

# Toronto Economic & Housing Market Outlook 2003



**First Line Mortgage Group**

**Presentation  
June 2003**

**Toronto Area Real Estate Moving into Balance**

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# Toronto Housing Market Myths

- “A housing bubble ready to burst”
- “Speculators are driving housing demand”
- “Toronto`s economy headed for recession”
- “Builders are overbuilding”

# Agenda

- Definition: What is a Bubble?
- Stock Market Correction: Is Real Estate Next?
- Factors Pulling Ownership/Rental Mkt into Balance
- Economic/Demographic Leading Indicators
- Resale/New Home Market Outlook





# Speculative “Bubble”

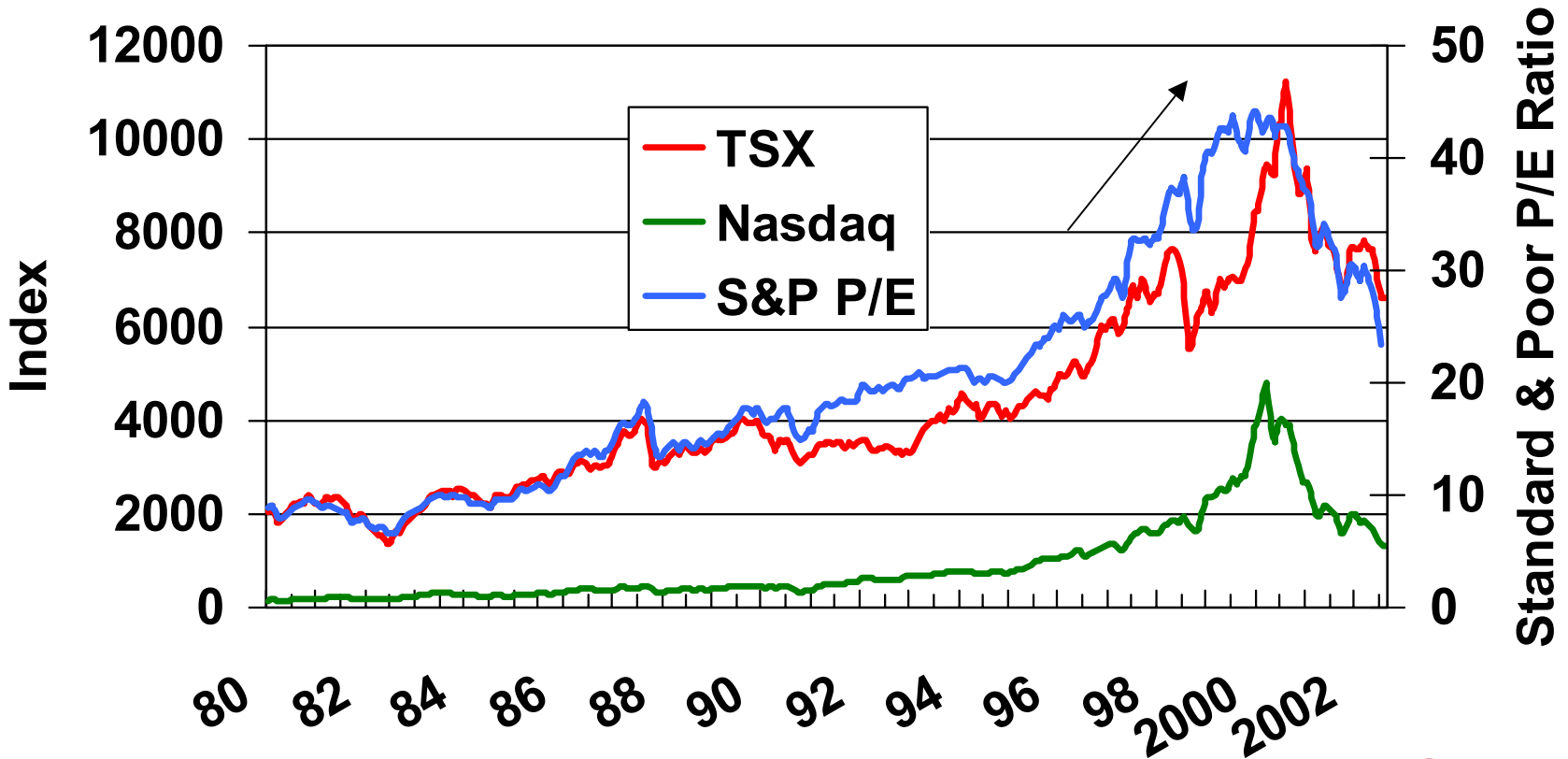
...a continuous market overvaluation  
followed by a collapse



# Characteristics of an Asset Bubble

- *Magnitude*: sharp increase in asset value
- *Time*: short duration
- *Fundamentals*: no underlying economic support

# Late 90s Stock Market Bubble



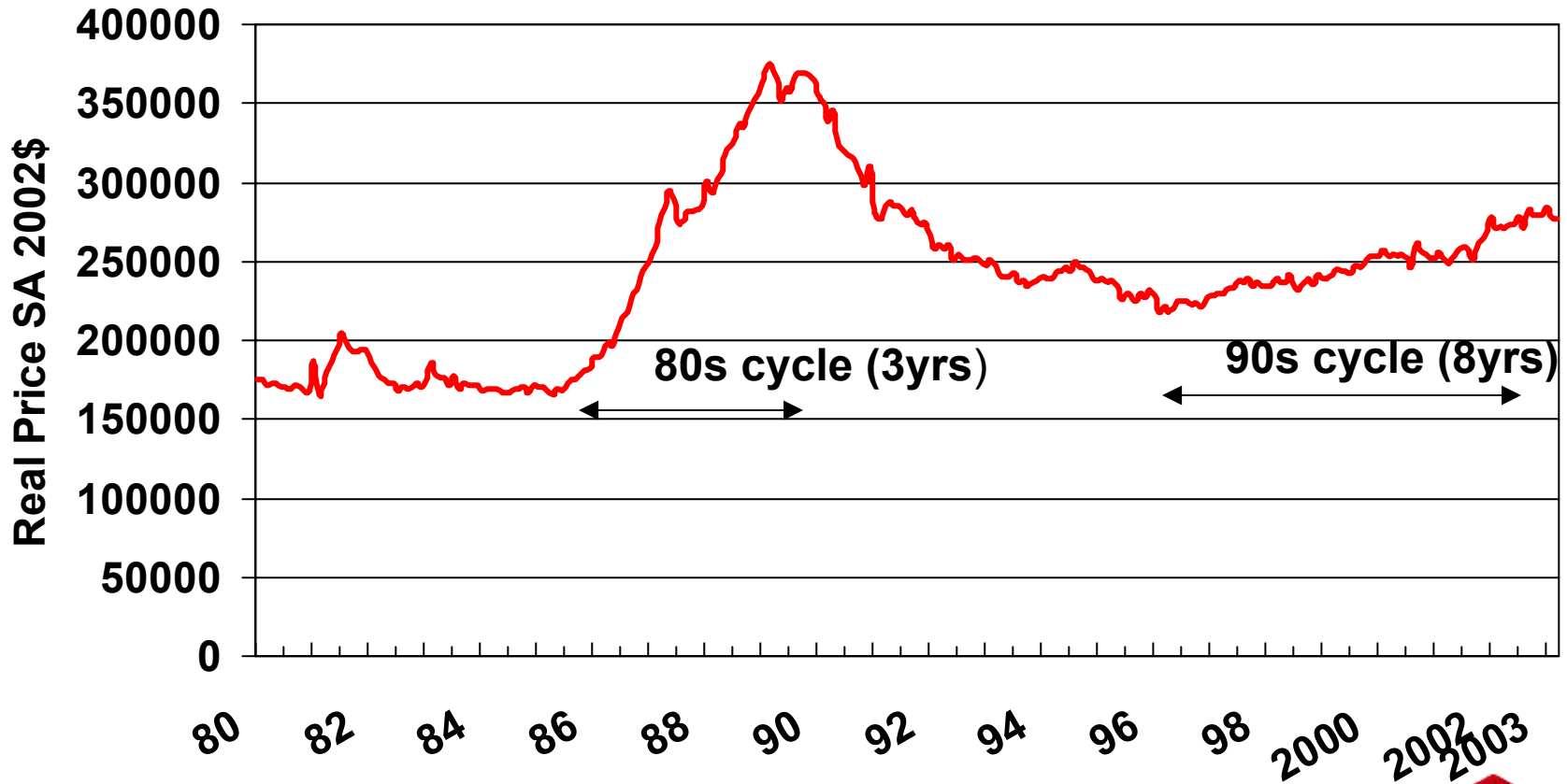
Source: Statistics Canada, Shiller's Indices





