The Economic and Housing Market Outlook for Central Ontario

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For:

Ontario Residential Council of Construction Associations (ORCCA)

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Introduction

The main purpose of this report is to forecast the volume of residential construction activity in central Ontario for the 2004 to 2007 period. The volume of construction activity can be expressed in terms of the dollar value of building permits issued and the level of employment in the construction industry.

This report follows reviews past trends and develops forecasts for a number of key economic and housing market indicators. The order in which these indicators are discussed reflects the sequence in which they interact.

The remainder of this introductory section gives an overview of the report's organization and of the research methodology.

Economic Forecast for Central Ontario

Employment growth in the Greater Toronto Area ("GTA") is a critical factor – perhaps the most important factor – that determines the demand for housing.

Employment growth is reviewed and forecast with respect to key variables that affect the GTA economy.

Housing Market Forecasts

The forecast of employment growth, as well as the carrying cost of home ownership, is used to forecast sales in the existing housing market, as well as price growth, listings, and the sales-to-listings ratio.

Activity in the new homes market (low-rise and high-rise homes) depends on trends in the resale market as well as economic conditions (job growth and housing affordability).

Construction Activity

Housing sales generate the volume of residential building permits that are issued, as well as housing starts.

Non-residential building permits are forecast based on anticipated economic growth in the GTA.

The total anticipated volume of building permits issued (residential plus non-residential) is used to generate a forecast of employment in construction for the GTA.

Housing starts are forecast based on previous and anticipated sales of new homes.

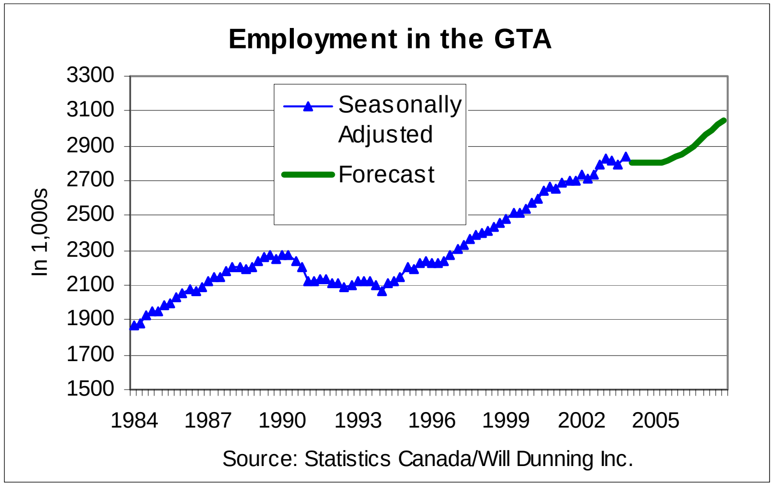
Demographic Projections

In this section, projections of population growth are used to project the amount of housing that might be required during the 2007 to 2014 period. These are not projections of actual housing demand – actual housing demand will depend on economic conditions and other factors at the time.

WILL DUNNING INC.
Economic Research

Economic Forecast for Central Ontario

Employment Trends



This section discusses recent trends and a "baseline" forecast for employment in the GTA.

The chart above shows estimates of employment in the GTA. Four (or five) different periods can be seen in the data:

- 1984 to 1989 – a strong economic expansion, during which 300,000 jobs were created.
- 1990 to 2004 – a deep recession with 100,000 jobs lost.
- 1995 to 2000 – a spectacular economic expansion, in which more than 500,000 jobs were created (85,000 per year).
- 2001 to the present – a slowdown, in which jobs continue to be created, but at a slower rate. This period could be further divided into 2001 and 2002 (job creation at 66,000 per year) and 2003 (44,000 jobs).

In addition to broad national economic trends, factors that particularly affect the central Ontario economy are:

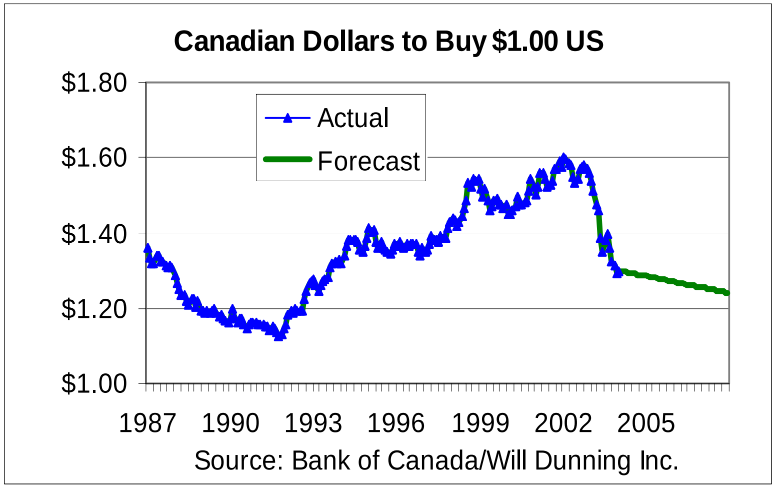
- The value of the Canadian dollar.
- Interest rates.
- House prices.
- The TSX stock index.

Of course, there are other factors. In the estimates shown later (under *Analysing the Contributions),* "other factors" include nation-wide influences that are not captured by these four variables, as well as any other conditions specific to the GTA.

The baseline employment forecast, shown in the chart, suggests that GTA employment will fall slightly during 2004 and much of 2005. An expansion could begin around the middle of 2005. Depending of course on the performance of the key variables (especially the TSX index) that expansion could be quite robust. By the end of 2007, employment in the GTA would be about 210,000 higher than at the end of 2003. This equates to an average growth rate of 1.8% per year. The forecast is discussed in more detail in the section *Analysing the Contributions.*

(Note to the reader: Statistics Canada does not seasonal adjust GTA employment data – that was done by the author. In addition, the Statistics Canada data starts in March 1987 – the prior data was estimated by the author.)

Impact of the Canadian Dollar



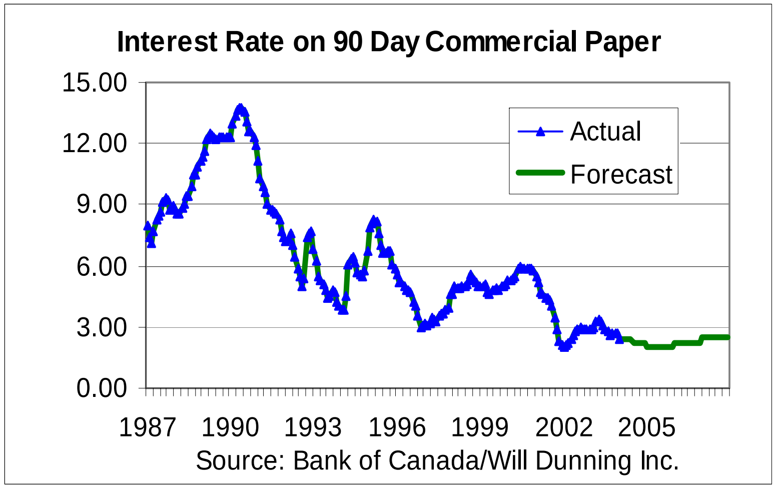
Through the 1990s, the Canadian dollar weakened against the US dollar (more Canadian dollars were required to buy US dollars).

This stimulated the Canadian economy, including the industrial heartland of central Ontario.

In the past year, the Canadian dollar has changed direction, creating substantial risks for the central Ontario economy. The shift in the dollar over the past year is a negative factor equal to a 4.9 percentage point increase in interest rates.

The baseline forecast scenario assumes that the US dollar will continue to weaken, but less rapidly than in the recent past.

Impact of Interest Rates

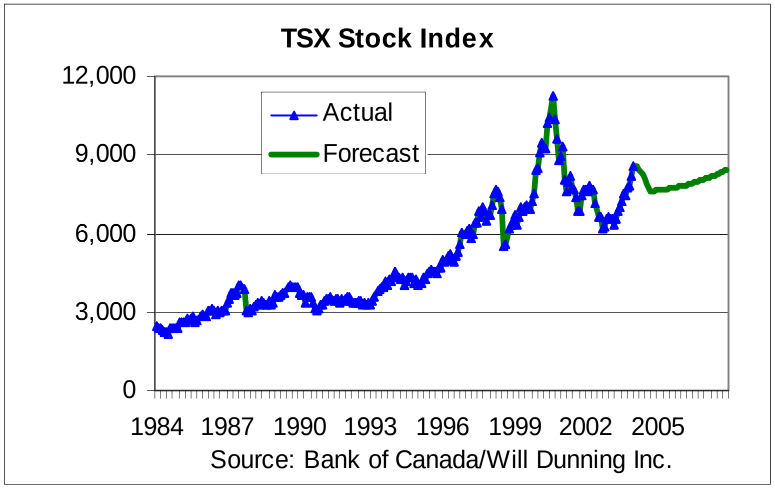


Interest rates in Canada are at the lowest level in a generation. The benchmark business lending rate – the 90 day commercial paper rate – is now at 2.4%, creating a very positive financial environment for business investment.

