Altus Group

quarterly FORECAST ISSUE

HOUSING REPORT

Vol. XXX No. 10
Fall 2021 Forecast

Modestly Lower Starts in 2022 as Mortgage Rates Rise

Recent Activity

- In the 3rd quarter of 2021, total Canada-wide housing starts came in at 263,300 units seasonally adjusted at annual rate (SAAR) according to CMHC (Chart 1), down 5% from the previous quarter. Higher starts in Ontario were more than offset by lower starts in all other provinces.
- Existing home sales declined by 12% in the 3rd quarter of 2021, the 2nd quarterly decline after peaking in the 1st quarter. Home prices increased by 7% (Chart 2).

Forecast Summary

- Canada's economy continues to grow at a faster than normal rate making up for pandemic related losses last year, but at a more moderate pace. High rates of COVID vaccination have facilitated a resumption of many in-person services. Risks to growth going into 2022 include rising inflation and possible further waves of COVID-19.
- Housing demand remains strong but is now moderating from the late 2020/early 2021 spur in demand that was related to pandemic induced changes in demand, and stronger household balance sheets thanks to government support. Housing starts and home resales have begun to moderate from record highs.

Analysis

- 2021 housing starts are forecast to soar 26% higher than last year's total but higher mortgage rates in 2022, and mounting inflation concerns, are likely to strain consumer budgets and dampen housing demand and starts next year.
- There are other risks weighing on the forecast for 2022. Persistent supply chain disruptions are producing inflationary pressures and constraining output growth. Global transportation bottlenecks and input shortages continue to result in production shutdowns and muted business investment. On the other hand, a resurgence of immigration will likely sustain housing demand. New immigration targets and a very strong year-to-date increase in new immigrants to Canada have set the stage for immigration exceeding pre-pandemic levels in 2022.

Total Starts, Canada

2020	217,880
2021f	274,100
2022f	253,400

Starts Trends by Type

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

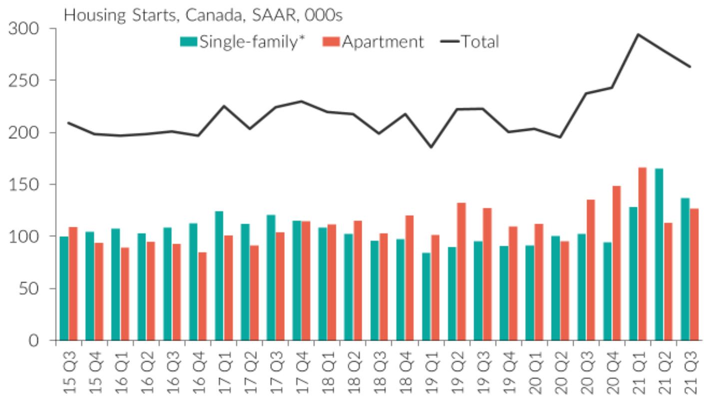
Starts Trends by Region

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

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

Chart 1

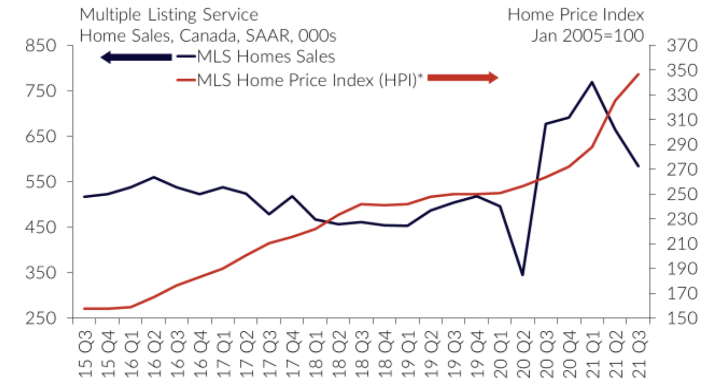
Q3 Housing Starts Moderating From the Record Highs Earlier in 2021



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

Chart 2

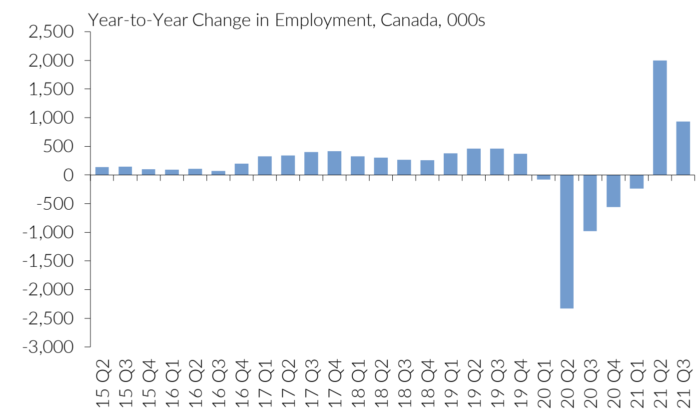
Existing Home Sales Down but Still Very Elevated in Q3 2021



