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

<table>
<thead>
<tr>
<th>FACTORS</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Market</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Demographics</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Cost Gap (Own vs Rent)</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Expectations/Psychology</td>
<td>N</td>
<td>D</td>
</tr>
<tr>
<td>New Rental Supply</td>
<td>U</td>
<td>U</td>
</tr>
<tr>
<td>Net Effect</td>
<td>D</td>
<td>D</td>
</tr>
</tbody>
</table>

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

Unemployment & Rental Vacancy Rates % - Ontario

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

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

<table>
<thead>
<tr>
<th>Income Range</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than $20,000</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>$20,000 to $39,999</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>$40,000 to $59,999</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>$60,000 to $79,999</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>$80,000 to $99,999</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>$100,000 And Over</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Statistics Canada Census, CMHC RMS calculations

$65K required for newer existing rental unit occupancy (33%) earning >$60k

$83K required for newly constructed units (18%) earning >$80k
Rents To Grow But Some Downside Risks To Growth

Inflation Adjusted Rents – 2 Bed Apt. - Ontario

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 To Ontario Vacancy Rates—2018/19

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)
GTA Rental Market Overview

8th February 2018

Dana Senagama
Principal, Market Analysis (GTA)
Record Low Vacancy Rates in the GTA

Source: CMHC
The Current Housing Market

High Demand + Low Supply

Move over! Shove over!

It's getting a bit crowded here!
Accelerated Rent Growth Due to Lack of Supply

Rent Growth *

<table>
<thead>
<tr>
<th>Year</th>
<th>Rent Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.8%</td>
</tr>
<tr>
<td>2011</td>
<td>1.9%</td>
</tr>
<tr>
<td>2012</td>
<td>2.8%</td>
</tr>
<tr>
<td>2013</td>
<td>3.0%</td>
</tr>
<tr>
<td>2014</td>
<td>2.7%</td>
</tr>
<tr>
<td>2015</td>
<td>3.3%</td>
</tr>
<tr>
<td>2016</td>
<td>3.2%</td>
</tr>
<tr>
<td>2017</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

**GTA fixed sample two-bedroom apartment rent
Source: CMHC
Recent Upswing in Rental Construction No Match for Condos

Source: CMHC
Flat Purpose-Builts, Increasing Condo Rentals

Rental Apartment Universe

Source: CMHC
Higher Domestic Investment in Condos

Share of the GTA Condominium Apartments Rented

Source: CMHC
Homeownership Not a Viable Option in Future
Supply Is Slow to Respond.....

Average Length of Construction for Rental Apartments, Dec 2017

- Toronto (Central)
- Toronto (East)
- Toronto (North)
- Toronto (West)
- Etobicoke (South)
- Etobicoke (Central)
- Etobicoke (North)
- York
- East York
- Scarborough (Central)
- Scarborough (North)
- Scarborough (East)
- North York (Southeast)
- North York (Northeast)
- North York (Southwest)
- North York (N.Centra)
- Mississauga (South)
- Mississauga (Northwest)
- Mississauga (Northeast)
- Brampton (West)
- Brampton (East)
- Oakville
- Caledon
- Richmond Hill/Vaughan/King
- Aurora, Newmkt, Whit/St
- Markham
- Pickering/Aja/Ubridge
- Milton/Halton Hills
- Orangeville/Mono
- Bradford/West Gwillimbury/New Tecumseth

Source: CMHC
Demand for Other Secondary Rentals Will Increase
Rents in New Purpose-Built Units Are More Expensive

Average 2-Br Rent for Rental Apartment in GTA

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Rent</th>
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<tbody>
<tr>
<td>Pre 1960</td>
<td>$1,309</td>
</tr>
<tr>
<td>1960-1974</td>
<td>$1,368</td>
</tr>
<tr>
<td>1975-1989</td>
<td>$1,423</td>
</tr>
<tr>
<td>1990-2004</td>
<td>$2,088</td>
</tr>
<tr>
<td>2005+</td>
<td>$2,176</td>
</tr>
</tbody>
</table>

Source: CMHC
Contact Information

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