In the baseline scenario, it is assumed that the Bank of Canada will keep interest rates low, and may reduce them further, to offset the negative impacts of the stronger dollar.

It is also assumed that by 2006, an improving economy will lead the Bank of Canada to gradually increase interest rates.

Impact of the TSE Stock Index



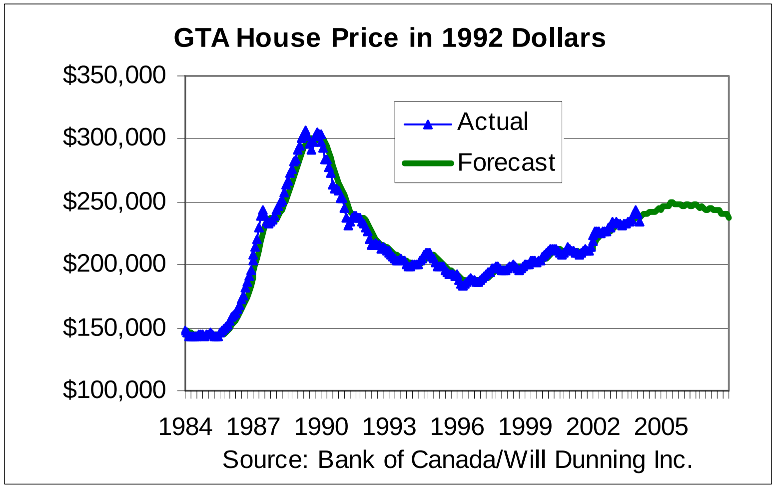
A rising stock index affects the central Ontario economy by:

- Creating jobs in the financial services sector.
- Leading consumers to spend more via a "wealth effect".
- Making it easier for companies to raise new capital, which they can then use to create new productive capacity.

The climb of the TSX was a very positive factor in the late 1990s, but has been a drag on the economy during the early years of this decade. The recent climb in the TSX will provide an offset to the soaring Canadian dollar.

For the baseline forecast, it is assumed that the TSX will soon experience a correction (a temporary setback from its recent increases) and by September will begin another upward movement.

Impact of House Values



Rising house values stimulate economic growth and job creation, through a wealth effect that is similar to a rising stock market:

In the analysis, there is a two-way, relationship between house values and employment growth: rising employment stimulates housing sales and price increases, which in turn stimulates more employment, and so on.

In the baseline forecast, the slowdown of job creation (which results mainly from the stronger Canadian dollar) is projected to lead to a gradual deceleration of house price growth. This scenario indicates that house price increases will be less than the rate of inflation in 2006 and 2007, and therefore the inflation-adjusted estimate of house prices will fall.

Analysing the Contributions

The following table presents estimates of the contributions that these key factors have made to job creation in the GTA, for various periods during the past two decades. It divides the 19 years into five periods (the "Boom" of the 1980s, the bust that followed, the "equity bubble" of the late 1990s, the slowdown that began in late 2000, and finally, the past year, when the dollar changed direction). The estimates indicate that:

- During the period, the factors have varied in their influence.
- During the Boom and the subsequent bust, house prices drove a large share of employment gains and losses.
- The "equity bubble" in the TSX and its bust were highly important in the late 1990s and early in this decade.
- Over the entire period, the most important of the four factors has been movements in the Canadian dollar.
- The analysis for December 2002 to December 2003 indicates change in the dollar has not net affected employment in the GTA, but it soon will.

Looking forward:

- During the early part of the forecast period, the movement of the Canadian dollar is expected to have a very substantial negative impact on employment in GTA. This will be in large part due to impacts on export-oriented manufacturers. But service industries (including tourism and business services) will also be affected.
- The sharp rise in the TSX will be positive for job creation. However, if the expected correction of the TSX occurs this year, the impacts of the correction would be mainly in 2006.
- Higher house values will be a positive factor throughout the entire forecast period.
- Interest rates will be a negative factor (the consequence of increases seen in late 2002 and the first half of 2003).
- Overall, the outlook is for falling employment in 2004, with growth resuming during 2005 to 2007.

Table 1
Annual Job Creation in the GTA, due to Key Factors

Job Growth Per Year Due to…	Dec 84 to Dec 89	Dec 89 to Dec 94	Dec 94 to Dec 00	Dec 00 to Dec 02	Dec 02 to Dec 03	Entire Period
TSX	4	-6	29	-59	8	3
$ CDN	-11	18	39	50	22	21
Interest Rates	10	-32	-4	24	14	-4
House Prices	32	-30	-4	22	6	2
Other Factors	25	29	26	29	-6	25
Total	60	-20	86	66	44	47

Source: Will Dunning Inc.

Table 2
Job Creation in the GTA Forecast due to Key Factors

Job Growth Per Year Due to…	Dec 03 to Dec 04	Dec 04 to Dec 05	Dec 05 to Dec 06	Dec 06 to Dec 07	Entire Period
TSX	32	23	-7	12	60
$ CDN	-125	-65	14	11	-165
Interest Rates	-24	21	13	-5	5
House Prices	65	13	31	43	152
Other Factors	27	61	41	33	162
Total	-25	52	92	94	214

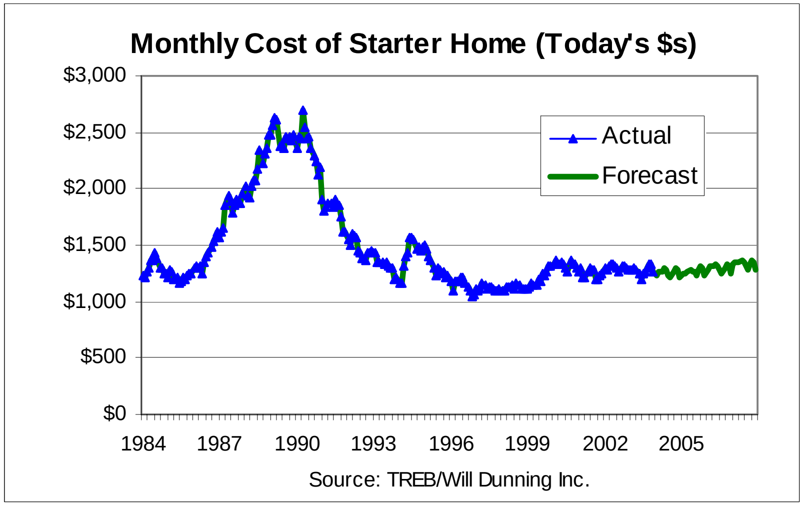
Source: Will Dunning Inc.

Housing Market Forecasts

Housing Affordability

Two key factors explain most of the changes in the GTA housing market: growth of employment and housing affordability. The outlook for employment in the GTA has already been discussed in depth, and it has been found that the stimulus provided by employment has weakened – and will very likely continue to weaken for at least the next year.

Affordability, on the other hand, remains a very positive factor for the GTA housing market.



In the mid-1990s, the recovery of the housing market was kick-started by a very substantial improvement in housing affordability. The monthly carrying cost of a typical entry level home was in the range of $1,050 to $1,150 in today's dollars.

The subsequent expansion of the GTA housing market resulted in higher prices and a slight deterioration of affordability. However, the monthly cost remains very attractive. Since the end of 1999, the monthly carrying cost has been in the range of $1,250 to $1,350, and has averaged $1,289 per month (in today's dollars).

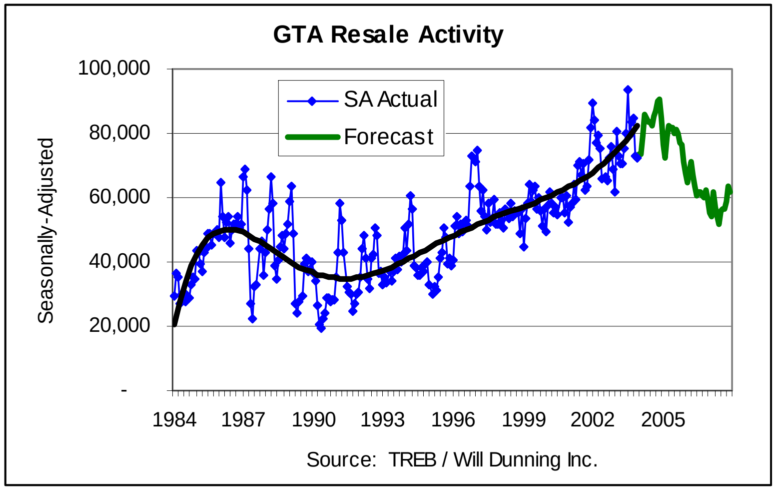
In the baseline scenario, the monthly carrying cost (again, in today's dollars) averages $1,259 during 2004 and 2005. In this scenario, affordability is slightly better than it was during the past four years.

