

Experience Profile

Conference Presentation – Economic and Housing Market Outlook

22nd Annual Hardlines Retail Conference “Bricks and Clicks”

- Extreme pent up demand and a supply shortage in Toronto responsible for price escalation; expect the same ahead
- Very strong economic condition and a surge in job growth will lift housing starts in almost all regions
- Conference address by Peter Norman, VP & Chief Economist, Altus Group
- This was Mr. Norman’s 8th address to the Hardlines Conference over the past 15 years

Synopsis

Housing prices were rising rapidly in Canada and Ontario and particularly in Toronto until mid-year, and the turbulence in markets over the past few months following, in part, government policy announcements, is interpreted as a housing market adjustment. But tight underlying conditions and pent up demand still exist, so expect more price pressure ahead.

Canadian prices have risen over the past two decades generally in line with most other comparable countries, and have been more stable. The largest point of price escalation comes from the Greater Toronto Area where an extreme shortage of new housing (especially new single-family housing) relative to a very robust pace of job growth and accelerating rates of in-migration that is fuelling housing demand. These conditions are similar to Vancouver. This pace of price growth is not ideal from an economic development sustainability perspective, but it is being fed by fundamentals and will very likely continue to be an issue through 2018.

Supply and demand imbalances, especially in large cities, are partly being driven by a shift in supply toward apartment units and away from the more widely demanded single family. It’s also likely municipalities are not planning for and providing adequate units for the growth in “non-household” occupancy demand.



Housing demand remains steady or even strengthening in most regions fuelled by job growth, immigration, and migration trends. While housing affordability in some markets may be a challenge for ownership (as might the very modest rise in interest rates recently), this same factor also fuelling rental demand, which, in turn, is fuelling a renaissance of purpose built rental supply right across the country.

On net we expect housing starts will at least hold up to the numbers seen last year nationally, weaker regions improve and stronger regions stay relatively buoyant.

In terms of renovation activity, 2018 should see a modest boost in investment activity, as still generally low interest rates, improved home equity, and population aging effects all point to higher demand for renovation projects.

Tracking the Trends Prospects for New Housing and Renovation Spending

Economic Intelligence

November 14th, 2017
Hardlines Retail Conference, Niagara Falls

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Peter Norman, VP & Chief Economist, Economic Consulting



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Today's Agenda



- Housing Market Adjustments – Real or Fake News?
- The Economy: Benefits of Convergence
- Consumers Continue to be Stronger Than We Think
- What Lies Ahead for New Construction?

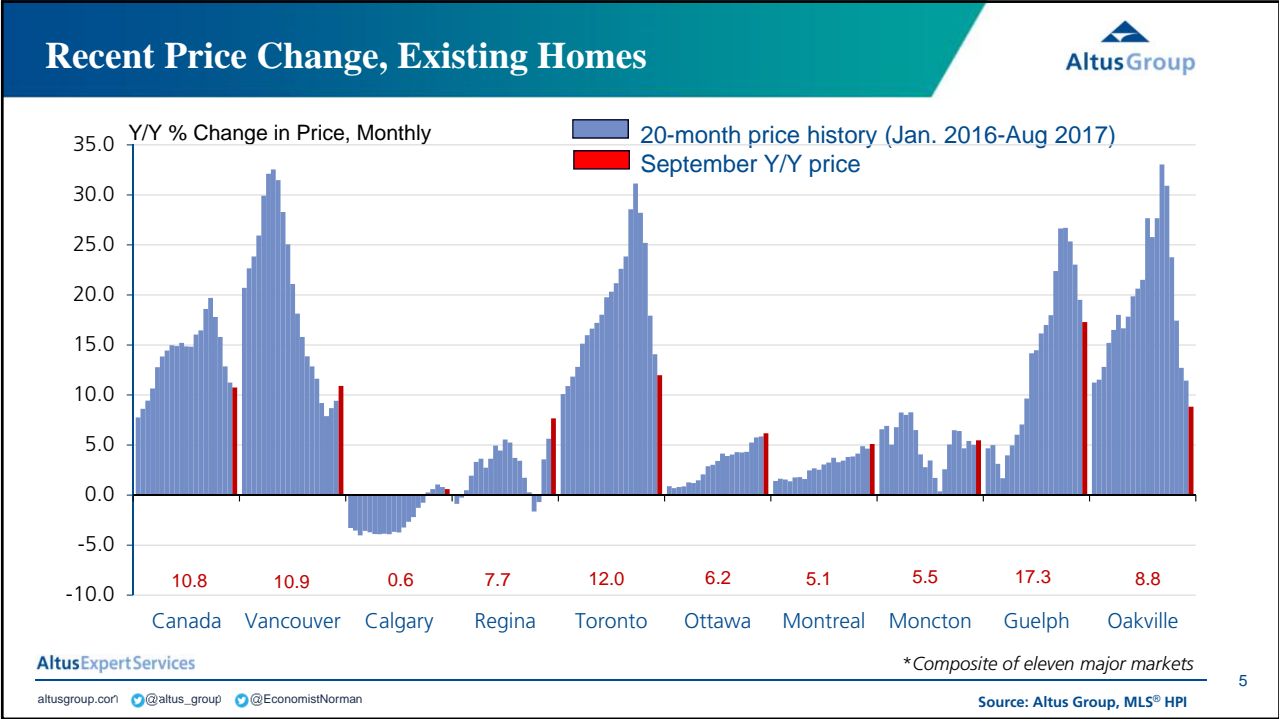
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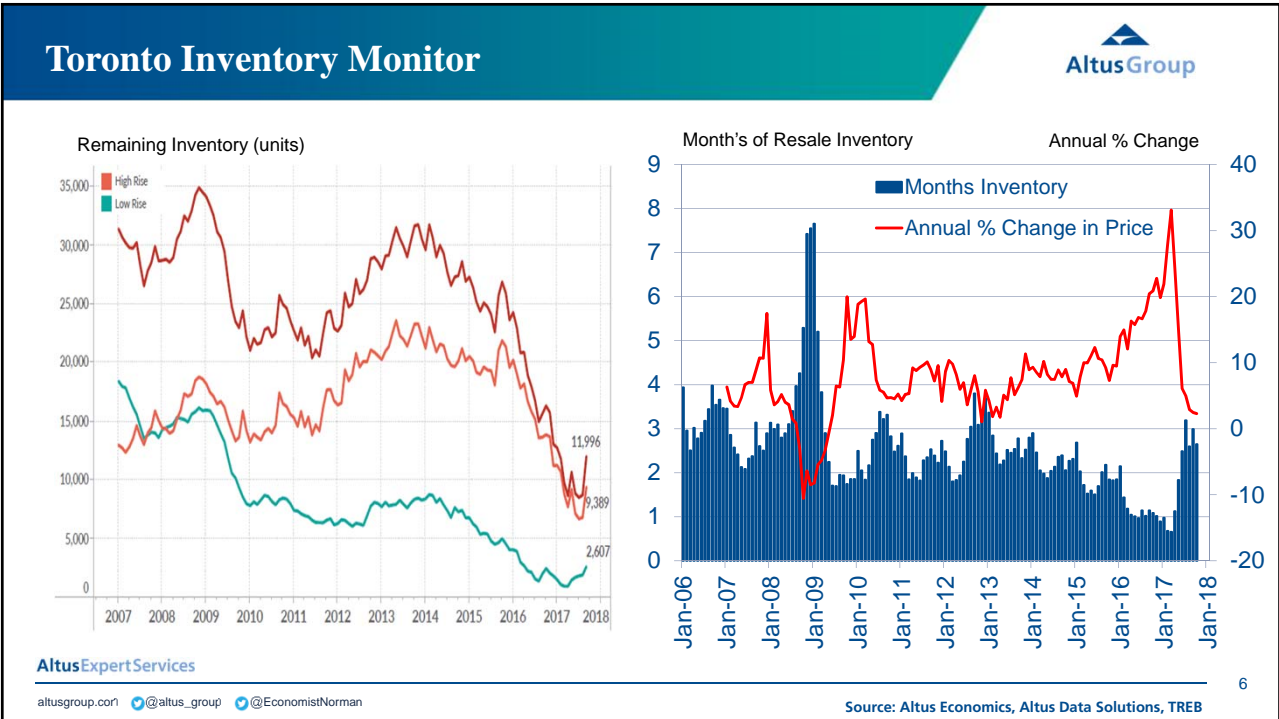
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Housing Market “Adjustments” Real or Fake News

