Altus Group

quarterly FORECAST ISSUE

HOUSING REPORT

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Spring 2022 Forecast
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Rising Mortgage Rates & High Inflation Taking a Bite Out of Housing Demand and Starts

Recent Activity

- In the 1st quarter of 2022, total Canada-wide housing starts came in at 235,900 units seasonally adjusted at annual rate (SAAR) according to CMHC (Chart 1), 11% lower than the previous quarter. Higher starts in Manitoba, New Brunswick and Newfoundland and Labrador were more than offset by lower starts in the other provinces.
- Existing home sales increased by 2% in the 1st quarter of 2022, while home prices increased by 12% (Chart 2).

Forecast Summary

- Canada's economic growth remains strong but is now clearly slowing due to higher inflation and uncertainly from economic and geopolitical disruptions arising from the war in Europe. Despite the removal of most pandemic-era restrictions on commerce, recent lockdowns in China and economic sanctions on Russia have also exacerbated the already disruptive supply chain bottlenecks.
- Housing starts have begun their retreat from the record highs in 2021. The Bank of Canada's efforts to curb inflation by increasing its policy rate, and financial markets' fears of a dramatic slowdown in economic activity, are pushing mortgage rates higher. These developments are already dampening housing demand. Home sales are slowing, housing price increases are easing, and home builders are facing sharper challenges from rising construction and development costs.

Analysis

- The 2022 and 2023 starts forecast have been revised downwards and 2022 housing starts are now expected to moderate by 9% compared with last year. Rising mortgage payments and the rising costs of living are taking a large bite out of consumer budgets, pushing housing demand and starts lower this year and next.
- Other risks weighing on the forecast for 2022 and 2023 include geopolitical tensions related to the war in Europe, prolonged supply chain disruptions and mounting recession risks. Despite a resurgence of immigration and still strong household balance sheets, the rising cost of housing is expected to limit home sales and new housing construction.

Total Starts, Canada

2021	271,882
2022f	246,300
2023f	239,200

Starts Trends by Type

	2022	2023
Total	▼	▼
Single-family	▼	▼
Apartment	▼	●

Starts Trends by Region

	2022	2023
B.C.	▼	▼
Alberta	▼	▼
Sask.	▼	▼
Manitoba	▲	●
Ontario	▼	●
Quebec	▼	▼
Atlantic	▼	▼

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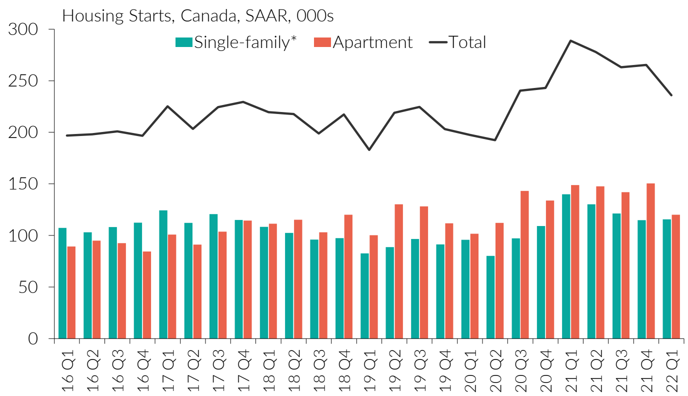
Chart 1

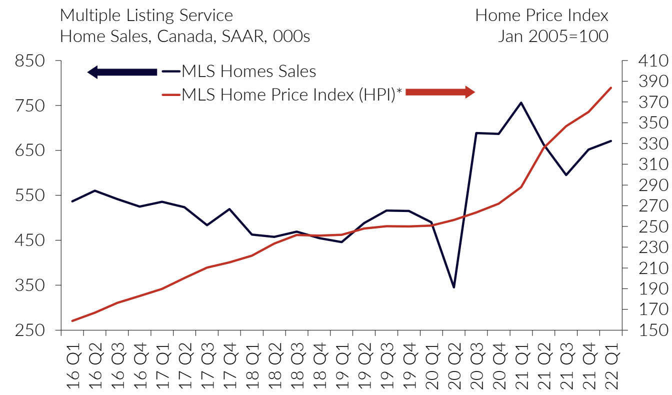
Single-Family Starts Stable, Apartment Starts Down in Q1 2022



