

**DEMAND SIDE:
EXAMINING THE
UNDERDISCUSSED SIDE
OF SUPPLY AND
DEMAND**

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ULI PANEL NOV 23: DEMAND SIDE: EXAMINING THE UNDERDISCUSSED SIDE OF SUPPLY AND DEMAND

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And Focus Consulting Inc.

Key demand factors:

Quantity of demand

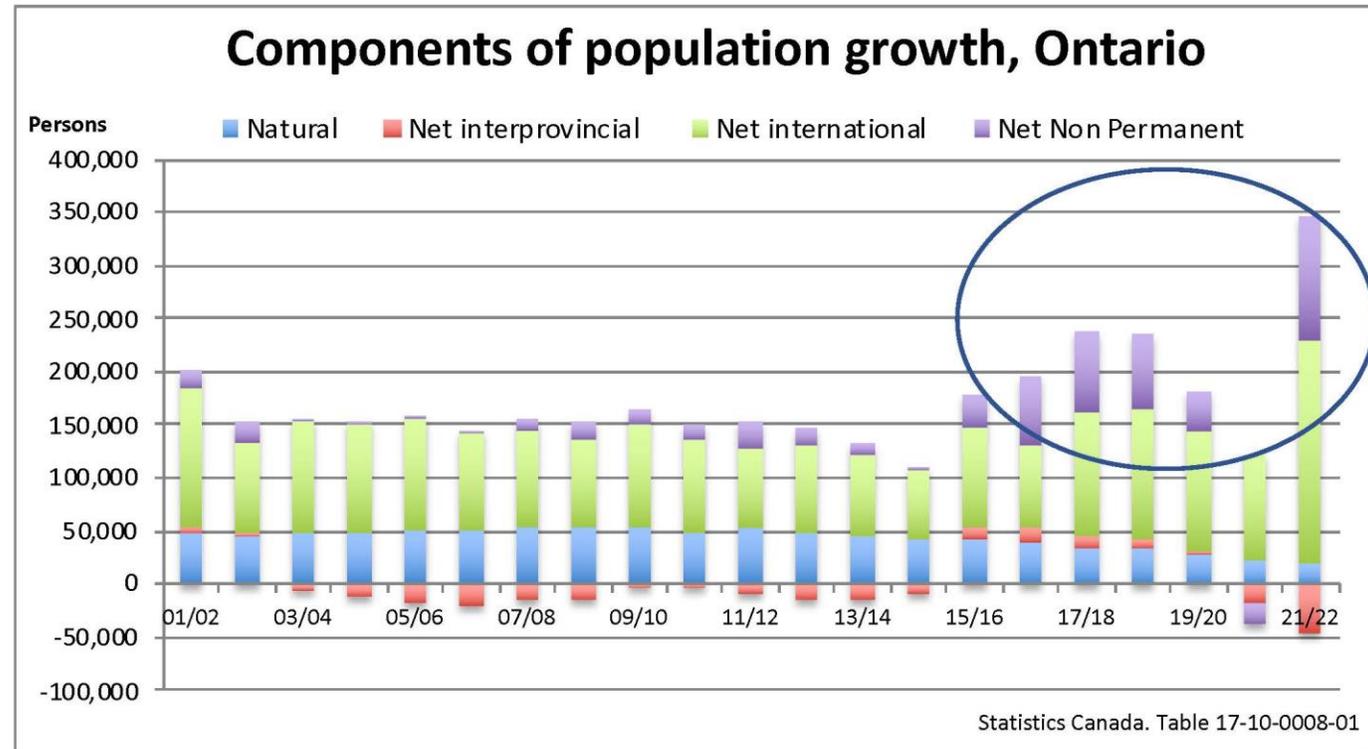
Quality of demand

- Recent and planned targets for immigration (plus domestic migration)
- Capacity to pay - mortgage rates, incomes and associated leverage
- Accumulated equity – “supercharged demand”

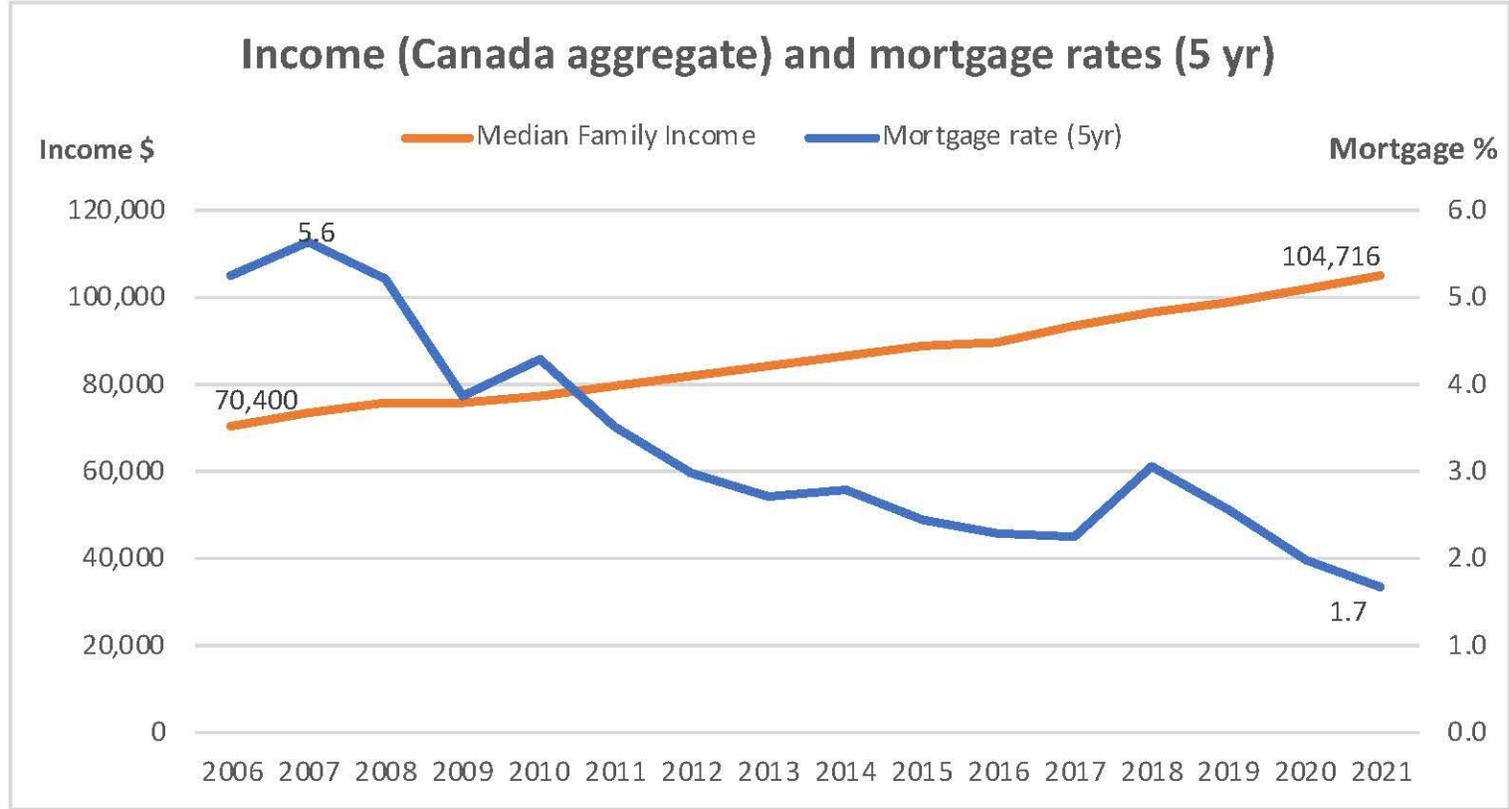
Recent surge in Migration 2017-19 (same across Canada)

Mainly from “non-permanent residents” = rental

vs. inelastic supply



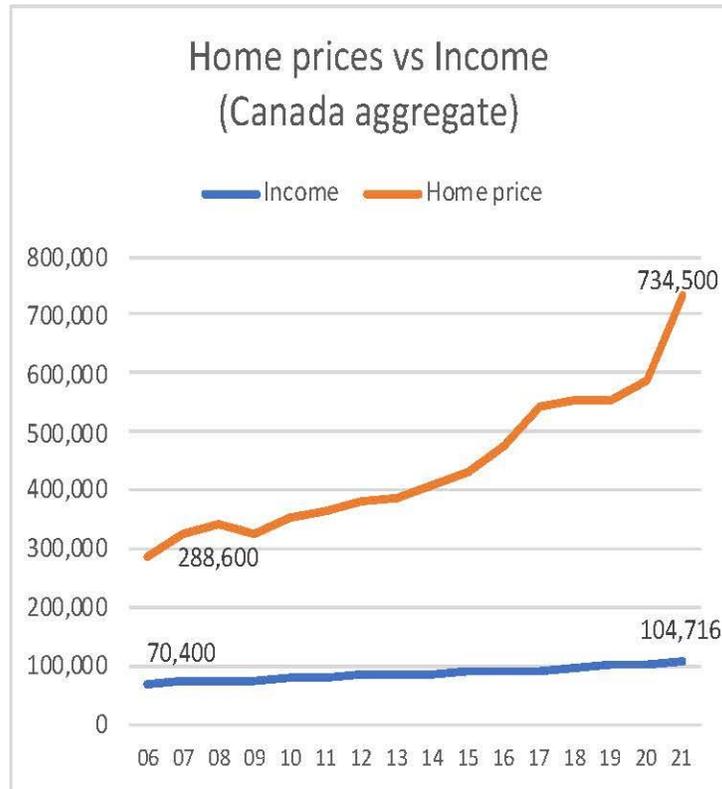
Quality of Demand:
Rising income,
declining mortgage
rates combine to
create increased
leverage capacity