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

Chart 3

Employment Continues to Recover and Was Higher Year-over-Year in Q3



Source: Altus Group based on Statistics Canada data

Chart 4

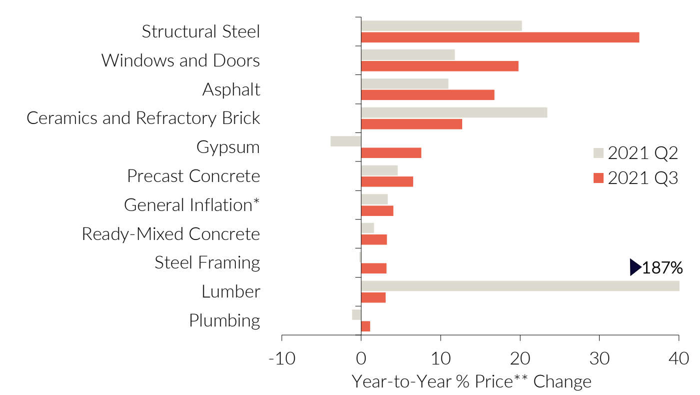
Economic Snapshot: Recovery Cycle Through 2021-2022

	Average 2010-19*	2020	2021f	2022f
	Year-to-Year Change			
Real GDP (%)	2.2	(5.3)	5.1	4.1
Employment Growth (000s)	233	(996)	858	586
CPI (%)	1.7	0.7	3.2	2.9
Real PDI** per Capita (%)	1.1	8.2	3.1	5.9
	End of year			
1 Year Mortgage Rate (%)***	3.3	3.1	3.2	3.8
5 Year Mortgage Rate (%)***	5.1	4.8	5.1	5.7

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

Chart 5

Steel Prices Soar as Most Prices of Major Building Products Exceed Inflation



* 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 2021, year-over-year price growth exceeded inflation for 6 of Canada's 10 major building products (Chart 5).
- As supply chain disruptions persist, year-over-year price increases of all but two major building products were higher in Q3 than Q2. Sky-high lumber prices were the notable exception.
- Year-over-year price increases of steel, windows and doors, asphalt, gypsum and pre-cast concrete accelerated in Q3 from Q2 and exceeded inflation.

Chart 6

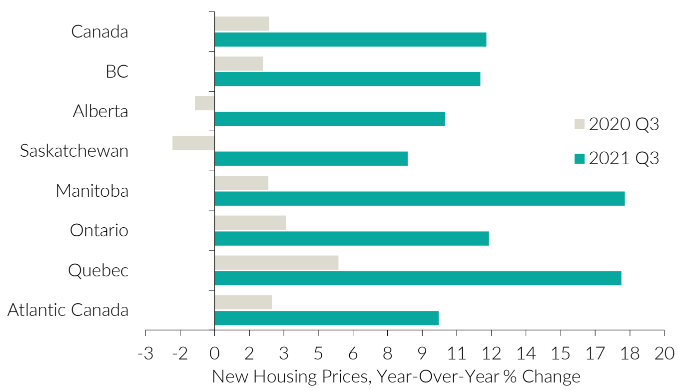
Net Migration Bouncing Back in 2021

	Average 2010-2019	2019	2020	Jan-Jun 2020	Jan-Jun 2021
	Total Net Migration (Persons, 000s)				
British Columbia	51.8	84.1	25.8	20.6	50.8
Alberta	44.4	44.7	10.6	8.0	1.7
Saskatchewan	9.0	6.0	(4.1)	(2.3)	(0.8)
Manitoba	11.4	10.2	0.4	1.0	0.8
Ontario	129.1	228.4	50.7	47.6	57.5
Quebec	51.7	93.5	14.0	19.2	18.7
Atlantic Canada	10.4	28.8	12.2	9.9	22.2
Canada*	308.1	495.7	109.7	104.4	151.2

