



## MARKET OVERVIEW

- Resale market activity will hold steady in 2012. Sales will remain close to previous years with a total of 88,500 transactions, while prices will remain fairly flat with annual growth of one per cent.
- New home construction will stay elevated next year at 35,000 units on the strength of condominium apartment construction. New home sales will moderate to 33,500 units in 2012.

## FORECAST FOR 2012

The market for existing homes will continue along its steady path in 2012. The biggest movers of ownership demand – interest rates and employment – are expected to see little change next year. Weakened financial market conditions and a slower profile for economic growth won't provide any stimulus for the housing market, however the lasting need for low interest rates will alleviate pressures on affordability.

Increased supply and slower growth in prices should also help keep the door open for would-be homebuyers. All-in-all, resale market activity in 2012 will be largely unchanged from annual results tallied over the past few years.

In fact, excluding some volatility in 2007 and 2008, annual sales totals have remained within a tight range of between 85,000 and 90,000 since 2004. So it would appear that housing market activity in the GTA has settled into a sustainable pace. Sales are converging back to their longer-term average of roughly six per cent. A slowing in the turnover rate of existing housing reflects less activity from first-time buyers in comparison to previous years. A good chunk of the pool of potential buyers from the past few years have already bought in advance of a couple rounds of mortgage policy changes as well as anticipated increases in borrowing costs. While we could see activity rise in early 2012 as a reaction to improved affordability and higher listings, expect the number of potential owners to see limited expansion with the creation of fewer full-time positions and slower immigration.

As sales activity normalizes, expect supply to do the same and move higher. New listings in the resale market have been unusually low this year, although

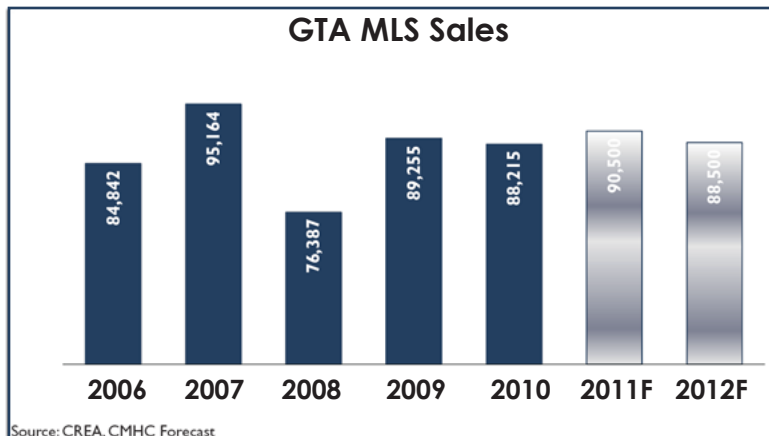
some improvement has been made in recent months. More homes should come on the market as existing homeowners continue to take advantage of favourable selling conditions. By the second half of next year, market conditions are expected to be more balanced – less competition between buyers and more competition between sellers. This will result in slower growth for housing prices throughout 2012.

There is a chance that continued economic and financial market uncertainty may lead some homeowners to put off their decision to move. In

any case, prices should still remain fairly flat as buyers feel less compelled to offer higher bids following a lengthy period of seller market conditions. One particular area of the market that could experience relatively softer conditions in the face of broader concerns about the

economy and world markets is the high end.

Worries at home may also postpone purchasing decisions from wealthy foreigners, whom anecdotally have been representing an increasing share of high-end home purchases in the GTA. With the share of homes sold for above a million dollars already moving lower in recent months, we can expect this trend to even out at best in the absence of a spurt of optimism next year. Relatively affordable areas are likely to continue experiencing above-average growth next year as first-time buyers remain price-conscious. These include below-average priced areas within some sections of Scarborough, the north-west end of the City of Toronto, and Burlington – all of which have seen prices appreciate by more than 20 per cent over the past few years.



Toronto is rapidly transforming into a “vertical world” because of an unprecedented condo boom and greenbelt policies that are making single-family homes “precious commodities,” a new report says. Condo development is in overdrive in the downtown core while construction of new single-family homes in the regions has “run out of gas” – down 57 per cent in the last decade, veteran housing experts are quietly warning.

Land prices are skyrocketing as developers, keen to cash in on the biggest condo boom in the world, are engaging in “extremely competitive” bidding for the dwindling number of prime development sites left along subway lines.