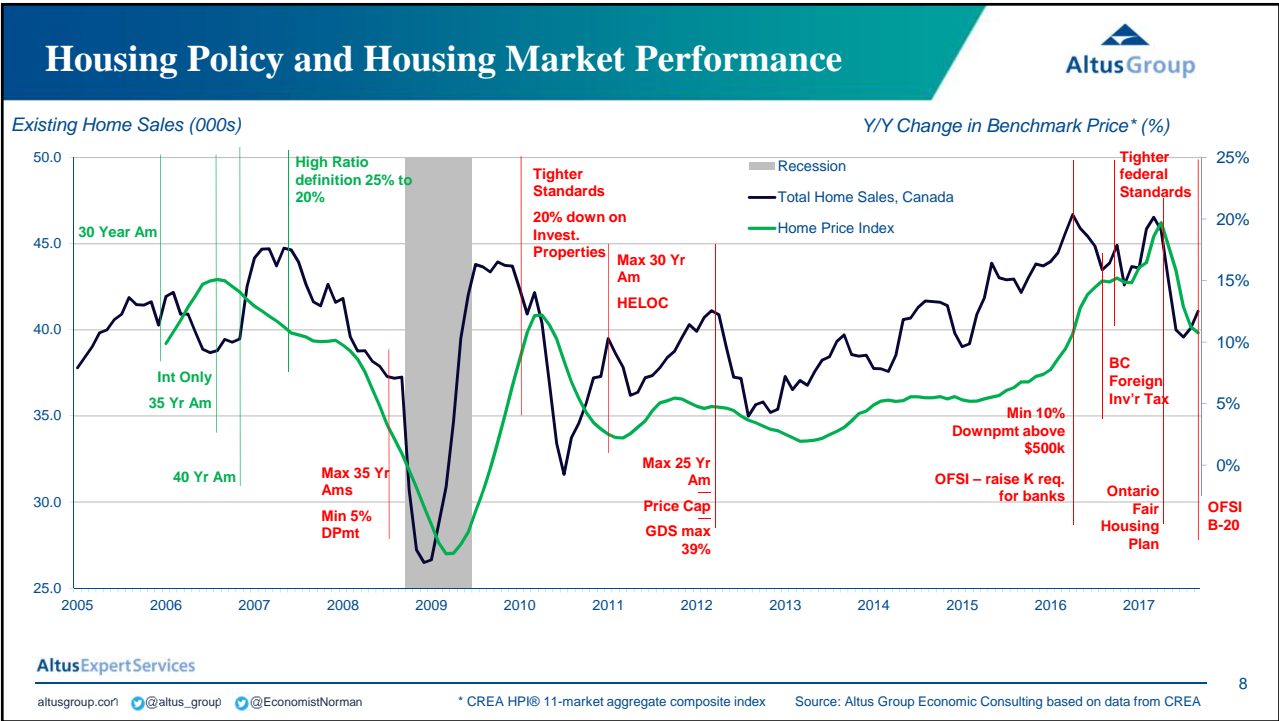
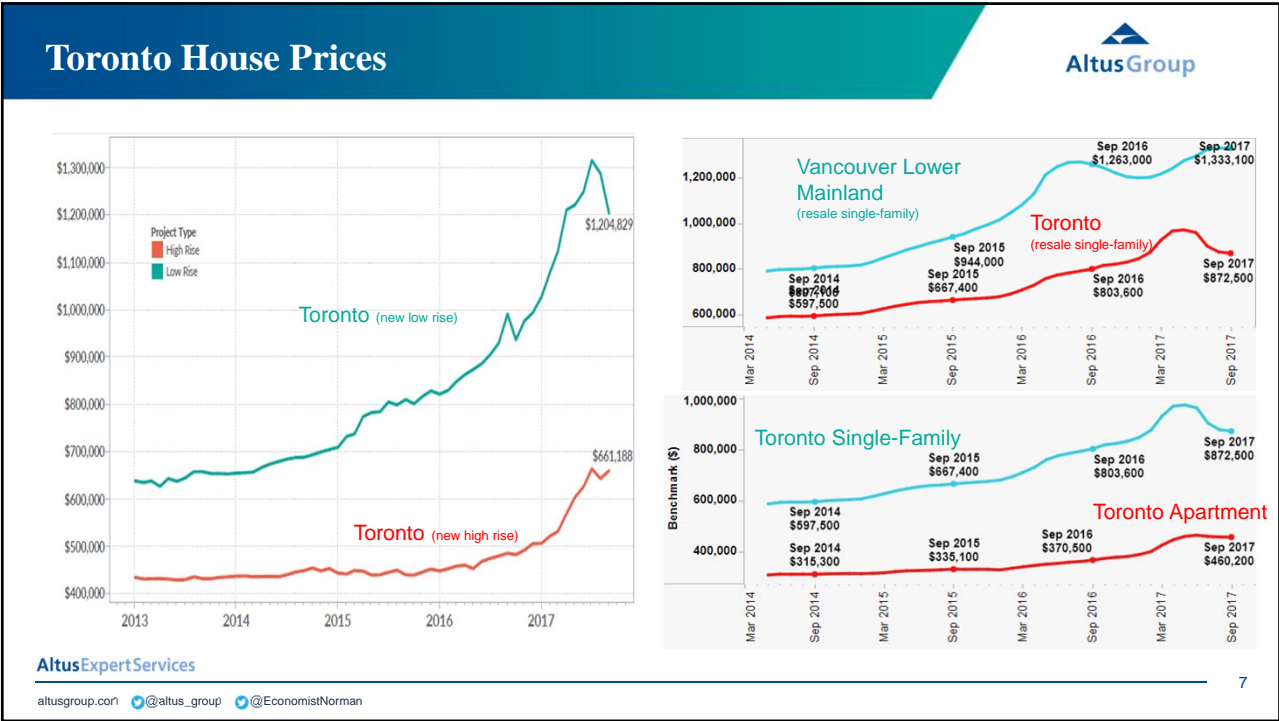
A photograph of a row of modern, two-story houses with gabled roofs and light-colored siding, set against a clear blue sky. The houses are arranged in a perspective that recedes into the distance.




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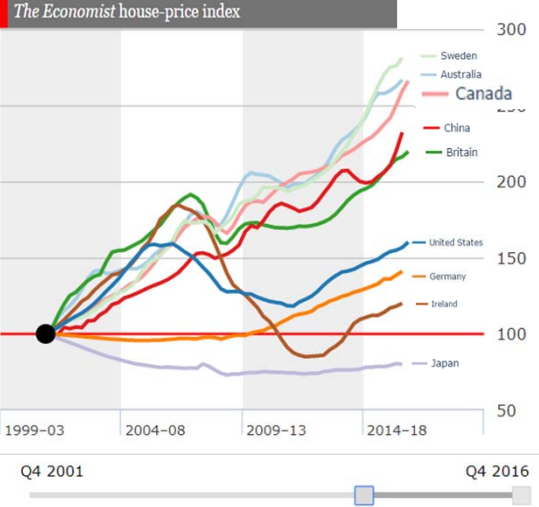
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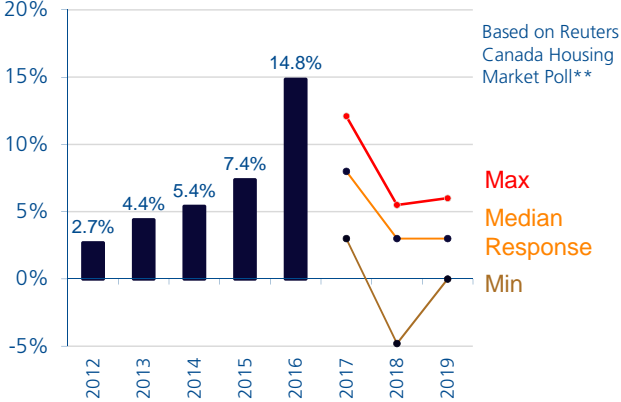
Canadian House Prices: International Context and Future Expectations



The Economist house-price index



Year-over-year % Change in Price (CREA MLS HPI)*



Based on Reuters Canada Housing Market Poll**

Max
Median Response
Min

* Dec over Dec
 ** Survey of 16 housing forecasters in August 2017

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Source: Altus Economics, Economist.com, CREA: homepriceindex.com, Thompson Reuters

