

Ontario Rental Market Overview & Outlook

FRPO & GTAA Rental Market Update Breakfast

February 2018

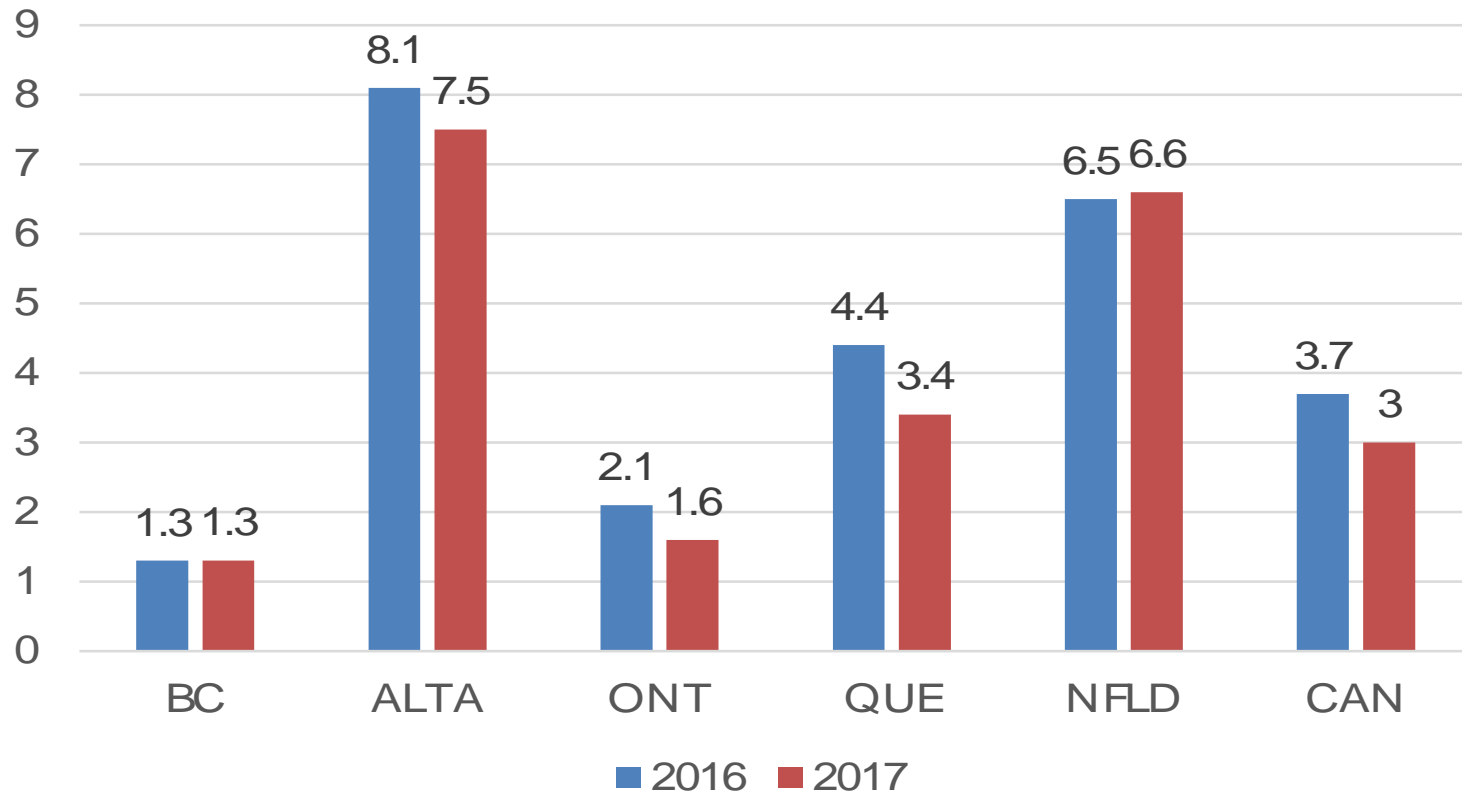
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KEY TAKEAWAYS

- Ontario & BC Remain Tightest Rental Markets
- Tightest Rental Markets in Ontario South – East Tightening
- Demand Shifting to Less Expensive Housing
- Vacancy Rates Still Have Room To Fall - Rents Will Grow
- Demand – Supply Imbalances Will Narrow But Composition of New Supply a Bigger Question
- National Housing Strategy To Play Important Role

