

MARKET YEAR IN REVIEW & OUTLOOK REPORT 2017



CONNECTING
TO
AFFORDABILITY



“Whether you’re interested in a quick snapshot of the market or in obtaining a greater understanding of some of the policy issues that impact housing affordability (along with possible solutions), I am confident that this report will provide you with valuable information and insight.”

– John DiMichele, CEO, Toronto Real Estate Board



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CONNECTING TO AFFORDABILITY

Thank you for taking the time to read TREB's *Market Year in Review & Outlook Report 2017*. Now in its second year, TREB remains proud of this report, and I'd like to thank the Board of Directors for their continued support and belief in it. This year, in addition to providing you with a detailed review of the GTA housing market in 2016, as well as a look forward at what to expect for 2017, TREB has shifted the conversation to affordability.

Housing affordability, and affordable home ownership in particular, is a growing concern. Housing prices in 2016 rose across all home types in the Greater Toronto Area as the supply of listings remain constrained.

While governments are focusing their policy solutions on allaying demand, demand is only part of the problem. The report's section on housing supply features submissions by some leading experts across the field. What is needed is more policy focus on issues impacting the lack of homes available for sale, and innovative solutions to these issues.

This year's report also examines the matter of housing affordability through the lens of infrastructure, particularly transportation infrastructure. Results of a TREB-commissioned study on how transportation infrastructure impacts housing affordability are presented in this report. I believe these results highlight the importance of connecting communities in order to ensure more affordable ownership housing, as well as a high quality of life for residents across the Greater Golden Horseshoe.

Whether you're interested in a quick snapshot of the market or in obtaining a greater understanding of some of the policy issues that impact housing affordability (along with possible solutions), I am confident that this report will provide you with valuable information and insight.

A handwritten signature in black ink, appearing to read 'John DiMichele'. The signature is fluid and cursive, with a large initial 'J'.

John DiMichele
Chief Executive Officer, Toronto Real Estate Board



MESSAGE FROM THE PRESIDENT



USEFUL INTELLIGENCE FOR TODAY'S MARKET

As a REALTOR®, I can appreciate the value of the report you're about to read. This report distills complex information about the GTA housing market, as well as the policies and economic issues that impact the entire Greater Golden Horseshoe region into digestible language.

As busy real estate professionals, we want to understand the inner workings of the market and the complex array of factors that cause it to fluctuate in a way that we can translate to our clients. In such a competitive and fast-paced industry, our knowledge level can be a defining factor in what separates a good real estate professional from a great one.

I pride myself in keeping up to date with industry trends and being able to provide my clients with a holistic picture of the market, informed by research such as that included in this report. I hope you'll use the information the same way.

Whether you're a Realtor like me, a GTA homeowner, home buyer, or a policymaker, I invite you to read on as this report affects us all.

Best wishes,

Larry Cerqua

2016-2017 President, Toronto Real Estate Board

EXECUTIVE SUMMARY



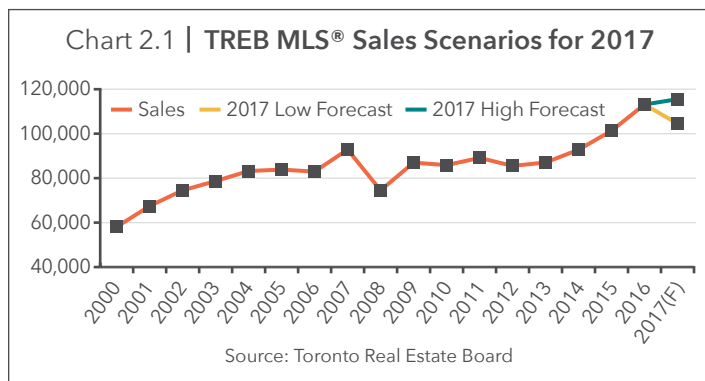
2016: ANOTHER RECORD YEAR FOR GTA HOME SALES

2016 saw both record home sales and accelerated annual sales growth (Chart 1.1). Key drivers of record home sales included population growth, low mortgage rates, low unemployment, and above-inflation economic growth, while strong demand and very low inventory resulted in robust price growth (Chart 1.4). It's important to note that record home sales in 2016 were heavily based on domestic demand. Foreign buying activity in the GTA represented a minimal 4.9 per cent of transactions. In fact, the great majority of foreign buyers were purchasing a primary residence, a property to rent out, or a property for another family member to



live in. You'll find more on the market in 2016, including the results of TREB-commissioned Ipsos surveys on recent buyers and foreign buying activity in the first section of this report.

Foreign buying activity in the GTA represented a minimal 4.9 per cent of transactions. In fact, the great majority of foreign buyers were purchasing a primary residence, a property to rent out, or a property for another family member to

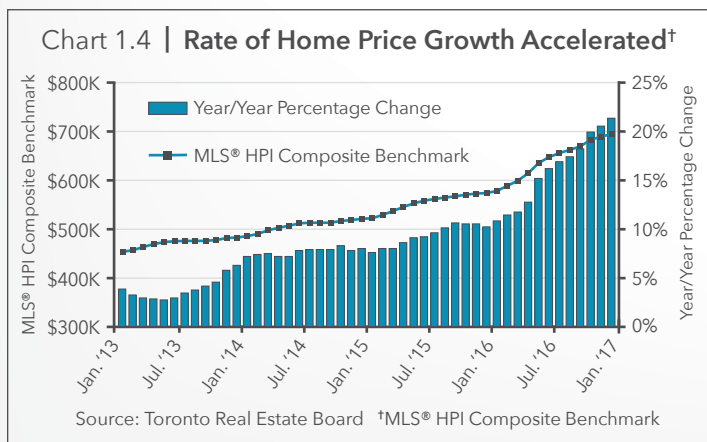


2017: SELLER'S MARKET CONDITIONS TO REMAIN IN PLACE

Strong rates of price growth and a short supply of listings will continue to make headlines in 2017. TREB MLS® System sales are expected to range between 104,500 and 115,500, with a point forecast of 110,000 (Chart 2.1). The results of a TREB-commissioned Ipsos survey on intending buyers found less respondents planning to purchase a home in 2017 than compared to the previous year (Chart 2.3). Despite the possibility of a decline in sales, first-time buyers will continue to account for more than half of the home sales in the GTA. Strong first-time buyer activity points to confidence in home ownership as a quality investment. A likely range for the average selling price in 2017 is between \$800,000 and \$850,000, with a point forecast of \$825,000. This suggests an approximate calendar year growth rate ranging between 10 per cent and 16 per cent.

IMPROVED TRANSIT INFRASTRUCTURE MAY IMPROVE HOUSING AFFORDABILITY

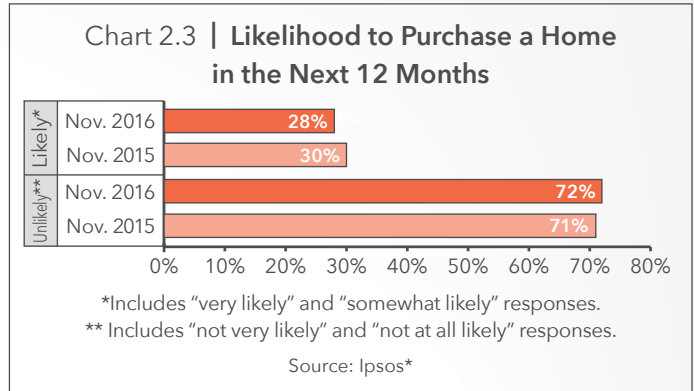
In the summer of 2016, TREB commissioned the Canadian Centre for Economic Analysis (CANCEA) to undertake a study on transportation infrastructure's effects on housing affordability. The study focused on the introduction of the Metrolinx Regional Express Rail





EXECUTIVE SUMMARY

(RER) in the Greater Golden Horseshoe and its impact on affordability. CANCEA's resulting report sheds light on the vital role infrastructure plays in affordable housing. When considering GGH housing prices only, the study found that the contribution of improved transit access is shown to always be positive, with improvements in transit accessibility providing up to a 12% premium. CANCEA stated that whether or not people changed their mode of commuting from place to place as a result of the introduction of RER was the key determinant in assessing the impact on affordability.



THE ROLE OF SUPPLY IN ADDRESSING HOUSING AFFORDABILITY

TREB believes no discussion of affordability should be had without considering supply. On January 31, 2017, TREB held an Economic Summit to launch this report. Featured at the Summit was a panel discussion focused on how the supply of housing impacts affordability in the GTA. In this section of the report, you'll find short submissions written by each panelist addressing the supply/affordability issue. The bottom line is this: the supply issue in the GTA will not be solved without innovative solutions from the public, private, and not-for-profit sectors.



THE LATEST ON NEW HOMES AND RESIDENTIAL LAND

This section features data and reporting on new homes and residential land from Altus Group. They found that total new home sales in the GTA reached 47,161 units in 2016 (the highest level in 14 years), with an estimated value of over \$30 billion. 2016 was a record year for high-rise sales, with sales up throughout the GTA, while strong demand for low-rise product, combined with the lack of product available to purchase, pushed prices higher in 2016. The residential land sector in the GTA continued to be robust in 2016, with most areas of the GTA posting increases, largely driven by high density land.

INCREASED COMMERCIAL LEASING ACTIVITY AND COMMERCIAL PROPERTY SALES IN 2016

In 2016, despite a certain degree of economic uncertainty and related volatility in economic growth, Toronto Real Estate Board Commercial Network Members reported an annual increase in commercial leasing activity and commercial property sales in line with 2015 results. The amount of space leased in 2016 was up for the first three quarters of the year, compared to 2015. Looking forward, the Bank of Canada Business Outlook Survey points to improved business confidence, which could bode well for the demand for commercial real estate. Market conditions remained tight enough to see increases in average lease rates for all major market segments. Total TREB MLS® System commercial property sales were in line with the number of deals reported in 2015. Average sale prices, on a per square foot basis, were up for all three major market segments.

* Percentages in Ipsos graphs may not add up to 100% due to rounding and/or small shares of results not included.



When demand is up and supply is down, prices generally rise, and the 2016 GTA housing market was no exception.

2016 MARKET YEAR IN REVIEW



2016 MARKET YEAR IN REVIEW



SECTION SUMMARY

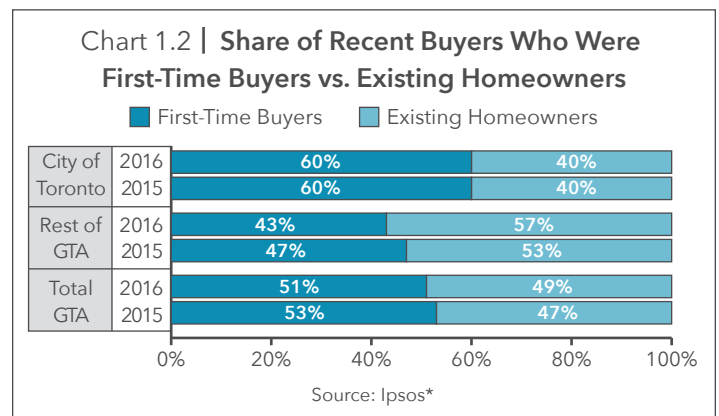
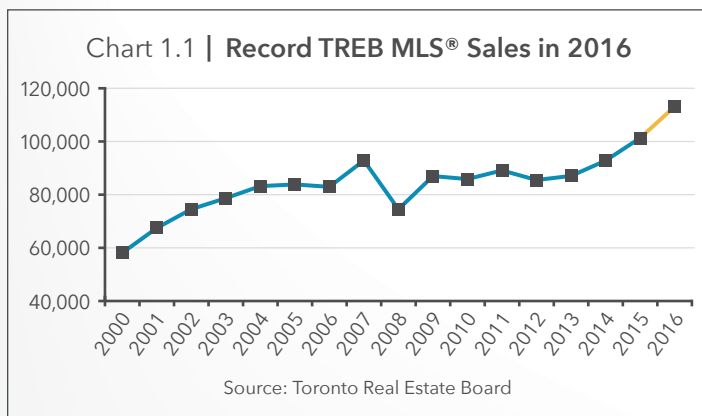
- Record home sales and accelerated annual sales growth occurred in 2016.
- Key drivers of record home sales include population growth, low mortgage rates, low unemployment, and above-inflation income growth.
- Strong demand and very low inventory resulted in robust price growth.
- Record home sales in 2016 were heavily based on domestic demand.
- Foreign buying activity in the GTA, represented a minimal 4.9 per cent of transactions. The great majority of foreign buyers were purchasing a primary residence, a property to rent out, or a property in which another family member would live.



1.1 | 2016 MARKET RECAP

In TREB's inaugural *Market Year in Review & Outlook Report* released in January 2016, we predicted that the 2016 GTA housing market would produce a second consecutive year of record sales through TREB's MLS® System or the second best sales year on record. The former turned out to be the case, with 113,133 transactions reported by REALTORS® working within TREB's market area, representing an 11.8 per cent increase compared to 2015 (Chart 1.1).