Economy, Consumers, Demographics: Key Real Estate and Housing Drivers

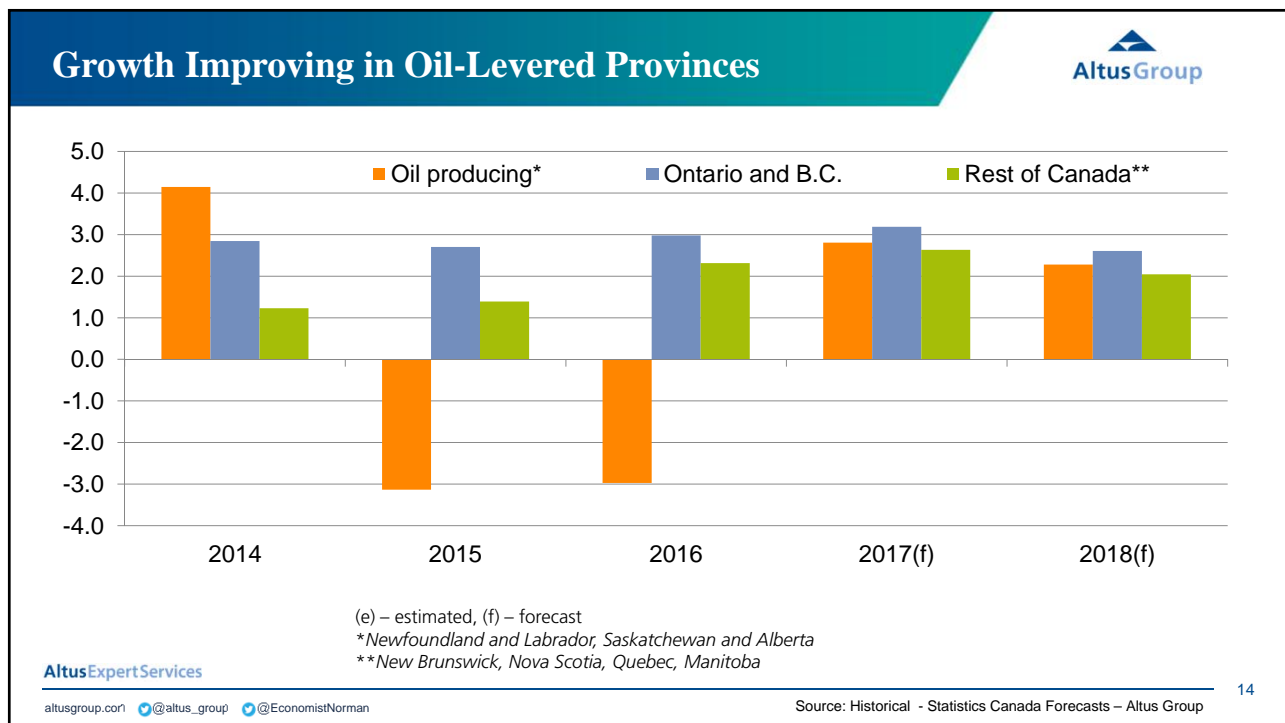


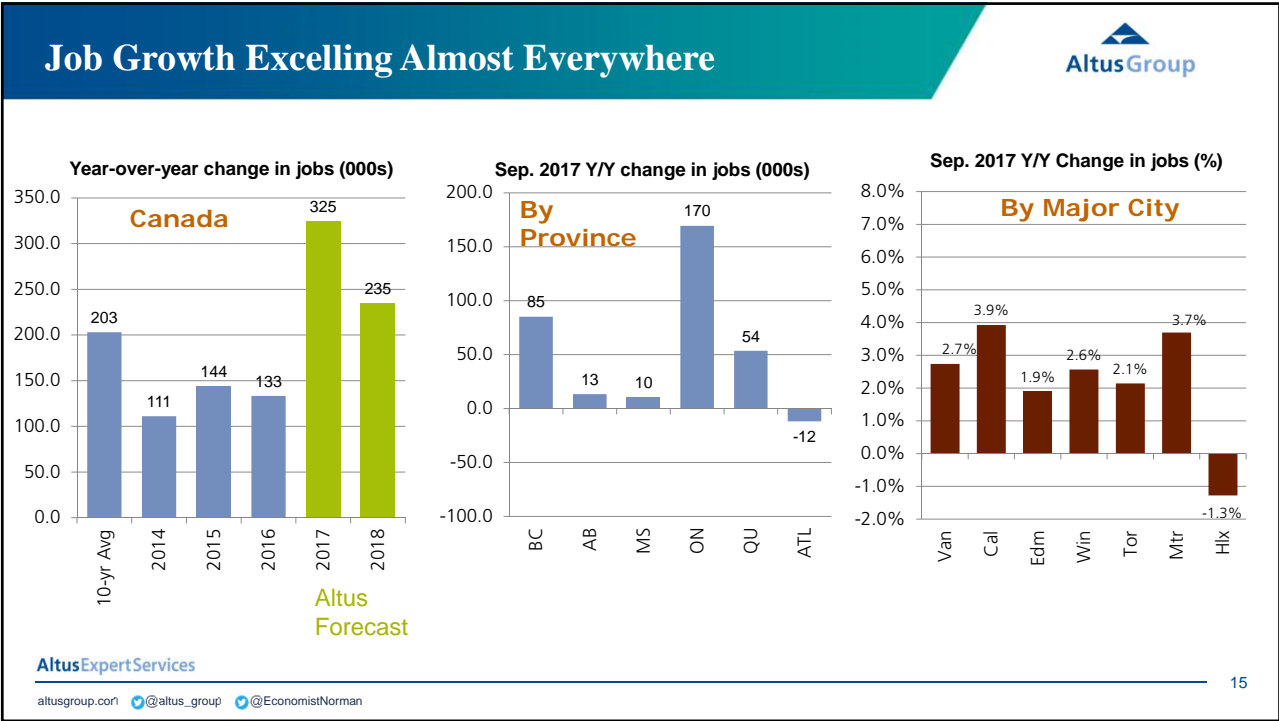
Economic Outlook

	Average				
	2006-15*	2016e	2017f	2018f	
	Year-to-Year Change				
Real GDP (economic growth, %)	1.7	1.5	3.0	2.4	↑
Employment Growth (persons, 000s)	182	133	325	235	↑
CPI (inflation, %)	1.7	1.4	1.7	2.0	↑
Real Personal Disposable Income per Capita (%)	2.1	1.8	1.4	2.0	↑
1 Year Mortgage Rate (banks, posted %)	4.2	3.1	3.8	4.2	↑
5 Year Mortgage Rate (banks, posted %)	5.7	4.6	5.3	5.7	↑


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Net Migration Trends Strongly Boosting Ontario



	Average 2004-2013*				Distribution	
	2013*	2014*	2015*	2016*	2015	2016
	Total Net Migration (Persons 000s)				Percent	
British Columbia	44.6	46.9	33.6	52.9	16%	15%
Alberta	53.4	63.2	36.6	30.7	17%	9%
Saskatchewan	6.2	8.4	7.0	10.8	3%	3%
Manitoba	7.1	9.9	10.7	15.1	5%	4%
Ontario	94.3	70.6	93.6	174.6	44%	51%
Quebec	38.9	33.0	27.6	45.6	13%	13%
Atlantic Canada	1.0	1.0	4.9	13.2	2%	4%
Canada*	245.2	233.4	213.8	342.4	100%	100%

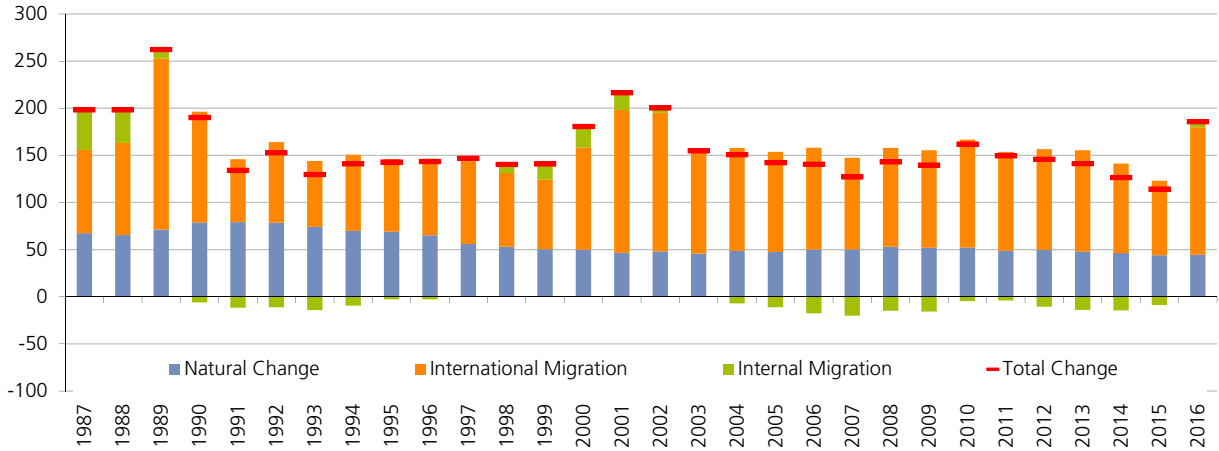
* Includes Northwest Territories, Nunavut and Yukon.

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* Annual
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Source: Statistics Canada
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Population Growth, Ontario



000s Persons, 12 Months Ending December



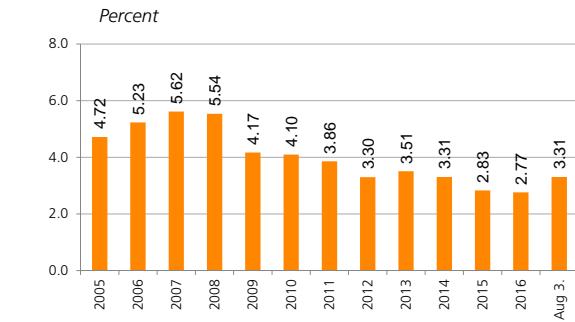
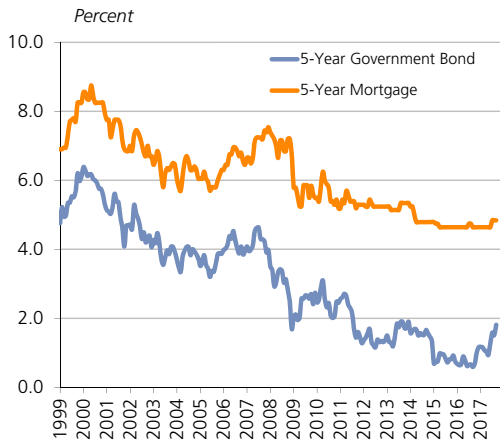
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Source: Statistics Canada

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Government Bond and Mortgage Rates



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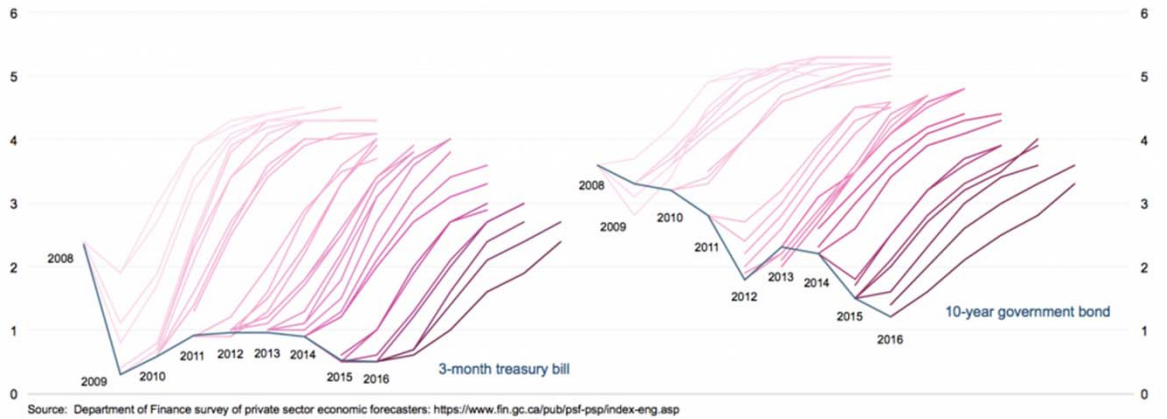
Source: Altus Group based on data from Bank of Canada/ Major Financial Institutions/ Bloomberg

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Fool Me Once Fool Me Twice....



Consensus forecast evolution, benchmark interest rates
per cent, average of period



Source: Department of Finance survey of private sector economic forecasters: <https://www.fin.gc.ca/pub/psf-ppf/index-eng.asp>

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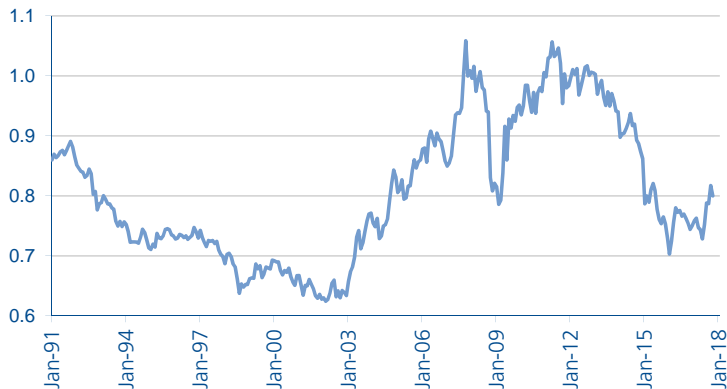
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Source: Altus Group based on Scott Cameron as published in Macleans Magazine 12.13.16

