

The Outlook for the Toronto Housing Market: Update Report

A Report for the Residential Construction Council of Central Ontario

April 2001

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SPONSORING ORGANIZATIONS

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1. INTRODUCTION AND SUMMARY

In late 2000, the Residential Construction Council of Central Ontario asked Greg Lampert, Economic Consultant and his associate Bill Empey to prepare a review of economic conditions, housing and labour markets in Ontario and the Toronto area. The report *Residential Construction and Labour Markets in Ontario*, which was prepared in December 2000, focused on conditions at that time and on the most likely scenario in 2001 and later years.

This report provides an update of the December 2000 report. It contains a review of current economic conditions in Canada and Ontario and projections for the next few years, as well as an extensive analysis of the Toronto area housing market. Two issues explored in the December report (trends in the national and Ontario construction markets, and the construction labour market in Ontario and Toronto) have not been included in this report – little new information has become available on these issues since the previous report. The findings and overall conclusions from the December report on these issues are included in the overall summary of findings (Section 8). The final section of the report presents some implications of the analysis for the construction labour market in the next few years.

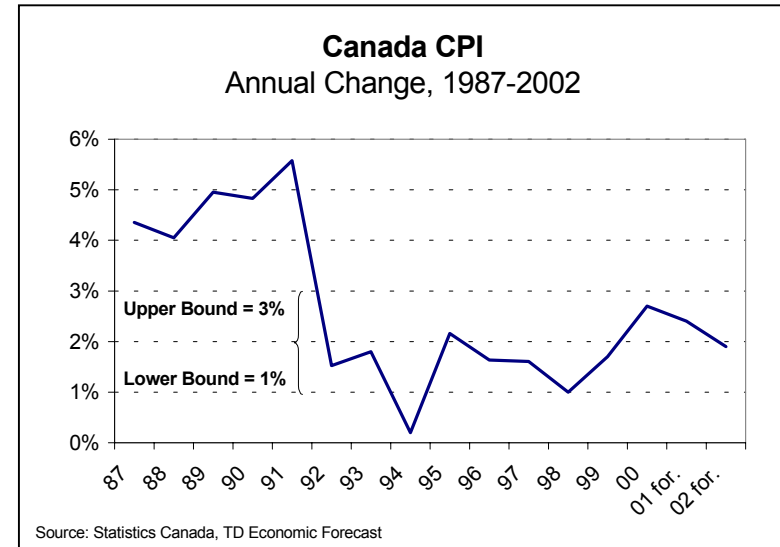
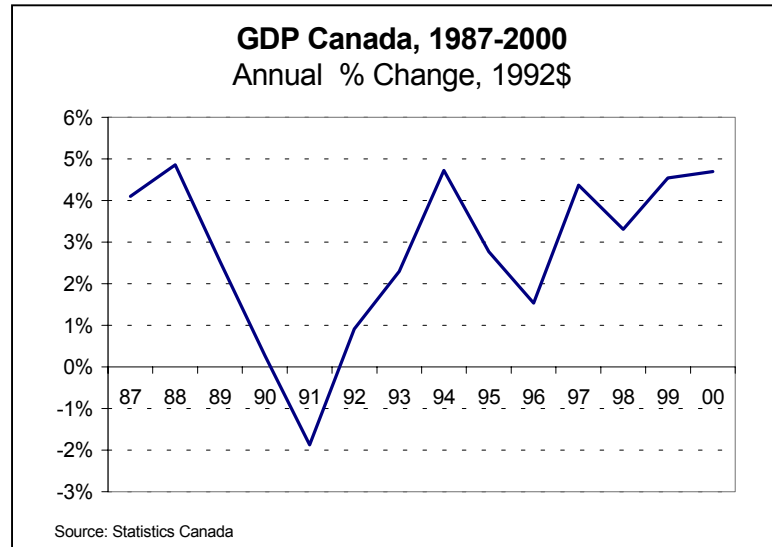
Basic findings of the report include:

- Canada has passed the peak of a strong economic expansion. There is growing concern that the U.S. economy is entering a recession and that Canada will follow. Interest rates have been reduced and tax cuts are in place and these remedies are expected to prevent a serious recession.
- Current data confirms extensive weakness in manufacturing, especially in sectors related to automotive production. Similarly, many ‘new economy’ companies focusing on the internet and e-commerce report serious difficulties.
- Other broad economic measures do not yet indicate a recession and the consensus among forecasters is for a short and moderate slowdown.
- Construction activity is reaching record levels and major projects across Canada will extend the boom into 2001. Large engineering projects are being driven by higher energy prices. The economic expansion reduced commercial and industrial vacancy rates and new projects are planned. Institutional construction of schools, universities, hospitals and other infrastructure is strong.
- Housing activity has been very strong, driven by immigration, low interest rates and the strong economy. Starts have been high in the past few years and, even with an expected reduction in new home sales, starts will remain high in 2001 due to the overhang of 2000 sales which have not yet been started. Repair and renovation activity has been steadily growing across the 1990s and represents roughly half of residential construction activity.
- There are growing shortages in many construction trades due to strong demand for workers and a diminished work force. Shortages are acute in the housing sector, in part because workers have been drawn to non-residential projects.

While the pace of the economy is slowing, construction activity remains very strong. Projects are being delayed, prices are rising and there are growing quality-related problems. The consensus view of the future is that general economic conditions will ease in 2001 without a major recession. Construction activity will remain buoyant and the risks of shortages, project delays and rising prices and costs will continue.

2. ECONOMIC CONDITIONS: CANADA

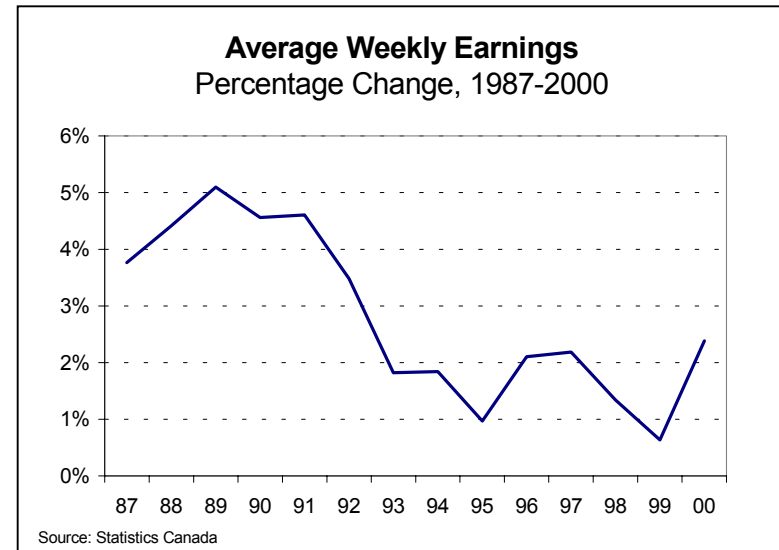
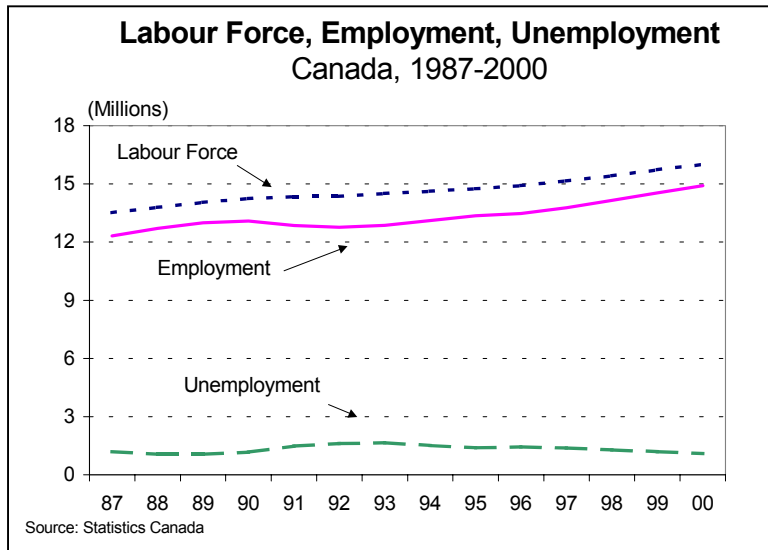
National Economy: 2000 – The Best of All Worlds – Strong Economy with Low Inflation – But What is Coming?



- Economic growth in 1999 and 2000 surged to nearly 5% and was evenly distributed across domestic demand and foreign activity.
- Concerns about capacity limits and rising inflation pushed both the U.S. Federal Reserve and the Bank of Canada to raise interest rates in 1999 and 2000. More recently, the Federal Reserve and, to a lesser extent, the Bank of Canada, have acted to reduce interest rates as a result of a slowdown in the economy.
- Evidence of slowing economic activity includes a weaker stock market and lower manufacturing shipments led by reductions in motor vehicle assembly and a dramatic reduction in sales of high-tech equipment.

- Tax cuts, lower interest rates and expansion plans in many sectors are expected to sustain a 'Soft Landing' scenario. Current expectations are that the slowdown has begun, which could lead to a brief recession in early 2001, but which will be followed by a recovery later in the year.
- CPI inflation is near the 3% upper bound set by the Bank of Canada, but 'core inflation' remains below 2%. Most observers feel that inflation is under control though some are concerned that energy prices and labour costs may create pressures. Inflation concerns are not likely to provoke the Bank of Canada to raise interest rates.

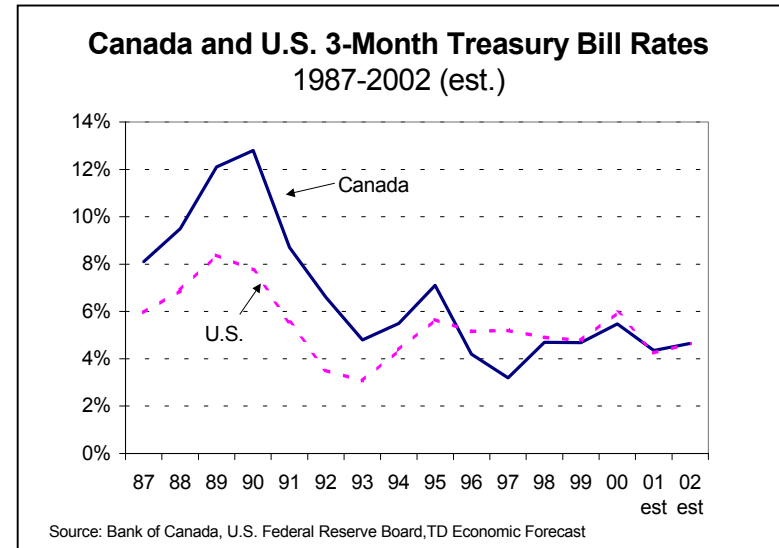
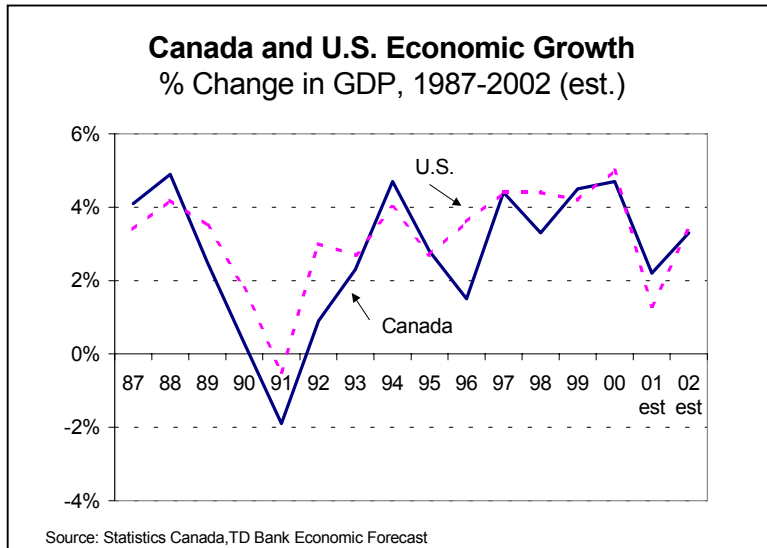
Labour Markets are Tight – But Productivity Growth Contains Labour Costs



- Unemployment rates are at a twenty-year low and many labour markets have reached ‘full employment’. Industrial capacity utilization is high, vacancy rates are low and the Bank of Canada is concerned that the national economy is reaching its overall capacity to produce.
- Strong productivity growth in the United States has exceeded expectations and is increasing production capacity significantly. Productivity in Canada is lagging the U.S. but is showing signs of improvement.
- Energy and some commodity prices are rising but most measured wage, income and compensation levels are increasing at the same rate as productivity and price inflation so that unit labour costs are not yet a source of inflation.

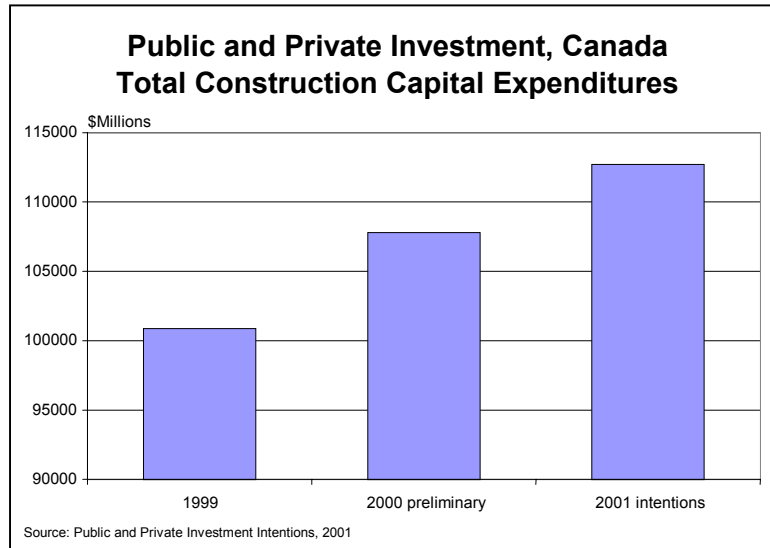
- Changes in the economy have altered working conditions and compensation so that labour market pressures are not always reflected in conventional measures. In situations where skills and workers are in high demand, traditional wage or salary measures will not increase to reflect market conditions.
- A large proportion of the new economy labour force is compensated through special benefits and stock options – until recently, this represented a huge ‘bonus’ that boosted spending power. Essentially, until recently, the stock market was a partial indicator of rising compensation.
- There are similar changes in construction (e.g. self-employment and the underground economy, stabilization funds, piece work arrangements) and labour market pressures are not reflected in hourly wages and other traditional measures of compensation.

Forecast – Soft Landing in 2001 Guided by U.S. Monetary Policy



- Economic growth in Canada has continued since 1992, with only a brief sign of weakness in 1996 – a very long expansion by historical standards. This persistent growth appeared to be approaching the capacity of the economy which, until recently, raised concerns about rising inflation and recession.
- A soft landing scenario appears to be unfolding in 2001 as lower activity is concentrated in manufacturing and the ‘new economy’ – internet and dot-com businesses. *More information on forecasts used for these comments is available at the end of this section.*
- The U.S. Federal Reserve has moved quickly to reduce interest rates and forestall a recession. The Bank of Canada has followed this lead. Economists in Canada share the view that, if it occurs, a recession here will be weaker and shorter than in the U.S.
- A more severe recession is the main risk associated with the soft landing scenario. Further stock market weakness could erode consumer confidence and spending power, and provoke a stronger slump than expected. A deeper recession lasting for most of 2001 would prompt lower interest rates and speedy tax cuts. However, even if this occurs, the underlying fundamentals remain positive and a prolonged recession like 1990-1994 appears unlikely.

