	3,483	4,865	1,162	763	217,802
2021 f		38,649	22,933	4,354	7,531	84,501	69,353	3,786	4,589	1,375	1,081	238,152
2022 f		37,400	25,300	5,250	7,700	80,575	50,500	2,925	3,750	625	1,350	215,375
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*
2020		13,984	15,248	1,962	4,064	38,205	15,991	1,433	2,565	687	688	94,827
2021 f		15,499	16,783	2,929	4,656	46,876	25,728	2,536	2,839	1,250	956	120,052
2022 f		16,475	17,700	3,525	4,875	48,725	16,150	2,300	2,425	450	1,025	113,650
Apartment Starts												
Avg. 2010-19		*18,608*	*8,612*	*1,858*	*2,254*	*30,223*	*26,580*	*894*	*1,817*	*286*	*384*	*91,515*
2020		23,750	8,775	1,125	3,250	43,100	38,075	2,050	2,300	475	75	122,975
2021 f		23,150	6,150	1,425	2,875	37,625	43,625	1,250	1,750	125	125	118,100
2022 f		20,925	7,600	1,725	2,825	31,850	34,350	625	1,325	175	325	101,725
Total Starts, Quarterly, Seasonally Adjusted at Annual Rates												
2020	1	37,868	24,255	2,577	6,110	68,726	52,716	4,692	4,783	895	721	203,343
	2	34,061	19,132	2,343	6,782	79,402	45,777	2,792	2,872	1,474	533	195,168
	3	39,108	23,238	4,248	6,080	94,071	58,773	3,686	6,139	1,277	866	237,486
	4	40,865	30,223	3,078	10,388	82,224	59,978	3,884	5,828	948	946	238,362
2021	1	53,504	27,950	4,957	7,834	103,054	84,431	5,199	5,941	1,449	1,855	296,174
	2 f	35,000	20,000	4,200	8,000	90,000	80,000	5,000	5,000	2,000	2,000	251,200
	3 f	34,000	20,000	4,200	7,500	75,000	70,000	4,000	4,000	1,500	700	220,900
	4 f	33,000	25,000	4,200	7,000	75,000	50,000	2,800	4,000	1,000	700	202,700
2022	1 f	35,000	26,000	5,300	8,000	85,000	55,000	3,000	3,900	650	1,400	223,250
	2 f	35,000	26,000	5,500	8,000	80,000	50,000	3,000	3,800	650	1,400	213,350
	3 f	40,000	25,000	5,200	8,000	80,000	50,000	3,000	3,800	600	1,400	217,000
	4 f	40,000	25,000	5,200	7,000	80,000	50,000	3,000	3,800	600	1,400	216,000
Total Starts, Quarterly, Actual												
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	10,520	7,688	800	2,596	21,709	17,146	1,205	1,509	261	286	63,720
2021	1	11,899	6,083	1,004	1,656	22,151	14,628	236	1,214	150	156	59,177
	2 f	9,600	5,175	1,075	2,075	22,500	22,375	1,225	1,250	525	500	66,300
	3 f	8,650	5,325	1,175	2,050	20,050	18,050	1,450	1,100	425	225	58,475
	4 f	8,500	6,350	1,100	1,750	19,800	14,300	875	1,025	275	200	54,175
2022	1 f	7,325	5,575	1,025	1,700	18,050	9,350	175	775	100	125	44,225
	2 f	9,600	6,725	1,425	2,075	20,000	13,975	725	950	175	350	56,000
	3 f	10,175	6,650	1,450	2,175	21,400	12,875	1,100	1,050	175	450	57,475
	4 f	10,300	6,350	1,350	1,750	21,125	14,300	925	975	175	425	57,675

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 Vancouver, Calgary, Winnipeg, Ottawa and Montreal, total starts are expected to come in higher in 2021 than last year. Other markets will see stable or decreased starts. All markets are experiencing stronger housing demand and prices than last year although there are regional variations. Mixed results are also expected in 2022. Calgary and Edmonton will see higher starts, but other markets will see stable (Toronto) or decreased starts.
- Expect stronger single-family activity in all major markets in 2021, excluding Halifax.

