

ECONOMIC VIEWPOINT

Ontario Housing Market Outlook: It All Comes Down to Location, Location, Location

By Randall Bartlett, Senior Director of Canadian Economics, and Marc Desormeaux, Principal Economist

- ▶ While analysts and the media follow Toronto and all-Ontario real estate data closely, there is significant variability across communities within Canada's largest province.
- ▶ Supported by buyers' desire for more space when working and educating children from home, homebuying activity surged most significantly in smaller Ontario centres during the pandemic.
- ▶ While we expect home sales and values to find a bottom in the second half of 2023, these smaller cities should continue to experience some of the most pronounced corrections in Ontario.
- ▶ Despite some variation by city, the erosion of affordability has made life challenging for households across Ontario. As policymakers move forward on ambitious plans to increase the housing supply to improve affordability, considering local market needs will be of paramount importance.

Desjardins Economic Studies has recently published a plethora of housing market analysis. From our [updated baseline forecast](#) to [the estimated impact of immigration on housing](#), these have helped to shape recent discourse around housing in Canada.

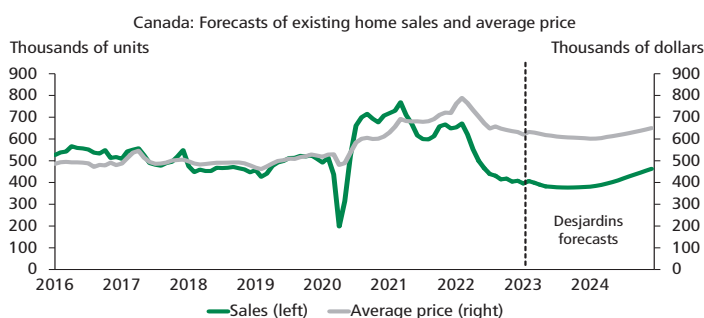
But fundamentally, all housing is local. It's a well-worn cliché that real estate comes down to location, location, location. Hence, we thought we would dig a little deeper into the Ontario housing market to get a sense of recent developments and where the market could be headed next.

One Nation under Macklem

Before digging into the Ontario details, it's important to set the national stage. In Canada as a whole, we've seen existing home sales and average prices fall sharply from their pandemic peaks (Graph 1). The primary catalyst for this correction was the rapid tightening of monetary policy that began in March 2022 (Graph 2 on page 2).

But in recent months, the pace of the housing market correction has slowed considerably. Indeed, we expect sales to find a bottom early in the second half of 2023 and home prices to begin rising shortly thereafter. Meanwhile housing starts, which

GRAPH 1
The Housing Market Correction Should Slow Going Forward



Sources: Regional real estate boards: Canadian Real Estate Association and Desjardins Economic Studies

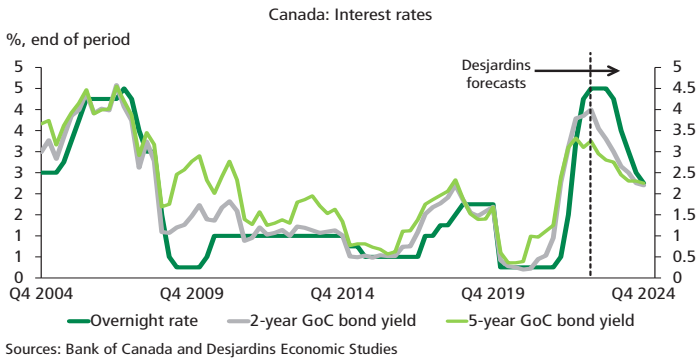
have fallen recently from near-historic highs, should bottom out in the early part of 2024 before gradually climbing higher. This change in fortune will likely be the result of interest rate cuts following a prolonged pause by the Bank of Canada. A persistently tight labour market, still elevated household savings and high levels of immigration will also play a role in supporting housing demand in Canada.