# Toronto Real Home Prices

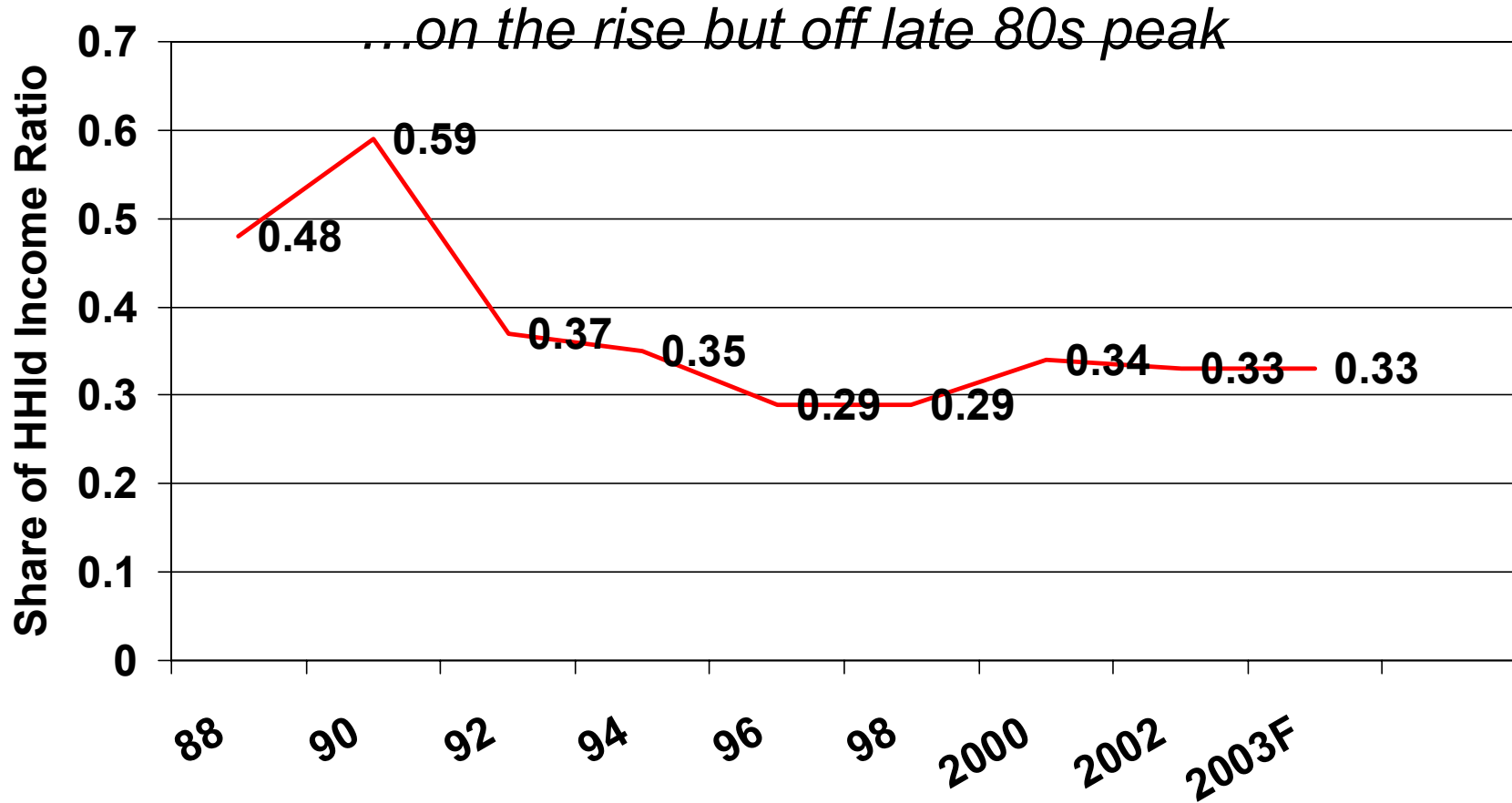
*...steady/sustainable price trend with longer duration*



Source: TREB, CMHC Seasonal /Inflation Adjustment



# Real Estate P/E Ratio (A Proxy)



Source: Bank of Canada, Statistics Canada, TREB, CMHC Forecast



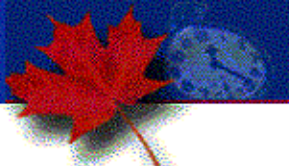
\* Assumes 25% dp, 25yr amort, taxes, 5yr rate, avg resale price



# Healthy Housing Fundamentals

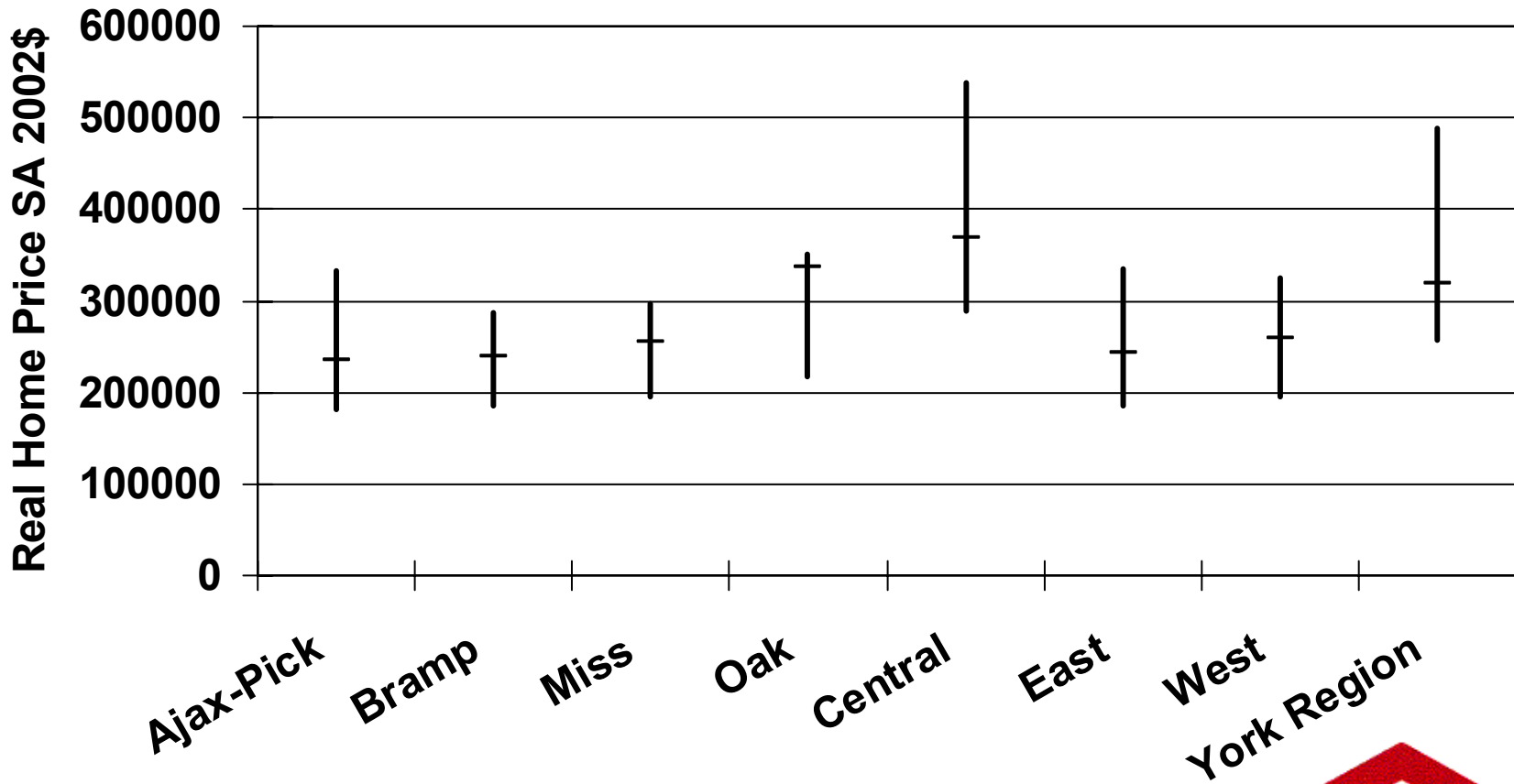
<i>Toronto</i>	1989	2002
Emp Growth	2.6	1.9
5yr mtg %	12.1	7.0
(real mtg)	7.1	3.5
Net Migration	77,000	90,000
Cdn\$	.85 US	.65 US
Avg Resale Price	\$274K	\$275K
(real price)	\$375K	\$275K
New Home Mkt Share	28%	43%
Vacancy Rates	0.4%	2.5%