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

Chart 2

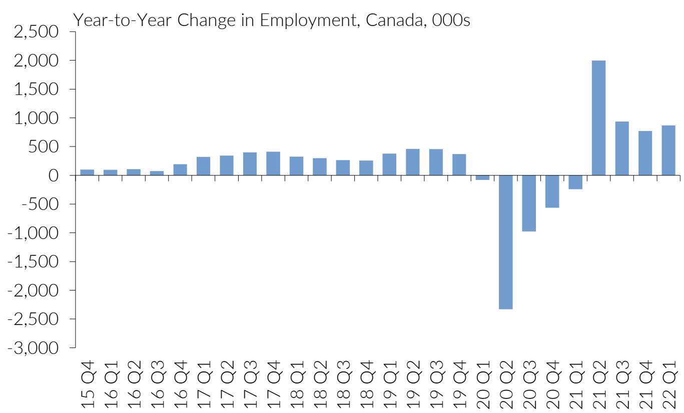
Existing Home Sales Increased in Q1 2022, But at a Slower Pace Than in the Fourth Quarter of 2021



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

Chart 3

Employment Was Higher Year-over-Year in Q1 and is Now Above Pre-Pandemic Levels



Source: Altus Group based on Statistics Canada data

Chart 4

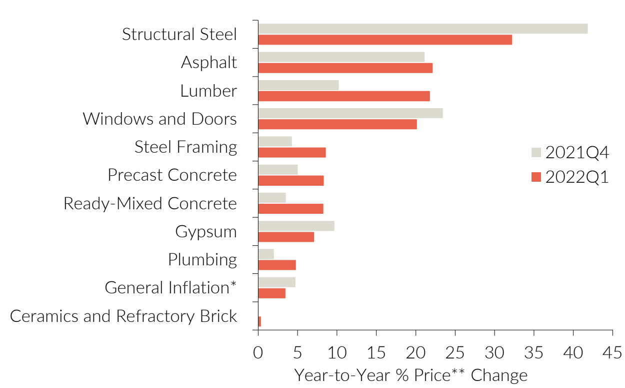
Economic Snapshot: Recovery Cycle Through 2021-2023

	Average 2011-20*	2021	2022f	2023f
	Year-to-Year Change			
Real GDP (%)	1.4	4.6	4.0	3.3
Employment Growth (000s)	109	866	585	292
CPI (%)	1.6	3.4	5.3	2.8
Real PDI** per Capita (%)	1.6	3.6	5.9	1.1
	End of year			
1 Year Mortgage Rate (%)***	3.3	2.8	3.7	3.9
5 Year Mortgage Rate (%)***	5.0	4.8	5.6	5.8

* 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 first quarter of 2022, year-over-year price growth exceeded inflation for 9 of Canada's 10 major building products (Chart 5).
- As supply chain disruptions persist and elevated energy prices worsen inflationary pressures, year-over-year price increases of seven major building products were higher in Q1 than Q4.
- Year-over-year price increases of steel, windows and doors, and gypsum were lower in Q1 than Q4.

Chart 6

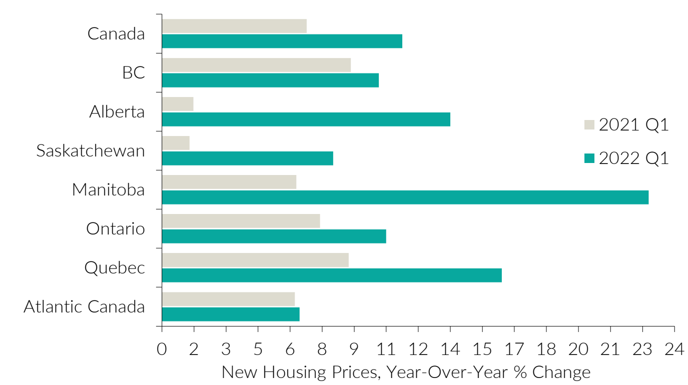
Net Migration Bounced Back in 2021

	Average 2010-2019	2019	2020	2021
	Total Net Migration (Persons, 000s)			
British Columbia	51.8	84.1	25.8	100.8
Alberta	44.4	44.7	10.6	31.4
Saskatchewan	9.0	6.0	(4.1)	1.2
Manitoba	11.4	10.2	0.4	5.3
Ontario	129.1	228.4	50.7	169.6
Quebec	51.7	93.5	14.0	44.3
Atlantic Canada	10.4	28.8	12.2	47.3
Canada*	308.1	495.7	109.7	400.2