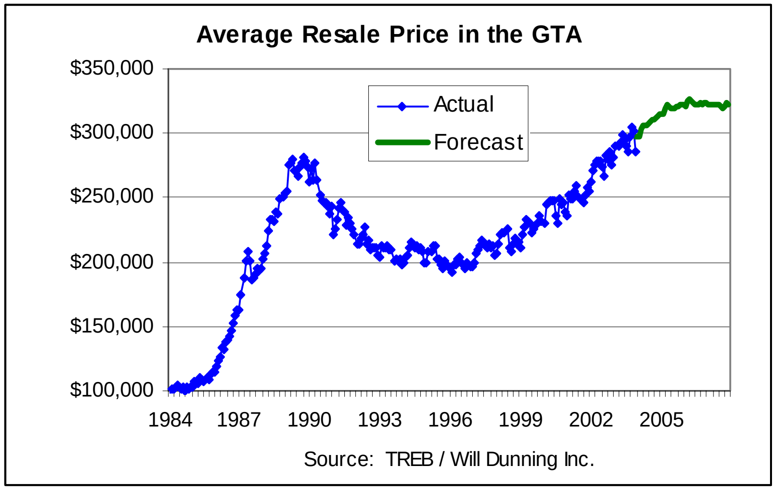
Later in the forecast period, anticipated increases in interest rates, along with projected price growth, result in slight deteriorations in affordability. The monthly carrying cost averages $1,301 in 2006 and $1,336 in 2007.

In short, home ownership is accessible to GTA households with incomes in the $50,000 to $55,000 range. Excellent affordability will provide a partial offset to the weakening employment situation, and will support the GTA housing market through the forecast horizon.

(Note to the reader: monthly carrying costs are based on an entry level home currently priced at $195,000; past and future prices are adjusted for market conditions of the time. Mortgage payments are based on: 90% mortgage with CMHC insurance premium of 2.5% added; interest rate equal to the average posted 5-year rate minus 1 point lender's discount. Realty taxes are at an assumed rate of 1.1% of current value.)

Resale Market Outlook

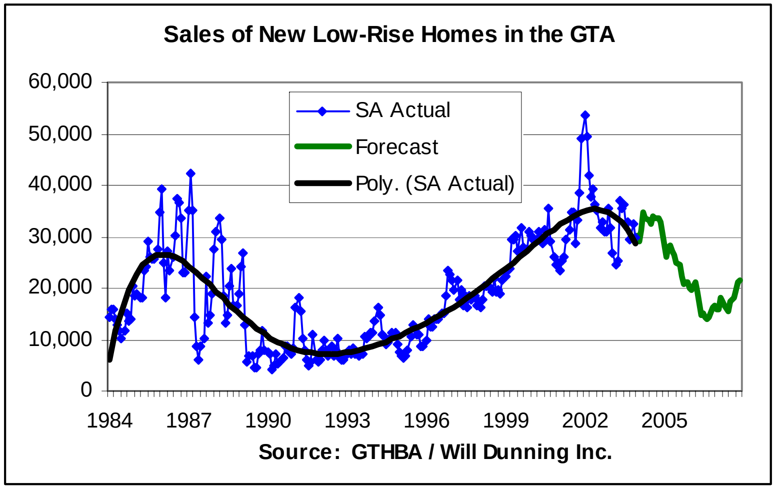


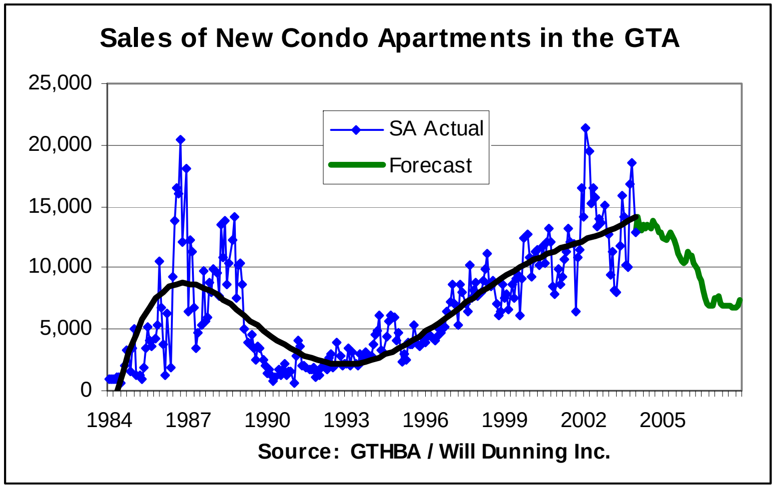


- Resale market activity expanded during the second half of the 1990s and into this decade. The growth was largely due to the accumulated job creation, which allowed increasing numbers of households to buy their own homes. Excellent affordability was also a key positive factor.
- The strong resale market may continue for another half year, due especially to recent reductions in mortgage rates. This should result in another affordability-driven upswing in the market.
- Due to the slowdown of employment growth that has developed over three past three years, and with the anticipated weakness of employment for 2004, resale activity in the GTA is highly likely to decline. The turning point could occur during the second half of 2003.
- If employment growth begins the anticipated recovery during 2005, activity should stabilize during 2007.

- GTA house price have responded to swings in sales activity. Strong sales in the late 1980s contributed to rapid price growth. The subsequent bursting of the housing market bubble led to a downturn in sales and prices, followed by a long period of stagnation.
- Prices began another upward movement in 1996, which became quite strong during 2002 and 2003.
- The evolving sales cycle should result in continued price growth through 2005, but the rate of price increase will slow gradually.
- By 2006, prices should be flat or close to it; for 2007, there is a risk of modest price declines.
- In 2007, the average price is forecast at $323,000, or 10.2% above the 2003 average price.

New Homes Market

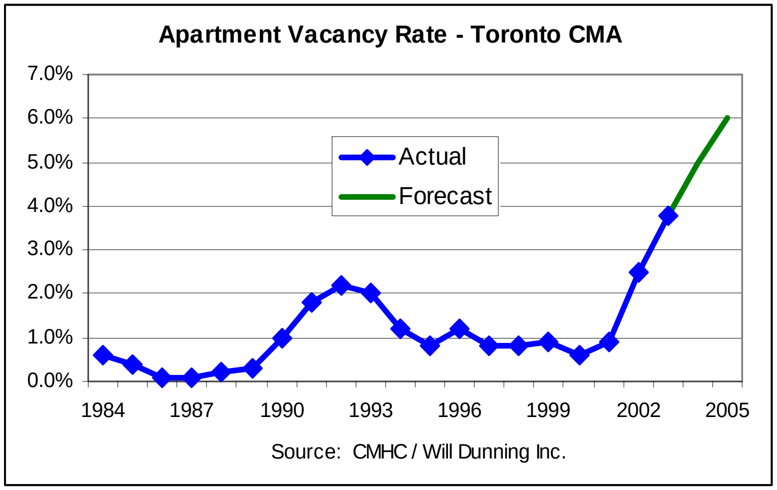


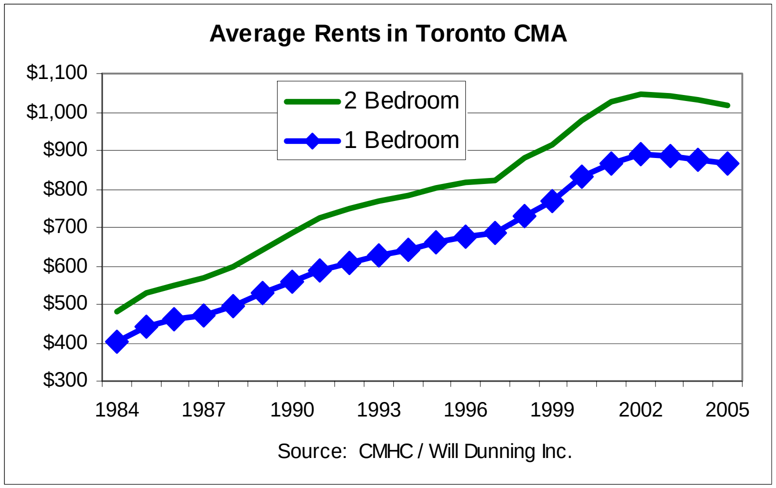


- Sales of new low-rise homes peaked in early 2002. The sales trend has subsequently eased, but it is currently well above historical norms.
- Recent reductions in mortgage interest rates could result in a short-lived expansion in the early months of 2004.
- By mid-year, however, the main influence on the sales trends will be the slowdown of employment growth that began in late 2000. This slowdown is expected to cause a sharp drop in sales activity during 2004 to 2006.
- In 2007, sales could begin another upswing, if the economic assumptions hold – if interest rates remain relatively low and employment begins to expand as forecast.