Exchange Rate Outlook



USD per CAD

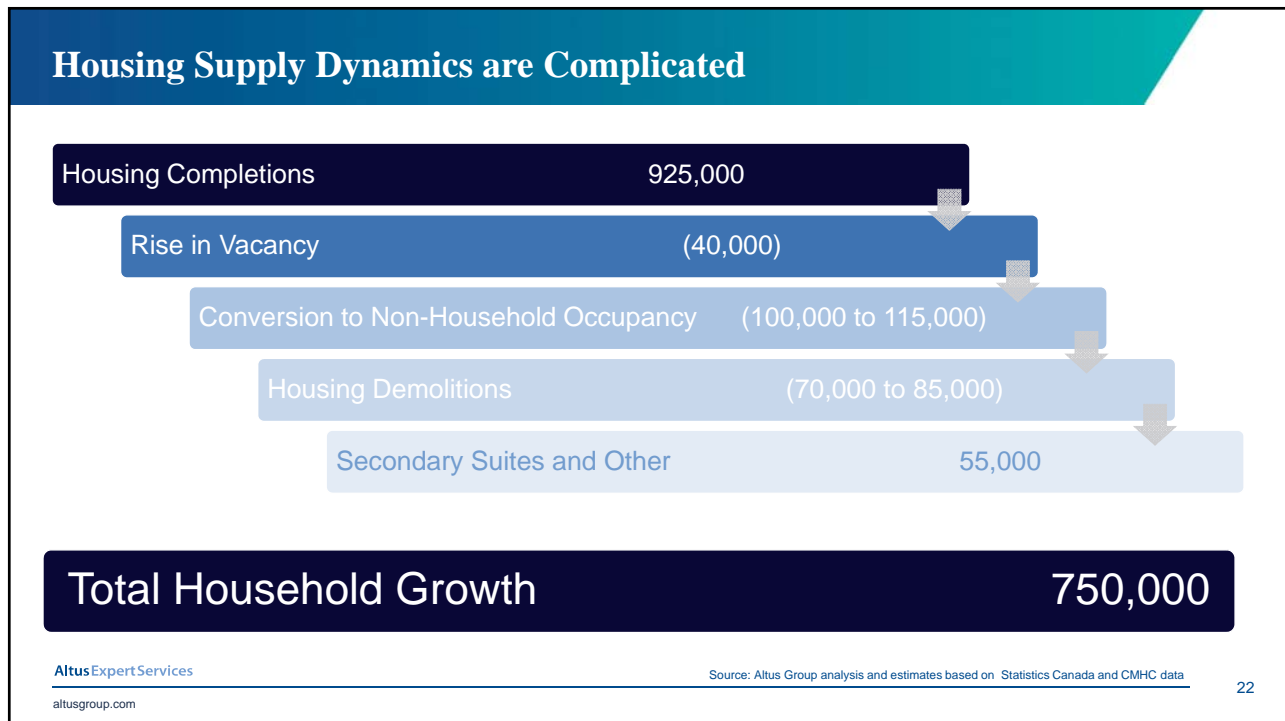
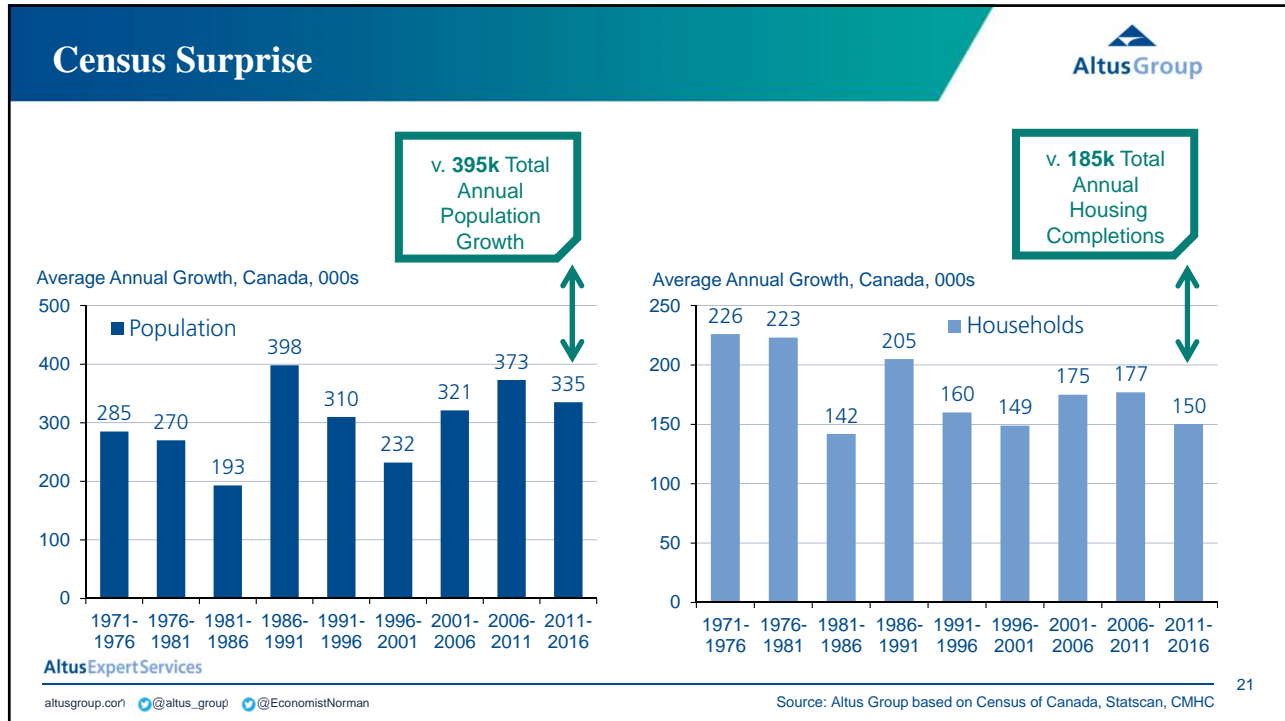


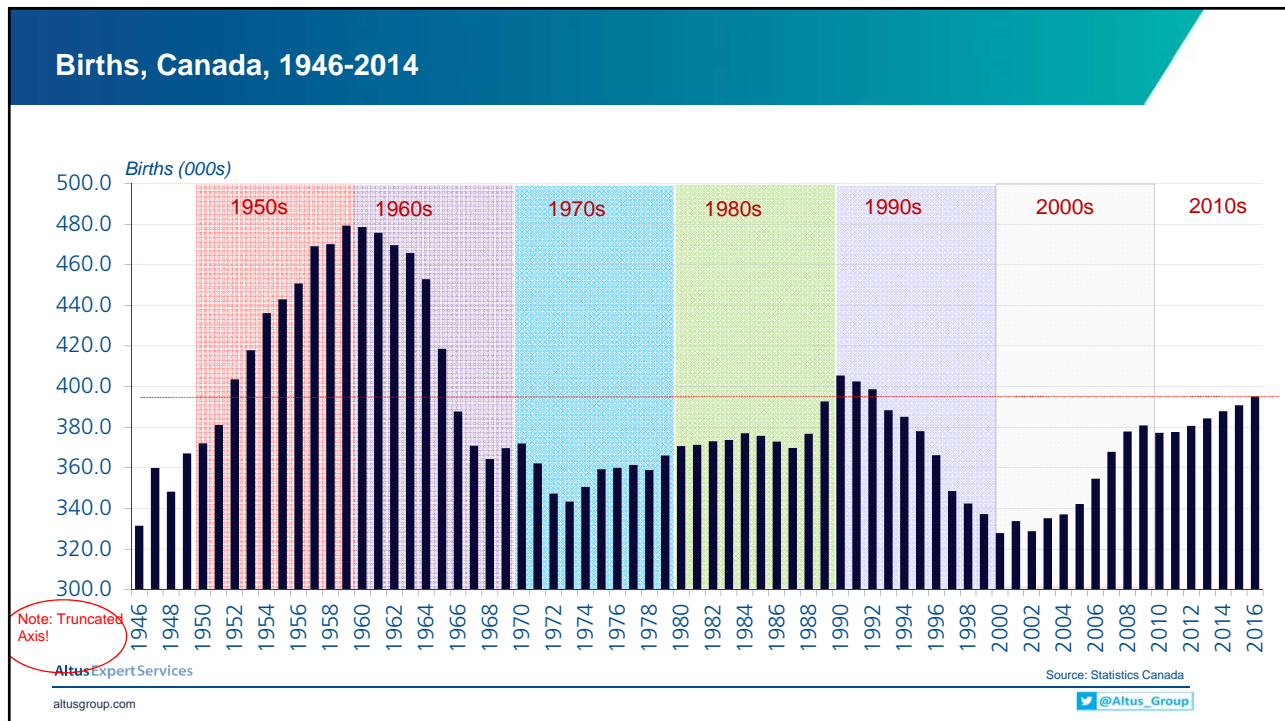
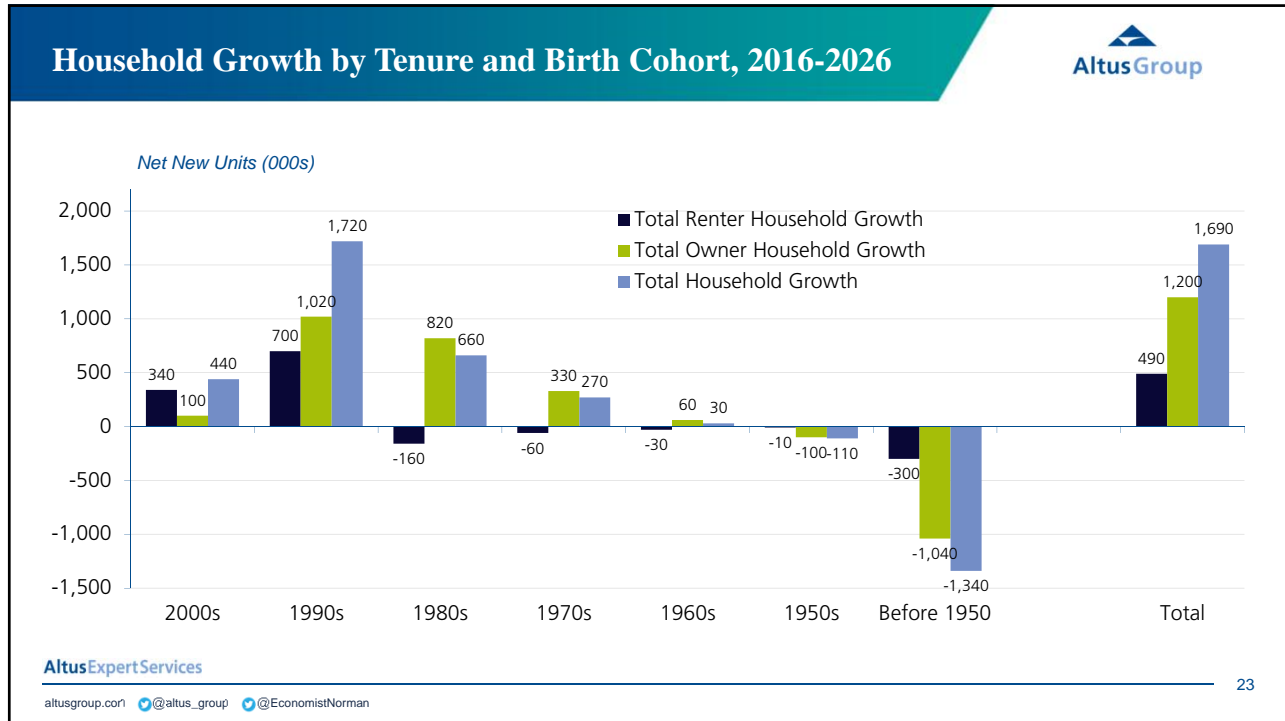
Year-End 2018