National Investment Intentions for 2001 Support a Soft Landing Forecast



- The Statistics Canada Public and Private Investment Survey (based on a November and December survey and released in February, 2001) supports the view that the slowdown in economic growth will be brief and limited to sectors outside construction. However, it is possible that deteriorating conditions in early 2001 may reduce intentions beyond those indicated in the survey.
- According to the survey, housing investment is expected to increase by 5% – led by increases in renovation and repair spending.
- Overall non-residential investment is expected to rise slightly. Machinery and equipment spending is expected to fall – especially in the manufacturing sector.
- Non-residential construction shows significant increases and this follows strong levels of activity in 1999 and 2000.
- Plans for increasing construction activity are spread across most sectors and provinces with the exception of Atlantic Canada and British Columbia.
- Pipeline construction intentions are weakening with the completion of large projects, while spending intentions remain strong for oil and gas exploration.
- Government plans for hospital, university, school and related building is strong and plans are still in place for building computer and related facilities.
- Expected spending on residential construction is strong.
- These survey results suggest more construction activity in 2001 than independent forecasts for non-residential activity by Canadata and housing starts by CMHC.
- These results are roughly consistent with the evolving weakness in manufacturing and telecommunications.

More on Forecasts

More on Forecasts

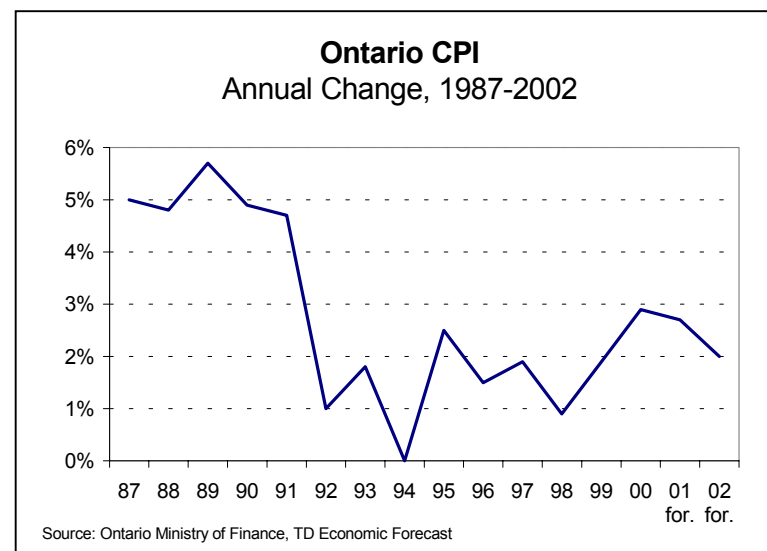
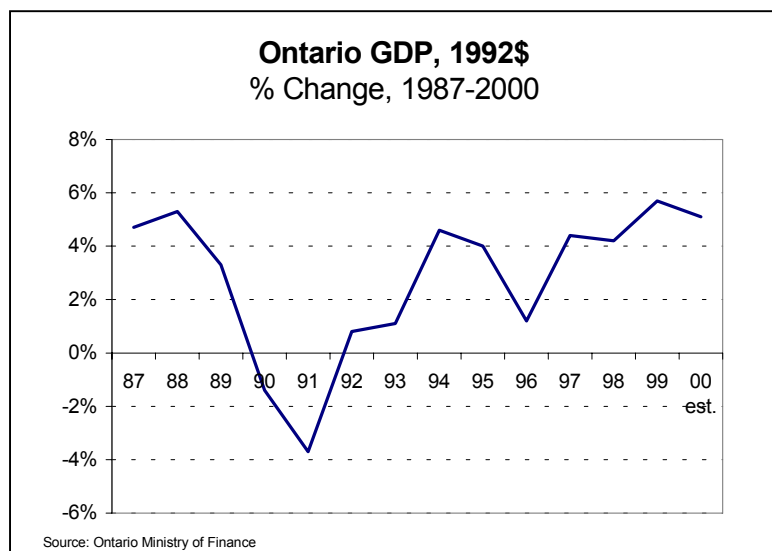
The basic data used in this and the next section comes from the Statistics Canada National Income Accounts and related price information. Equivalent measures for Ontario are drawn from Provincial Accounts. Several government and private sector forecasts were reviewed including; material from Canada Mortgage and Housing (CMHC), the TD Bank Economics Department, Government of Ontario, Ministry of Finance, Canadata (CMD) and Infrometrica. Each of these groups relies on the Statistics Canada data as a starting point. Forecasts of output, spending, inflation, interest rates and labour markets are linked in these calculations to provide consistent results. In early 2001 there is a strong consensus around projections (in particular the soft landing scenario) and this consensus is reflected in the section.

Forecasts of this type are heavily dependent on recent events and data. Projections like the soft landing scenario reflect recent trends. Most forecasters are reluctant to project dramatic change as the timing and magnitude is always difficult to gauge. However, experience in the construction sector shows that cycles are rarely gradual but usually emerge swiftly without much advance warning. This is especially true of recessions where project cancellations and declining employment lead to immediate and dramatic decline.

New evidence supporting a soft landing, and in particular of continuing strength in construction, was published in the Public and Private Investment Survey by Statistics Canada in February, 2001. This survey is one of the most important sources of construction information. Data on past and planned spending on machinery, equipment and new structures is collected for all sectors and provinces. This data is the core source for construction-related measures in the National Accounts and in most provincial measures.

3. ECONOMIC CONDITIONS: ONTARIO

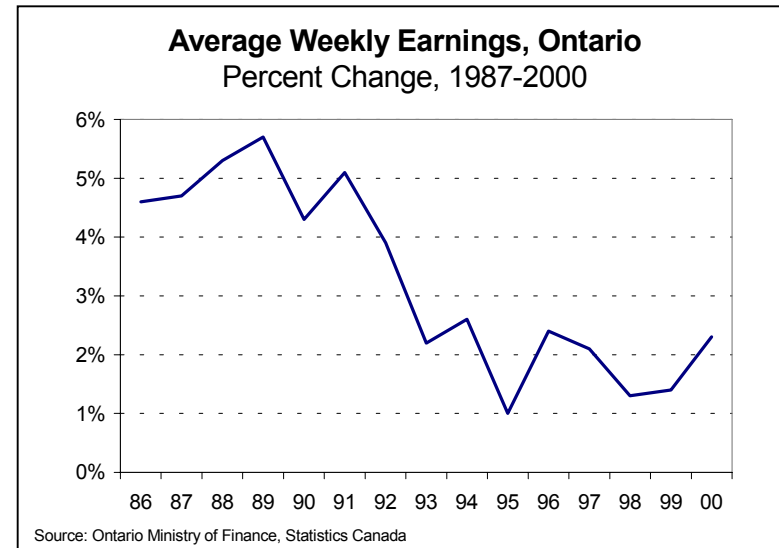
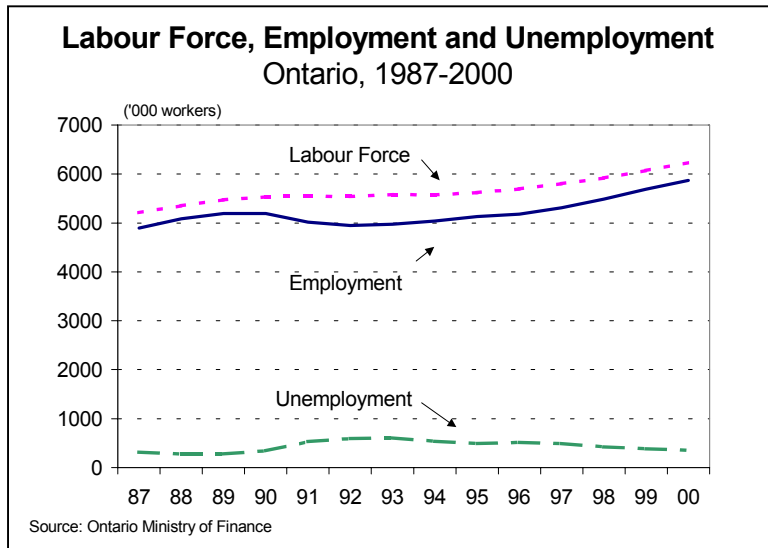
The New Economy and Manufacturing Have Led to Strong Growth



- Ontario growth above 5% in 1999 and 2000 was the strongest in Canada and a remarkable recovery from the severe recession in the 1990s. All sectors (consumers, investment and trade) contributed to a balanced expansion.
- The New Economy (Information Technology, Electronics, Telecommunications, etc.) is heavily concentrated in Ontario and led the growth in activity.
- Growth in manufacturing has been bolstered by new motor vehicle assembly and parts capacity. Ontario has steadily increased its share of North American activity. Expansion continued in early 2000 but some firms have announced lower production levels in 2001.

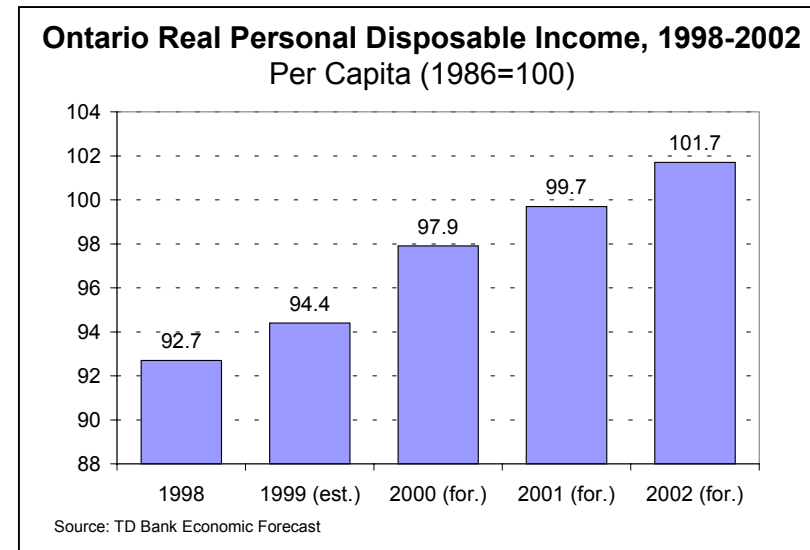
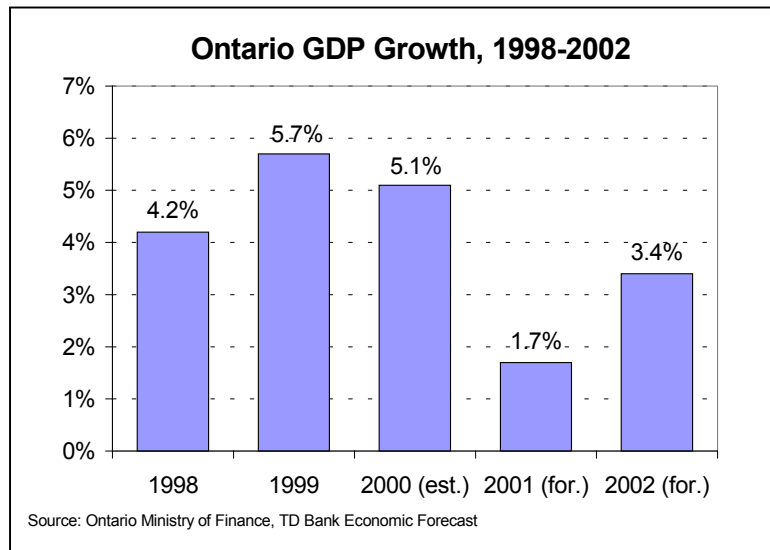
- Rising energy prices are a major cost and contribute to CPI, moving it to near 3% in 2000.
- Exports have been very strong with the low Canadian dollar boosting the competitive position of goods. Activity is heavily tied to the United States in general and to U.S. demand for motor vehicles in particular.
- The decline in U.S. manufacturing activity is being transferred to Ontario through lower exports and declining domestic shipments. This weakness will be reflected in lower profits, reduced business investment – and a slower economy.

**Strong Labour Demand has Drawn New Participants into the Work Force
– Increases in Unit Labour Costs are Moderate**



- Strong employment gains over the past several years were concentrated in full time jobs. Growth was spread across all sectors with the new economy industries leading.
- Rising participation has increased the work force but demand exceeded the pace of new entrants and unemployment is at its lowest level for twenty years. High levels of immigration are swelling the labour force.
- Labour market indicators and reports from many industries suggest shortages have constrained growth. Employers report that projects have been delayed and business opportunities reduced because of shortages of skilled workers.
- Traditional measures of compensation have not accelerated beyond the pace of productivity growth and price increases so that unit labour costs have not contributed to inflationary pressure.
- Job practices imported from the U.S. have shifted compensation to stock options and other benefits so that changes in total compensation are not properly measured by earnings statistics.
- Growth has been very strong in most regions of the province but Ottawa, the GTA and south-west Ontario have the strongest economies.
- Lower motor vehicle assembly and related impacts in exports and manufacturing activity have slowed the pace of growth in late 2000 and early 2001. Reduced sales in the high-tech industries also threaten economic growth.

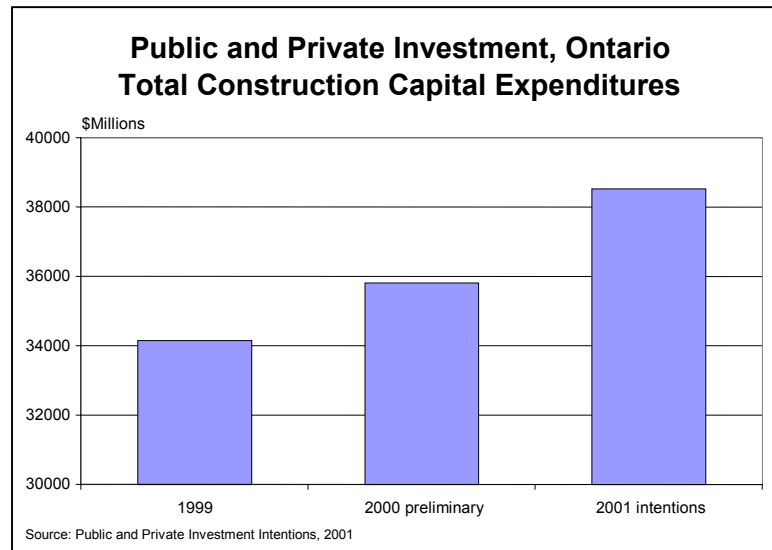
Forecast – Soft Landing with Continued Strong Construction Activity



- So far, Ontario's economic performance has been consistent with a 'soft landing'. While there has been a slowing of exports and consumer spending, business investment to increase capacity is expected to continue to grow faster than the rest of the economy – catching up with demand.
- The soft landing scenario in the U.S. will reduce motor vehicle sales in 2001 and this will impact Ontario manufacturing. New economy-based investments for the Ottawa, Markham and Kitchener-Waterloo areas may be threatened by the general reduction in high-tech sales.

