

MARKET YEAR IN REVIEW & OUTLOOK REPORT 2017



CONNECTING
TO
AFFORDABILITY





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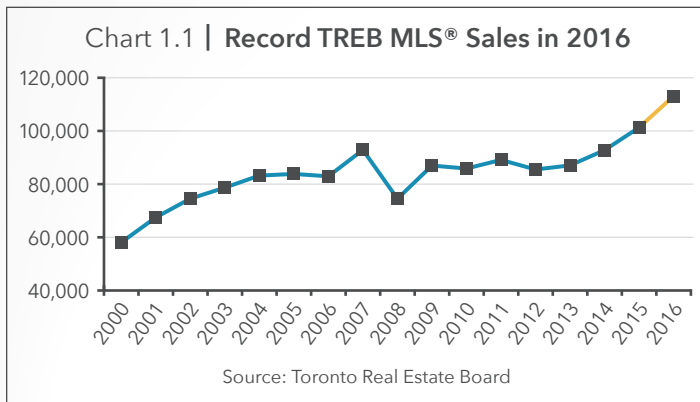


EXECUTIVE SUMMARY

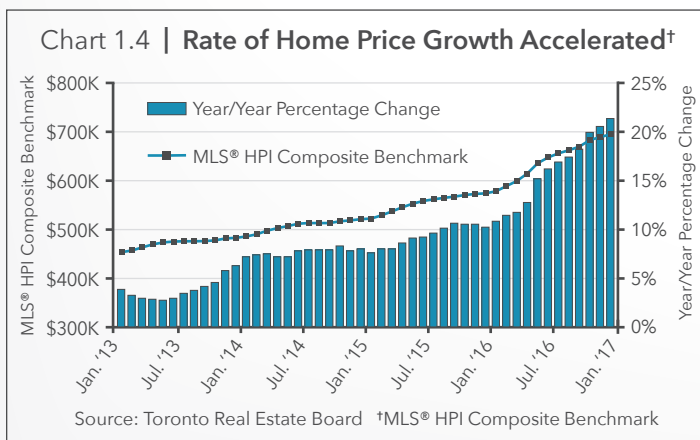


2016: ANOTHER RECORD YEAR FOR GTA HOME SALES

2016 saw both record home sales and accelerated annual sales growth (Chart 1.1). Key drivers of record home sales included population growth, low mort-



gage rates, low unemployment, and above-inflation economic growth, while strong demand and very low inventory resulted in robust price growth (Chart 1.4). It's important to note that record home sales in 2016 were heavily based on domestic demand. Foreign buying activity in the GTA represented a minimal 4.9 per cent of transactions. In fact, the great majority of foreign buyers were purchasing a primary residence, a property to rent out, or a property for another family member to live in. You'll find more on the market in 2016, including the results of TREB-commissioned Ipsos surveys on recent buyers and foreign buying



activity in the first section of this report.

2017: SELLER'S MARKET CONDITIONS TO REMAIN IN PLACE

Strong rates of price growth and a short supply of listings will continue to make headlines in 2017. TREB MLS® System sales are expected to range between 104,500 and 115,500, with a point forecast of 110,000 (Chart 2.1). The results of a TREB-commissioned Ipsos survey on intending buyers found less respondents planning to purchase a home in 2017 than compared



to the previous year (Chart 2.3). Despite the possibility of a decline in sales, first-time buyers will continue to account for more than half of the home sales in the GTA. Strong first-time buyer activity points to confidence in home ownership as a quality investment. A likely range for the average selling price in 2017 is between \$800,000 and \$850,000, with a point forecast of \$825,000. This suggests an approximate calendar year growth rate ranging between 10 per cent and 16 per cent.

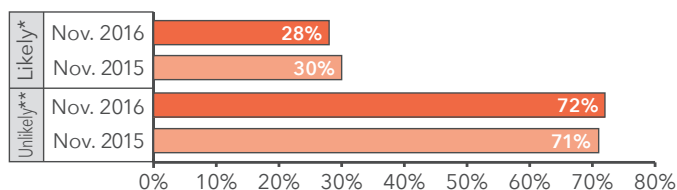
IMPROVED TRANSIT INFRASTRUCTURE MAY IMPROVE HOUSING AFFORDABILITY

In the summer of 2016, TREB commissioned the Canadian Centre for Economic Analysis (CANCEA) to undertake a study on transportation infrastructure's effects on housing affordability. The study focused on the introduction of the Metrolinx Regional Express Rail (RER) in the Greater Golden Horseshoe and its



EXECUTIVE SUMMARY

Chart 2.3 | Likelihood to Purchase a Home in the Next 12 Months



*Includes "very likely" and "somewhat likely" responses.
 ** Includes "not very likely" and "not at all likely" responses.

Source: Ipsos*

impact on affordability. CANCEA's resulting report sheds light on the vital role infrastructure plays in affordable housing. When considering GGH housing prices only, the study found that the contribution of improved transit access is shown to always be positive, with improvements in transit accessibility providing up to a 12% premium. CANCEA stated that whether or not people changed their mode of commuting from place to place as a result of the introduction of RER was the key determinant in assessing the impact on affordability.

THE ROLE OF SUPPLY IN ADDRESSING HOUSING AFFORDABILITY

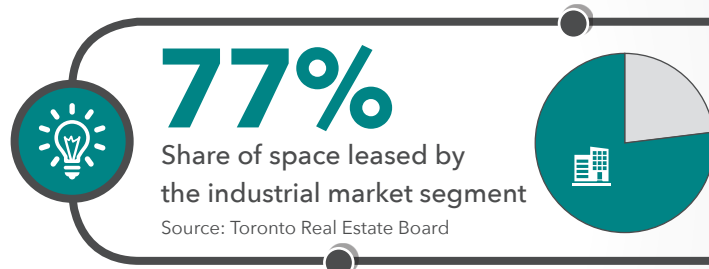
TREB believes no discussion of affordability should be had without considering supply. On January 31, 2017, TREB held an Economic Summit to launch this report. Featured at the Summit was a panel discussion focused on how the supply of housing impacts affordability in the GTA. In this section of the report, you'll find short submissions written by each panelist addressing the supply/affordability issue. The bottom line is this: the supply issue in the GTA will not be solved without innovative solutions from the public, private, and not-for-profit sectors.