Quality of Demand

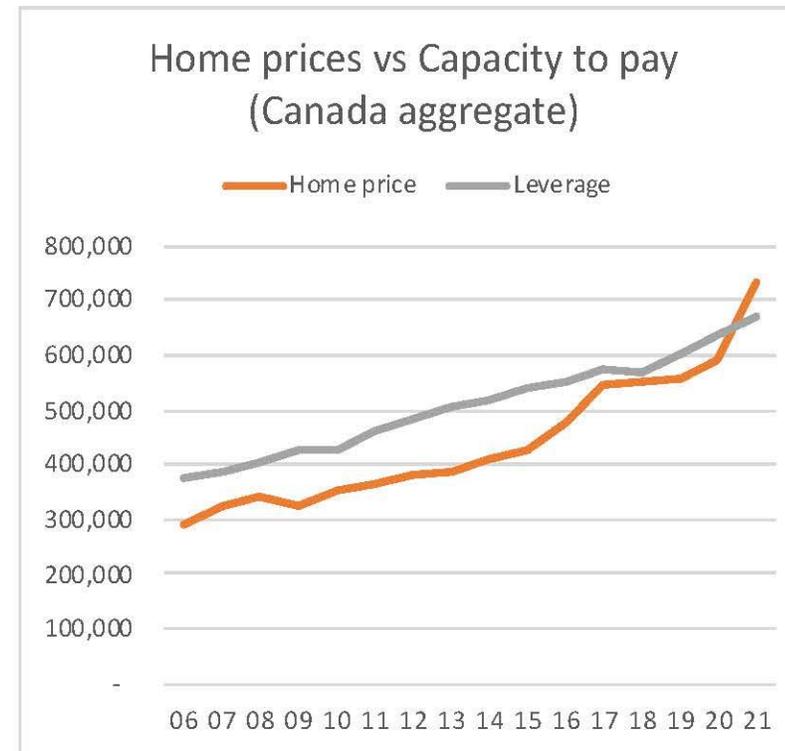
Price to Income vs. Leverage effect

Price: Income



Impact of % interest rate

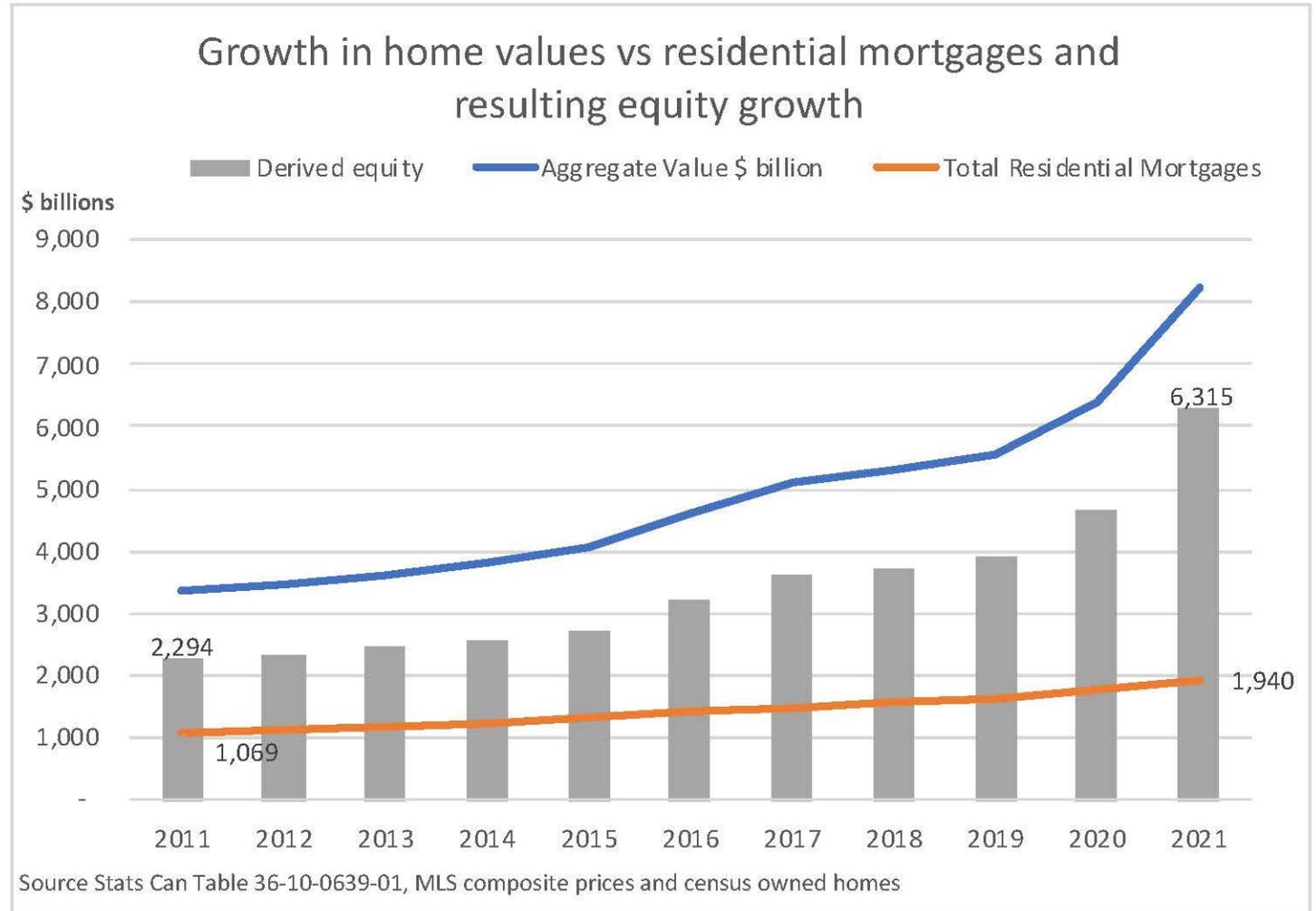
+ incr income = leverage effect



And leverage further aided by appreciating equity of existing owners = “super charged demand”

2011-2021:

- Total residential mortgage debt doubled from \$1B to \$2 billion
- Derived equity gain up by \$4 Trillion
- **2019-21 Equity increase 8x greater than debt**
- Fuels capacity to pay
- = super charged demand
- BUT only 5% of all households active each year – so does take many to generate price trends



Do need to increase supply; but its demand factors that influence prices & rents

With high immigration targets

- (and much of this flowing to GTHA) so do need to expand supply there

BUT increased and accelerated supply will not, alone slow price trend

- (BoC doing more by reversing mortgage rate trend = suppressing demand)

Don't need **just any** new supply; need **more affordable** new supply

- Many lower income households lack “effective demand” - Can governments influence or dictate prices and rents?



John Pasalis
President and Broker
Realosophy Realty Inc.

DEMAND SIDE:
Examining the Undiscussed Side of
Supply & Demand

Realosophy

John Pasalis

Allow “as of right” residential housing up to four units and up to four storeys on a single residential lot