- Rising employment, wages and tax cuts have restored growth in personal disposable income after years of weakness.
- CPI inflation in Ontario is expected to follow the national trend at 2.5% in 2001 and 2.0% in 2002.
- Risks to the Ontario's 'soft landing' forecast parallel the national situation.
- Both federal and provincial tax cuts in 2001 will support consumer spending and help to offset slower investment and will shift local demand to consumers.
- Strong government revenues will raise spending on infrastructure.

Investment Intentions for 2001 Support a Soft Landing Forecast

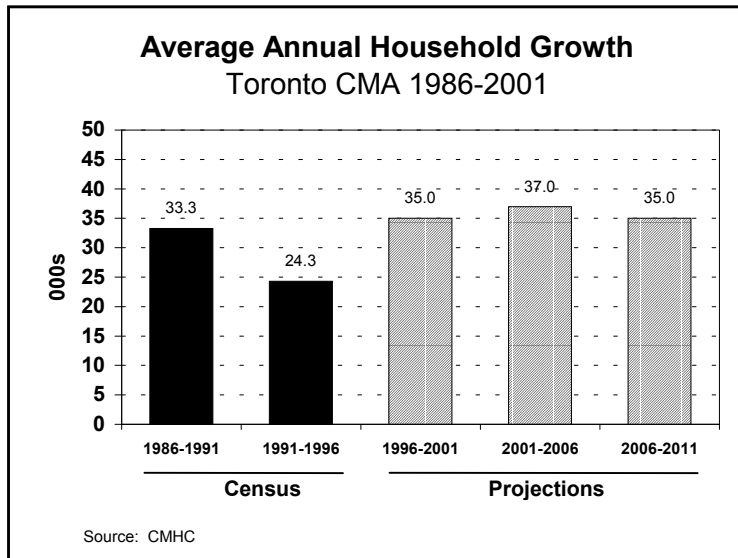


- The Statistics Canada Public and Private Investment Survey (released in February, 2001) indicates that construction in Ontario is expected to continue growing in 2001 – led by housing and government spending.
- Construction intentions are strong in most sectors of Ontario except metal manufacturing and transportation equipment.
- At the time of the survey, government plans for hospital, university, school and related building were strong and plans were still in place for building computer and related facilities (though these may be threatened by subsequent events).
- The survey results suggest more construction activity in 2001 than independent forecasts for non-residential activity by Canadata and housing starts by CMHC.
- It seems likely that investment intentions in the automotive assembly and parts industry may drop below levels indicated in the survey.
- A large decline in investment intentions by computer and telecommunications businesses also appears likely.
- Important confirmation of public sector investment in schools, health care facilities and other infrastructure will come in the May budget.
- Business confidence in Ontario is fragile and shifting to the negative. Careful monitoring of project plans is essential to pick up on changing conditions.

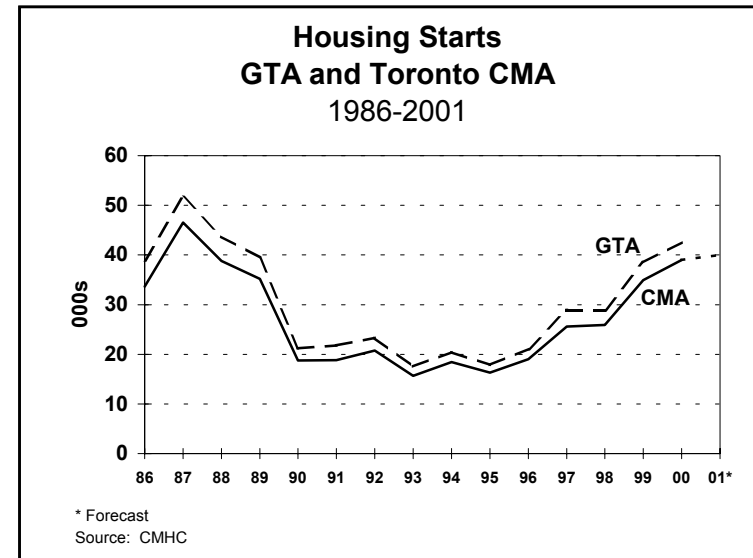
4. TORONTO HOUSING MARKET: ECONOMIC AND DEMOGRAPHIC INFLUENCES

High Level of Housing Activity in Toronto

– Starts to Reach 40,000 in 2001, Approaching Late 1980s Peak

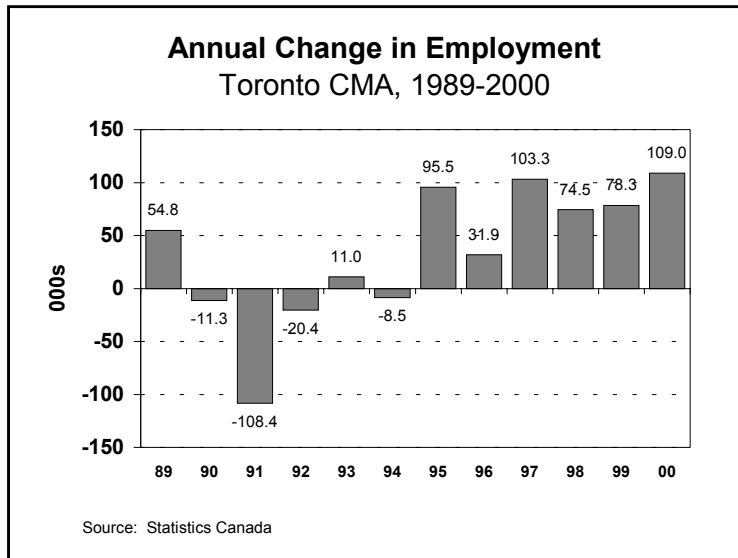


- Household growth has been very strong in Toronto in the past several years. CMHC projects average annual household growth of 35,000 for the Toronto CMA over the 1996-2001 period – well above the 24,300 in the (recession-hit) 1991-1996 period.
- For 2001-2006, CMHC projects an increase in annual household growth to 37,000. A modest decline in household growth to 35,000 annually is projected for 2006-2011.
- Average annual household growth during the 1996-2001 period has been slightly greater than the 33,300 average for the 1986-1991 period – which included the late 1980s boom.

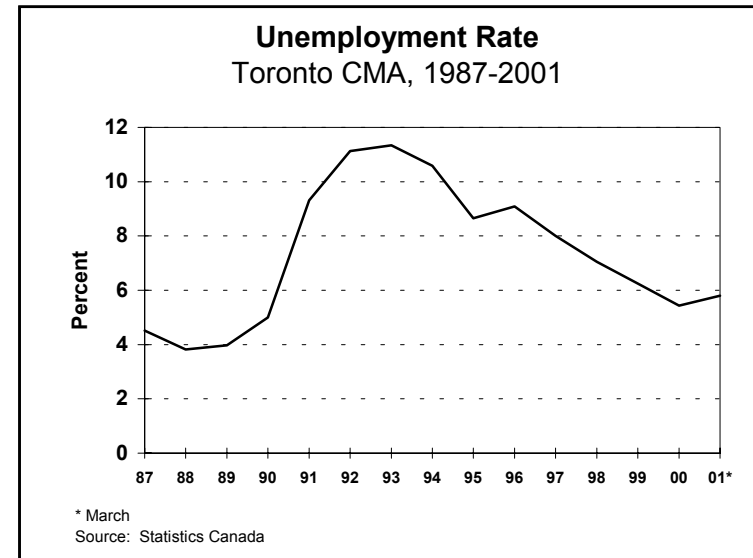


- Household growth is broadly equivalent to net demand for new housing; however, actual demand for new housing, in the form of housing starts, is more volatile than the average annual household growth figures suggest.
- Housing starts have increased significantly in recent years. There were a total 39,000 units in the Toronto CMA in 2000 – less than the 46,500 starts in 1987, the peak of the late 1980s boom, but well above the average of 18,200 starts annually in 1990-1996 and the roughly 26,000 starts in both 1997 and 1998.
- For 2001, CMHC forecasts starts to rise slightly to 40,000 units in the Toronto CMA.
- Starts in the GTA have been 3,000-3,500 units higher than in the CMA over the past few years.

Employment Growth – An Important Factor Behind Housing Demand – The Strong Toronto Economy Has Spurred Housing Activity

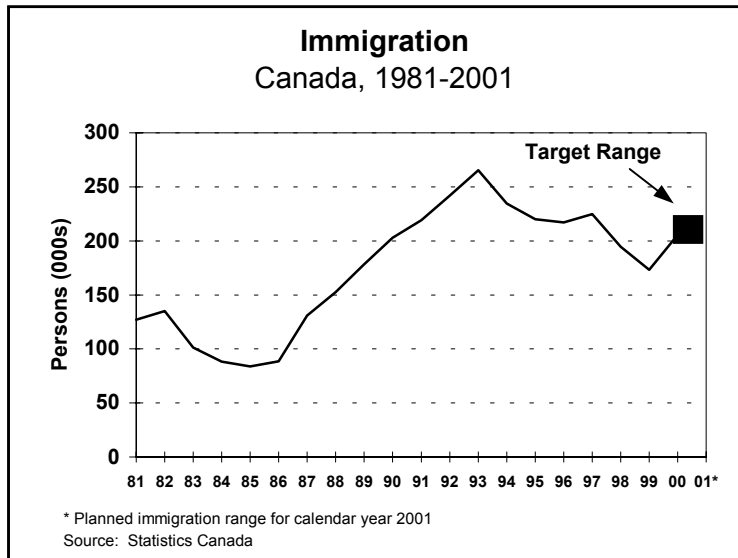


- Employment growth was very strong in Toronto over the 1995-2000 period.
- After the heavy job losses during the early 1990s, the economic recovery added an average of over 80,000 jobs annually during these six years.
- The recovery in employment growth was a key factor behind the strong Toronto housing market – and the increase in housing activity.
- Employment numbers for January-March 2001 show little change in employment in Toronto since late 2000. While this is consistent with a slowdown in economic growth, it is too early to draw conclusions about the severity of the slowdown.

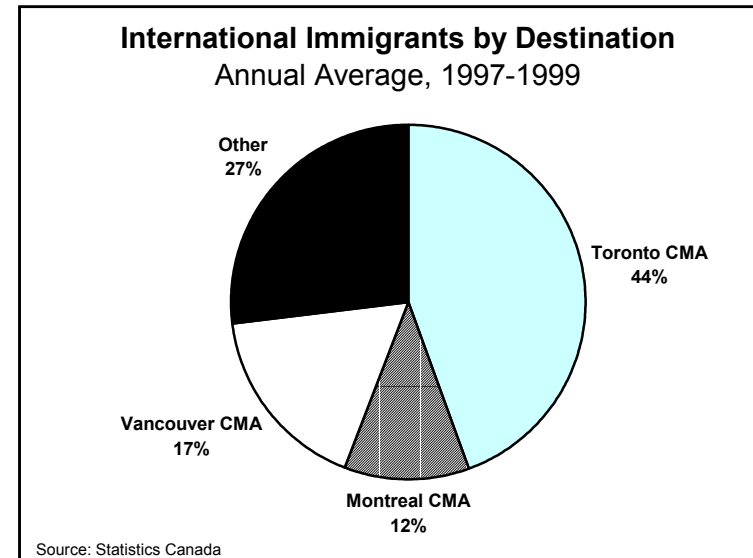


- Mirroring the trend in employment growth, the unemployment rate in Toronto declined progressively since the peak of more than 11% during the recession.
- The unemployment rate dipped below 6% in 2000 – the first year this has happened since 1990. In March 2001, the unemployment rate had risen slightly to 5.8%.
- High unemployment and, as important, fears of job loss among those still working, were a major factor behind the slow Toronto housing market during the early 1990s. The gradual recovery in the economy, in addition to the reduction in unemployment, were very positive for the housing market during the 1995-2000 period.
- A slowdown in job growth and rising unemployment, if sustained, will clearly dampen housing activity.

Immigration to Canada Continues Strong – Many Immigrants Locate in the GTA

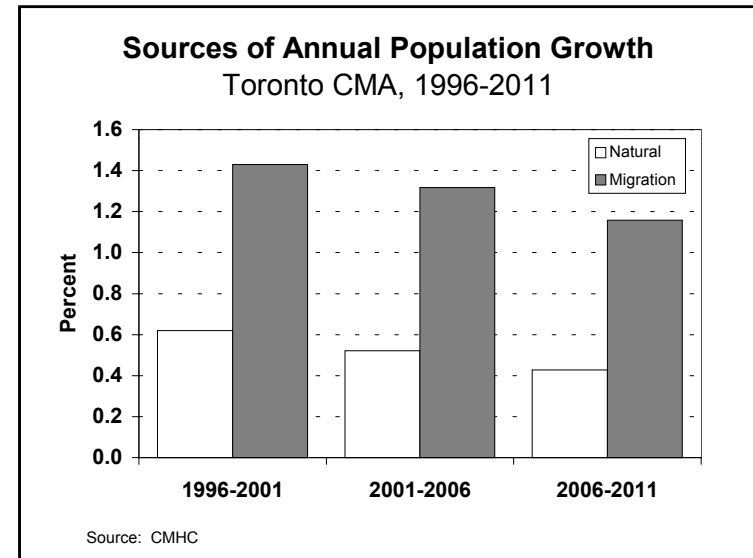
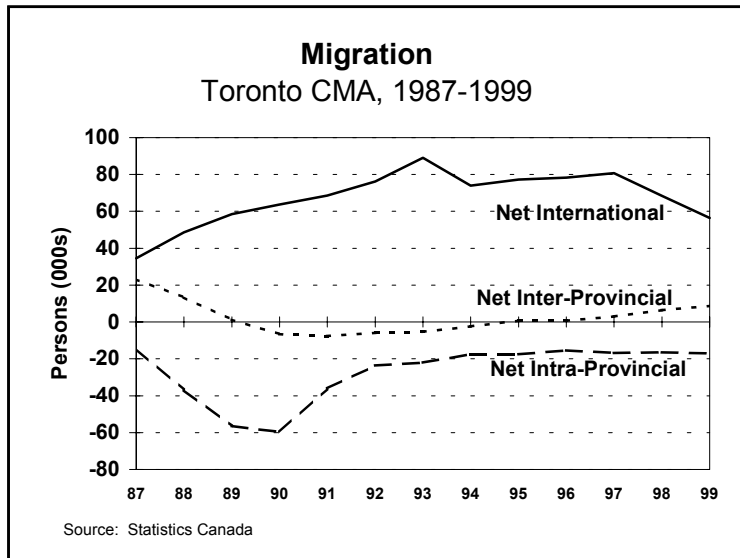


- The number of international immigrants coming to Canada increased in the past year to 205,000 (July 1999-June 2000 annual numbers).
- This is within the federal government's target range of 200,000-225,000 immigrants annually. However, it is less than the 217,000-265,000 annual immigration during the 1991-1997 period.
- CMHC's household projections for the 2001-2011 period assume immigration will average 205,000 annually.
- Research studies have shown that, while most immigrants typically rent when they move to Canada, over time, they increasingly display housing occupancy patterns similar to those of native-born Canadians.



- A large proportion of the immigrants to Canada locate in the Toronto area.
- During the 1997-1999 period, 44% of the immigrants to Canada located in the Toronto CMA – a total of over 250,000 people.
- Toronto is by far the greatest magnet for immigrants – accounting for more than 2½ times as many immigrants from other countries as Vancouver – the next largest destination.