THE LATEST ON NEW HOMES AND RESIDENTIAL LAND

This section features data and reporting on new

homes and residential land from Altus Group. They found that total new home sales in the GTA reached 47,161 units in 2016 (the highest level in 14 years), with an estimated value of over \$30 billion. 2016 was a record year for high-rise sales, with sales up throughout the GTA, while strong demand for low-rise product, combined with the lack of product available to purchase, pushed prices higher in 2016. The residential land sector in the GTA continued to be robust in 2016, with most areas of the GTA posting increases, largely driven by high density land.

INCREASED COMMERCIAL LEASING ACTIVITY AND COMMERCIAL PROPERTY SALES IN 2016



In 2016, despite a certain degree of economic uncertainty and related volatility in economic growth, Toronto Real Estate Board Commercial Network Members reported an annual increase in commercial leasing activity and commercial property sales in line with 2015 results. The amount of space leased in 2016 was up for the first three quarters of the year, compared to 2015. Looking forward, the Bank of Canada Business Outlook Survey points to improved business confidence, which could bode well for the demand for commercial real estate. Market conditions remained tight enough to see increases in average lease rates for all major market segments. Total TREB MLS® System commercial property sales were in line with the number of deals reported in 2015. Average sale prices, on a per square foot basis, were up for all three major market segments.

* Percentages in Ipsos graphs may not add up to 100% due to rounding and/or small shares of results not included.



When demand is up and supply is down, prices generally rise, and the 2016 GTA housing market was no exception.

2016 MARKET YEAR IN REVIEW



2016 MARKET YEAR IN REVIEW



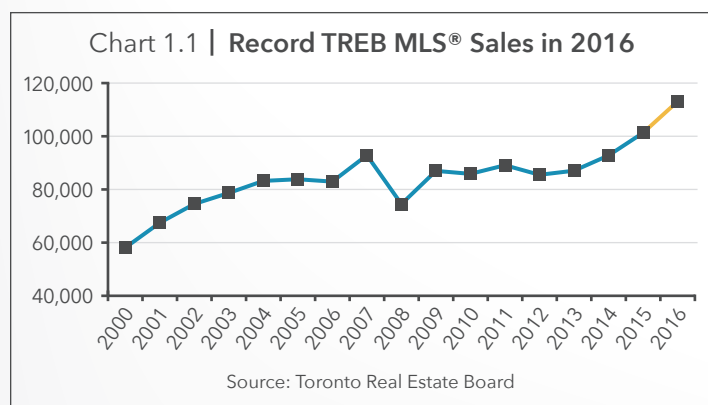
SECTION SUMMARY

- Record home sales and accelerated annual sales growth occurred in 2016.
- Key drivers of record home sales include population growth, low mortgage rates, low unemployment, and above-inflation income growth.
- Strong demand and very low inventory resulted in robust price growth.
- Record home sales in 2016 were heavily based on domestic demand.
- Foreign buying activity in the GTA, represented a minimal 4.9 per cent of transactions. The great majority of foreign buyers were purchasing a primary residence, a property to rent out, or a property in which another family member would live.



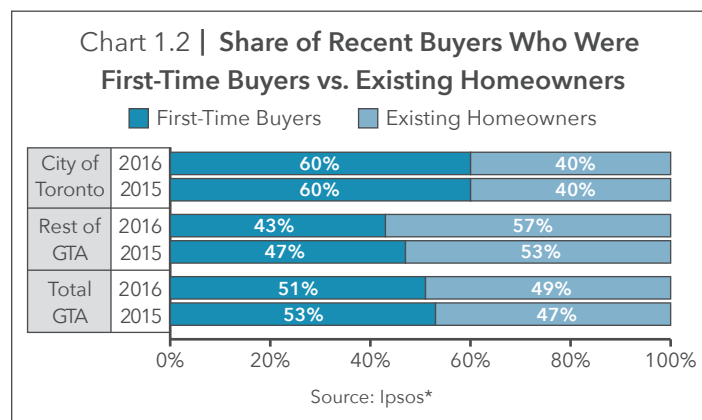
1.1 | 2016 MARKET RECAP

In TREB's inaugural *Market Year in Review & Outlook Report* released in January 2016, we predicted that the 2016 GTA housing market would produce a second consecutive year of record sales through TREB's MLS® System or the second best sales year on record. The former turned out to be the case, with 113,133 transactions reported by REALTORS® working within TREB's market area, representing an 11.8 per cent increase compared to 2015 (Chart 1.1).



According to a TREB-commissioned Ipsos survey of existing homeowners undertaken in November 2016, slightly more than half of households who purchased

a home during the preceding 12 months (recent home buyers) were first-time buyers (Chart 1.2). Looking at all homeowners (all households who have owned one or more homes), the average survey respondent had owned two homes, including the one in which they were currently living. A detailed profile of recent home buyers is provided in Section 1.2.



From a separate Ipsos survey of TREB Members, it was estimated that only 4.9 per cent of transactions where a TREB Member acted as a buyer's representative involved a foreign buyer. The survey also found that the recent foreign buyers tax imposed in British Columbia's Greater Vancouver Regional District had

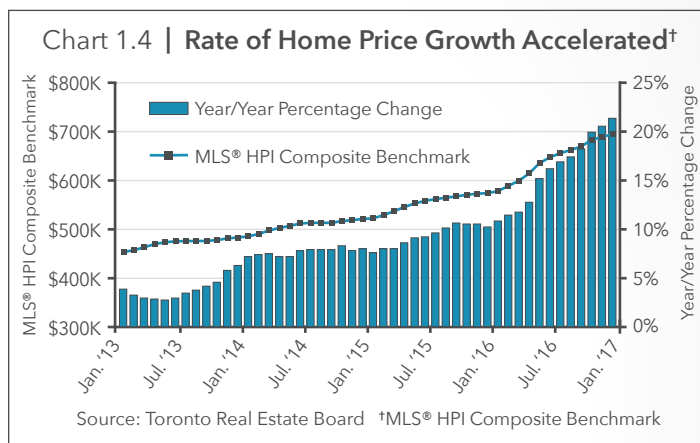
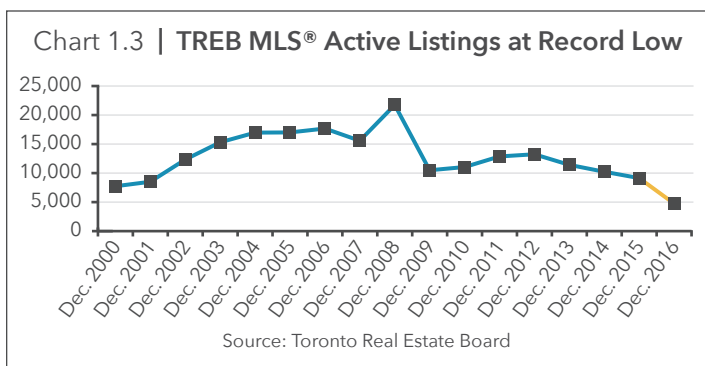
2016 MARKET YEAR IN REVIEW