According to a TREB-commissioned Ipsos survey of existing homeowners undertaken in November 2016, slightly more than half of households who purchased a home during the preceding 12 months (recent home



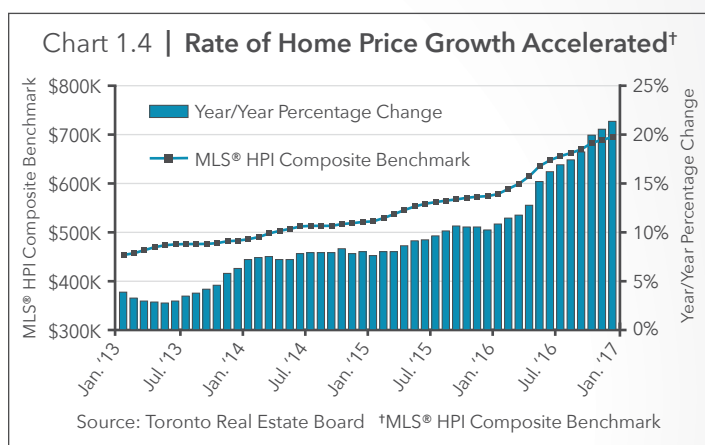
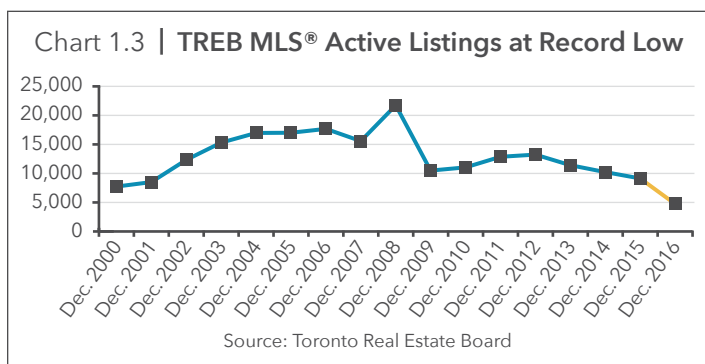
buyers) were first-time buyers (Chart 1.2). Looking at all homeowners (all households who have owned one or more homes), the average survey respondent had owned two homes, including the one in which they were currently living. A detailed profile of recent home buyers is provided in Section 1.2.

From a separate Ipsos survey of TREB Members, it was estimated that only 4.9 per cent of transactions where a TREB Member acted as a buyer's representative involved a foreign buyer. The survey also found that the

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recent foreign buyers tax imposed in British Columbia's Greater Vancouver Regional District had resulted in minimal inquiries from foreign buyers hoping to purchase of a home in the GTA. These results, which are discussed in more detail in Section 1.3, suggest that the record home sales in 2016 were based heavily on domestic demand. Key drivers of the continued year-over-year growth in home sales included regional population growth, low mortgage rates, low unemployment, and above-inflation income growth.

Despite very strong gains in home prices, we did not see homeowners listing their homes for sale to take advantage of equity gains. Instead, the opposite occurred with new listings reported by Realtors declining in



2016. For example, in December 2016, active listings were at the lowest point since the turn of the millennium (Chart 1.3). The steady decline in available listings over the past few years has been exacerbated by a vicious circle, wherein existing homeowners, who would have otherwise chosen to list their home for sale, chose instead to stay put and perhaps renovate. Renovation spending continued to trend upwards in 2016, with 40 per cent of non-recent home buyers planning on spending more than \$50,000 on renovations - up substantially from 23 per cent a year earlier.

The rules of economics dictate that when demand is up and supply is down for a given good or service, price generally rises, and the 2016 GTA housing market was no exception. Record demand up against an extremely constrained listing supply meant competition between buyers was very strong in many GTA neighbourhoods for most, if not all, home types.

Regardless of the measure considered, double-digit annual price increases were experienced across the region. The MLS® Home Price Index (HPI) Composite Benchmark was up by double digits on an annual basis throughout 2016 (Chart 1.4). The average selling price for 2016, at \$729,922, was up by 17.3 per cent year over year compared to \$622,121 in 2015.

Low-rise home types, including detached and semi-detached houses and townhouses, generally led price growth. The annual growth rates for both the MLS® HPI and the average selling price for detached houses were above 20 per cent for many months in 2016. However, double-digit rates of price growth were not limited to



51%
Amount of recent buyers that were first-time home buyers
Source: Ipsos*



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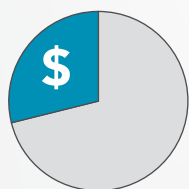
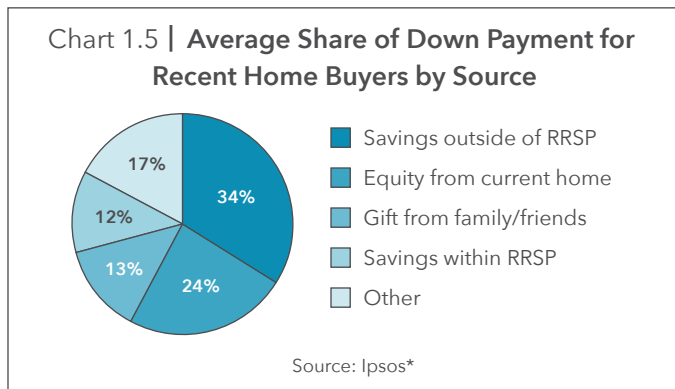
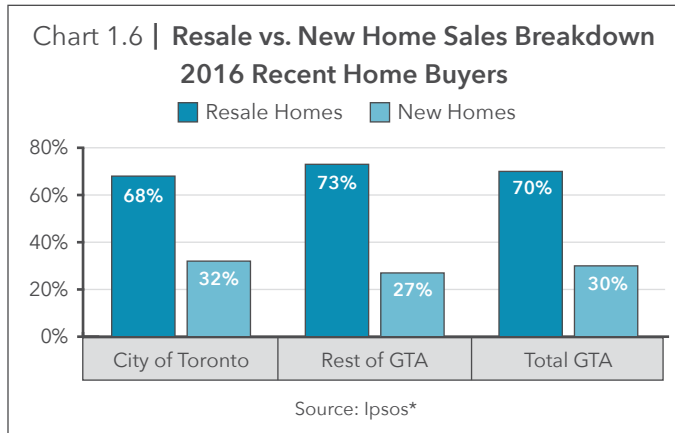
ground-oriented housing. The condominium apartment market segment became tighter throughout 2016 with more competition between buyers for available listings. This resulted in an acceleration of price growth in this market segment as well. In December 2016, the MLS® HPI Apartment Index was up by 15.2 per cent year over year.

1.2 | IPSOS RECENT HOME BUYER PROFILE

In November 2016, Ipsos undertook a survey of existing homeowners in the GTA on behalf of TREB. Of the 2,500 households surveyed, 1,000 had purchased a home in the previous 12 months. These 1,000 households were considered the “recent buyers” for the purposes of producing a 2016 recent buyer profile for this report.

This profile is summarized in the following points:

- On average, recent home buyers reported a purchase price of \$672,023, which falls within the range of a typical home price for 2016, as measured by the MLS® HPI Composite Benchmark Price. This result was up by 13.5 per cent compared to the average price reported to Ipsos by recent home buyers in 2015, at \$591,790.
- The average down payment percentage was approximately 29 per cent for households that purchased a home over the last 12 months – almost identical to the result reported by Ipsos for 2015. Typically, close to half of the down payment came from RRSP or non-RRSP savings. Approximately one-quarter of the average households down payment came from existing home equity. The remainder of a typical down payment came from a gift from friends or family (13 per cent) or other (undefined) sources (17 per cent) (Chart 1.5).
- Similar to 2015, more than half of recent buyers used a fixed rate closed mortgage for their purchase. A five-year term was most popular. The most common mortgage rate was between 2.0 per cent and 2.99 per cent.



29%

Average down payment on a single family dwelling

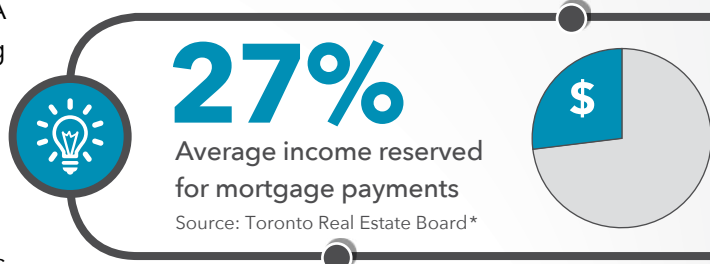
Source: Ipsos*



- The average income for a recent home buying household was almost \$98,000.
- Taking into account the average purchase price, the average down payment, and a mortgage rate

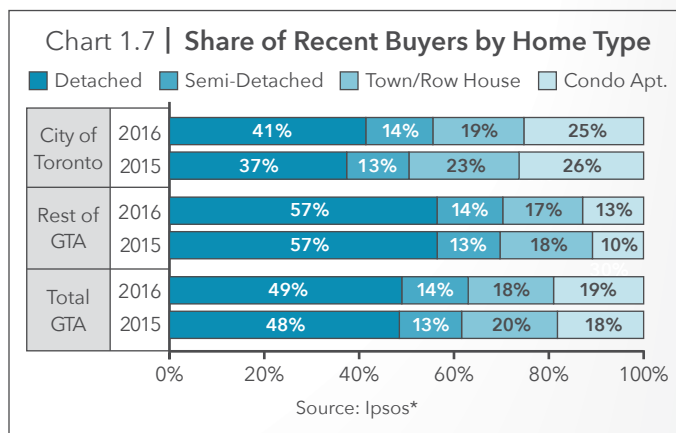
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of 2.9 per cent (within the most popular range), the share of the average household income dedicated to mortgage principal and interest on a recently purchased home was approximately 27 per cent. Even after adding property taxes and utilities costs, the share of income dedicated to major carrying costs would likely be well-below the federally mandated affordability ceiling of 39 per cent. Home ownership remains affordable for many GTA households and this goes a long way to explaining why we continued to see a record level of home sales in 2016.



- For the GTA as a whole, 51 per cent of recent home purchases involved first-time buyers - down by two percentage points compared to the Ipsos survey results from November 2015. The first-time buyer share was identical for the City of Toronto in 2015 and 2016, but down year over year for the surrounding regions.
- 70 per cent of recent home buyers purchased an existing (i.e. resale) home, which is in line with combined statistics from TREB and Altus Group. The other 30 per cent purchased a new home at some point in the development process. The new home share was higher in the City of Toronto, likely due to the prevalence of condominium apartments (Chart 1.6).
- Close to half of recent home purchases involved a detached house - the share was less than half in the City of Toronto (41 per cent) , but 57 per cent in the surrounding GTA regions (e.g. '905' area code). Low-rise (detached, semi-detached houses, and townhouses) home types accounted for more than 80 per cent of transactions in the GTA (Chart 1.7).
- Recent home buyers tended to purchase a home in the GTA region within which they already resided.

For example, more than three quarters of recent home buyers who, before their purchase lived in the City of Toronto, purchased their home in the '416' area code.

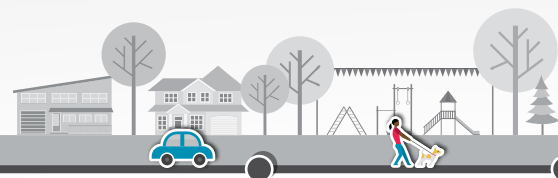


1.3 | SPOTLIGHT ON FOREIGN BUYERS

Throughout the second half of 2016, speculation about the amount and nature of foreign buying activity, or lack thereof, in the GTA housing market was a hotly contested issue receiving an abundance of media attention. This was punctuated by the July 25 announcement of a 15 per cent foreign buyers tax for the Greater Vancouver Regional District in British Columbia. Throughout 2016, the only constant in the debate about foreign buyers was the lack of empirical evidence for the GTA.

As the foreign buyer conversation unfolded, TREB held steadfast to the view that the provincial and municipal governments should comprehensively and patiently review the issue of foreign purchasers of real estate in Ontario before making any policy decisions and should seek out actual empirical evidence on the level

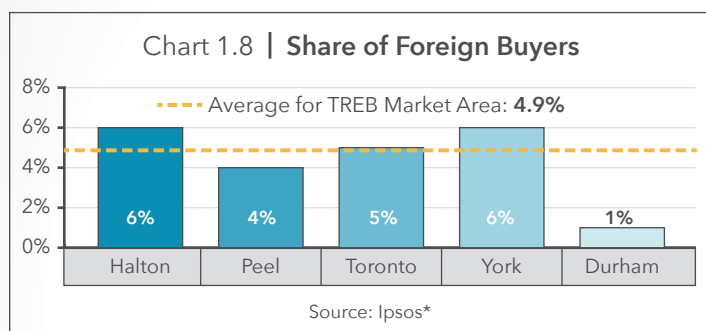
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of foreign buying activity in the GTA. In this regard, TREB decided to take the lead on data collection and commission its own study.

Since Realtors are one of the best sources of information on real estate market conditions, TREB commissioned a third party research firm (Ipsos) to survey its Members with regard to the level and type of foreign buying activity within the Greater Toronto Area. The survey data collected was robust, with over 3,500 TREB Members responding and a margin of error of ± 2 percentage points 19 times out of 20.

TREB Member responses to the Ipsos survey suggest that the amount of foreign buying activity in the GTA is minimal and that the nature of foreign buying over the preceding year was not detrimental to the GTA housing market or the regional economy.

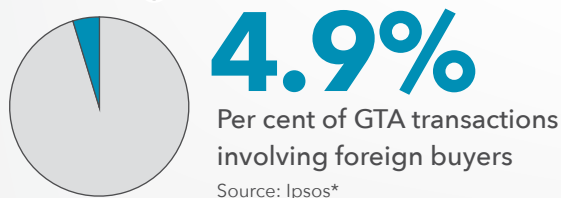


Only an estimated 4.9 per cent of GTA transactions, in which TREB Members acted on behalf of buyers, involved foreign purchasers. The share was as high as six per cent in the Regions of York and Halton and as low as one per cent in Durham Region. In the City of Toronto, the share of foreign buyers was five per cent (Chart 1.8).

These results were in line with recent CMHC findings related to the condominium apartment market. In the fall of 2016, CMHC estimated that 2.3 per cent of condominium apartments in the GTA were foreign-owned. In newer condominium apartment buildings, the share of foreign ownership was slightly higher at 3.9 per cent.