TD Bank	0.83
CIBC World Markets	0.78
Bank of Montreal	0.82
Scotiabank	0.87
Royal Bank	0.79
National Bank	0.79
Desjardins	0.84

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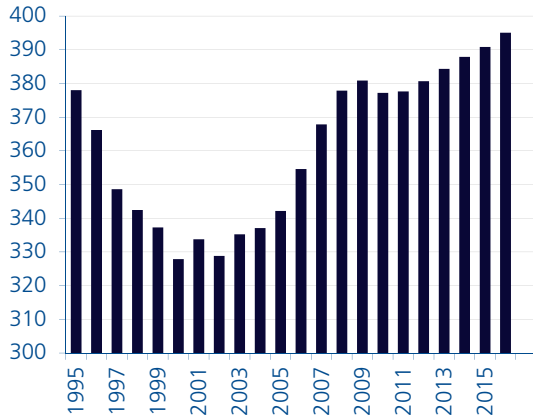
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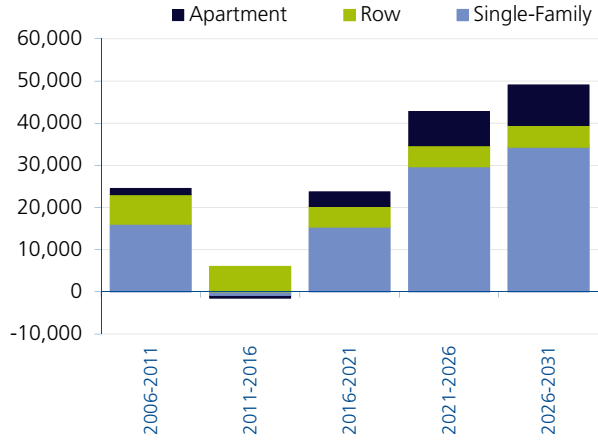


What Lays Ahead?

Annual Births, Canada



Annual Net New Homes Required for Families with Children



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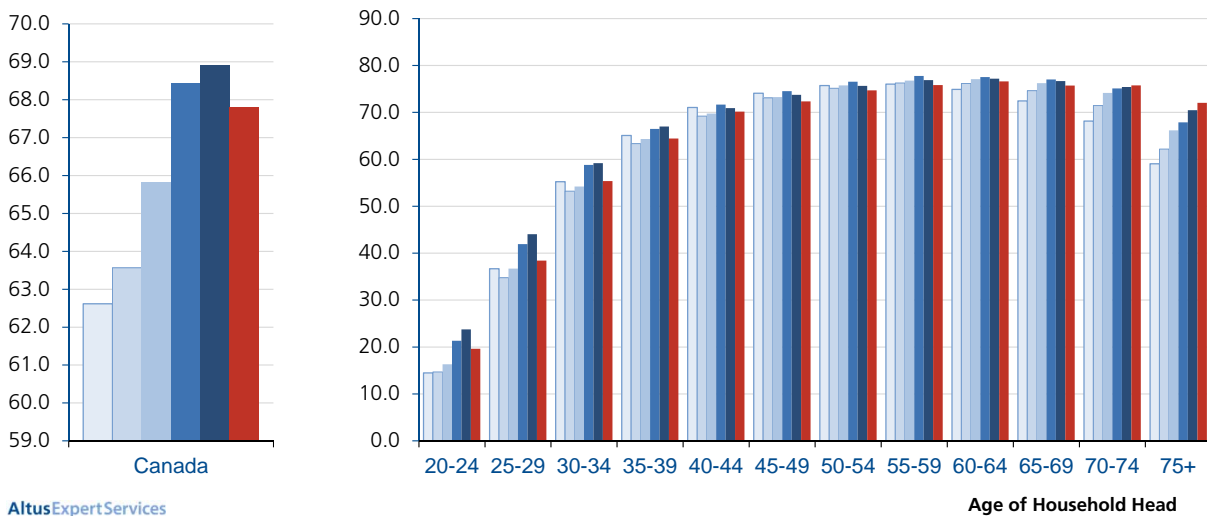
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Home Ownership Rate Fell in 2016 Census



Home Ownership Rates by Age (%)



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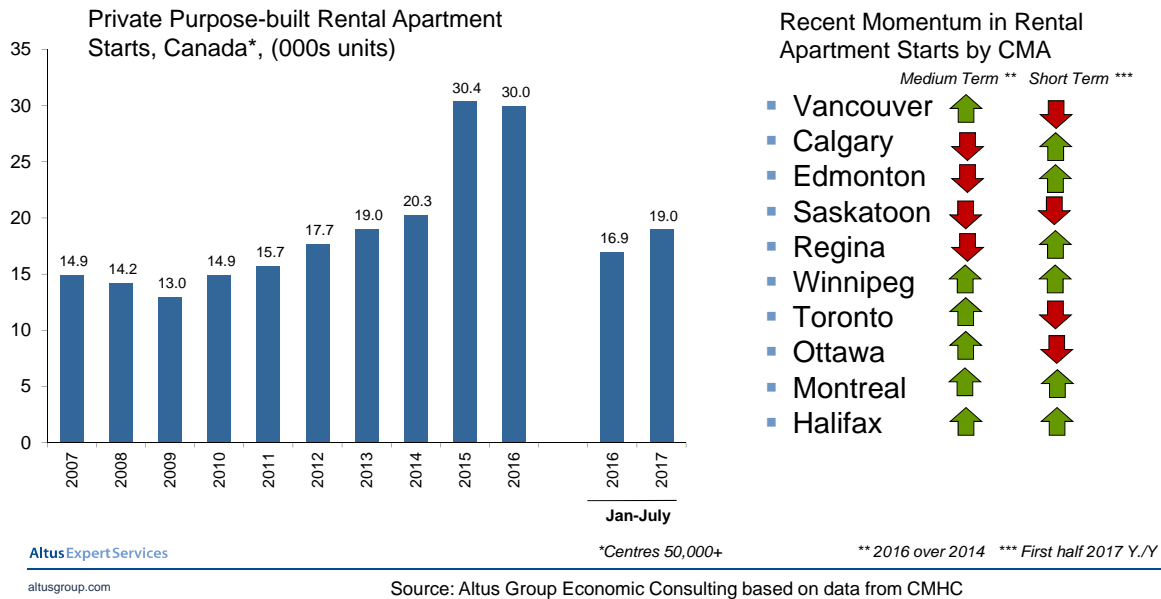
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Age of Household Head