resulted in minimal inquiries from foreign buyers hoping to purchase of a home in the GTA. These results, which are discussed in more detail in Section 1.3, suggest that the record home sales in 2016 were based heavily on domestic demand. Key drivers of the continued year-over-year growth in home sales included regional population growth, low mortgage rates, low unemployment, and above-inflation income growth.

an extremely constrained listing supply meant competition between buyers was very strong in many GTA neighbourhoods for most, if not all, home types.

Regardless of the measure considered, double-digit annual price increases were experienced across the region. The MLS® Home Price Index (HPI) Composite Benchmark was up by double digits on an annual



Despite very strong gains in home prices, we did not see homeowners listing their homes for sale to take advantage of equity gains. Instead, the opposite occurred with new listings reported by Realtors declining in 2016. For example, in December 2016, active listings were at the lowest point since the turn of the millennium (Chart 1.3). The steady decline in available listings over the past few years has been exacerbated by a vicious circle, wherein existing homeowners, who would have otherwise chosen to list their home for sale, chose instead to stay put and perhaps renovate. Renovation spending continued to trend upwards in 2016, with 40 per cent of non-recent home buyers planning on spending more than \$50,000 on renovations - up substantially from 23 per cent a year earlier.

basis throughout 2016 (Chart 1.4). The average selling price for 2016, at \$729,922, was up by 17.3 per cent year over year compared to \$622,121 in 2015.

Low-rise home types, including detached and semi-detached houses and townhouses, generally led price growth. The annual growth rates for both the MLS® HPI and the average selling price for detached houses were above 20 per cent for many months in 2016. However, double-digit rates of price growth were not limited to ground-oriented housing. The condominium apartment market segment became tighter throughout 2016 with more competition between buyers for available listings. This resulted in

The rules of economics dictate that when demand is up and supply is down for a given good or service, price generally rises, and the 2016 GTA housing market was no exception. Record demand up against



51%
Amount of recent buyers that were first-time home buyers
Source: Ipsos*



2016 MARKET YEAR IN REVIEW



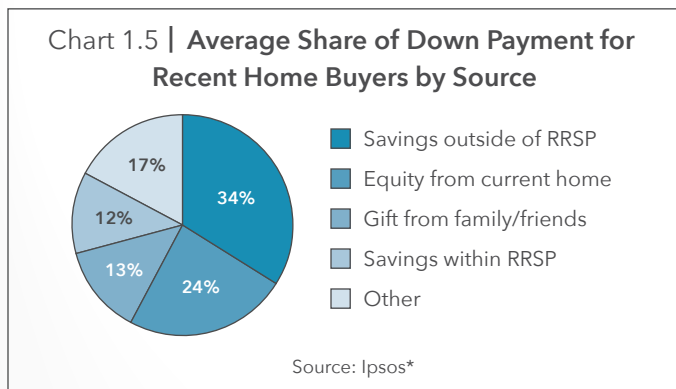
an acceleration of price growth in this market segment as well. In December 2016, the MLS® HPI Apartment Index was up by 15.2 per cent year over year.

1.2 | IPSOS RECENT HOME BUYER PROFILE

In November 2016, Ipsos undertook a survey of existing homeowners in the GTA on behalf of TREB. Of the 2,500 households surveyed, 1,000 had purchased a home in the previous 12 months. These 1,000 households were considered the “recent buyers” for the purposes of producing a 2016 recent buyer profile for this report.

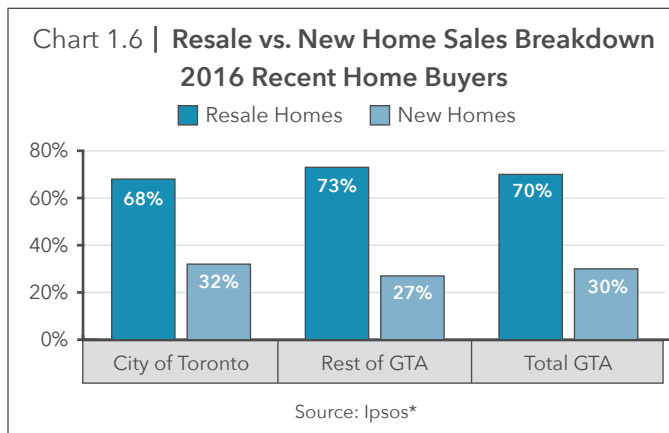
This profile is summarized in the following points:

- On average, recent home buyers reported a purchase price of \$672,023, which falls within the range of a typical home price for 2016, as measured by the MLS® HPI Composite Benchmark Price.



This result was up by 13.5 per cent compared to the average price reported to Ipsos by recent home buyers in 2015, at \$591,790.