Based on TREB Member responses, Ipsos reported that an estimated 40 per cent of foreign buyers were purchasing a home in the GTA for a principal residence. A further 15 per cent of transactions involved the purchase of a home for another family member to live in (Chart 1.9). This makes sense given that, on net, immigrants are the main driver of population growth in the GTA each year. Many newcomers, who have a positive economic impact on the Canadian economy, but who are not yet Canadian citizens or permanent residents, purchase homes as a first step to starting a new chapter of their lives in Canada.

A further 25 per cent of foreign buyers purchased a property as an investment to rent out to tenants. Over the past decade, the secondary rental market (i.e. non-purpose-built rental units) has played a growing role in providing rental accommodation. This type of foreign buying activity helped to add rental supply in a very constrained market. CMHC recently reported that the rental condominium apartment vacancy rate dropped by close to a full percentage point over the last year to one per cent.



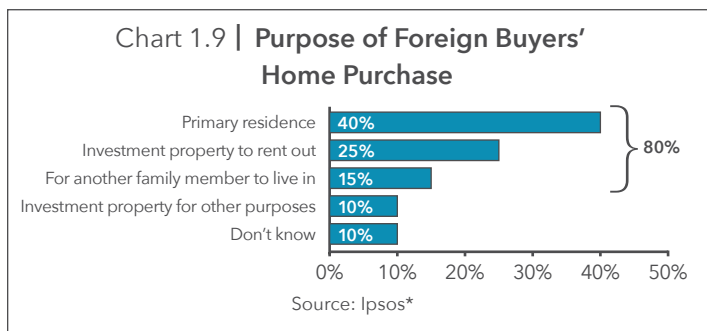
A smaller share of foreign buyers purchased a

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property for investment purposes other than renting to a tenant, including to use as a non-primary residence (four per cent) or to leave vacant (three per cent).

The average price of a foreign purchase, according to surveyed TREB Members, was just over one million dollars. The highest average price was reported for York Region. In the City of Toronto, the average purchase price was almost \$970,000.

In addition to providing an estimate of foreign buying activity in the GTA and a profile of foreign buyers, the Ipsos survey results also provide an answer to a popular question: how many enquiries have TREB Members received from foreign buyers who otherwise would have purchased a home in the Vancouver area if not for the BC tax? The answer to this question is:



As a result of the recent foreign buyers tax implemented for the Vancouver area, only one in ten TREB Members have received inquiries from foreign buyers who otherwise would have purchased a home in Vancouver. Just 16% of these inquiries led to an actual purchase. In other words, Ipsos estimated that less than two per cent of TREB Members represented a foreign buyer that had been impacted by the new tax in BC.

1.4 | CONNECTING TO AFFORDABILITY: FINDING THE CORRECT POLICY PATH

Throughout 2016, the most common discussions related to the GTA housing market can be traced back to ownership housing affordability, the record pace of home sales, and double-digit annual rates of price growth.

In the GTA and in other parts of Canada, most notably the Lower Mainland of BC, there was a heightened level of concern from all levels of government. Notwithstanding record low levels in the supply of homes for sale, public policymakers focused firmly on the demand for ownership housing in the City of Toronto and surrounding regions. An example of this type of policy solution in practice can be found at the federal level with respect to recent changes in mortgage lending guidelines.

Over the last decade, there have been no fewer than 10 changes to federal mortgage lending guidelines, most recently with two new policies implemented in 2016:

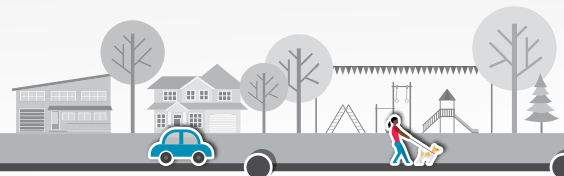
- **February 2016:** Minimum down payments for new government-backed insured mortgages were increased to 10 per cent for that portion of the house price over \$500,000.
- **November 2016:** Insured mortgages with less than a 20% down payment must qualify at the benchmark interest rate. The maximum purchase price of homes to be mortgage insured was set at \$1,000,000.

15 Years+

Years since the listing supply was as low as it was in December 2016

Source: Toronto Real Estate Board

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Looking forward, it is possible that recent changes to mortgage lending guidelines, increases to borrowing costs, and continued price growth could prompt some households to temporarily put their home purchase on hold. Other households may change the type and/or location of the home they purchase. However, through the end of 2016, these policy changes had not noticeably impacted the demand for ownership housing.

It is important to point out that even if we saw a substantial decline in home sales, it is quite possible that seller's market conditions would remain in place in many neighbourhoods throughout the GTA. The reason is simple: the constrained supply of listings would still result in strong competition between buyers. Looking forward, public policy must pay a much greater focus to the supply side of the market. This will be considered in detail in the following sections dealing with the Ipsos survey of buyer intentions, TREB's market outlook, and stakeholder submissions on housing supply.

** Percentages in Ipsos graphs may not add up to 100% due to rounding and/or small shares of results not included.*



Strong rates of price growth
and a short supply of listings
will continue to make
headlines in 2017.

2017 MARKET OUTLOOK



2017 MARKET OUTLOOK



SECTION SUMMARY

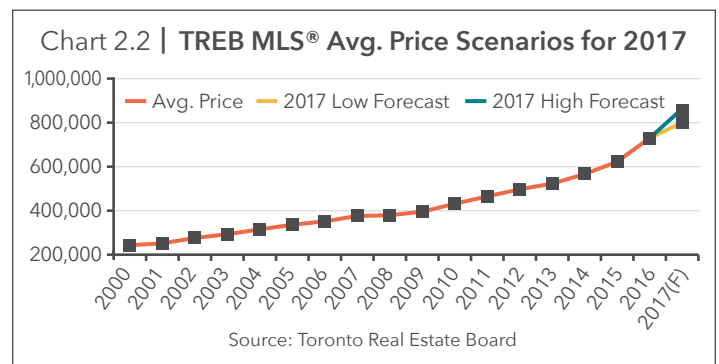
- The Ipsos Home Buyers Survey saw the number of likely home buyers decline in comparison to a year earlier.
- Sales on TREB's MLS® System are expected to range between 104,500 and 115,500, with a point forecast of 110,000 (Chart 2.1).
- Despite the possibility of a decline in sales, first-time buyers will continue to account for more than half of home sales in the GTA. Strong first-time buyer activity points to confidence in home ownership as a quality long-term investment.
- 2017 will still be marked by a persistent shortage of listings, especially for low-rise home types, which remain very popular with intending buyers.
- A likely range for the average selling price in 2017 is between \$800,000 and \$850,000, with a point forecast of \$825,000 (Chart 2.2). This suggests an approximate calendar year growth rate ranging between 10 per cent and 16 per cent.



2.1. | IPSOS PROFILE OF LIKELY HOME BUYERS

In November 2016, Ipsos undertook a consumer survey on behalf of TREB. The goal of the survey was to determine what share of the GTA population was likely to purchase a home in 2017 and to determine and provide characteristics of these would-be home buyers. Ipsos undertook a similar survey during the same period in 2015, and the results of this survey were presented in last year's *Market Year in Review & Outlook Report*. Now that we have two years of results, year-over-year comparisons are possible.

The Ipsos poll was conducted online, with a final sample size of 1,001 likely home buyers from an overall sample of 3,774 interviewees. The credibility interval is ± 3.5 percentage points. The credibility



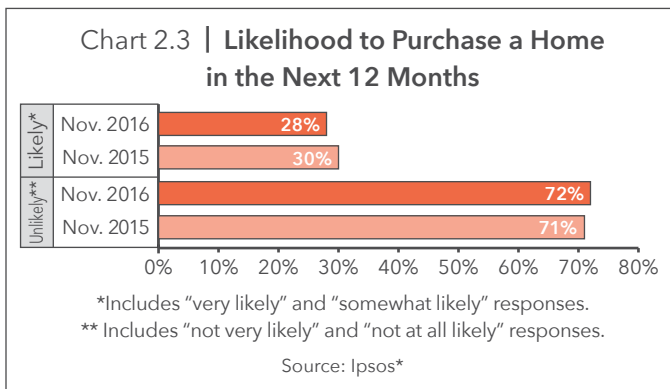
interval is wider when the data is broken into subsets.

A summary of the November 2016 survey results for likely 2017 buyers follows, with comparisons to the 2016 survey:

- In 2017, nearly 28 per cent of GTA residents are

2017 MARKET OUTLOOK

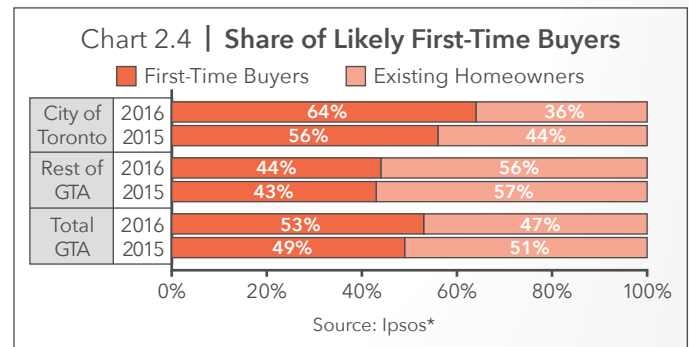
somewhat likely or very likely to purchase a home - down slightly by two percentage points compared to last year (Chart 2.3). Households living in the City of Toronto indicated that they were more likely to purchase a home in 2017 (31 per cent somewhat likely or very likely) than those living in the surrounding regions (25 per cent somewhat likely or very likely).



including a lack of savings or the fact that the cost of housing was deemed to be too high. Financial and affordability issues were more common amongspos he er 2016 survey compared to November 2015. This likely correlates with strong increases in home prices in 2016 coupled with an increase in borrowing costs and stricter mortgage lending guidelines.

- Aside from respondents who indicated they were happy in their current home, the most popular reasons respondents gave for *not* planning on purchasing a home in 2017 were financial in nature,

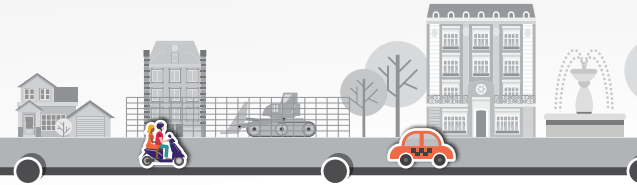
- While overall buyer intentions appear to have edged lower for 2017, it is important to note that first-time buyers will continue to account for much of the demand for ownership housing. For the GTA as a whole, 53 per cent of likely buyers indicated that they would be first-timers - up from 49 per cent a year earlier (Chart 2.4).



- First-time buyers were most prevalent in the City of Toronto, where 64 per cent of likely home purchasers indicated they were first-timers - up from 56 per cent a year earlier. Less than half of intending buyers in the regions surrounding the City of Toronto indicated that they would be purchasing their first home. The higher share of first-time buyers in the '416' area code likely relates to the proliferation of condominium apartments in the area over the last decade. Condo apartments are a logical entry point for first-time buyers due both to this market segment's price point and the fact that condo apartment developments are very often situated near a diversity of work, leisure and transportation alternatives.

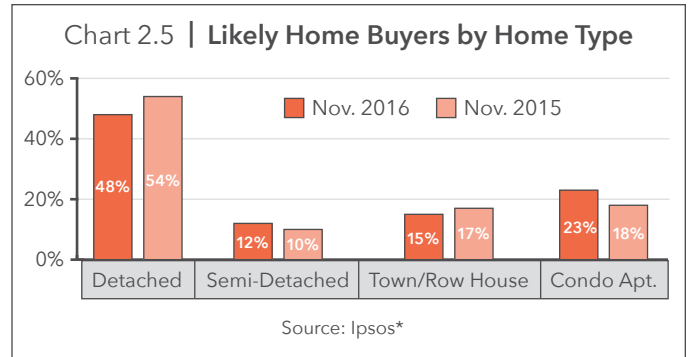
- The majority of likely GTA home buyers were focused on the City of Toronto, with 40 per cent of respondents indicating that they intended to purchase somewhere within the City. Peel Region was the next most popular location at 16 per cent, followed by York (13 per cent), Durham (nine per cent) and Halton (seven per cent). An additional 15 per cent of respondents indicated that they would be purchasing in other parts of Ontario,

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Canada, or the world.

- Slightly less than two thirds of respondents indicated that they planned to purchase a resale home, with the remainder planning on purchasing a new home (i.e. they would be the first person/people living in the house). This breakdown was roughly the same regardless of GTA geography and was little changed from responses collected a year earlier.



14%

Likely buyers who expect to pay \$1 million or more for their 2017 purchase

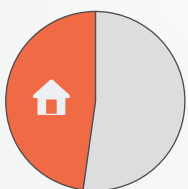
Source: Ipsos*



- The most popular home type for would-be home buyers in 2017 was the detached house. For the GTA as a whole, 48 per cent of intending buyers indicated they planned to buy a detached house (Chart 2.5). This share dipped to 37 per cent in the City of Toronto, where high price and lack of listings likely played a role. In the surrounding '905' regions, 55 per cent of likely buyers favoured detached houses.

- Regardless of geography, the share of likely buyers planning on purchasing a detached home declined compared to survey results from a year earlier. Double digit growth in home prices, and the ramifications on affordability, as well as the sharp drop in available listings likely fed into respondents' home type preferences. The share of likely buyers looking to purchase a condominium apartment in 2017 was up compared to the previous survey, due, at least in part, to strong first-time buyer demand.
- Likely home buyers for 2017 recognized the fact that the housing market in the GTA is under-supplied relative to demand. The average expected purchase price was \$693,178, up by more than 13.2 per cent from the expected purchase price a year earlier (\$612,104). This is in line with the forecast discussed later in the section that points to further strong increases in home prices in 2017.