# Real Home Price by Submarket (High-Low Chart)

*..still room for growth although Oakville area growth limited*

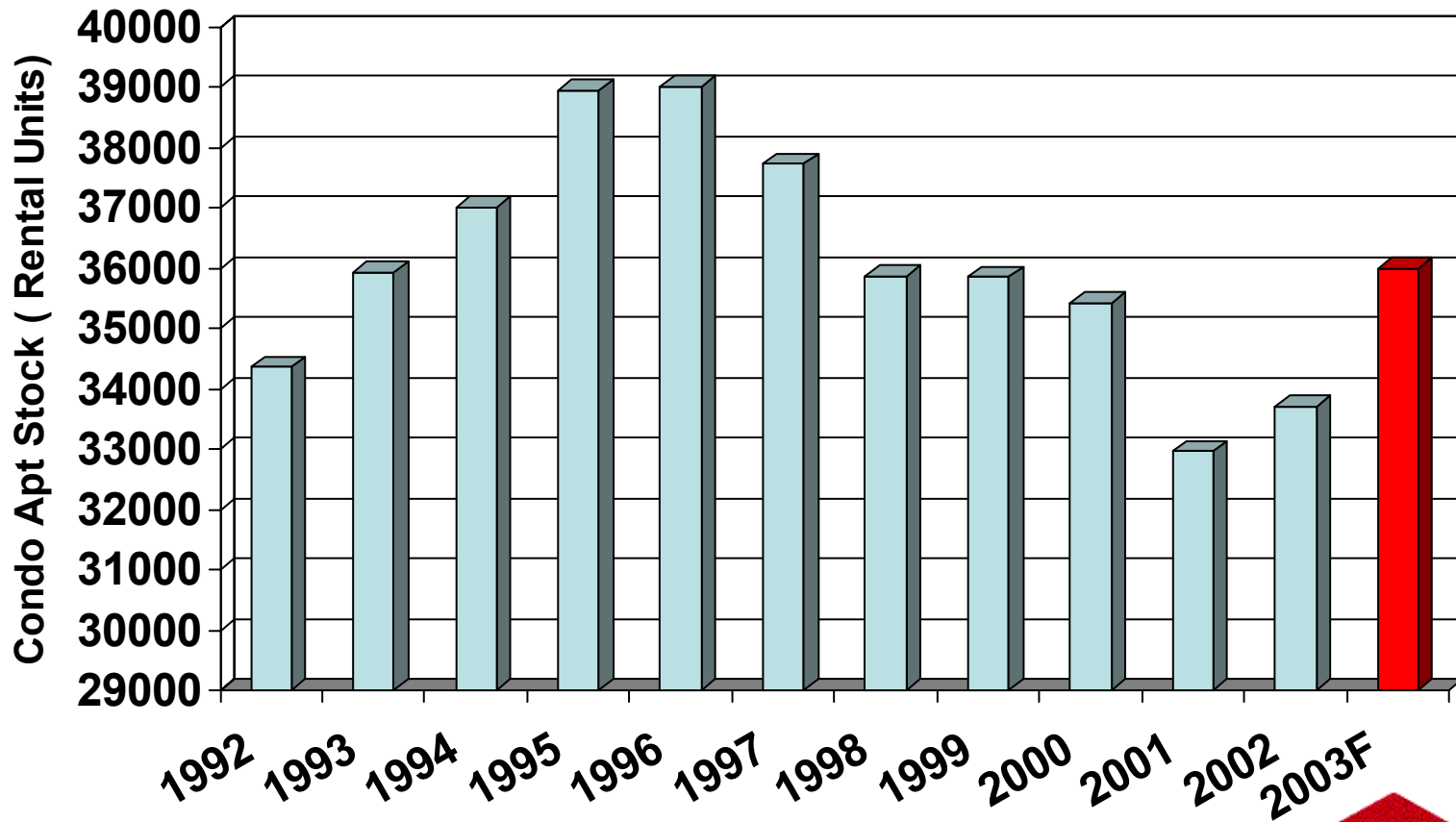


Source: TREB, CREA, CMHC Seasonal / Inflation Adjustment



# Investors Drawn to Real Estate

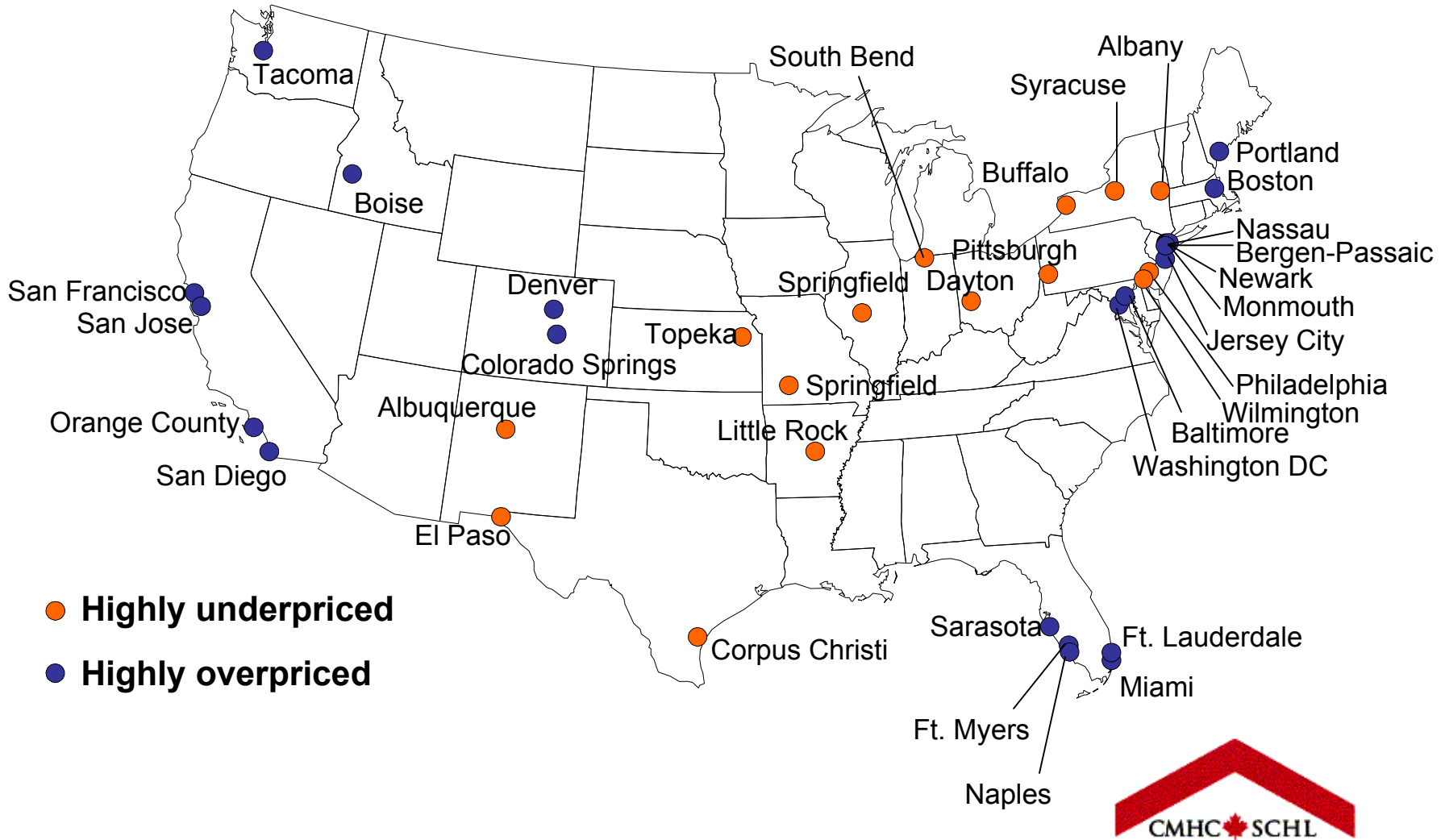
*..real estate offers steady long term returns*



Source: CMHC Condominium Survey



# Potential US Housing Bubbles



Source: Economy.Com

# Factors Pulling Real Estate into Balance

## *Ownership*

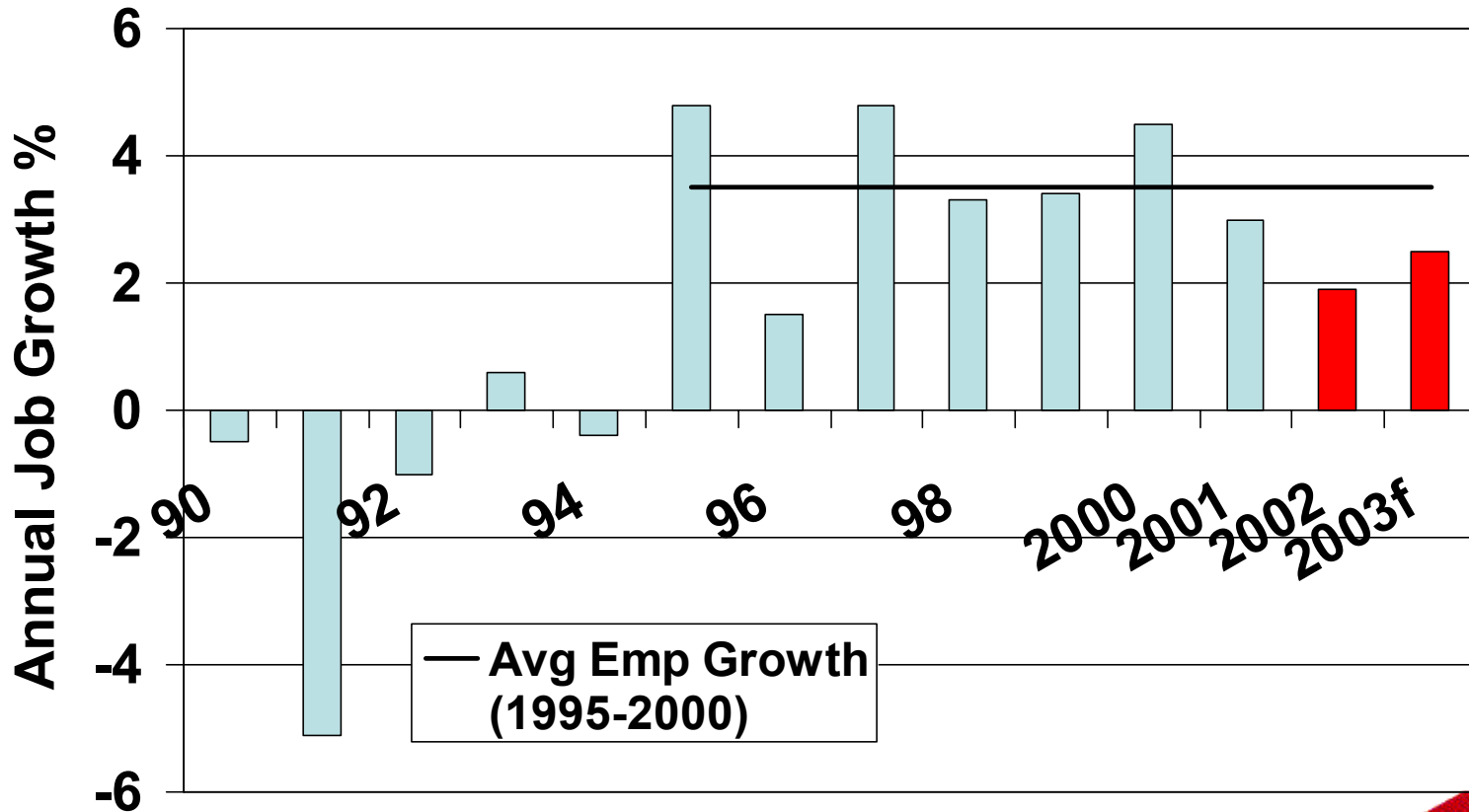
- ✓ Shrinking pent-up demand
- ✓ Higher trending listings
- ✓ Rising carrying costs around the corner
- ✓ Labour, material and land constraints

