THE MARKET MANUSCRIPT

The Pulse

FALL 2017
ANALYSIS OF THE CANADIAN RESIDENTIAL HOUSING MARKET

- Ontario's Fair Housing Plan
- Survey of Urban Planners
- Mid-Year Update on New Home Activity

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ABOUT

This is the eighth edition of the Market Manuscript, a bi-annual report that analyzes residential housing trends in Canada, with a specific focus on areas in which Fortress Real Developments has active development projects.

The report includes third-party research, opinions, and data that are supplemented with results from original surveys conducted by Fortress. The Market Manuscript also includes findings from both local and international economists, academics and independent research firms to provide some broader context to changes in the domestic housing market. Commentary, analysis, and conclusions from Senior Vice President Ben Myers are also woven through the report.

The fall Pulse Edition looks at specific topics in greater depth, and attempts to go beyond the typical analysis offered in the marketplace. Toronto's explosive housing market in 2017, Ontario's Fair Housing Plan, and a survey of urban planning professionals highlight this latest Market Manuscript report.

THE MARKET MANUSCRIPT
#MM8

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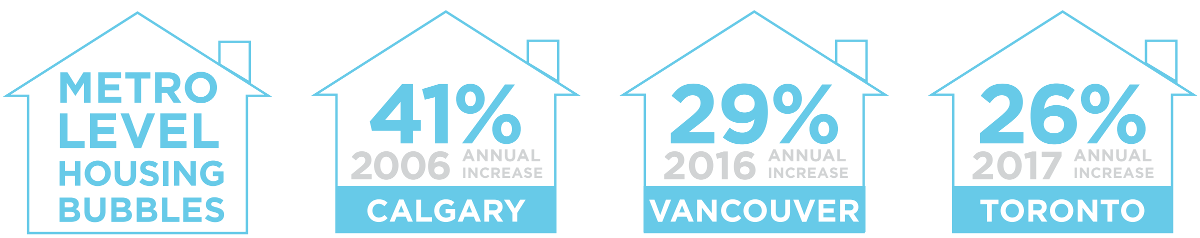
KEY HIGHLIGHTS

1.0 INTRODUCTION

- Canada had the fastest growing residential house prices in the world in Q1-2017.
- Toronto had the 4th highest annual residential price growth among top global cities in the first quarter of 2017 at 25%.

1.1 Comparison of Historic Metro Level Housing Bubbles in Canada

- Between early 2005 and the fall of 2006, Calgary resale house prices increased from just under $260,000 to over $400,000. The bubble peaked at 41% annual growth.
- The median price of an existing home in the Vancouver area rose from $760,000 to $1.04 million between late 2014 and the spring of 2016, peaking at a 29% year-over-year gain.
- Toronto area resale prices moved from about $626,000 mid-year 2015 to $852,000 in April of 2017, peaking at a 26% annual increase.



1.2 The Drivers of Resale House Price Growth in Canada

- Anecdotal evidence from the real estate industry watchers pointed to a significant increase in speculative home buying in Vancouver last year and in Toronto this year.
- Nearly 60% of Canadians surveyed by Fortress this year felt that low borrowing costs are the primary driver of recent resale house price growth in their market.
- High immigration has been a key factor boosting residential housing values. A shortage of new home inventory has contributed to the supply and demand imbalance.
- Shelter demand stemming from economic fundamentals is stronger than perceived, as data underestimates the number of non-permanent residents occupying domestic housing.

1.3 Is the Public Being Properly Informed About the Housing Market?

- About 55% of the general public think that coverage of the Canadian housing market is too negative and it is not as bad as portrayed according to a Fortress online questionnaire.
- Torontonians still believe in the long-term value of owning real estate, and remain more bullish than Canadians overall despite the recent resale housing market slowdown.

2.0

ONTARIO'S FAIR HOUSING PLAN

- On April 20th, 2017, sixteen housing measures were introduced by the Ontario government that apply to the Greater Golden Horseshoe. The intent of the actions is to help people find affordable homes, increase residential housing supply, protect buyers and renters, and bring stability to the real estate market.

2.1 Non-Resident Speculation Tax

- Demand from foreign investors can transform housing into a tradable good, and can have a subsequent distorting effect not only on prices, but also on the types of properties built in terms of size, layout, location, and style.
- Offshore buyers can spur new construction, which increases wages for local workers. They generate additional property tax revenue which can pay for local education and infrastructure, and they increase property values for domestic home owners.
- Vancouver's foreign buyer tax took the froth out of the market, halting the rapid price growth, but the average prospective homebuyer is no better off from an affordability perspective one year post-implementation.
- The net increase or decrease in foreign buyers is what makes the difference, not just the number of homes they purchased. Data should be released for both buyers and sellers.
- Results from surveys and data from international markets show that 40% to 50% of non-domestic homebuyers purchase units for use as their primary residence.
- A recent economic study showed that offshore buyers over the past decade accounted for just 1.1% of the house price increase in New York during that 10-year period.
- Many academics have concluded that speculation and foreign investment can have amplifying impacts on house prices in the short term, but physical and man-made restrictions on housing supply have the largest impact on long-term house price movements.

2.2 Rent Control

- A poll of 464 economists showed that 93% of respondents agreed, either completely or with provisions, that a ceiling on rents reduces the quantity and quality of housing available.
- There is an increased probability that tenants will stay longer in their units due to rent control, so developers will set rent higher initially at new builds, and design buildings with a higher share of small units that are more likely to turnover.
- Rent control leads to numerous unintended consequences including reduced labour mobility, landlord bribes and non-financial tie-ins, reduced property and land transfer taxes, and wasted rental space as empty nesters hold on to larger properties.
- Rent control should specifically target the disabled, the elderly, or those living on fixed or limited incomes, but blanket controls rarely achieve these goals, as the benefits are apportioned by chance and not targeted to the beneficiaries most in need.

2.3 Vacant Homes Property Tax

- 63% of Canadians surveyed by Fortress indicated that they don't see vacant properties in their neighbourhood, and don't see it as a problem.
- People have erroneously interpreted the difference between total dwellings and dwellings "occupied by usual residents" in the latest Census as vacant.
- 15% of millennials in Canada's four major markets have rented out all, or a portion of their home at any point over the past year, as younger Canadians are using services like AirBnB to help them offset the high cost of housing.

2.4 Housing Supply Team

- The Fair Housing Plan's $125-million development charge rebate program is a relatively small amount when spread over five years and multiple projects, and isn't likely to result in a noticeable increase in rental housing supply.
- A higher tax on vacant land that has been approved for new housing won't significantly improve housing supply because developers are not hoarding land. It won't impact land speculators either, as most aren't taking their projects through the approvals process anyway.
- 76,000 new homes have sold in the GTA over the last year and a half, despite just 61,000 units launching. Demand has dwarfed supply.

2.5 Paper Flipping of Residential Units

- Ontario's Finance Minister is concerned with assignments by pre-construction condo investors, but this activity has seemingly cooled since a Canadian Revenue Agency crackdown in 2013.
- Investors play a very valuable service to the new housing industry, especially with larger high-rise projects with longer construction times. They act as the intermediary, willing to put down 20%, and assume risk that the development will not move ahead on time and on schedule.

2.6 Was the Fair Housing Plan a Good Idea?

- 47% of housing market survey respondents felt the Ontario government should have done nothing in the face of the skyrocketing home prices and let the market run its course.

47% SAY NO

2.7 Final Thoughts on the Fair Housing Plan

- The Fair Housing Plan resulted in a pause in investor activity in the resale housing market, but investors continue to support the new high-rise condominium market with numerous successful launches post-announcement.
- Short-term investors keen on flipping a property in three to nine months add volatility to the market, unwanted risk, and increase the probability of a housing market correction. Measures targeting domestic speculators were absent from the Fair Housing Plan.
- Ontario should incentivize developers to build more when prices go up to ensure that housing supply matches housing demand. It should specifically target support for those who truly need it, rather than to distort the market with well-intentioned but counterproductive measures like rent control.

3.0 SURVEY OF ONTARIO URBAN PLANNERS

- The government directs growth to locations and built forms that don't align with demand in the marketplace, resulting in skewed housing values in the short run. The growth targets may be beneficial from a financial, political, and environmental perspective, but they have severe supply implications and major repercussions on housing values.

3.1 Affordability in the Greater Golden Horseshoe

- Toronto is the second least affordable market in Canada behind Vancouver, but could be seen as relatively cheap when compared to Hong Kong, Hanoi or Mumbai. However, Toronto is likely closer to world class cities like Berlin, Boston and Melbourne.
- 56% of Ontario urban planners surveyed by Fortress believe urban containment policies like the Places to Grow and the Greenbelt Acts contribute to the high new home prices in the GTA.

3.2 Planning Approvals in the GTA are Taking Too Long

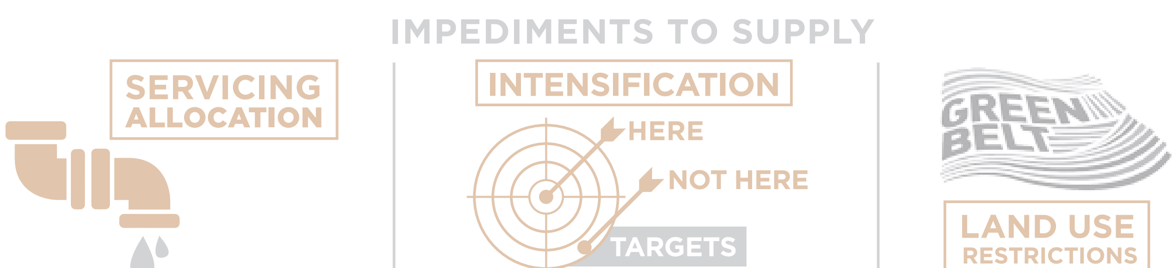
- Just under 35% of professional planners working in the private industry felt that GTA municipal approvals were taking too long, and are partially responsible for higher house prices.
- A report published by CUPE Local 79, which summarized a survey of City of Toronto planning staff, found that 92% of respondents don't think their division has enough staff to complete work in a timely and satisfactory fashion.
- A study of the entitlement process for 174 tall towers in the City of Toronto over the past decade found that the time period needed to complete the approvals has more than doubled in the past 10 years.

3.3 Ontario Planners Don't Feel an Overhaul of the OMB was Necessary

- Only 26% of Ontario private planners felt the Ontario Municipal Board needed to be overhauled, while 69% of public planners felt it should.
- Many planners indicated in the Fortress survey that NIMBY groups put development at a considerable disadvantage, since many of the potential beneficiaries of new housing may not live in the jurisdiction when the project is debated.
- The Frasier Institute believes a dumbed-down land planning appeals board will result in fewer housing units being approved and only 2% of professional planners felt the new appeals tribunal would increase supply.

3.4 The Lack of Ground-Oriented Housing Supply is Leading to Dramatic Market Distortions

- Low-rise new home supply is being impeded by a lack of servicing allocation, intensification targets that don't align with underlying housing demand, and the Places to Grow/Greenbelt legislation per the Fortress urban planning survey.



- According to the 2016 Census, southern Ontario metro areas have the highest proportion of adults aged 20-34 living with their parents: Toronto, 47%; Oshawa, 47%; Hamilton, 45%. This is an indication of housing undersupply.
- Intensification targets are out of keeping with market preferences. Public sector policy insists on behavioural change from general population in its housing choices. However, those preferences for low-rise built forms are long-held and tough to change.
- 33% of millennial non-owners expect to move outside the GTA to find affordable housing. An Altus Group survey found that buyers in new home communities just outside the GTA are predominately from the GTA, with some projects selling as much as 95% of their units to GTAers.
- Over two-thirds of Ontario planners felt the Places to Grow Act has been unsuccessful in creating jobs, while 65% felt the Act has not enhanced locals' quality of life.

3.5 Solutions and Ideas to Solve GGH Housing and Planning-Related Issues

- Reducing political and NIMBY planning influence in the GTA would help increase supply and keep locals from 'driving to affordability' according to Ontario professional planners.
- The Toronto development community hasn't built large condominiums suitable for families because people have not bought them when they were offered. Municipalities need to incent developers to offer more three bedroom units for sale.
- 37% of urban planners that responded to the Fortress survey felt investing in infrastructure like pumping stations, trunk sewers, transit, and roads, is key to accommodating more home buyers in the GTA.
- The GGH intensification targets are unreasonable, especially for the outer-suburban communities. Restrictive planning policies, development charges, the price of land, and other costs of infill housing contribute to higher per-unit housing costs, resulting in smaller housing for the same price. Different intensification targets should be implemented for different regions.
- It is very difficult to keep overall new home prices from rising drastically when downtown concrete high-rise projects are the dominant built form, due to higher land costs, construction costs, and financing costs. More wood-frame "missing middle" options in low-rise neighbourhoods are needed.

3.6 Final Thoughts

- A lack of housing supply can result in households leaving neighbourhoods they grew up in and established roots, separating them from their friends and extended families because of a lack of suitable and affordable accommodation.

4.0 METROPOLITAN LEVEL HOUSING MARKETS

- A review of housing starts and house prices in select Census Metropolitan Areas in Canada.

4.1 Toronto CMA

- Economist Will Dunning is forecasting 43,200 starts for the Toronto CMA in 2017, which would eclipse last year's total of 39,027.