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

Chart 7

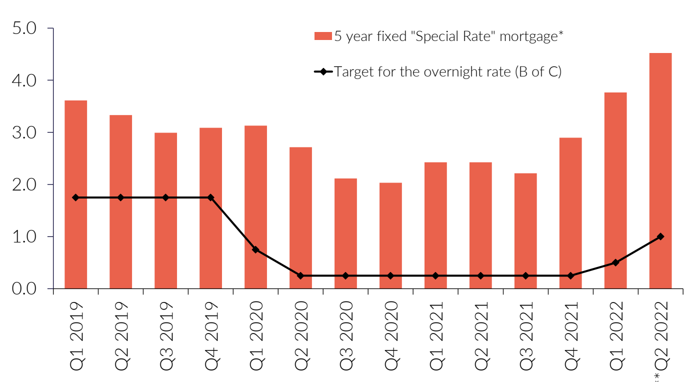
New Home Prices Continue to Accelerate Across the Country



Source: Altus Group based on Statistics Canada data

Chart 8

Interest Rates Rising as the Bank of Canada Attempts to Tame Inflation



* Average for the major banks
** Early June
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 this year as Canada sets higher targets for 2021 to 2023 (Chart 6).

British Columbia

- Rising mortgage rates and sky-high housing prices are conspiring to take the wind out the sails of housing demand. The rising cost of living is also making it more challenging to service borrowing costs. 2022 starts are expected to come in lower than in 2021 due to lower apartment starts, though remaining strong.

Alberta

- Despite rising mortgage rates, economic conditions remain favourable for housing demand. Starts and new home sales remained strong in the first quarter and rising in-migration continued to boost housing demand.

Saskatchewan

- A sharp decline in apartment starts will drag housing starts lower this year as demand for single-family starts remain very strong despite rising mortgage costs.

Manitoba

- Higher apartment starts are forecast to more than offset lower single-family starts this year as rising mortgage rates shift homebuyer preferences.

Ontario

- A double-digit decline in apartment starts is expected to push housing starts lower this year following a 20-year high in 2021. Single-family starts are forecast to come in on par with 2021 as chronic supply shortages persist and home resale inventories remain low.

Quebec

- A decrease in apartment starts is forecast to more than offset higher single-family starts this year. Rising mortgage rates in the face of high home prices are cooling housing demand. Expect lower single-family starts next year as borrowing costs continue to rise.

Atlantic Canada

- Starts to decrease this year and next, hovering just above the 10-year average. Higher borrowing costs and slower immigration this year to cool housing demand.

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. 2011-20	*34,992*	*30,437*	*5,749*	*6,693*	*71,749*	*44,388*	*2,676*	*4,207*	*885*	*1,965*	*203,742*
2021	47,609	31,945	4,174	8,006	100,089	67,962	3,829	5,979	1,267	1,022	271,882
2022 f	38,850	31,100	3,550	8,975	91,025	61,925	4,300	4,500	900	1,175	246,300
2023 f	37,850	29,750	2,425	9,025	90,650	58,775	3,950	4,925	825	975	239,150
Single-family Starts (includes single-detached, semi-detached and row units)											
Avg. 2011-20	*15,394*	*22,019*	*4,134*	*4,274*	*39,288*	*16,683*	*1,743*	*2,266*	*558*	*1,716*	*107,793*
2021	17,534	21,370	2,599	4,781	49,839	21,212	2,054	3,004	1,117	972	124,482
2022 f	17,000	20,725	2,750	4,225	49,925	22,625	1,550	2,200	700	975	122,675
2023 f	17,250	20,525	1,675	4,375	47,200	19,425	1,425	2,275	650	875	115,675
Apartment Starts											
Avg. 2011-20	*19,981*	*9,097*	*1,832*	*2,444*	*32,619*	*27,823*	*965*	*1,913*	*311*	*351*	*97,337*
2021	30,075	10,575	1,575	3,225	50,250	46,750	1,775	2,975	150	50	147,400
2022 f	21,850	10,375	800	4,750	41,100	39,300	2,750	2,300	200	200	123,625
2023 f	20,600	9,225	750	4,650	43,450	39,350	2,525	2,650	175	100	123,475