Housing Affordability Task Force – Feb 2022



Leonard Bonarek 🚆🚲🚆

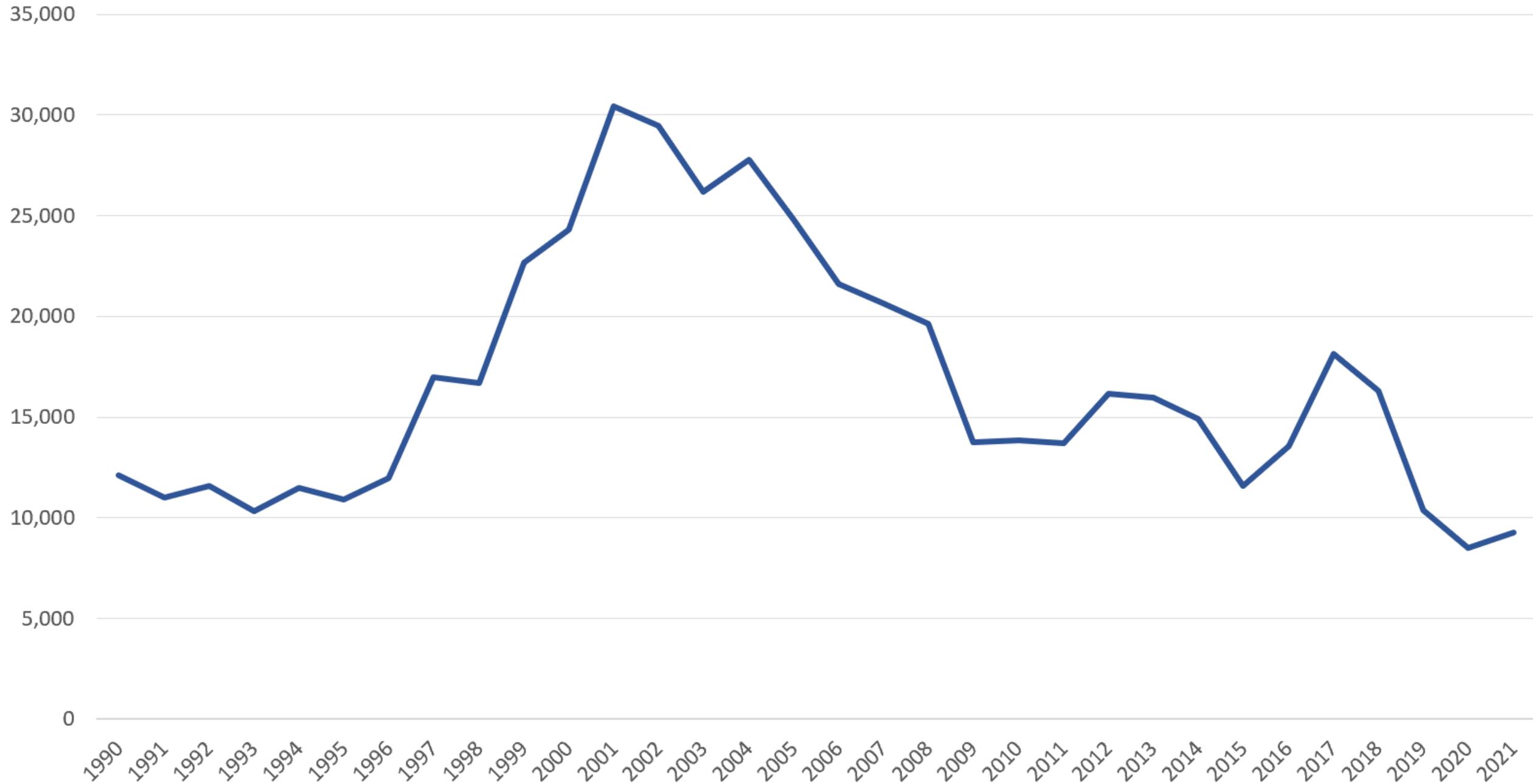
@LenniBug



this is what gentrification looks like folks



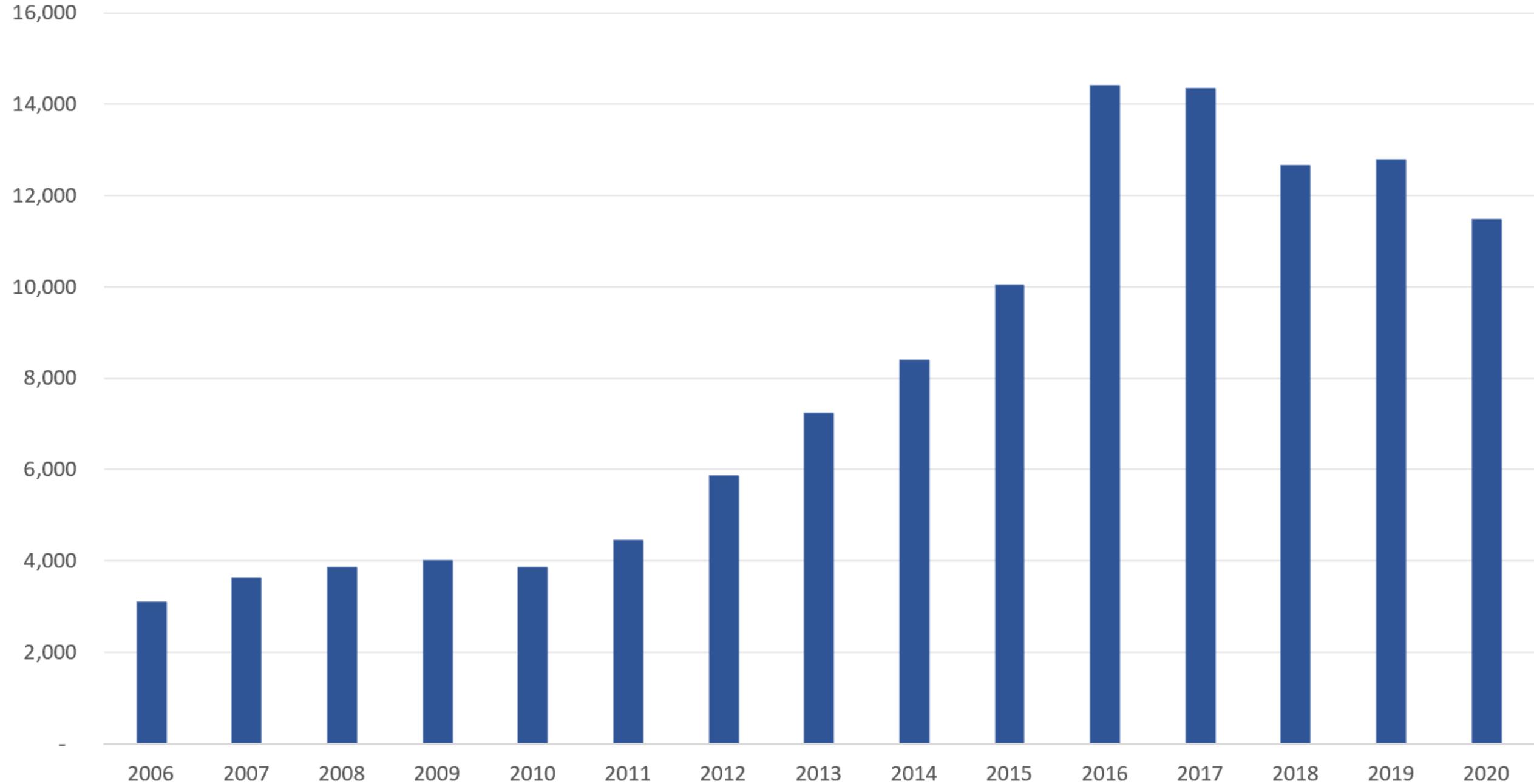
Low-Rise Home Completions - Toronto CMA



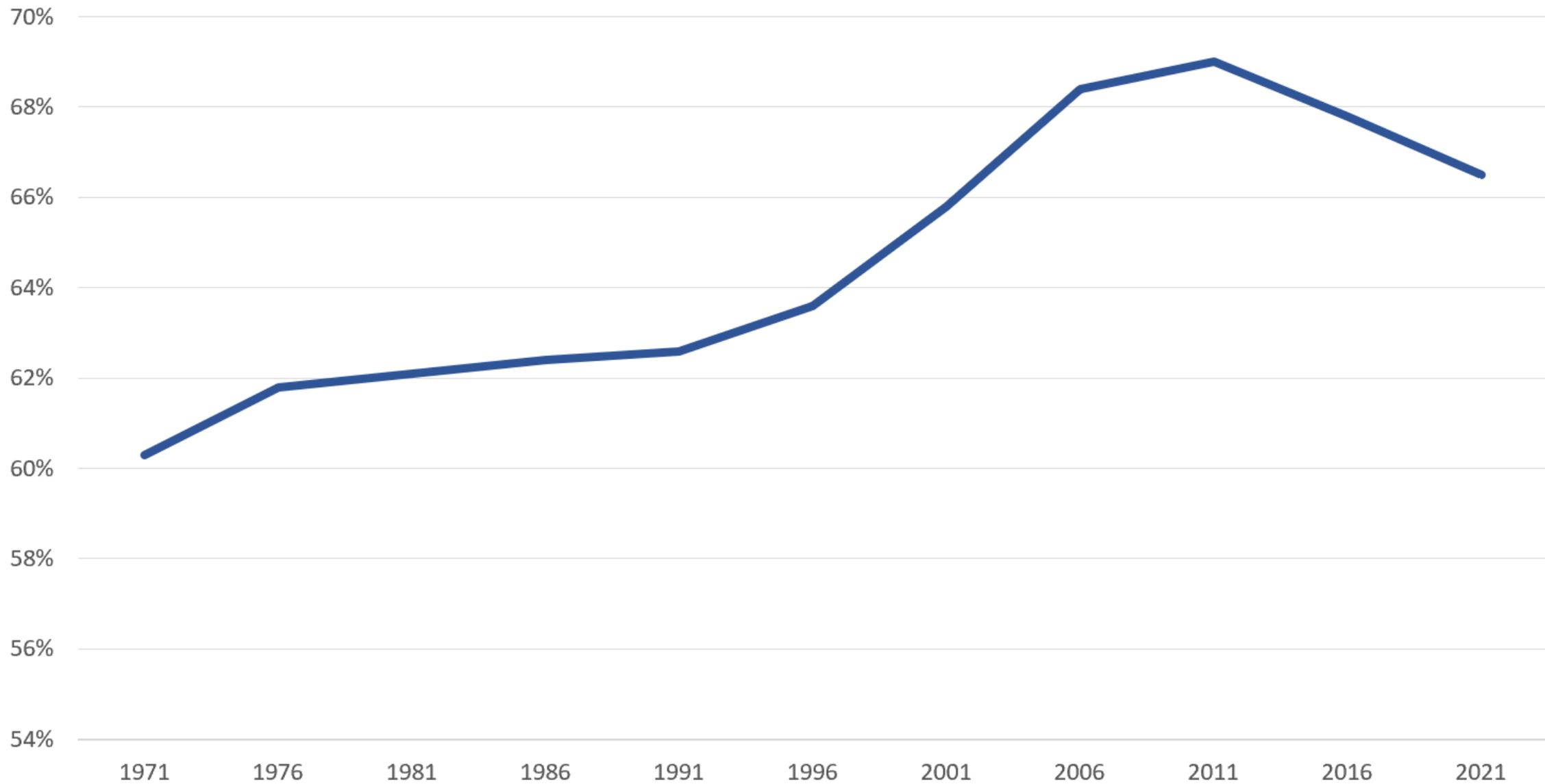
Small-time landlords ... provide rental stock to Canadian families and individuals. And so we don't want to negatively affect them because they are actually providing a rental service to a lot of people.

Ahmed Hussen, the Minister of Housing

Number of Low-Rise Homes Converted to Rentals - GTA



Homeownership Rate in Canada





Tobias Oriwol
Vice President
Investments
Tricon Residential Inc.