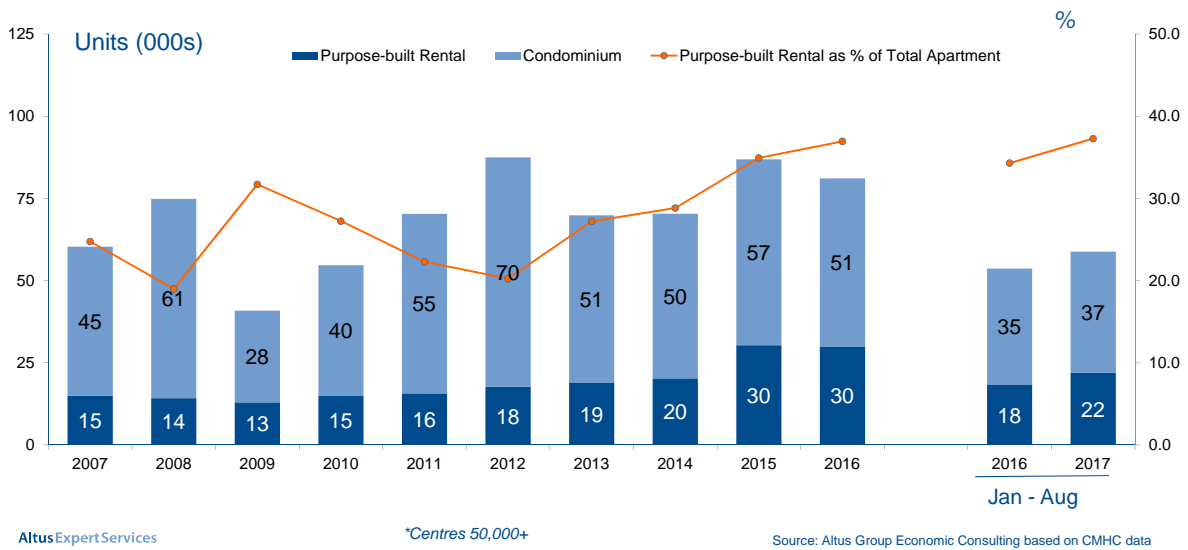
Source: Altus Group, Census

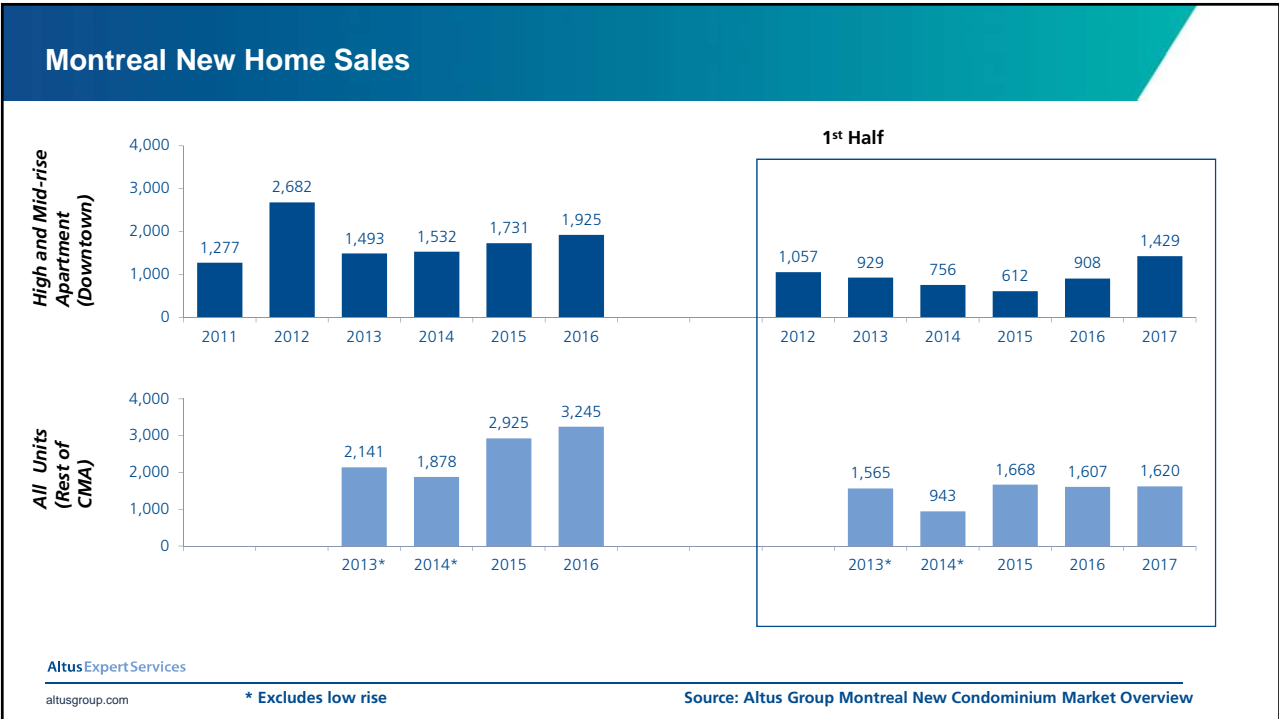
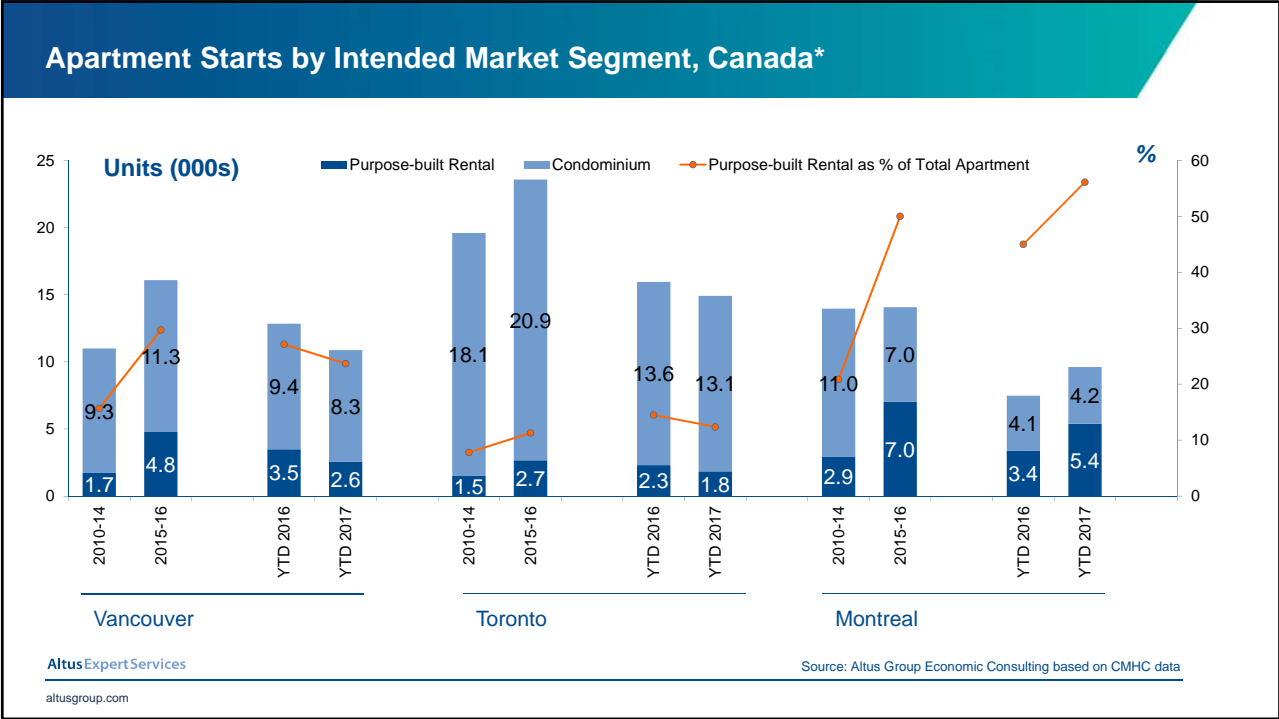
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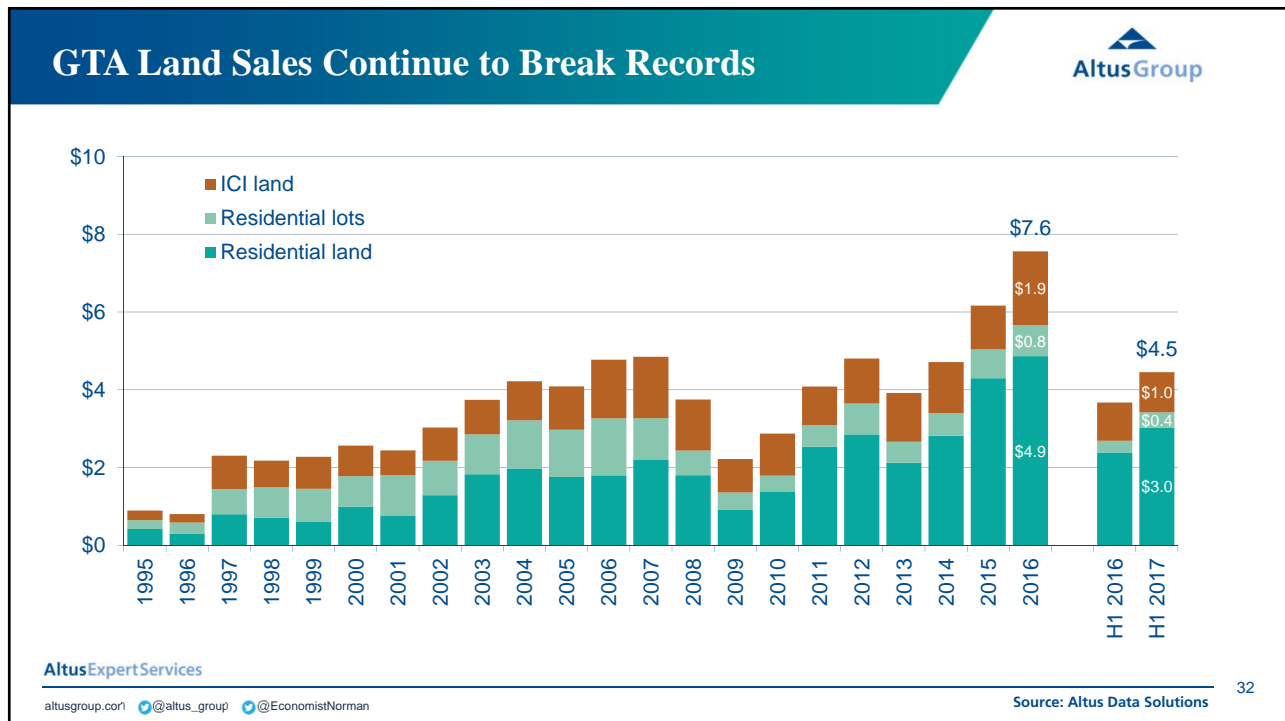
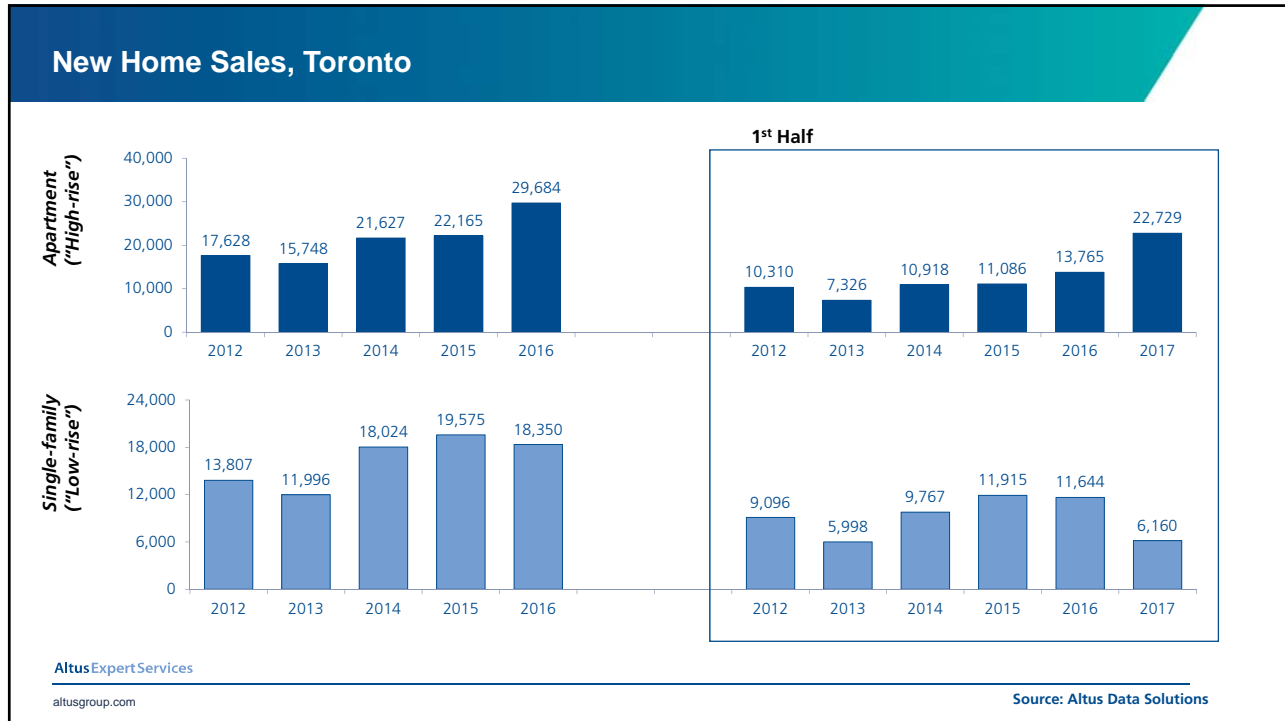
Private Purpose-built Rental Apartment Starts & Rental Apartment Starts