10% ↑ GTA
9% ↑ TORONTO
19% ↑ VAUGHAN
20% ↑ MARKHAM
21% ↑ MISSISSAUGA

- New condominium prices on a per-square-foot basis were up 10% annually in the GTA ($587 psf to $647 psf) per Urbanation, with the biggest increases not in the City of Toronto (9%), but Vaughan (19%), Markham (20%), and Mississauga (21%).

4.2 Ottawa CMA

- Starts in the Ottawa CMA of 3,071 in the first six months of the year are up nearly 40% over the same period last year. There have already been more condominium apartment starts in 2017 than all of 2016.
- After two years of depressed resale condo market pricing, which saw the average value decline from 2014 to early 2017, prices are now up 2% annually, the highest growth rate since 2012.

4.3 Calgary CMA

- Housing starts in the Calgary CMA are still trending well below the 12,000 to 14,000 annual pace that prevailed in most of the years between 2002 and 2005, and 2012 and 2015 when the Calgary market was strong.
- In March of 2017, the level of built and unsold developer inventory topped 2,000 units, the highest level in over 25 years.

4.4 Edmonton CMA

- Residential housing starts in the first half of 2017 in the Edmonton CMA increased by 16% annually, but will likely finish the year well below the levels present during the boom years.
- The REALTORS Association of Edmonton reports the average single-family home price of approximately $454,000 in June represents a 4.4% annual increase, but condominium apartments dropped 0.6% annually to about $260,000.

4.5 Winnipeg CMA

- Winnipeg CMA starts are on pace to top the highest level of new construction activity in 25 years. Condominium apartments accounted for 30% of the starts in 2017, compared to just 13% in both 2015 and 2016 overall.
- New home absorptions have exceeded completions in the Winnipeg CMA by 25% in 2017, as the standing inventory owned by builders and developers has fallen to the lowest level since 2013.

4.6 Regina CMA

- The Regina CMA is showing signs of recovery following two years of slower activity. There were 972 housing starts in the first half of the year in the Regina CMA, a 66% increase year-over-year.
- New home values have fallen in the range of $450,000 to $550,000 on a monthly basis since 2010. Resale single-family house prices have been relatively flat since early 2012, hovering around $300,000.

4.7 Victoria CMA

- The Victoria housing market is arguably the hottest in the country. New single-detached and semi-detached house prices were approximately $969,000 in June, an increase of 45% annually.
- There were just 42 units of completed and unabsorbed developer inventory in the CMA as of the end of June 2017, down from nearly 600 units three years ago. There are just 13 units of standing condo inventory, the lowest level in over a decade.

INTRODUCTION

1.0 Introduction

In a number of the past Market Manuscript reports, we have made the statement that the conversation surrounding residential housing in Canada has never been louder. To continue that metaphor, people must be shouting at the top of their lungs, as Canadian house price gains were front page news in the first half of the year, not only in Canada, but across the globe.

According to the International House Price Database by the Federal Reserve Bank of Dallas, Canada had the highest annual residential house price growth among the 23 nations they track at 18% in Q1-2017, well ahead of Australia and New Zealand at 12%. The 18% increase was the highest rate of growth in this country since Q2-1989.

The primary driver of that spike in house prices was activity in Toronto. According to Knight Frank's Global Residential Cities Index, Toronto had the 4th highest annual price growth in the world in the first quarter of 2017 at 24.8%, behind three Chinese cities.

This author has been accused of trying to convince people that there is no housing bubble in Toronto, but the truth is, Toronto was not in a bubble from 1990 to 2016. However, as the average price of a resale house in the Greater Toronto Area increased from approximately $730,000 in December of last year to over $916,000 in March, an increase of 25.5% in a matter of a couple months, it was clear that the GTA had clearly entered bubble territory. In March, BMO Economist Doug Porter called on the government to take immediate measures: *"If policymakers leave this market to its own devices, there is a real risk that a still-manageable bubble is pumped by rampant speculation into something much more dangerous."*

The Ontario Government was quick to act, announcing a 16-point "Fair Housing Plan" less than three weeks after the March numbers were released by the Toronto Real Estate Board (TREB). A more in-depth breakdown of the Fair Housing Plan will follow in the next section of this report.

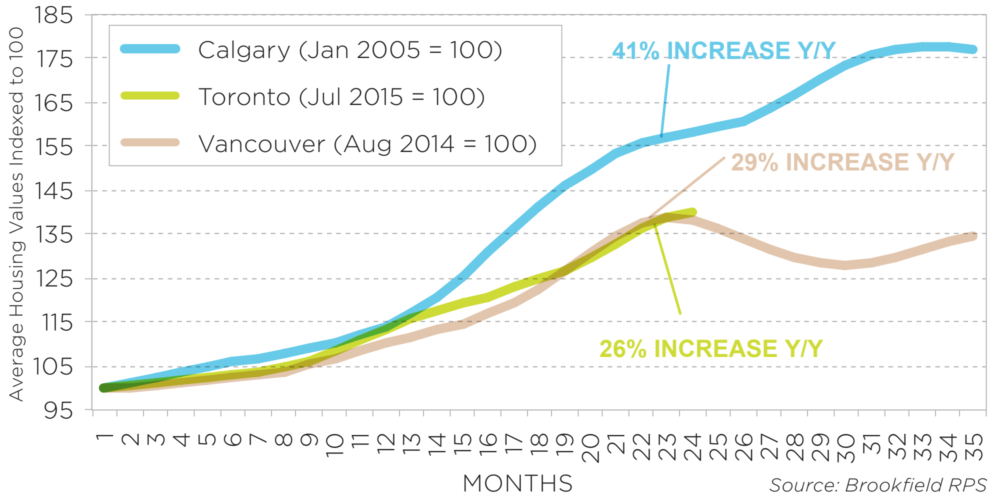
1.1 Comparison of Historic Metro Level Housing Bubbles in Canada

Vancouver was in the midst of their own housing bubble last year and government intervention in the market cooled transactions, but didn't result in a major decline in average prices. Surprisingly, Calgary had a bigger housing bubble than both Toronto and Vancouver in 2006, as prices surged by over 40% annually. It is worthwhile to review price movements "post-peak" in these markets as a potential harbinger of things to come in Toronto.

Figure 1 presents data on the two years leading up to the housing bubble in Calgary, Vancouver and Toronto, and the change in prices after the peak was reached (peak = highest annual increase). The Brookfield RPS House Price Index publishes median values and looks to eliminate outlier transactions that skew measures of central tendency, and Figure 1 sets the Brookfield average value in these markets two years prior to their peak to 100 to improve comparability between the CMAs. Between January 2005 and October 2006, Calgary prices increased from $259,000 to $402,000 (a market peak of 41% growth year-over-year). Annual increases slowly petered out and fell to 0% in mid-2008, as prices hovered around $450,000. Prices declined as much as 11% annually post-peak, and dropped back to $400,000 in 2009. Prices didn't top $450,000 again until 2013.

FIGURE 1

CANADA'S METRO LEVEL HOUSING BUBBLES
Calgary, Toronto, Vancouver



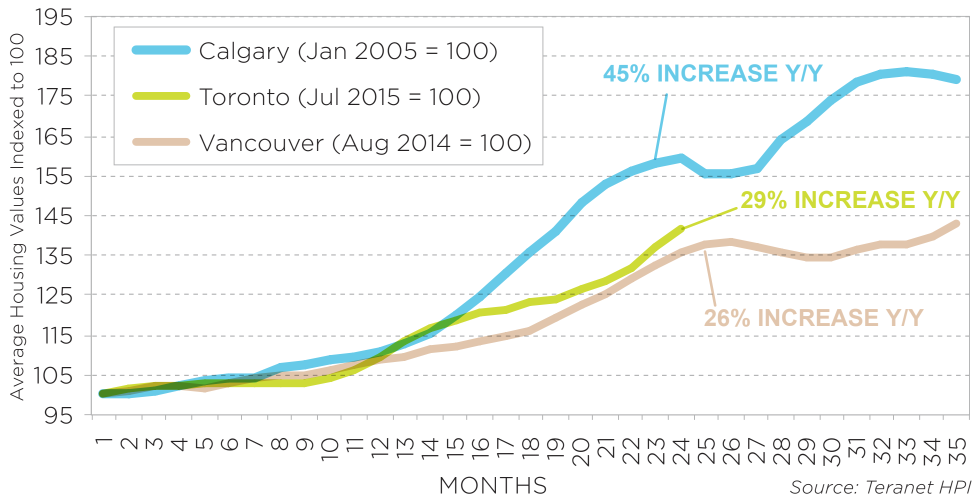
In the fall of 2014, the median price of a home in the Vancouver area was approximately $760,000, but shot up to $1.04 million by May of 2016, peaking at 29% year-over-year growth according to the Brookfield RPS data. Price growth had already started to cool when the new foreign buyers tax was implemented in August of that year. Values were still up 4% annually in January 2017, but the price declined to just over $970,000. By mid-year, prices had moved back up to $1.02 million.

Using the Brookfield RPS figures, Toronto area prices moved from about $626,000 in mid-year 2015 to $852,000 in April of 2017, peaking at a 26% annual increase. The Brookfield figures tend to lag TREB data, and have yet to reflect the significant drop-off in transactions and values in May and June of this year following the Fair Housing Plan announcement. Many of Toronto's experienced market watchers anticipate a Vancouver-style recovery in Toronto. They expect this recovery to start in the fall, and no one has forecast multi-year price stagnation similar to what occurred in Calgary. In fact, Moody's Analytics expects Toronto prices to increase by 5.1% annually over the next five years, the highest level among metropolitan areas in Canada.

By comparison, **Figure 2** looks at the same time frame using the Teranet-National Bank House Price Index, which compares "same unit" sales. The results are very similar, but the data shows the price drop in Vancouver wasn't as dramatic as the Brookfield data suggests.

As discussed in the last Market Manuscript report, one of the primary factors that precipitate housing bubbles is speculative buyer activity: people that purchase homes not for their own use, or to generate positive cash flow renting the home, but solely because they think prices will go up.

FIGURE 2 **CANADA'S METRO LEVEL HOUSING BUBBLES**
Calgary, Toronto, Vancouver



Source: Teranet HPI

> Until 2016 the combination of strong demand and lack of supply generated a robust, but relatively predictable path of house price appreciation in the GTA. But notable hockey-stick like acceleration in house price inflation in 2016 suggests that other forces are at play." – *Benjamin Tal, Chief Economist, CIBC (March 2017)*

SPECULATORS BUY WHEN THE MARKET IS ALREADY RISING

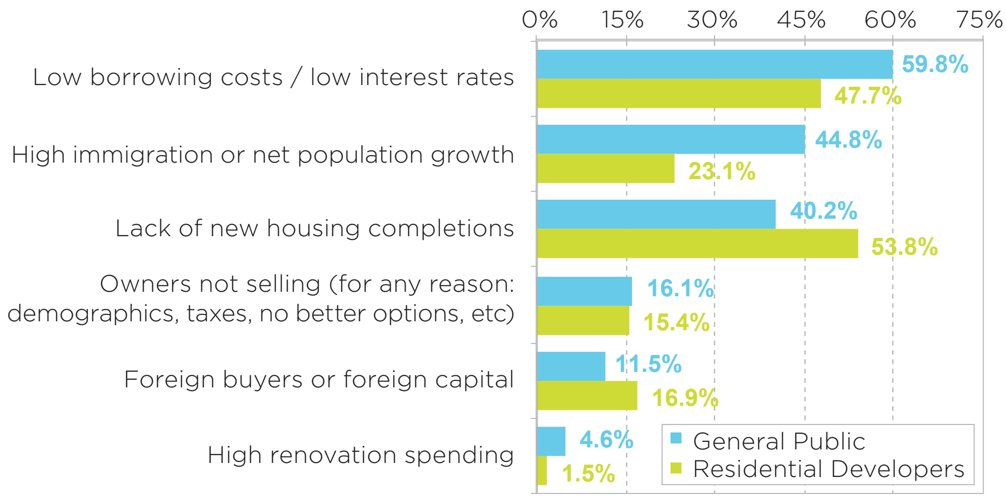
There is no box to check or any definitive way to determine if someone is a short-term investor, but anecdotal evidence from Realtors, mortgage brokers, and other real estate industry participants pointed to a significant increase in speculative home buying in Vancouver last year and in Toronto this year. The point that seems to be lost on many people that write about the housing market is speculators buy because prices are ALREADY going up, and they expect them to go up further. Short-term speculators rarely jump into a market that is experiencing no price growth. Speculation is the symptom of a problem, it didn't cause the problem in the first place. You don't treat a patient for a runny nose, you treat their cold or allergies. Speculation made house prices worse, but what causes prices to rise in the first place?

With that question in mind, we asked the general public what they thought were the biggest drivers behind house price growth in Canada. The survey was posted on social media via Twitter, Facebook, and LinkedIn, as well as in the 'housing bubble' forum at UrbanToronto.ca to try to offset the likelihood that our social media followers are more likely to be housing industry professionals.

Figure 3 presents the results of the social media survey of the general public conducted in July 2017, in comparison to the results of the same question posed to residential housing builders and developers in January of this year (up to two responses were permitted). Nearly 60% of the general public felt that low borrowing costs are the primary driver of resale house price growth in their market (we assume the majority of respondents are from the Greater Toronto Area).