- The average down payment percentage was



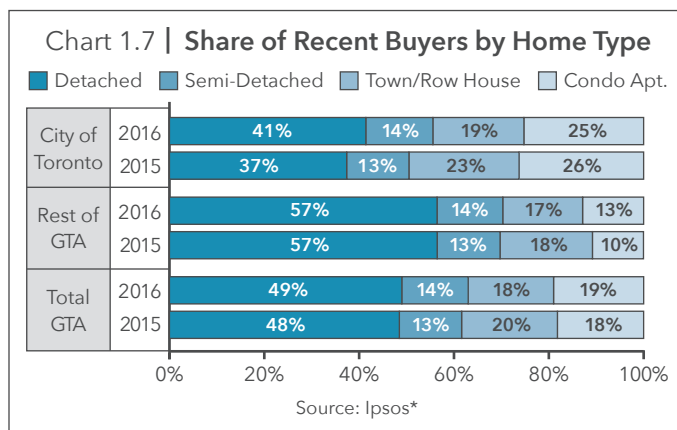
approximately 29 per cent for households that purchased a home over the last 12 months – almost identical to the result reported by Ipsos for 2015. Typically, close to half of the down payment came from RRSP or non-RRSP savings. Approximately one-quarter of the average households down payment came from existing home equity. The remainder of a typical down payment came from a gift from friends or family (13 per cent) or other (undefined) sources (17 per cent) (Chart 1.5).

- Similar to 2015, more than half of recent buyers used a fixed rate closed mortgage for their purchase. A five-year term was most popular. The most common mortgage rate was between 2.0 per cent and 2.99 per cent.
- The average income for a recent home buying household was almost \$98,000.
- Taking into account the average purchase price, the average down payment, and a mortgage rate of 2.9 per cent (within the most popular range), the share of the average household income dedicated to mortgage principal and interest on a recently purchased home was approximately 27 per cent. Even after adding property taxes and utilities costs, the share of income dedicated to major carrying costs would likely be well-below the federally mandated affordability ceiling of 39 per cent.

2016 MARKET YEAR IN REVIEW

Home ownership remains affordable for many GTA households and this goes a long way to explaining why we continued to see a record level of home sales in 2016.

- For the GTA as a whole, 51 per cent of recent home purchases involved first-time buyers - down by two percentage points compared to the Ipsos survey results from November 2015. The first-time buyer share was identical for the City of Toronto in 2015 and 2016, but down year over year for the surrounding regions.
- 70 per cent of recent home buyers purchased an existing (i.e. resale) home, which is in line with combined statistics from TREB and Altus Group. The other 30 per cent purchased a new home at some point in the development process. The new home share was higher in the City of Toronto, likely due to the prevalence of condominium apartments (Chart 1.6).



- Close to half of recent home purchases involved a detached house - the share was less than half in the City of Toronto (41 per cent), but 57 per cent in the surrounding GTA regions (e.g. '905' area code). Low-rise (detached, semi-detached houses, and townhouses) home types accounted for more than 80 per cent of transactions in the GTA (Chart 1.7).
- Recent home buyers tended to purchase a home in the GTA region within which they already resided.

For example, more than three quarters of recent home buyers who, before their purchase lived in the City of Toronto, purchased their home in the '416' area code.



1.3 | SPOTLIGHT ON FOREIGN BUYERS

Throughout the second half of 2016, speculation about the amount and nature of foreign buying activity, or lack thereof, in the GTA housing market was a hotly contested issue receiving an abundance of media attention. This was punctuated by the July 25 announcement of a 15 per cent foreign buyers tax for the Greater Vancouver Regional District in British Columbia. Throughout 2016, the only constant in the debate about foreign buyers was the lack of empirical evidence for the GTA.

As the foreign buyer conversation unfolded, TREB held steadfast to the view that the provincial and municipal governments should comprehensively and patiently review the issue of foreign purchasers of real estate in Ontario before making any policy decisions and should seek out actual empirical evidence on the level of foreign buying activity in the GTA. In this regard, TREB decided to take the lead on data collection and commission its own study.

Since Realtors are one of the best sources of information on real estate market conditions, TREB commissioned a third party research firm (Ipsos) to survey its Members with regard to the level and type of foreign buying activity within the Greater Toronto Area. The survey data collected was robust, with over 3,500 TREB Members responding and a margin of

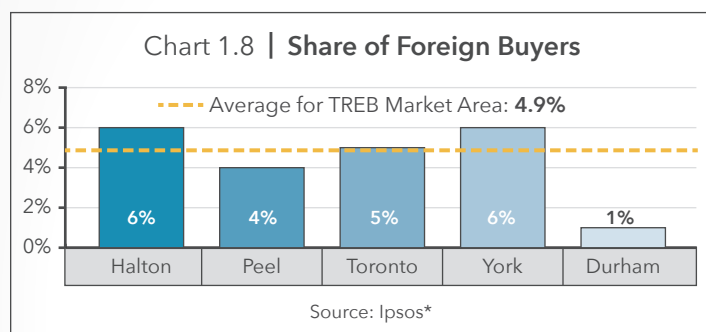
2016 MARKET YEAR IN REVIEW



error of ± 2 percentage points 19 times out of 20.

TREB Member responses to the Ipsos survey suggest that the amount of foreign buying activity in the GTA is minimal and that the nature of foreign buying over the preceding year was not detrimental to the GTA housing market or the regional economy.

Only an estimated 4.9 per cent of GTA transactions, in which TREB Members acted on behalf of buyers, involved foreign purchasers. The share was as high



as six per cent in the Regions of York and Halton and as low as one per cent in Durham Region. In the City of Toronto, the share of foreign buyers was five per cent (Chart 1.8).

These results were in line with recent CMHC findings related to the condominium apartment market. In the fall of 2016, CMHC estimated that 2.3 per cent of condominium apartments in the GTA were foreign-owned. In newer condominium apartment buildings, the share of foreign ownership was slightly higher at 3.9 per cent.

Based on TREB Member responses, Ipsos reported that an estimated 40 per cent of foreign

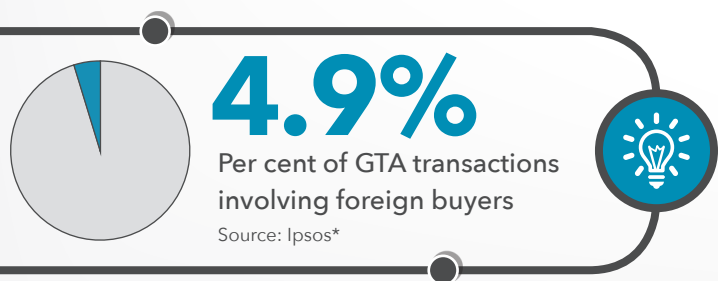
buyers were purchasing a home in the GTA for a principal residence. A further 15 per cent of transactions involved the purchase of a home for another family member to live in (Chart 1.9). This makes sense given that, on net, immigrants are the main driver of population growth in the GTA each year. Many newcomers, who have a positive economic impact on the Canadian economy, but who are not yet Canadian citizens or permanent residents, purchase homes as a first step to starting a new chapter of their lives in Canada.