- Sales of new condominium apartments also peaked early in 2002. However, with a recent spike of activity (in October and November 2003) the estimated trend has not yet turned down. It very likely will turn in the next few months.
- New condo activity has depended on sales to investors, as well as to owner-occupiers. The investor segment should soon turn sharply downwards; however, the owner-occupant sector should slow gradually during the next three years, similar to the low-rise market.
- There is risk of a much larger downturn in this market segment, if increasing numbers of existing investors decide to sell their apartments. This would reduce the need for new construction, as owner-occupants would have more opportunities to buy in the resale market.

Rental Apartment Market





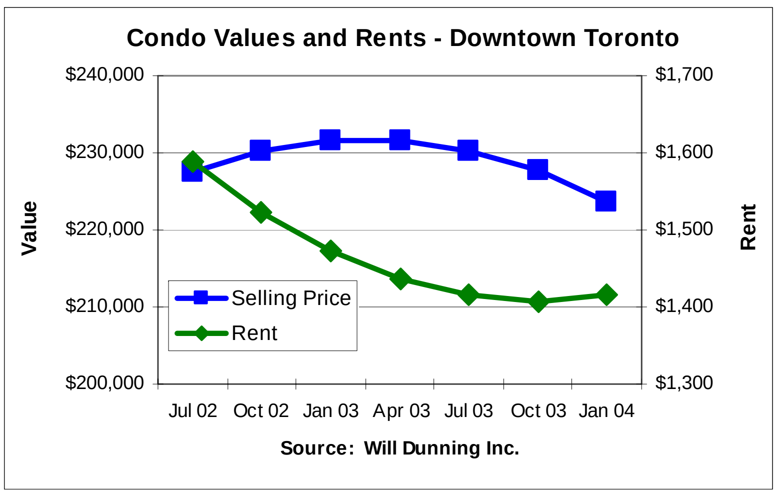
- The apartment vacancy rate in the Toronto CMA has increased to unprecedented levels. As of October 2003, the vacancy rate was 3.8%. The rental market has changed very dramatically and in a short period of time. During 1994 to 2001, the vacancy rate was close to or below 1%, a level at which the market can have been considered to be in crisis from a tenant's perspective. At current vacancy rates, the market balance has shifted decidedly in favour of tenants.
- The rise in vacancies is mainly due to low interest rates and the shifting of tenants into home ownership.
- The vacancy rate for October 2004 is forecast at a minimum of 5% and for 2005 the forecast is a minimum of 6%. 20,000 rental apartments would be vacant in 2005.
- Given current trends that the vacancy rate could be in the 8-10% range by 2007 (up to 30,000 vacancies).

- Rents have increased substantially in the Toronto CMA during the past two decades. Rent increases were especially pronounced during 1997 to 2001, as landlords were able to use the vacancy decontrol provisions of the Tenant Protection Act to increase rents on apartments that became available through tenant turnover.
- During 2002, rent increases slowed, and in 2003, the average rent in Toronto CMA decreased for the first time ever.
- The last two data points in the chart above indicate that rents could fall slightly in both 2004 and 2005.
- After considering the increase in vacancies and the changes in rents, landlords' net revenues have fallen in the past two years and will be further reduced during the next 4 years.

The Condominium Investment Market

Purchase of apartments by investors has been an important element of the condominium market during the past five years. Investors have been attracted by the combination of high rents, low vacancy rates, low interest rates and carrying charges, and rising values. This combination has resulted in high potential rates of return. With the recent changes in the rental market, however, potential returns have been significantly eroded.

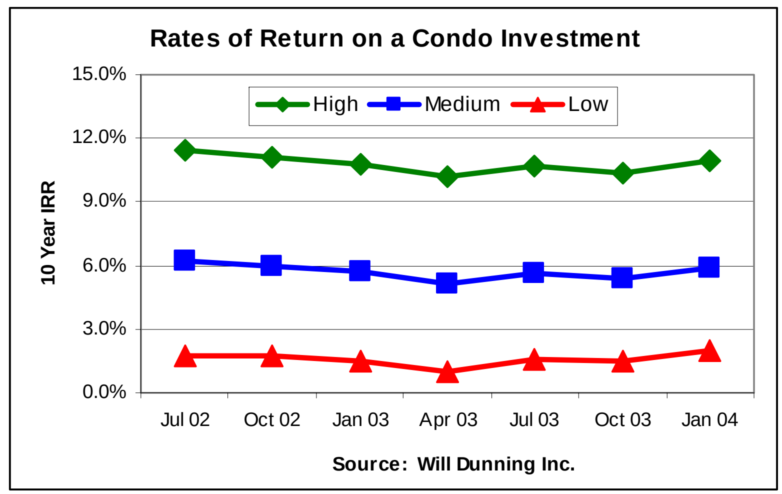
The following chart shows estimated prices and rents for a 700 square foot condo apartment in downtown Toronto (the unit excludes parking). The estimated attainable rent has been reduced by as much as 11% in the past year and a half. Meanwhile, the prospects for price increases for apartments have also shifted. It appears that selling values have peaked and then declined during the past year and a half.



The following chart shows potential rates of return that might be expected at various times over the past year and a half. The rates of return are for a holding period of 10 years and are calculated on an after tax basis. Three scenarios are shown:

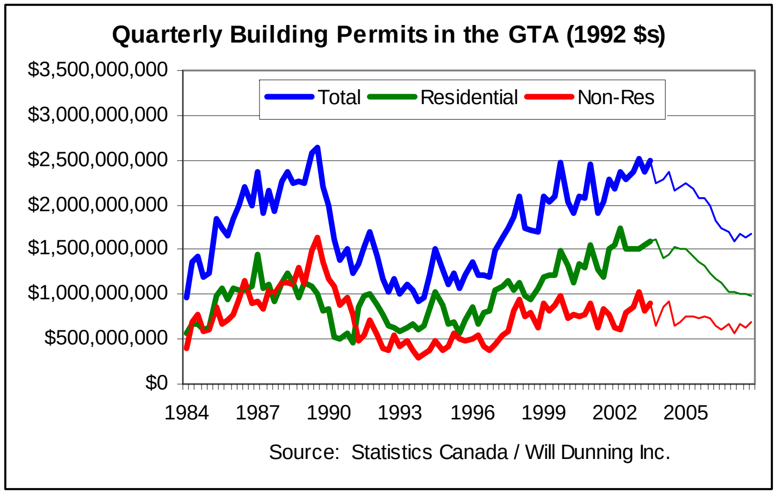
- Low – rents and values increase by 1% per year.
- Medium – rent increases by 2% per year; value by 2.5%.
- High – rent increases by 3% per year; value by 5%.

At first glance, the chart indicates that potential returns have not changed by much: while rents have declined, lower interest rates have offset the lost revenue. The critical issue is that expectations have been reduced. In 2002 many investors would have made the assumptions labeled “High”; today, they should make the “Low” or “Medium” assumptions. On this basis investors should be more cautious about this investment.



Construction Activity

Building Permits



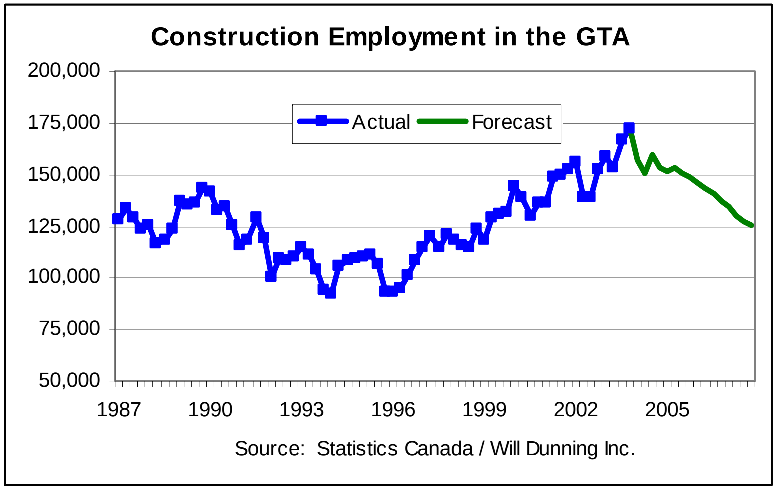
The next stage in the analysis is to analyze and forecast the value of building permits issued in the GTA. The chart above shows the values of building permits issued for residential and non-residential construction, expressed in inflation adjusted dollars (the adjustment takes the values to a base year of 1992).