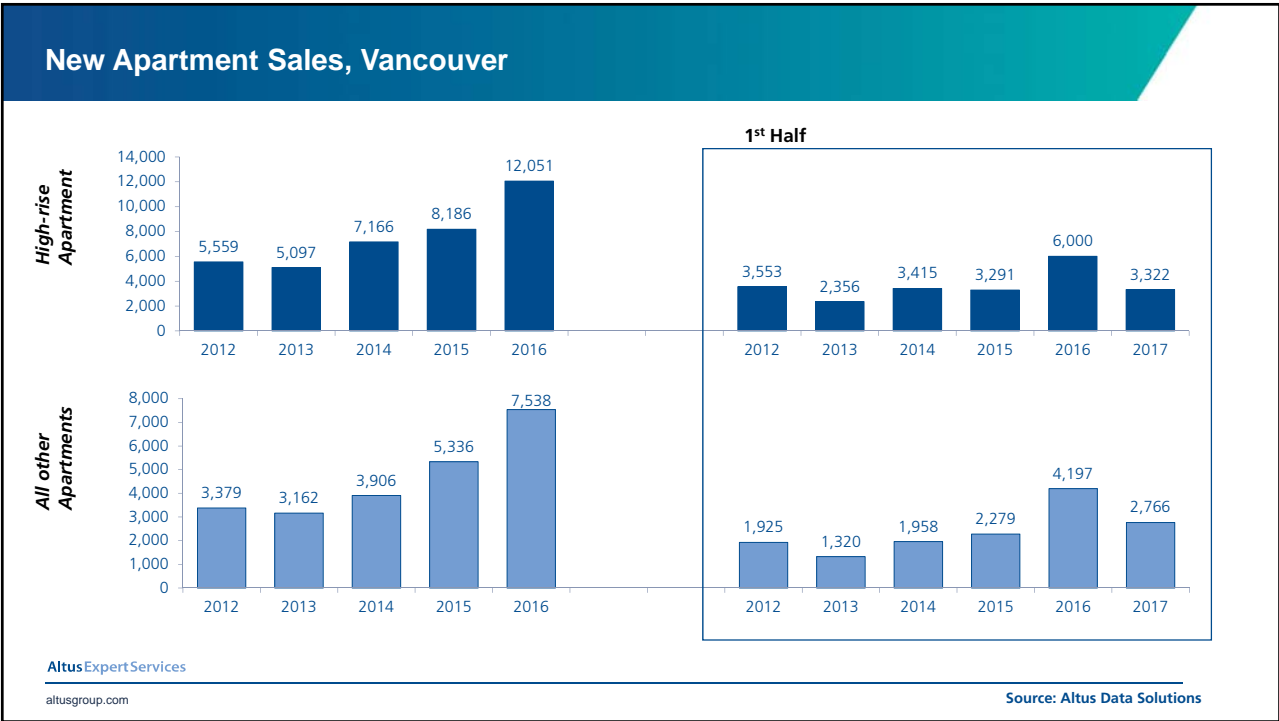
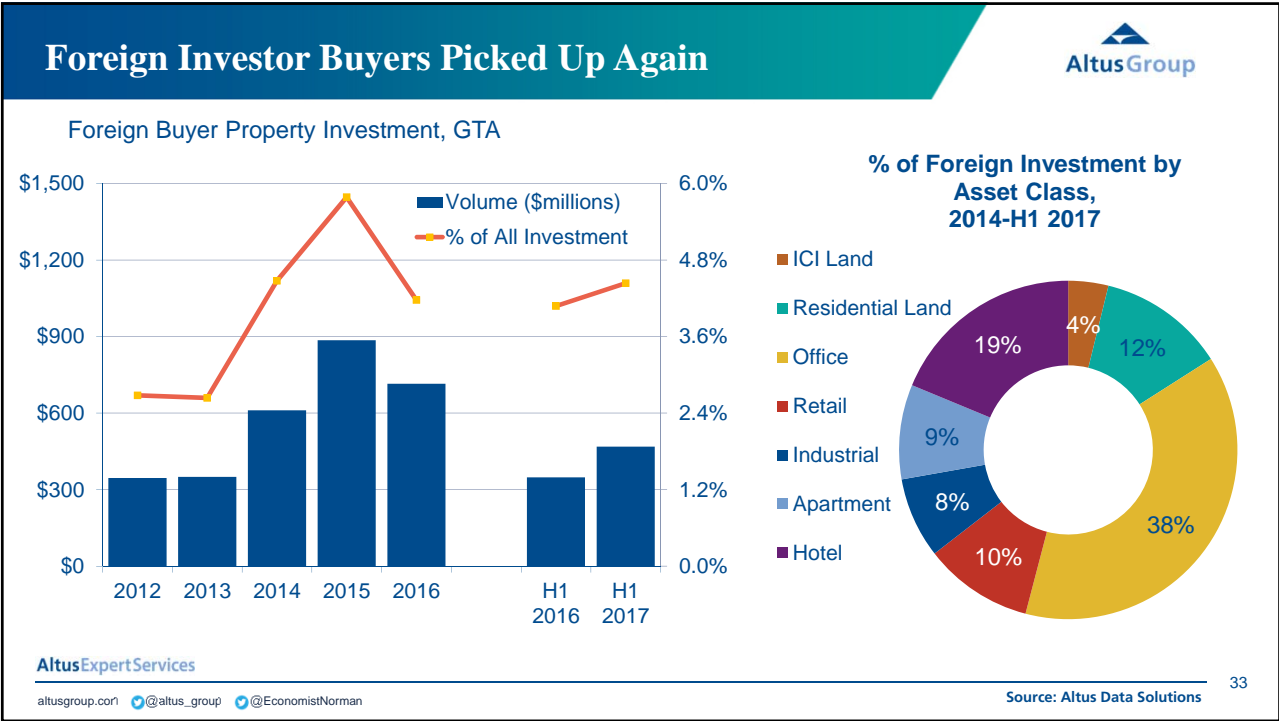


Apartment Starts by Intended Market Segment, Canada*

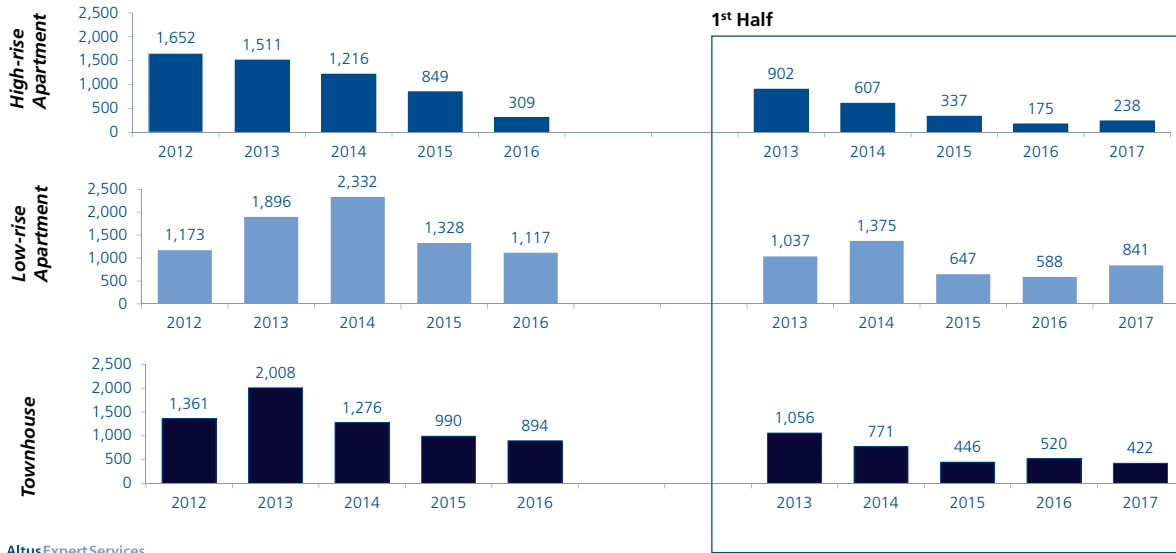








New Multifamily Home Sales, Calgary

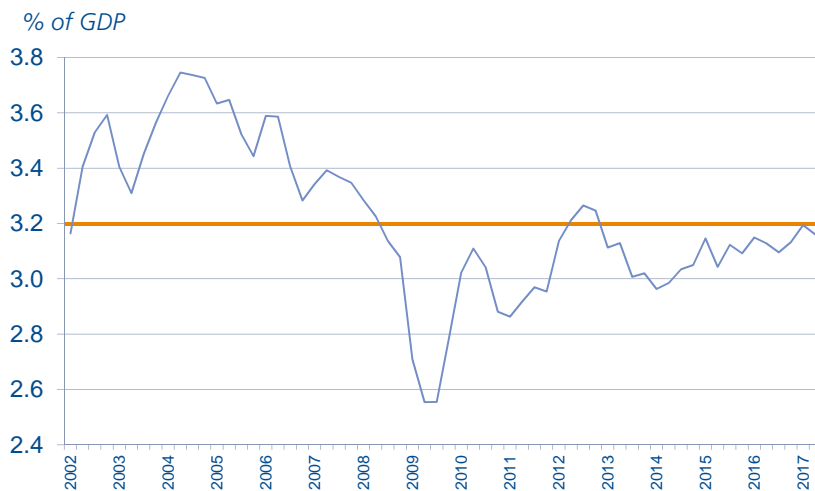


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Source: Altus Data Solutions