		British Columbia	Alberta	Saskatch-ewan	Mani-toba	Ontario	Quebec	New Bruns-wick	Nova Scotia	Prince Edward Island	New-found-land	Canada
Total Starts, Quarterly, Seasonally Adjusted at Annual Rates												
2021	1	52,970	28,063	4,933	7,794	101,476	81,014	4,311	5,508	1,281	1,467	288,817
	2	49,909	33,026	4,709	8,643	98,532	70,876	4,388	5,118	1,486	1,184	277,871
	3	45,393	29,980	3,888	8,467	102,950	62,503	3,752	4,172	1,226	839	263,170
	4	42,740	36,530	3,384	7,227	95,972	62,954	3,776	8,991	1,328	1,025	263,927
2022	1	38,250	29,300	2,975	8,650	82,000	61,775	4,600	4,900	1,300	2,100	235,864
	2 f	44,000	32,500	3,900	9,500	95,000	66,500	4,800	4,900	1,100	1,200	263,400
	3 f	39,000	29,000	3,900	9,300	95,000	59,500	4,100	4,500	900	1,100	246,300
	4 f	36,000	33,500	3,500	8,200	90,000	58,500	3,900	3,800	700	1,000	239,100
2023	1 f	39,000	28,000	2,700	9,400	90,000	59,000	4,000	5,100	800	1,000	239,000
	2 f	41,000	31,000	2,600	9,300	93,000	62,000	4,200	5,300	900	1,200	250,500
	3 f	38,000	27,000	2,400	9,300	91,000	58,500	3,800	4,800	900	1,000	236,700
	4 f	35,500	33,000	2,300	8,000	88,000	54,500	3,800	4,500	800	900	231,300
Total Starts, Quarterly, Actual												
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	10,844	9,346	909	1,794	24,579	17,383	1,099	2,356	350	298	68,958
2022	1	8,075	6,400	550	1,950	17,675	11,825	425	1,050	175	225	48,350
	2 f	11,825	8,550	1,025	2,525	24,675	18,950	1,400	1,175	300	300	70,725
	3 f	9,825	7,575	1,025	2,475	25,625	15,000	1,350	1,275	250	350	64,775
	4 f	9,125	8,575	950	2,025	23,050	16,150	1,125	1,000	175	300	62,500
2023	1 f	8,250	6,100	500	2,100	19,425	11,300	375	1,100	125	100	49,350
	2 f	11,025	8,150	675	2,475	24,150	17,675	1,225	1,275	250	300	67,200
	3 f	9,575	7,050	625	2,475	24,550	14,750	1,250	1,375	250	325	62,225
	4 f	9,000	8,450	625	1,975	22,525	15,050	1,100	1,175	200	250	60,400

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 Winnipeg, total starts are expected to come in lower in 2022 than the near record-breaking pace in 2021. Rising mortgage rates combined with high home prices are eroding affordability and dampening demand for housing. Except for Toronto, lower single-family starts this year are forecast for all major markets. Winnipeg is the only major market that is forecast to have higher apartment starts in 2022. Starts in 2023 are expected to be on par with starts in 2022 in Ottawa, increase in Halifax and decrease in the other major markets.
- Expect weaker apartment starts in all major markets but Calgary and Halifax in 2023.