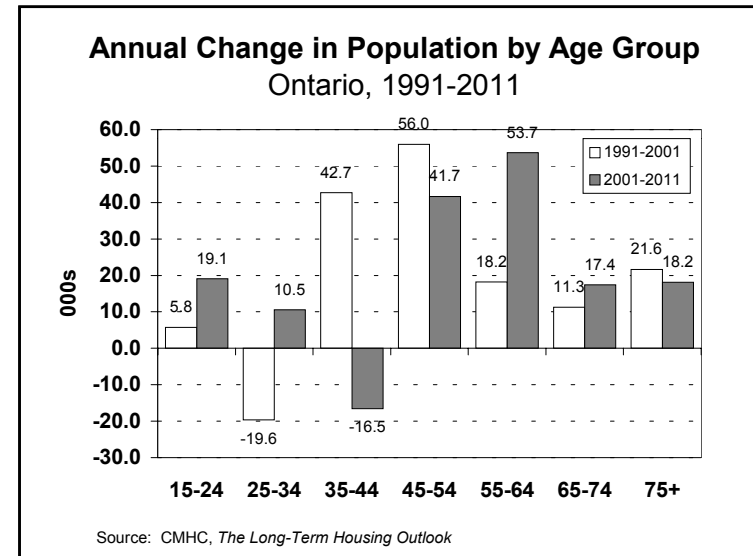
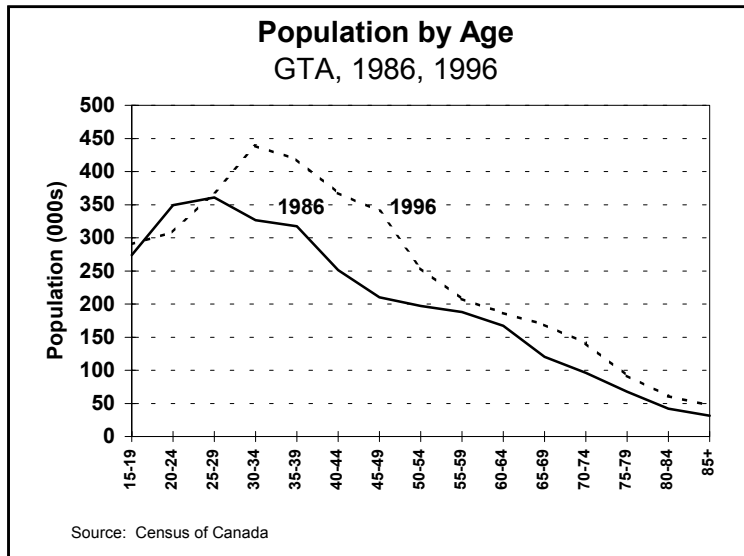
**Emigrants Offset Some of the Positive Effects of International Immigration
– But Net In-Migration By Far the Most Important Component of Population Growth in Toronto**



- The chart on the previous page referred only to *immigrants* – people moving to Canada. While important, these are only part of Toronto’s demographic scene. Emigrants, and net migration to/from other parts of Ontario, are also important.
- Net immigration (immigrants less emigrants) to the Toronto CMA averaged over 70,000 people annually during the 1990s.
- To some extent, this has been offset by migration to other parts of Canada. Net migration to other provinces averaged over 5,000 people annually during 1990-1994. With the strong Toronto economy, this outflow has been reversed to 7,000 net in-migrants in 1998-1999.
- *Intra*-provincial migration (people moving to other parts of Ontario – often on the fringes of the CMA) has averaged 17,000 in the past 6 years – well below 1988-1991 levels.

- Migration is a much more important source of population growth in Toronto than natural population growth (i.e. births minus deaths).
- Natural population growth is expected to result in roughly a 0.5% increase in population annually during the 2001-2011 decade.
- In contrast, net migration is expected to account for an annual increase of 1.3% in the 2001-2006 period and 1.2% annually in the 2006-2011 period.
- Clearly, a large proportion of the growth in population (and, therefore, household growth and the demand for new housing) is due to migration – particularly, international migrants moving to Toronto. This spur to housing demand is expected to continue undiminished for the foreseeable future.

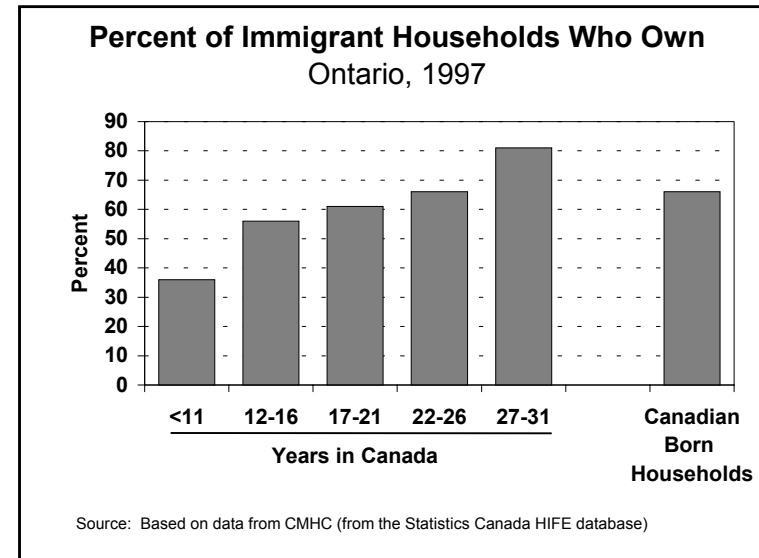
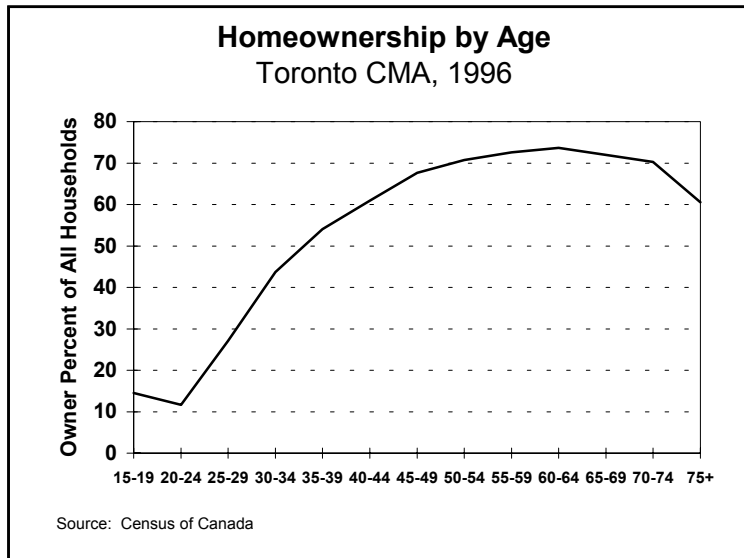
Changing Population Age Structure Affects the Character of Demand for New Housing – Aging Baby Boomers Mean Greater Demand for Move-Up Housing



- The aging of the baby boom generation (the population born between the late 1940s and mid-1960s) has had a significant effect on the volume and nature of housing demand over the past three decades.
- During the 1980s and early 1990s, the baby boomers shifted out of the prime renting age groups (under 30 years old) – thus reducing the demand for new rental housing.
- At the same time, they swelled the first-time buyer age groups – thus increasing the demand for new ownership housing.
- By the late 1990s, a large proportion of the baby boom generation was in the move-up buyer age groups.

- Ontario population projections are used here to illustrate the effects of the aging population during the 2001-2011 period – similar patterns would apply to the Toronto area.
- There will be greater numbers of younger people (15-24 and 25-34) – the baby boom ‘echo’ generation – the children of the baby boomers. This means stronger demand for rental housing and also a resurgence of first-time buyers.
- Also, during the 2001-2011 period, the leading edge of the baby boom generation will pass their mid-50s. This, plus the on-going growth among the elderly, will lead to greater demand for housing targeted at empty-nesters and seniors.

Aging Population Means Strong Demand for Ownership Housing – But Rental Demand Will Increase as Well



- The reason why the aging of the baby boom generation has such a significant impact on the character of demand for new housing is evident from a review of the homeownership rates by age of household head.
- Most people aged less than 35 years rent their dwellings. However, by their late 20s and early 30s, an ever increasing proportion of households purchase their first home.
- By age 45, most households own their homes.
- Late in life, many people sell their homes and move to smaller accommodation. Some purchase a ‘move-down’ home; some move to rental accommodation. In most cases, those who move ‘cash in’ some of their equity to help to finance their retirement.

- The large numbers of international immigrants moving to Toronto are an important factor behind the strong demand for rental housing (and the tight rental markets) – discussed later.
- When they first arrive, most immigrants rent.
- However, the longer they have been in Canada, the greater the proportion of immigrants who own their homes. By the time they have been here for 12 years, over half of immigrants own their homes.

The Boundaries of the Housing Market

The Boundaries of the Housing Market

Discussion in this and subsequent sections relate to housing trends in the region surrounding (and including) the City of Toronto. In most cases, this region is defined as the Toronto Census Metropolitan Area (CMA) – the Statistics Canada definition of the Toronto-based region, formulated on the basis of labour market and commuter patterns. CMHC, the source for much of the data used in this analysis, typically provides data and forecasts for the CMA rather than the GTA. Some other data sources tend to use the GTA as their geographical reference.

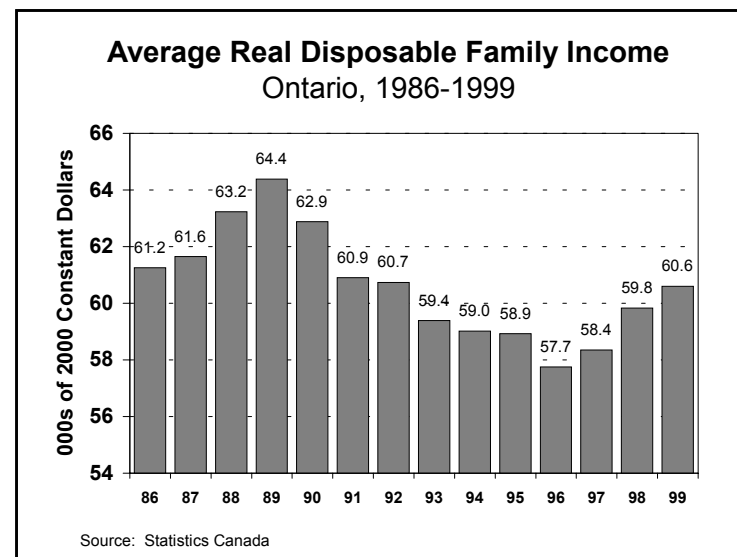
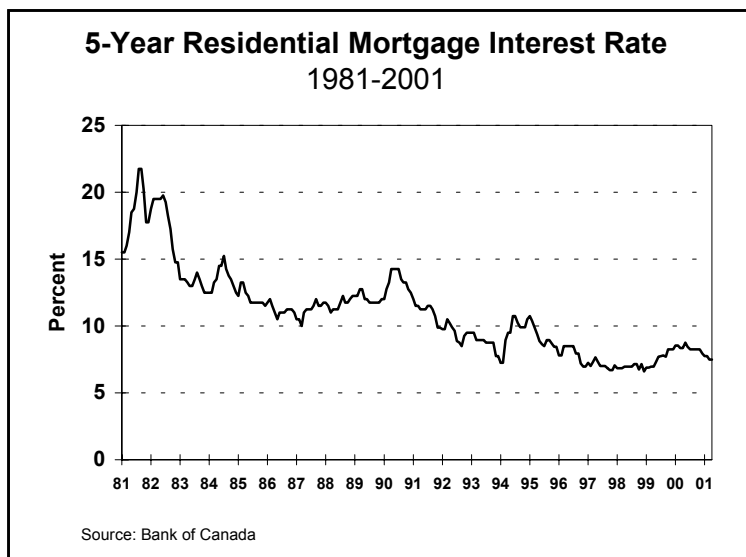
In addition to the City of Toronto, the boundaries of the CMA include all of York and Peel Region, all of Halton Region except for the City of Burlington, parts of Durham Region (Pickering, Ajax and Uxbridge), and parts of Simcoe County (Orangeville, Mono, Tecumseth, Beeton, Tottenham, West Guillimbury and Bradford).

The GTA is larger than the CMA. In addition to the City of Toronto, the GTA includes all of the Regional Municipalities of Durham, York, Peel and Halton. Compared to the CMA, it includes the City of Burlington in Halton Region, as well as Whitby, Oshawa, Clarington, Scugog and Brock (in Durham), but excludes the parts of the CMA included in Simcoe County.

Some of the data relevant for this analysis are not available for the CMA or the GTA. In some cases, data for Ontario are used to illustrate the likely trends in the Toronto area.

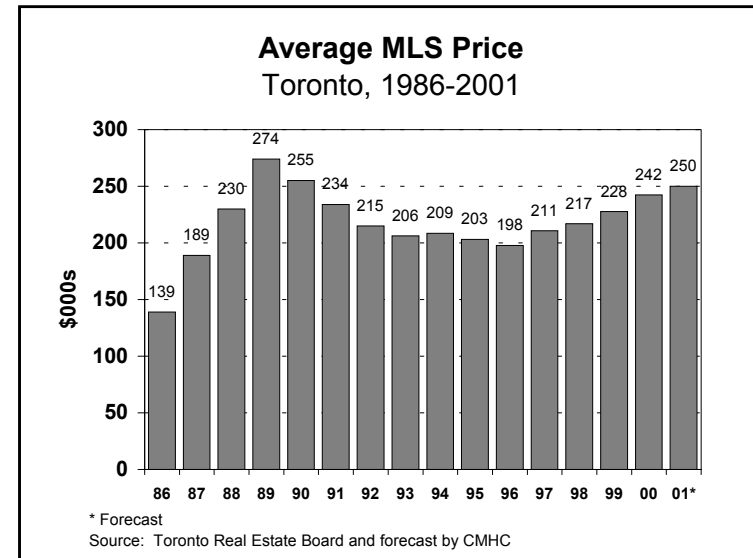
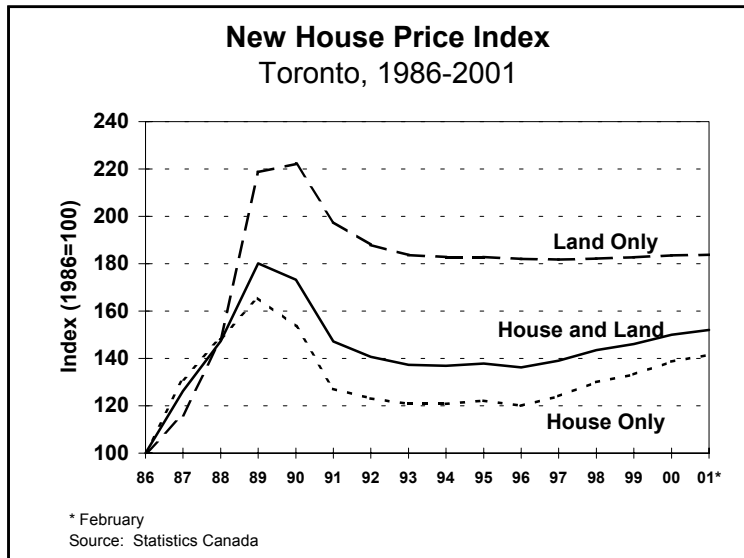
5. AFFORDABILITY AND HOUSING COSTS IN TORONTO

***Affordability of Homeownership: Mortgage Interest Rates Are Relatively Low
– Increase in Real Incomes Also Positive for Home Purchasers***



- Mortgage interest rates remain at relatively ‘affordable’ levels compared to the past two decades. The posted 5-year rate is now 7.5% – marginally higher than the 7% rate in the period from 1997 to early 1999. But rates are down from the 8-8.5% in 2000.
- Most buyers require mortgage financing. Therefore, mortgage interest rates are a very significant factor in affordability.
- First-time buyers are most vulnerable to interest rate changes since they typically have little equity. Also, while, by negotiating, borrowers can generally get rates lower than those posted by lenders, first-time buyers have a weaker bargaining position than move-up buyers.
- Average real disposable income has recovered from the 1990-1996 drop resulting from the recession and rising taxes.
- While welcome from the perspective of housing affordability, it is important to note that this *average* covers *all* households – owners and renters. The extent to which these higher disposable incomes apply to potential first-time buyers is not clear.
- Affordability for first-time buyers is critical to the operation of the market for new homes. While most first-time buyers buy resale homes, without first-time buyers to purchase their existing homes, move-up buyers (the main market for new homes) could not purchase a new home.