FIGURE 3

FORTRESS SOCIAL MEDIA SURVEY
What are Primary Drivers of Resale House Price Growth*



Source: January 2017 Fortress RDI Residential Developer Survey & June 2017 Social Media Survey of the General Public
**Up to two responses permitted*

1.2.1 The Bank of Canada Raises Benchmark Interest Rate for the First Time in Seven Years

With the public placing significant blame on house price inflation on low interest rates, it is clear that residential housing values played a role in the Bank of Canada's decision to hike the overnight rate for the first time in seven years. The Bank's public statements indicated that solid economic conditions were the impetus behind the hike.

In their July 12th media release, the Bank of Canada (BOC) states *"Recent data have bolstered the Bank's confidence in its outlook for above-potential growth"* and *"Canada's economy has been robust, fueled by household spending."* The BOC went on to say that *"Growth is broadening across industries and regions and therefore becoming more sustainable. As the adjustment to lower oil prices is largely complete, both the goods and services sectors are expanding. Household spending will likely remain solid in the months ahead, supported by rising employment and wages."*

> The reason we're in a situation where rates have been changed is the economy is doing well. We have seen a situation over the last three quarters where we have an average rate of growth of 3.5%. We are leading the G-7 in terms of growth rates, we have generated about 350,000 new jobs over the last 12 months." – *Bill Morneau, Canada's Minister of Finance (July 2017)*

The Desjardins economic studies department indicated that *"Canada's employment performance has been very strong"* and many other positive indicators including GDP, production capacity, and exports all *"reflect the strength of the Canadian economy."*

Despite the extremely positive economic indicators and the world-leading resale house price growth, national inflation has remained below the BOC's target of 2%, and until recently the central bank had not indicated that they would raise rates. Francis Donald, the Chief Economist of Manulife Asset Management noted that central banks across the globe *"don't expect inflation to get back to target. But they realize they can't keep rates at emergency levels forever."* Donald concludes that *"low rates can't solve all of the world's problems. In fact, they may be exacerbating them."*

One of those problems is rapidly rising house prices. A second hike occurred in September, which may prevent a V-shaped resale housing recovery in Toronto this fall.

1.2.2 Supply or Demand? Record Population Growth Suggests the Latter

Getting back to Figure 3, there appears to be a big disparity between the general public and residential developers as to whether the key driver of house price growth is a demand factor (high population growth) or supply (lack of new housing completions). About 45% of respondents to our social media survey felt high immigration and the net increase in population was a key factor boosting residential home values, while 54% of builders and developers pointed to a shortage of new home inventory.

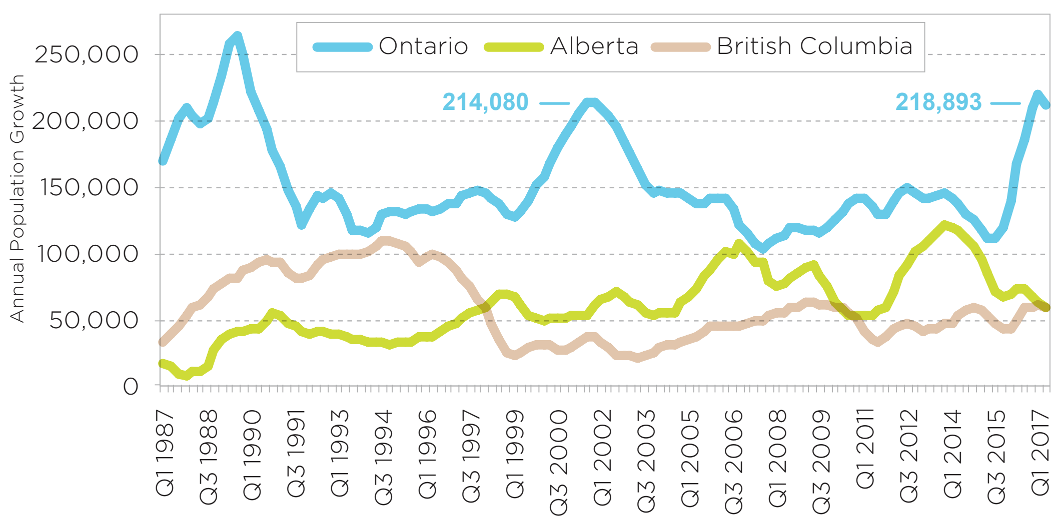
In May of 2017 the Canadian Centre for Economic Analysis released a report on the forces driving shelter affordability and the report concluded that *"demographic-induced demand pressures"* like population growth and decreasing average household size had the biggest influence on decreasing affordability.

In reviewing the latest Census of Canada results, the Altus Group found that *"Average household size has been on a downward trend over the past 45 years, declining by over one person"* to 2.5 persons. In Toronto the average household size is larger at 2.8 persons on average, but continues to decline.

On the population front, there appears to be a strong correlation between house price booms and population growth in Alberta, as population spiked in both 2006 and 2014, years in which house price inflation was exceptionally strong. **Figure 4** presents provincial population growth estimates (annual growth, quarterly readings) for British Columbia, Alberta and Ontario from Q1-1987 to Q2-2017. On average, Ontario has grown by about 150,000 people annually since 1987, slightly lower at 140,000 over the past 15 years. At the end of the first quarter, Ontario had grown by approximately 220,000 people, the highest rate of growth since Q1-1990 and 58% more growth than Q1-2016.

FIGURE 4

ESTIMATED ANNUAL POPULATION GROWTH
Ontario, Alberta & British Columbia: Q1-1987 to Q2-2017



Source: Statistics Canada

TD Economics noted that Toronto's population growth *"suddenly quickened"* towards the end of 2015, *"coinciding with the timing on the upswing in home sales."* TD mentioned that inter-provincial flows, as opposed to immigration was behind that growth, likely reflecting the households that hail from the oil producing provinces looking for employment opportunities. They also point to a *"dramatic spike in non-permanent residents,"* but conclude that the inter-provincial in-migration and non-permanent residents are not consistent or sustainable long-term.

In March, CIBC's Benjamin Tal stated that demand stemming from economic fundamentals is *"stronger than perceived, as official data underestimate the number of households in the GTA by roughly 60,000 due to clear undercounting of the number of non-permanent residents in the region."*

The highest level of population growth in 27 years, which may actually be underestimated, has clearly had a huge impact on housing demand and the huge jump in average values.

1.3 Is the Public Being Properly informed about the Housing Market?

One of the primary reasons Fortress Real Developments decided to produce the Market Manuscript report was our frustration with SOME of the coverage of the housing market in the media. This author reads the majority of major housing reports published by the major banks, independent think tanks, real estate professional organizations, and third-party research firms and felt some of the key conclusions from those reports were not being presented. Organizations and individuals that forecast market crashes and major price declines were over-represented in housing-related articles, and daily reiteration of the failures by Urbancorp and Home Capital creates the impression that such instances occur more frequently than they actually do.

Residential house prices in Toronto in the first half of 2017 garnered daily attention, with focus also shifting to municipalities outside the GTA that were also experiencing record-breaking gains. Despite this increased coverage, there was virtually no coverage of the 58% annual increase in population growth.

The focus of many online articles about housing was foreign buyers. Just under 17% of developers indicated that foreign buyers were a factor behind resale price growth, however, just 12% of the general public felt it was one of the two largest factors impacting resale house price appreciation.

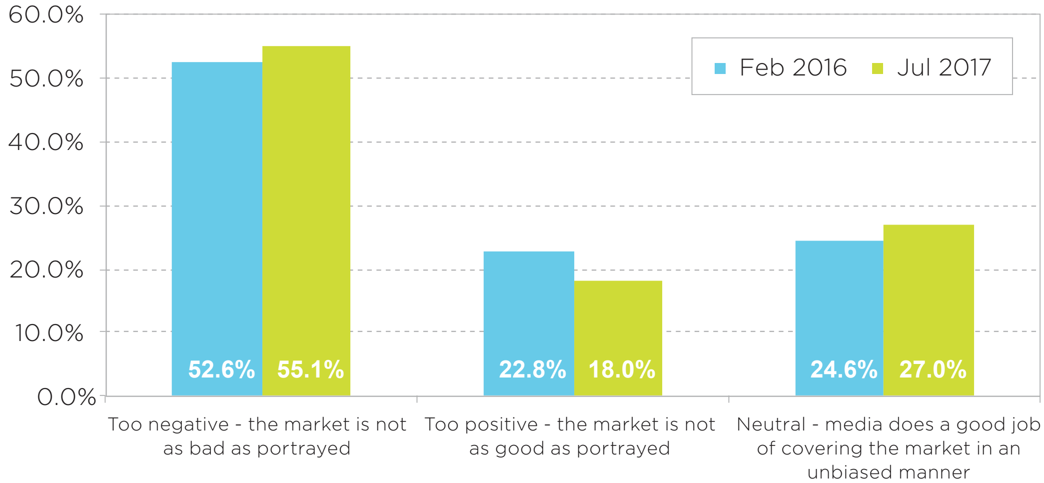
On two separate occasions we asked the general public their opinion on the media's coverage of the housing market in Canada and the results were pretty similar. About 55% of respondents think the coverage is too negative and the housing market is not as bad as portrayed, about 25% of respondents think the media is doing a good job of covering the subject in a fair and unbiased way, and the remaining 20% think the media is too positive and that the housing market is worse than the coverage suggests (see **Figure 5**).

We also asked the general public this question as well: Over the next two years, do you think Canada will suffer a housing crash similar to the one the US experienced? 18% of the respondents said yes. Of the respondents that expect a major crash, 65% think the media is too positive and 59% are tenants (compared to 20% and 25% overall, respectively).

A survey conducted by Bond Brand Loyalty on behalf of Mortgage Professionals Canada in May asked GTA residents "Is it a good time to buy a home or condominium in their community" on a scale of 1 to 10. The average score was 4.53, compared to 5.74 in Canada overall. When asked if they thought "Real

FIGURE 5

FORTRESS SOCIAL MEDIA SURVEY, 2016 & 2017
How do you interpret the media's coverage of the Canadian housing market?



Source: February 2016 & July 2017 Fortress RDI Social Media Surveys

Estate in Canada is a good long-term investment," the average response was 7.26, above the Canadian average (7.16) and second only to Quebec at 7.32. Torontonians still believe in the long-term value of buying real estate, which leads us to believe the current resale downturn may be short lived barring a recession.

> These are early days after the recent policy changes. The bulk of the market reaction is purely psychological. In the coming months, listings are likely to fall and the decline in sales will moderate." - *Craig Alexander, Chief Economist, Conference Board of Canada (August 2017)*

To determine if the downturn in the resale market in Toronto will be short-lived, it is worthwhile reviewing Ontario's Fair Housing Plan and how recent changes to land-use planning might impact housing supply and prices. The next two sections will do just that, and we hope this report is much more informative and comprehensive than the coverage referenced in Figure 5.

ONTARIO'S FAIR HOUSING PLAN

2.0 Ontario's Fair Housing Plan

In the last Market Manuscript report, we discussed the various housing market interventions that governments can take to cool their housing markets. Just as that report was being released, the Ontario government was formulating a plan to tackle skyrocketing prices in southwestern Ontario, specifically the 30% annual resale price growth in the Greater Toronto Area. Sixteen measures were introduced on April 20th, with the mandate to *"help more people find affordable homes, increase supply, protect buyers and renters and bring stability to the real estate market"* in the Greater Golden Horseshoe (GGH) area. The major actions proposed in the Fair Housing Plan (FHP) will be outlined and analyzed in the sub-sections below.

2.1 Non-Resident Speculation Tax

Last year the frenzy over foreign investment in the Vancouver market was at an all-time high, and we included an extensive section on international real estate buyers in our Fall 2016 Market Manuscript. In the midst of their own housing bubble last year, Vancouver implemented a 15% tax on foreign buyers, and residential resale transactions declined significantly.

In response to our own outcry against offshore buyers, Ontario implemented a very similar tax for the GGH. Having witnessed the mistakes out west, there are several key differences between the Toronto and Vancouver plans: the tax does not apply to foreign citizens residing in Ontario, there are exemptions for foreign students, refugees and those in the skilled immigrant program, and full rebates are available for foreign buyers if they become citizens within four years of their purchase. The key message was to not discourage foreign investment in our businesses, not discourage top talent from moving here, or discriminate against residents that are contributing to our economy.

2.1.1 Supply or Demand? Record Population Growth Suggests the Latter

The average person can't comprehend the sheer number of factors that impact house prices, but many people in Toronto, the GTA and the GGH are very angry about the lack of affordability, and are looking for someone or something to blame. Foreign buyers became a convenient scapegoat. There is no doubt that offshore money has contributed to price growth, but we do not know by how much. It is important to outline some of the pros and cons of foreign investment in our housing market.

Economists from UBC and NYU Stern wrote a paper entitled *Out-of-town Home Buyers and City Welfare* that was released in June of 2017. When referring to the increase in foreign capital into global real estate markets, they write: *"These investment flows are controversial since they tend to concentrate in the most attractive parts of the city and leave highly desirable real estate under-utilized. Investors displace local residents whose longer commutes may hamper their productivity and quality of life. They raise the cost of living, pushing up rents and house prices, fueling the affordability issue these cities already struggle with."*

> It remains possible however that demand from foreign investors can transform a traditionally non-traded good, housing, into a tradable one. If such purchases are significant, this can have a subsequent distorting effect not only on prices, but also on the types of properties built (size, layout, location, style) if the preferences of overseas investors systematically differ from those of permanent residents" – *Joel Marsden, GLA Economics (November 2015)*

However, they note that foreign buyers provide benefits as well: *"They may spur new construction which requires local labor. This demand for construction services increases wages for all local workers. They generate additional property tax revenue which can pay for local education and infrastructure. Most importantly, they increase property values for local home owners."* New construction, new jobs, and a transfer of wealth from another country directly into Canadians' pockets are all benefits, but the economists conclude that: *"The net effect of these forces is unknown."*

2.1.2 Has the Vancouver Foreign Buyers Tax Helped to Push Down House Prices?

The UBC and NYU economists were concerned with the misallocated spatial redistribution of locals as the result of foreign buyers (domestic residents forced to move farther away from their jobs), but their bigger concern is eroding affordability and rising house prices.