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

	2022	2023
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. 2011-2020	*22,370*	*12,152*	*11,778*	*4,581*	*38,053*	*6,714*	*21,633*	*2,682*
2021	31,552	15,187	16,780	7,112	50,211	11,868	37,400	4,497
2022f	23,000	11,500	13,500	7,050	45,450	9,300	30,075	3,150
2023f	21,700	11,100	13,100	5,250	42,100	9,500	28,225	3,225
Single Family Starts (includes single-detached, semi-detached and row units)								
Avg. 2011-2020	*7,377*	*8,374*	*7,521*	*2,536*	*14,894*	*4,382*	*4,852*	*991*
2021	7,228	10,237	9,401	3,270	12,894	7,123	5,757	1,379
2022f	6,000	8,500	8,400	2,800	13,450	5,600	4,375	1,000
2023f	5,700	8,300	7,950	2,700	11,900	6,500	4,225	1,050
Apartment Starts								
Avg. 2011-2020	*14,993*	*3,778*	*4,257*	*2,046*	*23,160*	*2,332*	*16,781*	*1,691*
2021	24,324	4,950	7,379	3,842	37,317	4,745	31,643	3,118
2022f	17,000	3,000	5,100	4,250	32,000	3,700	25,700	2,150
2023f	16,000	2,800	5,150	2,550	30,200	3,000	24,000	2,175

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

Vancouver

- Rising borrowing costs and high prices are taking a big bite out of demand while single-family supply constraints that limit new housing construction persist. Following a record high in 2021, lower starts are projected for this year as apartment starts decrease more significantly than single-family starts. The pandemic-era shift in homebuyer preferences towards single-family homes continues to limit apartment starts.
- Higher interest rates, construction costs and labour shortages will likely push starts even lower next year.

Edmonton

- Despite strong jobs and economic growth, rising mortgage rates are likely to weigh down single-family and apartment starts this year. 2022 starts are forecast to decrease by 24% compared to 2021. The recent strengthen in new home sales is expected to cool in the months ahead and resale inventories remain low.
- A modest decline in both single-family and apartment starts is forecast for 2023. A strong economy and in-migration growth will likely sustain housing demand and limit downside pressure of rising borrowing costs.

Calgary

- Notwithstanding steady jobs and economic growth, and remarkable existing and new home sales, starts are forecast to decrease by 20% in 2022 as high home prices together with rising mortgage rates constrain demand.
- A modest decline in starts is expected in 2023, driven by lower but still strong single-family activity. Mortgage rates and borrowing costs will continue to rise next year, tempering housing demand despite strong job and wage growth.

Winnipeg

- Inventories remained extremely low in the first quarter and home resales declined significantly as home prices rose considerably higher. However, starts in 2022 are forecast to be on par with last year as price and mortgage rate increases prove insufficient to put a major dent in demand for apartment units. Starts are forecast to decrease next year, dragged down by a significant falloff in apartment starts.

Chart 11

Job Growth to Remain Strong After Rebound in 2021

CMA	Ann. Avg. 2011-2020	2021	2022f	2023f
	Change in Employment (000s)			
Vancouver	17.8	124.5	38.8	32.5
Edmonton	6.8	63.7	25.2	13.9
Calgary	8.1	32.2	31.8	17.7
Winnipeg	2.9	18.0	9.5	7.6
Toronto/Oshawa	37.1	175.7	111.7	50.4
Ottawa/Gatineau	3.2	39.3	23.2	10.3
Montreal	14.8	119.0	66.2	36.8
Halifax	1.1	11.9	4.5	2.4

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

Chart 12

Inventories Remain Tight and Resales Decrease in All Markets Except Edmonton and Calgary

CMA	Number of Homes Sold Through MLS, January - March 2021	2022	% Change	Months of Resale Inventory, March 2021	2022
	Units (000)				
Vancouver*	18.9	15.2	-19	1.5	1.7
Edmonton	5.2	6.9	32	2.8	1.6
Calgary	8.1	12.2	50	1.9	1.1
Winnipeg	3.6	2.8	-24	1.0	0.9
Toronto	33.4	25.6	-23	0.7	0.9
Ottawa	4.6	4.4	-6	0.5	0.6
Montreal	15.2	12.7	-16	1.8	1.9
Halifax	1.8	1.2	-30	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