A further 25 per cent of foreign buyers purchased a property as an investment to rent out to tenants. Over the past decade, the secondary rental market (i.e. non-purpose-built rental units) has played a growing role in providing rental accommodation. This type of foreign buying activity helped to add rental supply in a very constrained market. CMHC recently reported that the rental condominium apartment vacancy rate dropped by close to a full percentage point over the last year to one per cent.

A smaller share of foreign buyers purchased a property for investment purposes other than renting to a tenant, including to use as a non-primary residence (four per cent) or to leave vacant (three per cent).

The average price of a foreign purchase, according to surveyed TREB Members, was just over one million dollars. The highest average price was reported for York Region. In the City of Toronto, the average purchase price was almost \$970,000.

In addition to providing an estimate of foreign buying activity in the GTA and a profile of foreign buyers, the Ipsos survey results also provide an answer to a popular question: how many enquiries have TREB Members received from foreign buyers who otherwise would have purchased a home in the Vancouver area if not for the BC tax? The answer to this question is:



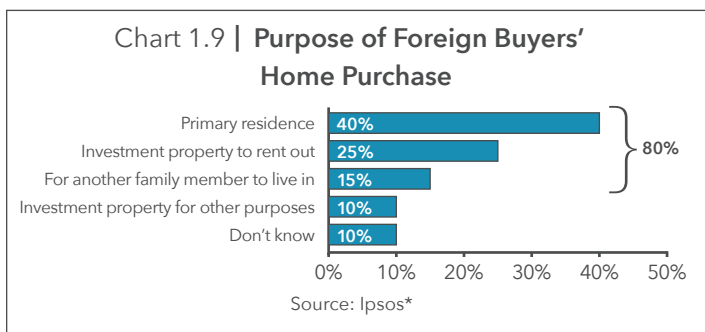
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As a result of the recent foreign buyers tax implemented for the Vancouver area, only one in ten TREB Members have received inquiries from foreign buyers who otherwise would have purchased a home in Vancouver. Just 16% of these inquiries led to an actual purchase. In other words, Ipsos estimated that less than two per cent of TREB Members represented a foreign buyer that had been impacted by the new tax in BC.

- **February 2016:** Minimum down payments for new government-backed insured mortgages were increased to 10 per cent for that portion of the house price over \$500,000.
- **November 2016:** Insured mortgages with less than a 20% down payment must qualify at the benchmark interest rate. The maximum purchase price of homes to be mortgage insured was set at \$1,000,000.

Looking forward, it is possible that recent changes to mortgage lending guidelines, increases to borrowing costs, and continued price growth could prompt some households to temporarily put their home purchase on hold. Other households may change the type and/or location of the home they purchase. However, through the end of 2016, these policy changes had not noticeably impacted the demand for ownership housing.



1.4 | CONNECTING TO AFFORDABILITY: FINDING THE CORRECT POLICY PATH

Throughout 2016, the most common discussions related to the GTA housing market can be traced back to ownership housing affordability, the record pace of home sales, and double-digit annual rates of price growth.

In the GTA and in other parts of Canada, most notably the Lower Mainland of BC, there was a heightened level of concern from all levels of government. Notwithstanding record low levels in the supply of homes for sale, public policymakers focused firmly on the demand for ownership housing in the City of Toronto and surrounding regions. An example of this type of policy solution in practice can be found at the federal level with respect to recent changes in mortgage lending guidelines.

Over the last decade, there have been no fewer than 10 changes to federal mortgage lending guidelines, most recently with two new policies implemented in 2016:

15 Years+
Years since the listing supply was as low as it was in December 2016
Source: Toronto Real Estate Board

It is important to point out that even if we saw a substantial decline in home sales, it is quite possible that seller's market conditions would remain in place in many neighbourhoods throughout the GTA. The reason is simple: the constrained supply of listings would still result in strong competition between buyers. Looking forward, public policy must pay a much greater focus to the supply side of the market. This will be considered in detail in the following sections dealing with the Ipsos survey of buyer intentions, TREB's market outlook, and stakeholder submissions on housing supply.

* Percentages in Ipsos graphs may not add up to 100% due to rounding and/or small shares of results not included.



Strong rates of price growth
and a short supply of listings
will continue to make
headlines in 2017.

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2017 MARKET OUTLOOK



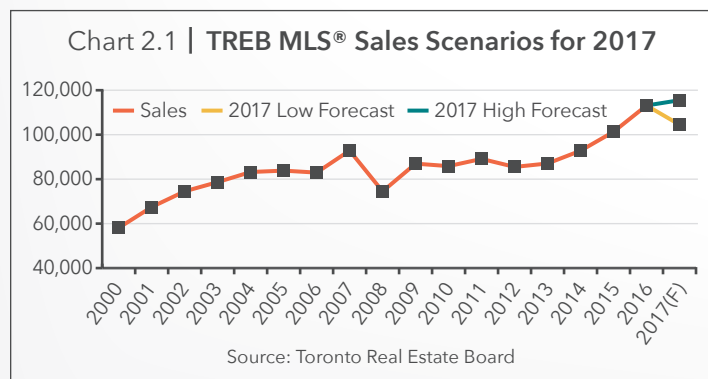
SECTION SUMMARY

- The Ipsos Home Buyers Survey saw the number of likely home buyers decline in comparison to a year earlier.
- Sales on TREB's MLS® System are expected to range between 104,500 and 115,500, with a point forecast of 110,000 (Chart 2.1).
- Despite the possibility of a decline in sales, first-time buyers will continue to account for more than half of home sales in the GTA. Strong first-time buyer activity points to confidence in home ownership as a quality long-term investment.
- 2017 will still be marked by a persistent shortage of listings, especially for low-rise home types, which remain very popular with intending buyers.
- A likely range for the average selling price in 2017 is between \$800,000 and \$850,000, with a point forecast of \$825,000 (Chart 2.2). This suggests an approximate calendar year growth rate ranging between 10 per cent and 16 per cent.