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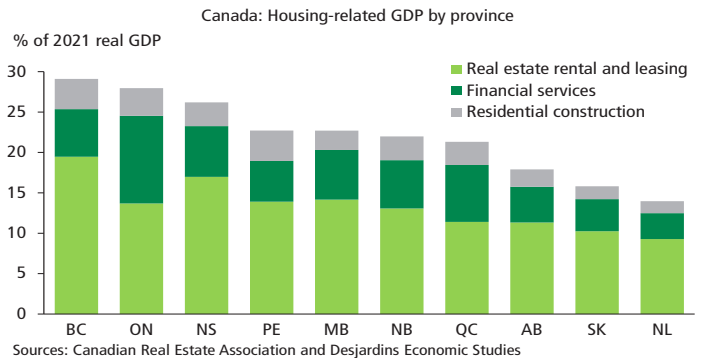
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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GRAPH 2
The Bank of Canada Is Likely Done Hiking Rates



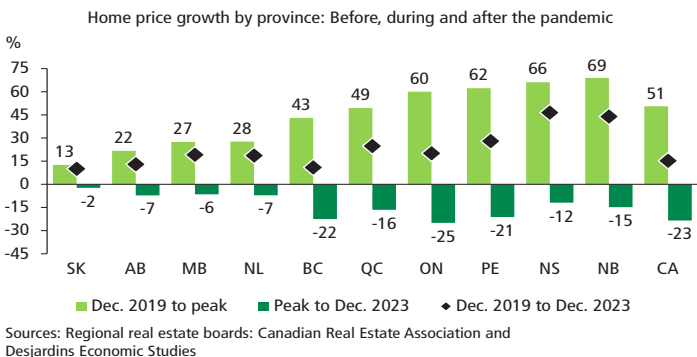
GRAPH 4
Provinces Have Different Levels of Exposure to the Housing Market



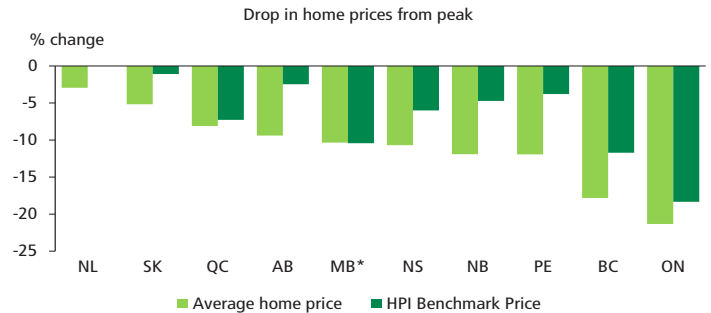
Provincial Housing Markets Are All Moving Lower

While the profile for the housing market forecast in Graph 1 looks relatively smooth at the national level, under the hood it's anything but. There is enormous variability in our outlook for provincial housing markets (Graph 3). This reflects the better economic performance expected for commodity-producing provinces as energy and non-energy primary goods prices are likely to remain elevated. In contrast, provinces that are more economically exposed to the housing market, such as British Columbia and Ontario, should see some of the largest price corrections (Graph 4).

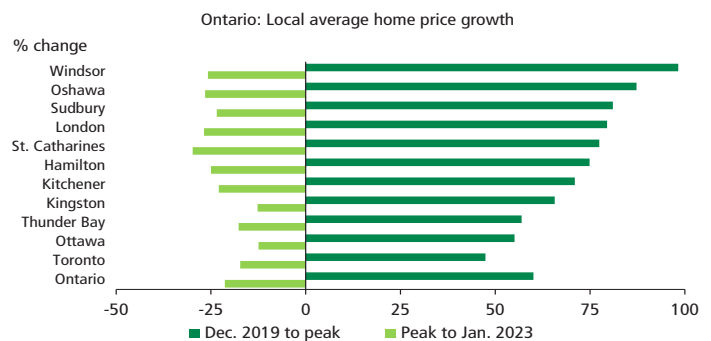
GRAPH 3
Home Prices Are Expected to Correct the Most in Ontario



GRAPH 5
Ontario Has Experienced the Largest Home Price Correction So Far



GRAPH 6
Local Average Home Price Growth



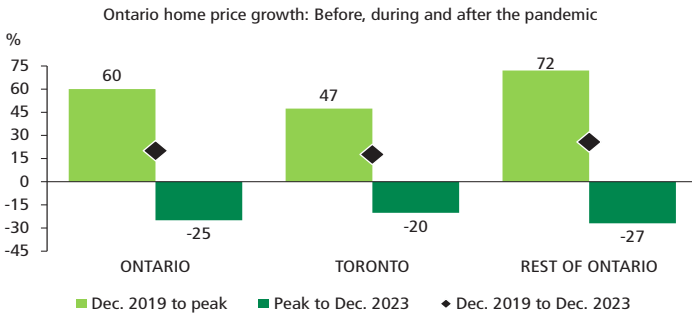
Where Will Home Prices Go in Ontari-ari-ari-o?