- The share of likely buyers who indicated a purchase price of one million dollars or more climbed quite strongly compared to a year earlier. For the GTA as a whole, 14 per cent of likely buyers said they expected to pay one million dollars or more – up from eight per cent a year earlier. In the City of Toronto, the share was much higher at 19 per cent, compared to 10 per cent a year earlier. This trend is reflective of the fact that market conditions have been extremely tight over the last year and home price expectations have increased dramatically, especially in the comparatively more expensive low-rise segments of the market.



48%

Buyers who plan to purchase a detached home in 2017

Source: Ipsos*



- Likely home buyers will have substantial down payments for their home purchase in 2017. On average, these households will put down 27.6 per



cent of their purchase price. In the City of Toronto, the down payment share will be lower, at 25.8 per cent. In the '905' regions, the down payment share will be above the GTA average, at 30.8 per cent. First-time buyers in the GTA are planning on putting 23.9 per cent down of the purchase price, on average. Down payment shares remained similar to the Ipsos survey from the end of 2015.

2.2. | DEMAND DRIVERS

In order for a household to make the decision to purchase a home, certain fundamentals must be in place to support that decision. These fundamentals include:

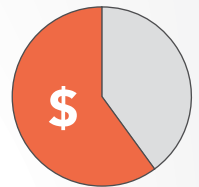
- A sustainable source of income to pay for the home over time through the use of a mortgage and to support the upkeep of the home, including utilities payments, maintenance and repairs; and
- Affordable mortgage payments, because the great majority of home buyers purchase and pay for a home over the long term through the use of a mortgage.



60%

Households that would use a fixed rate, closed mortgage

Source: Ipsos*



Labour Market Conditions

Incomes and income growth are influenced by labour market conditions over time. If the labour market is tight, with a lot of demand for workers up against few people looking for work, incomes tend to rise as businesses compete for a constrained supply of labour. A key indicator of a tight labour market is a low unemployment rate from a historic perspective. In the GTA, the unemployment rate has generally trended lower over the past few years (Chart 2.6).

Despite the low unemployment rate, we did see the number of people employed come off its peak in the second half of 2016. The labour market participation rate also edged slightly lower in the second half of the year. The end result was that the average annual rate of income growth plateaued, at least temporarily, during the last six months of 2016 as well.

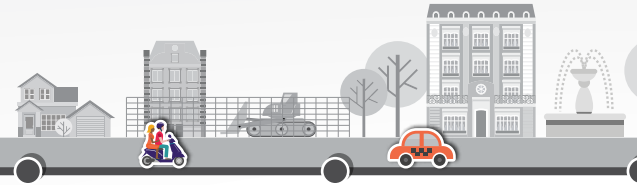
While there is no immediate reason to think that GTA labour market conditions will deteriorate markedly in 2017, some uncertainty about the direction of the Canadian economy may mean businesses will be conservative in considering additional hiring. With this in mind, expect the unemployment rate trend to remain somewhat flat.



Increased Cost of Borrowing

The Ipsos Home Buyers survey found that fixed rate, closed mortgages continue to be the most popular choice for likely home buyers, with approximately 60 per cent of these households indicating that they would use this type of mortgage. The most popular mortgage term was five years, with the most popular

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pre-approved mortgage rate ranging between 2.0 and 2.99 per cent.

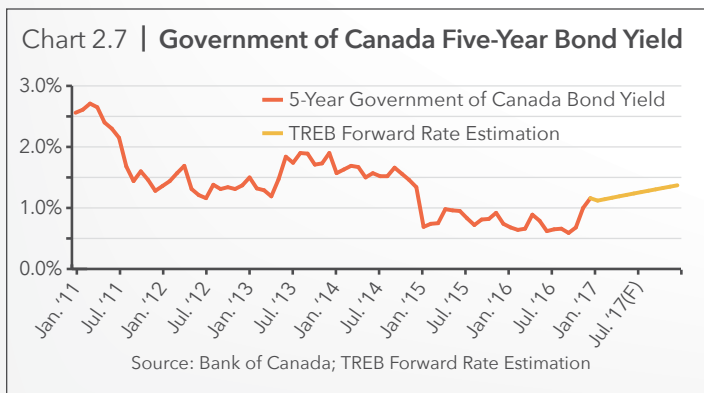
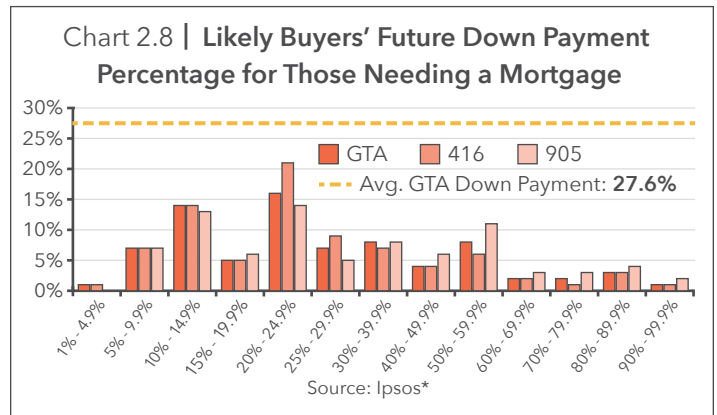
Since the Presidential election in the United States in November 2016, there has been upward pressure on bond yields as investors have dedicated a higher share of their portfolio to equity investments. Trends in the bond market provide a glimpse at what it costs a lender to raise funds to ultimately lend to home buyers in the form of a mortgage. Not surprisingly, as bond yields increased, so too did advertised rates on fixed rate mortgages. That being said, advertised rates at the end of 2016 remained below 3.0 per cent.

Looking forward through the end of 2017, the market consensus is for a further uptick in bond yields and therefore mortgage rates (Chart 2.7). TREB's estimate of the forward rate for the five-year Government of Canada bond points to a further increase of 25 basis points by year-end. If this increase in the five-year yield were to be passed on in its entirety by lenders, advertised five-year rates could approach or even edge past the three per cent mark.

In addition to the prospect of increased borrowing costs in 2017, recent changes to federal mortgage lending guidelines announced in the fall of 2016 have likely not yet had their full effect on the housing market. Under these new rules, the majority of borrowers will be subject to a stress test, under which they must qualify at the chartered bank posted five-year rate, regardless of the actual rate they negotiate with their lender.

For example, as noted above, a typical borrower at the end of December could have negotiated a five-year fixed mortgage rate for below three per cent. However, moving forward, they will have to qualify at the much higher posted chartered bank rate (4.64 per cent in December 2016). This policy change could cause some home buyers to temporarily put their buying decision on hold or change the type and/or location of the home they ultimately purchase.

Survey responses from likely home buyers did suggest that many households are planning on taking on a mortgage from a solid financial footing. The most common category for down payment percentage was 20 per cent to 24.9 per cent. Moreover, the majority of likely buyers who indicated that they would be taking



on a mortgage were planning on a down payment of greater than 20 per cent (Chart 2.8).

2.3. | OUTLOOK FOR HOME SALES AND PRICES

The outlook for sales reported through TREB's MLS® System remains positive for 2017. However, the question is whether or not TREB Members will report another record year for transactions.

Looking at pure fundamentals, including a flatter unemployment trend in the GTA, coupled with the

2017 MARKET OUTLOOK



affordability impact of higher prices and borrowing costs and stricter mortgage lending guidelines, we should expect to see sales below their record high in 2016. As discussed above, Ipsos consumer survey results also support this view, with fewer likely home buyers for 2017 compared to 2016. Taking these factors into account, TREB MLS® System sales are expected to range between 104,500 and 115,500, with a point forecast of 110,000.

Seller's market conditions will remain in place for 2017. The hand-off from 2016 to 2017 occurred with the lowest level of active listings on TREB's MLS® System since before the year 2000. While some relief on the listings front is possible, as there may be homeowners who are prompted to list to take advantage of strong equity gains, 2017 will still be marked by a persistent shortage of listings, especially for low-rise home types, which remain very popular with intending buyers.

Price growth is expected to remain well-above the rate of inflation in 2017. A likely range for the annual growth rate in average price is between 10 per cent and 16 per cent, with a likely range for the average selling price in 2017 between \$800,000 and \$850,000, with a point forecast of \$825,000. In all likelihood, year-over-

year price growth will be closer to 20 per cent in the first few months of the year. Price growth may ebb in the second half of the year, if sales edge lower due to higher mortgage rates and stricter lending guidelines. The forecast price range is not only supported by empirical modelling, but also by the Ipsos Home Buyers Survey undertaken for TREB. Responses of intending buyers pointed to a year-over-year increase of approximately 13 per cent.

As we continue to see very strong demand for ownership housing up against a constrained supply of listings, would-be home buyers will continue to see the value of a REALTOR® in 2017. More than 80 per cent of likely home buyers in the GTA plan to use a Realtor to guide them through their home purchase. This share is the same for intending first-time buyers. This speaks to the value Realtors offer, especially during times when we are experiencing challenging seller's market conditions.



2.4. | CONNECTING TO AFFORDABILITY: FINDING THE CORRECT POLICY PATH

Strong rates of price growth and a short supply of listings will continue to make headlines in 2017. In order to see a sustained moderation in the annual rate of price growth, the GTA housing market must benefit from more listings relative to the number of transactions. We started 2017 with half as many active listings compared to the beginning of 2016.

Further policy initiatives pointed at the demand for ownership housing, as we saw throughout 2016, will not solve the persistent supply problem nor will demand-oriented policies lead to sustainable growth rates for home prices. In 2017, policymakers must:

1. Acknowledge that the lack of a diverse supply of ownership and rental home types is at the root of the strong rates of price growth and declining affordability experienced since the recession and most certainly over the past two years.

2017 MARKET OUTLOOK



2. Different levels of government, in conjunction with industry groups, must work towards innovative solutions to prompt an increase in the supply of market-based ownership and rental housing.

As a starting point, TREB asked stakeholders from the public, private, and not-for-profit sector to submit written summaries (Section 4) of their views on the supply issue as well as to discuss them at our Economic Summit held on January 31, 2017.

* *Percentages in Ipsos graphs may not add up to 100% due to rounding and/or small shares of results not included.*



“Affordability isn’t just a matter of housing costs, but rather the cost of making shelter useful.”

– Canadian Centre for Economic Analysis

TRANSIT & AFFORDABILITY



TRANSIT & AFFORDABILITY



SECTION SUMMARY

- TREB commissioned CANCEA to undertake a study on transportation infrastructure's effects on housing affordability.
- The study focused on the introduction of the Metrolinx Regional Express Rail (RER) in the Greater Golden Horseshoe (GGH).
- The study found that whether or not people changed their mode of commuting from place to place was the key determinant in whether RER would impact affordability.



3.1 | ABOUT THE STUDY

In the summer of 2016, TREB commissioned the Canadian Centre for Economic Analysis (CANCEA) to undertake a study on transportation infrastructure's impact on housing affordability in the Greater Golden Horseshoe Region (GGH). CANCEA's resulting report, which focused on how the Metrolinx Regional Express Rail (RER) would impact housing affordability in the GGH, sheds light on the vital role infrastructure plays in affordable housing.

3.2 | METHODOLOGY

CANCEA used its *Prosperity at Risk* platform to conduct the study. *Prosperity at Risk* uses big data technology advancements, in this case to simulate the connection between future potential housing cost increases and transportation cost decreases in 773 integrated communities across the GGH. This modelling helped them provide a sense of which communities will see the largest affordability impacts stemming from the introduction of RER.

CANCEA analyzed these impacts using its Shelter Consumption Affordability (SCAR) Index. Unlike many other affordability indexes, which tend to focus only on housing prices, mortgage payments, and interest rates, the SCAR index provides a complete picture of both the consumption costs of satisfying shelter needs and a household's ability to pay for it, by dividing shelter consumption costs by discretionary net income and other necessities. (Read more about the factors that make up the SCAR Index in the table on page 27.)

TREB also provided CANCEA with 1986 to 2016 statistics aggregated to the community level to supplement their analysis. Additionally, CANCEA made use of Walk Score® along with TREB Area Maps and MLS® Listings to calculate transit scores for each area under study across the GGH.



3.3 | RESULTS

When considering GGH housing prices only, the study found that the contribution of improved transit access



TRANSIT & AFFORDABILITY



SCAR = Shelter consumption costs ÷ Discretionary net income after other necessities			
Components	Influencing Factors		
Actual rent Imputed rent Maintenance, repair Insurance Utilities Transportation costs	<ul style="list-style-type: none"> • Population growth • Demographic change • Shelter stock, type, state of good repair • Shelter expectations (needs & wants) • Insurance • Shelter formation, type • Density • Rent formation - actual 	<ul style="list-style-type: none"> • Rent formation - imputed • Investment (local & foreign), return expectations • Factors of supply (land, materials, labour, private capital, public infrastructure) • Government agency policy (monetary, prudential) • Federal government policy (immigration, taxation) • Location, proximity, transportation 	<ul style="list-style-type: none"> • Provincial government policy (factors of supply, planning, taxation) • Municipal government policy (factors of supply, planning, taxation) • Electricity, natural gas, water, sewage • Proximity costs (e.g., transportation)
All income sources <u>less</u> Taxation Finance obligations Food Clothing Private health care Non-shelter essential employment costs	<ul style="list-style-type: none"> • Population growth • Demographic change • Productivity trends • Labour demand • Production levels • Private capital attraction • Wage/income formation • Job quality • Dividends, transfers • Capital gains/loss 	<ul style="list-style-type: none"> • Non-shelter essential employment costs (e.g., daycare) • Income and wealth inequality • Household operating costs and debt • Interest rates, inflation • Government agency policy (monetary, prudential) • Federal government policy (economic development, labour, immigration, taxation, re-distribution) 	<ul style="list-style-type: none"> • Provincial government policy (economic development, labour, taxation, re-distribution, health) • Municipal government policy (economic development & related taxation)

is shown to always be positive, with improvements in transit accessibility providing up to a 12% premium. This makes sense given that the more accessible an area is, the more desirable it generally would be considered to live in, which would increase the value of homes and rentals in that area.