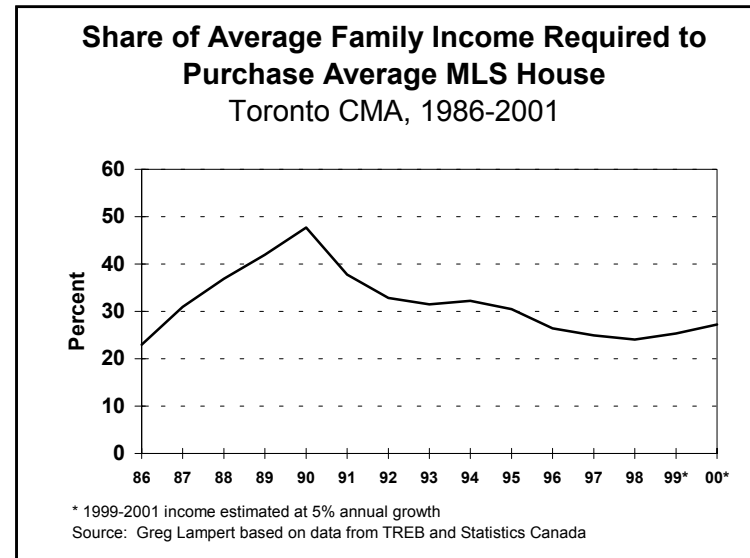
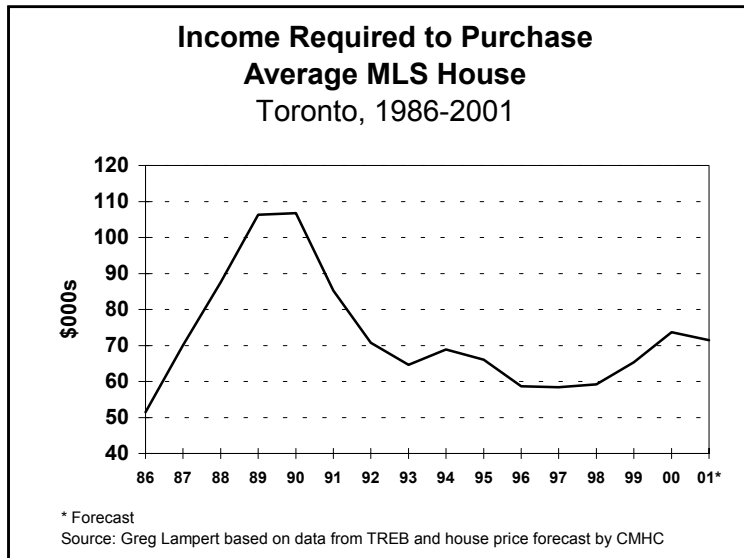
Higher Housing Prices Weakening Affordability – Both New and Resale Housing Prices Rising



- New housing prices have been rising in Toronto for the past four years – after a long period of stagnant prices following the ‘housing bust’ of the early 1990s.
- After the precipitate run-up in prices during the late 1980s, the price of a constant quality new house/land package dropped to only slightly more than the 1987 price – and stayed relatively unchanged for the 1992-1996 period.
- Subsequently, mainly due to cost pressures, the price of the house part of the package has increased – by almost 18% over the period from 1996 to February 2001.
- Land prices have not changed significantly in Toronto since the early 1990s. Shortages of land are not yet apparent.
- The price of the combined house/land package rose by 11% between 1996 and February 2001.

- Resale housing prices have followed a similar pattern to new housing prices over the period since 1986. The average MLS (Multiple Listings Service) price almost doubled between 1986 and 1989 (from \$139,000 to \$274,000) before falling to about \$200,000 during the mid-1990s.
- Subsequently, resale prices have increased more rapidly than new housing prices. In 2000, the average MLS house price was \$242,000 – an increase of 22% since 1996.
- CMHC forecasts a further increase in resale prices to \$250,000 in 2001. This is less than the 2001 price forecast of \$254,000 from Royal LePage.

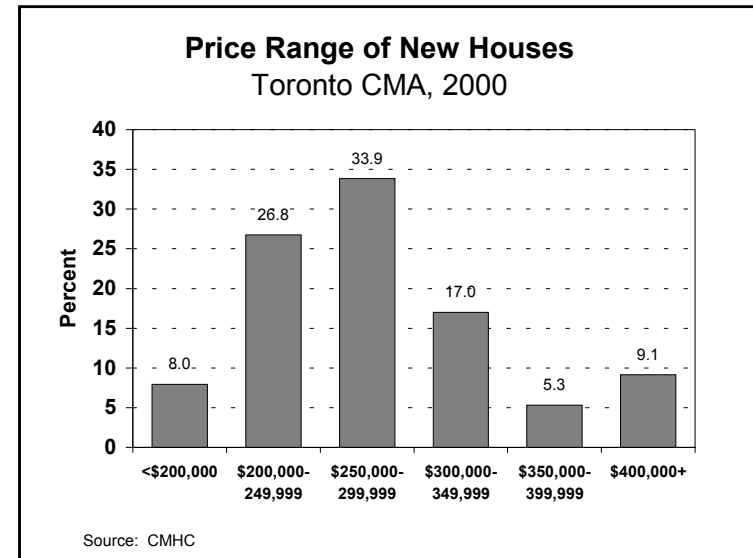
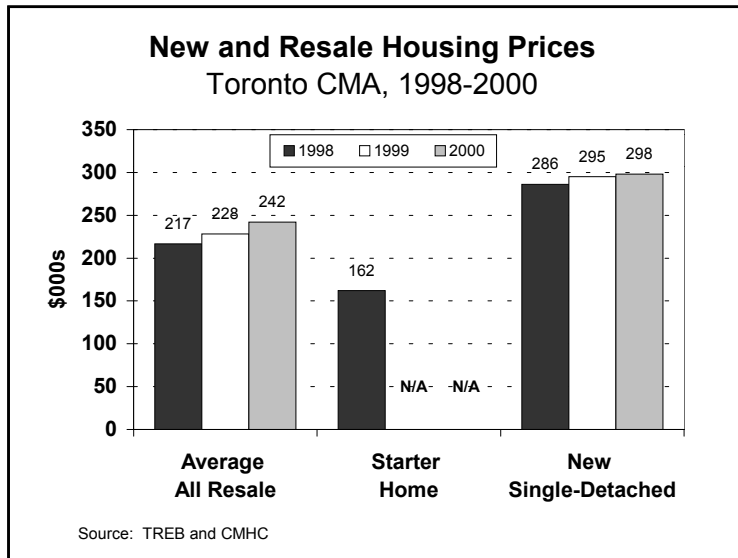
Affordability Less Favourable Than in 1996-1998 – But Still Relatively Positive



- Mortgage rates and housing prices are higher than two years ago. As a result, the income required to buy an average priced MLS home rose from \$59,000 in 1996-1998 to about \$74,000 in 2000.
- In 2001, lower mortgage rates more than offset the modest MLS price increase forecast by CMHC. The income required to purchase the average MLS home in 2001 has fallen to \$71,500.
- The estimates assume a mortgage of 90% of the average MLS house price amortized over 25 years at the 5-year mortgage rate; property taxes equivalent to 1.25% of the house price; and income based on the maximum 32% GDS (gross debt service) ratio allowed for CMHC mortgage insurance.
- Assuming that first-time buyers can raise a 10% downpayment may be problematic for some. High debt levels (often a result of financing education) are a burden for many potential homebuyers.

- Affordability can also be measured by examining the share of average family income which would be required to purchase an average-priced MLS house.
- Examining this measure over the past 15 years, the dramatic reduction in affordability during the late 1980s is clearly evident.
- Gradually, with the early-1990s fall in housing prices, the decline in interest rates, and slowly rising (pre-tax) incomes, affordability improved as the 1990s progressed.
- The recent rise in housing prices and higher interest rates have led to a modest rise in the share of average family incomes required to purchase the average MLS house in 1999-2000.
- Even if income is stagnant in 2001, this ratio should decline, due to the reduction in income required to purchase the average-priced home (as a result of lower interest rates).

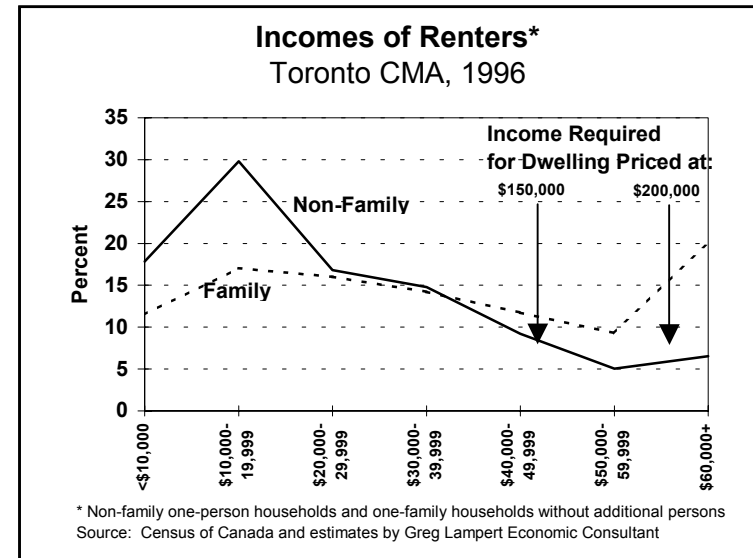
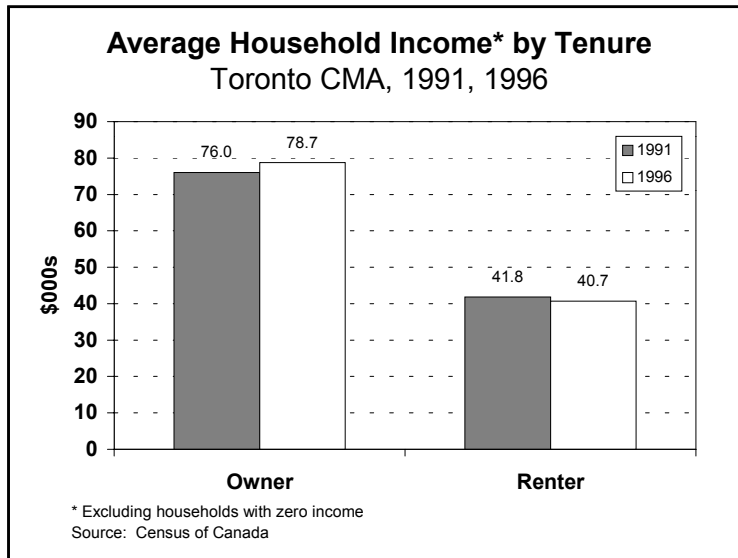
New Homes Targeted Mainly at Move-Up Home Buyers – Most First-Time Buyers Purchase Resale Homes



- The prices of most new homes are well beyond the financial capacity of most potential first-time buyers – they tend to purchase lower-priced resale homes.
- Until recently, CMHC published estimates of ‘starter home prices’ – the prices of homes purchased by first-time buyers using the CMHC 5% down-payment program. These data are no longer published – for competitive reasons. The latest year for which such data are available is 1998 – when the average starter home price was \$162,000 – well below both the average MLS price (\$217,000) and the average price of new single-detached houses (\$286,000) in 1998.
- Since then, prices for starter homes would certainly have risen – with negative impacts on affordability.

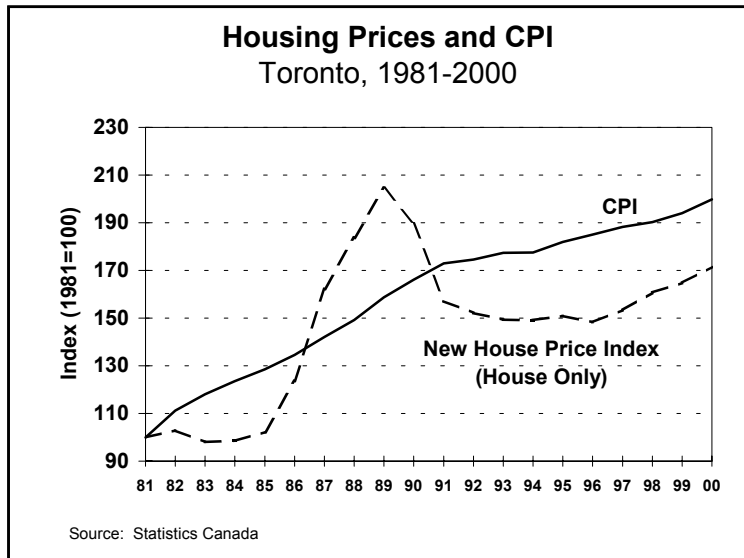
- Most new homes are targeted at move-up buyers who have built up equity in their existing homes. Move-up buyers also tend to have higher incomes than first-time buyers – who typically are younger people early in their careers and, therefore, with less earning capacity than more experienced workers.
- First-time buyers are nonetheless extremely important to the operation of the market for new homes. Affordability for first-time buyers is critical since they purchase the homes which allow move-up buyers to access their equity and purchase new homes.
- Affordability for first-time buyers is also important to the rental market. When they purchase a home, they create a ‘supply’ of rental units as they move to the ownership sector.