## *Rental*

- ✓ Anticipated condo rental/new home completions
- ✓ First time buyer led ownership market
- ✓ Landlords shift to “preserve tenant mode”

# Toronto Employment Growth

*..slows in 2002, picks up in 2003*



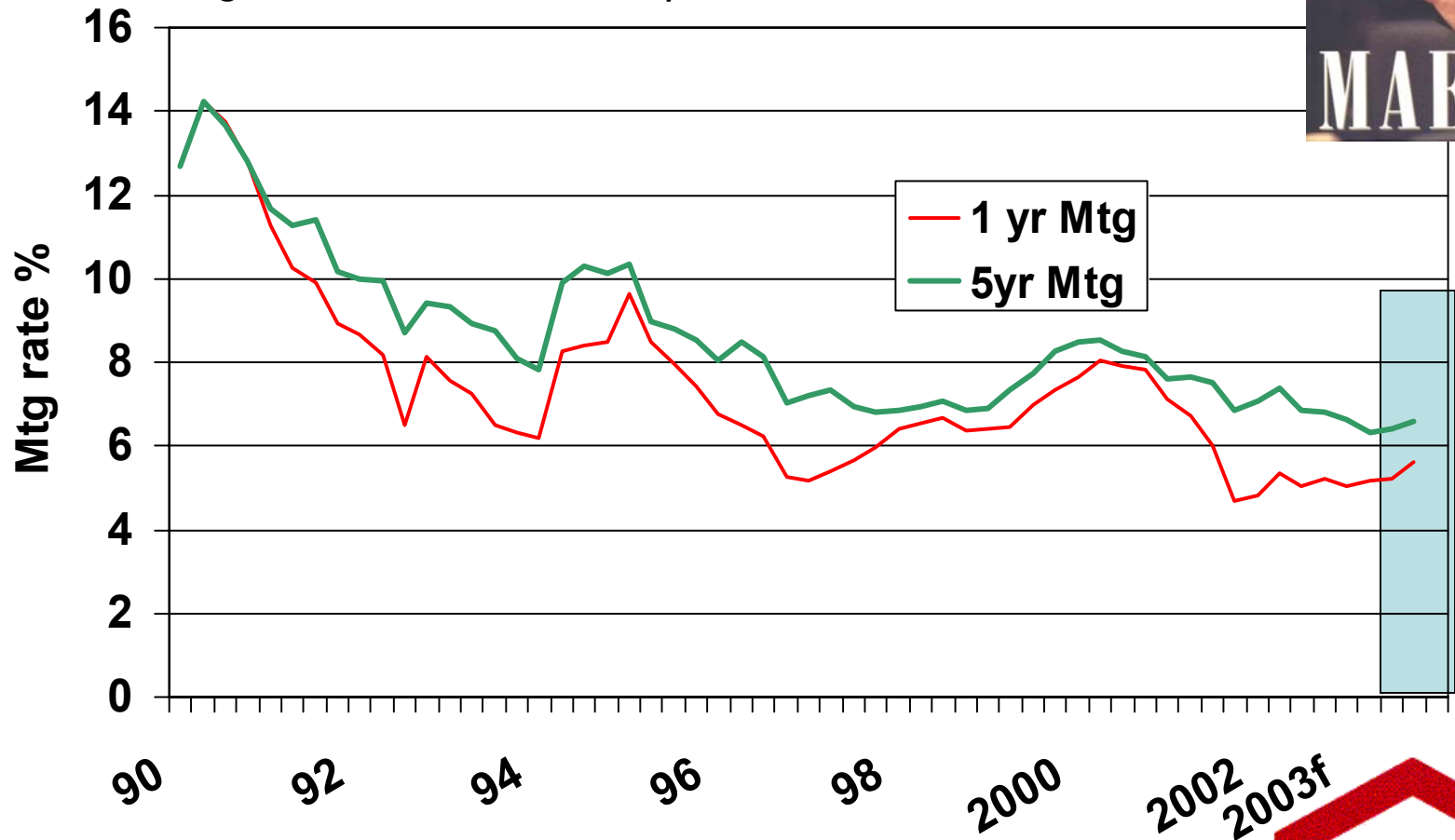
Source: Statistics Canada, CMHC Forecast