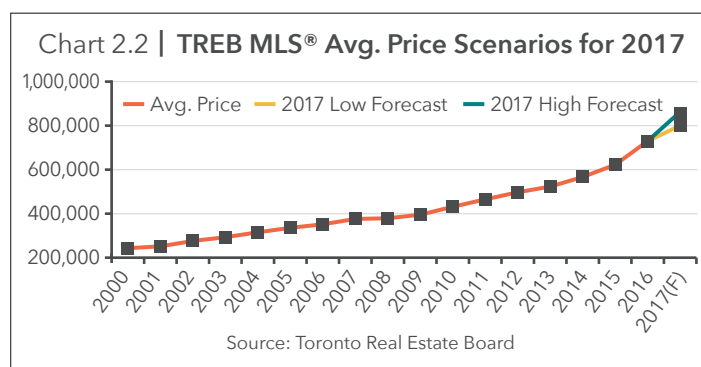


2.1. | IPSOS PROFILE OF LIKELY HOME BUYERS

In November 2016, Ipsos undertook a consumer survey on behalf of TREB. The goal of the survey was to determine what share of the GTA population was likely to purchase a home in 2017 and to determine and provide characteristics of these would-be home buyers. Ipsos undertook a similar survey during the same period in 2015, and the results of this survey were presented in last year's *Market Year in Review & Outlook Report*. Now that we have two years of results, year-over-year comparisons are possible.



The Ipsos poll was conducted online, with a final sample size of 1,001 likely home buyers from an overall sample of 3,774 interviewees. The credibility interval is ± 3.5 percentage points. The credibility interval is wider when the data is broken into subsets.

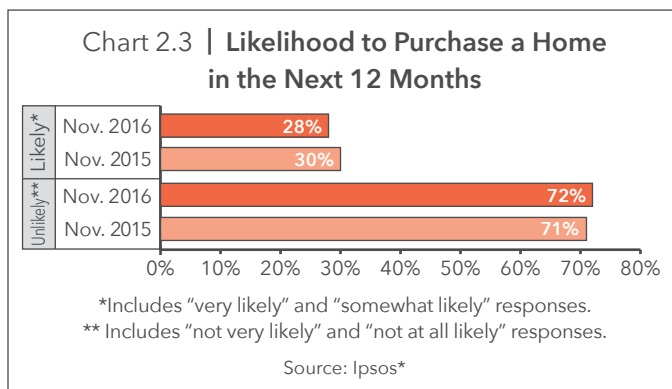


A summary of the November 2016 survey results for likely 2017 buyers follows, with comparisons to the 2016 survey:

- In 2017, nearly 28 per cent of GTA residents are somewhat likely or very likely to purchase a home – down slightly by two percentage points compared

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to last year (Chart 2.3). Households living in the City of Toronto indicated that they were more likely to purchase a home in 2017 (31 per cent somewhat likely or very likely) than those living in the surrounding regions (25 per cent somewhat likely or very likely).

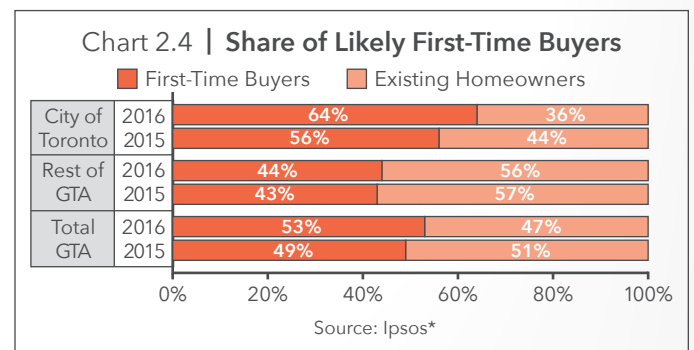


- Aside from respondents who indicated they were happy in their current home, the most popular reasons respondents gave for *not* planning on purchasing a home in 2017 were financial in nature, including a lack of savings or the fact that the cost of housing was deemed to be too high. Financial and affordability issues were more common among respondents in the November 2016 survey compared to November 2015. This likely correlates with strong increases in home prices in 2016 coupled with an increase in borrowing costs and stricter mortgage lending guidelines.
- While overall buyer intentions appear to have edged lower for 2017, it is important to note that first-time buyers will continue to account for much of the demand for ownership housing. For the GTA as a whole, 53 per cent of likely buyers indicated that they would be first-timers - up from 49 per cent a year earlier (Chart 2.4).
- First-time buyers were most prevalent in the City of Toronto, where 64 per cent of likely home purchasers indicated they were first-timers - up

from 56 per cent a year earlier. Less than half of intending buyers in the regions surrounding the City of Toronto indicated that they would be



purchasing their first home. The higher share of first-time buyers in the '416' area code likely relates to the proliferation of condominium apartments in the area over the last decade. Condo apartments are a logical entry point for first-time buyers due both to this market segment's price point and the fact that condo apartment developments are very often situated near a diversity of work, leisure and transportation alternatives.

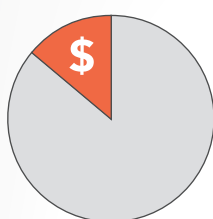
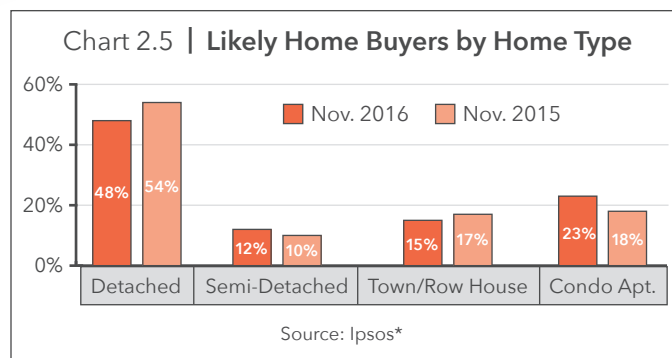


- The majority of likely GTA home buyers were focused on the City of Toronto, with 40 per cent of respondents indicating that they intended to purchase somewhere within the City. Peel Region was the next most popular location at 16 per cent, followed by York (13 per cent), Durham (nine per cent) and Halton (seven per cent). An additional 15 per cent of respondents indicated that they would be purchasing in other parts of Ontario, Canada, or the world.