However, home prices notwithstanding, for many communities across the GGH, the introduction of transit can substantially reduce costs related to shelter, therefore improving the overall affordability of housing in a given area. The key determinant to improved affordability boils down to taking advantage of the new mode of transportation and switching from driving to commuting via GO Train, providing substantial transportation savings in the process.

CANCEA estimates that the improvement in affordability due to RER is 1.5% in aggregate for households around GO stations outside Toronto.

Therefore, at the level of individuals who change their commute to work from a car to taking the GO Train, the affordability benefits are significant. It's not surprising then, that individuals who live in areas with less developed transportation infrastructure could see the most significant improvements in affordability (by shifting from driving to taking the GO Train), whereas those who are already largely served by better transit alternatives would see much smaller improvements in affordability.

3.4 | CONNECTING TO AFFORDABILITY: NEXT STEPS

From this study, it is clear that improved transportation infrastructure can, more often than not, improve housing affordability for residents in many communities across the GGH.

TRANSIT & AFFORDABILITY



Transit access should be a part of future discussions on housing affordability. It also seems critical that policymakers should undertake further research on exactly how improving transportation infrastructure can improve housing affordability in their jurisdiction. They may also want to consider other investments in infrastructure (e.g. new highway or airport) through the lens of housing to help ensure affordable housing alternatives and shelter-based costs across the GGH.

To read more about the CANCEA study, please turn to the Appendix of this report.



No discussion on solving the
housing affordability issue
should be had without
considering supply.

HOUSING SUPPLY & AFFORDABILITY



HOUSING SUPPLY & AFFORDABILITY



SECTION SUMMARY

- On January 31, 2017, TREB held an Economic Summit to launch this report.
- Featured at the Summit was a panel discussion focused on how the supply of housing impacts affordability in the GTA.
- Below are short submissions written by each panelist addressing the issue.
- TREB believes that the supply issue in the GTA will not be solved without innovative solutions from the public, private, and not-for-profit sectors.



BRIAN LEWIS

Provincial Chief Economist & Assistant Finance Deputy Minister

The Ontario housing market strengthened in 2016, with sales of existing homes and resale prices moving higher. The number of home resales in the province rose almost 10% in 2015 and made similar gains in 2016. This follows more modest increases of 0.2% in 2013 and 3.8% in 2014. House price appreciation accelerated in 2016, with average resale prices up almost 15%, strengthening from gains of roughly 7.5% in each of the previous two years. Ontario housing starts have also posted steady gains, rising 18.6% in 2015, and are on track for a more modest gain in 2016.

Housing price increases have been influenced by several factors, including rising incomes, growth in the number of households and low borrowing costs. However, other factors not reflected in available data sources may also be affecting house prices. Both the Bank of Canada and CMHC have noted that foreign purchases are contributing to the strength in the GTA housing market. The 2016 Federal Budget proposed to address the data gap on foreign activity in the Canadian housing market by allocating \$500,000 to Statistics Canada in 2016-17 to develop methods for gathering data on purchases of Canadian housing by foreign homebuyers. Ontario has also committed to collecting better data on foreign property purchases in the province.

The housing market has been a strong contributor to Ontario economic growth in recent years. Residential investment spending has advanced at a relatively strong pace, and as a share of GDP, has steadily increased, rising from 4.8% in 2000 to 7.7% in 2015.

Over the next few years, most private sector economists expect rising interest rates to result in a softer Ontario housing market.

While long-term interest rates are expected to remain low by historical standards, they are expected

HOUSING SUPPLY & AFFORDABILITY

to gradually rise over the next few years. The onset of interest rate hikes by the U.S. Federal Reserve combined with the recent U.S. election has put upward pressure on bond yields. This has already begun to push mortgage rates higher in Canada. However, the pace of tightening by the U.S. Federal Reserve is expected to be slow.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. High levels of debt combined with strong price increases leave Ontario households potentially vulnerable in the event of an adverse economic shock.

Housing market corrections are typically triggered by a spike in interest rates or a sharp rise in unemployment. The current outlook is for interest rates to increase, but at a very modest pace.



BRYAN TUCKEY

President and CEO, Building Industry and Land Development Association

We have a shortage of housing supply in the GTA that is approaching crisis levels, and it's time for governments to acknowledge the problem and take the necessary action to address it.

Not enough new housing is being built to keep up with consumer demand or the housing needs of this growing region, and it is impacting the price of new homes as well as the resale housing market and the rental market.

The population of the GTA has grown significantly in the past decade, but housing supply has dropped. Today in the GTA there are fewer than half the number of new homes available to purchase than there were a decade ago. In December 2006 there were 30,400 new homes in builders' inventories, while in December 2016 there were just 13,670.

Even more dramatic is the change in the mix of the GTA's housing supply and the drop in the supply of new low-rise homes, especially single-family detached houses. Ten years ago, more than half of the available new homes were low-rise homes. Today less than one in seven is. At the end of last month there were 1,878 new low-rise homes available to purchasers, whereas in December 2006 there were 17,529. Meanwhile the supply of single-family detached homes plummeted from 11,602 in 2006 to 742 in December 2016.

The GTA home building and land development is adhering to the Province's intensification policy, and we are selling and building far fewer low-rise homes than in the past.

The biggest year for new housing sales in the GTA was 2002 when the industry sold a record 53,660 new homes. Of those sold, 72 per cent were low-rise and 28 per cent were high-rise. 2016 was a record year for high-rise sales in the GTA with an unprecedented 29,186 units sold. In total, 47,161

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new homes were sold last year and only 38 percent of them were low-rise.

The industry is complying with growth plan policy, but demand for low-rise homes has not dropped with the supply and prices have skyrocketed.

The average price of a new low-rise home in the GTA more than doubled in 10 years, and reached a record \$995,116 in December. For single-family detached homes the average price last month was an unprecedented \$1,264,604, an increase of \$273,000 in just 12 months and up by \$811,394 in a decade.

So given that there is so much unmet demand why doesn't the industry just build more product and increase the supply of homes? Unfortunately there are many barriers in the way. Lack of developable land that is serviced with critical infrastructure, excessive red tape, out-of-date zoning, and NIMBY-ism are the key hindrances limiting our ability to build more housing.

For land to be developable it has to have critical infrastructure such as water, wastewater and hydro in place. Much of the land that is designated for development in the GTA is not currently serviced with water and/or sewers, which means it is not developable. In some cases, the necessary servicing won't be in place for at least another decade.

Excessive red tape and increasing delays in planning approvals are another huge challenge. Across the GTA it is taking longer and longer to get the go-ahead for projects. A typical new low-rise development can take a decade or more and high-rise projects can take up to seven years.

The approvals process is further delayed due to zoning bylaws in many GTA municipalities that have not been updated for several decades. All new development applications must conform to area zoning bylaws to get approved but unfortunately many municipalities are operating with badly outdated bylaws that don't align with provincial intensification policies.

It is time for government to take action to address our housing supply problem. Across the GTA governments must streamline the planning approval process and remove red tape, pre-designate and pre-zone land, and approve all outstanding environmental assessments that relate to critical infrastructure. As well, they need to update zoning bylaws to support intensification policies and support these policies with public education.

This is not a time for small plans. It's time to work together and address our housing supply crisis so that today's new home buyers and future generations have somewhere to live.

HOUSING SUPPLY & AFFORDABILITY



JEREMY KRONICK

Senior Policy Analyst, C.D. Howe Institute

The premise I will begin with is the following: whether or not you believe that demand-side policies enacted over the years have been successful, we continue to discuss soaring house prices outstripping income growth, and debt levels reaching their highest historical levels. We therefore do need to entertain the idea that we have a supply-side problem that requires supply-side solutions.

With that in mind, there are four areas I want to mention in my brief presentation that are worth considering and I hope will stimulate an enlightening Q&A. These four are by no means an exhaustive list but ones I believe are important, with the focus being on Toronto and Vancouver. They include housing completions versus population growth, the issue of the right balance between building and the environment, the process for getting approval in Toronto and Vancouver, and the appropriate pricing of infrastructure.

There are many ways to evaluate whether supply lines up with demand but one way is to look at housing completions for single family and semi-detached homes. In both Ontario and BC we have seen drops in housing completions since the early to mid-2000s peak. With population growth on the rise in Toronto and Vancouver, aided by immigration, this is a telling statistic.

The issue around the environment has been hotly debated as provincial policies that discourage sprawl and encourage densification have led developers to build more condos and apartments and less of the in-demand detached and semi-detached homes. Environmentalists have argued that there is plenty of land earmarked for development that could last decades. No matter where you land in this debate there is not enough of what I like to call “family options.” Detached, semi-detached, and townhomes are obvious examples of these options. But we also likely have to get creative with how we think about apartments/condos. There are scarce three bedroom options in Toronto, for example, that can support families with two kids. Perhaps these new buildings come with greenspaces on each floor or every other floor to accommodate the desire for a yard. The point is to be creative if the two sides can’t agree on whether (how) the Greenbelt and policies around sprawl and urbanization need to (should) be changed.

Home builders in both Toronto and Vancouver have discussed at length the trouble getting approval for real estate development in both Toronto and Vancouver. Research has shown that the efficiency and quality of regulation around, among other things, approval timelines in both Toronto and Vancouver, has had a negative impact on growth of housing supply. In an announcement earlier this year, Toronto admitted as much by promising to spend almost \$275 million over the next five years increasing construction of affordable housing through, among other things, “fast-tracked building approvals” that reduce application periods from 18 months to 12. This delay is a cost to consumers

HOUSING SUPPLY & AFFORDABILITY



either indirectly in wasted time or in direct costs if builders deem this time as punitive, passing these financial costs on to consumers.

Lastly is the issue of infrastructure costs. Municipalities force home builders to pay up front for any new municipal infrastructure. These costs can be extensive and get passed on to those purchasing homes. The solution would be to charge home buyers for the infrastructure they actually use; however, this is going to require putting a proper price on water and road usage.

Once again, these are simply four areas I believe need to be considered in order to generate the appropriate level of supply to match demand. There are no doubt others.



MARCY BURCHFIELD
Executive Director, Neptis Foundation

The Neptis Foundation is an independent, privately capitalized, charitable foundation that conducts and disseminates non-partisan research, including reports, analysis, and mapping, on growth and change in Canadian urban regions. Since 2000, Neptis has produced a substantive body of research that has informed debate on Ontario's approach to regional land use and transportation planning and policy-making in the Greater Golden Horseshoe.

Decades of uncoordinated planning in the rapidly growing metropolitan region surrounding Toronto have contributed to the widespread loss of farmland and environmentally sensitive features, exacerbated traffic congestion, decreased economic productivity, and increased municipal debt through the unsustainable financing of growth-related infrastructure. For years, population and employment growth have been directed in an ad hoc fashion to areas at the edge of the region's urban envelope, far from transit routes. This pattern of growth, along with a lack of investment in transit, has resulted in today's misalignment of population and infrastructure.

Between 2005 and 2008, the Province of Ontario introduced three long-range planning initiatives to address these issues: the Greenbelt Plan, the Growth Plan for the Greater Golden Horseshoe, and the Regional Transportation Plan, known as the Big Move. While many welcomed planning policies that promote a shift away from inefficient, land-consumptive development patterns towards more compact growth that offers a range of housing types and better access to transit, others have attributed the rising cost of housing to these policies, as if land constraints were the only relevant factor in housing prices.

Research by the Neptis Foundation shows clearly that provincial policies have not created a shortage of land for housing. More than 100,000 hectares have been set aside in the Greater Golden Horseshoe to accommodate population and employment growth to 2031; over 56,000 hectares are in the Greater Toronto and Hamilton Area (GTHA). Ground-related housing remains the predominant form

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of housing planned. Neptis research also shows that less than 20% of this land supply has been built on since 2006.

The amount of land allocated for growth is not the most pressing problem facing the region. Neptis research shows the biggest challenge is aligning growth with current and future transit investments. Between 2001 and 2011, downtown Toronto, with its range of transit options, captured only 5% of the population growth, while 86% of the net new population settled on the urban edge. Altogether, a mere 18% of net new residents settled in areas with access to frequent transit service. During the same period, Neptis observed widespread population loss in many established urban areas in the GTHA; researchers attribute this loss to an aging population and the long-term trend towards smaller households.

To mitigate congestion while accommodating another 2 million people in the GTHA, the region needs to strategically direct growth and development to areas with existing or planned frequent transit service. This means pre-zoning along transit corridors, or setting clear priorities for growth in currently undeveloped (greenfield) areas that are fully-serviced and are accessible to transit.

Ad hoc, low-density growth in transit-poor areas (also known as sprawl) is the result of failing to coordinate development with infrastructure investment. As for rising house prices, they have many causes, but they cannot be blamed on a land shortage. Rather, the region has too many places to grow, and not enough plans to reduce dependence on automobiles. These are the real issues facing the GTHA.



SEAN SPEER

Munk Senior Fellow, Macdonald-Laurier Institute

Concerns about housing affordability challenges in Canada's major cities such as Toronto are well founded. Rising house prices are precluding low- and middle-income Canadians from living in our dynamic, job-creating cities where the opportunities for income mobility and personal advancement are the greatest. The result is major opportunity costs for these families and the national economy.

Most of the blame for rising house prices has been wrongly attributed to foreign investment in Canada's real estate market. Much of this political rhetoric has been a distraction. Foreign investors are hardly responsible for detached home construction hitting a 36-year low. That is mostly a result of government policy.