Ontario Rental Vacancy Rates – Among the Lowest

Rental Apartment Vacancy Rates - Overall

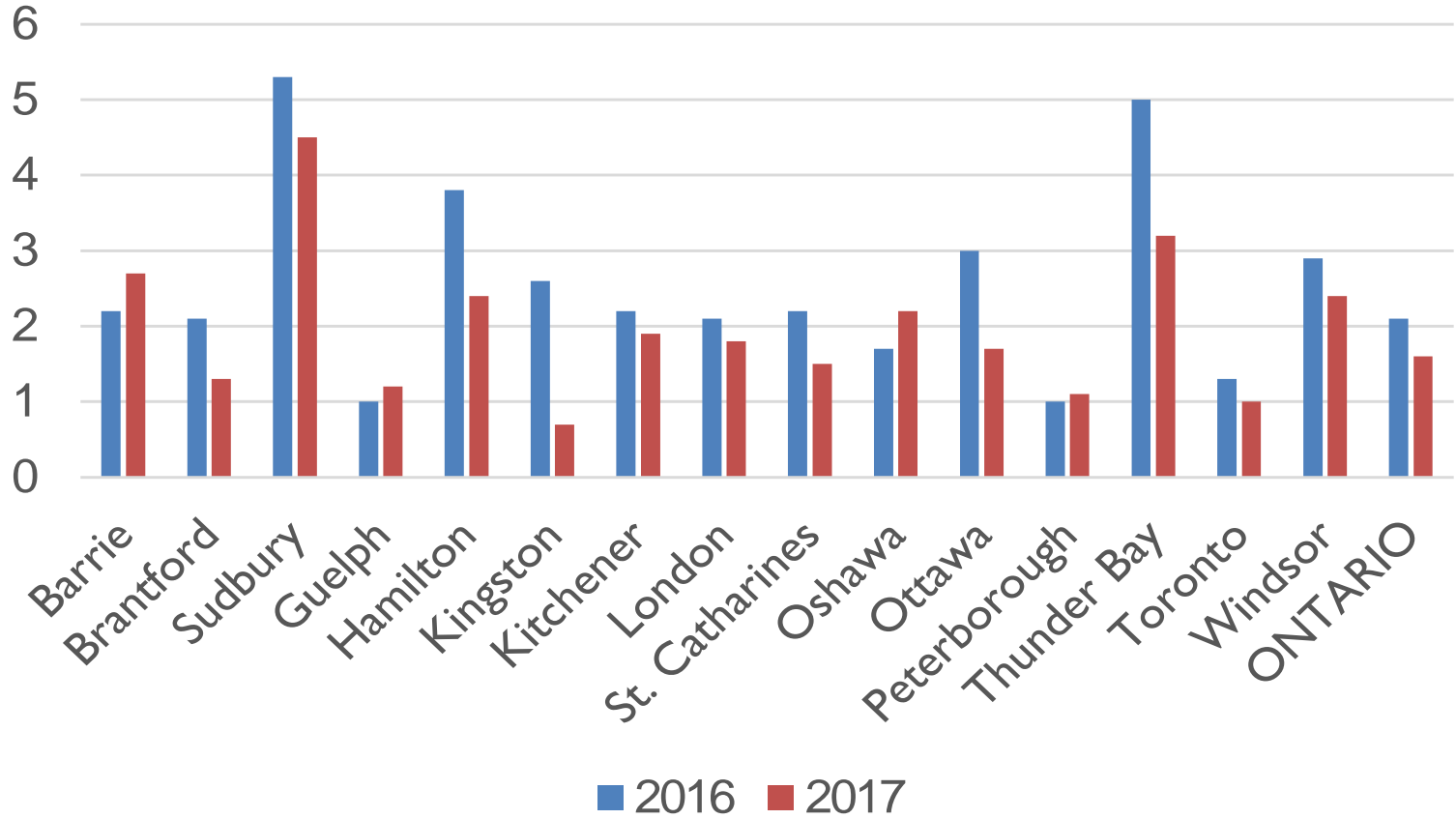


Source: CMHC Rental Market Survey



Eastern Ontario Vacancies Decline – N. Ontario Vacancies Still Elevated

Rental Apartment Vacancy Rates - Overall

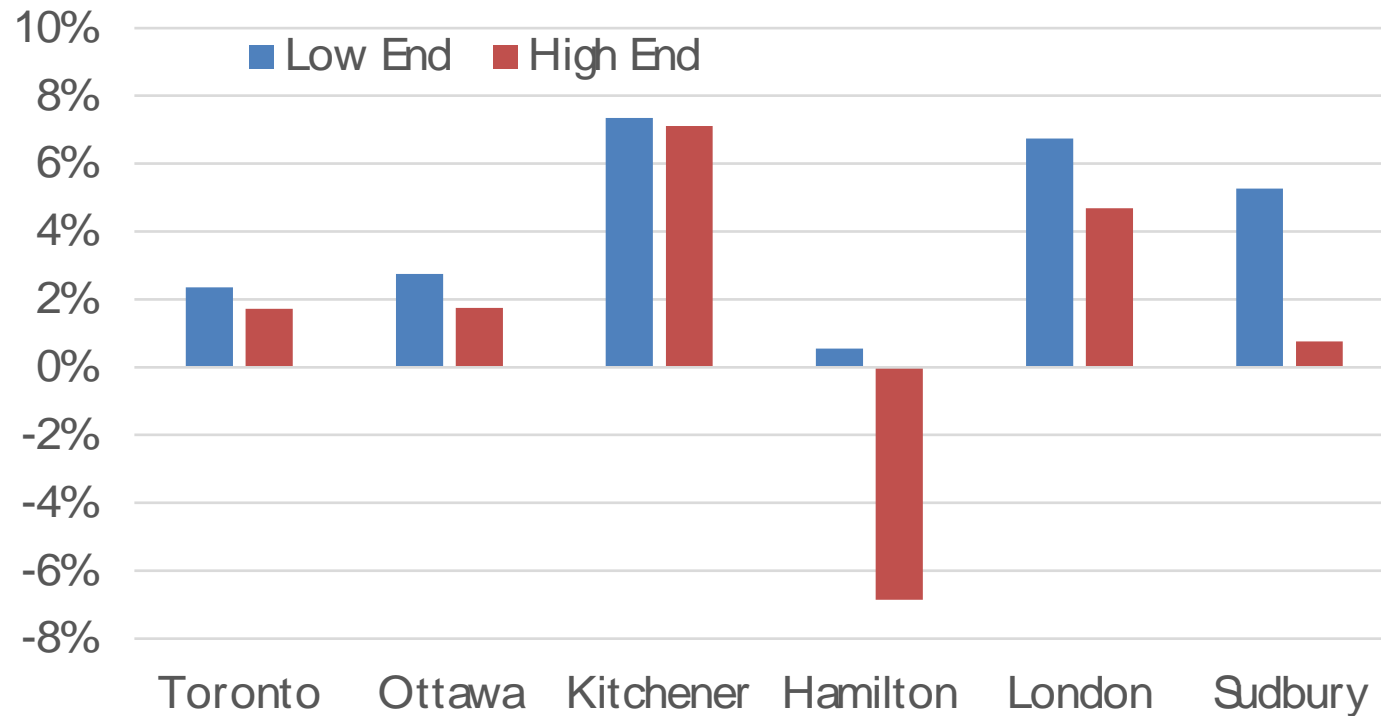


Source: CMHC Rental Market Survey



Demand Growing More At Lower End

Growth in Rental Demand* – 2016 vs 2017

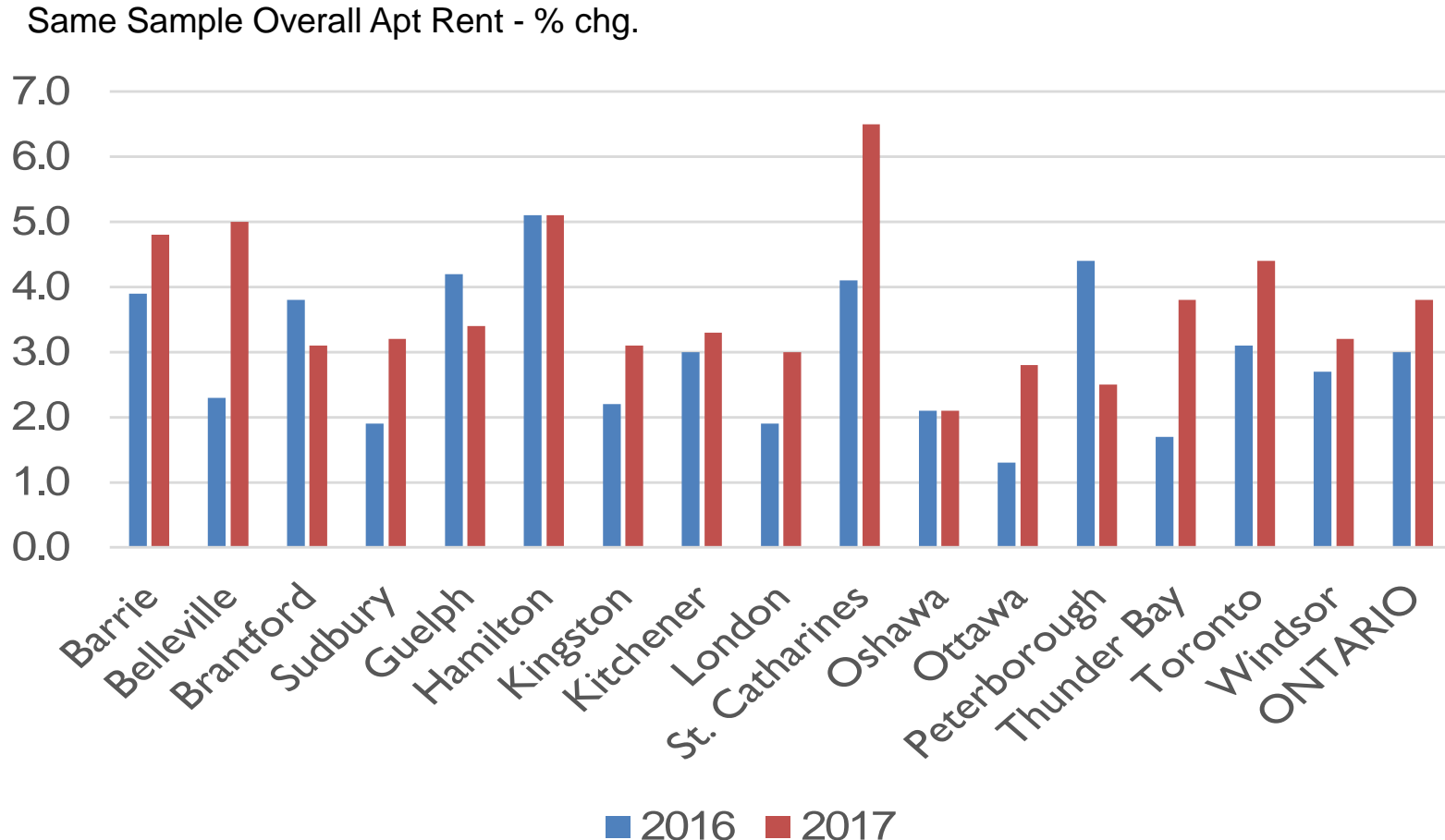


Source: CMHC Rental Market Survey

*Demand measured as change in occupied stock at 20th(low end) and 80th(high end) rent percentiles



Southern Ontario Rents Grow Faster vs North & East



Source: CMHC Rental Market Survey



Factors Impacting Ontario Vacancy Rates

<u>FACTORS</u>	<u>2016</u>	<u>2017</u>
Job Market	D	D
Demographics	D	D
Cost Gap (Own vs Rent)	D	D
Expectations/Psychology	N	D
New Rental Supply	U	U
Net Effect	D	D