Demand Side: Examining the Underdiscussed Side of Supply and Demand

National Housing Week Webinar Series

November 23 2022

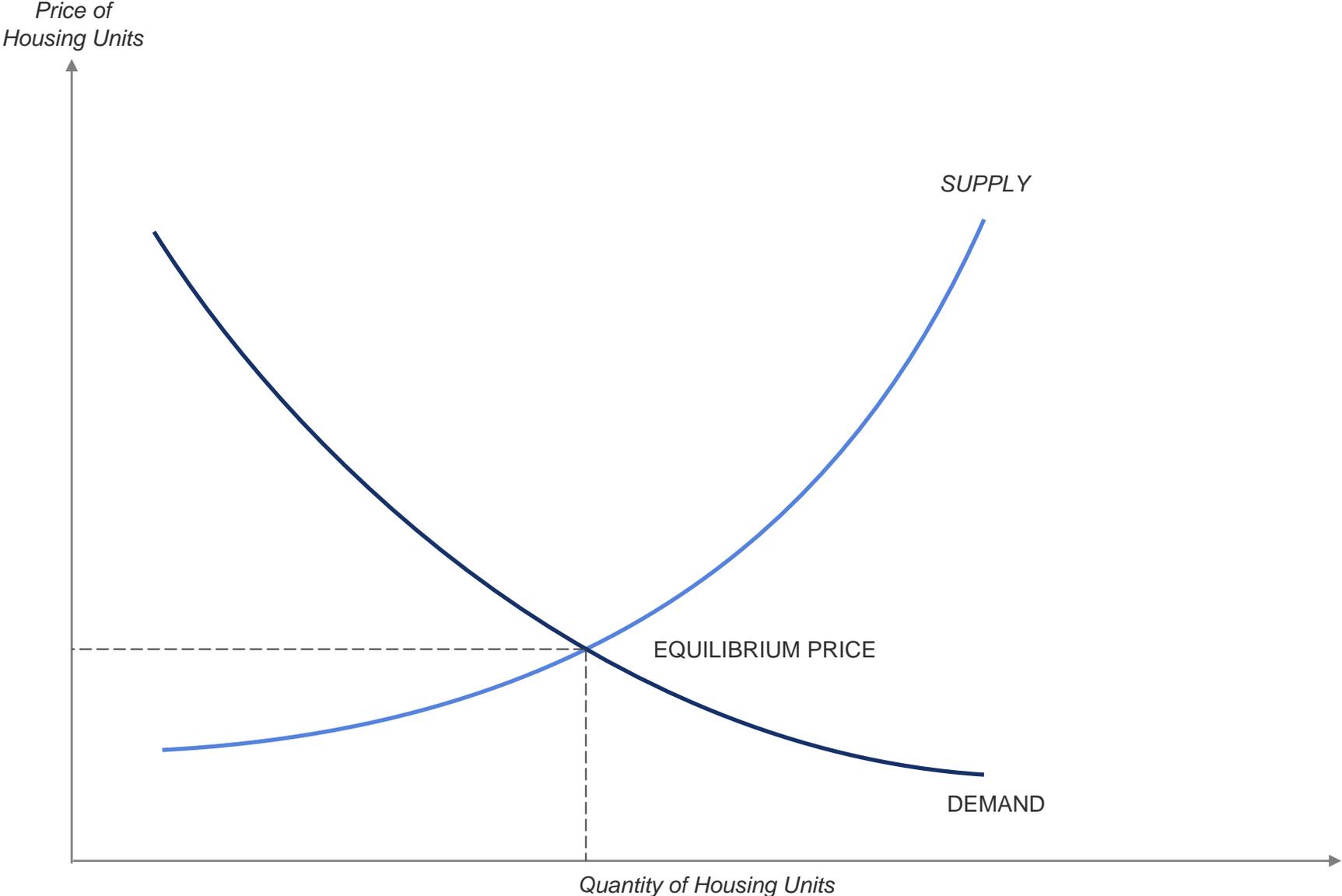


Examining the Underdiscussed Side of Supply and Demand

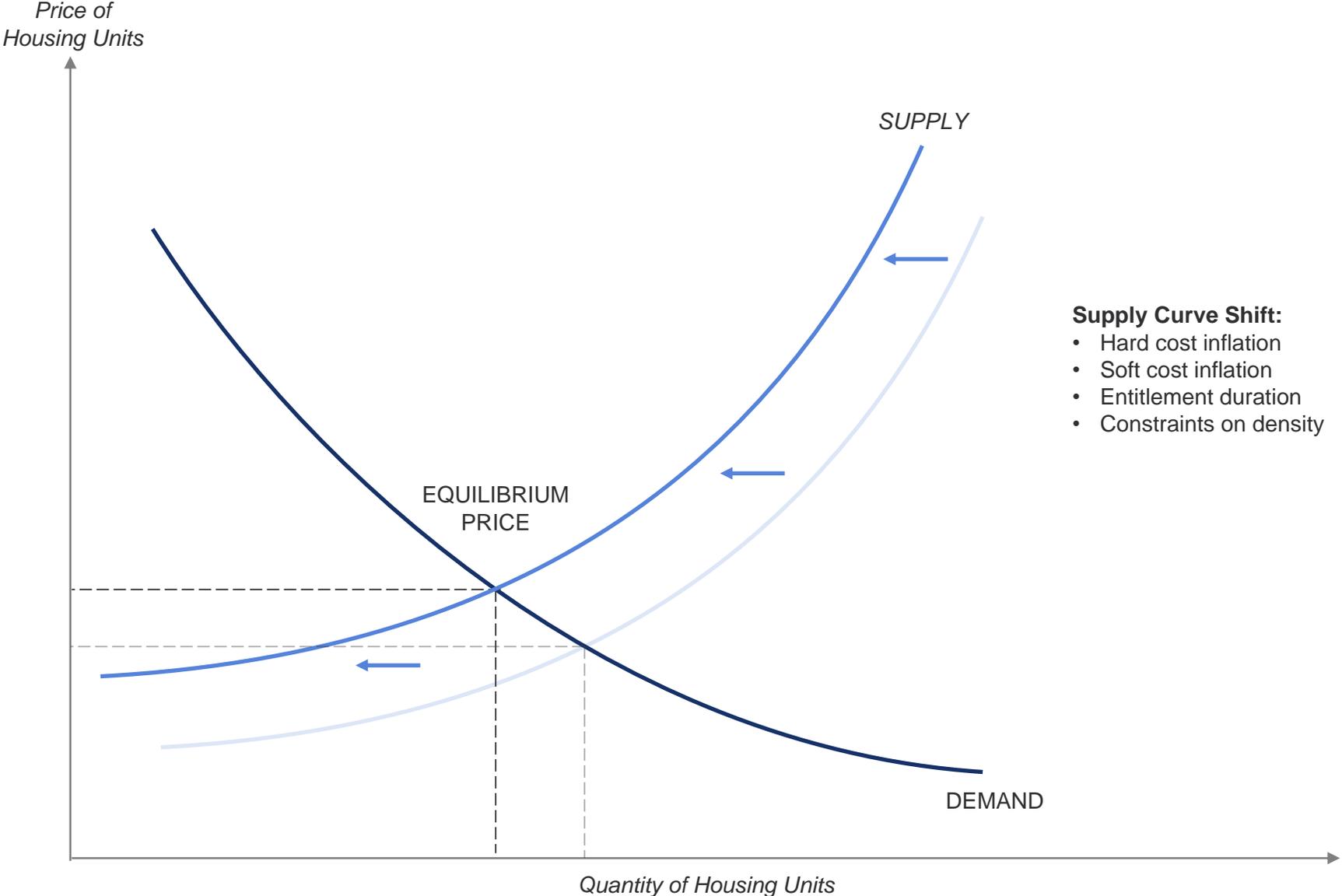
*Rental Housing Demand =
Households x Cash*

*For-Sale Housing Demand:
Households x Cash x Credit x Subsidies*

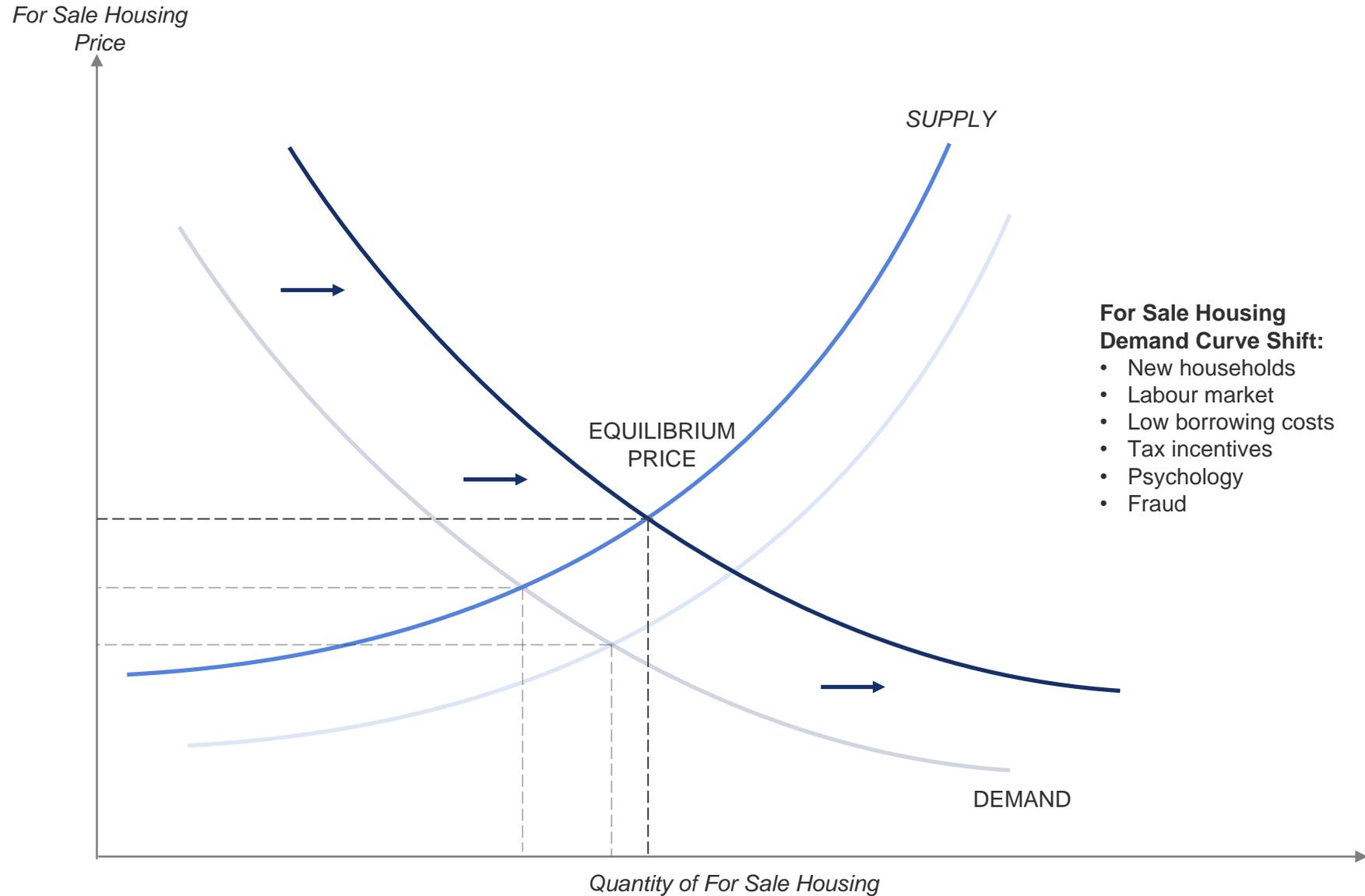
Examining the Underdiscussed Side of Supply and Demand



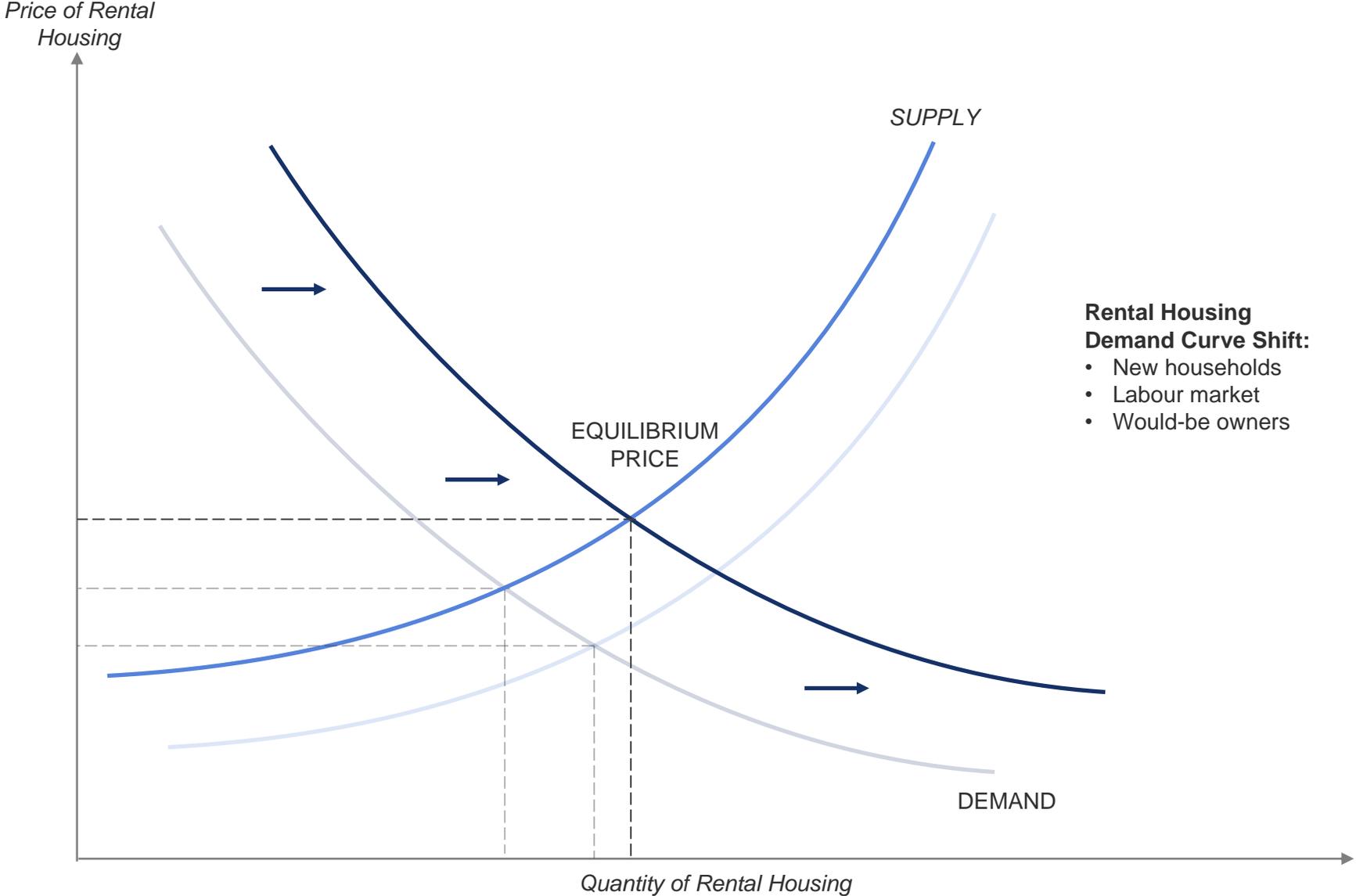
Examining the Underdiscussed Side of Supply and Demand