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

Chart 7

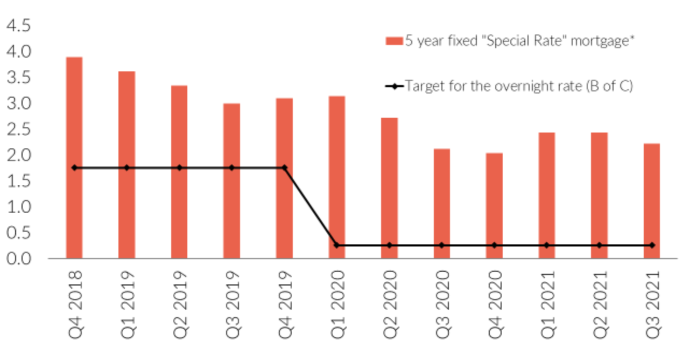
New Home Prices Rise Across the Country



Source: Altus Group based on Statistics Canada data

Chart 8

Interest Rates Beginning to Rise after Steady Decline During Pandemic



* Average for the major banks
Source: Altus Group based on data from Bank of Canada and major bank websites

Outlook by Region

Net migration to Canada is already on the ascendency and is expected to return to pre-pandemic levels next year as Canada sets higher targets for 2021 to 2023 (Chart 6).

British Columbia

- Despite rising home prices and eroding affordability, housing demand remains robust. Strong and sustained employment growth, a resurgence in immigration and vigorous new home sales point to 2021 starts increasing by almost 40% above 2020 levels. Expect starts to slow next year but remain strong.

Alberta

- A strong recovery in the oil and gas sector and rising employment have provided a lift to consumer confidence and home sales. Higher housing starts since the 2nd quarter point to higher 2021 starts.

Saskatchewan

- Home sales remain strong as the economic recovery continues apace. Starts to rise higher this year and next.

Manitoba

- Economic resilience, steady job growth, and strong housing demand to lift housing starts through 2021 and 2022, amid low inventories.

Ontario

- Housing starts remain on track to reach a 20-year high this year. New home and resale prices continue to soar as low inventories and robust demand push starts higher. Homebuyer preferences for more livable space and low mortgage rates continue to fuel demand for single-family housing.

Quebec

- Starts came in stronger than last year in each quarter this year as house sales and prices soar, amid a strong economic recovery. This year starts will surpass last year's 10-year high, on the strength of the single-family and apartments segments. Starts to retreat in 2022.

Atlantic Canada

- Remarkably strong single-family sales and starts in the first three quarters point to higher starts this year as employment and economic growth rebound.

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	1,240	763	217,880
2021 f	52,440	29,924	4,415	8,462	98,585	69,804	3,805	4,523	1,192	999	274,149
2022 f	48,175	28,225	4,725	8,800	97,325	56,875	2,925	4,425	625	1,350	253,400
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	765	688	94,905
2021 f	19,065	20,774	2,915	4,987	53,960	21,154	2,280	2,623	1,067	924	129,749
2022 f	17,625	20,150	3,350	5,200	59,450	20,350	2,225	2,475	450	1,025	132,250
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	33,375	9,150	1,500	3,475	44,625	48,650	1,525	1,900	125	75	144,400
2022 f	30,550	8,075	1,375	3,600	37,875	36,525	700	1,950	175	325	121,150
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	985	721	203,433
2	34,061	19,132	2,343	6,782	79,402	45,777	2,792	2,872	1,579	533	195,273
3	39,108	23,238	4,248	6,080	94,071	58,773	3,686	6,139	1,358	866	237,567
4	41,282	30,396	3,107	10,401	83,716	62,241	3,921	5,820	1,035	950	242,869
2021 1	53,307	27,946	4,951	7,840	102,469	84,155	4,695	5,625	1,341	1,711	294,040
2	49,918	32,962	4,739	8,673	98,389	71,187	4,487	5,107	1,520	1,188	278,170
3	45,437	30,094	3,841	8,510	103,071	62,417	3,746	4,092	1,217	829	263,254
4 f	61,500	29,000	4,500	9,000	89,000	69,750	3,500	3,500	1,000	900	271,650
2022 1 f	60,000	30,000	4,500	9,500	92,500	61,000	3,000	4,500	650	1,400	267,050
2 f	50,000	30,000	4,500	9,000	100,000	61,000	3,000	4,500	650	1,400	264,050
3 f	45,000	29,000	5,000	9,000	100,000	55,500	3,000	4,500	600	1,400	253,000
4 f	41,000	25,000	5,000	8,000	100,000	55,000	3,000	4,500	600	1,400	243,500
Total Starts, Quarterly, Actual											
2020 1	7,918	5,200	502	1,307	14,594	8,971	256	961	169	60	39,938
2	9,354	4,955	606	1,757	19,842	12,804	684	711	405	132	51,250
3	9,942	6,180	1,179	1,654	25,160	15,145	1,338	1,684	384	285	62,951
4	10,520	7,688	800	2,596	21,709	17,146	1,205	1,509	282	286	63,741
2021 1	11,899	6,083	1,004	1,656	22,151	14,628	236	1,214	150	156	59,177
2	13,427	8,677	1,233	2,296	25,594	20,196	1,270	1,224	410	305	74,632
3	11,439	7,839	1,028	2,260	27,765	15,755	1,224	1,185	357	263	69,115
4 f	15,675	7,325	1,150	2,250	23,075	19,225	1,075	900	275	275	71,225
2022 1 f	12,550	6,425	875	2,025	19,650	10,375	175	900	100	125	53,200
2 f	13,725	7,775	1,175	2,325	25,000	17,050	725	1,125	175	350	69,400
3 f	11,450	7,700	1,400	2,450	26,750	14,300	1,100	1,225	175	450	67,000
4 f	10,450	6,325	1,275	2,000	25,925	15,150	925	1,175	175	425	63,800