# Mortgage Rates

*..stronger C\$, softer inflation put rate hikes on hold..for now*

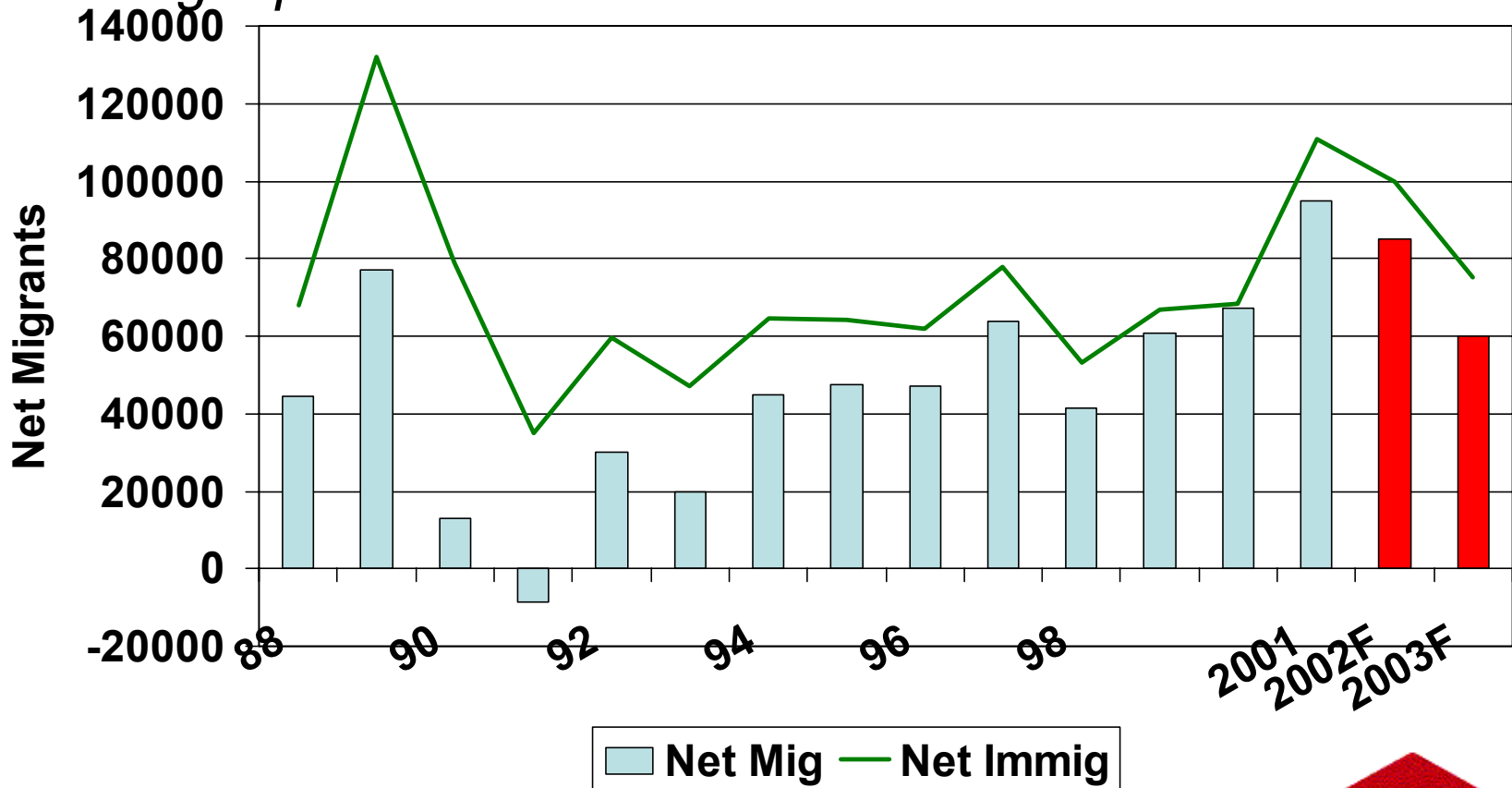


Source: Statistics Canada, CMHC Forecast



# Toronto Net Migration

*...geopolitical concerns reduces cross border traffic*



Source: Statistics Canada, CMHC Annual Estimates / Forecast



# Age Distribution of Recent Migrants

*...migration adds relief to aging population*

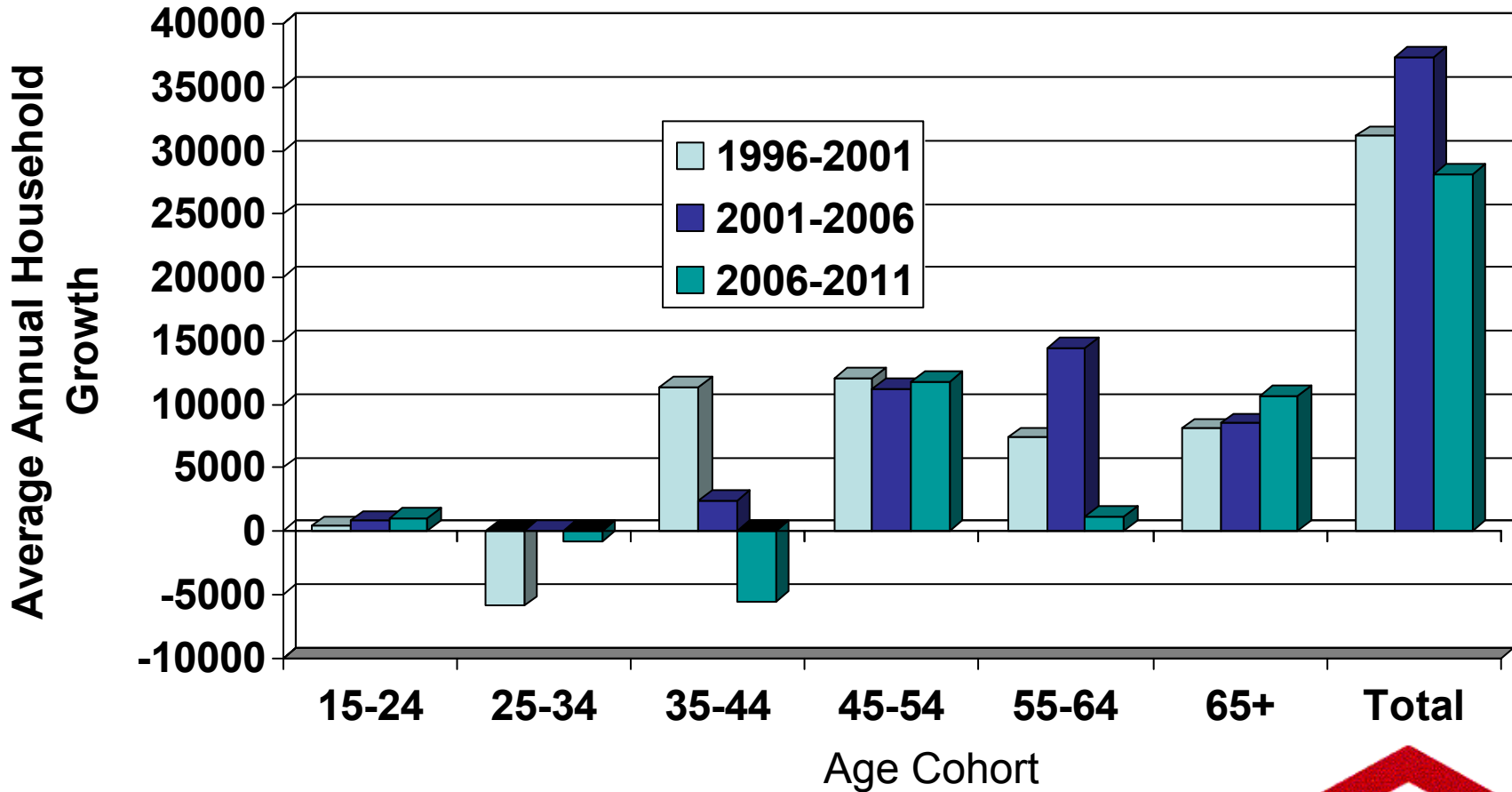


Source: Statistics Canada