According to data from the BC Government, the share of foreign buyers in the Metro Vancouver housing market in June and July of 2016 was 9.9% and 15.1% of the total units traded in those months, respectively. In August, September and October, those rates fell to 0.9%, 2.7%, and 3.0% of overall residential transactions. Therefore, a way to test whether foreign buyers contributed to rising house prices is to look at the Greater Vancouver price growth in June and July (before the implementation of their foreign buyers tax) and the change in values in the following months when the share of international purchasers fell significantly. Keep in mind, we cannot control for the myriad of other factors that may have changed during those periods as well.

Figure 6 presents data on resale transactions, active listings, new listings and the average price in the Greater Vancouver Area (GVA) from June 2016 to June 2017. August 2016, the month that the foreign buyers tax was implemented, prices increased month-over-month (to $933,000), but prices declined over the next five months (to $896,000), as did new listings and resale activity. Because of the decrease in demand, active listings increased annually in August, September, and October.

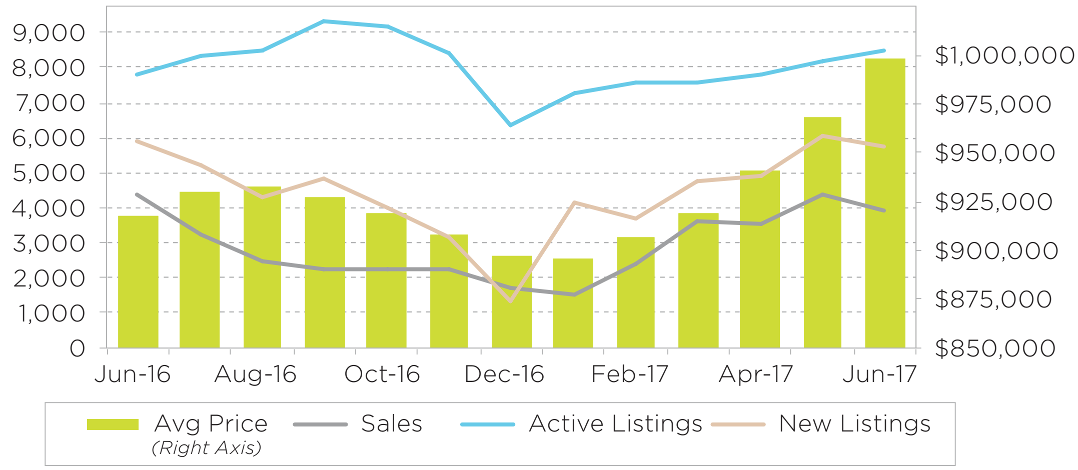
By early 2017 however, the prospective buyers and sellers were confident that the foreign buyers tax was not going to result in a market crash, despite the mini price correction of 4%. By April, the average price had topped the pre-tax peak ($941,000).

Figure 7 shows the market was normalizing somewhat by the middle of this year, with sales down just 12% year-over-year in June, and active listings up 9%. Clearly, the data is not "normal" enough, because prices continue to increase well above inflation at 8% annually to just under $999,000. The froth is out of the market, but the average prospective homebuyer is really no better off from an affordability perspective.

The Vancouver market is no longer in bubble territory, but not all of the credit can go to the stemming of foreign home ownership. RBC Economics noted that: *"Home resale activity in Vancouver had already moderated substantially in August 2016 when the BC Government introduced its tax."* TD Economics writes: *"As time goes by, international experience shows that the foreign buyer's tax, in the form of a land transfer tax, does not choke demand. Purchases tend to bounce back within a year or two of implementation."*

FIGURE 6

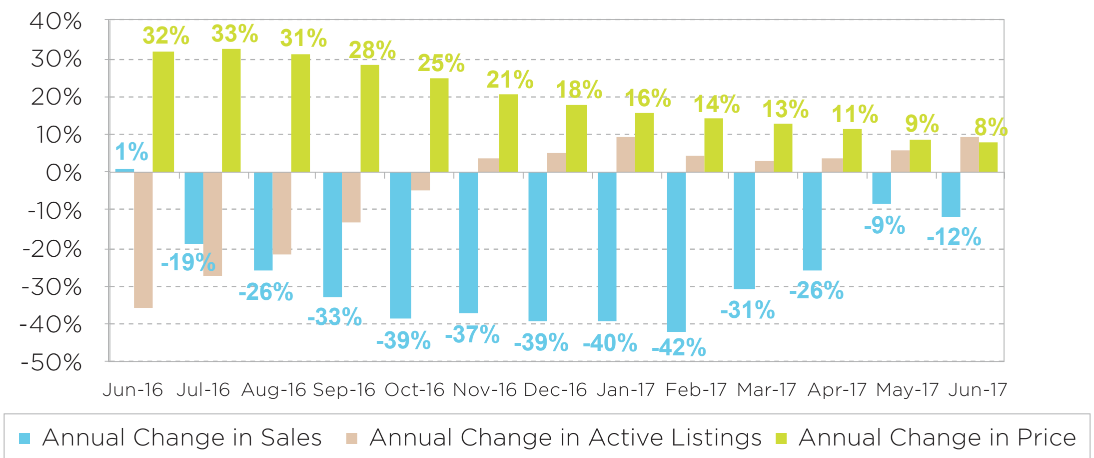
RESALE TRANSACTIONS, NEW AND ACTIVE LISTINGS, AVERAGE PRICE | Greater Vancouver Area: June 2016 to June 2017



Source: Real Estate Board of Greater Vancouver

FIGURE 7

ANNUAL CHANGE IN RESALE TRANSACTIONS, ACTIVE LISTINGS & AVERAGE PRICE | Greater Vancouver Area: June 2016 to June 2017



Source: Real Estate Board of Greater Vancouver

> The impact of the foreign buyer tax is in our rear-view mirror, it usually only last 2-4 quarters, so it's really higher rates that will hold the market down, going forward" – *Diana Petramala, Real Estate Economist, TD Bank (July 2017)*

In November and December of 2016, foreign buyers accounted for 4.2% of residential housing transactions in Metro Vancouver, an improvement over the previous three months but still less than half of the pre-tax levels. Juwai.com, a website that caters to Chinese buyers interested in international housing markets, indicated that Vancouver properties enquiries on their site dropped by about 80% in July and August of 2016, however by November, enquiries were down by just 9% year-over-year.

In conclusion, although foreign purchases are still occurring in Vancouver, they are well below previous levels and prices continue to rise. The tax revenue generated, if used wisely, can help to build some affordable housing, but the middle class clearly has not benefited from the foreign buyers tax, as the average price in the GVA is now $60,000 above the 2016 peak level.

2.1.3 Before Determining the Impact of Foreign Buyers, we Need to Know How Many Units were Bought and SOLD

In early July, the Ontario Ministry of Finance released data on the number of homes sold to foreign buyers in the Greater Golden Horseshoe from April 24th to May 26th, showing that international purchasers scooped up 4.7% of the homes. There is some uncertainty surrounding the numbers since the government didn't start tracking citizenship until May 6th, meaning the government's figures may underestimate the degree of foreign ownership. In addition, it appears the data reflects units closed during that period, not sold, and therefore likely reflects activity prior to the implementation of the non-resident speculation tax. If that is the case, the 4.7% is in line with estimates of foreign ownership published by the Toronto Real Estate Board.

SHARE OF FOREIGN BUYERS

9.1%	7.2%	3.8%	3.7%
YORK REGION	TORONTO	PEEL	HALTON

On a regional basis, foreign buyers accounted for 9.1% of units traded in York Region, with lower shares of 7.2% in Toronto, 3.8% in Peel and 3.7% in Halton. Although the percentages are relatively low, a non-responsive housing supply, and overseas buyers that tend to focus on more higher-end of the price spectrum, can result in a bump in house prices. However, what is never mentioned when discussing foreign buyers is how many homes they sold during that period. The net increase or decrease in foreign buyers is what makes the difference. How many offshore buyers decided to cash out of their investments? Secondly, according to survey data from the Toronto Real Estate Board, about 40% of foreign buyers are using the home for their primary residence. With that in mind, in all likelihood, plenty of the foreign buyers are actually residents that sold their existing Canadian home, and bought a new one.

In July, the National Association of Realtors in the United States released their *2017 Profile of International Activity in U.S. Residential Real Estate* report. Much of this subsequent coverage of the report focused on the annual increase in properties purchased by foreign buyers (+32%), the 5% share that foreigners captured of the total, and how non-Americans are driving up the price of housing. However, what was much more interesting is that foreigners accounted for 6% of the units that sold between April 2016 and March 2017.

So foreign buyers purchased nearly 285,000 properties at about $537,000 on average, but sold over 340,000 properties at just under $470,000. Therefore, that works out to a net decrease of $7.5 billion dollars in the US housing market (figures are rounded). That is 0.5% of the approximately $1.6 trillion dollars of transactions overall during that period (~5.7M sales at $278,000). Foreign buyers likely had zero impact on American house prices during that period.

In France last year, foreign buyers accounted for 4.6% of total sales in their housing market according to *Notaires de France* (there is that 4-5% range again), but sold 3.5% of the properties. In some parts of the country, foreign buyers account for more than 15% of property sales. However, an article posted on Paris Property Group indicated that 30% of purchases in France were from foreign buyers, up from 16% the year before and 9% two years ago. According to the Global Property Guide, house prices in France increased by just 2.5% last year, so regardless of the level of foreign buyers (5% versus 30%), they are not driving bubble-like house prices in the country.

2.1.4 Nearly Half of Foreign Buyers Purchase for their Primary Residence

When the non-resident speculators tax was implemented in the GGH, the tone was much different from the Vancouver tax, as the intent was clearly to target investors that reside in other countries. However, when the GGH foreign buyer figures were published in July, they didn't break down resident versus non-resident buyers. A 2015 survey from France shows that 45% of foreign buyers in that country purchased for their primary residence, while 49% of foreign buyers in the United States bought a home to live in full time (not a vacation home, investment or for use by a relative), figures that are consistent with TREB survey results.

There is a general misconception that all foreign buyers are investors, that they use their property as a vacation home and otherwise keep it vacant. Half of the buyers are using the property to live in, or at least for one of their relatives to live in. Keep in mind, if all non-Canadian citizens were banned from purchasing real estate, the demand for new immigrants and temporary residents would flow into the rental market, driving up rents. When rents go up, it results in more renters looking to buy, and more domestic investors buying up property to lease out (because of the rising rents). Either way, as long as the population is increasing and supply is not increasing enough to accommodate that growth, we're simply shuffling the deck chairs on the Titanic. If we really wanted to prevent foreign buyers from affecting our housing market we would ban immigration, and clearly no one is advocating for that.

2.1.5 How Have Foreign Buyers Impacted Markets Like New York and London?

Liam Bailey, the Global Head of Residential Research for Knight Frank, wrote a piece entitled *International Buyers in London* in October of 2013 in which he expresses concern about defining a foreign buyer simply by their nationality, especially given the fact that nearly 40% of the inner London residents are classified as foreign born. Bailey writes: *"Rather than looking at nationality as a way of assessing foreign demand for London property, it is more accurate to consider a buyer's residence."* The report points out that in the 12 months leading up to June 2013, *"49% of all £1M+ sales in prime central London went to foreign buyers by nationality, but only 28% of buyers were not resident in the UK,"* and *"69% of prime central London new-build purchases were to foreign buyers by nationality, but only 49% by residence."*

This jives with numbers presented earlier, the foreign buyer figure would be 30% to 40% lower if we excluded foreigners living in the country. That being said, these foreign buyer shares of 30% to 50% of total sales in London are enormous in comparison to Richmond Hill (9.2%) and Toronto (7.2%) in Ontario. Even if foreign buyer activity has dropped off significantly since 2013, they do not seem to be having an impact on London currently, as the Knight Frank Prime Global Cities Index for Q1-2017 shows London prices have actually declined by 6.4% annually.

The study by UBC and NYU Stern economists referenced earlier showed that *"out-of-town"* buyers accounted for *"5.3% of all New York metro residential sales, with a much larger share in Manhattan (zone 1, 11.6%)"* over the past decade. Their study concluded that the increase in out-of-town (read offshore) buyers over the past decade accounted for just 1.1% of the house price increase during that 10-year period. This is another market with a higher share of foreign buyers (in comparison to the GGH), in which economists have shown has been only minimally impacted by foreign buyers. New York prices were up just 1.7% year-over-year according to Knight Frank.

