CURRENT CONDO DEVELOPMENT IN CANADA'S THREE LARGEST CITIES SUPPORTED BY ECONOMIC GROWTH AND SUSTAINABLE HOUSING DEMAND

New report released today by Royal LePage analyzes condo market trends in Toronto, Montreal and Vancouver, with research and projections by leading housing market economist Will Dunning

TORONTO, December 3, 2013 – If the abundance of construction hoardings and a sky full of rising towers are any indication, Canada's largest cities are experiencing an unprecedented condo boom, a growth trajectory that has some expressing concern about the sustainability of the market. With more condominium construction in recent years than the market would appear to be able to absorb based on demographic trends alone, Royal LePage's new report outlines the economic and social factors behind the enduring demand for this type of housing. The study also considers how condominiums as a housing class fit into the overall housing market and how their role continues to evolve.

In 2011, condos accounted for 14.9 per cent of total households in these markets, and 37.7 per cent of new dwellings. Growth continues, according to the report, with demand for new condos over the next twenty years estimated to be 26,000 to 32,000 new units per year, a significant 43 per cent to 53 per cent of total required housing across all housing types. While actual production currently exceeds this need with an average of 43,774 new starts per year, strong activity in condo markets has been generated by exceptionally low interest rates, robust job creation in central areas of cities, shifting consumer preferences and conditions that can make condo ownership an effective investment opportunity. According to the report, this strong activity "is not sufficient evidence of a housing bubble," but rather the result of these positive economic forces and changes in demand patterns supportive of condominium living.

Condos have a well-established and evolving role in the housing markets of the cities studied. In the short-term, construction is predicted to slow to better align with growth rates and changing demographics. During this transition, likely over the next two years, today's very high levels of activity will lower and there may be some volatility in pricing while a new set of longer-term trends get established.

"Condominiums have emerged as the dominant type of new housing in contemporary urban Canada, a trend that will not be reversed in the foreseeable future," said Phil Soper, president and chief executive of Royal LePage. "In Canada's major cities, the presence of highly visible, large-scale construction projects will continue to attract discussion. It's important to note, that while the number of condominiums have increased significantly over the past decade, condo price appreciation has remained in check, tracking closely to overall housing averages. As the number and proportion of condominiums in our national housing stock continues to grow, it's our objective to provide Canadians with the research and analysis they need to understand this important market."

A comparison of prices of condos and single family homes over the last twenty years shows that the price of condos has risen at about the same rate as single family homes. In greater Toronto, condo prices rose by 5.1% per year, versus 5.9% of single family homes; in greater Montreal, condo prices rose by 5.5% per year, versus 5.1% of single family homes; and in greater Vancouver, condo prices rose by 4.5% per year, versus 5.7% of single family homes. While some divergence may be expected in the near-term, the report suggests that condominiums will experience growth rates similar to single family homes over the long-term.

Looking forward, the patterns of housing requirements depend on factors including population growth rate, its distribution by age groups and evolving consumer preferences. Over the next twenty years, the three major cities studied are projected to receive a modestly reduced share of the country's population growth, as resource-producing regions attract proportionally more in-migration. This change, together with changing housing needs brought about by the aging baby boomer population are two important factors that point to moderating demand for new condos compared to recent levels of production.

"The longer-term role of condos depends on several variables, including shifting demand patterns, pace of project completion and changes to mortgage rules," states Will Dunning, housing market economist and author of the report. "In the housing market, demographics are not always destiny, and various factors including the appeal of amenity-rich urban living and delayed childbearing have increased condo demand. This helps greatly to explain why apartment activity has recently exceeded the so-called demographic requirement."

Over the past five years, there has been disequilibrium between the number of condo project starts and the estimated requirement of new units per year. Using Toronto as an example, the report points out that since 2008, the number of starts has been approximately 20,400 units per year, exceeding the estimated requirement of 14,000 to 15,000 units per year. What has kept this imbalance in check is that annual project completions - that is, the number of units finished and put on the market - averaged about 15,750 units per year, far closer to the estimated requirement. A key issue now is how quickly units will be completed in the future, whether there will be sufficient demand for these units and what the outcome would be if supply of units greatly outstrips demand.

Finally, the longer-term impact of the changes to the federal government's mortgage insurance policies is yet unknown. The revised rules have made access to financing more difficult, especially for first-time homebuyers, and this has the potential to affect the dynamics of the condo market.

About Will Dunning Inc.
Will Dunning Inc. is an economic research firm. Based in Toronto, the firm specializes in housing market analysis. The firm is led by Will Dunning, who has been analyzing housing markets since 1982. This includes 16 years with the federal housing agency (Canada Mortgage and Housing Corporation). In September 2000, he established his own firm. Will has completed several hundred consulting studies, including economic analysis and forecasting studies as well as feasibility studies for proposed residential developments. He is frequently quoted in the news media on the housing market.

More information can be obtained at www.wdunning.com.

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