The provinces most exposed to real estate have seen the largest corrections so far (Graph 5). Ontario has posted the biggest decline in prices of any province since the market peaked nationally in February 2022. This has weighed heavily on economic activity, particularly residential investment.

Even within Ontario, there is significant variability across communities (Graph 6). Given nearly half of existing home sales take place in the Greater Toronto Area (GTA), that market tends to garner the most attention. But during the pandemic, it was

surrounding communities that grabbed more of the headlines. Home prices rose significantly in the GTA, but not nearly as much as they did in smaller Ontario communities or nationally for that matter (Graph 7 on page 3). And these places are expected to continue seeing the biggest correction.

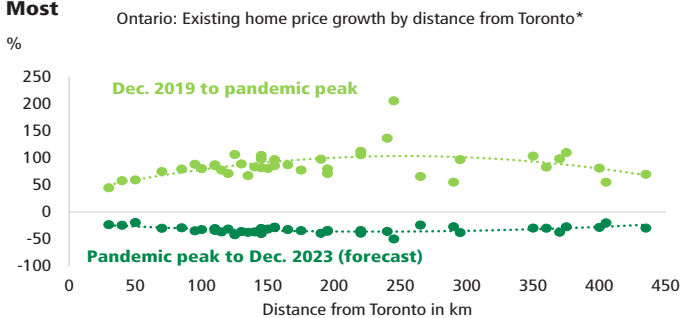
GRAPH 7
Areas Outside of the GTA Should See the Steepest Ongoing Correction



Sources: Regional real estate boards: Canadian Real Estate Association and Desjardins Economic Studies

The desire for more space when working and educating children from home pushed Ontarians further afield. This unprecedented demand drove up house prices as well. Price increases in Ontario during the pandemic were most pronounced within a few hundred kilometers of the GTA (Graph 8). Of course, there were some notably outsized exceptions to this as well. Communities like Bancroft, Parry Sound, Quinte, Renfrew, Northumberland Hill, Muskoka and Haliburton, Woodstock-Ingersoll and North Bay saw their average home price more than double from December 2019 to peak. These communities have also seen the largest price declines, and that trend is expected to hold going forward (Graph 9).

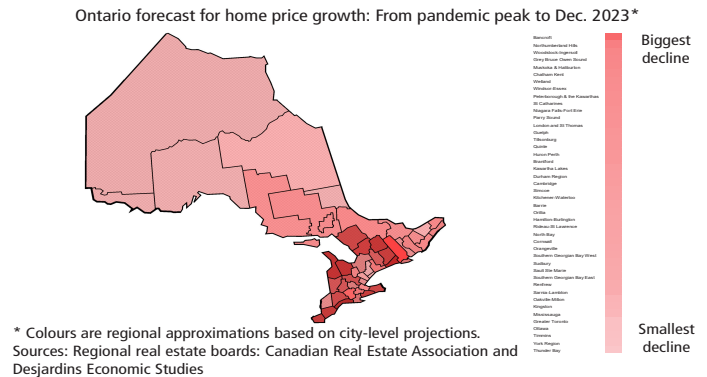
GRAPH 8
Housing Markets That Went up the Most Are Likely to Correct the Most



*Excludes Thunder Bay, Timmins, Sault Ste. Marie and the Greater Toronto Area
Sources: Regional real estate boards: Canadian Real Estate Association and Desjardins Economic Studies