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 every major market but Halifax, total starts are expected to come in higher in 2021 than last year. Halifax will see decreased starts.** All markets are experiencing stronger housing demand and prices than last year although there are regional variations. Results are expected to be more mixed in 2022. Toronto, Winnipeg and Halifax will see higher starts, but other markets will see stable (Ottawa) 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	29,825	12,175	12,075	5,825	40,225	10,350	34,950	2,575
2022f	28,550	10,900	11,725	6,200	43,500	10,300	28,600	2,775
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	6,825	8,975	6,775	2,875	14,625	6,350	5,925	1,050
2022f	7,550	8,400	7,425	3,300	18,000	6,600	5,100	1,125
Apartment Starts								
Avg. 2010-2019	*14,185*	*3,466*	*4,062*	*1,893*	*21,677*	*2,133*	*15,874*	*1,602*
2020	16,022	4,867	3,299	2,669	28,063	3,848	22,828	1,938
2021f	23,000	3,200	5,300	2,950	25,600	4,000	29,025	1,525
2022f	21,000	2,500	4,300	2,900	25,500	3,700	23,500	1,650

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

Vancouver

- Robust demand continues to stimulate housing construction, especially apartment starts. Record high starts in 2021 are expected to give way to lower starts in 2022, driven by slightly lower apartment starts. Housing demand remains strong but has moderated since the 3rd quarter of this year as rising borrowing costs and the unwinding of mid-pandemic stimulus took some of the impetus out of housing demand.
- Slightly lower starts are forecast next year due to lower apartment starts. Board-based economic improvement and steady in-migration should sustain demand.

Edmonton

- The 2021 starts forecast was revised upward on the strength of strong single-family starts so far this year. The jobs and economic recovery have lifted consumer confidence and demand for low-rise units.
- On the heels of relatively high 2021 starts, a modest decline in starts and construction activity is now expected in 2022. Relatively strong rental apartment starts this year are projected to modestly fall off next year as slightly higher pandemic-related vacancy rates are persisting.

Calgary

- With steady jobs and GDP growth since the economic recovery began in the 2nd half of 2020, existing and new home sales have gradually trended higher, pointing to remarkably higher starts this year.
- With houses still affordable and interest rates low, housing demand remains high. Homebuyers came off the sidelines in the 3rd quarter, fuelling strong demand for low-rise housing, but that demand has since retreated. A modest decline in starts is expected next year, driven by lower apartment starts.

Winnipeg

- 2021 housing starts in Winnipeg are up from last year, led by single-family starts. Year-to-date single-family starts have increased significantly compared to last year. Apartment starts are up just 7% over the same period. Home resales continue to rally, and prices of new and existing homes moved higher, as the economy continues to recover, and housing demand strengthens.

Chart 11

Job Growth to Continue Rebounding Through 2021 after Plummeting in 2020

CMA	Ann. Avg. 2010-2019	2020	2021f	2022f
	Change in Employment (000s)			
Vancouver	28.8	-118.6	118.7	30.7
Edmonton	14.8	-67.7	36.4	29.5
Calgary	16.2	-55.8	41.9	34.3
Winnipeg	5.0	-14.7	13.7	9.5
Toronto/Oshawa	71.8	-178.7	186.9	163.3
Ottawa/Gatineau	10.4	-47.0	45.0	40.8
Montreal	31.2	-85.8	122.6	75.1
Halifax	2.6	-6.8	13.3	3.7