2.1.6 Will Foreign Buyers Continue to buy Post-Tax? International Evidence Shows they Will

The Knight Frank data also shows that house prices in Singapore, a geographic area popular with international buyers, were up 4% annually in the first quarter. Between 2006 and 2010, foreign buyers accounted for about 10% to 13% of all purchases in Singapore, but jumped to over 17% in 2011. In December of that year, the city-state added a foreign buyers tax of 10% and the share of foreign buyers fell to just over 6% in 2012. They bumped the tax to 15% in January 2013 and the share of foreign buyers increased to over 8% that year! The share of international buyers has ranged from 6% to 9% from 2014 to 2016 according to a JLL Singapore report published in November of last year.

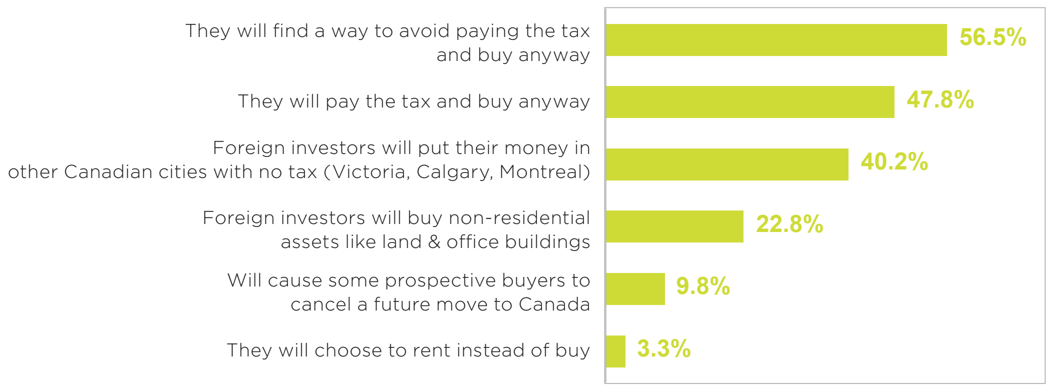
We posed the following question as part of our social media survey of the general public: How do you think foreign buyers have/will react to the new 15% non-resident housing taxes added in the Vancouver and Toronto areas? [pick up to two choices].

Figure 8 illustrates that the majority of respondents felt foreign entities would simply find a way to avoid the tax, while 48% of respondents felt that foreign buyers would pay the tax and buy anyway, which was seemingly the experience with Singapore's 15% foreign buyers tax.

FIGURE 8

FORTRESS SOCIAL MEDIA SURVEY

How do you think foreign buyers have/will react to the new 15% non-resident housing taxes added in the Vancouver and Toronto areas?*



Source: June 2017 Fortress RDI Social Media Survey of the General Public
**Up to two responses permitted*

In Australia, they already have major restrictions on the purchase of resale housing by non-residents. In the State of Victoria, they added a 3% foreign buyers tax in 2015. According to the Victorian government, foreign investment in Victorian real estate almost doubled in the year after the tax was implemented (leading to a further increase to 7%). Despite the opposite of the intended result occurring, New South Wales and Queensland followed suit, adding surcharges of their own. According to data published in the National Australia Bank's *Q4-2016 Residential Property Survey*, foreign buyers accounted for 7.6% of all residential real estate purchases in the fourth quarter, while 10.9% of all new home purchases went to foreign buyers. However, unlike London, New York and Singapore, house prices are booming in Sydney and Melbourne, up 16.7% and 15.1% respectively in 2016.

2.1.7 No One Cares About Foreign Buyers when Prices are Not Rising

Many global markets with very high shares of foreign buyers are not experiencing rapid house price inflation, but markets like Australia that are seeing rapid value appreciation are connecting that growth to foreign buyers. Despite increased stamp duties on foreign buyers, a 10% increase in fees to apply to the Foreign Investor Review Board, a cap on foreign buyers in new developments, and a vacant homes tax, house prices continue to appreciate in Australia. In addition to these government interventions, *"all the big banks shut down lending to overseas buyers"* according to an August 2016 article in The Australian. In spite of all of these new initiatives aimed at pushing down offshore investment activity, prices continue to rise – perhaps it isn't foreigners?

Australians have refused to believe that offshore buyers are not the biggest factor behind house price growth. In 2016, the Australian Government analyzed the issue with results published in their *Foreign Investment and Residential Property Price Growth* report prepared by the macroeconomic group of the Australian Treasury. They came to two key conclusions: *"The increase in prices attributable to foreign investors is small when compared to the average quarterly increase in property prices of around $12,800 in Sydney and Melbourne during the study period. Across Sydney and Melbourne, the models which we consider to be the best specified indicate that, for a typical postcode, foreign demand increases prices by between $80 and $122 in each quarter."* Based on these findings, foreign buyers account for 0.95% of overall price increases, similar to the results of the UBC and NYU economists on the New York marketplace.

The Australian Treasury went on to conclude that *"there is a statistically significant and economically meaningful relationship between foreign investment approvals and property price growth, but the majority of price growth experienced in recent times does not appear to be attributable to increased foreign demand. Instead, the fact that property price growth has been strong over an extended period is likely to have been primarily driven by other factors such as impediments to supply, especially in some regions where natural and human-imposed constraints on supply are especially limiting."*

> Housing prices have been high in cities like Toronto and Vancouver since long before current worries about foreign buyers. In both places, zoning and land-use policies have been driving up real estate prices for more than fifty years"
> *- Mathieu Bédard, Economist, MEI (June 2017)*

The majority of academics and government papers from around the world reviewed for this report, and the Fall 2016 Market Manuscript, continue to conclude that speculation and foreign investment can have amplifying impacts on house prices in the short term, but physical and man-made restrictions on housing supply have the largest impact on long term house price movements.

SPECULATION & FOREIGN INVESTMENT CAN CAUSE **SHORT-TERM PRICE INCREASES**

PHYSICAL & MAN-MADE RESTRICTIONS CAN CAUSE **LONG-TERM PRICE INCREASES**

2.1.8 Foreign Buyers Do Not Increase the Number of Vacant Homes

Filipa Sa of the King's College London, is one academic who believes foreign buyers do have an impact on house prices. Dr. Sa looked at 100,000 title records in England and Wales and concluded that *"foreign investment has a positive and significant effect on house prices. An increase of one percentage point in the volume of residential transactions registered to overseas companies leads to an increase of about 2.1% in house prices."* If we apply her figure to the GGH market, the result would be that foreign buyers accounted for 9.9% of price growth, or about one-third of the peak prices. *"I find that average house prices in England and Wales in 2014 would have been about 19% lower in the absence of foreign investment,"* writes Sa (£174,000 versus £215,000). If GTA house prices were 19% lower than the market peak of $921,000, prices would be $746,000 or slightly above December figures (about when the housing bubble started) and an exact match of the July 2017 figure.

Dr. Sa also found that foreign buyers were much more active in the higher end of the housing market (13% of transactions over £1 million), but *"foreign investment does not increase prices only for expensive homes, but has a positive effect at all points of the house price distribution." Sa refers to this as "trickle down,"* as less expensive properties are effected by affluent buyers priced out of the luxury home market. Our previous reports have referred to this as "diffusion by quality tier," the "ripple effect," or "filtering."

This filtering also changes the very bottom of the market as well according to Sa as an *"increase of one percentage point in the volume share of foreign transactions reduces the share of households who own their homes by 5.6 percentage points."* That seems like an extreme finding; we wouldn't expect foreign buyers would have that much of an impact on the homeownership rate unless their presence in the market boosted new housing supply (and thus rental supply), leading to lower rents and more incentive to remain a tenant.

However, Sa also found that *"foreign investment does not significantly increase housing construction, resulting instead in a significant increase in prices."* This shows that the market in England and Wales is not operating efficiently. In 2011 when new condominium apartment prices were skyrocketing in the Greater Toronto Area, developers rushed projects to market to capitalize on the boom. The same thing happened in early 2017, with 15,500 units launching in the first five months of the year, a 100% increase annually per Altus Group data. If higher demand and higher prices does not result in more housing construction, there is a supply issue, and something is impeding new builds.

The London School of Economics published a report in June of this year that had an opposite finding: *"overseas investors are involved in almost all of London's very large residential development sites"* and these condominium and rental buildings *"have benefited from overseas funding during the development process, and/or are owned by foreign institutions."* They concluded that the *"very large increase in Build to Rent output in 2015/16 stems directly from increased international investment"* and *"in terms of the number of new homes built, Londoners therefore benefit from overseas buyers."*

> There was almost no evidence of 'buy to leave'–certainly less than 1% of new homes bought by overseas buyers were left entirely empty [in the London, England residential market]. Those units that are rented out have very high occupancy rates and indeed some are 'over-occupied' e.g. by students" - *London School of Economics research centre (June 2017)*

Lastly, Sa looked into the hypothesis that *"foreign buyers purchase properties purely for capital appreciation and do not occupy them or rent them out"* and concluded that *"there is no clear evidence that foreign investment in the housing market increases the number of vacant homes."*

The number of vacant homes in the United Kingdom shouldn't be seen as a foreign buyer problem, as a study by University of York Centre for Housing Policy in 2017 concluded that *"in absolute terms UK and overseas owners hold similar numbers of homes that are under-used or under-occupied."* Domestic investors are just as likely to keep a unit as a second home, vacation property, or vacant than a foreign investor in the new home market.

2.1.9 Canada or Bust? Will Foreign Buyers look to Other Domestic Markets in the Face of New Taxes?

The myth of vacant housing units held by foreigners is common, with those suggesting it is a problem posting photos of condominiums at night and suggesting the lack of "lights on in windows" as their scientific evidence. As if no one works at night, goes out to eat, visits with friends, or goes to the gym. There still appears to be a disconnect between Canadians' perception of foreign buyers' purchase intentions, and their actual intentions.

According to Juwai, an international property portal for buyers in China, over 60% of Chinese inquiries regarding Sydney and Melbourne housing is educational in nature. They want to send their children to universities in Australia. For Vancouver and Toronto, those shares are 44% and 41% according to a report published by Juwai.com and Sotheby's Realty in March of this year. In both Vancouver and Toronto, about 27% of inquiries were for investment purposes, while 25% were for use as a primary residence in Vancouver, and 37% for a primary residence in Toronto.

Referring back to Figure 8, over 40% of respondents to our social media survey felt foreign investors would shift interest to other Canadian markets like Calgary and Montreal in response to the foreign buyers tax. Juwai indicated that enquiries trended up 1050% and 420% year-over-year in Calgary during August and September 2016 following the introduction of the Vancouver foreign buyers tax. These figures on Calgary, and similar results for Seattle, made for good newspaper headlines, but the report noted: *"Sotheby's International Realty Canada experts observed that increased interest from Chinese property enquiries did not result in matching surges in sales activity from this cohort in alternative markets, or within the market overall."*

40% THOUGHT FOREIGN BUYERS WOULD SHIFT TO OTHER MARKETS AFTER FOREIGN BUYERS TAX

> There has been minimal leakage of foreign investment outside of the Greater Vancouver area. In fact, the regions that remain untaxed have seen relatively stable levels of foreign transactions following the imposition of the tax"
> *- British Columbia Real Estate Association (June 2017)*

There appears to be many "tire kickers" looking at the Juwai website. A perfect example is the median enquiry property price from 2016 per Juwai: the Vancouver price was $590,000, while in Toronto it was $459,000. By comparison, the median price of all homes sold in the GTA in 2016 was $602,000, and anecdotal evidence from Realtors suggests non-resident foreign buyers aren't buying properties that are 30% below the mid-range.

2.1.10 Foreign Buyers Can Make Housing Booms Worse, but Can Prevent Busts from Being More Severe

Based on the evidence and research findings presented earlier in this report, there seems to be little correlation between the share of foreign ownership in a housing market, and high price growth. Foreign investors appear to get caught up in the same housing frenzy that domestic investors do when house prices rise significantly, and it is likely true that these speculative investors have contributed to higher demand and higher prices during market booms.

On the other hand, it is estimated that 30% to 50% of foreign buyers are purchasing homes for use as their primary residence, and another 30% to 40% are buying the units for use by a child while they attend university. This additional demand for housing, especially the student portion, which is consistent (and likely immune to local housing market conditions), would also help prevent market downturns from being as severe.

The suspected spike in investors and foreign buyers in Ontario in 2017 is likely another unintended consequence of a previous market intervention aimed at stabilizing the housing market. The change in the mortgage insurance rules made it more difficult for first-time buyers to get into the market, and for less affluent owners to move up, clogging the lower priced market tier, and driving up demand for rentals. Higher rental demand results in higher rents and entices more investors, both domestic and international. TD Economics writes, *"recent changes to down payment requirements and income stress testing rules have had limited impact on housing demand. One would expect this to be the case if foreign and domestic investors are taking a greater role in the market."*

2.1.11 The Most Important Factor to Consider is Whether Foreign Buyers are Impacting Supply

If it is accurate that foreign investors have taken a greater role in the housing market, it is important to know how they are affecting supply. The presence of foreign buyers may drive down homeownership, but that is not necessarily a bad thing, there isn't literature that points to an ideal homeownership rate for a city or region. As long as the units are rented out and used as primary residences, the total stock of housing doesn't change, and this additional supply of units for lease should take pressure off rental rates.

It took about eight months for the Greater Vancouver market to recover from their foreign buyers tax, and the average price is now over $60,000 above the previous market peak. This author conducted a Twitter poll in April asking if the Vancouver tax was a success, with 56% saying "no, still too expensive" and 23% choosing "no, tax can be avoided." It may have popped the bubble in Vancouver, but has not had a long-term impact on affordability, with one Realtor expecting a fall "whiplash" as demand that has sit on the sidelines for six months jumps back into the market.