The data on actual values (the bold parts of the lines) shows the two business cycles of the past 20 years:

- The Boom of the late 1980s resulted in high volumes of construction in both the residential and non-residential sectors.
- The subsequent downturn affected both sectors, but the non-residential sector was more affected.
- In the mid-1990s, recovery began earlier in the residential sector.
- The residential sector has been comparatively stronger than the non-residential sector throughout the past decade.
- The forecast of building permits for residential construction is based on forecasts of sales of new low-rise homes as well as apartments. Corresponding to the anticipated slowdown in the new homes market, residential construction activity is expected to diminish beginning around mid-2005, and continue to decline until the end of 2006.
- Non-residential building permits have been forecast based on growth in employment, which is one of the key factors that determine the need for new non-residential facilities. This forecast indicates that non-residential construction activity will soon begin to decline but remain relatively stable during 2005 to 2007.

Note to the Reader: Several adjustments have been made to the building permit data reported by Statistics Canada. Data are reported for Toronto CMA and Oshawa CMA. The sum of these two datasets is taken to represent the GTA. Both seasonal-adjustment and inflation adjustment were completed by the consultant.

Construction Employment



Data on actual and projected issuance of building permits (in inflation-adjusted dollars) has been used to analyze actual employment in construction and then forecast future construction employment.

Firstly, it should be noted that some care must be used in interpreting the available data on employment in construction.

- The estimates shown in the chart above were obtained from Statistics Canada's monthly Labour Force Survey ("LFS"). The estimates are based on small sample sizes. Just like an opinion poll, they have a margin of error. Occasionally, the LFS generates inaccurate estimates.
- The last two points of actual data (the dotted lines) indicate that there has been a very large increase in construction employment during the past two quarters (six months).
- There has recently been an increase in the value of building permits issued and the amount of housing under construction in the GTA, which has resulted in the expansion of construction employment.
- Permit issuance and construction starts are often "lumpy". Based on sales trends, the recent surge in these two indicators is a temporary event.
- Therefore, it is probable that the employment estimates will be reduced in the near future.
- This explains the sudden drop shown in the forecast estimates.
- Employment in construction should be relatively stable until mid-2005.
- Thereafter, it is expected that employment in construction will fall until 2007, with the total decline in the range of 20%, or 25,000 jobs.

This forecast of declining employment in construction follows a logical sequence, in which:

- A slowdown in employment growth that began at the end of years 2000 results in a gradual erosion in the demand for new homes and condominiums.
- New home sales peaked in early 2002, but have been relatively stable until the end of 2003.
- The softer employment growth is expected to have further impacts on new home sales beginning in the second half of 2004.
- Construction usually commences well after the sale. Therefore, construction activity will begin to slow in 2005.

Housing Starts

As noted, construction of new homes and condominiums generally starts several months, or longer, after the sale. The following table shows actual housing starts in central Ontario up to the end of 2003, and forecasts of starts for 2004 to 2007.

Housing starts are forecast to remain strong during 2004 and 2005, as construction starts on homes sold during 2003 and 2004. However, the gradual slowdown in new home sales that is expected to start in the second half of 2004 will be followed by a reduction in housing starts.

- For low-rise ownership units, the construction slowdown will begin during the second half of 2005.
- For condominium apartments, the slowdown is expected to begin later.
- However, it is possible that sales of condominium apartments could slow sooner than thought, if there is a change in investors' behaviour. For example, if investors start selling out more quickly, then sales to owner-occupiers and to investors could drop very rapidly. This would lead to a more rapid downturn in construction activity.
- Rental activity is expected to continue but at a diminishing rate. The federal-provincial-municipal Community Housing Program will result in starts of new rentals. As well, some private investors may continue to develop new projects, despite the sharp deterioration of the rental market.

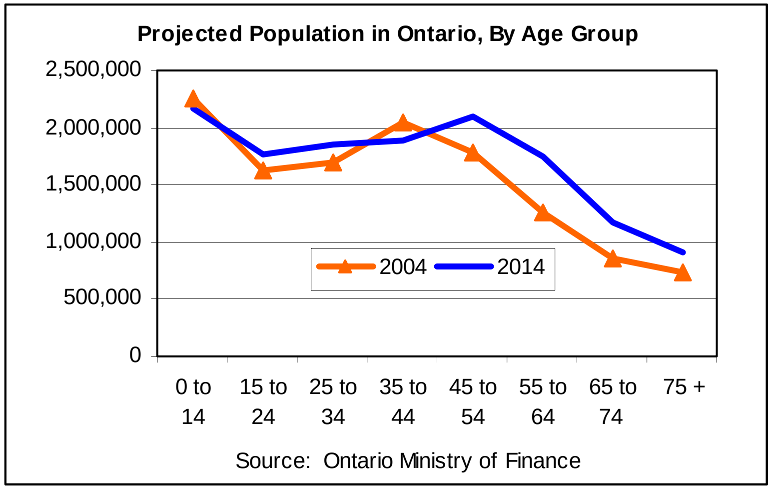
Table 3
Housing Starts in Central Ontario (GTA + Simcoe County)

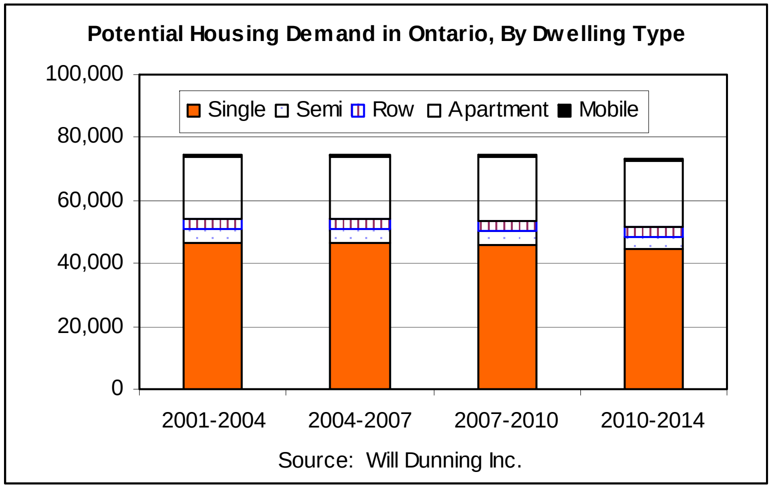
Year	Low-Rise Ownership	Condo Apartment	Rentals	Total
1990	12,858	6,551	5,862	25,271
1991	14,387	2,239	7,287	23,913
1992	13,993	732	10,506	25,231
1993	13,591	830	4,758	19,179
1994	18,064	1,364	2,689	22,117
1995	13,714	3,496	2,077	19,287
1996	19,706	2,439	943	23,088
1997	28,084	3,212	307	31,603
1998	26,620	4,785	257	31,662
1999	32,420	9,252	520	42,192
2000	34,774	10,176	496	45,446
2001	33,363	13,217	1,175	47,755
2002	41,180	9,168	1,619	51,967
2003	37,513	13,827	2,277	53,617
2004	38,061	11,804	1,600	51,466
2005	35,504	14,052	1,275	50,831
2006	26,255	11,846	1,075	39,177
2007	22,832	9,021	850	32,703
Averages				
1989-1998	17,891	2,850	3,854	24,595
1999-2003	35,850	11,128	1,217	48,195
2004-2007	30,663	11,681	1,200	43,544

Source: CMHC / Will Dunning Inc.