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- Slightly less than two thirds of respondents indicated that they planned to purchase a resale home, with the remainder planning on purchasing a new home (i.e. they would be the first person/people living in the house). This breakdown was roughly the same regardless of GTA geography and was little changed from responses collected a year earlier.



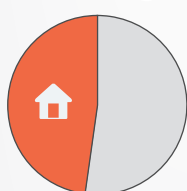
14%

Likely buyers who expect to pay \$1 million or more for their 2017 purchase

Source: Ipsos*



- The most popular home type for would-be home buyers in 2017 was the detached house. For the GTA as a whole, 48 per cent of intending buyers indicated they planned to buy a detached house (Chart 2.5). This share dipped to 37 per cent in the City of Toronto, where high price and lack of listings likely played a role. In the surrounding '905' regions, 55 per cent of likely buyers favoured detached houses.
- Regardless of geography, the share of likely buyers planning on purchasing a detached home declined compared to survey results from a year earlier. Double digit growth in home prices, and the ramifications on affordability, as well as the sharp drop in available listings likely fed into respondents'



48%

Buyers who plan to purchase a detached home in 2017

Source: Ipsos*



home type preferences. The share of likely buyers looking to purchase a condominium apartment in 2017 was up compared to the previous survey, due, at least in part, to strong first-time buyer demand.

- Likely home buyers for 2017 recognized the fact that the housing market in the GTA is under-supplied relative to demand. The average expected purchase price was \$693,178, up by more than 13.2 per cent from the expected purchase price a year earlier (\$612,104). This is in line with the forecast discussed later in the section that points to further strong increases in home prices in 2017.
- The share of likely buyers who indicated a purchase price of one million dollars or more climbed quite strongly compared to a year earlier. For the GTA as a whole, 14 per cent of likely buyers said they expected to pay one million dollars or more - up from eight per cent a year earlier. In the City of Toronto, the share was much higher at 19 per cent, compared to 10 per cent a year earlier. This trend is reflective of the fact that market conditions have been extremely tight over the last year and home price expectations have increased dramatically, especially in the comparatively more expensive low-rise segments of the market.
- Likely home buyers will have substantial down payments for their home purchase in 2017. On average, these households will put down 27.6 per

2017 MARKET OUTLOOK



cent of their purchase price. In the City of Toronto, the down payment share will be lower, at 25.8 per cent. In the '905' regions, the down payment share will be above the GTA average, at 30.8 per cent. First-time buyers in the GTA are planning on putting 23.9 per cent down of the purchase price, on average. Down payment shares remained similar to the Ipsos survey from the end of 2015.

2.2. | DEMAND DRIVERS

In order for a household to make the decision to purchase a home, certain fundamentals must be in place to support that decision. These fundamentals include:


- A sustainable source of income to pay for the home over time through the use of a mortgage and to support the upkeep of the home, including utilities payments, maintenance and repairs; and
- Affordable mortgage payments, because the great majority of home buyers purchase and pay for a home over the long term through the use of a mortgage.

Labour Market Conditions

Incomes and income growth are influenced by labour market conditions over time. If the labour market is tight, with a lot of demand for workers up against few people looking for work, incomes tend to rise

as businesses compete for a constrained supply of labour. A key indicator of a tight labour market is a low unemployment rate from a historic perspective. In the GTA, the unemployment rate has generally trended lower over the past few years (Chart 2.6).

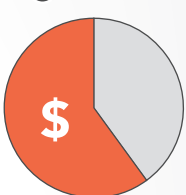
Despite the low unemployment rate, we did see the number of people employed come off its peak in the second half of 2016. The labour market participation



60%

Households that would use a fixed rate, closed mortgage

Source: Ipsos*



rate also edged slightly lower in the second half of the year. The end result was that the average annual rate of income growth plateaued, at least temporarily, during the last six months of 2016 as well.

While there is no immediate reason to think that GTA labour market conditions will deteriorate markedly in 2017, some uncertainty about the direction of the Canadian economy may mean businesses will be conservative in considering additional hiring. With this in mind, expect the unemployment rate trend to remain somewhat flat.

Increased Cost of Borrowing

The Ipsos Home Buyers survey found that fixed rate, closed mortgages continue to be the most popular choice for likely home buyers, with approximately 60 per cent of these households indicating that they would use this type of mortgage. The most popular mortgage term was five years, with the most popular pre-approved mortgage rate ranging between 2.0 and 2.99 per cent.

Since the Presidential election in the United States in November 2016, there has been upward pressure



2017 MARKET OUTLOOK



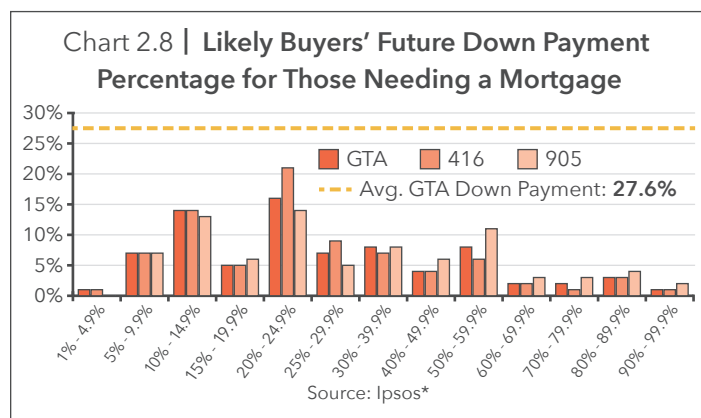
on bond yields as investors have dedicated a higher share of their portfolio to equity investments. Trends in the bond market provide a glimpse at what it costs a lender to raise funds to ultimately lend to home buyers in the form of a mortgage. Not surprisingly, as bond yields increased, so too did advertised rates on fixed rate mortgages. That being said, advertised rates at the end of 2016 remained below 3.0 per cent.