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

Chart 12

Inventories Remain Tight and Resales Soar in Most Markets

	Number of Homes Sold Through MLS			Months of Resale Inventory	
	January - Sept		%	Sept	
CMA	2020	2021	Change	2020	2021
	Units (000)				
Vancouver*	32.9	54.3	65	3.2	2.4
Edmonton	12.9	19.7	53	4.0	4.1
Calgary	16.1	21.7	34	3.7	2.9
Winnipeg	11.0	14.0	27	1.8	0.7
Toronto	68.7	97.0	41	1.6	1.0
Ottawa	14.2	16.3	15	0.9	1.3
Montreal	39.9	42.2	6	2.7	3.0
Halifax	5.6	6.2	11	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

New Home Prices Rise Across the Country

	New House Prices			Resale House Prices		
CMA	2019	2020	2021**	2019	2020	2021**
	Year-Over-Year % Change					
Vancouver*	-1.4	1.3	11.1	-4.9	9.7	15.3
Edmonton	-1.3	-0.7	4.4	-2.7	1.9	7.8
Calgary	-1.7	-1.1	7.6	-4.1	0.7	9.8
Winnipeg	0.8	2.0	13.1	0.5	4.9	9.6
Toronto	-0.9	0.9	6.2	4.0	13.4	17.3
Ottawa	5.4	11.6	22.4	8.4	19.9	23.4
Montreal	3.9	7.9	16.4	4.5	14.9	20.4
Halifax	0.7	3.7	10.3	6.9	14.7	27.5

* 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

- As the economy strengthens, housing starts have been rising. 2021 starts in Toronto are up from last year, lifted by single-family starts, as apartment starts came off the boil. Housing demand remains strong. New single-family home sales slowed considerably in Q3 following four consecutive quarters of stellar growth. Low inventories and strong demand pushed existing home prices up 17% as home resales increased a remarkable 41% year-to-date. New condo apartment sales are up 50% year-to-date, signalling still strong apartment starts next year.
- Demand for single-family housing remains strong with supply lagging. Expect single-family starts to drive an increase in starts next year. Apartment starts in 2022 are expected to be on par with 2021.

Ottawa

- Ottawa's housing market has maintained some of the momentum from a record breaking 2020. Led by the single-family segment, year-to-date starts were off slightly at the end Q3, but are expected to end the year off strong and stay elevated through 2022. New and resale home prices increased by over 20% amid strong home resales and low inventory.
- With many purpose-built rental projects underway and in the planning stages, starts have almost doubled in the past few years and are expected to remain strong in 2022. The economic recovery and a resurgence in immigration should sustain housing demand.

Montreal

- Though Montreal is one of the major markets that was most severely affected by the pandemic, improved COVID management, a remarkable jobs and economic recovery and low interest rates have sustained housing demand and construction of new homes. So far this year, single-family and apartment starts are significantly above last year. Record high starts are projected for 2021.
- New home sales during the 1st six month of the year were significantly higher than last year, lead by new condominium apartment sales. However, new and existing home sales appear to be cooling though still strong. Inventories have begun to rise as home prices soar. The apparent slowdown in homes sales and deteriorating housing affordability suggest dampening housing demand and a retreat in starts in 2022, pushing starts lower next year.

Halifax

- Year-to-date housing starts in Halifax were lower than the same period in 2020, weighed down by a notable decline in single-family starts. Expect lower starts in 2021.
- Weak in-migration and significant house price appreciation are risks for housing demand and starts this year and next. Expect modestly higher starts in 2022.

Chart 14

New Condominium Apartment Sales Soar in Vancouver and Toronto

	Vancouver		Edmonton		Calgary		Toronto		Montreal	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
New Condominium Apartments (Units)										
Starts*	7,922	10,755	2,041	345	1,746	2,680	17,325	19,073	5,402	6,581
Under Construction*	27,037	28,603	2,061	818	4,332	4,302	59,063	58,744	11,309	12,485
Completed But Unabsorbed*	333	928	653	742	802	410	261	210	838	457
Sales**	3,869	12,918	136	217	836	1,748	15,347	23,077	2,075	2,591
MLS Condominium Apartments* **										
Number of Units Sold*	9,643	16,681	2,892	4,494	1,764	3,147	15,793	26,030	14,416	17,008
Average Price ($000s)*	680	724	221	233	256	263	637	673	346	426
Inventory (Months)*	4.0	2.7	n.a.	n.a.	6.8	4.7	3.1	1.5	3.1	2.4

* End of September
**Montreal New Home Sales January to 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

AltusAnalytics
SOFTWARE | DATA | CONNECTIVITY

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