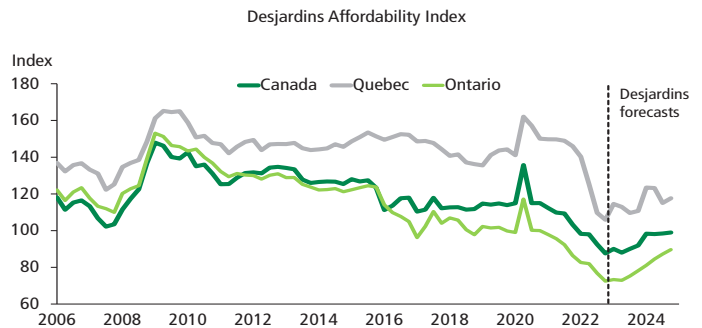
This is a very difficult time for households in Canada. In Ontario specifically, housing affordability eroded significantly during the pandemic, with the affordability gap with Quebec and the rest of the country widening considerably (Graph 10). While affordability in Canada's most populous province is expected to improve as home prices continue to fall and borrowing costs ultimately come down, we don't anticipate that it will return to its pre-COVID level by the end of 2024.

GRAPH 9
The Provincial Overview



* Colours are regional approximations based on city-level projections.
Sources: Regional real estate boards: Canadian Real Estate Association and Desjardins Economic Studies

GRAPH 10
Affordability Should Improve in Ontario but Not by Much

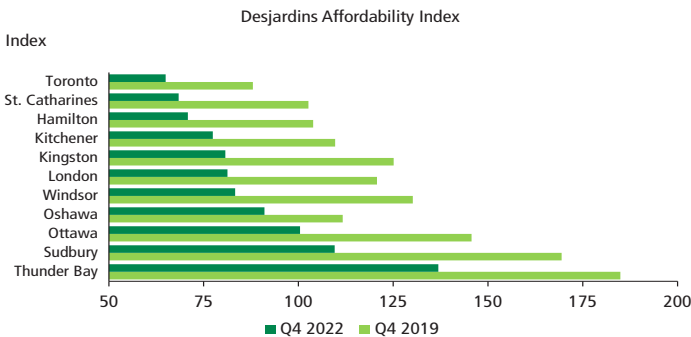


Sources: Statistics Canada, Canadian Real Estate Association, Conference Board of Canada and Desjardins Economic Studies

But reduced affordability isn't just a GTA story. In fact, affordability fell most in urban centres outside of The Big Smoke during the pandemic (Graph 11 on page 4). So while Toronto remains the most unaffordable city in the province, it's followed closely by St. Catharine's, Hamilton and Kitchener. Cities somewhat further afield, such as London, Windsor, Kingston and Oshawa, have seen affordability decline somewhat more modestly. At the same time, cities more than a few hundred kilometers from the GTA, such as Ottawa, Sudbury and Thunder Bay, have seen affordability hold up better but still decline since the final quarter of 2019.

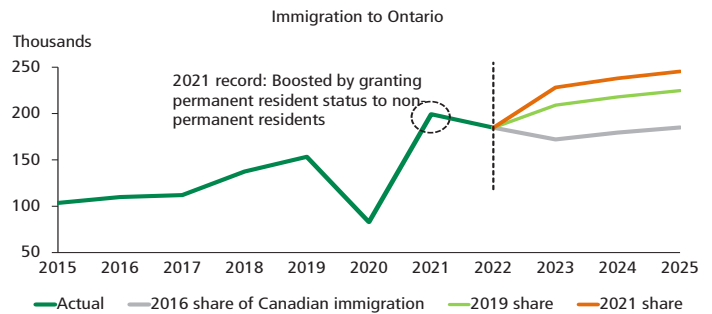
This erosion of housing affordability has had further unintended consequences for the province of Ontario. Families have been leaving the least affordable parts of the province for greener pastures elsewhere in Ontario. Residents have also been leaving Ontario altogether, with the Atlantic provinces being the preferred destination since the start of the pandemic, and Alberta more recently (Graph 12 on page 4).