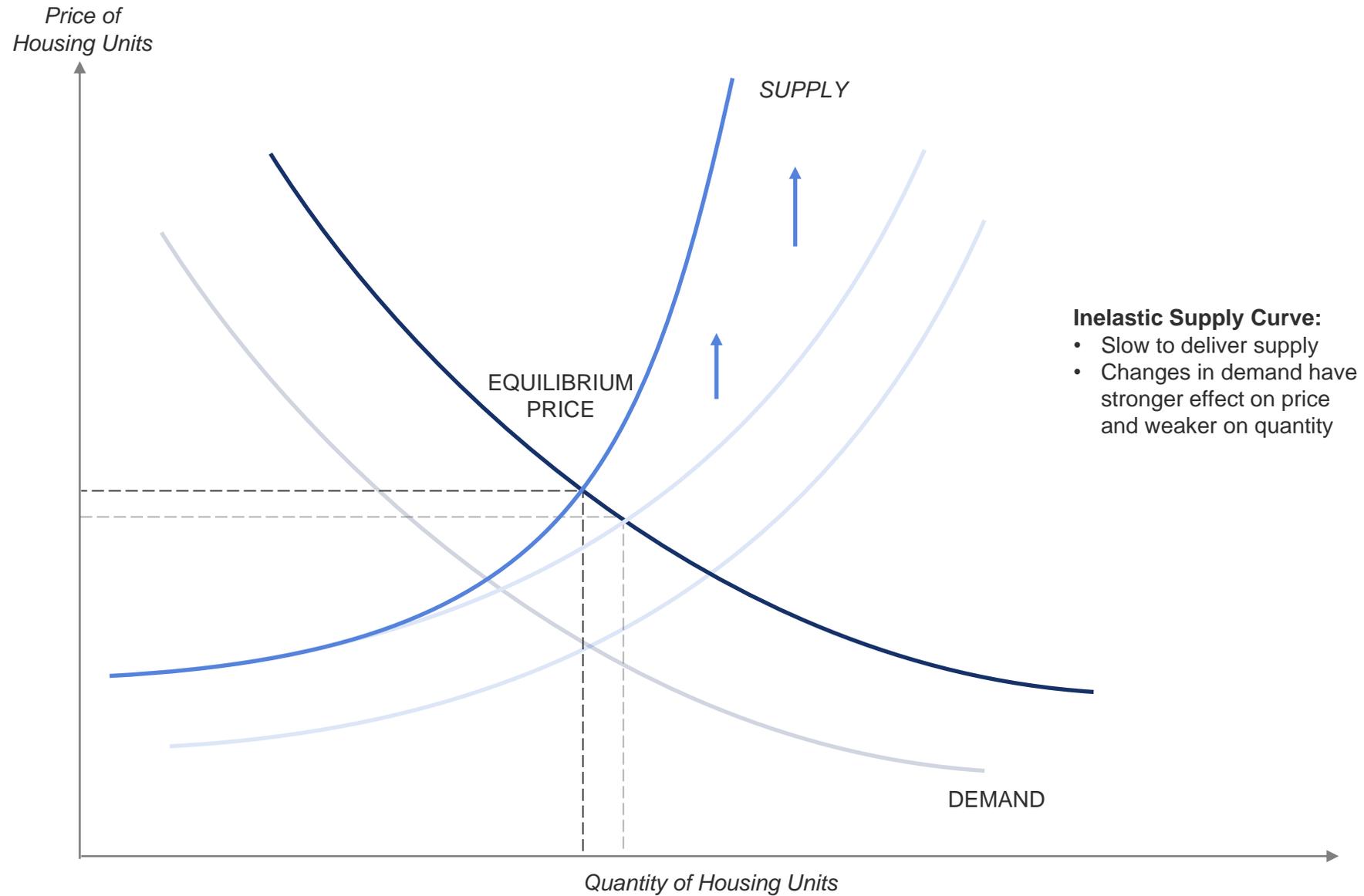
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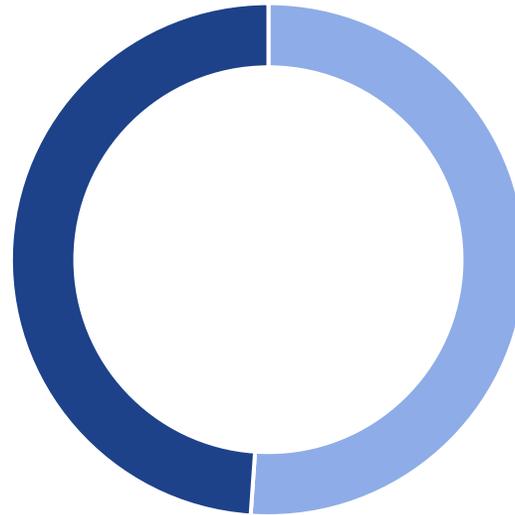


Examining the Underdiscussed Side of Supply and Demand



Examining the Underdiscussed Side of Supply and Demand

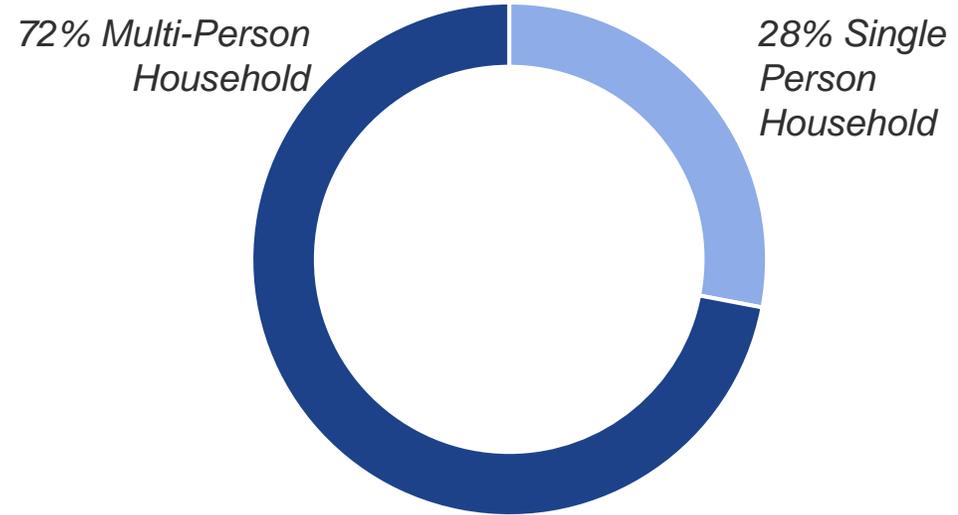
*Composition of Q3 2022
GTA Condo Launches*



*49% Suitable for
Multi-Person Household*

*51% Suitable for
Single Person Household**

*Composition of Actual
GTA Households*



*72% Multi-Person
Household*

*28% Single
Person
Household*

Data from Urbanation and CMHC

** Units Suitable for Single Person Household counted as studios, 1 bedrooms, and half of 1 bedroom plus dens launched*



Tobias Oriwol

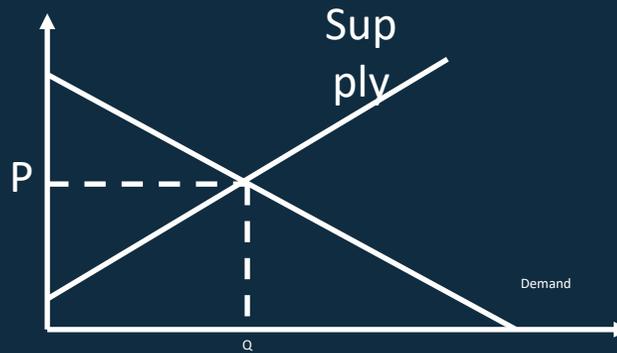
Vice President, Investments

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Shaun Hildebrand
President
Urbanation Inc.

DEMAND SIDE: EXAMINING THE UNDERDISCUSSED SIDE OF SUPPLY & DEMAND



URBANATION

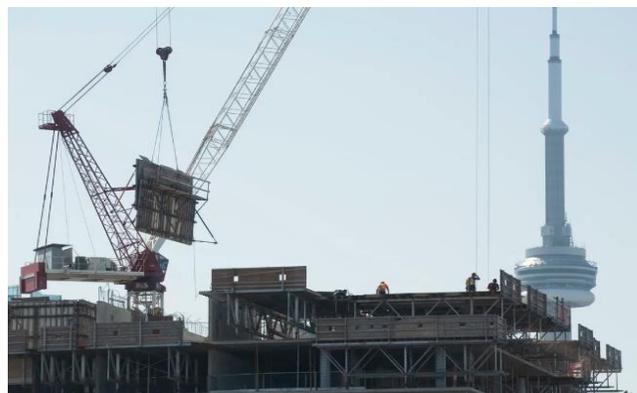
ULI PANEL: NOV 23, 2022

GTA Housing Outlook in 3 Headlines

Toronto developers expected to delay 10,000 units as slowdown hits condo presales