D=Downward Pressure

U=Upward Pressure

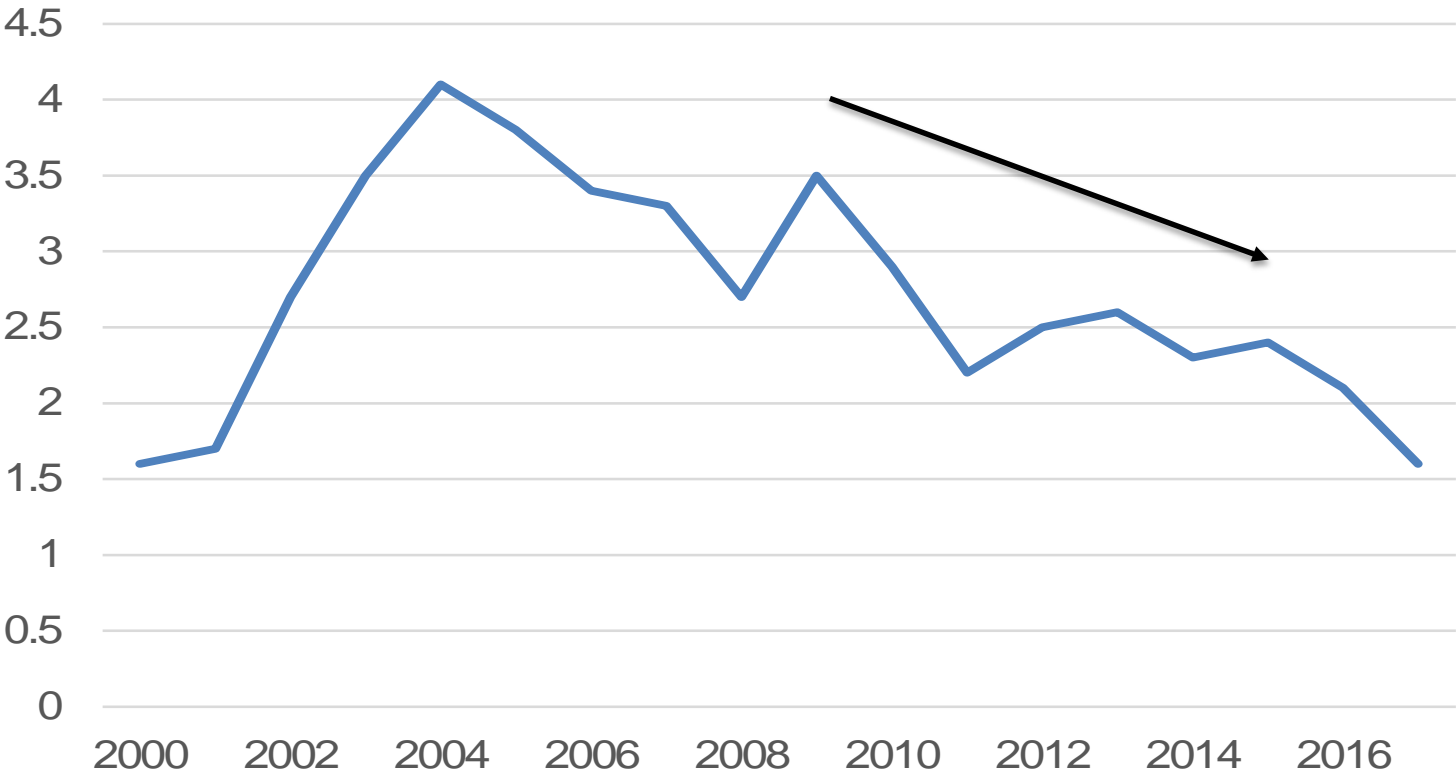
N=Neutral

Source: CMHC Rental Market Survey, Statistics Canada, Social Media Data



Downtrend in Rental Vacancy Rates Will Continue

Ontario Rental Apartment Vacancy Rates - Overall

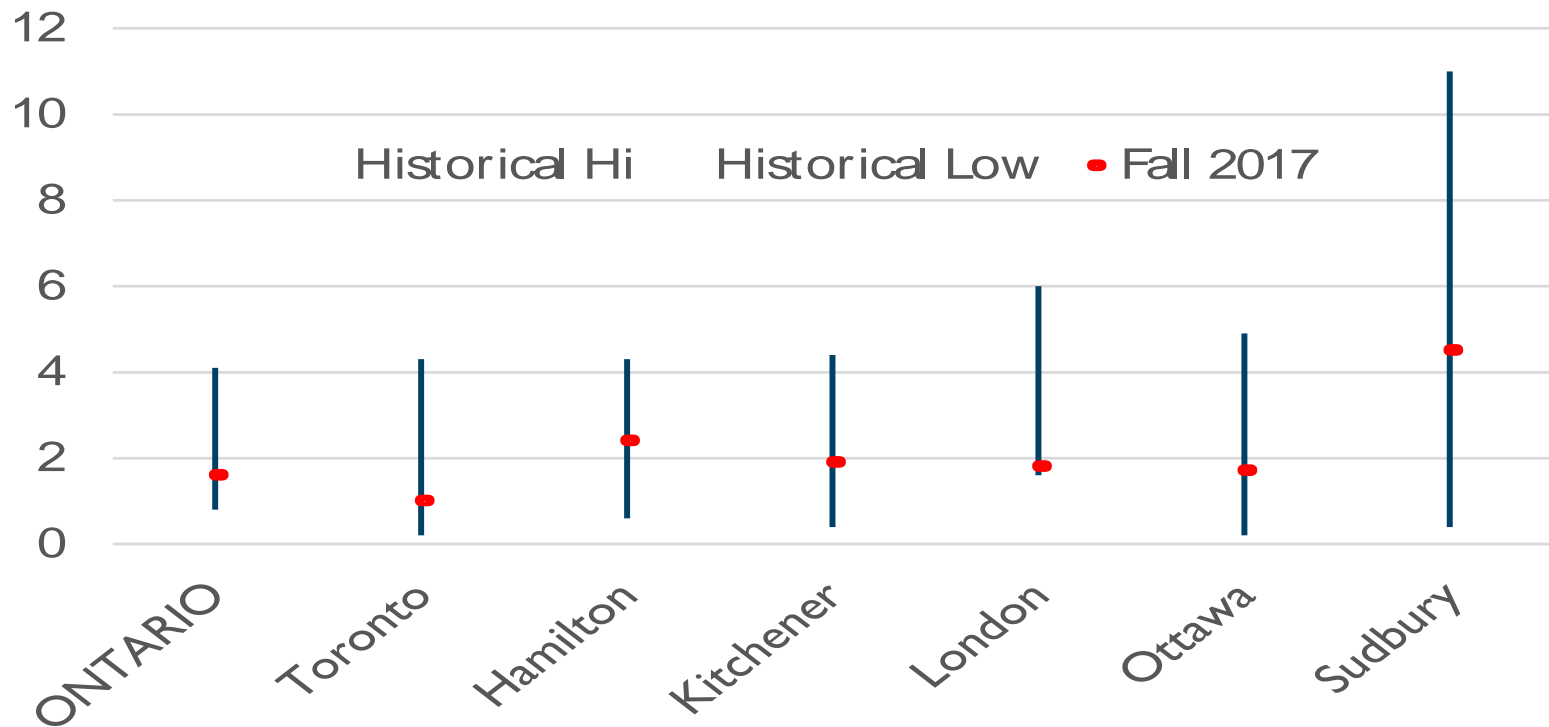


Source: CMHC Rental Market Survey,



How Low Can Ontario Vacancy Rates Go?

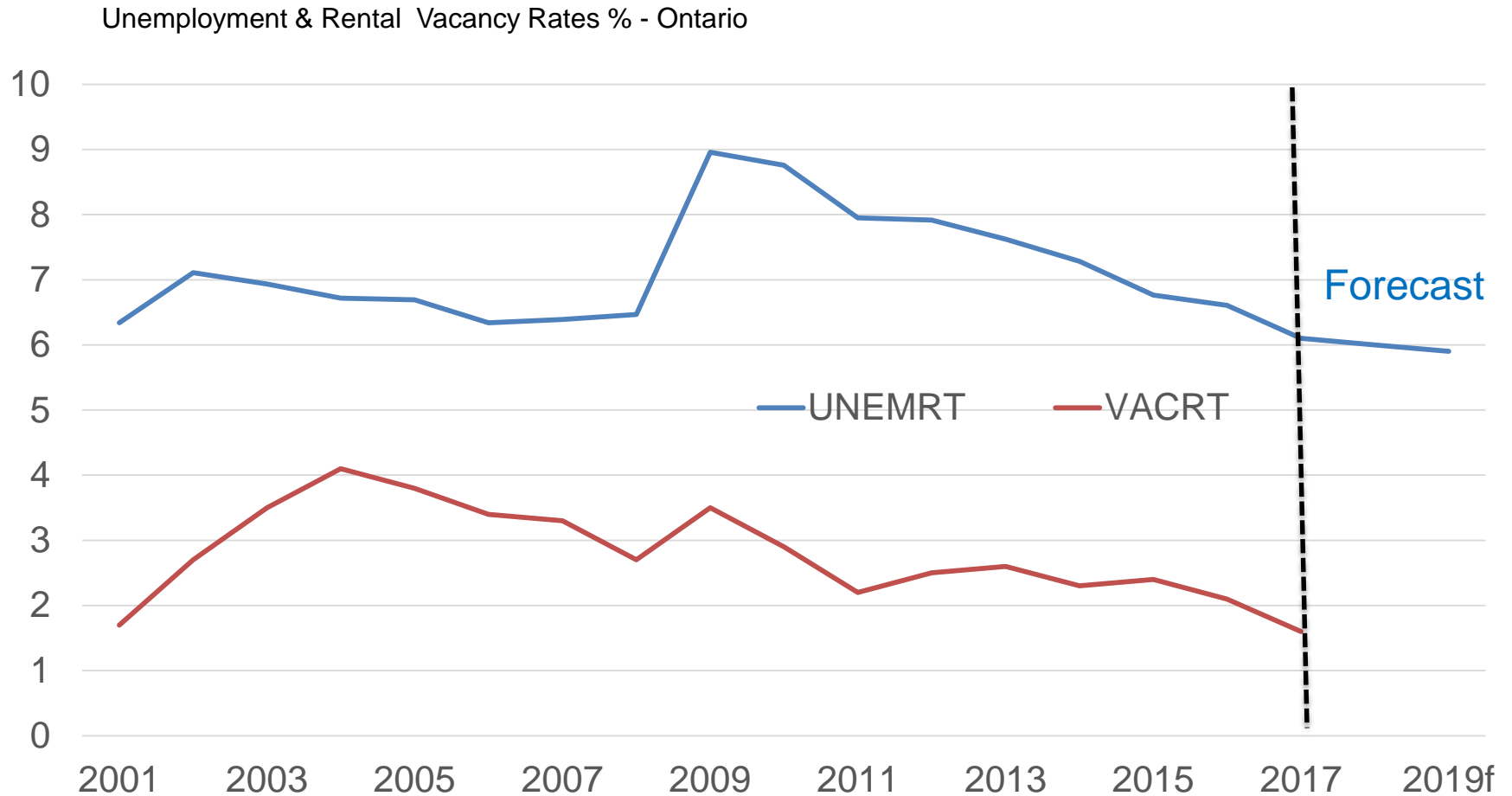
Historical Annual Rental Apartment Vacancy Rates (Post 1988) - Overall