GRAPH 11
Record-Low Affordability Has Become a Problem across Ontario



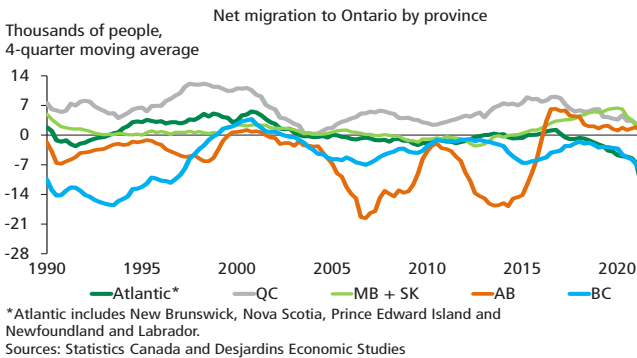
Sources: Bank of Canada, Statistics Canada, Canadian Real Estate Association, Conference Board of Canada and Desjardins Economic Studies

GRAPH 13
Immigration to Ontario Should Be at or Near Historic Highs



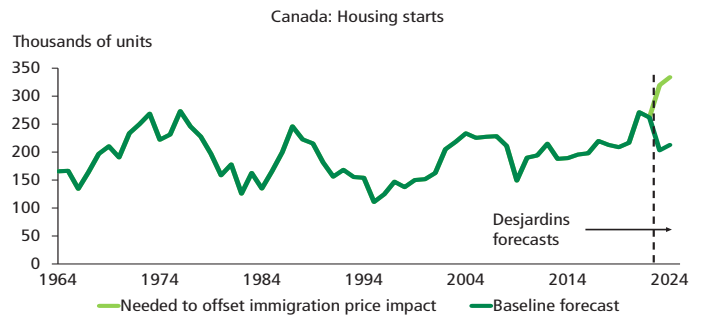
Sources: Statistics Canada, Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

GRAPH 12
Migration to Atlantic Canada Has Likely Peaked, but Migration to Alberta Is Rising



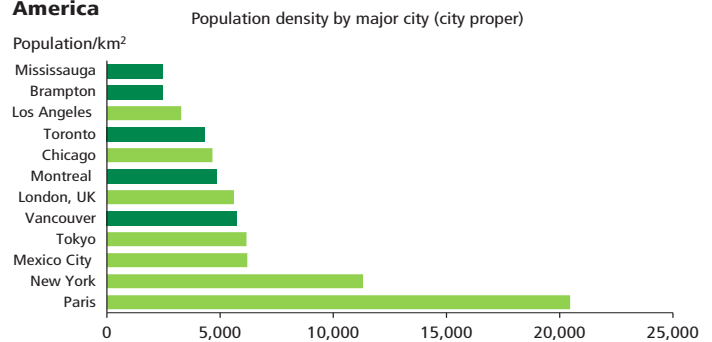
All else equal, this population outflow to other provinces would take pressure off Ontario's housing market. However, Ontario's population is growing rapidly because of international migration (Graph 13) and net non-permanent resident admissions. Consequently, housing demand is expected to remain strong going forward, even in an environment of sustained high interest rates. While many first-time homebuyers are still struggling to accumulate the necessary down payment, ongoing price declines will eventually help lower that amount. And in the medium term, many will also be reaping the benefits of the federal government's Tax-Free First Time Savings Account, which goes into effect April 1. These factors will be particularly supportive to the housing market in the GTA, but will have spillovers to other communities. Further, the recent downturn in housing starts is expected to continue throughout 2023, implying that supply will continue to fall short of demand from the rapidly growing population both in Ontario and nationwide (Graph 14). This is truly a lost opportunity, as the comparatively low density of the GTA and surrounding cities suggests there is plenty of room to increase construction even within existing urban boundaries (Graph 15).

GRAPH 14
Unprecedented Housing Starts Are Needed to Accommodate Newcomers



Sources: Canada Mortgage and Housing Corporation and Desjardins Economic Studies

GRAPH 15
Toronto Isn't an Overly Dense Major City Globally or in North America



Sources: Official sources

Conclusion

Canada's housing market continues to correct. And while analysts and the media naturally follow Toronto and all-Ontario housing data closely, the picture is much more complex. Many smaller centres saw the most eye-popping price gains during the pandemic and are now experiencing the most significant home value declines as the housing correction proceeds. That said, affordability is still stretched everywhere, and that's unlikely to change significantly in the coming years.

Accelerating population growth and easing construction activity therefore raise the stakes for policymakers to deliver on affordable housing objectives. We recently [estimated](#) that housing starts would have to increase by 100k nationally per year on average in 2023 and 2024 relative to our baseline to offset price gains amid rising immigration. So policymakers should take up the mantra "location, location, location" and focus their affordability measures on overpriced markets.