Home Prices Rise Across the Country in Q1 as Demand Continued to Outstrip Supply

CMA	New House Prices 2020	2021	2022**	Resale House Prices 2020	2021	2022**
			Year-Over-Year % Change			
Vancouver*	1.3	10.9	9.9	9.7	15.1	18.7
Edmonton	-0.7	4.6	7.8	1.9	6.3	6.1
Calgary	-1.1	9.0	19.0	0.7	9.0	10.0
Winnipeg	2.0	14.8	22.8	4.9	10.0	13.5
Toronto	0.9	6.7	6.8	13.4	17.9	23.3
Ottawa	11.6	22.5	19.6	19.9	21.9	13.8
Montreal	7.9	17.0	19.4	14.8	18.4	16.1
Halifax	3.7	9.5	5.4	14.5	26.1	28.1

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

Toronto

- With mortgage rates already above pre-pandemic rates and rising, housing demand is beginning to moderate. High home prices and rising construction costs are also taking the wind out of the sails of housing demand and starts. Starts were up 3% in the 1st quarter, weighted down by a 3% decrease in apartment starts despite a 22% increase in single-family starts. Resales decreased significantly in the 1st quarter as inventories remained very low and price increases remain strong.
- Despite solid new condo apartment sales and starts in the 1st quarter, it is expected that in the months ahead, borrowing costs and escalating construction costs are likely to delay or cancel some of the major apartment projects in the pipeline. Starts are forecast to fall this year and next, but remain above the 10-year average.

Ottawa

- Affordability pressures stemming from high home prices, increasing borrowing costs and construction costs are expected to dampen demand and starts this year. After setting new records in 2021, Ottawa's housing market is forecast to cool in 2022 but remain very strong. Resale inventories are extremely low and new and resale home prices are still high despite weaker sales. Starts are now forecast to decrease in 2022 and hold steady in 2023.
- Lower apartment starts are forecast for 2022 and 2023 while single-family starts are likely to increase next year following a decrease this year as supply constraints ease.

Montreal

- Despite extraordinary economic and jobs growth, rising mortgage rates and high home prices are taking a bite out of housing demand and starts. Single-family and apartment starts decreased by more than 30% in the 1st quarter. Home resales also decreased notably as new and resale house prices continued to soar. After reaching a 30-year high last year, single-family and apartment starts are forecast to decrease in 2022, remaining significantly above the 10-year average.
- Starts are forecast to slip in 2023 on account of modestly lower single-family and apartment starts. Although new condominium apartment sales matched last year's level, fewer purpose-built rental apartment projects this year point to apartment starts being the main driver of lower starts in 2022. Supply constraints such as labour shortages and access to land for development in the urban corridor, together with rising borrowing costs and construction costs, will limit new residential construction.

Halifax

- Housing starts in Halifax reached a 30-year high in 2021, but decreased by 10% in the 1st quarter, driven by a significant decrease in single-family starts.
- Slower in-migration, significant house price appreciation and rising mortgage rates should dampen housing demand and starts. Expect starts to cool in 2022 but increase modestly in 2023.

Chart 14

New Condominium Apartment Sales Soar in Vancouver and Toronto

	Vancouver		Edmonton		Calgary		Toronto		Montreal	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
New Condominium Apartments (Units)										
Starts*	3,988	1,703	107	126	871	361	6,153	6,696	2,203	1,276
Under Construction**	29,862	27,067	2,183	637	4,927	4,128	58,250	63,102	11,809	11,445
Completed But Unabsorbed**	438	1,014	909	409	841	308	186	197	491	298
Sales*	4,300	5,412	32	91	426	1,500	5,916	8,885	1,155	1,207
MLS Condominium Apartments* **										
Number of Units Sold*	5,651	5,479	1,111	1,696	840	1,694	9,408	7,942	6,215	5,328
Average Price ($000s)*	702	813	227	235	257	280	645	790	385	454
Inventory (Months)**	1.5	1.4	n.a.	n.a.	4.4	1.5	0.7	0.9	2.6	2.3

* 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

AltusAnalytics
SOFTWARE | DATA | CONNECTIVITY

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