Source: CMHC Rental Market Survey,



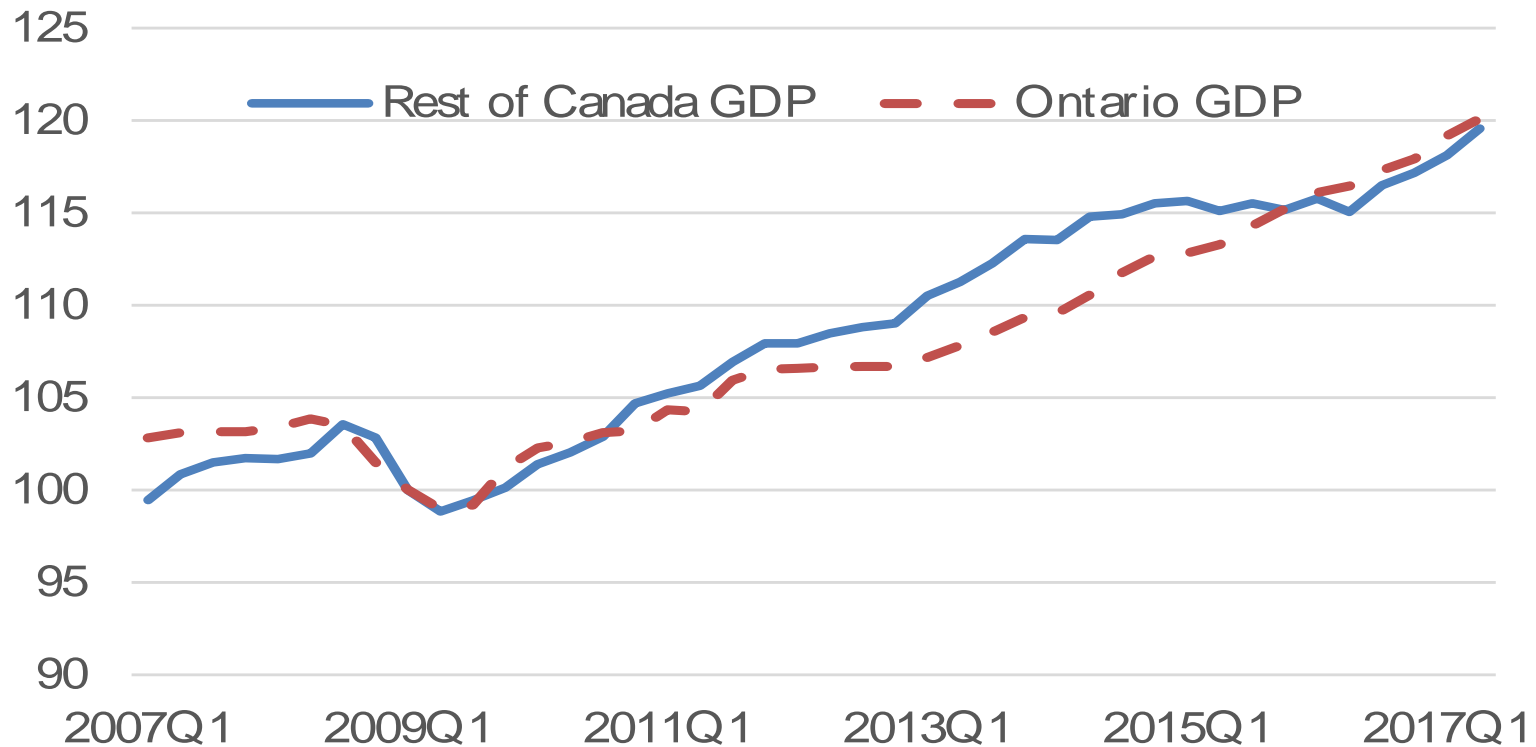
Rental Market Benefits From Being Pro-Cyclical



Source: Statistics Canada, CMHC Rental Market Survey, CMHC forecast(f)

Ontario Economy Growing Faster vs Rest of Canada Since 2015

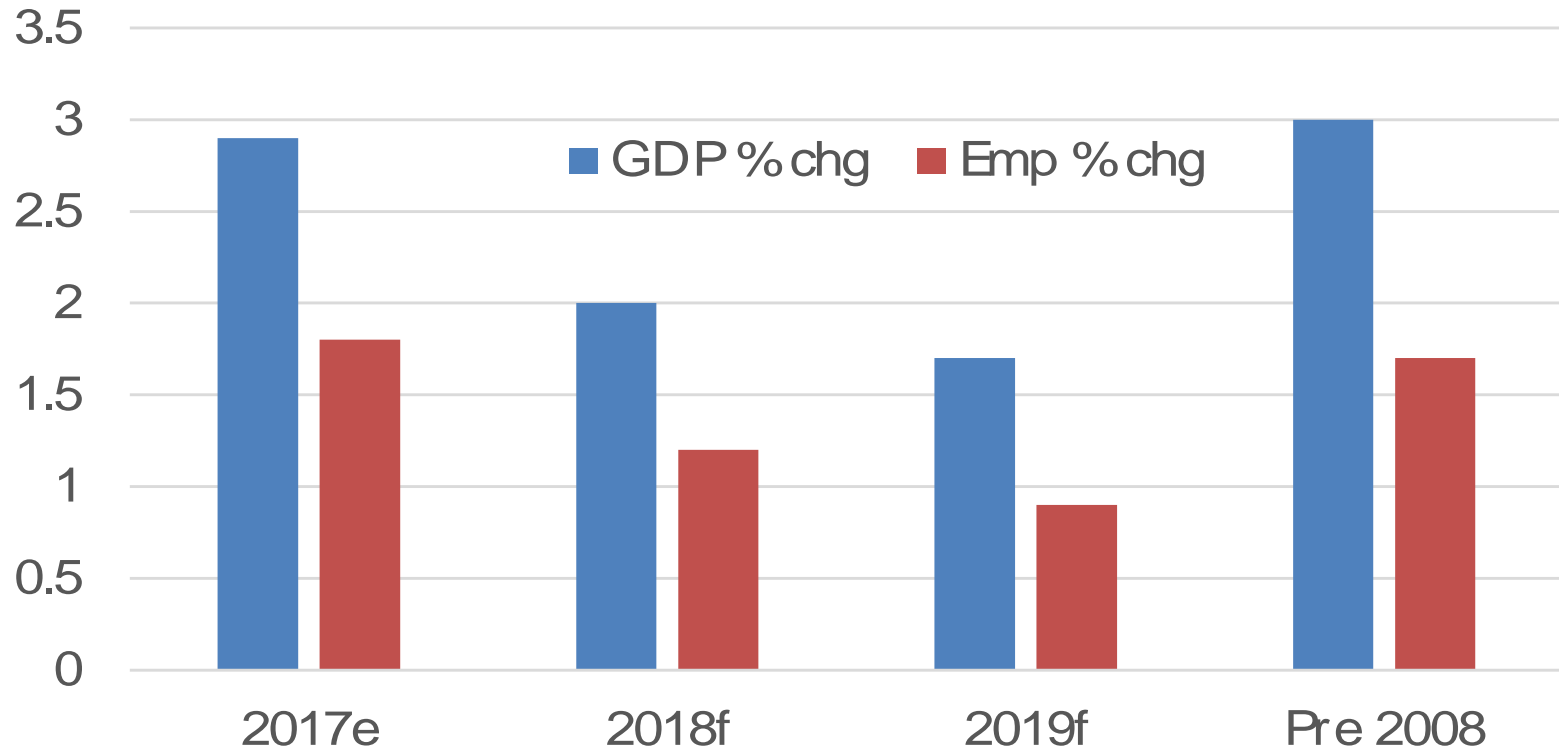
GDP Index (2009=100)