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

	2021	2022
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*
2020	22,371	11,512	9,235	5,040	38,587	9,950	27,274	3,249
2021f	25,450	9,050	9,950	6,125	38,100	10,275	31,450	2,825
2022f	24,200	10,100	11,050	5,800	38,500	9,000	22,100	2,225
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*
2020	6,349	6,645	5,936	2,371	10,524	6,102	4,446	1,311
2021f	8,450	7,250	6,450	2,775	14,600	6,375	5,600	1,250
2022f	9,200	7,750	6,900	3,400	18,000	6,600	5,100	1,125
Apartment Starts								
Avg. 2010-2019	*12,396*	*3,152*	*3,562*	*1,665*	*20,780*	*2,013*	*14,990*	*1,456*
2020	16,022	4,867	3,299	2,669	28,063	3,848	22,828	1,938
2021f	17,000	1,800	3,500	3,350	23,500	3,900	25,850	1,575
2022f	15,000	2,350	4,150	2,400	20,500	2,400	17,000	1,100

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

Vancouver

- With only a month of single-family inventory and new home sales trending higher over the last 3 quarters, demand is stimulating housing construction. There was a remarkable increase in new low-rise home sales and a notable increase in new high-rise sales. Momentum in housing starts witnessed during Q4 2020 continued into Q1 this year with starts higher than predicted. These trends bode well for higher starts in 2021.
- Despite rising prices, starts are not forecast to be much lower next year as rising employment, still low mortgage rates and post-pandemic immigration support demand.

Edmonton

- Starts are expected to decrease in 2021 due to a significant fall off in condominium apartment starts as inventories clear and consumer preferences shift to suburban low-rise units.
- Though new condominium apartment sales decreased substantially, new single-family and townhouse home sales decreased slightly. A modest up-tick in starts and construction activity is expected in 2022, as a balanced market emerges just as economic conditions improve.

Calgary

- With steady GDP and employment growth over the last three quarters, existing and new home sales have been gradually trending higher, pointing to modestly higher starts this year.
- Housing affordability and improving economic conditions are gradually drawing some homebuyers off the sidelines but consumer preferences are shifting even more towards low-rise housing. A more notable increase in starts is forecast for 2022 with the single-family segment continuing to dominate.

Winnipeg

- Starts are forecast to increase in 2021, lifted by a recovery in apartment starts. Though single-family starts decreased slightly in the first quarter year-over-year, they remained buoyant. Apartment starts were up 34% over the same period. Despite a COVID 3rd wave, home resales continue to rally and prices of new and existing homes moved higher, signaling strong housing demand.

Chart 11

Job Growth to Continue Rebounding Through 2021 after Plummeting in First Half of 2020

CMA	Ann. Avg. 2010-2019	2020	2021f	2022f
	Change in Employment (000s)			
Vancouver	28.8	-118.6	103.5	42.0
Edmonton	14.8	-67.7	26.0	22.2
Calgary	16.2	-55.8	28.0	24.1
Winnipeg	5.0	-14.7	4.8	10.3
Toronto/Oshawa	71.8	-178.7	145.7	132.7
Ottawa/Gatineau	10.4	-47.0	31.3	26.5
Montreal	31.2	-85.8	65.0	47.2
Halifax	2.6	-6.8	6.4	2.9

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

Chart 12

Inventories Tightening in Most Markets as Resales Increase in All Markets

	Number of Homes Sold Through MLS			Months of Resale Inventory	
	January - Mar		%	Mar	
CMA	2020	2021	Change	2020	2021
	Units (000)				
Vancouver*	9.6	18.9	97	3.6	1.5
Edmonton	3.0	5.2	73	6.3	2.7
Calgary	4.2	8.1	92	5.5	1.9
Winnipeg	2.4	3.6	51	3.3	3.3
Toronto	19.7	33.5	70	1.3	0.7
Ottawa	3.5	4.7	36	1.3	0.5
Montreal	14.5	15.4	6	2.4	1.9
Halifax	1.4	1.8	28	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 From Coast to Coast