Rental apartment construction slumps in Toronto as building costs rise

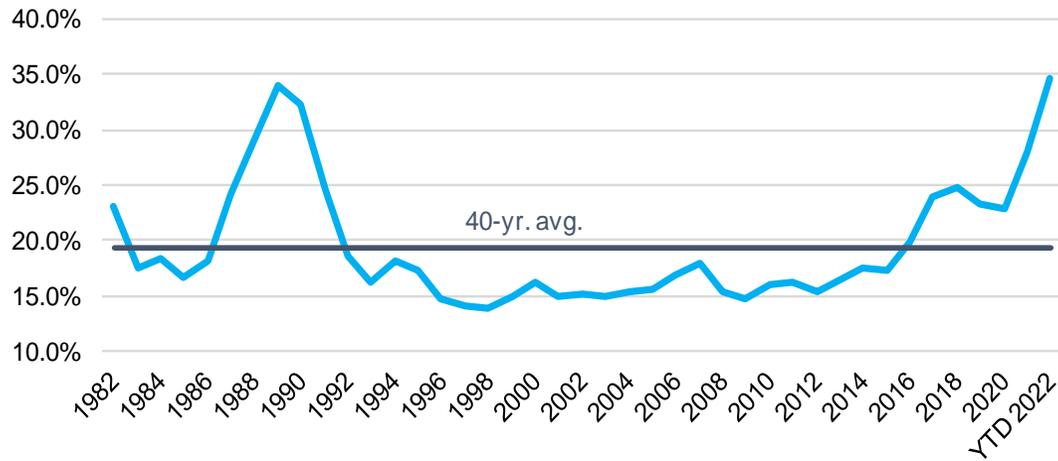


Ottawa aims to welcome 500,000 immigrants per year by 2025



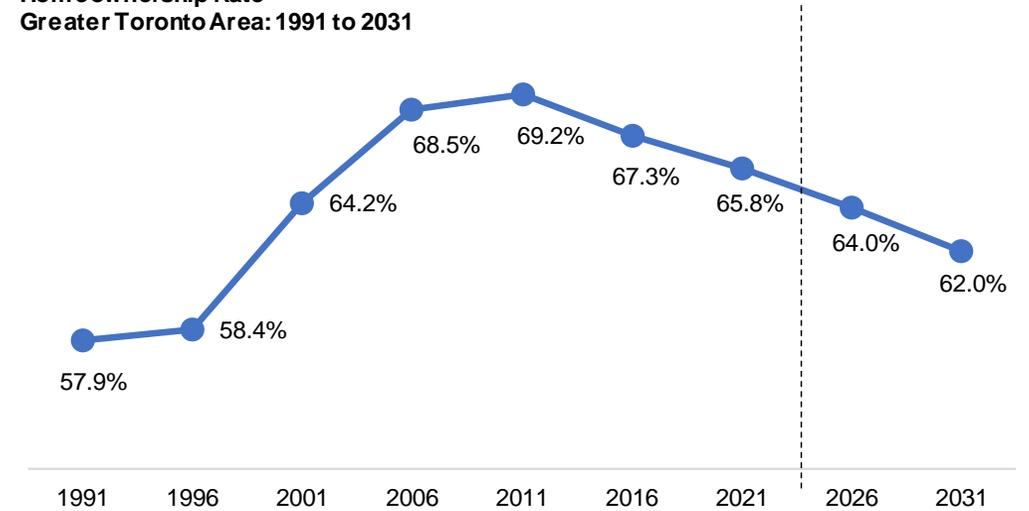
Generational Low for Affordability Creates Headwinds for Ownership Demand

Mortgage Payment on Average Priced GTA Home as % of Average Family Income*



*Assumes 20% down payment, 25-year amortization, discounted 5-year fixed mortgage rates and average incomes for non-elderly families.
Source: Urbanation, Statistics Canada, TRREB

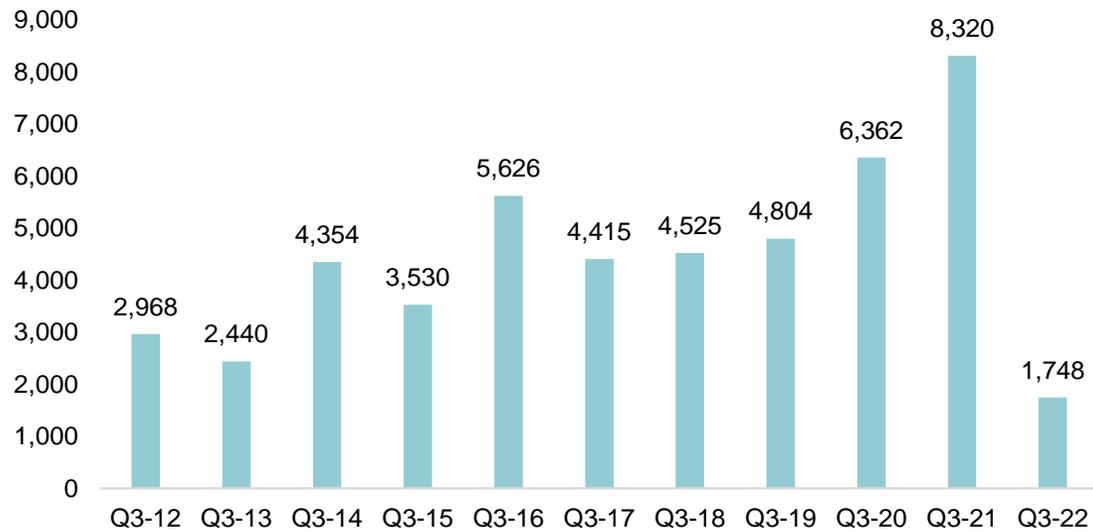
Homeownership Rate Greater Toronto Area: 1991 to 2031



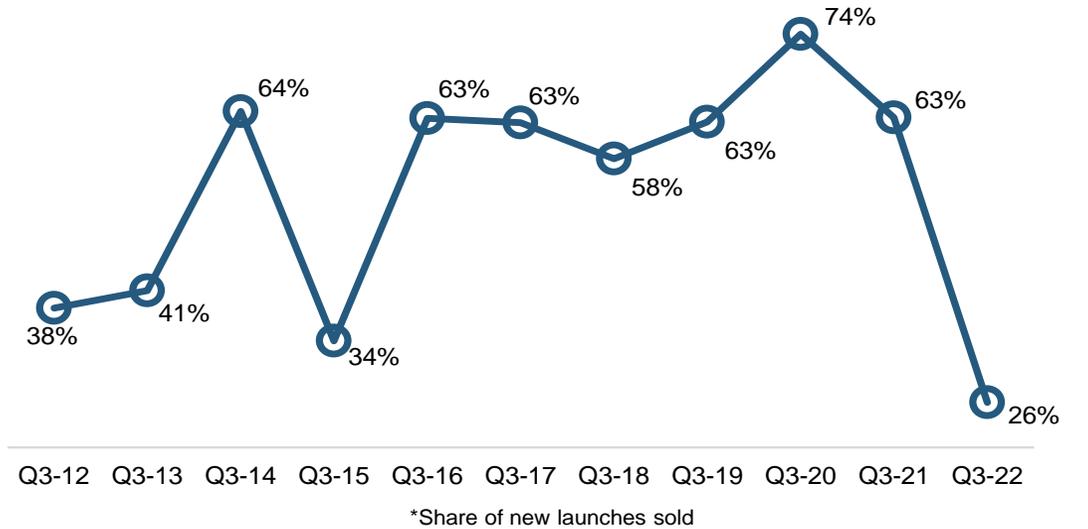
Source: Statistics Canada, Urbanation projections

New Condo Sales Drop 79% Y/Y as Investors Retreat

GTA New Condominium Apartment Sales, Q3 Periods



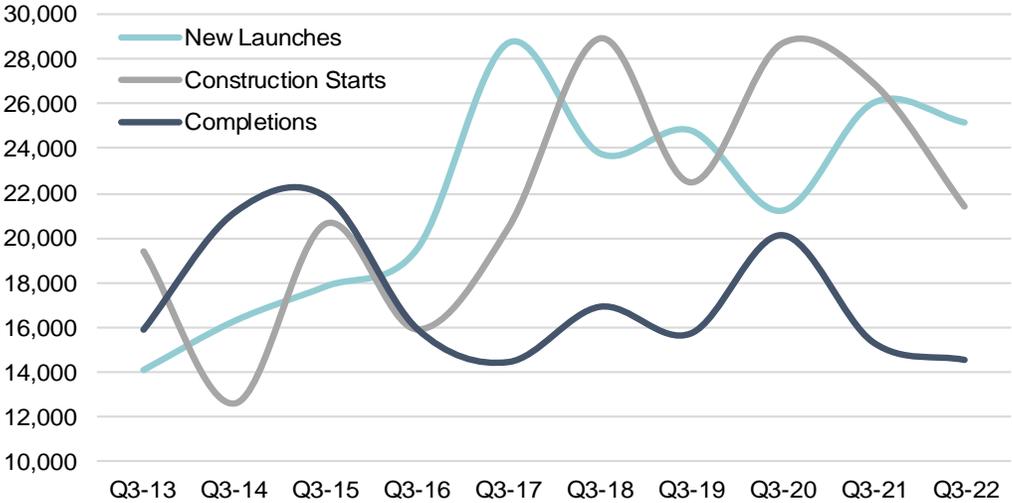
GTA New Condominium Launch Absorption Rates*



Source: Urbanation

Slower New Condo Demand -> Fewer Presale Launches -> Reduced Construction -> Decline in Completions (5-Year Cycle)

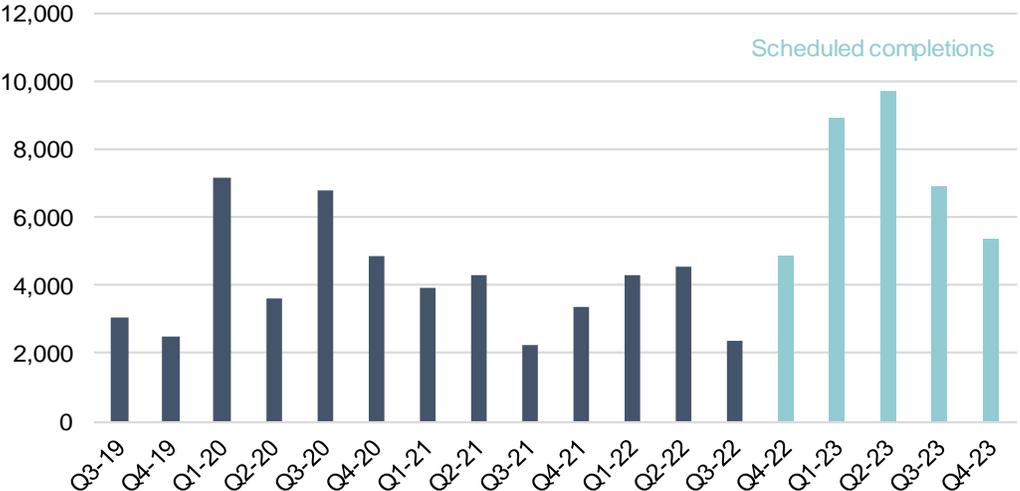
**New Condominium Launches, Starts, and Completions
GTA: 2013 to 2022, 12-month periods to Q3**