Source: Statistics Canada Economic Accounts, Ontario Ministry of Finance, CMHC calculation



But Will Grow At Slower Rate Especially vs Pre Recession Period

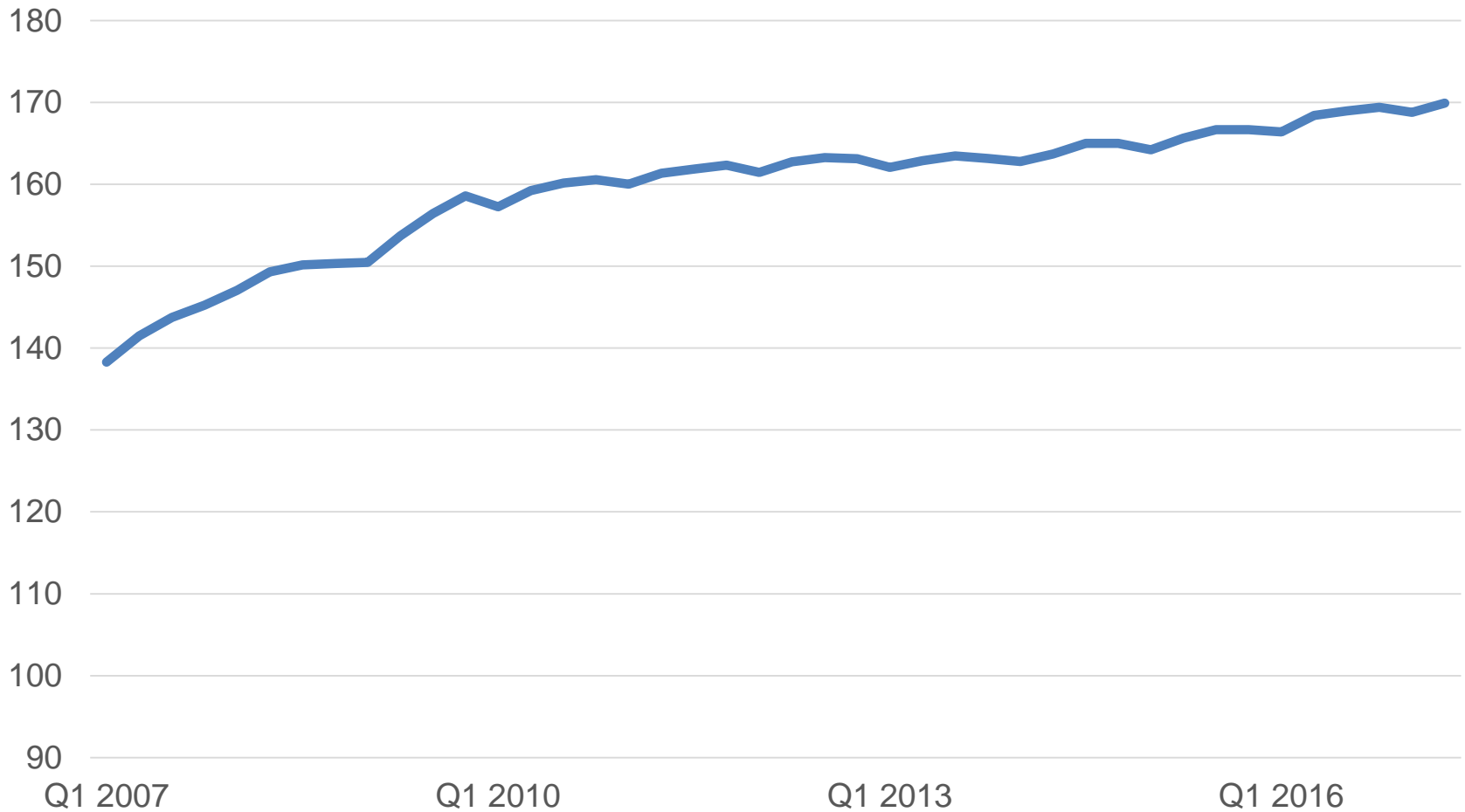


Source: Statistics Canada Economic Accounts, Statistics Canada LFS, CMHC Forecast (f) 2017-19