Renter Incomes Much Lower Than Homeowner Incomes – and Declined During 1991-1996 – Few Renters Can Afford to Purchase a Home

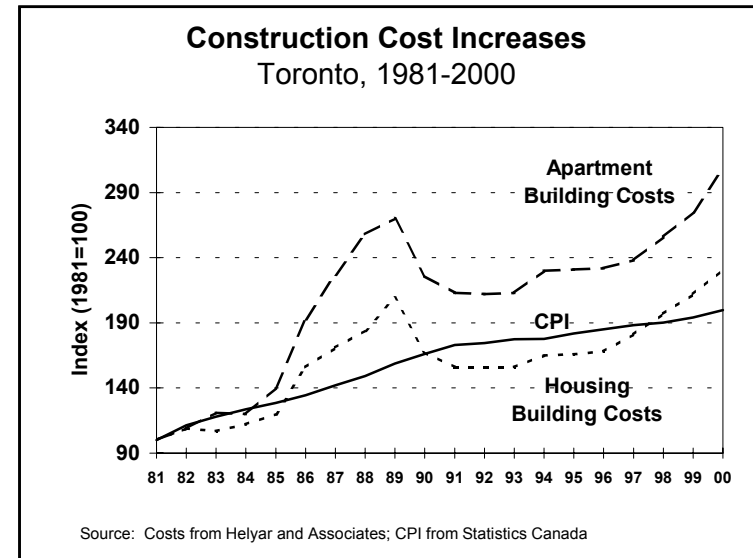


- Renters have much lower incomes than homeowners. In 1996, the average income of renters in the Toronto CMA was roughly \$41,000. This compares with an average income for homeowners of almost \$79,000.
- Also, while average homeowner incomes rose modestly during the 1991-1996 period, the average incomes of renters declined. In part, the decline in renter incomes is due to the erosion of higher-income renters who became homeowners.
- To some extent, the use of average incomes is misleading, since (a relatively few) higher income renters boost the average – 80% of non-family renters and 60% of family renters had incomes of less than \$40,000 in 1996.
- The low incomes of most renters are an important factor in assessing the effect of rising housing prices on affordability.
- The income required to purchase a \$150,000 home (assuming a 10% down payment and current mortgage interest rates) is about \$43,000. Only about 17% of non-family renters, and 37% of family renters, had incomes at or above this level in 1996.
- For a \$200,000 home, an income of roughly \$57,000 is required – only 8% of non-family renters, and 23% of family renters had incomes sufficient to purchase this home in 1996.
- Rough estimates indicate that, for every \$10,000 increase in housing prices between \$150,000 and \$200,000, over 12,000 fewer renters could afford to buy – over 8% of the total number of renters who could afford to buy a \$150,000 home.
- Of course, many (relatively high-income) renters prefer to rent as a lifestyle choice – so the potential market for homeownership is less than these estimates might suggest.

**House Price Increases Have Lagged Inflation
– Construction Costs Increasing More Rapidly Than Housing Prices**



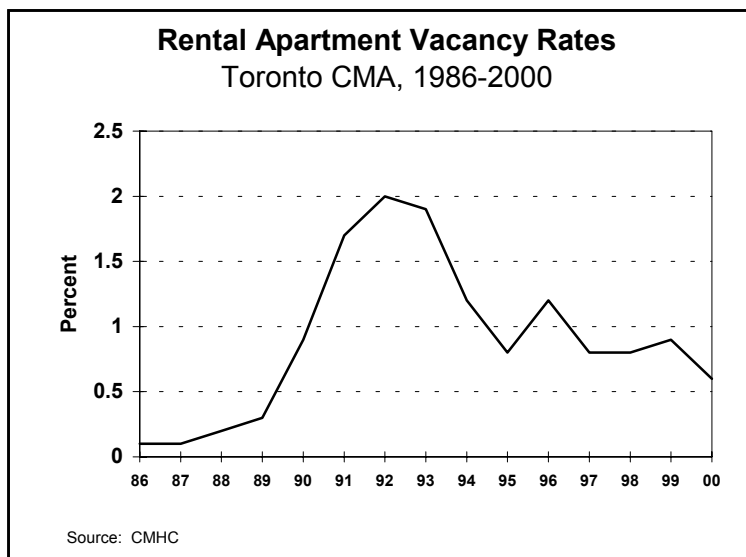
- House prices have lagged behind the rate of inflation in Toronto over the past two decades. After rising dramatically during the late 1980s, house prices dropped and have not matched inflation.



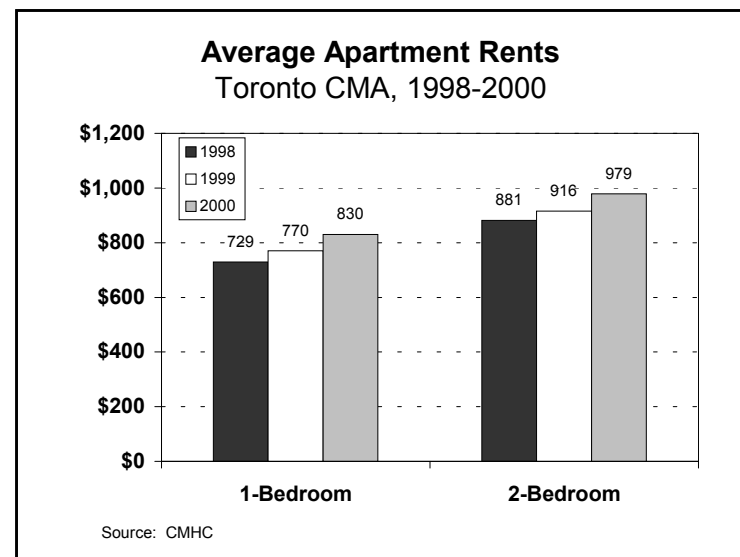
- The costs of building new apartment units and houses have increased significantly in recent years – according to estimates from Helyar and Associates.
- Construction costs fell during the recession of the early 1990s but rose slightly during the mid-1990s. With the substantial increase in construction activity in the past three years, the costs of construction for both apartments and housing have risen substantially.
- Unlike housing prices, construction costs increased beyond the rate of inflation over the 1981-2000 period.

6. TORONTO RENTAL HOUSING MARKET

Rental Markets Tightening in Toronto – Rents Rising



- Toronto's rental apartment vacancy rate dropped to 0.6% in October 2000, after fluctuating in the 0.8-1.2% range over the 1994-1999 period. While not yet as tight as during the late 1980s, the Toronto rental vacancy rate is well below the 1.5-3% range generally considered to reflect a balanced rental market.
- The rise in vacancies in the early 1990s was due mainly to the glut of condominiums following the boom of the late 1980s. Many condominiums were rented – both by investors and by speculators who were unable to resell their units.
- The number of condominium units rented out by their owners has been gradually eroding in recent years.



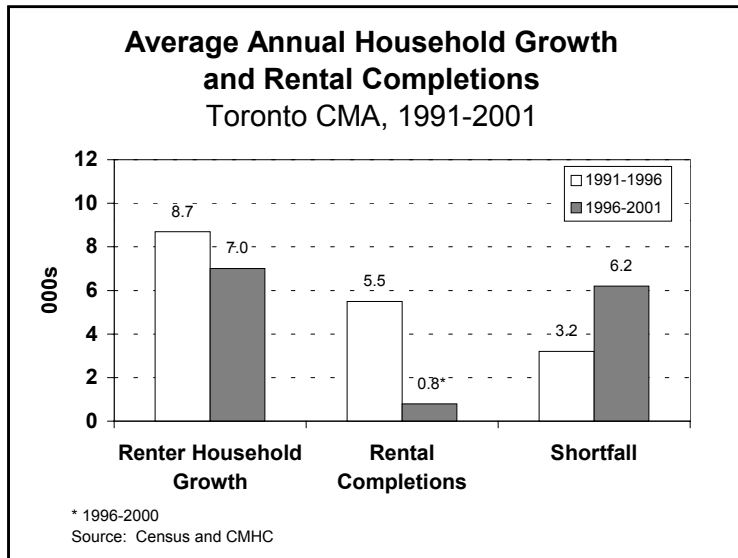
- Average rents have risen significantly in Toronto over the past several years. This is due to a combination of the tight rental market and the relaxation of the very strict rent control regime when the *Tenant Protection Act* was passed in 1998.
- While rent controls remain in place for tenants as long as they occupy their units, when they move, landlords are allowed to charge market rents for the incoming tenants. Since strict rent controls had applied in Ontario since 1975, many rental units were renting at well below market rent when the TPA was passed – so rents increase substantially when units are vacated.

New Rental Development – a Marginally Attractive Investment – Unlikely to be Sufficient Volume of Rental Construction

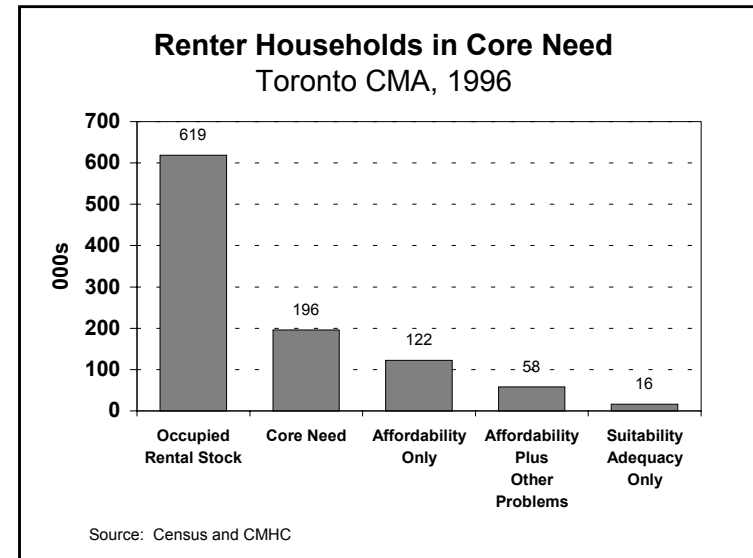
Sample Pro Formas - Private Rental Development		
Toronto, 1999 (\$ per Unit)		
	<u>Downtown</u>	<u>Mississauga</u>
Development Costs and Financing		
Land	35,806	17,462
Construction	126,500	87,287
GST	7,303	4,714
Project Costs	<u>169,609</u>	<u>109,463</u>
Equity	34,089	33,689
Financing	135,520	75,774
Mortgage Insurance Fee	4,066	2,273
Mortgage	<u>139,586</u>	<u>78,047</u>
First Year Revenues, Costs and Cash Flow		
Revenues	18,480	12,368
Maintenance & Operations	3,160	3,060
Property Taxes	1,768	1,257
Total Operating Costs	<u>4,928</u>	<u>4,317</u>
NOI	13,552	8,051
Mortgage Payments	10,584	5,918
Cash Flow	2,968	2,133
Cash on Cash Return	8.7%	6.3%
Cap Rate	8.0%	7.4%
<small>Source: Adapted from Greg Lampert, <i>Update on the Economics of Investment in Rental Housing in Toronto</i>, December 1999</small>		

- An analysis of the economics of rental investment in Toronto in 1999 examined the potential returns from investments in a variety of rental developments in various parts of Toronto. The analysis concluded that unless there is a substantial change in terms of either increased revenues (i.e. higher rents) or reductions in costs and/or interest rates, it is unlikely there will be much new rental construction in Toronto.
- Two of the sample development pro formas used in that study are presented here – adjusted to reflect the change in GST treatment of rental housing announced in the 2000 federal budget. They show that the cash on cash returns for the two developments are 8.7% and 6.3%, respectively – not an attractive return, given the risks associated with investing in new rental developments.
- Over the period since the report was prepared, construction costs have increased significantly. This has been partially offset by higher achievable rents for new rental housing; however, it is unlikely that the potential returns to new rental developments have improved significantly – more likely, given the higher construction costs, potential returns are less.
- The Province of Ontario has offered a modest \$2,000 rebate of PST for ‘affordable’ rental housing. This is unlikely to lead to a significant volume of new rental development in Toronto since the economics of building low-end and modest rental housing are less attractive than for projects targeted at high-end renters.
- While the Assisted Rental Program (ARP) announced in the federal Liberal 2000 election platform has not yet been finalized, it will likely lead to some new rental construction in Toronto.
- Given the rising demand for rental housing and the low vacancy rates in Toronto, it seems unlikely that the volume of new rental construction will be sufficient to lead to a balanced rental market.

**With Little New Rental Construction, No Relief for Tight Rental Markets
– Many Renters Cannot Afford Housing Without Assistance**



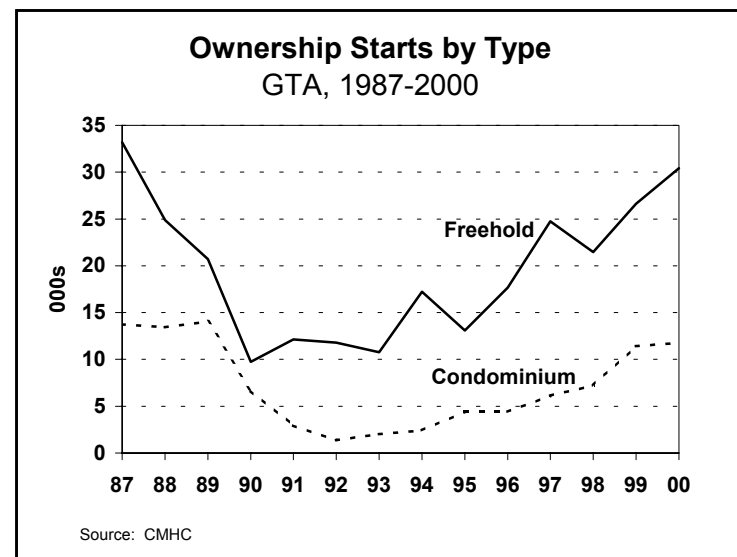
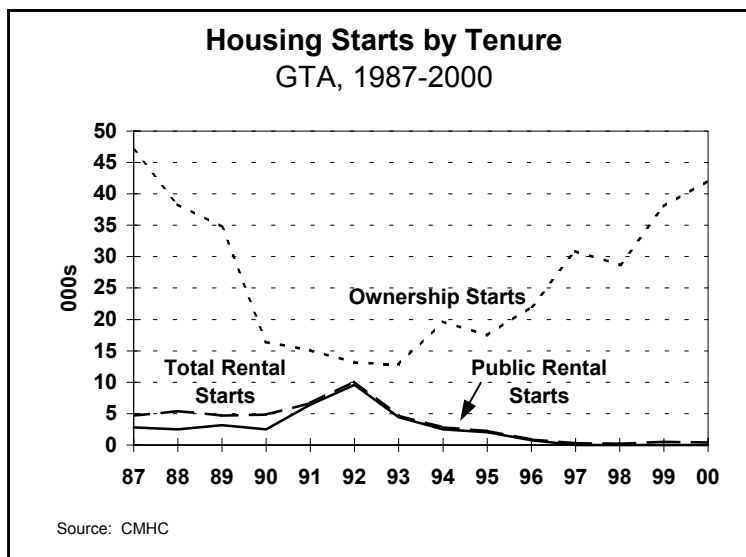
- CMHC projects renter household growth in the Toronto CMA to average 7,000 annually during 1996-2001, compared to 8,700 annually during the 1991-1996 period.
- New rental completions averaged 5,500 units per year during 1991-1995 – mostly assisted housing. The shortfall between renter household growth and completions was met largely through non-conventional supply (e.g. rented condominiums and houses, and creation of accessory apartments in the existing housing stock), plus a reduction in vacant units.
- During 1996-2000, rental completions dropped to an average of 800 annually (mainly assisted housing in 1996 and 1997). With little new rental construction, the shortfall between household growth and supply has widened – there is little doubt that rental markets will remain tight.



- Many renters have difficulty obtaining accommodation at a rent they can afford.
- CMHC’s core housing need estimates identify renters who must pay 30% or more of income to obtain suitable housing.
- In 1996, 196,000 renters (almost one-third of *all* renters in Toronto) were in core need. In most cases (122,000), the only problem faced by these tenants was affordability – they lived in adequate housing but could not afford the rent. Few tenants live in unsuitable or overcrowded housing.
- With rising rents, it is important that this need be addressed. The scale of the problem is too great to be met through social housing construction – which, in any case is extremely expensive. A program of shelter allowances to assist tenants in their current housing would address this need.