Source: Urbanation

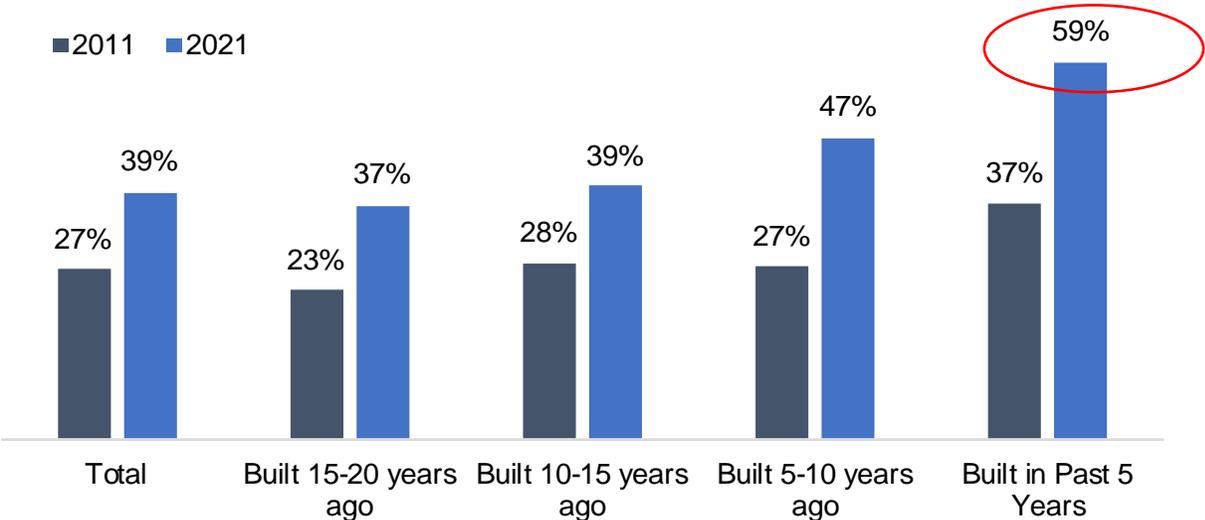
➤ Condo Completions Expected to Hit Record High in 2022 at 31,000 Units

**New Condominium Completions
GTA: Q3-2019 to Q4-2023**



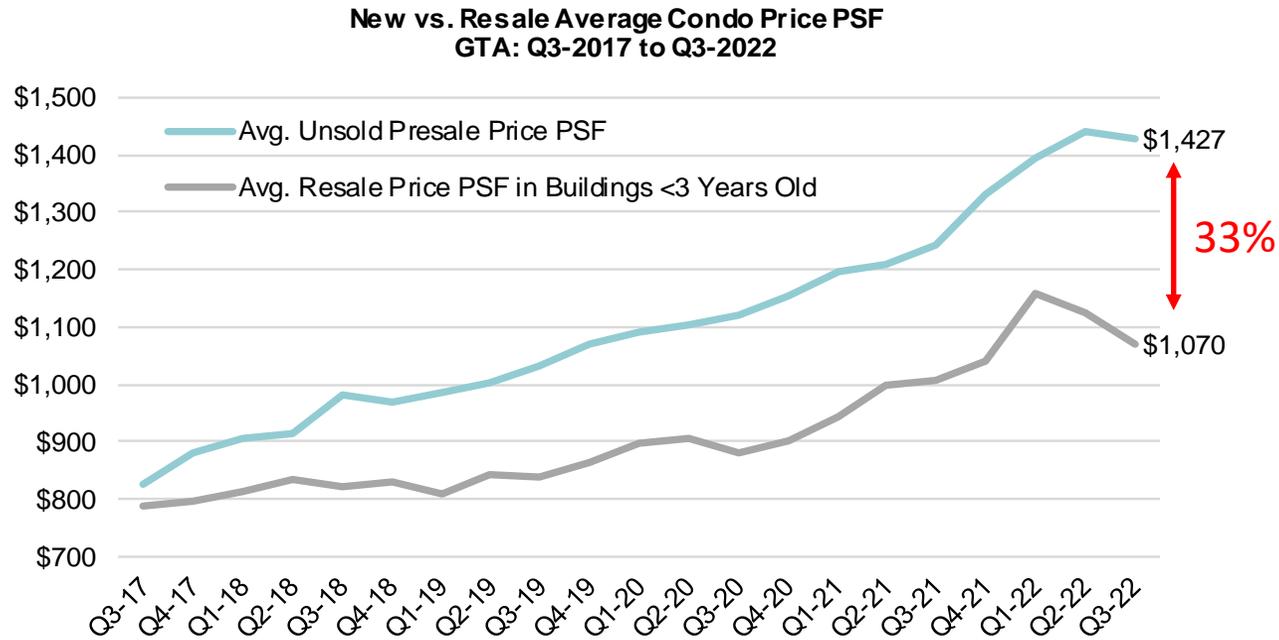
GTA Rental Market Relies Heavily on Condo Investors

Share of Condominiums Used as Rentals by Period of Construction
Toronto CMA: 2011-2021



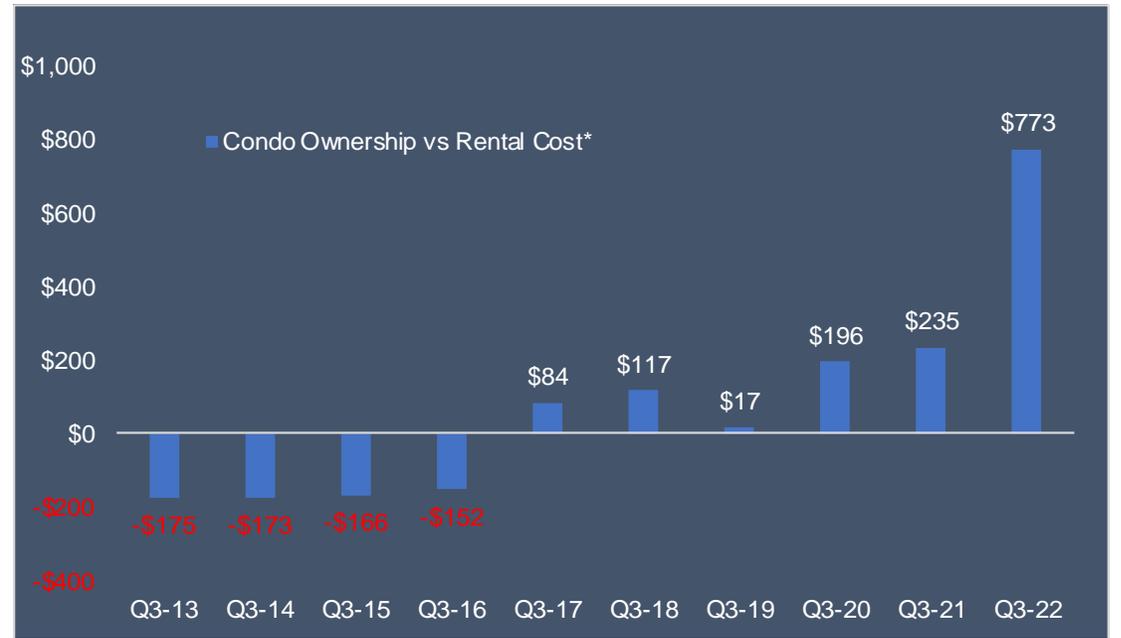
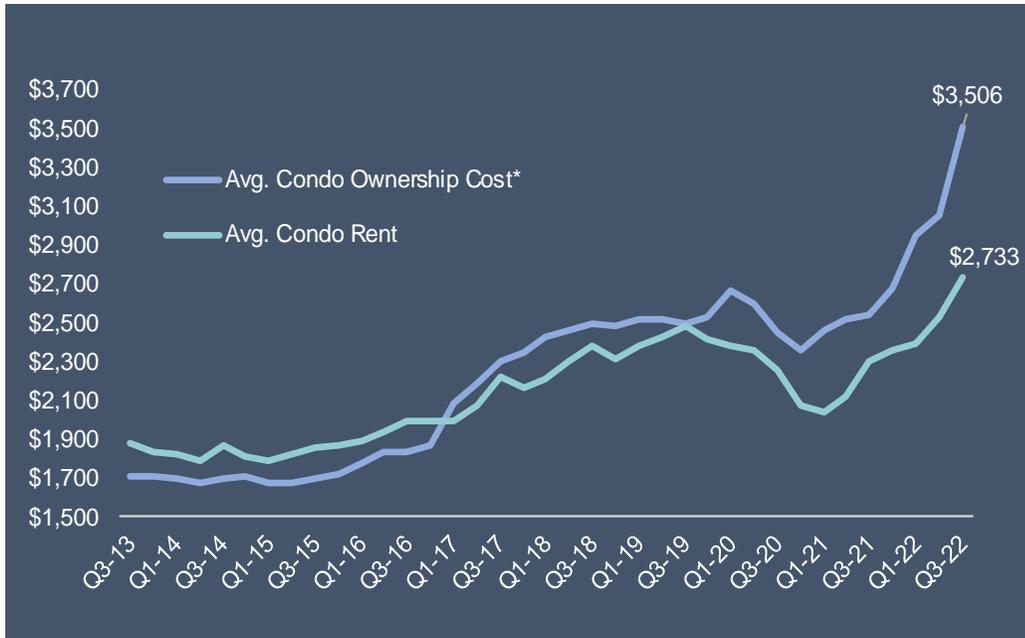
Source: Statistics Canada, Urbanation

Record Gap between New & Resale Condo Prices Reducing Investor Appeal



Source: Urbanation

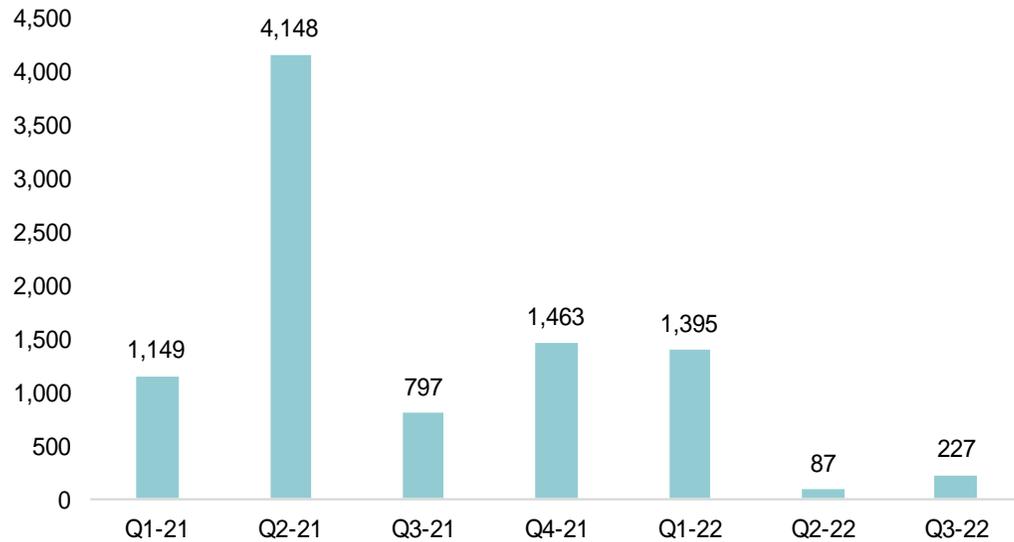
Record Cost Advantage for Renting over Owning