Consumer Sector More Vulnerable Due to Rising Debt, Higher Rates

Household Debt to Disposable Income % - Canada



Source: Statistics Canada



Some Sectors Will Benefit From Rotation of Growth

Accelerating



IT



HEALTH &
GOVT



NATURAL
RESOURCES

Decelerating



RETAIL



FINANCE

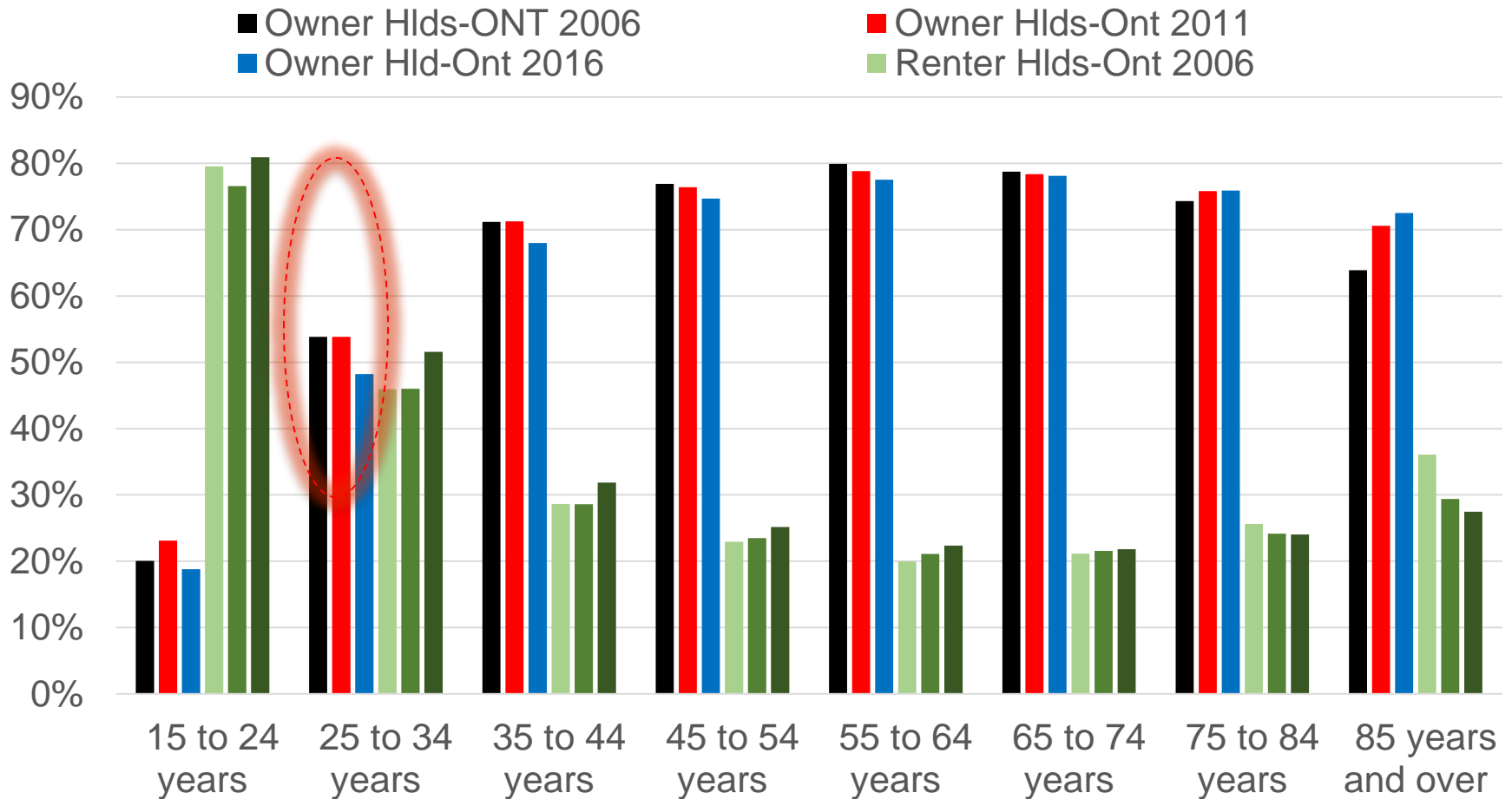


HOUSING

Source: Statistics Canada, CMHC

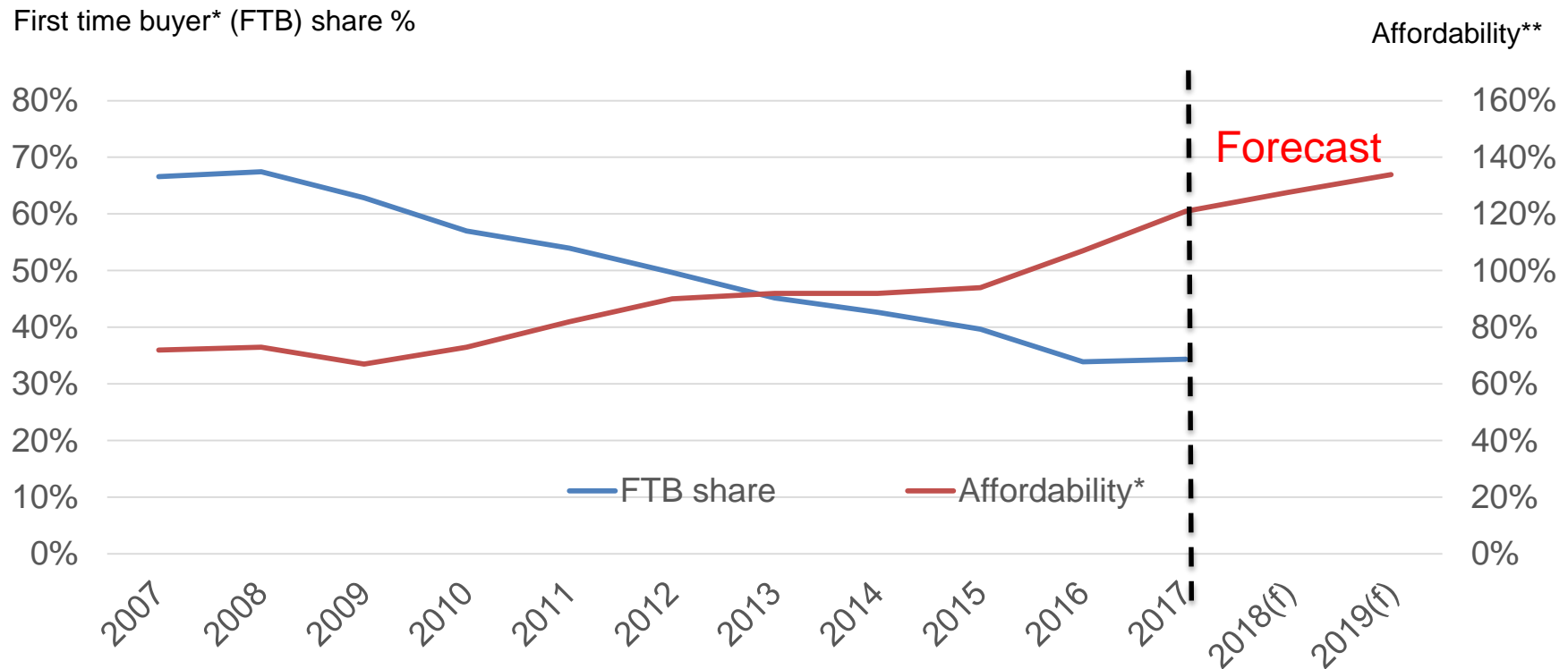


Bigger Dip in Millennial Ownership Rates – Blip or New Downtrend?