7. HOUSING ACTIVITY IN TORONTO

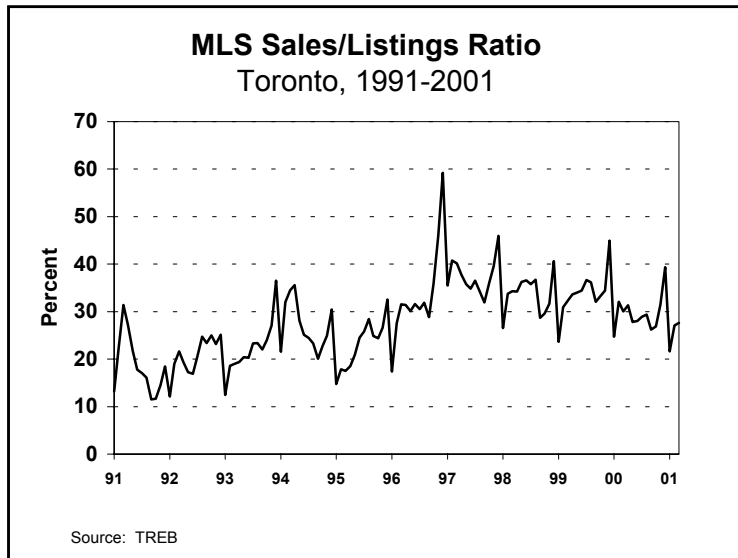
**Ownership Housing Now Accounts for Almost All New Housing Construction
– Freehold Has Largest Share of the Market But Condominium Starts Are Rising**



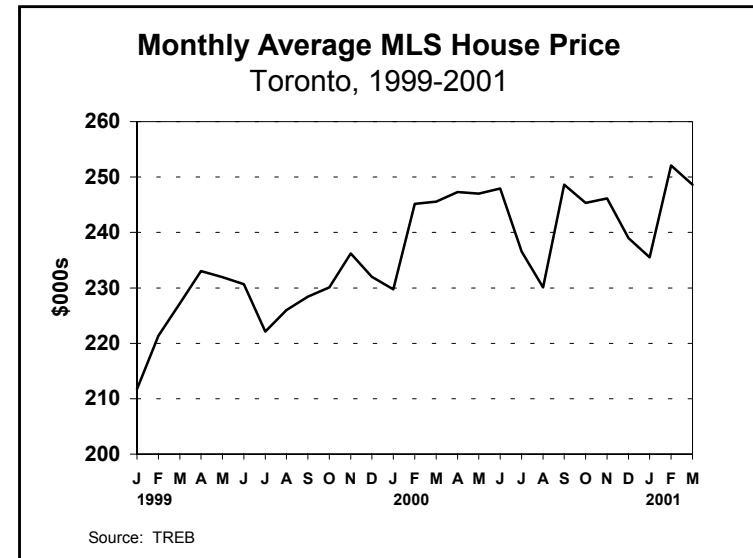
- The vast majority of new housing built in Toronto is targeted at the ownership market. Ownership housing activity has been very buoyant in the past three years.
- Rental housing production averaged roughly 5,000 units annually during the late 1980s – split fairly equally between private and publicly assisted units.
- Since 1990, there has been little new private rental building.
- Publicly-assisted rental starts increased in the early 1990s; however, the cost of the programs was extremely high and production was curtailed in 1993 and 1994 before being terminated by the new government in 1995.

- Most ownership housing starts are for freehold dwellings – typically single- and semi-detached or street townhouse units.
- Condominiums are an increasingly popular choice for many buyers – especially those who prefer a more carefree lifestyle.
- Condominiums accounted for a very large share of total starts during the late 1980s. However, the market was oversold and the subsequent crash resulted in little new condominium construction until the second half of the 1990s. Now, condominiums are regaining a larger market share.

**Resales Still Strong in Early 2001, But Listings Rising
– Average MLS Prices Still Rising**

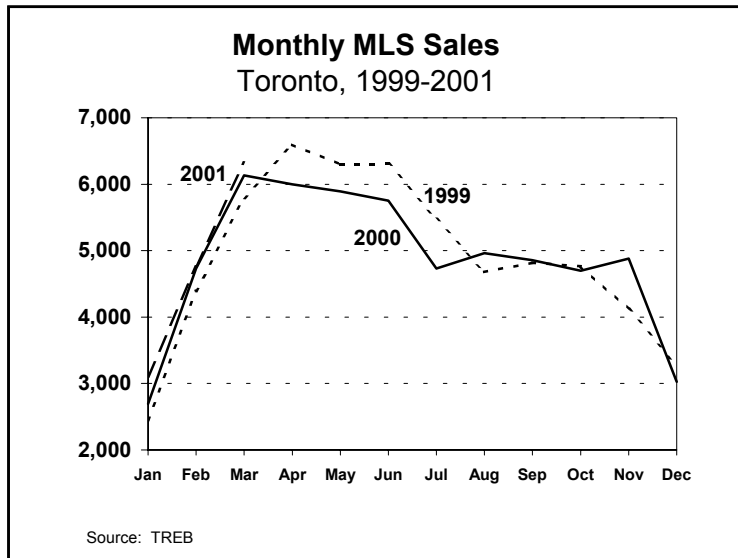


- While not as strong as during the 1997-2000 period, the resale market continued to be relatively buoyant in the January-March period of 2001.
- MLS sales were modestly higher in the first three months of this year compared to both 1999 or 2000 (see next page). However, since listings have climbed, the sales/listings ratio is lower than in these past two years.
- Listings at the end of March totalled over 22,900 – compared to 20,400 in March 2000, and 17,900 in March 1999.
- The average sales/listings ratio in the first quarter of 2001 was 25.4%, down from 29% in the first quarter of both 1999 and 2000.

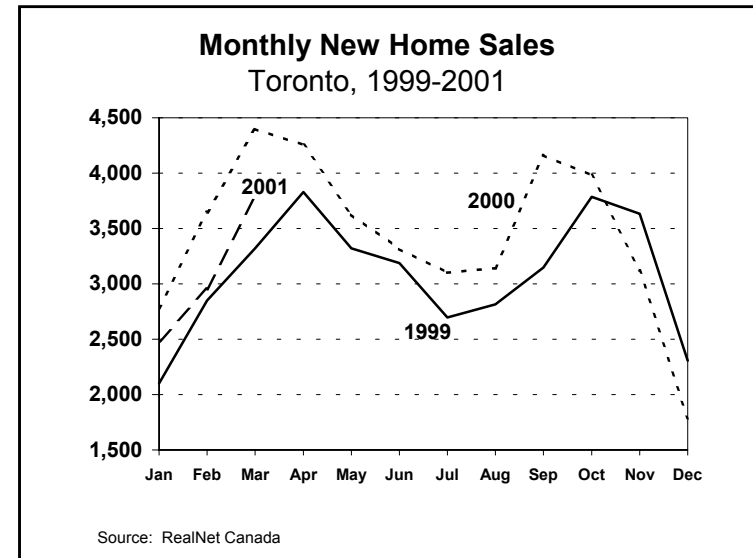


- Resale housing prices continue to rise. In March 2001, the average MLS price was \$248,600 – down slightly from \$252,100 in February, but above the average of \$242,000 in 2000.
- Over the second half of 2000, average MLS prices ranged between \$230,000 and \$248,600.
- Average resale prices are near the average of \$250,000 forecast by CMHC for the full year 2001.

**First Quarter MLS Sales Higher Than in 1999/2000
– Modest Fall-Off in Sales of New Homes**

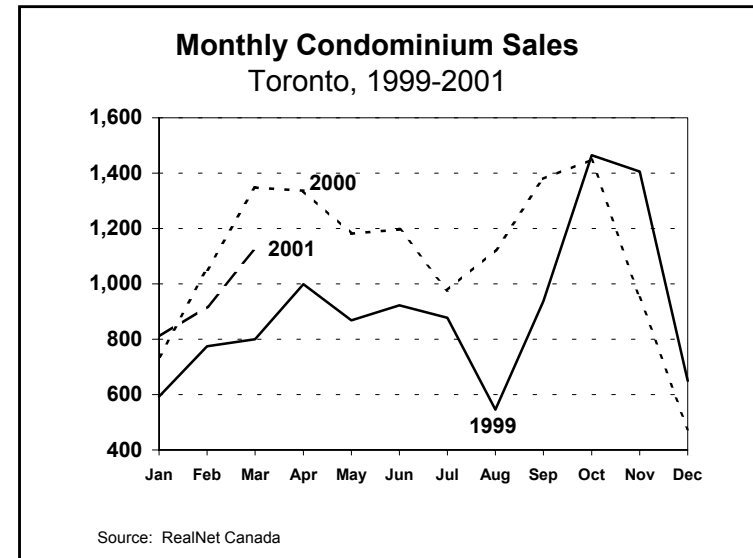
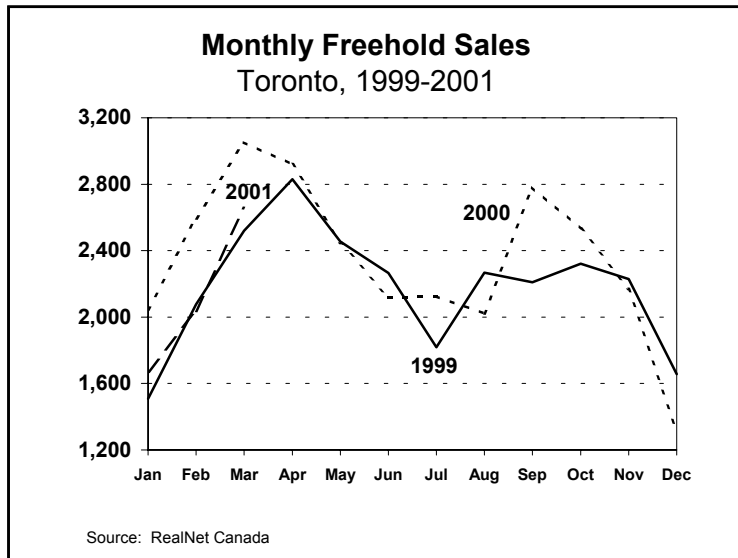


- Sales of MLS homes totalled almost 14,200 during the first quarter of 2001 – well above the 13,600 sales recorded in the same period of 2000, and the 12,600 in the first quarter of 1999.
- As noted, while sales of existing homes remain strong, increased listings signal some softening in the resale market – and a reduction in the pressure for higher resale housing prices.



- Slower economic activity has not dramatically affected new housing sales so far this year. Sales of new homes in the first quarter were lower than in the same period of 2000; however, they were higher than in the same period in 1999.
- New home sales in January-March 2001 totalled over 9,200 units – down from the 10,800 new home sales in January-March 2000. Sales in the same period in 1999 totalled roughly 8,300.
- The high volume of housing sales in 2000, plus the typical lag of 6-9 months or more prior to recording a start, mean that housing starts will remain high for some time, even if (as expected) new home sales decline due to the economic slowdown.
- CMHC forecasts new housing sales in Toronto to total 38,000 in 2001, compared to 41,200 new home sales in 2000 and 37,000 in 1999.

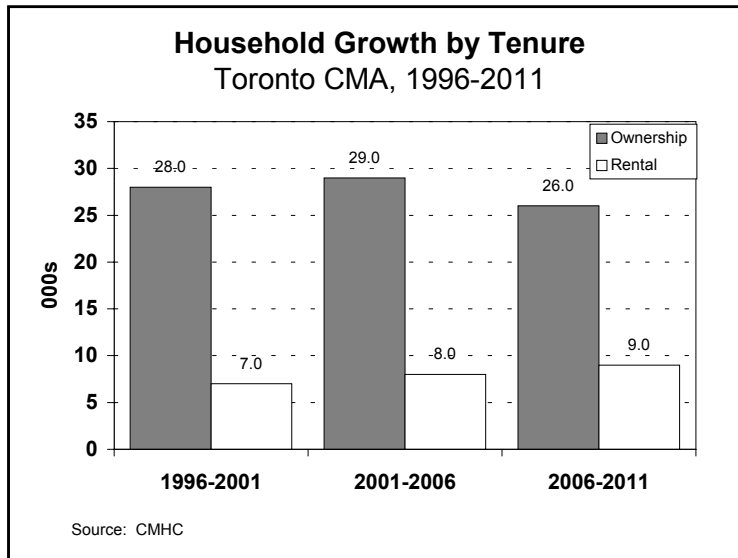
**Both Freehold and Condominium New Home Sales Lower Than in 2000
– But Still Above 2000 Sales Levels**



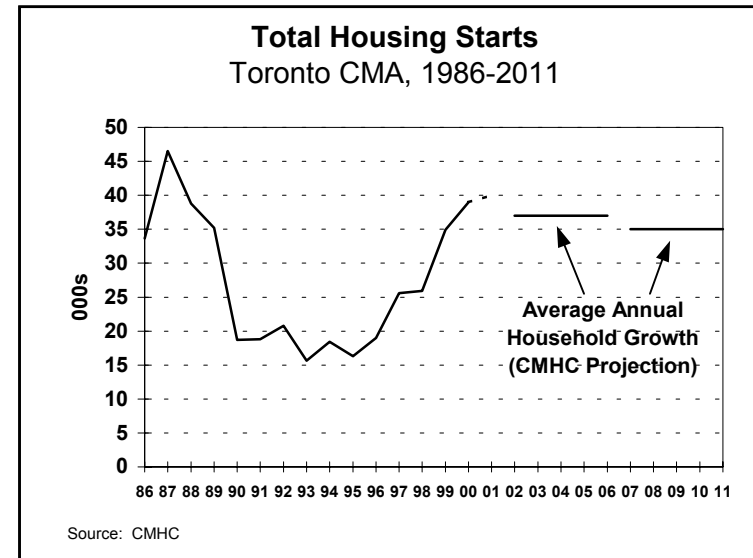
- Most of the reduction in sales of new homes in Toronto has occurred among freehold sales. Freehold new home sales totalled roughly 6,350 in the first quarter of 2001 – down from almost 7,700 during the same period last year.
- Freehold new home sales so far in 2001 are slightly higher than the 6,100 sales recorded in the January-March period of 1999.
- Most builders have a significant backlog of new homes which have been sold but not yet started so construction volumes should remain high for 2001, despite the lower volume of sales.
- CMHC forecasts that freehold sales will total 26,000 in 2001, compared to 28,000 in 2000 and 26,150 in 1999.

- Condominium sales in the first quarter of 2001 totalled 2,850 – not far below the 3,150 sales in the same period last year.
- Sales of new condominiums so far this year are well above the 2,150 units sold in the first quarter of 1999.
- CMHC forecasts that new condominium sales will total 12,000 in 2001, compared to 13,200 in 2000 and 10,850 in 1999.