	New House Prices			Resale House Prices		
CMA	2019	2020	2021**	2019	2020	2021**
			Year-Over-Year % Change			
Vancouver*	-1.4	1.3	9.3	-4.9	9.7	9.7
Edmonton	-1.3	-0.7	1.6	-2.7	1.9	1.9
Calgary	-1.7	-1.1	1.2	-4.1	0.7	0.7
Winnipeg	0.8	2.0	6.3	0.5	4.9	4.9
Toronto	-0.9	0.9	4.9	4.0	13.4	13.4
Ottawa	5.4	11.6	15.9	8.4	19.9	19.9
Montreal	3.9	7.9	9.3	4.5	11.0	21.0
Halifax	0.7	3.7	8.5	6.9	14.7	14.7

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

Toronto

- Pandemic effects on new and existing home sales set the tone for starts and construction activity in 2021. New single-family home sales increased by 58% in 2020, and by 11% in Q1 2021 year-over-year, foretelling the expected strengthen in single-family starts this year. Led by single-family sales, existing home sales were up a remarkable 70% in Q1 y-o-y, with less than a month of inventory. However, new condominium apartment sales were down 21% in 2020 and 19% in Q1, impacted by weak downtown demand.
- Despite reduced international in-migration, very strong demand for single-family housing is fueling an increase in single-family starts. Expect starts in 2021 and 2022 to be on par with 2020 as higher single-family starts offset a retreat in apartment starts this year and next.

Ottawa

- Ottawa experienced significant housing market activity during the past year – breaking starts and price records along the way. Despite the economic slump brought on by COVID is the first half of 2020 and 2nd and 3rd waves, single-family starts led a 28% increase in total starts last year – reaching a new record. Though new home sales were down 6%, existing home sales were up by double digits.
- Expect moderately higher starts this year on the strength of single-family starts. With eroding affordability and waning demand for high-rise units, starts are expected to be lower next year, weighed down by a slump in apartment starts.

Montreal

- Though Montreal is one of the major markets that was most severely affected by COVID related shutdowns, housing starts in Montreal were up 9% in 2020 and 61% in the first quarter of this year.
- With existing homes inventory relatively low and sales very strong, pushing existing and new home prices higher, starts are forecast to continue trending higher this year.
- New condominium apartment sales were down 36% last year and are off by 4% for the first quarter. This suggests that once existing projects wind down, apartment starts could be expected to retreat in 2022, pushing starts lower. Expect deteriorating housing affordability in the absence of strong immigration to dampen demand going forward.

Halifax

- Housing starts in Halifax were up 3% in 2020 despite a decline in purpose-built rental units. Expect lower starts in 2020 and 2022. The 2021 Q1 increase in starts is forecast to be reversed through to next year.
- Weaker migration and significant house price appreciation are expected to dampen housing demand and starts this year and next, especially apartment starts.

Chart 14

New Condominium Apartment Sales Soar in Vancouver

	Vancouver		Edmonton		Calgary		Toronto		Montreal	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
New Condominium Apartments (Units)										
Starts*	1,862	3,988	614	107	487	871	3,581	6,153	1,313	2,203
Under Construction**	27,512	29,862	4,206	2,183	4,375	4,927	55,276	58,250	11,054	11,809
Completed But Unabsorbed**	869	438	726	909	1,023	841	209	186	1,137	491
Sales*	1,595	4,293	22	32	245	407	6,673	5,680	1,199	1,146
MLS Condominium Apartments* **										
Number of Units Sold*	3,054	5,651	752	1,115	574	842	5,255	9,408	5,288	6,247
Average Price ($000s)*	680	704	213	227	258	258	654	645	334	385
Inventory (Months)	3.5	1.5	n.a.	n.a.	6.6	4.4	1.1	0.7	2.6	2.6

* January to March
**End of March

*** 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

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