Source: Statistics Canada Census – Ontario data

Eroding Affordability To Dampen First Time Buyer Demand



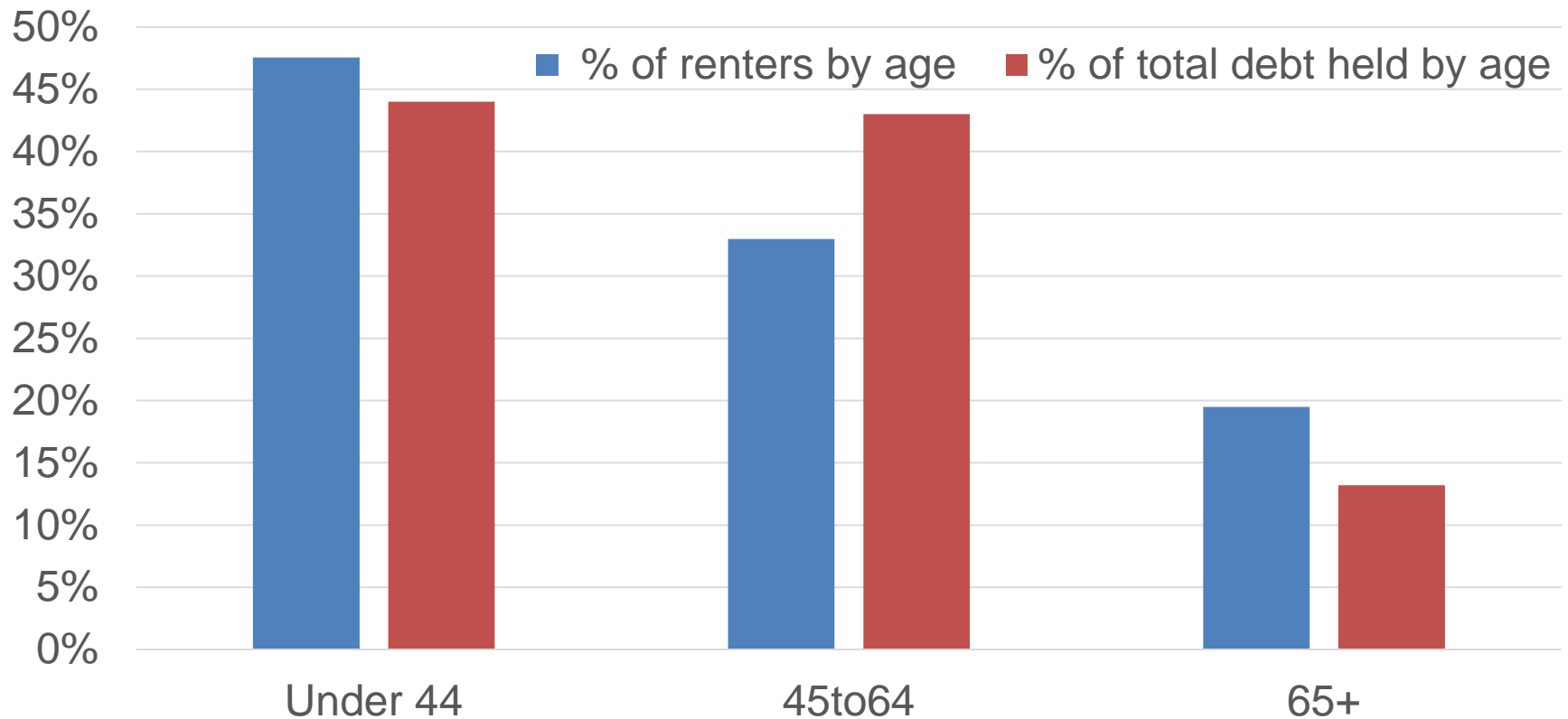
Source: Statistics Canada, CREA, CMHC

* Based on CMHC high and low ratio data

**Required income as a share of actual household income to buy average resale home, Ontario



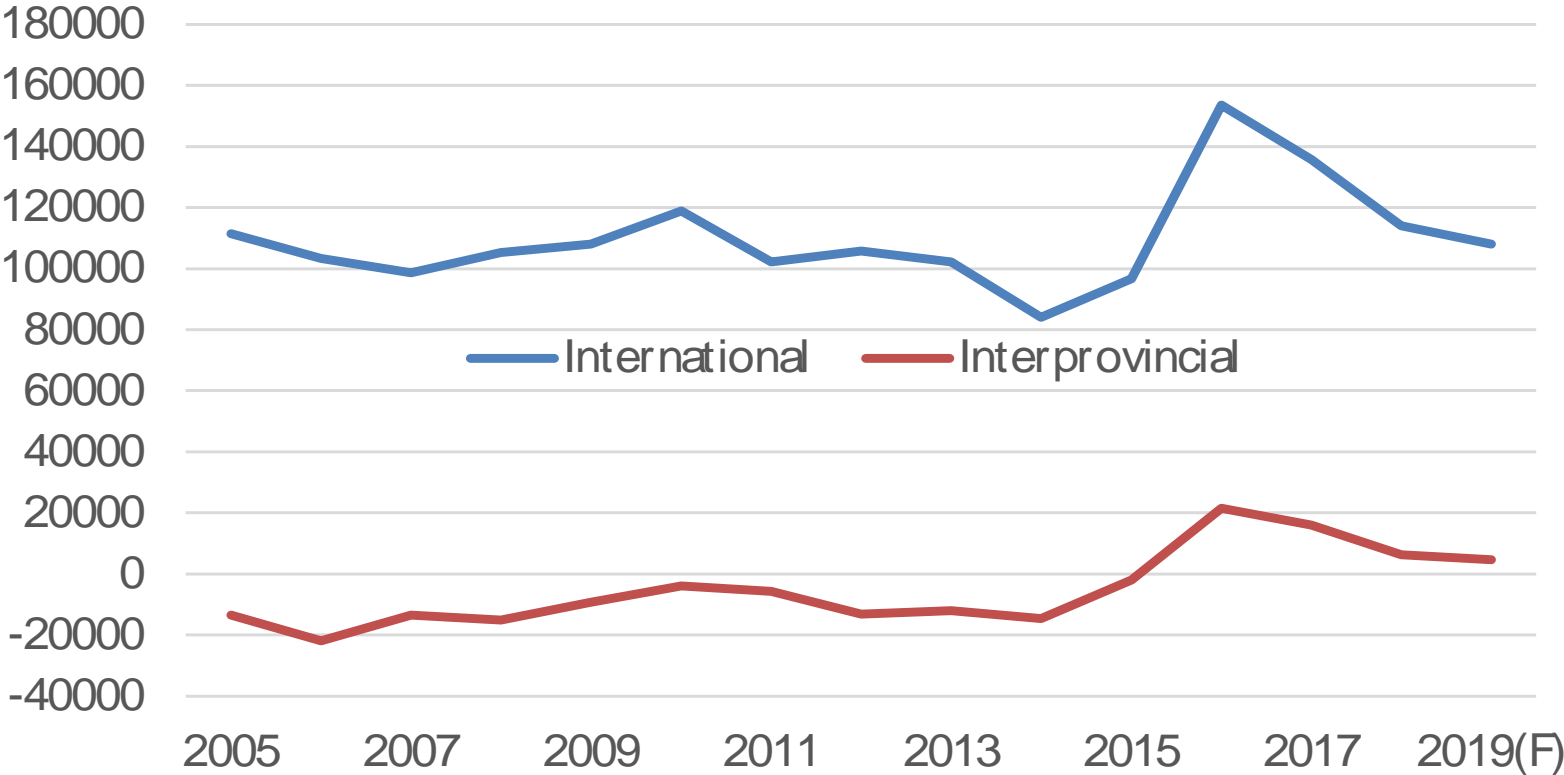
Higher Share of Renters Under Age of 44 & Carrying Most of the Debt



Source: Statistics Canada Survey of Financial Security, & Census 2016 – Ontario data



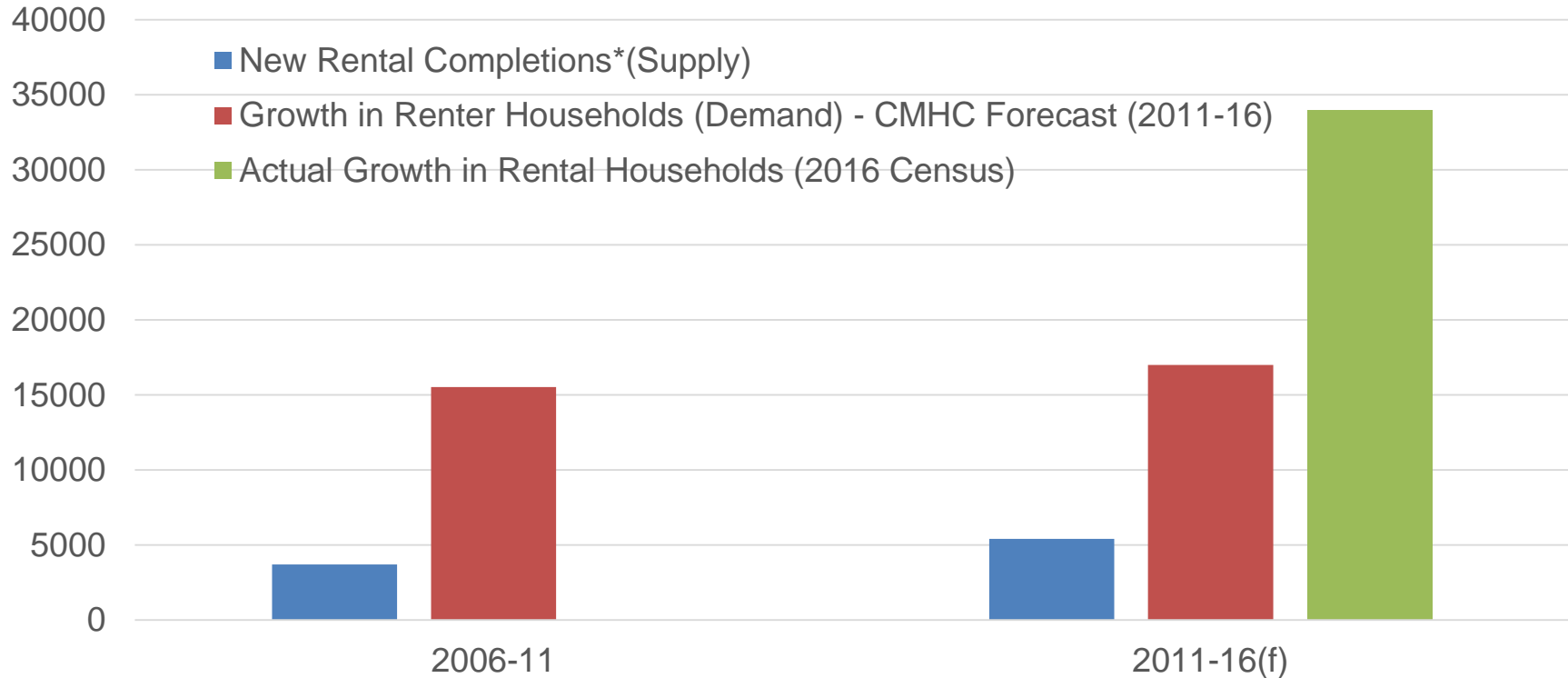
Ontario Migration Easing But Remains Above Decade Average



Source: Statistics Canada, CMHC Estimate(e)



Demand/Supply Balance Calls For More Rental Supply



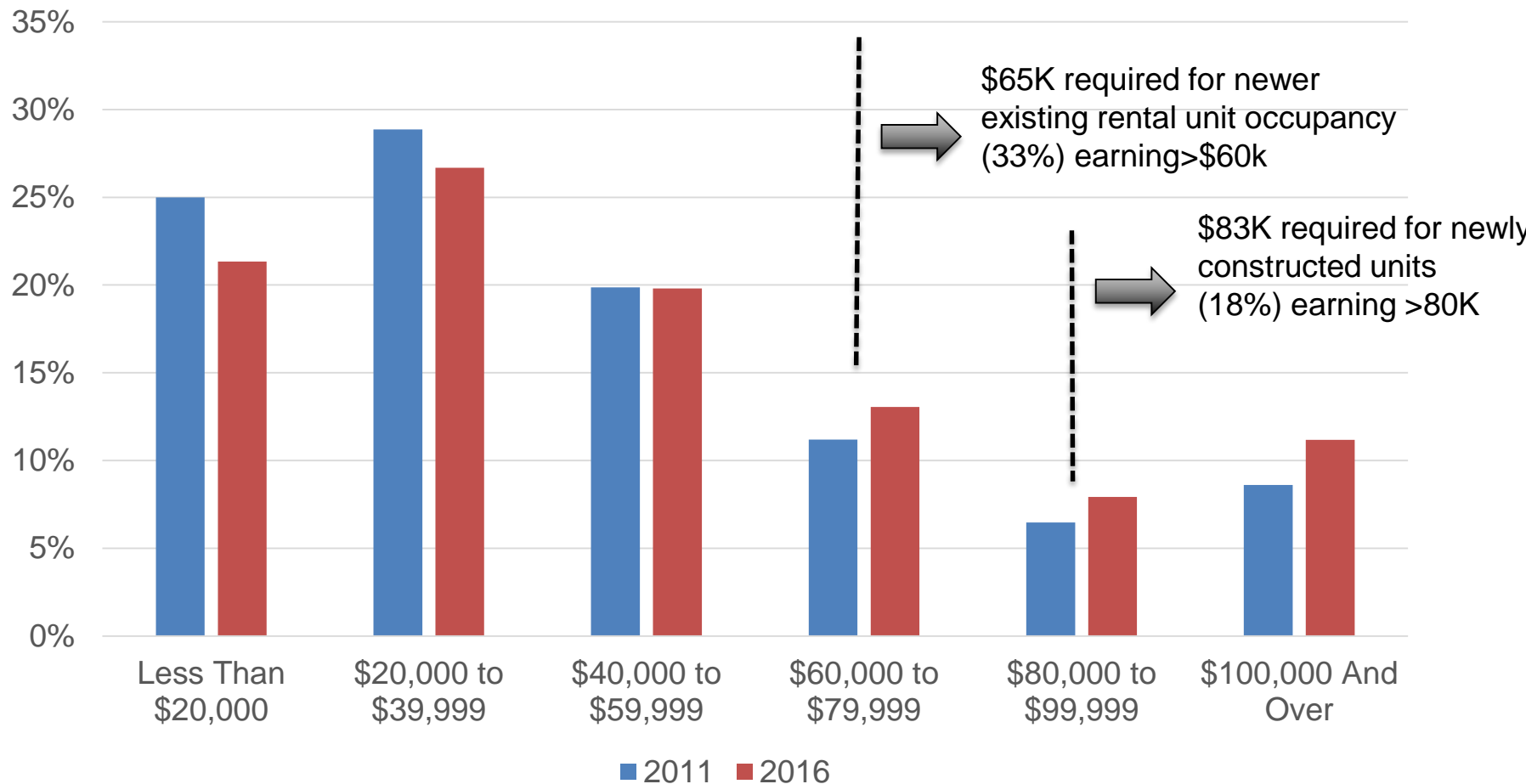
Source: CMHC Starts & Completions Survey, Statistics Canada Census Annual Averages