> "Pockets where foreign buyers have been most active aren't the areas where home prices have risen the fastest in the past year in the Greater Golden Horseshoe (GGH) region. This appears to fly in the face of the notion that buyers from abroad are the main culprits for runaway prices in the region" - *Robert Hogue, Senior Economist, RBC (July 2017)*

A second Twitter poll question asked whether the reader would sell their home to a foreign buyer if they were offered 20% more than the market value of their home: 95% of respondents said yes. If people truly disliked foreign buyers and their impact on the market, they would not sell their homes to them.

If, and when, GGH house prices start to rise again, the Ontario government will have to monitor the revenues generated from the foreign buyers tax and how that is offset by the potential damage done to our reputation as a welcoming country. We must also consider the potential that top international talent may decide not to move here because of the higher cost of living imposed on them by the tax.

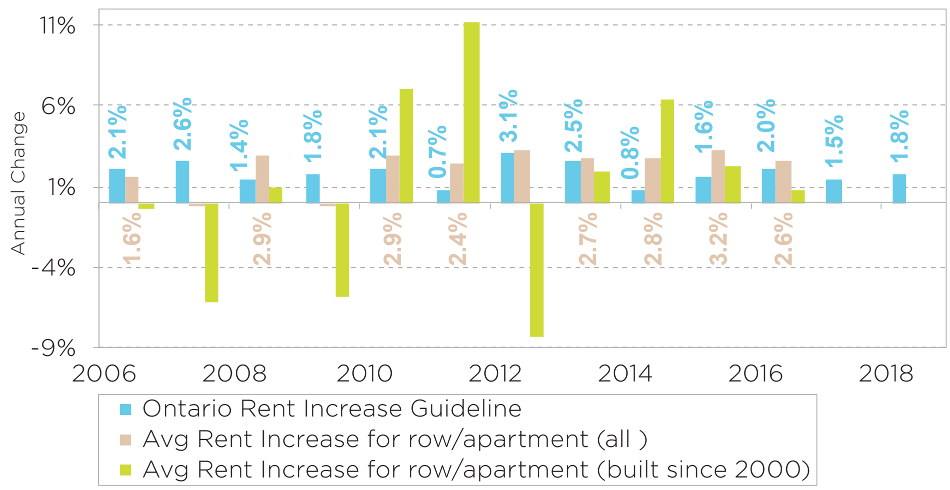
As a short-term measure to disrupt the housing bubble, the tax worked, that bullet is no longer in the chamber for the next frothy market. If Vancouver is any example, a hot market may return sooner than we expect.

2.2 Rent Control

The other big announcement as part of the Fair Housing Plan was the expansion of rent control to all private rental units in Ontario, which had previously only applied to buildings constructed before 1991. According to The Ministry of Finance release: *"This will ensure increases in rental costs can only rise at the rate posted in the annual provincial rent increase guideline. The increase is capped at a maximum of 2.5%."* Property owners can reset rent levels when a tenant leaves, but otherwise landlords can only increase rents by the Ontario rent increase guideline, which has averaged about 2% a year over the past ten years.

The increased interest in rent control appeared out of nowhere, seemingly resurrected because of a newspaper article about a tenant having their rental rates doubled in early 2017 (there were extenuating circumstances that were glossed over). Although vacancy rates have been extremely low, rent increases have not significantly exceeded Ontario's rental guideline on an annual basis according to rental numbers from CMHC. **Figure 9** presents data on the overall stock of rental apartments in the Toronto Census Metropolitan Area (CMA) from October 2006 to October 2016. The chart shows the annual change in rents for all rental apartment units, units built since 2000, as well as the rent increase guideline from 2006 to 2018.

FIGURE 9 **ONTARIO RENT INCREASE GUIDELINE VS CHANGE IN AVERAGE RENTS IN THE GTA** | 2006 to 2018



Source: CMHC & Ontario Government

Over the past decade, the largest annual increase in Toronto CMA average rents was 3.3% in 2012, keeping in mind that approximately 290,000 of the 317,000 rental apartments in the CMA were built prior to 1990, and were subject to rent control prior to April 2017's announcement. The average annual increase over the past 10 years was 2.2%, compared to average rent increase guideline of 1.9%, suggesting that most property owners were not significantly raising rates on units that turned over (called vacancy decontrol). When looking at the CMHC average rent increase for units built since 2000 (not subject to rent control at all – 9,140 units), rents have been fairly volatile on an annual basis, however it has increased at just 1.0% on average over the past decade, less than half of the overall rate. There is nothing in this data to suggest an out-of-control rental apartment market. If rent gouging was an issue, that should have been the focus of the Fair Housing Plan.

It appears that the government was more focused on rented condominiums. From 2007 to 2016, the number of condos leased by private landlords has increased from 40,000 to 116,000. According to CMHC, average rents have increased by 3.2% annually on average since 2008. However, in 2016, rents jumped 8.1%. Urbanation Inc, a high-rise condominium market research firm, doesn't track the overall stock of units, but tracks units that turn over via the Toronto Real Estate Board. The advantage of their data is they look at lease rates on a per-square-foot basis. **Figure 10** looks at the annual change in rental rates (quarterly readings) and the average index rents in the Greater Toronto Area.

GROWTH OF PRIVATE LANDLORDS

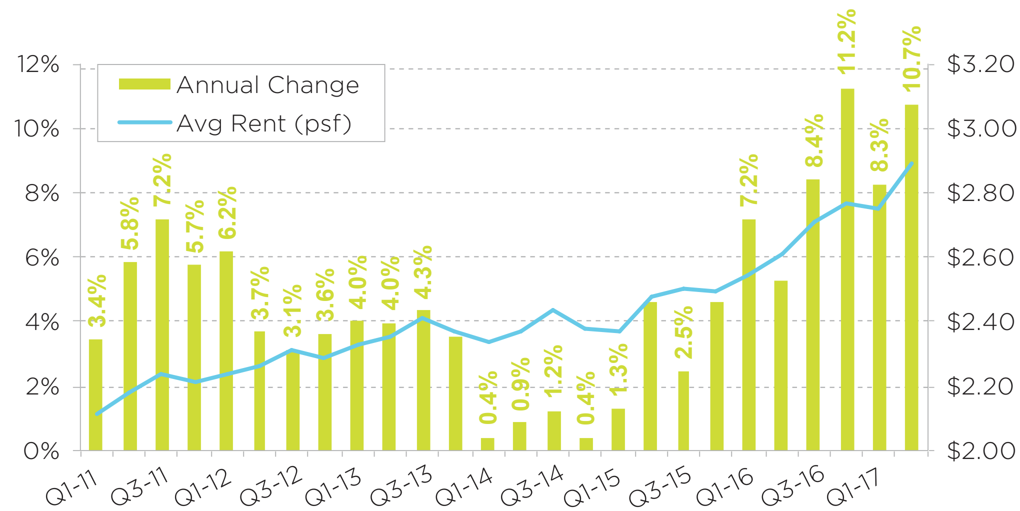
40,000
CONDOS LEASED | 2007

116,000
CONDOS LEASED | 2016

> "Average index rents in the GTA grew by 10.7% annually in Q2-2017, rising from the 8.3% rate recorded in Q1 and jumping by 5.1% quarter-over-quarter – the fastest quarterly growth ever tracked by Urbanation" – *Urbanation Inc. (July 2017)*

FIGURE 10 **INDEX RENTS PER-SQUARE-FOOT AND ANNUAL CHANGE IN CONDOMINIUM APARTMENT RENTS BY QUARTER**

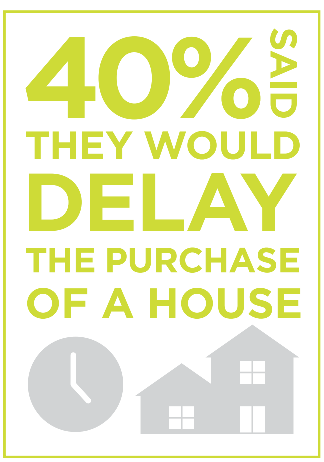
Greater Toronto Area: Q1-2011 to Q2-2017



Source: Urbanation Inc.

Average rental rates were up 11.2% in Q4-2016 and 10.7% in Q2-2017, after increasing by between 0.4% and 1.3% between Q1-2014 and Q1-2015. One of the reasons for this discrepancy is the level of new supply, there were over 46,000 new condominium apartment completions combined in 2014 and 2015, while 2016 hit 19,000 and 2017 is on pace for about 18,500. In our opinion, the GTA condo market has built 3,000 to 4,000 fewer units per year than is needed to match demand. However, this reflects the poorer sales experienced in the 2013 and 2014 pre-construction condominium market (supply reacts to demand in this market on a three to five year lag, which can contribute to short-term bubble-like price conditions). There is some supply relief coming in 2018, but especially 2019 based on stronger new condo sales activity in 2015 and 2016.

2.2.1 New Mortgage Rule Changes Boost Rental Demand



The other major reason that rents have skyrocketed was the change in the mortgage rules in October 2016. Mortgage Professionals Canada (MPC) did an extensive survey of over 4,000 Canadians in May of this year, and reviewed the financial situation of the buyers (or prospective buyers) that didn't have 20% to put down on a home. They concluded that 20% of Canadians that did not have the required down payment to avoid mortgage insurance would be disqualified by the new stress test. In the GTA, MPC calculated that these buyers would have to increase their down payment by $81,000 in order to complete the purchase that they could have made in the absence of the stress test. About 40% of MPC's survey respondents indicated that because of the new mortgage rules, they would delay the purchase of a home. As would be expected with rules intended to prevent people from taking a larger mortgage, many potential buyers can no longer afford to buy at all, while other can't afford the home they want, and will continue to save for that desired property.

No doubt that the frothy nature of GTA house prices in 2017 and the elevated number of investor buyers also pushed down ownership demand by young professionals and millennials, and contributed to an increase in rental demand.

The lack of new rental supply, plus the increase in rental demand that occurred as the result of the new mortgage rule changes late last year are likely responsible for the spike in rental rates, not gouging of tenants by property owners.

2.2.2 Economists Agree that Rent Control is Very Bad

The intent of rent control is to ensure tenants have security of tenure, to prevent tenants from being forced to vacate their home due to egregious rental increases, and to maintain a supply of affordable housing. These outcomes are desirable, but the unintended consequences of rent control far outweigh these objectives.

When the Minister of Finance Charles Sousa introduced the Fair Housing Plan, he mentioned economists' judgments on several occasions in relation to speculators and the overheated housing market. However, when he introduced rent control, any reference to economists was noticeably lacking, as rent control is one of the most agreed upon subjects in all of economics. In 2009, Econ Journal Watch (EJW) published a paper entitled *Rent Control: Do Economists Agree?* which included quotes and notable findings from several economists. Two from the 1980s stand out: *"the economics profession has reached a rare consensus: Rent control creates many more problems than it solves"* and *"economists have been notoriously thorough in convincing themselves of the destructive effects of rent control and notoriously inept at convincing anyone else."*

Politicians continue to have selective hearing when it comes to the findings of economists, as they often disagree on the outcomes of government policies; this is not one of those instances. The May 1992 issue of *American Economic Review* included a poll of 464 economists, in which 93% of U.S. respondents agreed, either completely or with provisions, that *"a ceiling on rents reduces the quantity and quality of housing available."* A similar Canadian study from 1988 reported that more than 95% of Canadian economists polled agreed with the statement.

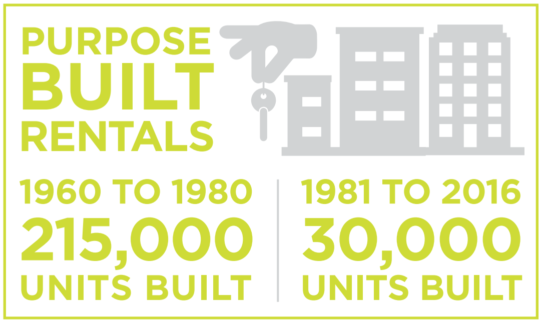
2.2.3 Rent Control Reduces Rental Supply

Mathieu Bédard, an economist at the MEI, a non-partisan, not-for-profit research and educational organization, provided a succinct summary of rent control: *"imposing limits on rent increases helps some people, to be sure, but it makes rental units less profitable for owners. Consequently, fewer are constructed, thus leading to higher rents for many other tenants. Those who keep the same apartment for a long period of time can benefit, but for those who move into new apartments just being made available, prices are increasing faster than they otherwise would due to the artificially limited supply. Rent control thus actually exacerbates the underlying problem."*

Noted real estate economist and professor Edward Glaeser wrote in 2003 that first-year students are routinely taught that the primary cost of price controls is undersupply. TD Economics echoed that fact the day the Fair Housing Plan was announced, raising concern over the unintended consequences of rent control: *"These may manifest in a diminished supply of rental stock and could also have adverse existing home market implications as investors exit the market amidst heightened uncertainty and already compressed capitalization rates."*

> "It has been a challenge to attract investment in the purpose-built rental apartment building space for the past 40 years in Toronto and capping rent increases will likely put an end to the burgeoning revival in this type of investment seen recently" – *RBC Economics (April 2017)*

As previous Market Manuscripts have relayed, several international housing markets where there is a higher propensity to rent have experienced less house price volatility (and fewer bubbles). Therefore, some real estate analysts have suggested that if there were greater acceptance of renting as a viable long-term housing choice, the probability of a housing bubble or resulting housing correction would decline.