# Toronto Demographic Projection

...household formation on the rise especially for move-up market



Source: CMHC Potential Housing Demand Model, Statistics Canada Census Division





# Resale Market Outlook

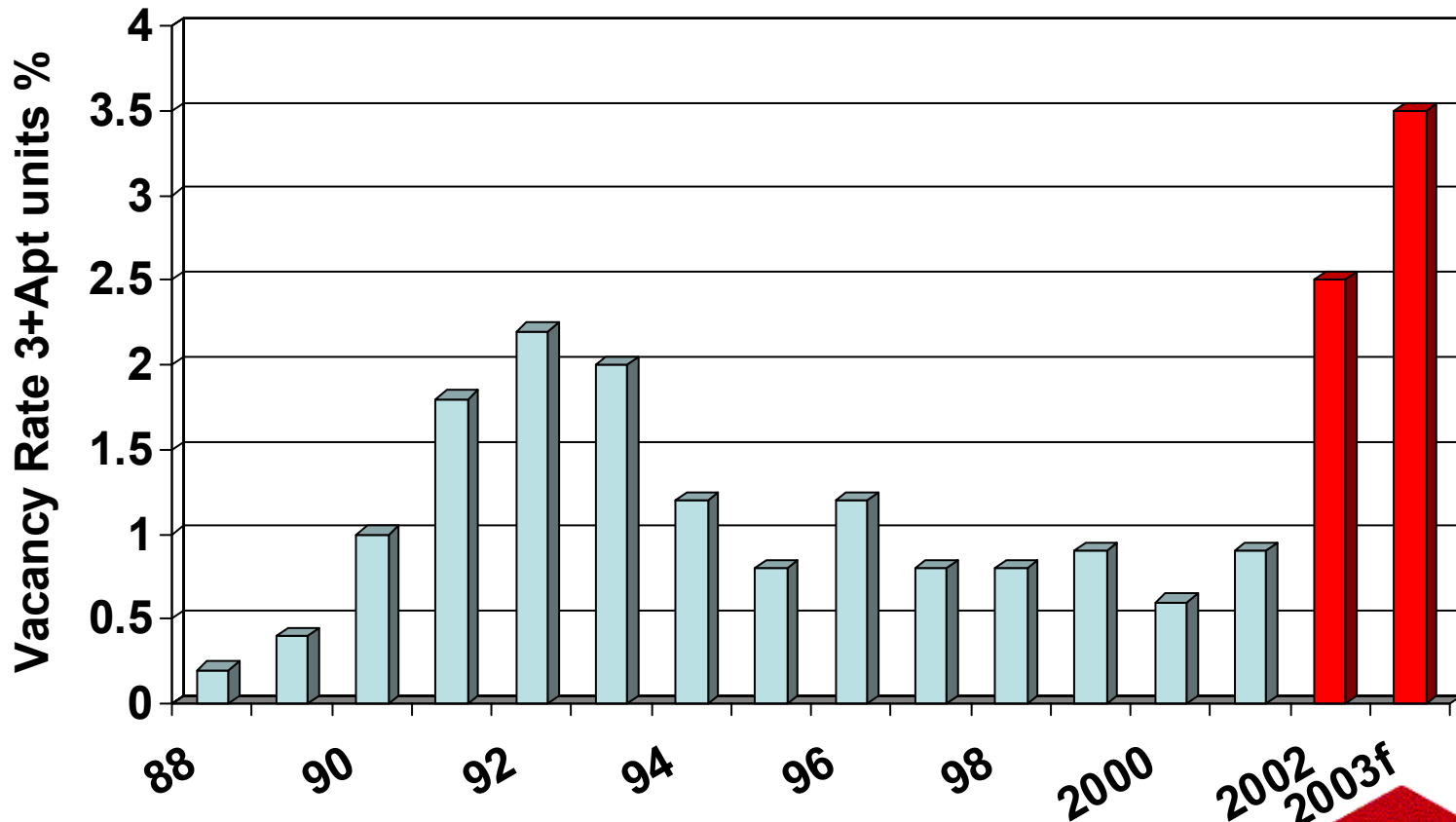
*...sets the tone*





# Toronto Rental Vacancy Rates

*...ownership vs rental rates trigger outflows*



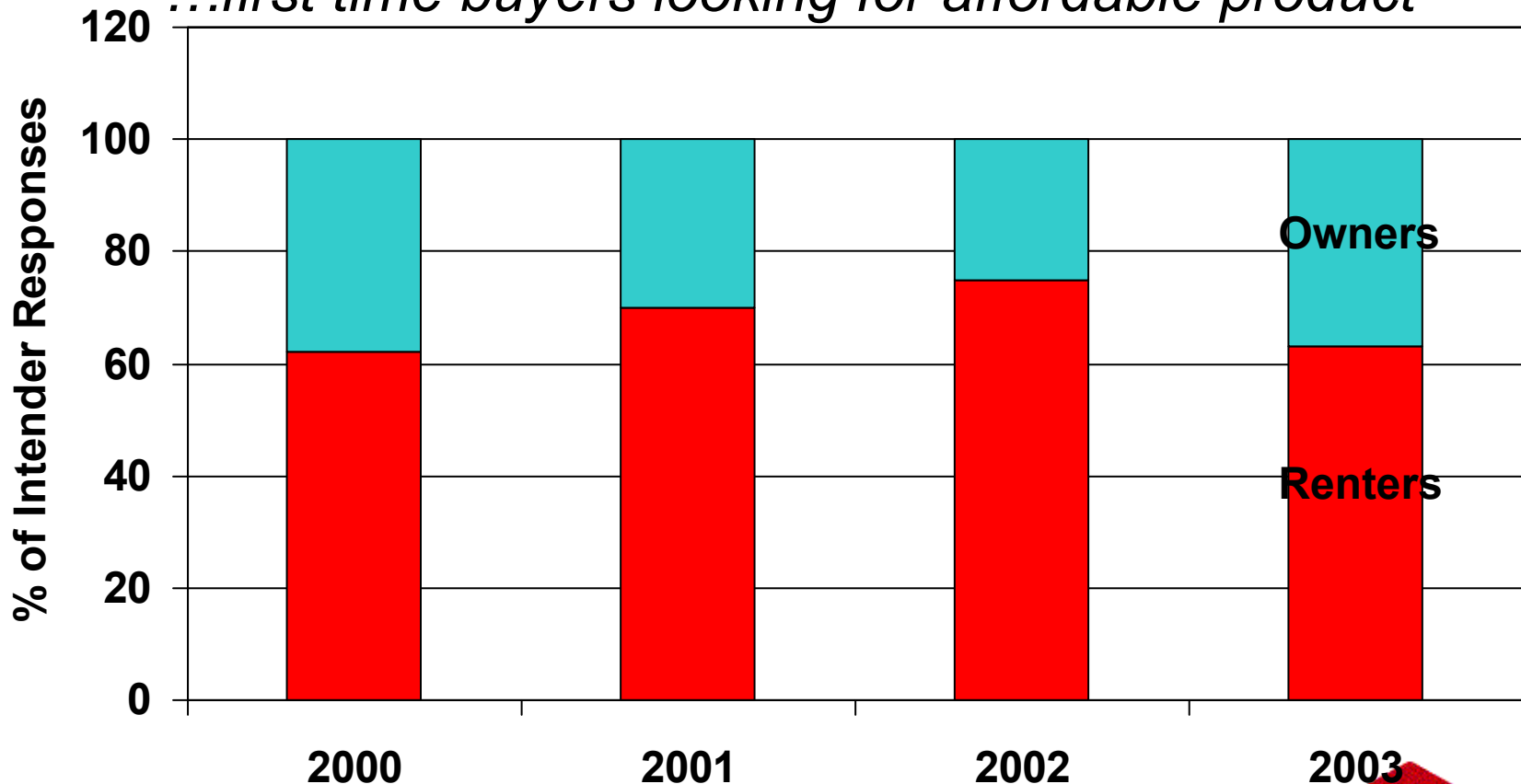
Source: CMHC Rental Market Survey





# Who's Buying?

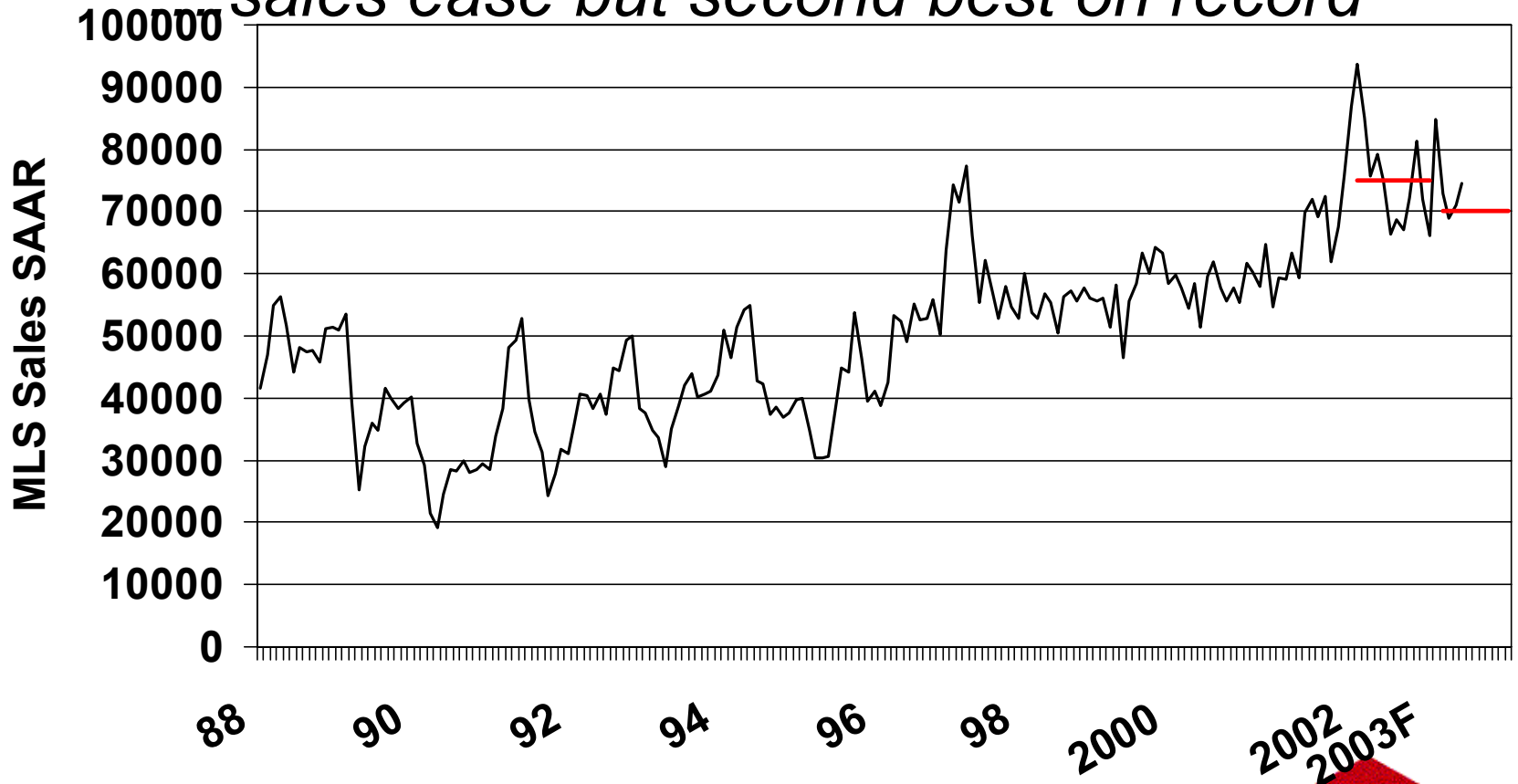
...first time buyers looking for affordable product