Demographic Projections

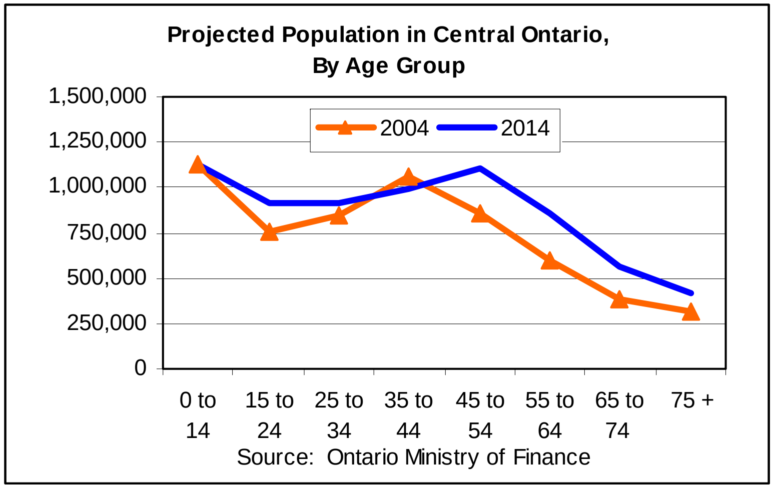
Demographic Trends and Long-Term Housing Demand –
Ontario Overview

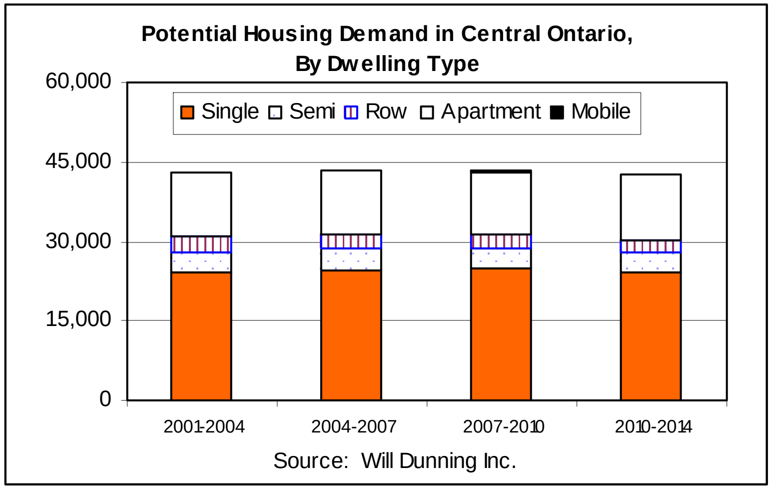




- This section develops estimates of potential housing demand for central Ontario, based on population projections that have been published by the Ontario Ministry of Finance, in the report "Ontario Population Projections, 1999-2028".
- The projections indicate that the population of Ontario could grow by about 1.35 million during 2004 to 2014, or 135,000 per year (1.05% per year).
- Most age groups are expected to expand rapidly, although small reductions are expected for youths (under 15 years) and the 35 to 44 years age group.
- Using these projections of population growth, projections of potential housing demand have been developed. The results are shown in the next graphic.
- Rapid population growth is expected to result in continued strong demand for new housing, at rates just under 75,000 units per year.
- About 62% of the requirement is for single-detached houses and 28% is for apartments (both owner-occupied and rental). 10% of the estimated requirement is for semi-detached, row, and mobile units.
- These estimates are not forecasts of actual housing activity. They are just intended to indicate potential demand, based on population growth and past patterns of housing demand.
- Actual housing activity will be determined by future economic conditions, social trends, and consumer preferences.

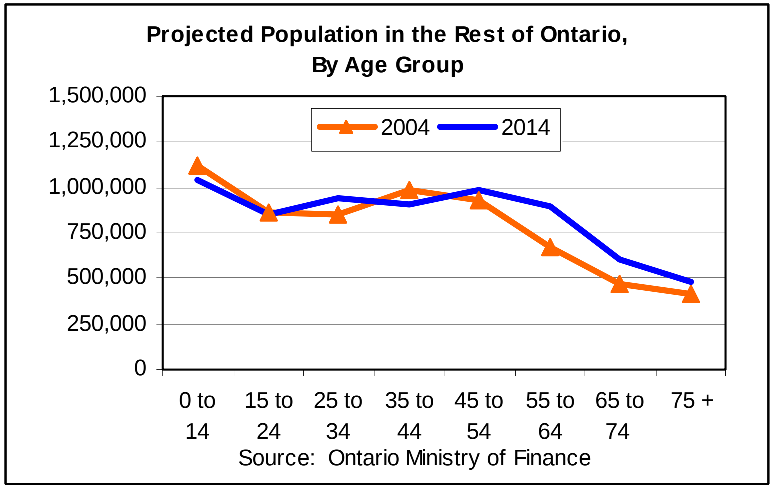
Demographic Trends and Long-Term Housing Demand –
Central Ontario

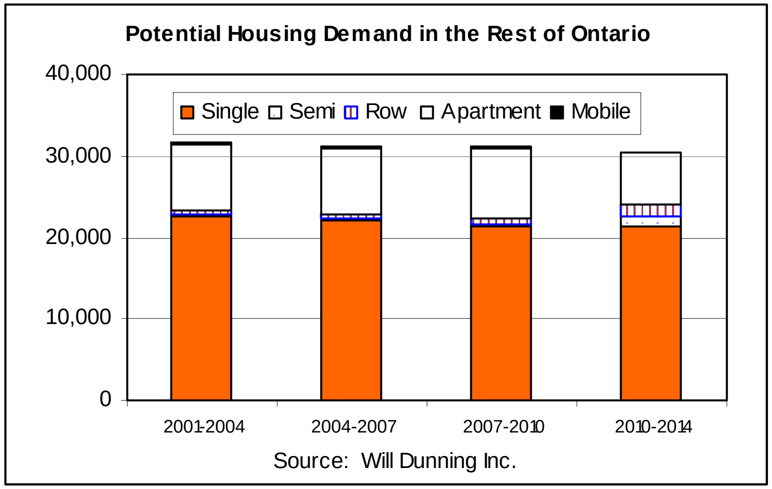




- The population of the central Ontario study area (the GTA plus Simcoe County) is projected to grow by about 940,000 during 2004 to 2014, or 94,000 per year. The average growth rate of 1.48% per year significantly exceeds the provincial average of 1.05%. In all of Ontario outside of the study area, the projected growth rate is much lower, at 0.63% per year.
- Central Ontario is expected to account for 70% of the province's population growth, even though it currently has about 48% of the province's population.
- As in the province as a whole, central Ontario will see the strongest growth in the age groups of 45 years and older.
- Household formation is projected to result in demand for about 43,000 new housing units per year during 2004 to 2014. Central Ontario is expected to account for 58% of the total Ontario demand.
- 57% of the housing requirement is for single-detached homes, which is 5 percentage points lower than the share in all of Ontario. The requirement for apartments (28% of the total) is identical to the Ontario share. Semi-detached, row, and mobile units account for 15% of the requirement in central Ontario, versus 10% for all of Ontario.
- Data for the six regions of central Ontario is shown starting at the second page following this page.

Demographic Trends and Long-Term Housing Demand –
Rest of Ontario





- The remainder of Ontario (excluding the GTA and Simcoe County) is projected to experience slow population growth during 2004 to 2014. The increase is projected at 407,000 people (about 41,000 per year, 0.63% per year). The percentage growth rate will be less than one-half of the rate (1.48%) seen in central Ontario. only or 94,000 per year. The average growth rate of 1.48% per year significantly exceeds the provincial average of 1.05%.

- Household formation is projected to result in demand for about 31,000 new housing units per year during 2004 to 2014, or 42% of the total Ontario demand.
- A high proportion of the housing requirement is for single-detached homes (70%), compared to 57% for central Ontario and 62% for all of Ontario. The requirement for apartments (24% of the total) is slightly lower than the 28% shares in Ontario and central Ontario. 6% of the requirement in the rest of Ontario is for semi-detached, row, and mobile units much lower than the 15% share in central Ontario and 10% in all of Ontario.

Demographic Trends and Long-Term Housing Demand – *Durham Region*

- The population of Durham Region is projected to expand by 115,000 during 2004 to 2014, or an average of 1.91% per year. This would be a slight reduction from the actual growth rate of 2.02% per year during 1996-2001.
- As is the case elsewhere, the most rapid growth will be in the age groups of 55 years and older.
- Durham Region will also experience rapid growth in the first-time buyer age group (25 to 34 years).

Table 4
Durham Region
Projected Annual Population Growth Rates
2001 to 2014

Age Group	2001-2004	2004-2007	2007-2010	2010-2014
0 to 14	-0.60%	-1.10%	-0.51%	1.03%
15 to 24	3.40%	3.04%	1.96%	0.18%
25 to 34	2.27%	4.06%	3.99%	3.06%
35 to 44	-1.00%	-2.59%	-2.49%	1.43%
45 to 54	4.07%	4.39%	2.98%	-0.33%
55 to 64	7.26%	5.66%	5.30%	4.17%
65 to 74	2.61%	3.38%	4.92%	6.57%
75 +	3.64%	3.51%	3.04%	3.07%
Total	1.98%	1.92%	1.91%	1.90%

Source: Ontario Ministry of Finance

- Housing demand in Durham Region is expected to expand over the coming decade. As more-central areas are increasingly built out, activity will shift to the out-lying areas that have large inventories of potential development lands.
- Among the six regions of central Ontario, Durham will have the highest percentage of its activity in single-detached homes (68%), versus the average of 62% for central Ontario.