Looking forward through the end of 2017, the market consensus is for a further uptick in bond yields and therefore mortgage rates (Chart 2.7). TREB's estimate of the forward rate for the five-year Government of Canada bond points to a further increase of 25 basis points by year-end. If this increase in the five-year yield were to be passed on in its entirety by lenders, advertised five-year rates could approach or even edge past the three per cent mark.

In addition to the prospect of increased borrowing costs in 2017, recent changes to federal mortgage lending guidelines announced in the fall of 2016 have likely not yet had their full effect on the housing market. Under these new rules, the majority of borrowers will be subject to a stress test, under which they must qualify at the chartered bank posted five-year rate, regardless of the actual rate they negotiate with their lender.

For example, as noted above, a typical borrower at the end of December could have negotiated a five-

year fixed mortgage rate for below three per cent. However, moving forward, they will have to qualify at the much higher posted chartered bank rate (4.64 per cent in December 2016). This policy change could cause some home buyers to temporarily put their buying decision on hold or change the type and/or location of the home they ultimately purchase.

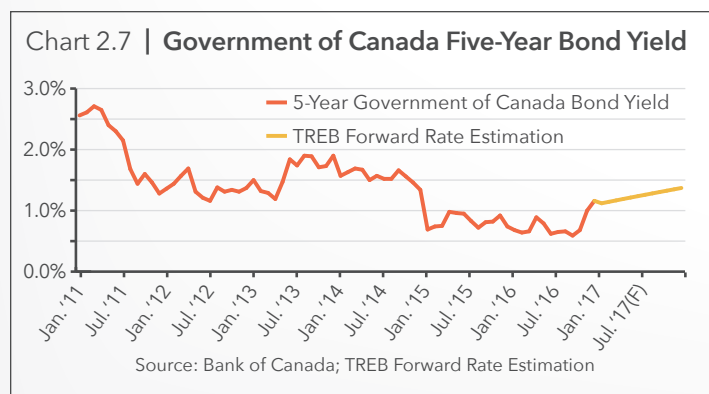


Survey responses from likely home buyers did suggest that many households are planning on taking on a mortgage from a solid financial footing. The most common category for down payment percentage was 20 per cent to 24.9 per cent. Moreover, the majority of likely buyers who indicated that they would be taking on a mortgage were planning on a down payment of greater than 20 per cent (Chart 2.8).

2.3. | OUTLOOK FOR HOME SALES AND PRICES

The outlook for sales reported through TREB's MLS® System remains positive for 2017. However, the question is whether or not TREB Members will report another record year for transactions.

Looking at pure fundamentals, including a flatter unemployment trend in the GTA, coupled with the affordability impact of higher prices and borrowing costs and stricter mortgage lending guidelines, we should expect to see sales below their record high in 2016. As discussed above, Ipsos consumer survey results also support this view, with fewer likely home





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buyers for 2017 compared to 2016. Taking these factors into account, TREB MLS® System sales are expected to range between 104,500 and 115,500, with a point forecast of 110,000.

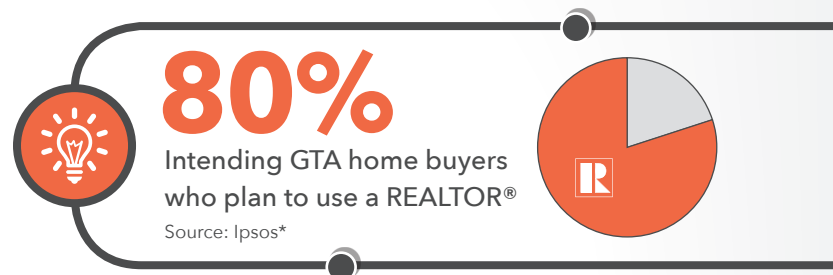
Seller's market conditions will remain in place for 2017. The hand-off from 2016 to 2017 occurred with the lowest level of active listings on TREB's MLS® System since before the year 2000. While some relief on the listings front is possible, as there may be homeowners who are prompted to list to take advantage of strong equity gains, 2017 will still be marked by a persistent shortage of listings, especially for low-rise home types, which remain very popular with intending buyers.

Price growth is expected to remain well-above the rate of inflation in 2017. A likely range for the annual growth rate in average price is between 10 per cent and 16 per cent, with a likely range for the average selling price in 2017 between \$800,000 and \$850,000, with a point forecast of \$825,000. In all likelihood, year-over-year price growth will be closer to 20 per cent in the first few months of the year. Price growth may ebb in the second half of the year, if sales edge lower due to higher mortgage rates and stricter lending guidelines. The forecast price range is not only supported by empirical modelling, but also by the Ipsos Home Buyers Survey undertaken for TREB. Responses of intending buyers pointed to a year-over-year increase of approximately 13 per cent.

As we continue to see very strong demand for ownership housing up against a constrained supply of listings, would-be home buyers will continue to see the value of a REALTOR® in 2017. More than 80 per cent of likely home buyers in the GTA plan to use a Realtor to guide them through their home purchase. This share is the same for intending first-time buyers. This speaks to the value Realtors offer, especially during times when we are experiencing challenging seller's market conditions.

2.4. | CONNECTING TO AFFORDABILITY: FINDING THE CORRECT POLICY PATH

Strong rates of price growth and a short supply of listings will continue to make headlines in 2017. In order to see a sustained moderation in the annual rate of price growth, the GTA housing market must benefit from more listings relative to the number of transactions. We started 2017 with half as many active listings compared to the beginning of 2016.



Further policy initiatives pointed at the demand for ownership housing, as we saw throughout 2016, will not solve the persistent supply problem nor will demand-oriented policies lead to sustainable growth rates for home prices. In 2017, policymakers must:

1. Acknowledge that the lack of a diverse supply of ownership and rental home types is at the root of the strong rates of price growth and declining affordability experienced since the recession and most certainly over the past two years.
2. Different levels of government, in conjunction with industry groups, must work towards innovative solutions to prompt an increase in the supply of market-based ownership and rental housing.

As a starting point, TREB asked stakeholders from the public, private, and not-for-profit sector to submit written summaries (Section 4) of their views on the supply issue as well as to discuss them at our Economic Summit held on January 31, 2017.

* Percentages in Ipsos graphs may not add up to 100% due to rounding and/or small shares of results not included.