Source: CMHC Consumer Intentions to Buy & Renovate a Home Survey

# Toronto MLS Sales

*sales ease but second best on record*

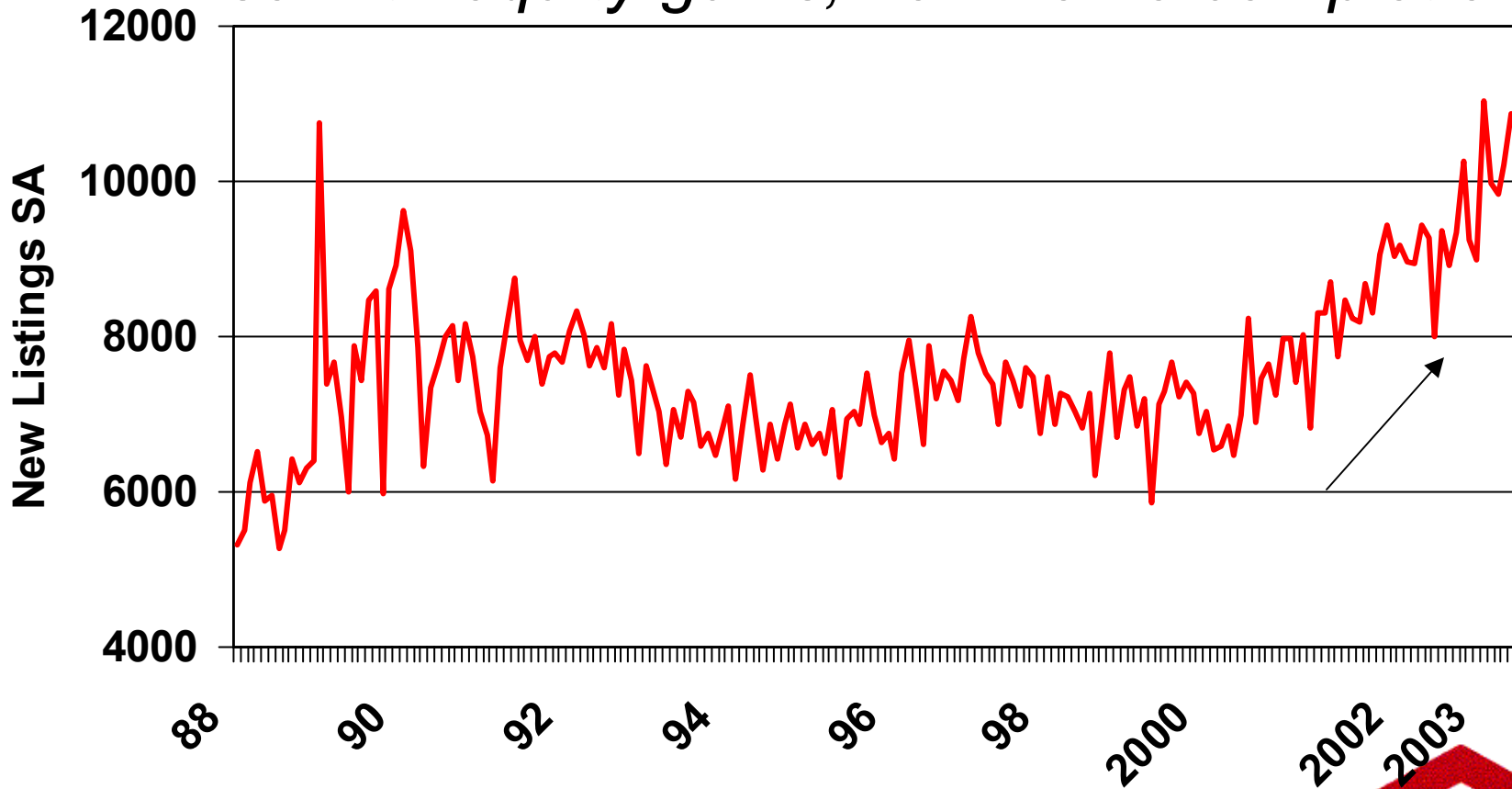


Source: TREB, CMHC Seasonal Adjustment / Forecast



# Toronto Listings

*...rise with equity gains, new home completions*

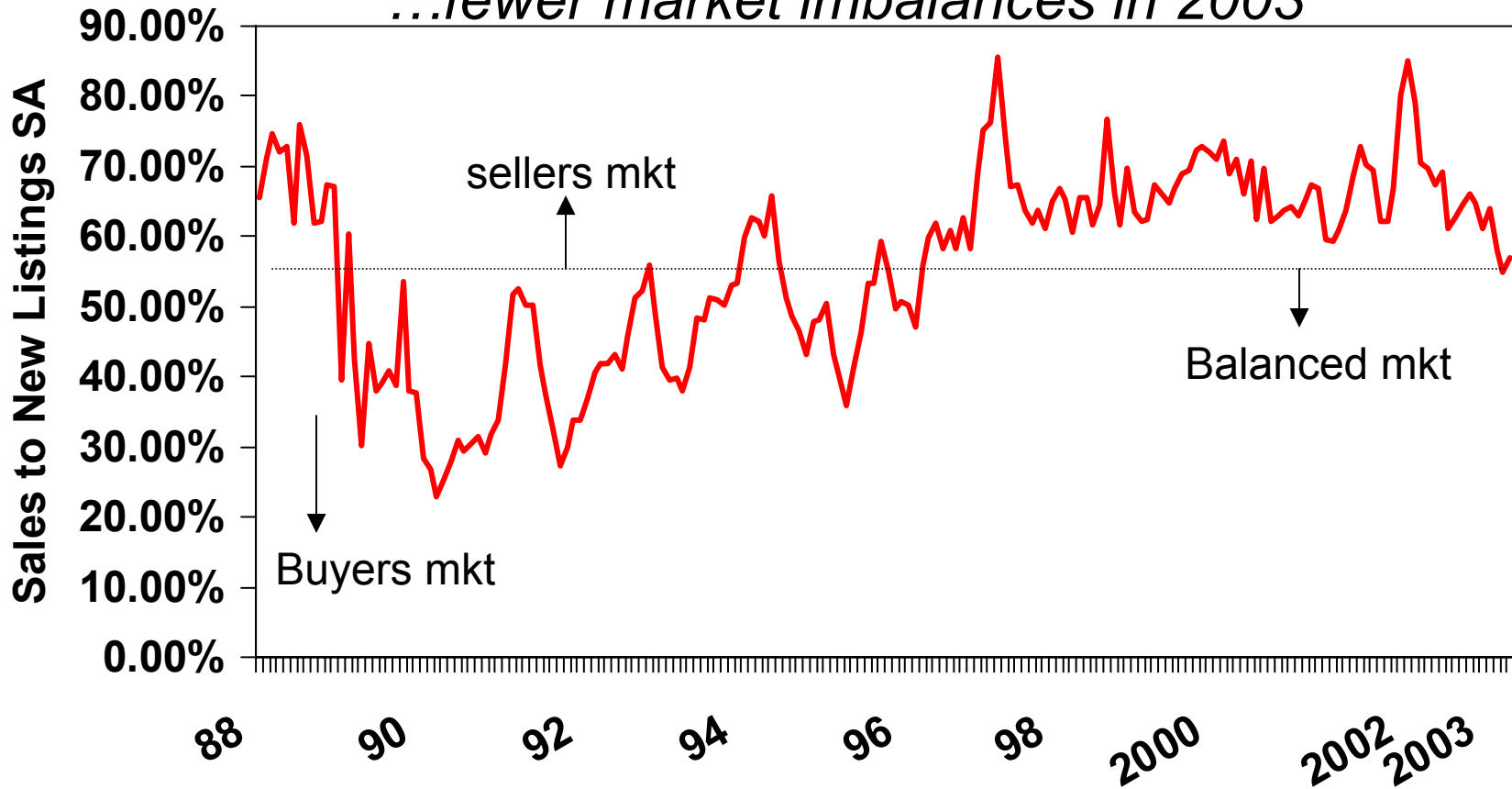


Source: TREB, CMHC Seasonal Adjustment



# Toronto Resale Market Classification

*...fewer market imbalances in 2003*



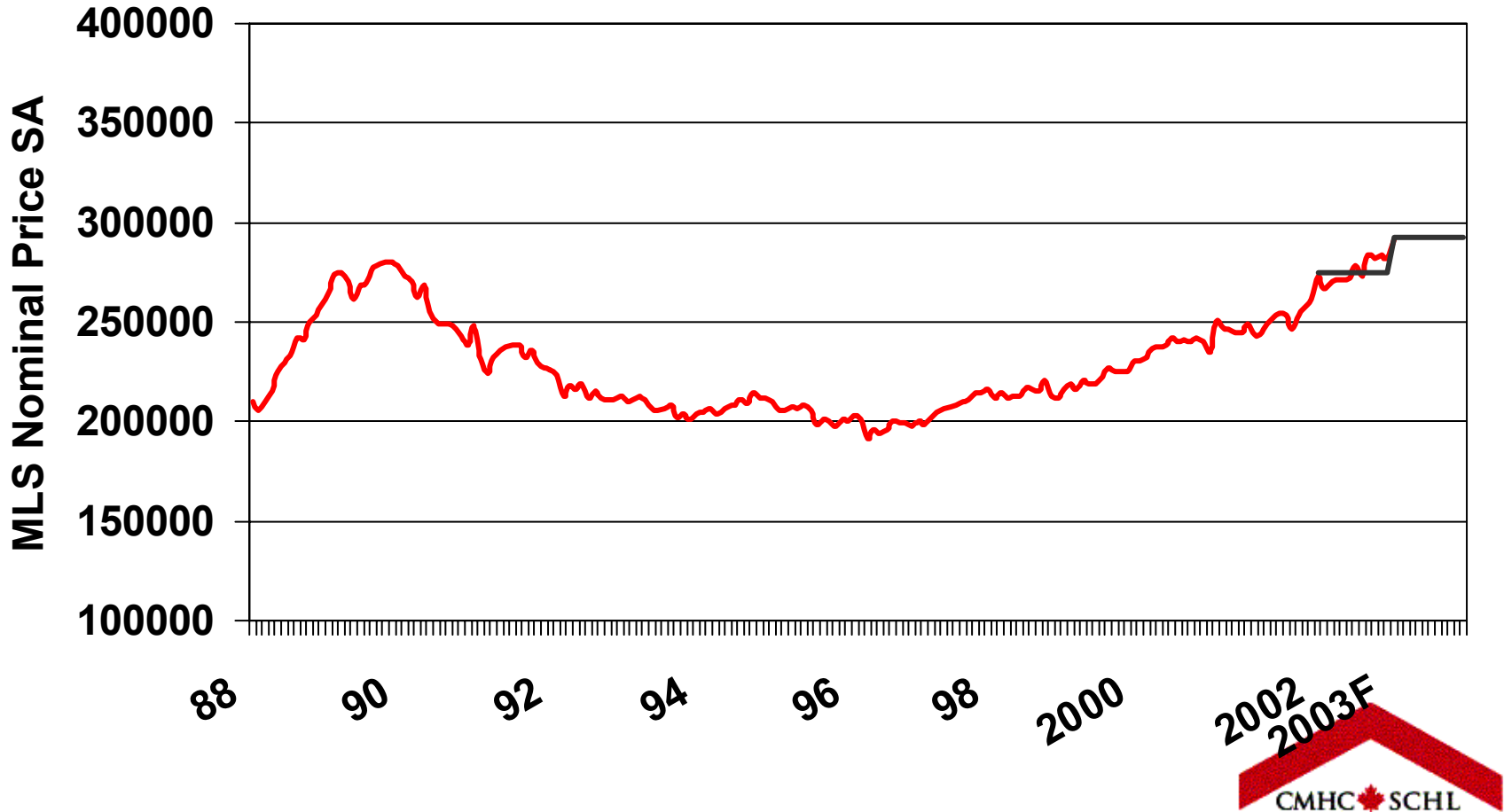
Source: TREB, CMHC Seasonal Adjustment





# Toronto Resale Prices

*...moderate increases in 2003*

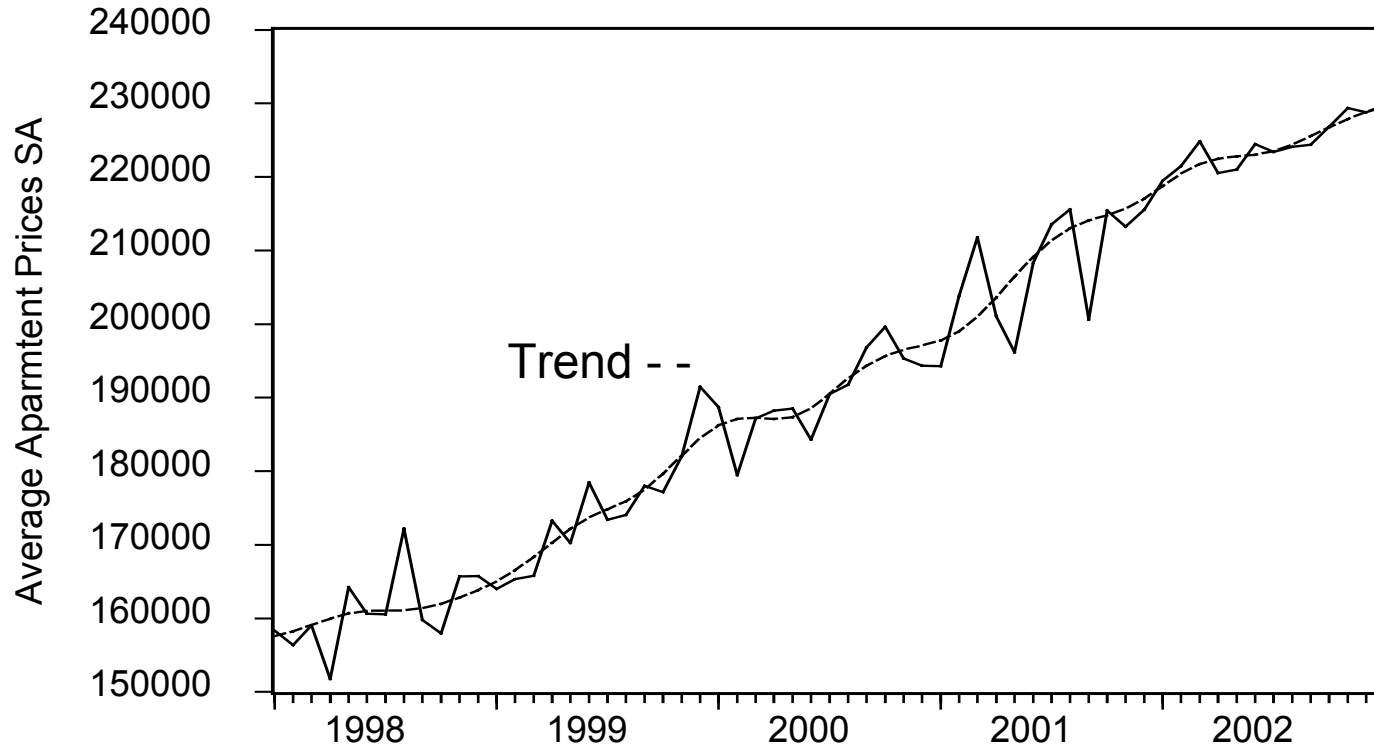


Source: TREB, CMHC Seasonal Adjustment / Forecast

# Condo Price Growth Softens

Toronto Condo Apartment Prices SA

Central Toronto (2003Q 1)