*Ownership costs based on average GTA resale price psf, 80% LTV mortgage, 25-yr. amortization, average interest rate for mortgages advanced, condo fees and property taxes, for same unit size as rental
 Source: Urbanation, TRREB, Statistics Canada

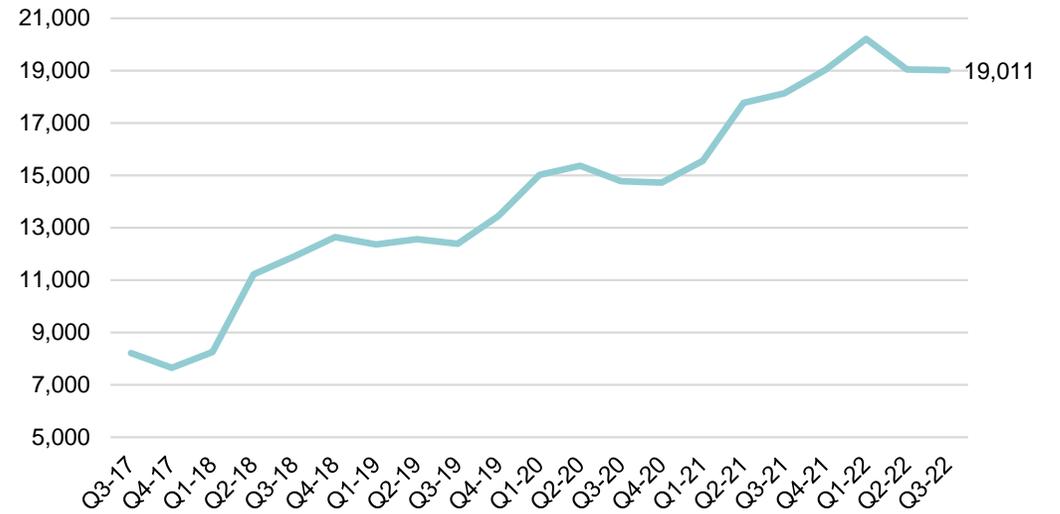
Rental Construction Stalling at the Wrong Time

Quarterly GTA Purpose-built Rental Construction Starts



Source: Urbanation

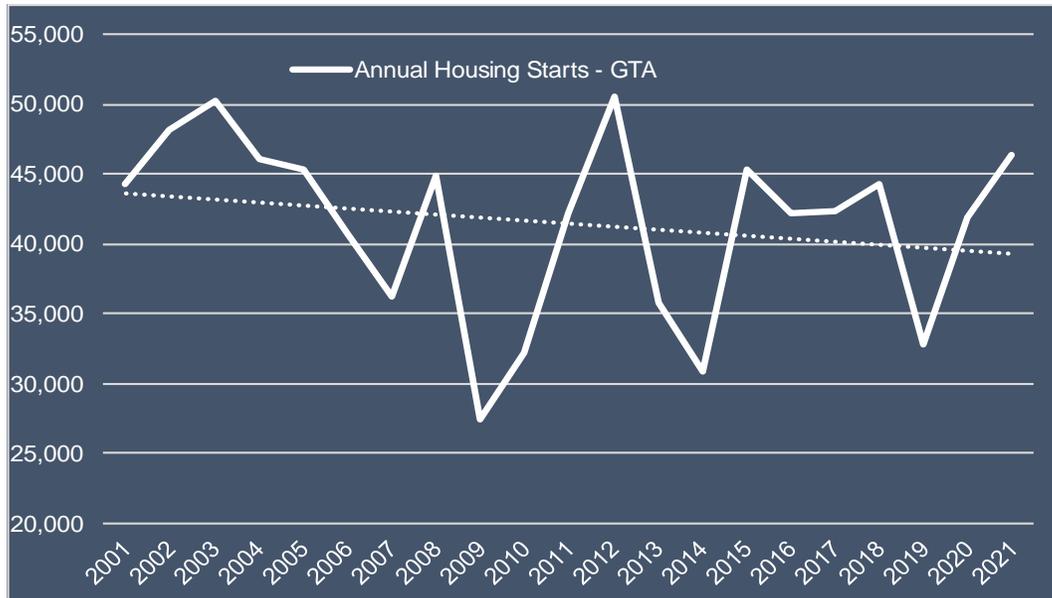
GTA New Purpose-built Rental Apartments Under Construction



	3-yr Change to Q3-2022
Residential high-rise construction costs	42%
Rents	12%

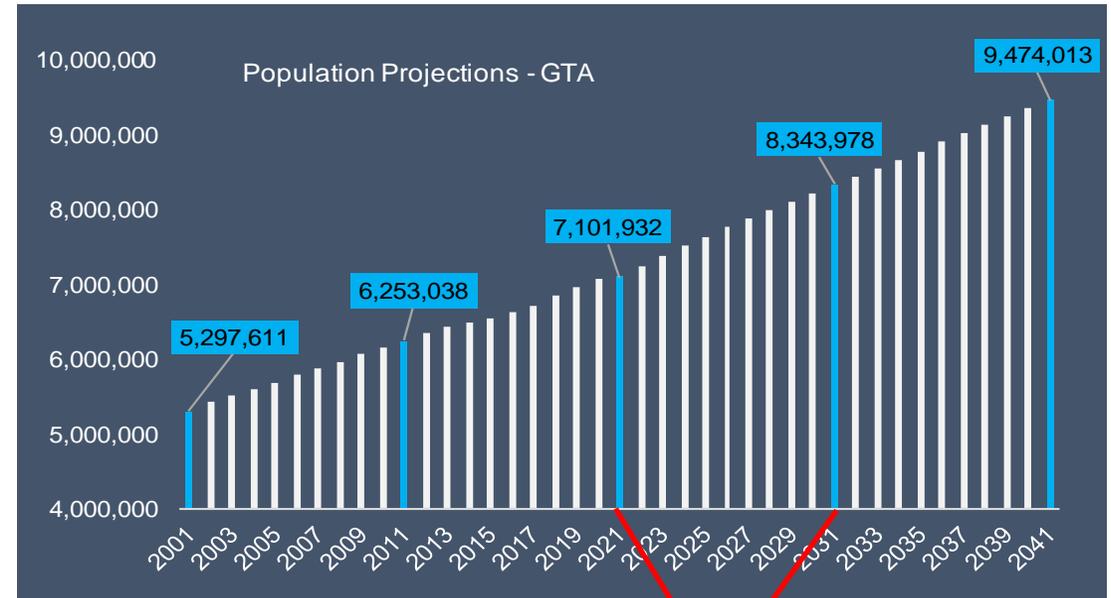
Long-term Deviation Between Housing Demand & Supply Expected to Continue

➤ Housing starts averaged 41,000/year over past 10 and 20 years



Source: CMHC

➤ Under medium growth scenario, GTA population projected to increase by 1.24 million from 2021-2031, compared to 849K increase from 2011-2021

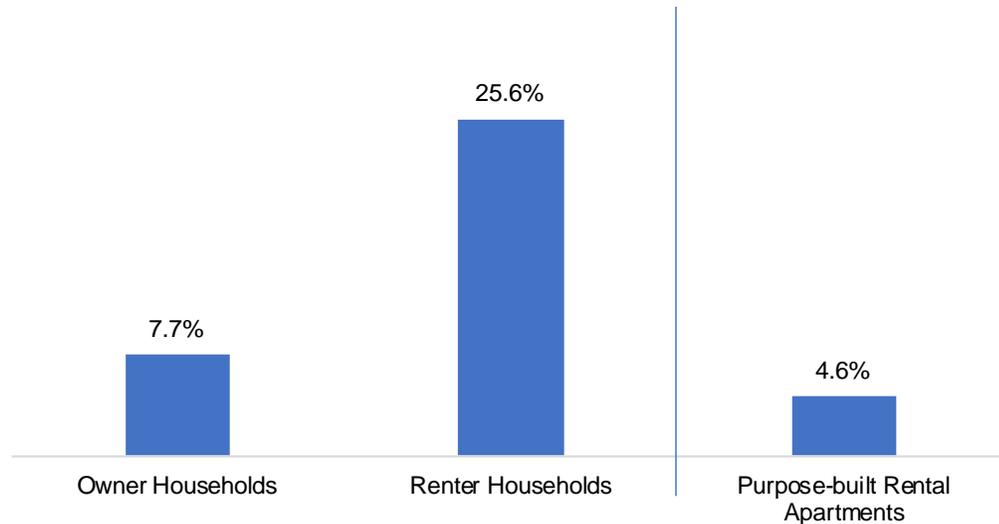


Source: Statistics Canada, Ontario Ministry of Finance

Demographic demand for ~50K housing units per year

Massive Gap Between Rental Demand and Supply Growth

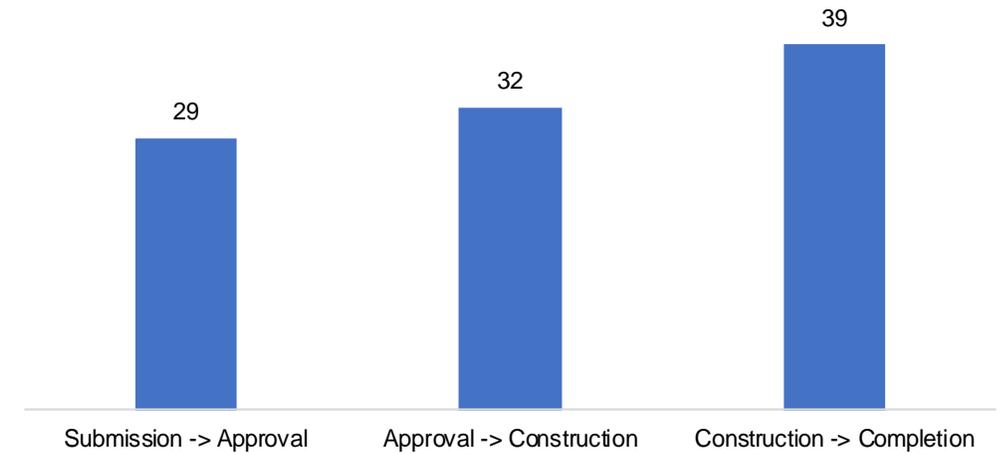
10-Year Growth in Households by Tenure
Greater Toronto Area: 2021 vs. 2011



Source: Statistics Canada, CMHC, Urbanation

➤ Avg time from application submission to project completion is 100 months

Average Purpose-Built Rental Development Timeline in Months
City of Toronto, projects completed since 2018



Source: Urbanation