The housing market is a function of supply and demand and government policies - including restrictive land-use regulations, burdensome building codes, and "snob" zoning - have caused housing demand to outstrip supply and in turn drive up prices. These policy levers have been overlooked in much of the political and media attention about foreign investment, but their importance in understanding the dynamics of the housing market cannot be overstated.

HOUSING SUPPLY & AFFORDABILITY



Ottawa should make itself the spokesperson and agent for the middle class on the housing file and use its spending programmes to spur provinces and municipalities to stop obstructing housing supply, hampering the rise of the middle class, and hobbling the cities that are such important generators of economic activity. We recently presented a blueprint to restore homeownership as a key foundation for upward mobility, middle class opportunity, and economic growth:

- Ottawa's new social housing and infrastructure funding to the provinces and cities should be conditional on reforms to restrictive zoning and housing regulations that support more housing supply. It is counterproductive to reward provinces and municipalities with affordable housing and infrastructure funding if these same governments are impairing housing affordability and in turn undermining the national economy and middle class opportunity.
- Provinces and cities should revisit "urban containment" strategies with a clear eye to their impact on housing affordability. Policymakers must be more transparent about the trade-off between urban containment policies (such as anti-development greenspace and obstructive zoning and construction rules) and the real economic consequences that artificially constraining the housing supply imposes on low- and middle-income families and the broader economy.

Future social housing spending should be reformed so that it supports responsible homeownership for low-income families rather than hastening further "class barriers" and a renter underclass. The emphasis should be on social housing which tenants can ultimately purchase on favourable terms. Partnership with Habitat for Humanity is one option to advance such reform.



2016 was a record year for
new high-rise sales, breaking
the previous record for 2011.

NEW HOMES & RESIDENTIAL LAND



NEW HOMES & RES. LAND

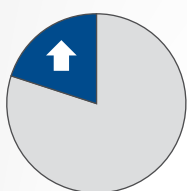


5.1 | NEW HOME SECTOR

Total new home sales in the GTA reached 47,161 units in 2016 (the highest level in 14 years), with an estimated value of over \$30 billion, according to Altus Group data.

2016 a Record Year for High-Rise Sales (Chart 5.1)

- The 29,186 high-rise sales in 2016 broke the previous record set in 2011. About 9 in 10 high-rise sales were apartment units, with the majority of the remainder stacked townhouses (which reached a new high of 2,701 units). About 6 out of every 10 high-rise sales were 1 bedroom plus den or 2 bedroom units, although 2 bedroom plus den and 3+ bedroom units have been capturing increased share in recent years.



20%

Increase in overall low-rise price index during 2016

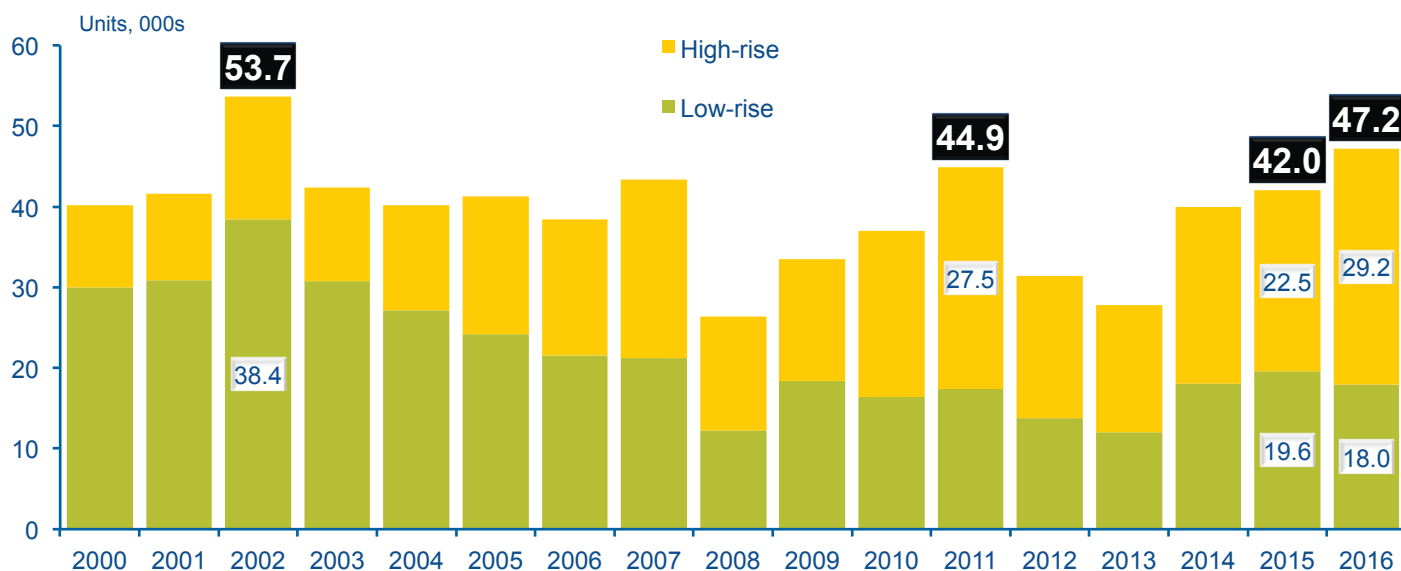
Source: Altus Group



- After increases in 2014 and 2015, low-rise sales fell back again in 2016, constrained by lack of available product, as the number of units in newly launched projects declined for the second year in a row. The decline in low-rise sales was focused in single-detached and semi-detached units - townhouses posted a modest pickup.

High-Rise Sales Up Throughout the GTA (Chart 5.2)

Chart 5.1 | 2016 a Solid Year for New Home Sales



Source: Altus Group

NEW HOMES & RES. LAND

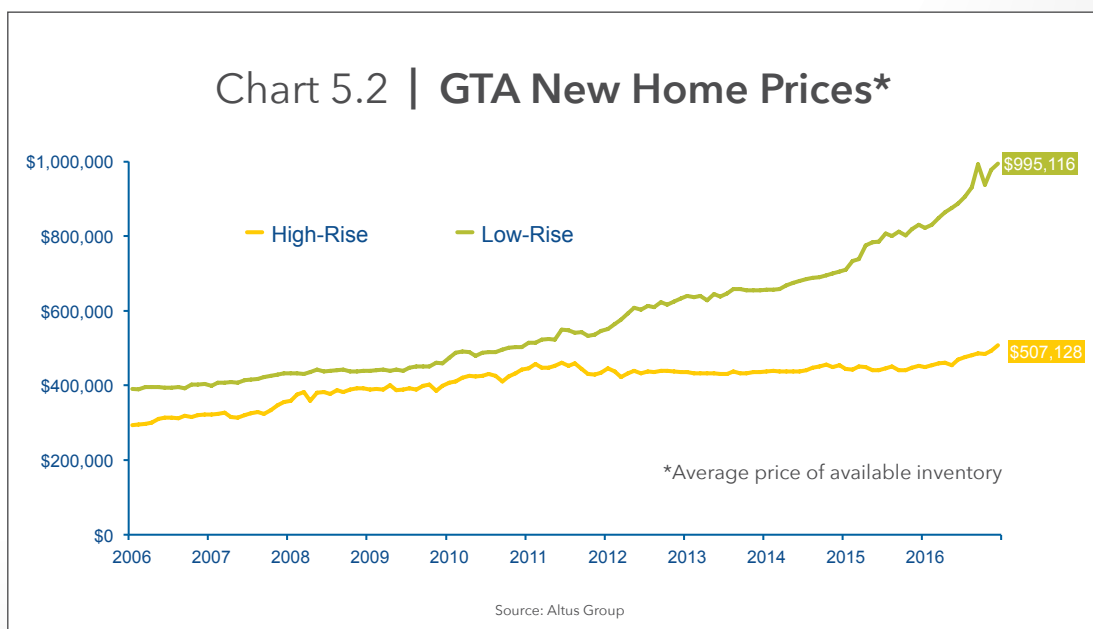
- All regions shared in the increase in high-rise sales, with about 4 out of every 10 sales occurring in the 905 regions. The top three submarkets for high-rise sales in 2016 were Downtown West, Downtown East, and Sheppard Corridor (all in the City of Toronto).
- Durham Region bucked the downward trend for low-rise new home sales that occurred in the other 905 regions. About one-third of low-rise sales were in York Region. Brampton was once again the top municipality for low-rise sales, despite a 34% decline, followed by Vaughan and Milton.

Low Inventories a Key Factor in Upward Price Trend

- There were less than 1,900 low-rise units available to purchase at the end of December 2016 - an extremely low number in historical terms. Less than half of this total was single-detached homes.
- Strong demand for low-rise product, combined with the lack of product available to purchase, pushed prices higher in 2016; the overall low-rise price index increased by 20% during the year to just shy of the \$1 million mark.
- High-rise inventories declined rapidly during the year, from just over 20,000 units at the end of 2015 to just under 12,000 units at the end of 2016. Following several years of relative stability, the overall average price for available high-rise product moved up by 12% during the year, a combination of increases in average price per square foot plus some increase in average unit size.

Looking Ahead

- Low-rise new home sales are expected to continue to be constrained by the amount of product that becomes available. The modest available inventory levels suggest further price increases in the low-rise sector in 2017.
- High-rise new home sales are expected to remain robust, but below the record level achieved in 2016. With higher high-rise completions levels expected in 2017, there is potential for larger numbers of newly completed product to be listed on the resale market.



NEW HOMES & RES. LAND



5.2 | RESIDENTIAL LAND SECTOR

The residential land sector in the GTA continued to be robust in 2016, according to Altus Group data.

Another Record Year for Residential Land Sales (Chart 5.3)

- Residential land sales (including lots) set another record in 2016 at \$5.7 billion, up from \$5.0 billion in 2015. A total of 716 deals occurred.
- Half of the deals (359) were in the \$1 million to \$3 million range, with a total value of \$611 million - these smaller deals accounted for about 11% of overall residential land and lot sales dollar volumes.

\$5.7 Billion

Total for residential land sales
(including lots) in 2016

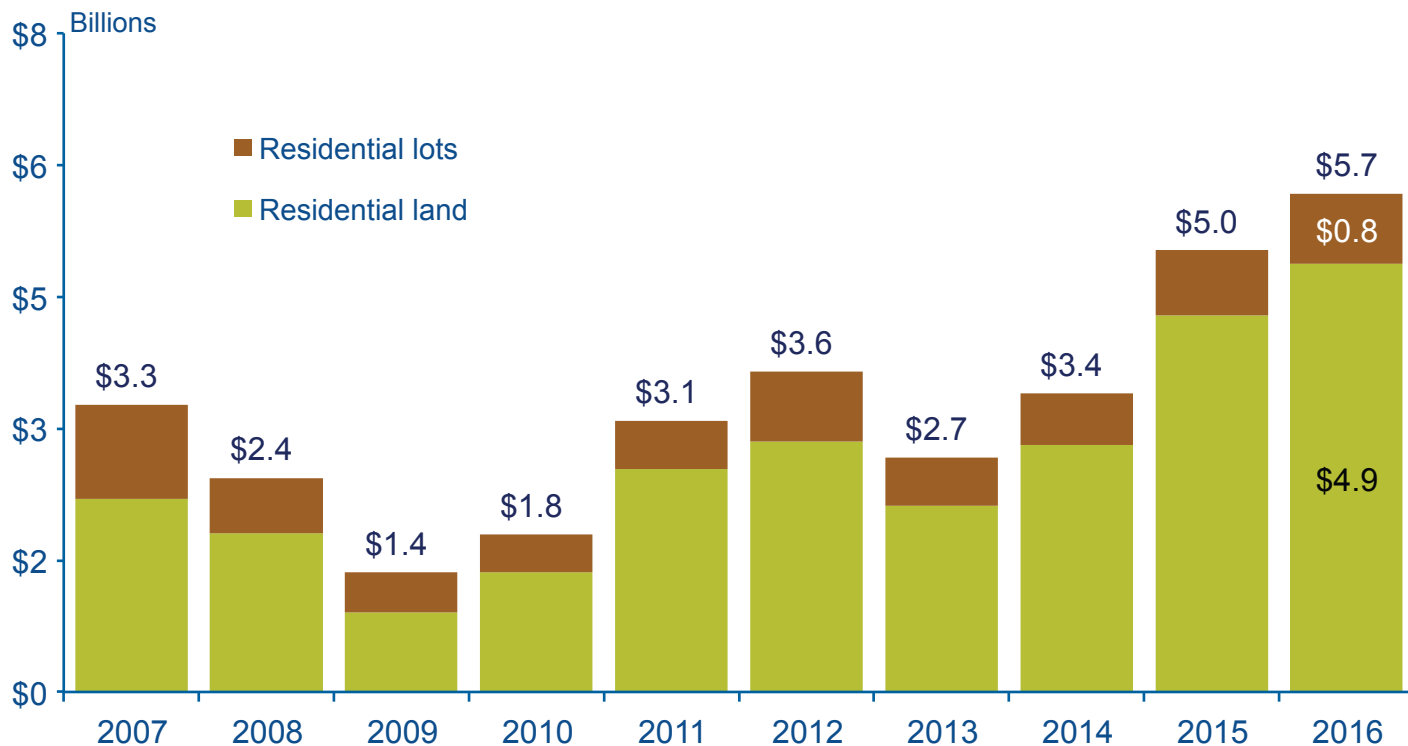
Source: Altus Group



Most Areas of the GTA Posted Increases (Chart 5.4)

- York Region was the only region to record lower residential land sales in 2016 (down by about \$324 million).
- The City of Toronto accounted for half of the value of the residential land sales. High Density lands accounted for the majority of the sales volume

Chart 5.3 | GTA Residential Land and Lot Sales



Source: Altus Group



NEW HOMES & RES. LAND

in the City of Toronto (about 85%), with most of the remainder Medium Density.

- Peel Region posted the strongest relative increase, up 70% over 2015.