At the same time, a “perfect storm” of high development surcharges by municipalities and a shortage of develop-ready land in the outlying regions has seen housing starts decline so dramatically, they now lag far behind demand. Despite all the construction cranes on the Toronto horizon and suburban homes still springing up in the outlying regions, the total supply of new housing in the GTA – from condos to detached homes – is down about 32 per cent now over a decade ago, says Carras. There are just 4,000 so-called develop-ready sites for single-family homes left in the GTA now, down from about 12,000 in 2007 – and most of those are in far-flung areas of Durham such as Clarington, too far for most to commute.

A decade ago, some 35,000 homes – detached, semi-detached and townhouses – were being built across the GTA, says Carras. That’s now down to 15,000 a year. While high-rise has risen from an average of just 12,000 to about 20,000, that increase of 8,000 units doesn’t begin to make up for the shortfall of new homes, especially given immigration which is seeing about 100,000 new people a year migrate to the GTA, says Carras.

The Building Industry and Land Development Assoc.

(BILD) has warned that “regulatory inertia” is also contributing to housing shortages and escalating land and housing prices. Municipalities in the GTA have asked that some 10,500 hectares of so-called “whitebelt” lands – lots between the existing cities and the greenbelt – be freed up for development. But provincial approvals and Ontario Municipal Board reviews have slowed the process and it could be two more years before major parcels are released, says Joe Vaccaro, acting president of BILD.

Right now the “active inventory” of low-rise housing in the GTA stands at just 6,000, says Carras, a record low from historic levels of about 24,000. Already the region is at risk of an affordability crisis that will only worsen if supply doesn’t pick up and interest rates do, notes economist Will Dunning in a recently released report *Restricted Land Supply and Rising Housing Costs in the GTA*, done for the Residential Construction Council of Ontario.

House prices have risen 78 per cent in the GTA from 2000 to 2010 — on average 5.9 per cent per year, well above the 2.1 per cent inflation and 2.7 per cent wage increases during the same period. Strong immigration to the GTA, investor confidence in Canada and “over-confidence” in the housing market have also helped

fuel the boom and pushed the average price of a single family home in the GTA to almost \$500,000, notes the survey, *Emerging Trends in Real Estate*. It warns that all that overexuberance is expected to ease in 2012 as the U.S. and Europe continue to struggle, leading to a slowdown in building and house prices.

“Typically restrained Canadian consumers had been on uncharacteristic spending and home-buying binges encouraged by low interest rates, but their self-assurance has ebbed, and job growth has decelerated in response to all the noise about European and U.S. debt woes,” the survey notes. “Greed is off the table” and Canadians are likely to revert to their more typical “better-to-be-cautious investment approach.”

THE 33RD ANNUAL EMERGING TRENDS 2012 REPORT IS A SURVEY OF SOME 950 BUILDERS, INVESTORS, REAL ESTATE AND PROPERTY MANAGEMENT EXPERTS IN CANADA, THE US AND LATIN AMERICA. THE ROUGHLY 100 CANADIAN EXPERTS POLLED PAINT A FASCINATING PORTRAIT OF HOW DEVELOPMENT, INVESTMENT PRESSURES AND IMMIGRATION IS ALREADY CHANGING THE LOOK OF TORONTO.

They note how:

- investor demand has skewed the condo market toward smaller, more easily rentable units that are unsuitable for families and increasingly unaffordable
- “nosebleed” land prices are forcing even retail development upwards into “Eurostyle” mixed-use condo and office developments where shops will increasingly be located two or more floors above street level
- Canada’s stellar economic stability has led to demand for office space in the downtown, while suburban office space could see some softening of demand as companies trade off sprawling, cheaper sites – and long, costly commutes – to follow their gen Y talent into the core

Respondents even offer a few investment tips:

**BUY OR HOLD INFILL LAND:** Intensification policies will continue to propel land values in the gateway cities: available sites look like gold. Move-back-in-trends work against outer suburbs and disconnected suburban areas.

**BE SELECTIVE:** Outside of condos, other sectors offer few opportunities beyond a choice office building in larger cities like Vancouver and Montreal. Mixed-use buildings get a boost across all major markets as retail developers work on infill projects in tandem with condo construction. New apartments make sense in markets where condo construction is muted. Hotels go nowhere.