Household Growth Projected to Continue Strong – But Starts Unlikely to Maintain Current Pace for the Long-Term

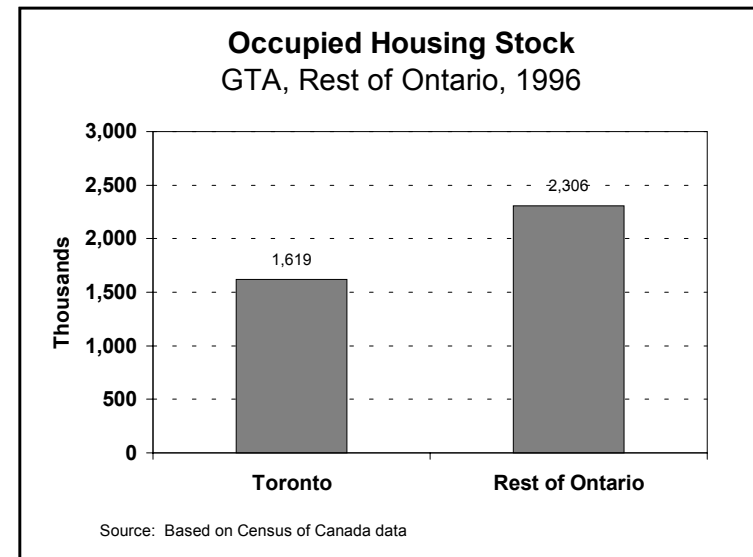
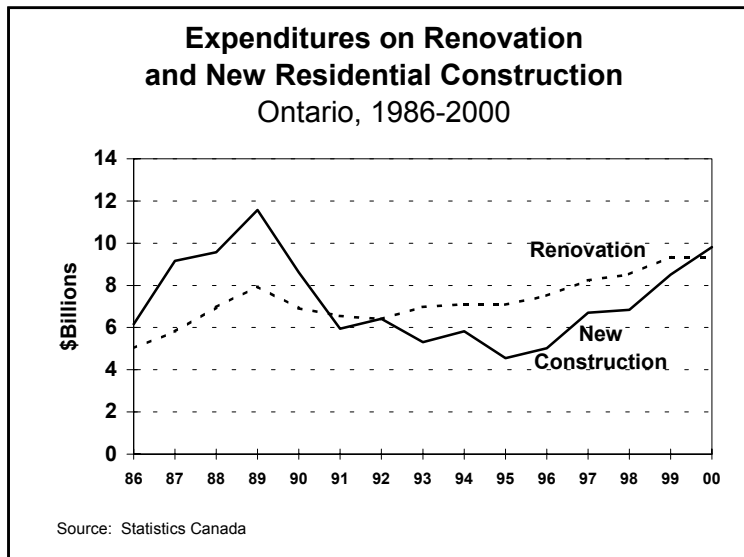


- Household growth in the Toronto CMA is projected by CMHC to rise to an average of 37,000 annually during the 2001-2006 period – slightly higher than the 35,000 average annual household growth in the 1996-2001 period.
- In the subsequent 2006-2011 period, household growth is projected to decline modestly to 35,000 annually.
- The lion's share of the household growth (an average of 29,000 annually during the 2001-2006 period) is projected to be among home owning households.
- Renter household growth is projected to increase modestly to 9,000 by 2006-2011. Historically, some share of the growth in renter households is accommodated through creation of units in the existing stock (e.g. accessory apartments) and through rented condominiums and houses.



- CMHC forecasts housing starts in the Toronto CMA will total 40,000 in 2001. This follows a strong performance in 2000 when 39,000 starts were recorded.
- The 2000 and (forecast) 2001 starts are higher than the projected average annual household growth (35,000 and 37,000 in 1996-2001 and 2001-2006, respectively).
- To some extent, the higher 2000 and 2001 starts represent a 'catch-up' from the relatively low levels of housing activity during much of the 1990s. However, over the post-2001 period, it seems likely that starts levels will moderate to an average of somewhat less than the projected average annual household growth. This process would be accelerated by an economic slowdown, but will happen in any case – especially if some means is not found to stimulate rental housing production.

**Residential Renovation Spending Exceeds Spending on New Housing
– With the Aging Stock and Baby Boomers, Renovation Spending Will Remain Strong**



- Spending on residential renovations in Ontario has grown progressively over the period since the early 1990s.
- Renovation spending exceeded spending on new housing construction for most of the 1990s. Annual changes in spending on renovations tend to be relatively stable – compared to the more volatile changes in spending on new housing construction.
- Renovation spending levelled off in 2000, while spending on new construction rose significantly – driven by the strong increase in housing starts.
- Factors driving higher spending on renovations include the need to maintain an aging housing stock; increasing affluence (and disposable incomes) which allows owners to alter their homes to suit changing needs; and an aging population – many empty-nester and elderly people prefer to renovate rather than move.

- Estimates of spending on new and renovation construction are not published at sub-provincial levels. However, it is clear that much of the Ontario renovation spending occurs in the Toronto area.
- The GTA accounts for a large proportion of Ontario’s housing stock – so much of the renovation spending would naturally occur in the GTA. Also, the incomes of homeowners in the GTA tend to be higher than in most other parts of the province – higher income people tend to engage in more expensive renovations, and also tend to hire contractors, rather than undertake the work themselves.
- Therefore, ever-increasing spending on renovations in the GTA has created a demand for additional construction workers every year – a process that will continue in the future .

8. SUMMARY OF FINDINGS

This section presents a summary of the key findings of the report. The summary includes information from the two sections of the original (December 2000) report which were not included in this update report. Highlights include the following:

Economic Conditions in Canada and Ontario

- Canada has passed the peak of a strong economic expansion which began in 1992. Overall growth has been very strong during the recovery and many sectors are facing capacity constraints. Monetary policy is expected to create a ‘soft landing’, with the possibility of a mild recession in early 2001 and recovery later in the year. Recent reports indicate that economic activity is slowing down.
- CPI inflation has been restrained at a very low level during most of the past recovery and expansion. Modest increases are expected in 2001 with inflation running between 2.5 and 3.0%. Strong improvements in labour productivity have limited increases in unit labour costs and overall inflation. Inflation is expected to moderate in 2002 as a consequence of the economic slowdown.
- The major risk to this soft landing forecast is that a further weakening stock market and the slowing U.S. economy could erode consumer confidence and cause a more serious recession. Recent conflicting evidence on the economy is undermining confidence in the soft landing forecast.
- Ontario has had very strong economic growth during the recovery – led by the ‘new economy’ sectors as well as traditional manufacturing exports. Motor vehicle assembly and parts have been a leader. Recent evidence suggests that both the new economy and automotive sectors are declining due to the weakening stock market and lagging consumer confidence.

Construction Markets in Canada and Ontario

- National construction activity reached record levels in 2000 and some major new projects will extend the boom in some sectors into 2001. Large engineering projects are being driven by higher energy prices. The recent economic expansion has reduced commercial and industrial vacancy rates and new projects are planned. Institutional construction of schools, universities, hospitals and other infrastructure is very strong.
- Construction in Ontario has been on a consistent recovery path since 1998, led by residential and institutional projects. Commercial building was initially limited to retail and related areas but new office buildings are now planned. The Pearson Airport project is a dominant feature and will continue to draw labour for at least two more years.
- Even with an economic slowdown, construction activity will be sustained in many key sectors.

Housing Markets

- Housing starts have increased significantly in Toronto in recent years. CMHC forecasts that starts will increase to 40,000 in 2001; starts totalled 39,000 in 2000. The current level of activity is approaching the 46,500 starts at the peak of the housing boom in the late 1980s. Current activity is well above the average of 18,200 starts annually during the 1990-1996 period.
- High immigration levels are a key component of the growth in Toronto’s economy – and the high level of housing demand.
- The aging of the baby boom generation has had an important effect on housing demand. In the 2001-2011 period, the baby boomers will be primarily in the move-up buyer age groups, with some aging into the empty-nester age groups. The children of the baby boomers will increase the demand for rental housing during this period.

Summary of Findings (cont'd)

- The strong economic growth in Toronto over the second half of the 1990s was a key factor in the strong Toronto housing market. Weakening in the economy will moderate housing demand.
- The affordability of homeownership in Toronto improved significantly in the 1991-1998 period. Higher housing prices and an increase in interest rates in 1999-2000 caused a modest reduction in the affordability. More recently, interest rates have moderated and affordability has improved – though not to the levels of 1996-1998.
- Most new homes are targeted at move-up buyers who have built up equity in their existing homes. Move-up buyers also tend to have higher incomes than first-time buyers.
- The affordability of first-time buyers is important since first-time buyers purchase the homes of move-up buyers.
- Affordability for first-time buyers is also important to the rental market as their purchase creates a ‘supply’ of rental units as they move to the ownership sector.
- Renters (i.e. potential first-time buyers) have relatively low incomes compared to homeowners – an average of only \$41,000 in 1996, compared to an average of \$78,000 for homeowners.
- Rough estimates indicate that for every \$10,000 increase in housing prices between \$150,000-\$200,000, over 12,000 fewer renters could afford to purchase a home.
- The price of new houses has not kept pace with inflation over the past two decades. While average prices skyrocketed above the rate of inflation during the late 1980s, they subsequently dropped significantly. Construction costs, on the other hand, have increased faster than inflation over the past two decades and have escalated rapidly in the past three years.
- Rental vacancy rates dropped to 0.6% in October 2000, the lowest rate since the late 1980s. Average rents have risen substantially in the past three years.
- It seems likely that average rents will continue to rise over the next few years.
- Despite the tight markets and increasing rents, there has been little new rental construction in Toronto. Rental housing production averaged roughly 5,000 units annually during the late 1980s. Since 1990, there has been little new private rental construction.
- While it seems likely that there will be some new rental housing built in Toronto in the next few years, it is unlikely that the volume will be sufficient to meet the rising demand for rental units.
- Almost all new housing built in Toronto in recent years is targeted at the ownership market. Most ownership starts are for freehold dwellings; however, condominiums are an increasingly popular choice for many buyers.
- Household growth in the Toronto CMA is projected by CMHC to rise to an average of 37,000 annually during the 2001-2006 period. Most of the household growth is projected to be among homeownership households.
- Renter household growth is projected to average 8,000-9,000 households annually during the 2001-2011 period.
- CMHC forecasts housing starts in the Toronto CMA will total 40,000 in 2001. The large volume of units which have been sold but not yet started will bolster starts in 2001.
- New home sales so far in 2001 are somewhat lower than the levels of 2000, but still above 1999 – also a strong year for housing sales. CMHC forecasts a modest reduction in new home sales to 38,000 in 2001 compared to 41,200 in 2000.
- Over the post-2001 period, it seems likely that starts levels will moderate to an average of somewhat less than the projected average annual household growth.

Summary of Findings (cont'd)

Construction Labour Markets: Canada, Ontario and Toronto

- National employment growth has been strong and spread across virtually all sectors and regions. Participation has been rising as the labour force expands to fill the jobs while unemployment has dropped to near record low levels.
- Ontario labour markets are in the same recovery phase as the national markets. Construction labour markets are very tight with shortages of workers reported in many trades and regions.
- Across the province it is estimated that an additional 10,000 to 15,000 construction workers are needed to restore a more balanced labour market.
- Analysis indicates that market conditions for some trades are 'supply constrained' by the loss of workers during the recession in the 1990s. In this situation, employment growth has not attracted workers back into the industry and the available pool of unemployed has fallen to a record low level. Trades in this situation include; bricklayers, carpenters, labourers and cement finishers.
- Some trades are 'demand constrained' with strong employment growth creating a record number of jobs and the supply of workers – while increasing – cannot keep up. Trades in this situation include: roofers and plumbers.
- Shortages are acute in the housing sector because of both the dramatic increase in housing activity and the loss of some workers drawn to non-residential projects.
- Construction activity has been strong in all regions of Ontario but is strongest in the Ottawa area, south-west Ontario and the Toronto area.
- Construction labour market analysis for Central Ontario (including Niagara-Hamilton, Kitchener-Waterloo, Barrie and Oshawa) shows broadly similar circumstances to the rest of the province. Several of the big trades are supply constrained including mechanical, carpenters and labourers. Shortages of electricians in the region are 'demand constrained'.
- Analysis for the Greater Toronto area (including Peel, Halton, Durham, York and the City of Toronto) shows similar shortages with stronger expansion of the work force. It seems that the GTA has attracted more workers with higher compensation and strong job prospects. Small sample size limits trade coverage but evidence shows that finishing trades are constrained by strong demand and masonry trades are limited by the loss of workers.
- Consistent measures of compensation are limited to hourly earnings by the trades. This measure conceals critical factors like benefits, stabilization funds, project agreements and income of the self-employed. A very large portion of residential construction occurs in the underground economy.
- In the short term, construction labour markets adjust with dramatic movement of workers into and out of the industry. Relatively few workers remain in the industry as unemployed. This volatile migration of workers moves in many directions. During the 1990s, over 60,000 trades left construction in Toronto and Central Ontario and some 50,000 have returned. Many are practicing their trade or working in other industries. This is a valuable source of labour.
- As at the end of 2000, between 8,000 and 10,000 construction workers were needed in the area to restore a more balanced labour market.

Summary of Findings (cont'd)

- In the longer term, demographic trends will determine the growth in the construction work force. There is a relatively small source population between ages 15 and 24, while a large group of workers in the 45 to 54 age bracket are set to retire.
- Rebuilding the apprenticeship programs is crucial and registrations have been growing in 1999 and 2000. At a minimum, the industry must get back to the 5,000 range of newly certified trades that was reached in the early 1990s.
- Hours worked by union members in the Toronto residential market have followed the market trend in the 1990s with a dramatic decline from 1990 to 1996 and then a strong recovery.

Conditions in both the housing and labour markets are extra-ordinary and create growing pressures on suppliers. Projects are being delayed, prices are rising and quality-related problems are growing. The consensus view of the future is that a soft landing will moderate growth in the first half of 2001 with construction remaining relatively strong. While these developments in the rest of the economy should restore sustainable conditions, strength in construction will leave the risk of shortages, some project delays and some rising prices and costs next year. To further complicate decisions, there is now growing evidence that the slowdown in the United States is gaining momentum and there may be a greater risk of a recession than the consensus forecast suggests.

9. IMPLICATIONS FOR THE CONSTRUCTION LABOUR MARKET

There is very little excess capacity in the construction industry in Central Ontario. New projects planned for 2001 and 2002 will draw heavily on resources and workers released from projects currently being completed.

Certified and experienced workers will be extremely scarce and completing apprentices will likely satisfy only a small fraction of industry's manpower needs.

There will be limited access to workers from other provinces and through immigration. Construction activity in other regions is also strong. Some trades may be available from Atlantic Canada as projects are completed there, but Ontario will have to compete with American construction employers who have been recruiting aggressively in Canada.

Contractors will have to draw on trades now working outside construction and on young and inexperienced workers as potential sources of labour. Training will be an urgent priority for this group to avoid problems with injuries, lower productivity and quality.

Employment conditions and opportunities should encourage some self-employed workers to return to paid employment and this may reduce (or at least limit the growth of) the underground economy in construction. Opportunities will dramatically improve for apprenticeship and for funding new training programs.

Industry cooperation is crucial to take advantage of the current strengths in the industry. Extensive communication on the timing of major projects and demand for trades can help to reduce bottlenecks and delays. Plans to build and invest industry funds for training, safety and industry promotion are crucial now as needs will continue to grow during 2001-2002. Aggressive competition with poaching

and unnecessary price increases will detract from the immediate opportunity to rebuild the capacity of the industry.

The risk of recession is growing and must be monitored carefully. A moderate slowdown or soft landing would be ideal for construction as it would permit a gradual balancing of the labour market. While a severe recession is unlikely, any over-reaction to negative news that would limit training or lose workers will have a large long term cost to the industry.