Residential Investment Still Lagging



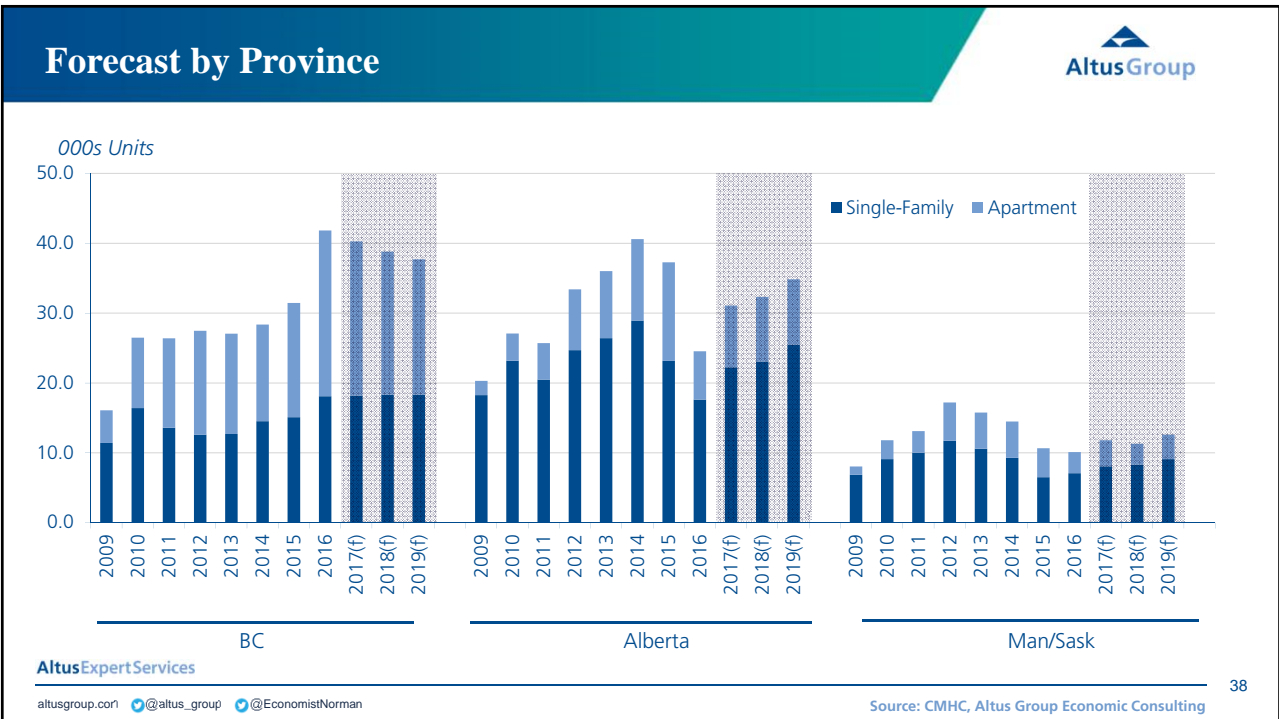
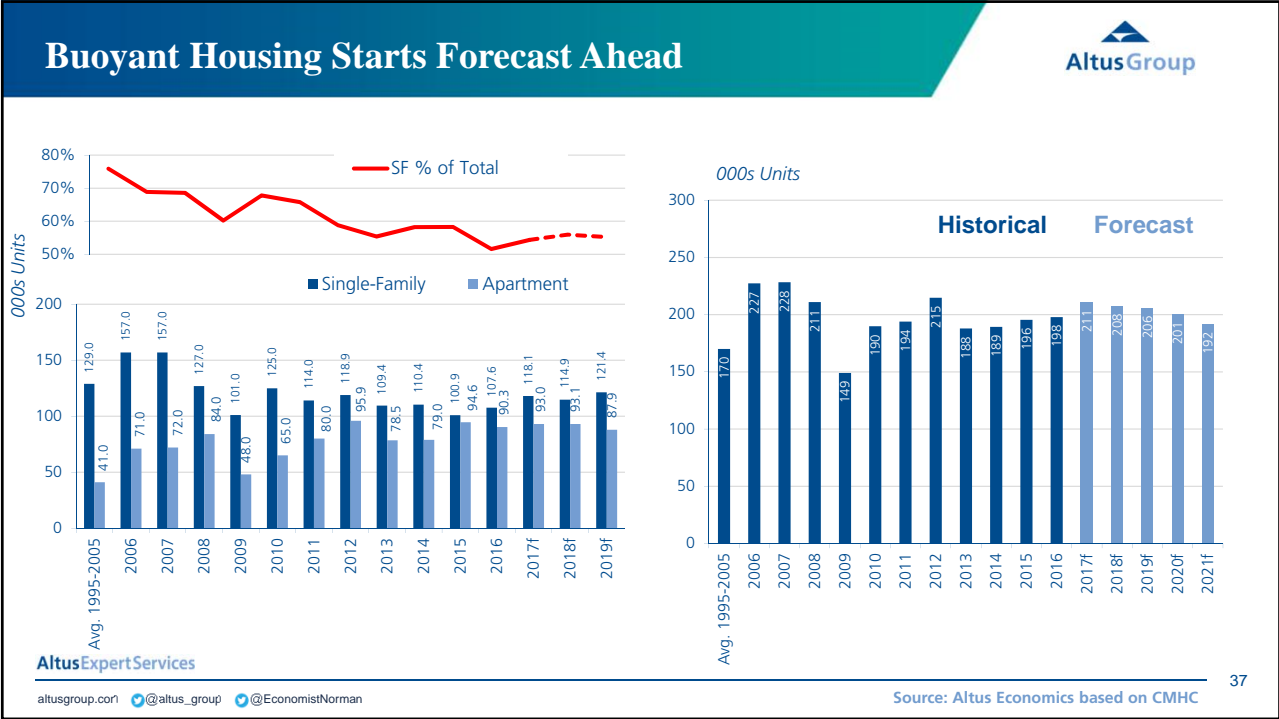
Chronically Weak Investment in New Residential Since Recession is Troubling

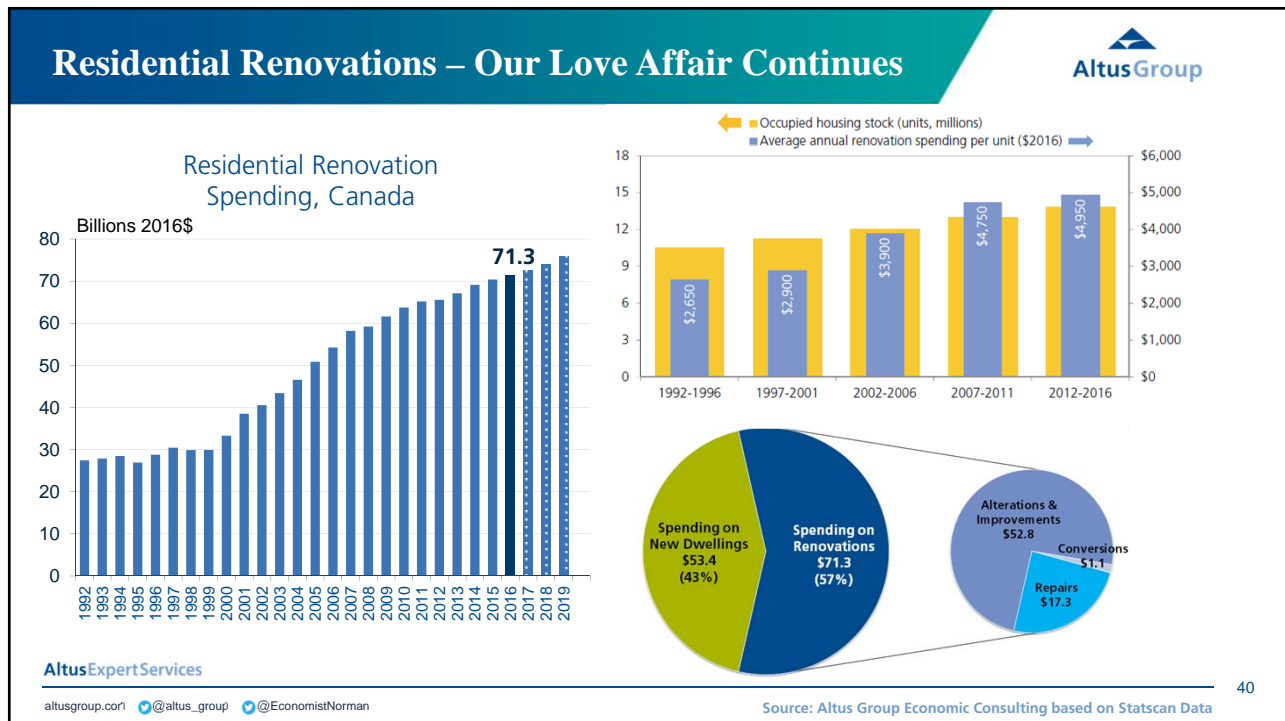
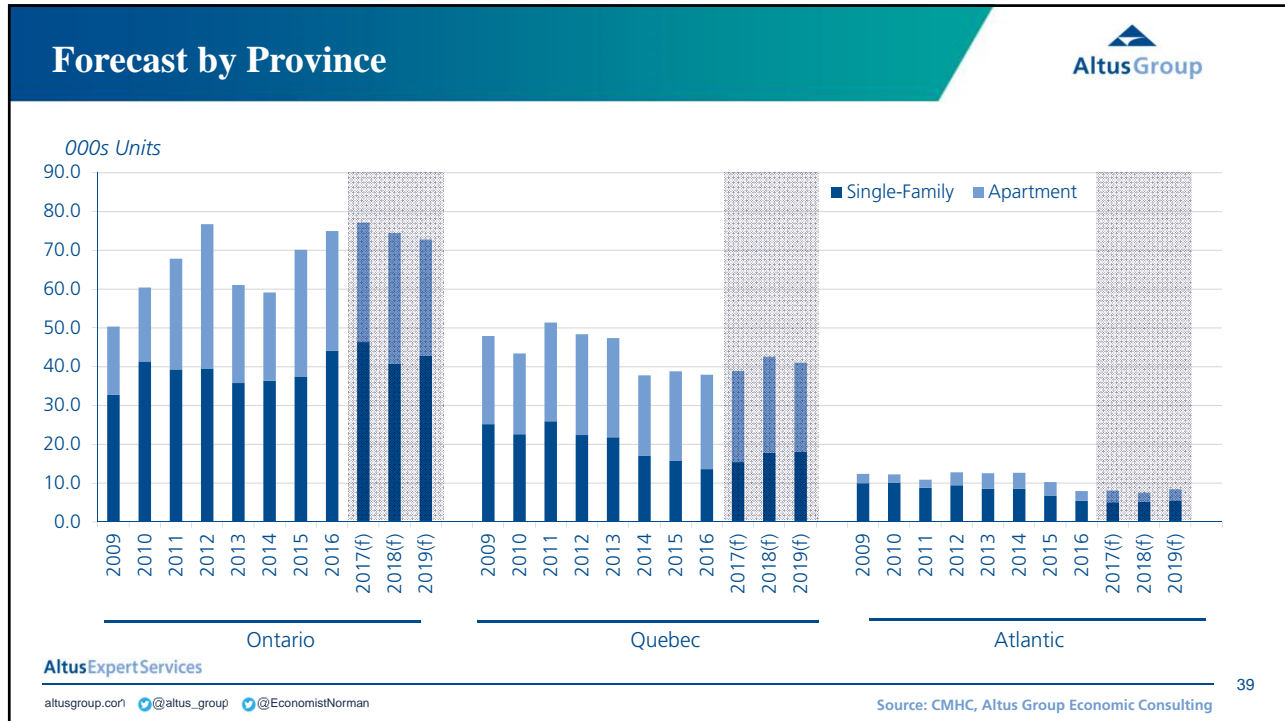
Typically, Look For About 3.2% of GDP as a Sustainable Rate of Investment

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Source: Altus Economics based on Statistics Canada





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Altus Group Housing Provides the **Little Numbers** Behind the **Big Picture**

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Thank you.

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