Leased condominiums have dominated the rental landscape in the GTA for 20 years, but economist Benjamin Tal of CIBC suggests, *"the condo market can no longer be the only option available to renters."* To improve on the desire for the security of tenure mentioned earlier, *"The new wave of renters will need the stability of long-term renting and that's where purpose-built developments enter the picture."* There were over 215,000 rental units built in the CMA between 1960 and 1980, but only about 30,000 since. RBC, TD and CIBC all immediately warned that rent control would stifle the purpose-built rental market, which was finally gaining steam, as merchant builders, development equity providers, construction lenders, and institutional capital sources were finally wrapping their heads around the rental space and the future prospects of the Toronto rental market.

The Ontario government was adamant that rent control would not result in a reduction in the number of newly built rental apartments. Less than a month after the announcement, Effort Trust revealed that they have cancelled one of their rental buildings in the Hamilton area in favour of a condominium, and Tribute Communities has shelved the final two buildings at their three-phase apartment project off Sheppard Avenue East in Toronto. The King Portland Centre was recently converted to condos as well.

Developers are also concerned that the government will add further restrictions to rental apartments, and building condominiums remains more profitable and less risky. RBC Economics worried that rent control might dial down interest by investors in pre-construction condominiums and *"reduce 'seed financing' for future condo projects, which often depend heavily on investors to get off the ground. Thus, this too would ultimately reduce rental supply."* However, pre-construction condo buyers haven't been too fussed with the rent control announcement yet, with record high-rise sales in June per Altus Group data. This could be a concern moving forward if high-rise price growth cools, interest rates rise further, and greater focus is placed on future monthly cash flows.

2.2.4 New Rental Apartments will No Longer Cater to Families

In discussions with developers and their financial partners over the past couple of months, there still appears to be players that will continue looking at building new rental apartments (many of these parties have low costs of capital, and longer mandates). With that said, they won't be priced or built to the same specifications as they would have before the introduction of expanded rent control.

Economist Peter Navarro writes: *"Because of the rental bargain that tenants in controlled units enjoy and because controls can make it difficult to find similarly-priced accommodations elsewhere, there is a tendency for tenants to 'stay put.'"* The EJW report includes this noteworthy passage: *"Landlords now prefer short-staying tenants to long-staying tenants (as long-stayers impose greater costs on landlords because of the erosion of real rents during a single tenancy)."*

Therefore, if there is an increased probability that tenants will stay longer, and rent increases diminished in the future, developers will set rent higher initially at new builds to try to recoup some of that future lost revenue up front. Secondly, buildings will be designed with a higher share of small units aimed at younger and transient tenants that are more likely to vacate their units quickly, so the lease rate can be reset more often.

Urbanation tracks purpose-built rental apartments built since 2005 in the GTA and they note that index rents hit a new high of $2.67 psf in the second quarter, an 11% increase year-over-year. They believe *"The notable rise was likely also impacted by building owners raising rents for available units by more than usual in response to the Province of Ontario's new cap on rent increases."* Rent control is already making the prospective tenants worse off in the GTA.

2.2.5 Rent Control Can Lead to Tenant Discrimination, Clandestine Rental Arrangements, and Under-Maintained Properties

Unfortunately, not all property owners are quality individuals and knowing rents are appreciating quickly, they will want to choose short-term tenants over long-term tenants to reset rents to current market value. This could lead to leasing agents choosing a student over a single-mother looking to lay down roots in the neighbourhood.

The impact of rent control can also lead to other market inefficiencies: *"Alternative mechanisms that can potentially equilibrate supply and demand in housing markets include discrimination, quality deterioration … forced tie-ins, finder's fees, side payments and bribes,"* writes economist Clifford Thies.

If property owners are skeptical about their ability to recoup the costs associated with renovations and improvements on their units or buildings, why would they undertake them? *"Rent control will generally lead to a decline in maintenance expenditure by the landlord"* finds Lok Sang Ho, a professor of economics at Lingnan University in Hong Kong.

Henry Hazlitt, a well-known American journalist, first wrote about the ills of rent control in *Economics in One Lesson* in 1946. He updated the section in 1978, writing that rent control creates *"ill feeling between landlords who are forced to take minimum returns or even losses, and tenants who resent the landlord's failure to make adequate repairs."* Over 40 years' worth of quality research has been published about rental control's starring role in the shady practices of property owners, most of which the Ontario Government has chosen to ignore.

2.2.6 Wasted Square Footage and Longer Commuting Times: How Rent Control Leads to Housing and Labour Misallocation

In a study entitled *Misallocation Under Rent Control*, the authors postulate that *"all forms of rent control limit landlords' abilities to raise rents on long-term tenants. This creates an incentive to stay in the same apartment, which leads people to remain in the same apartment even if their tastes and conditions change"* and *"the welfare losses due to misallocation will exceed the welfare losses due to undersupply."*

> Rent control…encourages wasteful use of space. It discriminates in favor of those who already occupy houses or apartments in a particular city or region at the expense of those who find themselves on the outside" – *Henry Hazlitt (June 1978)*

In other words, young renters don't move up the property ladder and free up smaller units for less affluent buyers. Empty nesters don't move out of larger apartments when their children leave, professional couples don't move closer to their job to save on transportation costs. These outcomes lead to overcrowding in some units, and under-housing in other units, as well as longer commuting times, or tenants choosing not to look for employment outside a narrow geographic area of their rent controlled home. The EJW report points to the labour inefficiency: *"a related consequence of rent control must be a decline in the quality of job matches for residents."* In the GTA, where transit so deficient and traffic is a nightmare, this problem becomes that much worse.

2.2.7 The Unintended Consequences of Rent Control are Vast, and They Will Hit the Pocketbooks of Municipalities Next

The government will now likely see reduced taxes because of rent control, as less homeownership demand means reduced housing transactions and less land transfer taxes. Secondly, economist Peter Navarro points out: *"Because tax assessments are based on a property's market value, the amount of taxes the owner pays shrinks with the reduction in rents"* moving forward.

Many pension funds are heavily invested in residential rental housing, now their returns, and people's retirement funds are being eroded. However, not all landlords are large, well-off corporations, many are mom and pop investors that manage properties full time, and count on the rental revenue to make a living. *"The injustice imposed on landlords is flagrant. They are ... forced to subsidize the rents paid by their tenants, often at the cost of great net losses to themselves. The whole burden falls on the single small class of people wicked enough to have built or to own rental housing"* writes Henry Hazlett.

> "It's important to remember the two sides of the equation: policy must be set to align the incentive structures of both parties (investors and renters) in order to prevent one side of the equation from collapsing and resulting in market inefficiencies or failure. The measures announced today do not put in place measures to improve the diversity of rental stock" – *TD Economics (April 2017)*

2.2.8 Why Should Private Landlords Provide Subsidized Housing to Tenants?

Why should the government stipulate a transfer of wealth from property owners to tenants? If the free market cannot deliver affordable housing units, shouldn't the government be providing them instead? It should not be the responsibility of landlords to absorb the market (and the government's failure) to deliver adequate affordable housing units.

David Hulchanski, a professor at The University of Toronto wrote his 1997 paper on *The Economics of Rental Housing Supply* that *"The market does not respond to social need."* When the government tries to force the market to respond to social need, the unintended consequences often make the situation worse.

The EJW report states that rent control should protect tenants, allow owners to maintain their buildings and realize a reasonable profit, and assist those who can barely afford housing. Rental measures should specifically target protection for the disabled, the elderly, or those living on fixed or limited incomes. However, blanket rent control plans like Ontario's version rarely achieve these goals, as the benefits are apportioned by chance and not targeted to the beneficiaries most in need. BYU Economist David Sims found that only *"26% of rent-controlled apartments were occupied by renters in the bottom quartile of the household income distribution"* in Boston and concluded that *"much of the transferred surplus may have been received by wealthier households."* In Yorkville in the first quarter there were leases of $6,900 per month, $9,900 per month and $19,500 per month, these tenants do not need the protection of rent control.

> The traditional advocates of controls emphasize distributional concerns. Specifically, they argue that controls redistribute from rich to poor and ensure cheap housing. I find little merit in either argument. Whatever redistribution controls achieve is poorly targeted … For related reasons, cheap housing, as distinct from a reduction in inequality or poverty, is a dubious goal of social policy" – *Richard Arnott, Professor of Economics, University of California Riverside (Winter 1995)*

2.2.9 Rent Control will Result in the Opposite of its Stated Goal

In conclusion, for those unlucky enough to not currently own or rent in the Great Golden Horseshoe, rental control just made housing more expensive. *"In a perverse way, this policy may serve to actually reduce affordability in the city for those who are already not occupying a rental unit, are not at the upper end of the income scale or in a position to outright purchase a home"* writes TD Economics.

We'll leave the last words to Globe and Mail journalist Marcus Gee, who summed up the complex topic well: *"The long-term answer to the affordability crunch is to build more places to live. Any government that brings in rent control risks choking off the supply of new rental housing when it is needed most. The dismal scientists are right: rent control is a thoroughly awful idea."*

2.3 Vacant Homes Property Tax

The remaining Fair Housing Plan measures are not expected to have as big a bearing on the market as the Non-Resident Speculation Tax, and the expansion of rent control. However, the Vacant Homes Property Tax was one of the 16 measures proposed in April, which would *"empower the City of Toronto, and potentially other interested municipalities, to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out, to address concerns about residential units potentially being left vacant by speculators."*

We asked the general public (via our social media survey) if they knew of homes in their neighbourhood that were vacant. The responses were as follows: 63% picked "No, I don't see them, and I don't think it is a problem" and 37% chose "Yes, I know of at least one vacant home in my immediate community."

2.3.1 Census Data Does Not Show a Widespread Problem with Vacant Homes

In February, the 2016 Census population and dwelling count tables were released by Statistics Canada. The figure that immediately caught the attention of the public was the difference between the total dwellings, and dwellings "occupied by usual residents." The Altus Group writes *"Some people have (erroneously) interpreted the difference between these two numbers as indicating how many units are vacant"* but it often refers to a unit occupied full-time by a person whose regular residence is elsewhere, especially domestic and foreign students. Other potential options include: short-term rentals, 2nd homes, vacation properties, units under renovation, newly completed suites where the resident hasn't moved in yet, a rental apartment with staggered move-ins, a home being operated as an AirBnB hotel, or an unsold developer unit used as a model suite.

There are 5,000 more units not occupied by usual residents when you compare the 2016 Census to the 2006 Census for the City of Toronto, however, the 2016 figure represents 5.6% of the housing stock, lower than ten years ago (5.9%). Even the City of Edmonton and the City of Montreal have higher shares, as does Canada overall at 8.7%. The Altus Group adds *"keep in mind that some degree of vacant dwellings is needed for smooth market operation."* When people are changing jobs, moving to a new area for school, or immigrating to Canada, there needs to be some units available to rent. A "frictional vacancy" or 3%-4% is ideal to give potential tenants some choice and thus room to negotiate the lease terms, otherwise they'd be at the whim of property owners due to near-zero supply.

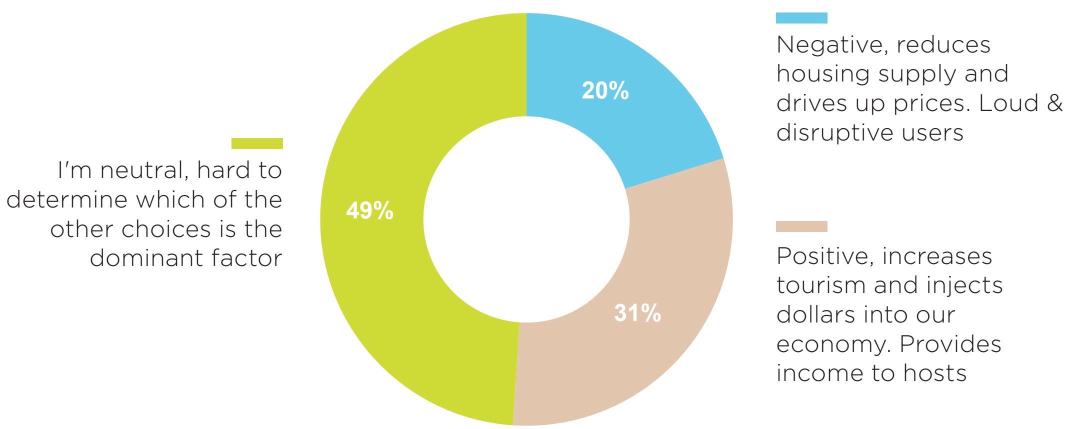
2.3.2 Is AirBnB Beneficial to a City?

Many of the anti-development crowd continue to say that adding housing supply won't help affordability, but previously made the claim that they thought Toronto was overbuilding (which of course they said would lead to a decline in prices). Many of those same people are anti-condo and want new purpose-built and professionally managed rental supply, but strangely are now anti-AirBnB because Toronto needs to preserve condo rental supply? What a twisted set of beliefs.

According to Altus Group's FIRM Survey, 4% of Canadian households have rented out all, or a portion of their home at any point over the past year. The rate rises to 15% for millennials in Canada's four major markets, and 22% for millennials with mortgages in those big markets. So clearly, younger Canadians are using services like AirBnB to help them offset the high cost of housing in major urban centres.