*Does not include condominiums completed and available for rent



Only 18% of Renter Households Can Access Newly Constructed Units – 33% Newer Units

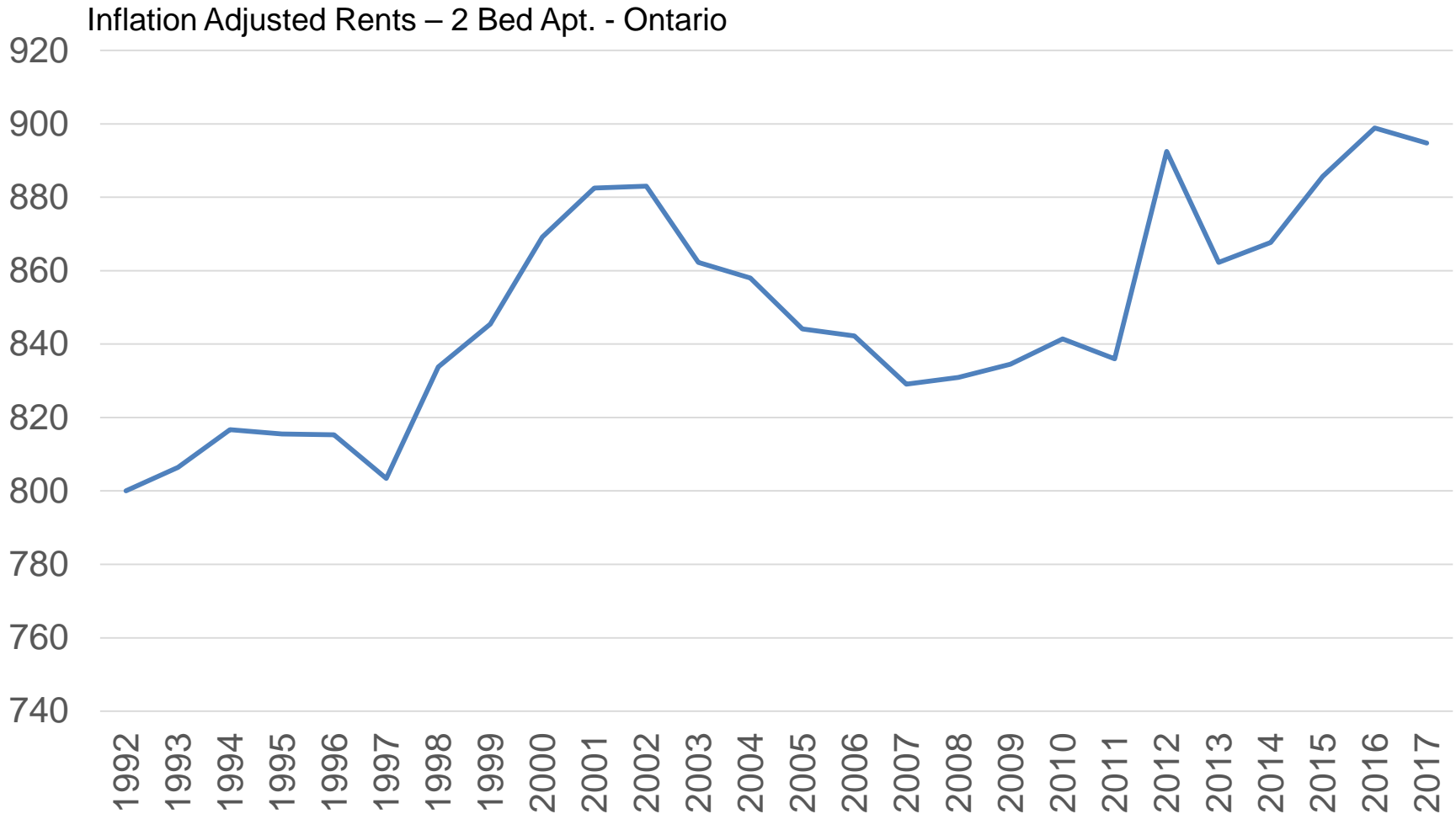
Distribution of Renter Household Income - Ontario



Source: Statistics Canada Census, CMHC RMS calculations



Rents To Grow But Some Downside Risks To Growth

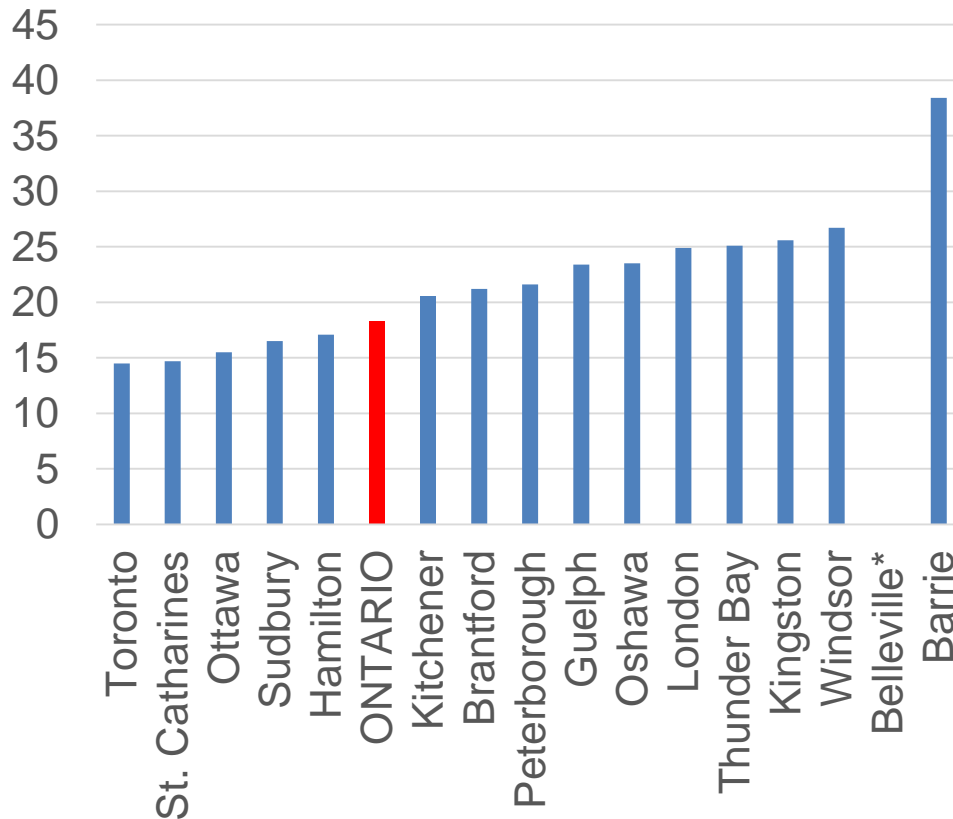


Source: CMHC Rental Market Survey,



Rental Market Turnover Will Remain Low

Rental Unit Turnover Rate** - 2017



FACTORS?

1. Rent Controls
2. Eroding Affordability
3. Population Aging

Source: CMHC Rental Market Survey

*Data suppressed

**Share of rental units changing occupancy last 12 months



Risks Exerting Upward Pressure

- Much Slower Pace of Business Investment/Hiring (Trump effect, Minimum Wage)
- Elevated Household Debt Among Younger Adults

Risks Exerting Downward Pressure

- Stronger Youth Job Market & Release of Pent-Up Demand
- Stronger US Economy vs Forecast
- More Significant Erosion of Ownership Affordability
- Stronger International Migration
- Policy Induced (Rent Control, Minimum Wage)