2016 Increase Driven by High Density Land (Chart 5.4)

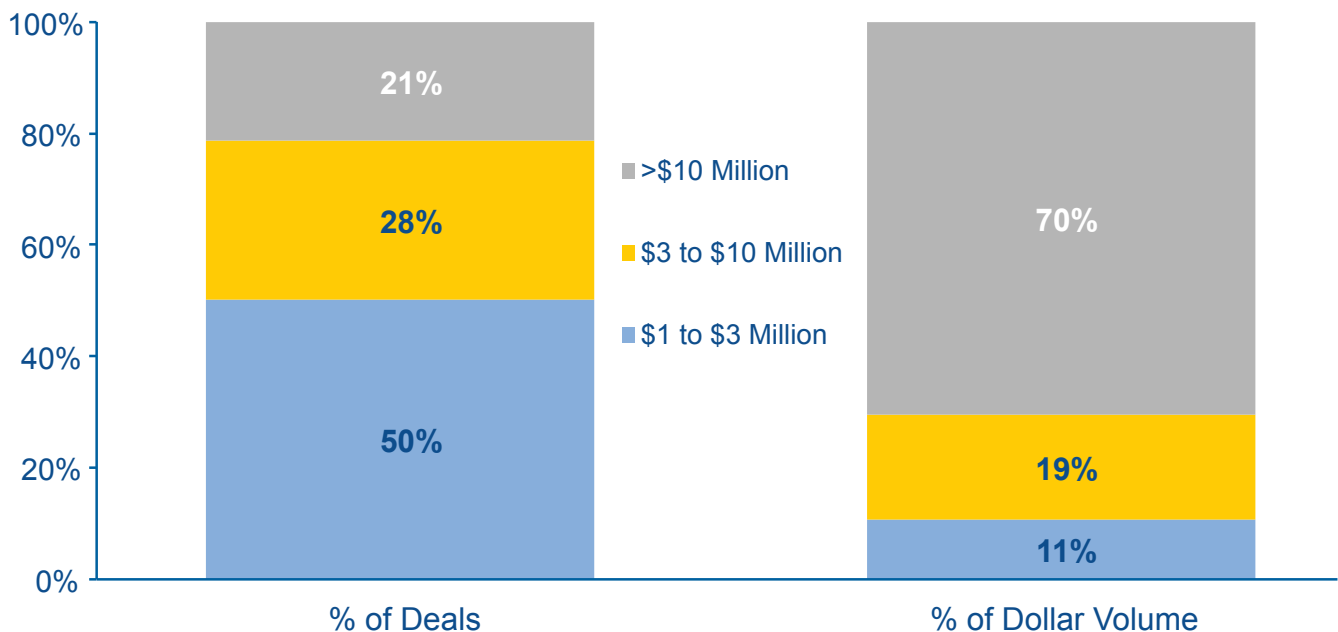
- High Density land sales reached a new high at \$2.2 billion – just under half of all residential land sales. Over 90% of high density land sales dollars were in the City of Toronto.
- Medium Density land (primarily for future townhouse oriented developments) also recorded a new annual record reaching \$773 million. This segment is being driven by a growing demand for more affordable ground-oriented housing product.
- Low Density land sales continued strong as well – at \$1.59 billion, falling just shy of the record of \$1.61 billion, set in 2015. Almost half of Low Density land sales were in York Region.



Looking Ahead

- With population growth, and therefore the need for new housing, projected to stay relatively buoyant in the GTA over the medium- to longer-term, residential land sales should continue to be robust in 2017.

Chart 5.4 | 2016 GTA Residential Land and Lot Sales by Size of Deal



Source: Altus Group



Improved business confidence
in 2017 could bode well
in terms of demand for
commercial real estate.

COMMERCIAL REPORT





SECTION SUMMARY

- The amount of space leased in 2016 was up for the first three quarters of the year, compared to 2015.
- Looking forward, the Bank of Canada Business Outlook Survey points to improved business confidence, which could bode well for the demand for commercial real estate.
- Market conditions remained tight enough to see increases in average lease rates for all major market segments.
- Total TREB MLS® System commercial property sales were in line with the number of deals reported in 2015.
- Average sale prices, on a per square foot basis, were up for all three major market segments.



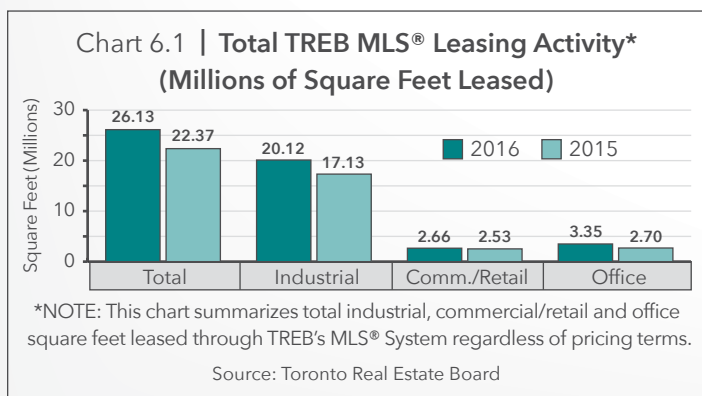
6.1 | INTRODUCTION

In calendar year 2016, despite a certain degree of economic uncertainty and related volatility in economic growth, Toronto Real Estate Board Commercial Network Members reported an increase in commercial leasing activity. Commercial property sales remained in line with 2015 results. The sections below provide a breakdown of TREB MLS® System commercial transactions against the backdrop of underlying economic drivers.

6.2. | COMMERCIAL LEASING

Over 26 million square feet of combined industrial, commercial/retail and office space was leased through TREB's MLS® System in 2016. This represented a 16.8 per cent increase compared to the more than 22 million square feet leased in 2015 (Chart 6.1).

Historically, the great majority of TREB MLS® System leasing activity in the GTA has been associated with the industrial market segment. In 2016, the industrial share of total space leased amounted to 77 per cent. The 2016 industrial leasing result was 17.4 per cent higher than reported for 2015.



While the industrial market segment accounted for the majority of TREB MLS® System leasing activity, it is important to note that the amount of commercial/retail and office space leased was also up on a year-over-year basis in 2016. Over 2.7 million square feet of commercial/retail space was leased - up 4.9 per cent compared to 2015. For the office market segment, Commercial Network Members reported over 3.3 million square feet leased. This result represented a sizable 24 per cent increase compared to what was reported for 2015.

On the whole, leasing activity was up during the first three quarters of 2016. In the fourth quarter, the amount of space leased dipped compared to 2015. It remains to be seen whether the fourth quarter dip was an anomaly in an otherwise positive result for 2016. The Bank of Canada Business Outlook Survey for winter 2016/2017 suggests that, on net, Canadian businesses are expecting an uptick in sales in 2017. Respondents to the survey also indicated that investment in machinery and equipment and the need for labour would increase in the coming year. All of these factors bode well for the demand for commercial real estate, as an improving outlook could prompt many firms to increase their footprint to account for anticipated increases in production.

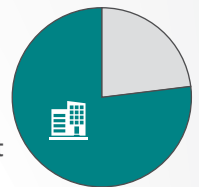
Leasing market conditions remained tight enough to see increases in average lease rates, as measured by transactions reported on a per square foot net basis with pricing disclosed. The average industrial lease rate in 2016, at \$5.68 per square foot net, was up by 1.9 per cent compared to the average of \$5.58 in 2015. The average commercial/retail lease rate was up by 5.8 per cent to \$19.98 per square foot net compared to \$18.88 a year earlier. In the office market segment, the average 2016 lease rate was \$14.05 per square foot net - up 5.1 per cent from \$13.36 in 2015.



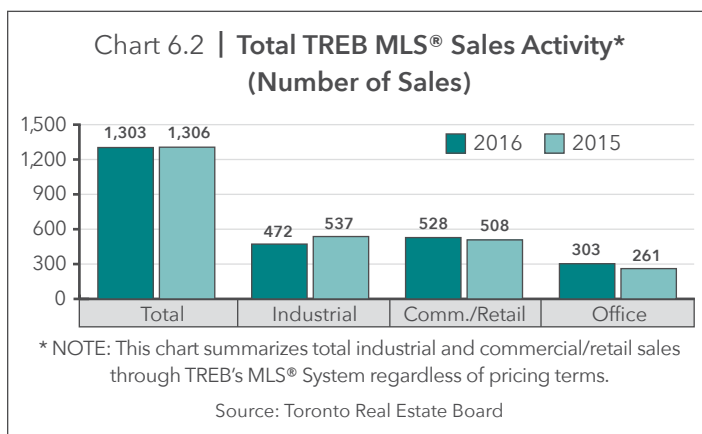
77%

Share of space leased by the industrial market segment

Source: Toronto Real Estate Board



6.3. | COMMERCIAL PROPERTY SALES



Commercial property sales through TREB's MLS® System in 2016 were in line with results from 2015. A combined 1,303 industrial, commercial/retail and office properties changed hands in 2016 - down only slightly compared to 1,306 sales in 2015 (Chart 6.2).

Industrial property transactions were down by 12.1 per cent on a year-over-year basis to 472. Conversely, strong growth was experienced in the commercial/retail and office market segments, with annual increases of 3.9 per cent and 16.1 per cent respectively.

Average sale prices on a per square foot basis were up in 2016 compared to 2015 for all three major market segments. The average industrial selling price was up by 1.3 per cent to \$98.87 per square foot. The average commercial/retail selling price was up by 8.8 per cent to \$185.59 per square foot. The average office selling price was \$217.99 per square foot - up by two per cent compared to 2015. It is important to note that average price increases in some segments of the market are often due to both market conditions and changes in the location, size, and type of properties sold from one year to the next.

Looking forward, the amount of investment in commercial real estate will depend on a number of factors. Obviously, business confidence, as discussed above will be one factor and, by all accounts, it looks as if this will be positive. However, business and investment confidence can change for a variety of reasons. These

COMMERCIAL REPORT



include political and policy direction of key trading partners and perceived returns on investments in regions like the Greater Golden Horseshoe compared to other jurisdictions. As we move through 2017, analyzing risk factors such as these will be first and foremost as it relates to investment in commercial real estate.

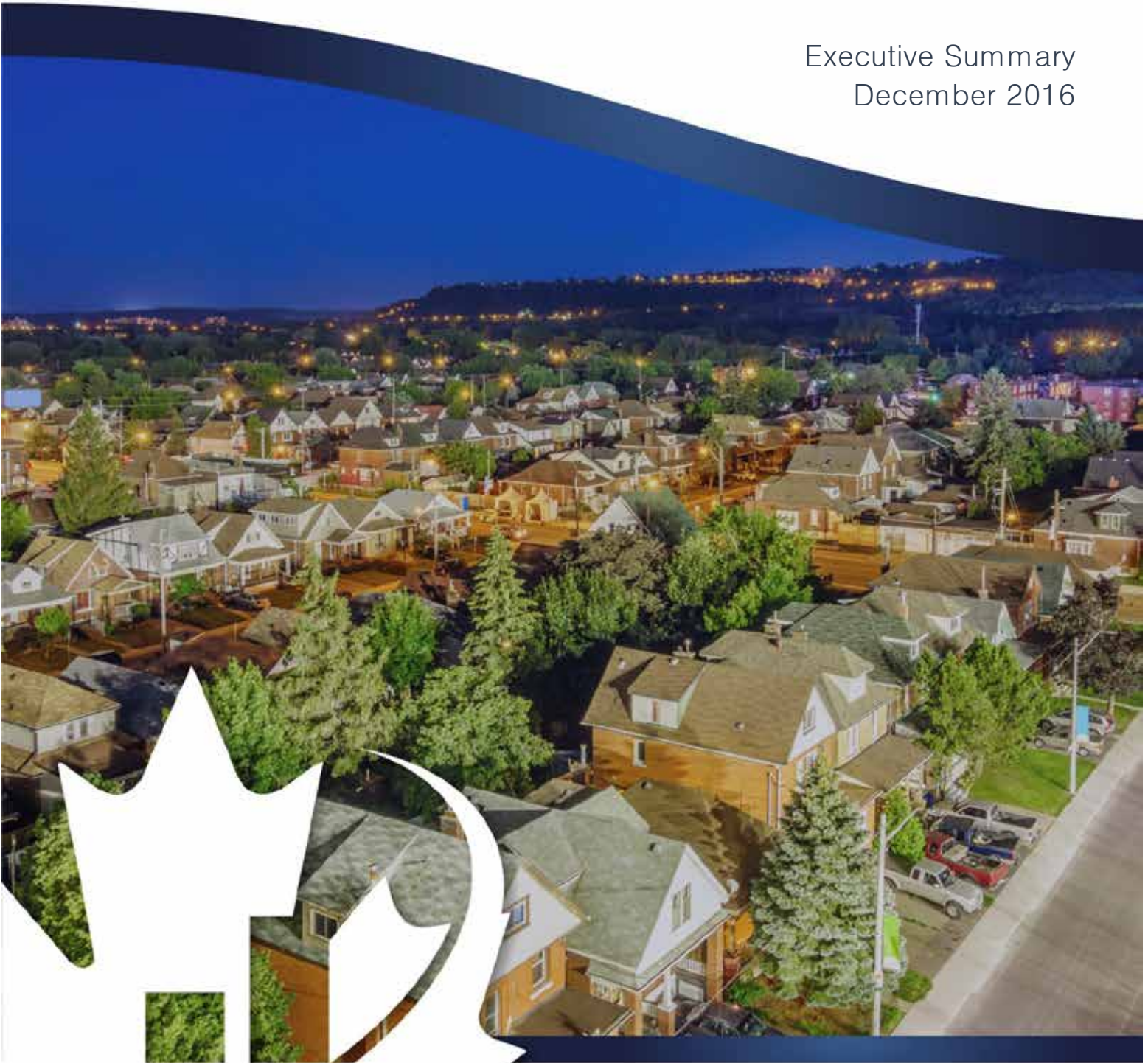


APPENDIX



Regional Express Rail's Impact on Housing Affordability in the Greater Golden Horseshoe

Executive Summary
December 2016



**CANADIAN CENTRE FOR
ECONOMIC ANALYSIS**

The Canadian Centre for Economic Analysis (CANCEA) is a socio-economic research and technology firm that periodically provides objective, independent and evidence-based analysis dedicated to a comprehensive, collaborative, and quantitative understanding of the short- and long-term risks and returns behind policy decisions and economic outcomes.