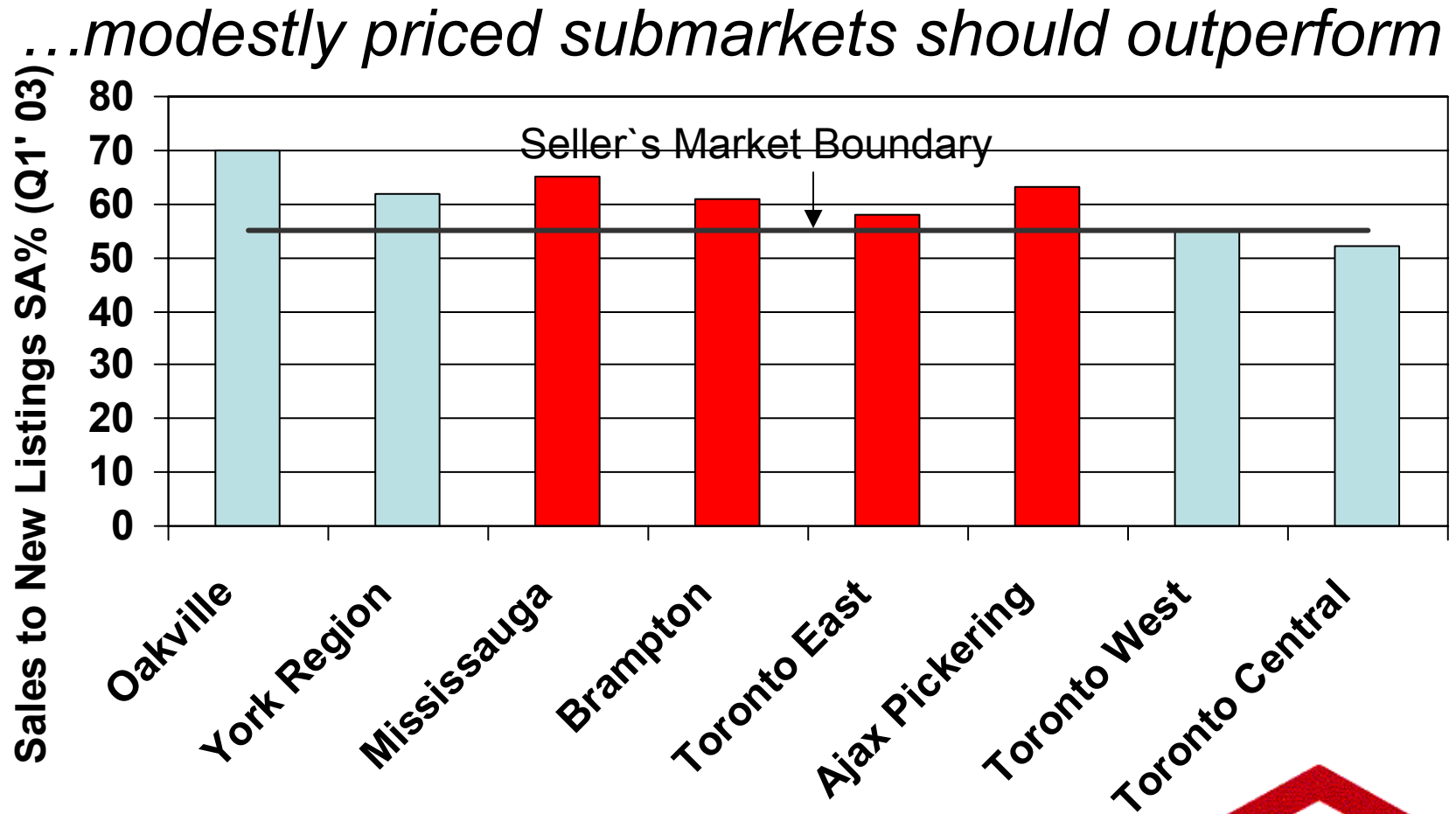


Source: CREA, CMHC Seasonal Adjustment





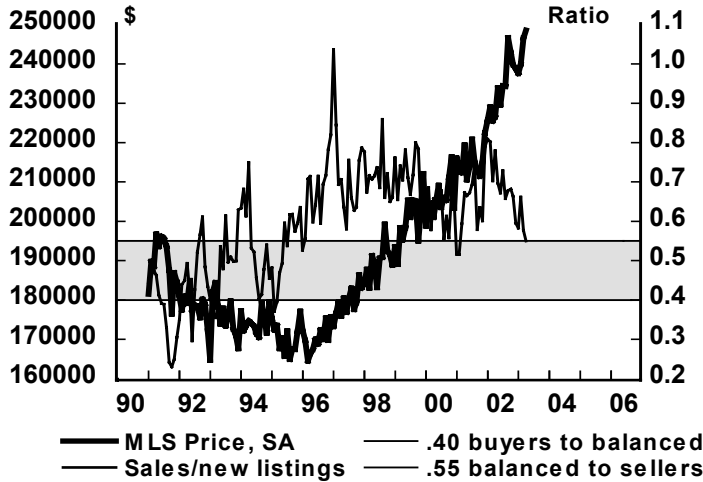
# Toronto Sub Markets



Source: TREB, CMHC Seasonal Adjustment

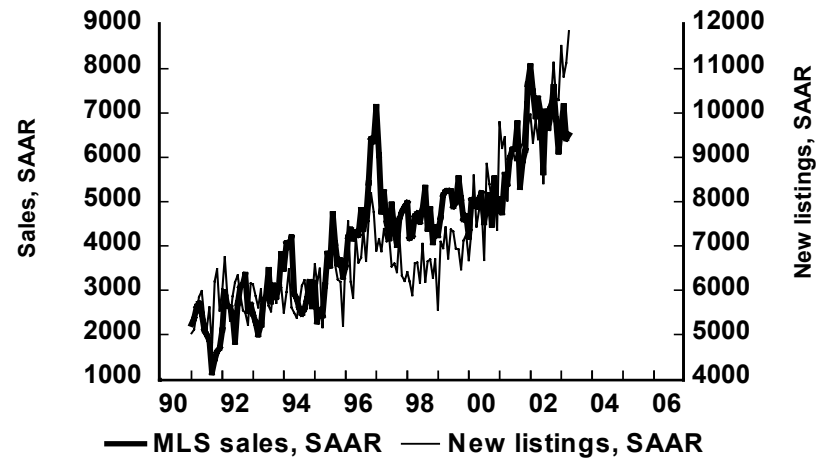
# Real Price Increases in Brampton

Brampton home price & market classification



Source: TREB data. Seasonal adjustment by CMHC.

Brampton sales & new listings



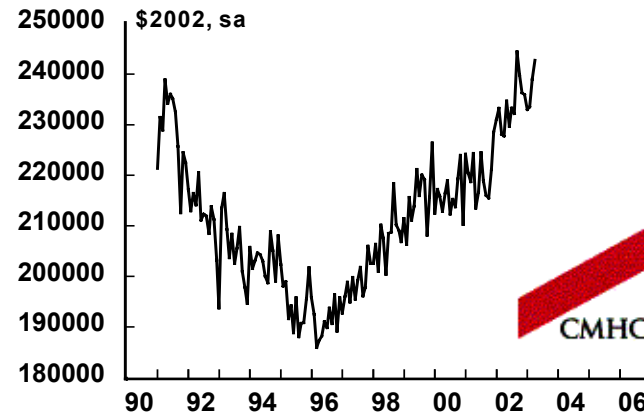
TREB data. Seasonally adjusted by CMHC.

Brampton, average monthly home payment



Source: CREA average MLS price, CPI deflated, s.a.

Real Brampton home price



Source: CREA average MLS price, CPI deflated, s.a.



# 2003 Buyer Profile: Brampton

- ✓ Most buyers(1/3) aged 25-34 and serious
- ✓ 1/3 looking at \$200K-\$250K price range & home ranging between 1200-2000 sq ft
- ✓ Pre-owned established neighbourhood most appealing
- ✓ Single detached home most popular(3/4)
- ✓ Half commit 5-24% dp
- ✓ Half fund dp from savings, RRSPs (HBP)



# Summary

- **Boom-bust/bubble patterns largely absent; fundamentals ensure healthy soft landing**
- **Stock market adds net support to real estate**
- **Slower pace in 2003 sales and home price growth**
- **Higher mortgage costs dampen more expensive housing in late 2003/2004**

# Forecast Summary

<b>Toronto Area</b>	<b>2001</b>	<b>2002</b>	<b>2003f</b>
<b><i>MLS Sales</i></b>	<b>67,612</b>	<b>74,759</b>	<b>72,000</b>
<b><i>MLS Prices</i></b>	<b>\$251,508</b>	<b>\$275,371</b>	<b>\$293,000</b>
<b><i>Housing Starts</i></b>	<b>41,017</b>	<b>43,805</b>	<b>44,000</b>
<b><i>Vacancy Rates</i></b>	<b>0.9%</b>	<b>2.5%</b>	<b>3.5%</b>
<b><i>5 yr Mtg Rate</i></b>	<b>7.4%</b>	<b>7.0%</b>	<b>6.5%</b>
<b><i>Net Migration</i></b>	<b>95,000</b>	<b>85000</b>	<b>60,000</b>

***F=forecast***



# Recent CMHC Housing Analysis

- 2003 Toronto Housing Market Outlook
- 2002 Rental Market Report & Outlook
- 2001 GTA Residential Land Inventory Survey

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