Table 5
Potential Housing Demand - Durham Region

	Single	Semi	Row	Apartment	Mobile	Total
Units Per Year						
2001-2004	3,275	264	268	975	8	4,791
2004-2007	3,437	294	287	1,095	11	5,124
2007-2010	3,648	296	301	1,145	9	5,399
2010-2014	3,822	301	345	1,165	1	5,634
% of Total						
2001-2004	68.4%	5.5%	5.6%	20.4%	0.2%	100.0%
2004-2007	67.1%	5.7%	5.6%	21.4%	0.2%	100.0%
2007-2010	67.6%	5.5%	5.6%	21.2%	0.2%	100.0%
2010-2014	67.8%	5.3%	6.1%	20.7%	0.0%	100.0%

Source: Will Dunning Inc.

Demographic Trends and Long-Term Housing Demand –
Halton Region

- Halton's population growth is projected at 93,000 during 2004 to 2014, or an average of 2.08% per year. This would be a slight increase from the actual growth rate of 2.00% per year during 1996-2001.
- Most age groups will expand rapidly.

Table 6
Halton Region
Projected Annual Population Growth Rates
2001 to 2014

Age Group	2001-2004	2004-2007	2007-2010	2010-2014
0 to 14	0.01%	-0.06%	0.45%	1.47%
15 to 24	2.84%	2.83%	1.87%	0.71%
25 to 34	2.81%	3.64%	3.49%	2.67%
35 to 44	-0.86%	-1.05%	-0.34%	2.44%
45 to 54	2.45%	3.32%	2.21%	-0.20%
55 to 64	5.90%	3.91%	3.39%	2.68%
65 to 74	2.53%	3.53%	5.19%	5.60%
75 +	4.51%	4.19%	3.12%	3.33%
Total	1.99%	2.14%	2.10%	2.03%

Source: Ontario Ministry of Finance

- Halton Region is expected to see an expansion of housing activity during the coming decade, as demand shifts westward from Peel Region.

Table 7
Potential Housing Demand - Halton Region

	Single	Semi	Row	Apartment	Mobile	Total
Units Per Year						
2001-2004	2,128	205	167	959	2	3,460
2004-2007	2,415	235	204	1,096	3	3,953
2007-2010	2,555	251	218	1,157	4	4,185
2010-2014	2,588	262	225	1,247	5	4,326
% of Total						
2001-2004	61.5%	5.9%	4.8%	27.7%	0.1%	100.0%
2004-2007	61.1%	5.9%	5.2%	27.7%	0.1%	100.0%
2007-2010	61.0%	6.0%	5.2%	27.6%	0.1%	100.0%
2010-2014	59.8%	6.0%	5.2%	28.8%	0.1%	100.0%

Source: Will Dunning Inc.

Demographic Trends and Long-Term Housing Demand –
Peel Region

- Among the six regions of central Ontario, Peel Region is expected to see the most rapid growth in terms of absolute numbers (238,000 during 2004 to 2014).
- However, its population growth is expected to decelerate during 2004 to 2014. After 2010, Peel will have the lowest rate among the five suburban regions in central Ontario.
- Peel Region – Mississauga in particular - is becoming built-out and presents fewer opportunities for subdivision development. Therefore, an increasing share of Peel's housing growth will have to occur through high density apartment development (32%) and medium density town house and semi-detached development (20%).

Table 8
Peel Region
Projected Annual Population Growth Rates
2001 to 2014

Age Group	2001-2004	2004-2007	2007-2010	2010-2014
0 to 14	1.47%	0.36%	0.00%	0.31%
15 to 24	2.13%	2.22%	2.38%	1.69%
25 to 34	0.96%	0.67%	1.10%	1.06%
35 to 44	2.10%	0.31%	-0.71%	0.11%
45 to 54	3.25%	4.16%	3.81%	1.95%
55 to 64	7.13%	4.99%	4.13%	3.14%
65 to 74	5.55%	5.26%	5.73%	6.37%
75 +	5.60%	5.24%	4.95%	5.26%
Total	2.69%	2.10%	1.93%	1.79%

Source: Ontario Ministry of Finance

Table 9
Potential Housing Demand - Peel Region

	Single	Semi	Row	Apartment	Mobile	Total
Units Per Year						
2001-2004	5,505	1,225	1,201	3,625	20	11,576
2004-2007	5,085	1,119	1,000	3,232	20	10,455
2007-2010	4,937	1,087	924	3,232	23	10,203
2010-2014	4,747	1,017	889	3,357	29	10,038
% of Total						
2001-2004	47.6%	10.6%	10.4%	31.3%	0.2%	100.0%
2004-2007	48.6%	10.7%	9.6%	30.9%	0.2%	100.0%
2007-2010	48.4%	10.7%	9.1%	31.7%	0.2%	100.0%
2010-2014	47.3%	10.1%	8.9%	33.4%	0.3%	100.0%

Source: Will Dunning Inc.

Demographic Trends and Long-Term Housing Demand –
City of Toronto

- The population of the new City of Toronto is projected to grow at a modest rate of 0.67% per year during 2004 to 2014. This will amount to about 183,000 people during the period.
- However, growth in the City depends largely on housing supply. Based on recent trends, development could be increased through grey fields and brown field redevelopments as well as in-fill apartments. It is highly possible that population growth in Toronto will be increased at the expense of the other regions of central Ontario.

Table 10
City of Toronto
Projected Annual Population Growth Rates
2001 to 2014

Age Group	2001-2004	2004-2007	2007-2010	2010-2014
0 to 14	1.17%	0.13%	-0.86%	-1.34%
15 to 24	0.76%	2.66%	2.74%	1.98%
25 to 34	-4.43%	-4.80%	-2.41%	0.34%
35 to 44	1.99%	0.73%	-1.84%	-3.67%
45 to 54	2.23%	3.39%	3.40%	2.19%
55 to 64	3.95%	3.49%	3.28%	2.52%
65 to 74	0.12%	0.23%	1.65%	3.81%
75 +	3.11%	2.59%	1.67%	1.31%
Total	0.83%	0.84%	0.69%	0.53%

Source: Ontario Ministry of Finance

- Based on past trends, about one-third of Toronto's housing growth might be in apartments. As noted, however, recent trends indicate that apartments could take a larger market share. During the past four years, apartment completions have averaged about 7,700 units per year, more than double the indicated "requirement".
- During the past four years, total housing production has average about 10,600 units per year, in line with the total requirement.

Table 11
Potential Housing Demand – City of Toronto

	Single	Semi	Row	Apartment	Mobile	Total
Units Per Year						
2001-2004	5,651	1,377	676	3,211	1	10,917
2004-2007	5,891	1,455	691	3,403	2	11,442
2007-2010	5,336	1,340	521	3,284	2	10,484
2010-2014	4,609	1,157	291	3,251	1	9,309
% of Total						
2001-2004	51.8%	12.6%	6.2%	29.4%	0.0%	100.0%
2004-2007	51.5%	12.7%	6.0%	29.7%	0.0%	100.0%
2007-2010	50.9%	12.8%	5.0%	31.3%	0.0%	100.0%
2010-2014	49.5%	12.4%	3.1%	34.9%	0.0%	100.0%

Source: Will Dunning Inc.

Demographic Trends and Long-Term Housing Demand –
York Region

- Among the six regions of central Ontario, York Region is projected to see the most rapid rate of population growth during 2004 to 2014, at an average of 2.46% per year (a total of 220,000.

Table 12
York Region
Projected Annual Population Growth Rates
2001 to 2014

Age Group	2001-2004	2004-2007	2007-2010	2010-2014
0 to 14	0.36%	0.35%	0.91%	1.83%
15 to 24	2.79%	2.01%	1.31%	0.42%
25 to 34	4.53%	4.24%	3.35%	2.18%
35 to 44	-0.07%	-0.07%	0.83%	3.17%
45 to 54	2.72%	2.65%	2.18%	0.22%
55 to 64	8.43%	6.24%	4.88%	2.94%
65 to 74	4.63%	4.66%	5.38%	7.45%
75 +	5.82%	5.71%	4.98%	4.92%
Total	2.81%	2.58%	2.47%	2.35%

Source: Ontario Ministry of Finance

- York Region provides ample opportunities for development, in both low-rise and high-rise housing forms.