At the centre of CANCEA’s analysis is its *Prosperity at Risk* simulation platform which is a sophisticated agent-based, geo-spatial socio-economic computer platform that reproduces and forecasts activity across over 5,500 Canadian regions. Using “big data” technology advancements, *Prosperity at Risk* simulates the interactions of more than 40 million virtual agents (individuals, corporations, governments, and non-profit organizations) to realistically understand the consequences of market and policy developments for our clients.

CANCEA does not accept any research funding or client engagements that require a predetermined result or policy stance or otherwise inhibits its independence.

In keeping with CANCEA’s guidelines for funded research, the design and method of research, as well as the content of this study, were determined solely by CANCEA.

The interpretation and reporting of the results contained within this report do not necessarily represent the policy position or opinion of the Toronto Real Estate Board.

This information is not intended as specific investment, accounting, legal or tax advice.

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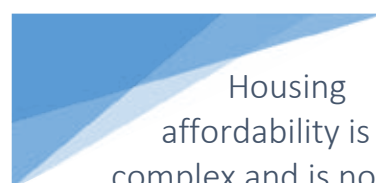
Citation:

Canadian Centre for Economic Analysis. *Regional Express Rail’s Impact on Housing Affordability in the Greater Golden Horseshoe*. December, 2016.

EXECUTIVE SUMMARY

The relationship between transportation infrastructure, land value, real estate prices and housing affordability is complex. International experience reflects a mixed picture, suggesting that provision of and access to transportation networks can have an uncertain effect on shelter affordability. For example, while integrated transportation networks can reduce affordability pressure by incentivizing households to migrate away from core employment centres (such as downtown Toronto), urban sprawl can generate greater transportation costs (including the building and maintaining of the infrastructure). If these costs are passed onto households without compensating benefits, housing becomes less affordable.

Further complicating the issue is the measurement of housing affordability itself. Many affordability indexes consider housing prices as the key determinant of housing affordability and do not capture the breadth of costs that households incur to make a structure a home (such as transportation). For this reason, and inspired by recent developments in economic modelling, CANCEA developed the *Shelter Consumption Affordability Ratio* (SCAR) index, which compares the full cost accounting of using shelter with a household's ability to pay for it (including the costs of transportation). The SCAR index more completely reflects both the consumption costs of satisfying shelter needs and households' actual disposable income, by dividing shelter-related consumption costs by discretionary net income after other necessities:



Housing affordability is complex and is not just about housing prices. The SCAR index is a full cost accounting of 'operationalizing' shelter to call it a home.

Shelter-related consumption costs: Unlike other affordability indices, the SCAR Index differentiates shelter consumption from ownership by considering rental costs for tenants, and imputed rent among homeowners who act as their own landlords¹. Other shelter-related consumption costs in the SCAR index include utility expenses, maintenance and repair costs, and property taxes. In addition, as households must travel from their residence to reach necessary amenities and places of work, transportation expenses are also included.

Discretionary net income after other necessities: This represents income available to pay for the consumption costs of shelter. It is calculated as after-tax income less financial obligations (such as debt repayment) less other necessary expenses: food, clothing, private healthcare costs, and essential non-shelter employment costs.

¹ This concept is already in use as a component of GDP measurement by Statistics Canada.

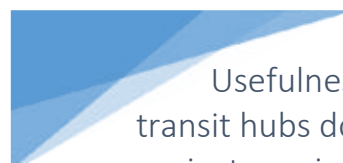
Consistent with the SCAR index, literature on the matter suggests that in order for transit to have a positive impact on housing affordability, it needs to be accessible. But, to be clear, *proximity* to improved transit does not mean improved *accessibility* – transit needs to help you get where you want to go relatively quickly and at a lower cost than other surrounding transportation options (e.g., highways). It simply isn't enough to be located beside a transit hub. Unfortunately, outside of the downtown Toronto core and along the city's subway lines, individuals without access to a car can only easily access 5-10% of the jobs compared to those with access to a car. This means that ignoring a household's proximity and access to necessary amenities and jobs may overstate the affordability of shelter because transportation expenses are incurred by the household. By using the SCAR index as a measure of affordability, a more complete consideration of both the consumption costs of satisfying shelter needs (including transportation), and a households' ability to pay for it.

Further, transit investment itself does not guarantee that development around transit hubs – critical to making the area desirable – will occur. Other factors such as local government land use policies, physical land characteristics, and social conditions, are equally, if not more important than the transit investment itself. On the whole, one thing that is clear is that the building of transit on its own is not sufficient – rather, building up complete communities (including greater density) *around* transit hubs (via transit-oriented development) is critical.

Focus of our study: Metrolinx' Regional Express Rail

Our study investigates Metrolinx' Regional Express Rail (RER) as it affects affordability as measured by the SCAR index in the areas surrounding commuter GO train stations. Investments made through RER will mean, over the next decade, five of the seven GO rail corridors transformed into services that operate all day, all week, and in both directions. Using CANCEA's 'big data' computer simulation platform, which models the behavior of – and interactions between – over 40 million virtual individuals, households, businesses, governments, and non-profit organizations, we simulate the connection between future potential housing cost increases and transportation cost decreases in 773 integrated communities across the Greater Golden Horseshoe (GGH).

Much of the analysis around transportation costs is dynamic, such that it shows the potential savings depending on the proportion of people who shift from driving to taking the GO train. This provides a sense of which communities will see the largest affordability impacts stemming from the introduction of RER.



Usefulness of transit hubs does not mean just proximity. Transit stations need to be a convenient and cheaper way to get you where you want to go versus the alternatives



Metrolinx' Regional Express Rail will see five of the seven GO rail corridors transformed into services that operate all day, all week, and in both directions

Results at a glance

- **Transit-induced price premium of up to 12%:** Considering GGH housing prices only, the contribution of improved transit access is shown to be always positive (controlling for other factors), with transit scores of 100² resulting in a price premium of about 12% over the reference case (with a transit score of 0). Increases in transit scores due to improved service therefore lead to housing price premiums of up to 12% (depending on the scale of the improvement.) However, premiums for regions and single-detached homes can sometimes overshadow the transit premium. For example, within the City of Toronto itself, increasing transit scores via RER has a much smaller impact as most of the city already has relatively high transit scores, with other location factors (e.g., walkability, average house size) driving area premiums.
- **RER impact on the household:** Based on Metrolinx' business case for RER, it is expected to entice about 10% of the population commuting to Toronto by car to use GO Train services (due to increased transit accessibility) but only 1% of car commuting residents of Toronto (because of relatively good existing transit). The importance of policy and local transit-oriented developments then becomes very clear. At the level of individuals who change their commute to work from a car to taking the GO train, the affordability benefits are significant (accounting for changes in the SCAR index such as changes in housing and transportation costs). Key highlights include potential improvements in housing affordability – relative to the no RER scenario – of:
 - 16% to 18% in Barrie, and Guelph;
 - 9% to 11% in Hamilton, King, Halton Hills, Oshawa, East Gwillimbury, Newmarket, and Whitchurch-Stouffville;
 - 5% to 8% in Toronto (TREB Districts W05, W09, E10), Burlington, Vaughan, Whitby, Ajax, Brampton, Pickering, Aurora, Bradford West Gwillimbury, Oakville, Markham, Richmond Hill, and Mississauga;
 - Under 5% in Toronto (TREB Districts E04, E08, E07, C15, W08, W06, W04, E02, W02, C01, C08), and Milton.
- **RER impact on aggregate commuter choices:** Aggregating these community-level expectations, the average potential change in SCAR by location shows a noticeable difference inside and outside Toronto proper:

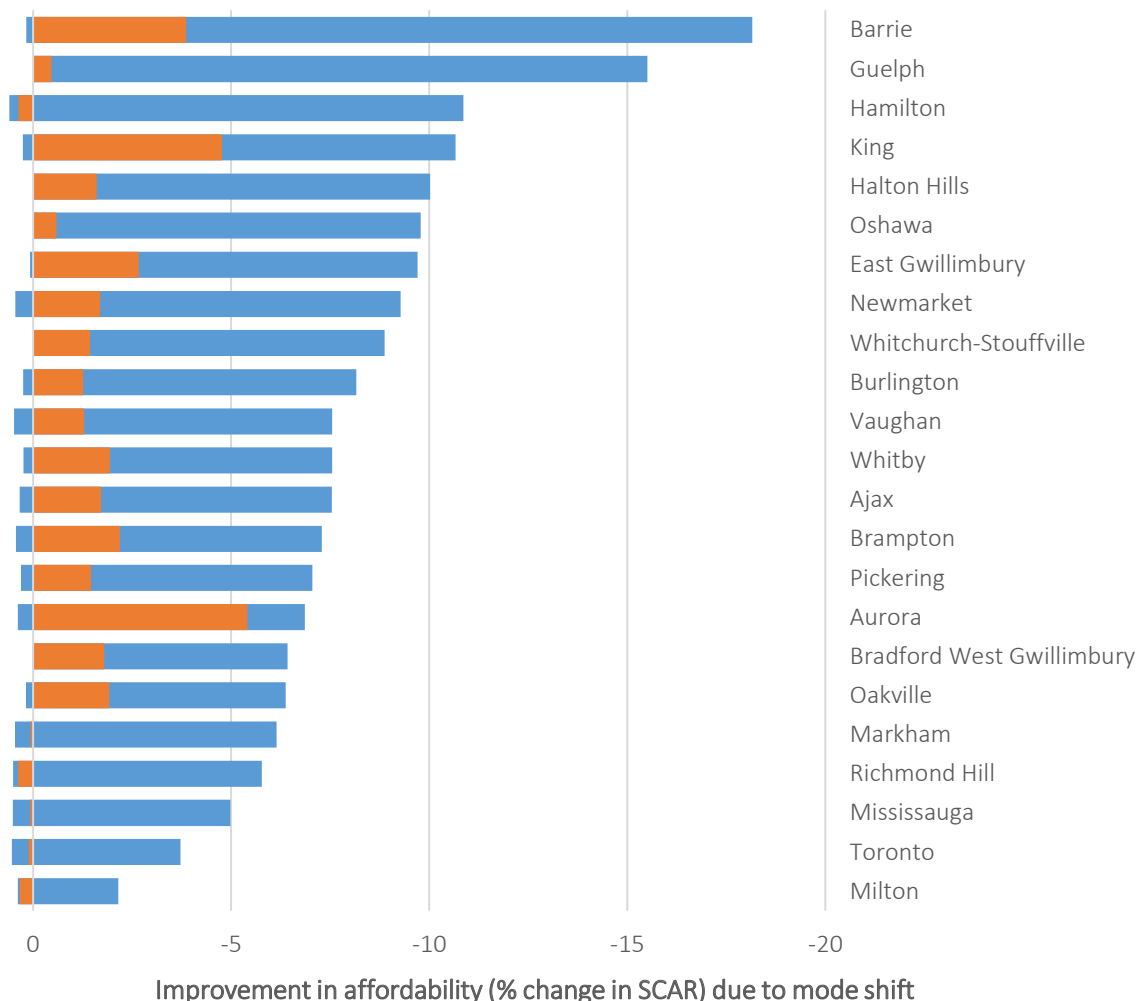


The potential for an individual to save costs is significant and a key policy metric to be considered by local and provincial governments, particularly in terms of local transit-oriented developments.

² Using data from 'Walk Score', a Transit Score[®] for a specific point is calculated using an algorithm that summarizes the usefulness of nearby routes, including distance to the nearest stop, frequency of routes, and type of routes.

- **For households around GO stations outside Toronto:** Estimated improvement in affordability due to RER is 1.5% on average as changes in the cost of a home are more than offset by lower transportation costs (for those who stop commuting by car).
- **For households in Toronto:** A slight *worsening* in affordability (characterized by an increase in SCAR) of 0.1% on average as changes in the cost of a home due to better transportation alternatives are not offset by lowering already existing lower transportation costs.

More specifically, as can be seen in the following graph, the difference between the overall average change in affordability (orange bars) and the potential for an individual to improve affordability (blue bars) is significant and a key policy metric to be considered by local and provincial governments, particularly in terms of local transit-oriented developments.



Person-level changes in affordability (blue bars) and potential average changes in affordability (orange bars) show that mode shift is the driving factor of how housing affordability is affected (where the right end of each line is full mode shift; left end is no mode shift).

For example, if more residents of Guelph who commute to Toronto switched modes, then overall affordability in Guelph would improve disproportionately.

Conclusions

Many affordability indexes are focused upon housing prices, mortgage payments, and interest rates, and are therefore insensitive to the role and implementation of transportation alternatives. The affordability of a home is much more than just housing prices, which the SCAR Index is designed to accommodate.

Using SCAR index analysis combined with the simulation of 773 communities in the GGH region, we found that the value of households giving up their car for the GO train to get to work can have a significant effect upon the affordability of their shelter. Across the GGH, the impact of RER is generally positive, insofar as it improves affordability, but only for those who shift from driving to taking the GO train. Therefore, mode shift is the key driver of improved affordability.

The analysis highlights the value of RER combined with a focus upon local transit-oriented developments, and the communities in which this focus should be a high priority.





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