Table 13
Potential Housing Demand - York Region

	Single	Semi	Row	Apartment	Mobile	Total
Units Per Year						
2001-2004	5,246	506	444	2,139	6	8,341
2004-2007	5,352	518	455	2,230	6	8,561
2007-2010	5,590	537	468	2,306	7	8,908
2010-2014	5,633	546	463	2,471	10	9,123
% of Total						
2001-2004	62.9%	6.1%	5.3%	25.6%	0.1%	100.0%
2004-2007	62.5%	6.1%	5.3%	26.0%	0.1%	100.0%
2007-2010	62.8%	6.0%	5.3%	25.9%	0.1%	100.0%
2010-2014	61.7%	6.0%	5.1%	27.1%	0.1%	100.0%

Source: Will Dunning Inc.

Demographic Trends and Long-Term Housing Demand –
Simcoe County

- The population of Durham Region is projected to expand by 115,000 during 2004 to 2014, or an average of 1.91% per year. This would be a slight reduction from the actual growth rate of 2.02% per year during 1996-2001.
- As is the case elsewhere, the most rapid growth will be in the age groups of 55 years and older.
- Durham Region will also experience rapid growth in the first-time buyer age group (25 to 34 years).

Table 14
Simcoe County
Projected Annual Population Growth Rates
2001 to 2014

Age Group	2001-2004	2004-2007	2007-2010	2010-2014
0 to 14	0.03%	-0.44%	0.33%	1.73%
15 to 24	3.89%	2.93%	1.63%	0.14%
25 to 34	3.84%	4.38%	3.98%	2.86%
35 to 44	-0.31%	-1.63%	-1.46%	2.34%
45 to 54	4.12%	4.64%	3.47%	0.10%
55 to 64	5.36%	4.25%	4.56%	4.07%
65 to 74	0.87%	1.01%	2.43%	4.52%
75 +	3.65%	3.19%	2.38%	1.76%
Total	2.30%	2.02%	1.99%	1.98%

Source: Ontario Ministry of Finance

- Housing demand projections based on the Ministry of Finance population projections suggest that Simcoe County should see a large expansion in housing construction, close to 4,000 units per year.

Table 15
Potential Housing Demand – Simcoe County

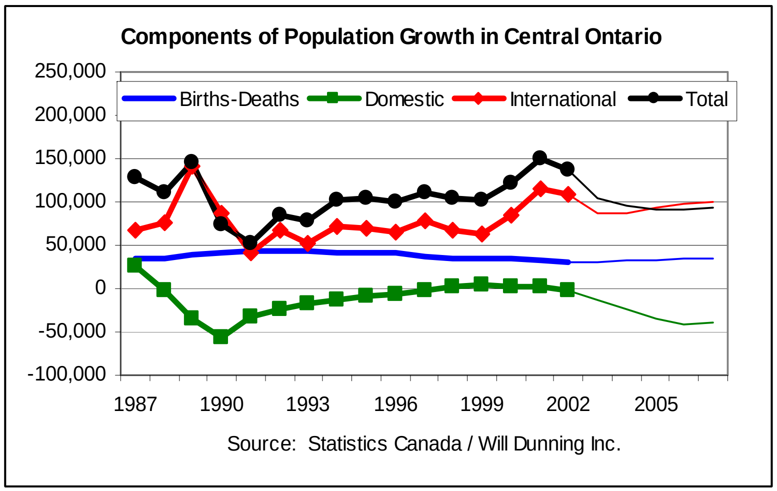
	Single	Semi	Row	Apartment	Mobile	Total
Units Per Year						
2001-2004	2,461	247	251	858	6	3,823
2004-2007	2,459	253	246	864	8	3,830
2007-2010	2,663	253	256	862	7	4,042
2010-2014	2,848	254	288	834	2	4,226
% of Total						
2001-2004	64.4%	6.5%	6.6%	22.4%	0.2%	100.0%
2004-2007	64.2%	6.6%	6.4%	22.6%	0.2%	100.0%
2007-2010	65.9%	6.3%	6.3%	21.3%	0.2%	100.0%
2010-2014	67.4%	6.0%	6.8%	19.7%	0.0%	100.0%

Source: Will Dunning Inc.

Migration Trends

One of the most changeable – and therefore, significant – components of population growth is migration. The "natural" components – births and deaths – are relatively stable.

The chart below shows figures for total population growth in the central Ontario study area, plus three major components of population growth. Estimates of actual data produced by Statistics Canada are shown as thick lines. Our projections are shown as thin lines.



Migration varies widely over the years. The chart shows two components of migration. "Domestic" migration (movements to and from other parts of Ontario and other provinces of Canada) appears to change relatively gradually from year to year, but over long periods of time can be quite changeable.

International migration (movement to and from other countries) varies considerably from year to year.

Statistical analysis indicates that domestic migration is highly influenced by economic conditions, in particular by employment opportunities (as measured by the ratio of employment divided by the adult population) and housing costs (as measured by real house prices – the average price adjusted for inflation).

International migration, on the other hand, is only weakly influenced by the economic variables. Migration policies of the federal government as well as conditions within other countries have much more influence on migration.

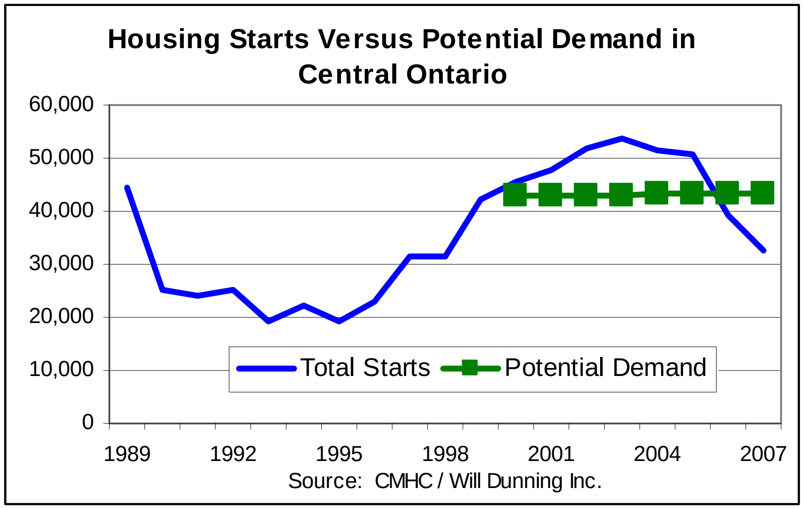
With regard to the natural component of population growth, there is a relationship to economic variables: an increase in employment opportunities is associated with low natural growth; higher house values are associated with higher natural growth. In addition t the economic factors, there is a long-term trend for less growth from this source.

The forecasts indicate that the expected economic conditions (weaker employment and house prices that have increased in real terms) could cause:

- Increased growth from births minus deaths.
- Reduced growth from migration.
- Population growth would average 93,000 per year during 2003-2007, down from 128,000 during 1999-2003.
- Part of the reduction is because international migration was very high in 2000 to 2002 and may be due for a fall anyway.

Comparison of Actual Housing Starts to Potential Demand

Data on actual housing starts in central Ontario as well as forecasts of housing starts were presented in an earlier section of this report. The following chart contrasts actual housing starts to the estimates of potential housing demand.



During the 1990s, until 1998, housing starts were below the potential demand that is estimated through demographic analysis. This reflects that during the first half of the decade economic growth and job creation was below long-term trend rates. Moreover, there was a surplus of housing that had been developed during the housing boom of the late 1980s.

During the second half of the 1990s, however, economic growth and job creation in central Ontario was above long-term trend rates.

In consequence, housing activity accelerated during the second half of the 1990s. Actual housing starts were about equal to estimated potential demand in 1999.

During 2000 to the present, annual housing starts have exceeded the estimated potential. This is expected to continue until 2005. During 2000 to 2005, the cumulated excess of actual starts over potential demand will be about 43,000 units.

For 2006 and 2007, housing starts are expected to be lower than the potential level. The total amount of the shortfall during these two years will be about 15,000 units.

The forecasts of housing starts have not been extended beyond 2007. However, the demographic analysis suggests that in the years to 2014, average activity might be in the range of 43,000 units per year. Actual activity will depend on economic conditions of the time. Key economic variables will be:

- Job creation and income growth.
- Interest rates.
- The costs of housing, and housing affordability relative to incomes.
- The supplies and costs of land, labour, and materials.

About Will Dunning Inc.

Will Dunning Inc.

Will Dunning Inc. is an economic research firm. Based in Toronto, the firm specializes in housing market analysis, including project-specific market feasibility studies.

The firm is led by Will Dunning, who has been honing his housing market analysis skills since 1982. Following 16 years with the federal housing agency (Canada Mortgage and Housing Corporation), Will joined N. Barry Lyon Consultants Limited in 1997. In September 2000, he established his own firm.

Will Dunning provides additional information on services at www.wdunning.com. A monthly overview of the GTA residential market is provided at the site, plus various other research.

Will has a BA in Economics from McGill University and MA in Economics from the University of British Columbia.