In our social media survey we asked the general public what they thought of AirBnB (refer to **Figure 11**). Just over 20% of respondents indicated that AirBnB was negative because it reduces housing supply, drives up prices, and the users can be loud and disruptive. Almost 31% of survey respondents felt it was positive, given that it increases tourism, injects dollars into our economy, and provides income to hosts. The remaining respondents were neutral, not sure which of the positive and negative cases were the dominant factor.

FIGURE 11 **2017 FORTRESS SOCIAL MEDIA SURVEY OF THE GENERAL PUBLIC** | What are Your Thoughts on AirBnB?



Source: July 2017 Fortress RDI Social Media Survey

A Globe and Mail article summarized findings from a City of Toronto report on home sharing, *"the number of AirBnB listings in Toronto tripled between 2014 and 2016, with 15,869 listings and more than 10,000 properties rented in 2016."* John Tory is worried about affordability and the constant *"comings and goings"* of temporary residents that can disrupt a community. Toronto City Council suggested this solution: *"Toronto residents would only be able to list short-term rental units of homes and condos in which they currently reside."*

> The reality is that the majority of people who occasionally rent out their rooms or homes on Airbnb are renting their primary residence. Forcing them to jump through financial and regulatory hoops won't increase the housing supply. Of course there are individuals who rent out non-primary residences on home sharing platforms, but they are in the minority and they can't reasonably be blamed for causing the Toronto or Vancouver housing crises" - *Christine Van Geyn, Canadian Taxpayers Federation (July 2017)*

The home-sharing report is another Toronto document where public officials recognize the need for more housing supply in Toronto.

2.3.3 Will this Vacant Homes Tax Increase Supply?

It is likely that property owners with empty homes will have to self-report their violation, and otherwise there will be a "snitch line" set up for local residents to report vacant units. There is a concern that policing vacant units will be an administrative nightmare and trying to determine if a unit is vacant in a 500-unit condominium apartment will be virtually impossible. We have yet to speak to anyone that believes this proposal will make any difference to the affordability of housing in the City of Toronto.

However, TD Economics pointed to the borough of Camden in the U.K. in a recent report, writing: *"Camden's experience with an additional 50% property tax in 2013 has led to approximately 1/3 of vacant properties being brought to the rental market. However, the tracking of vacant properties can be difficult and often subjective. Camden relied on a hotline through which residents could call if they noticed a property sitting empty, with the potential for increased underreporting and loophole usage."*

The tax may result in a one-time influx of available units, but it isn't likely to have any long-term positive impact on housing supply. The Fair Housing Plan measures may cancel each other out, as the additional supply that comes online because of the vacant homes tax will likely be offset by the increase in demand that rent control adds to the rental market.

2.4 Housing Supply Team

Several of the measures announced as part of the Fair Housing Plan were targeted at raising housing supply, including a *"$125-million, five-year program to further encourage the construction of new rental apartment buildings by rebating a portion of development charges."* This is a relatively small amount when spread over five years and multiple projects, especially in the face of the rent control measure. This measure will not result in a noticeable increase in rental housing supply.

Municipalities *"could be permitted to impose a higher tax on vacant land that been approved for new housing,"* which won't do much because developers are not hoarding land. There is likely some land speculators out there sitting on land, but most aren't taking the projects through the approvals process anyway, so the impact of this measure will be minimal at best.

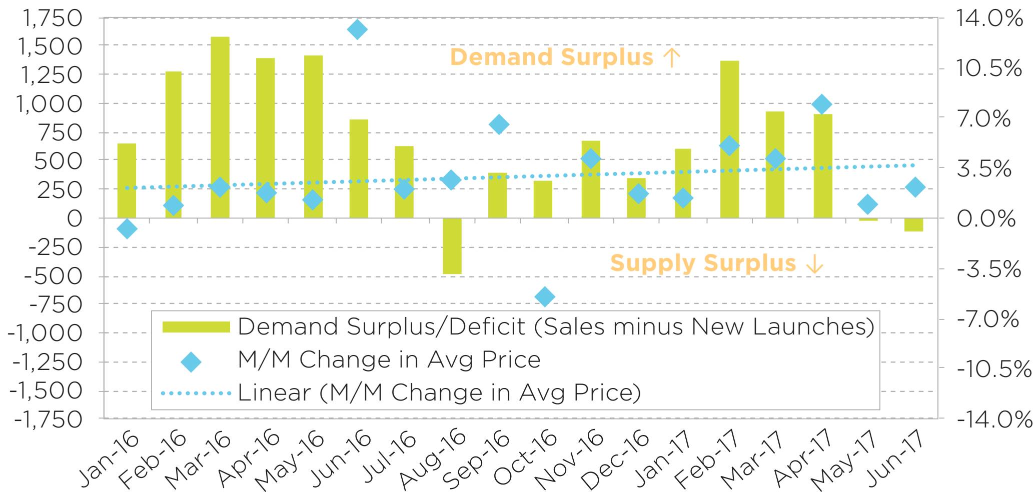
The government also wants to create a *"Housing Supply Team with dedicated provincial employees to identify barriers to specific housing development projects and work with developers and municipalities to find solutions."* The government needs to simply look in the mirror to find a solution: the Places to Grow Act is one of the major reasons supply has dropped considerably. This report will discuss this in detail in the planning survey section.

> It is clear that more must be done to increase the supply of housing in the GTA. This could include, for example, zoning amendments, increased density allowances in established neighbourhoods, a streamlined development approval process, and incentives to encourage more rental unit construction" – *Scotiabank Global Economics (March 2017)*

2.4.1 Demand Continues to Outpace Supply in the GTA New Home Market

Altus Group noted in their February Housing Report that there were about 500 active ground-oriented new housing developments in 2007, but less than 100 today. A decade ago, there were 18,000 new low-rise units for sale in builder sales offices, in early 2017, that figure dropped below 1,000. **Figure 12** shows that demand (for new single-detached, semi-detached, and row sales) has exceeded supply (new units launched for sale) in 15 of the last 18 months, prices have increased in 16 of the last 18 months. Prices have been rising at 2.9% per month since the beginning of 2016 and are now up 40% annually.

FIGURE 12 **DEMAND VERSUS SUPPLY: LOW-RISE NEW HOME SALES MINUS NEW LAUNCHES**
Greater Toronto Area: January 2016 to June 2017



Source: Altus Data Solutions

According to data from Urbanation Inc, unsold inventory in the new high-rise condominium apartment market has declined to just 6,800 units, down from 21,500 in 2013. **Figure 13** looks at monthly Altus Group data, the figures show that demand has exceeded supply in the new high-rise market in 15 of the last 18 months, and prices have risen in 16 of the last 18 months. On average, prices in the new condo market have grown by 2.2% per month. The average unsold condominium in the GTA is being offered for $777 psf at the end of the second quarter according to Urbanation, an increase of 27% year-over-year.

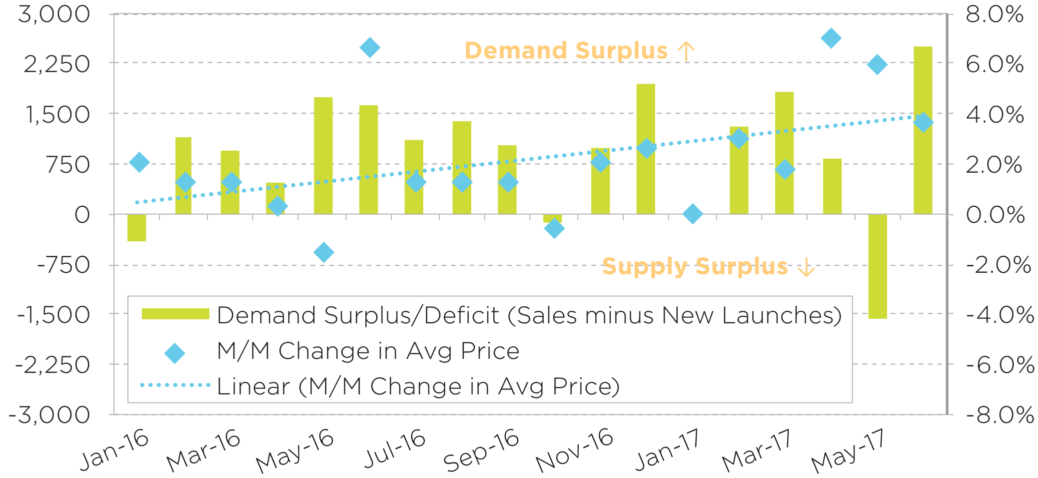
Whether one believes there are too many investor buyers in both the low-rise and high-rise new home market, that fact cannot account for the sheer discrepancy of demand in relation to supply. The Altus data shows approximately 52,000 sales and 39,000 units launched over the past 18 months in the high-rise market, and 24,000 sales and 22,000 units launched in the low-rise market. A mind-boggling 76,000 new home sales have occurred over the last year and a half, despite just 61,000 units launching!

76,000 sales is a 51,000 annualized trend, which some will argue represents "too much demand," but over 45,000 units were completed in both 2002 and 2015 according to CMHC. So did all that completed supply depress resale house prices in the those years in the GTA? Average resale prices were up 9% in 2002 and 10% in 2015.

FIGURE 13

DEMAND VERSUS SUPPLY: HIGH-RISE NEW HOME SALES MINUS NEW LAUNCHES

Greater Toronto Area: January 2016 to June 2017



Source: Altus Data Solutions

2.5 Paper Flipping of Residential Units

The last measure we'll discuss in this section is 'paper flipping.' The Fair Housing Plan states *"The province will work to understand and tackle practices that may be contributing to tax avoidance and excessive speculation in the housing market such as 'paper flipping,' a practice that includes entering into a contractual agreement to buy a residential unit and assigning it to another person prior to closing."* Charles Sousa was particularly concerned with this practice by pre-construction condominium investors; he referred to the perpetrators as "property scalpers."

From our perspective, we haven't seen any significant rise in assignment activity over the past year. Anecdotally, the practice seemed much more common during the last condo market peak in 2011. However, the Canadian Revenue Agency apparently cracked down on investors that deceitfully benefitted from the capital gains exemption in 2013.

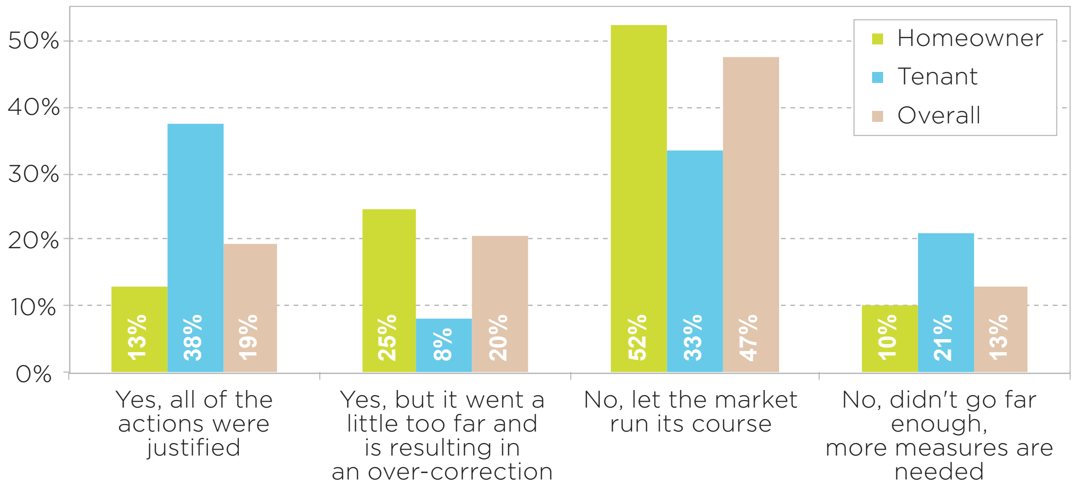
It is worth noting that investors play a very valuable service to the new housing industry, especially with larger high-rise projects and longer construction times. They act as the intermediary, willing to put down 20%, and assume risk that the development will not move ahead on time and on schedule. As of the first quarter, there were still 1,615 units under construction that launched in 2011 or earlier in the GTA (per Urbanation data). Anyone, not just investors, should have the right to assign a unit if their closing date is pushed back two or three years.

2.6 Was the Fair Housing Plan a Good Idea?

In our social media survey, we asked the general public for their opinion on the Fair Housing Plan, keeping in mind that many homeowners are quite happy to see the value of their home rise steeply. **Figure 14** presents the survey results, broken down by homeowners and tenants (the tenants group includes two responses from 'people living rent free with friends or relatives'). In total, 69 homeowners and 24 tenants responded to this question, with the majority of homeowners believing that the government should have done nothing in the face of the housing bubble and let the market run its course. The top response from tenants (38%) indicated they thought the Fair Housing Plan was the right move and that "all measures were justified."

FIGURE 14

2017 FORTRESS SOCIAL MEDIA SURVEY OF THE GENERAL PUBLIC
Do You Think that Ontario's Fair Housing Plan was the Right Move Based on the Booming House Prices?



Source: July 2017 Fortress RDI Social Media Survey

A quarter of homeowners supported the Fair Housing Plan with the caveat that "it went a little too far and is resulting in an over-correction" while 13% supported it outright. Surprisingly, one-third of tenants thought the market should run its course and did not support the government measures, while 21% felt they "didn't go far enough, more measures are needed."

2.7 Final Thoughts on the Fair Housing Plan

It will likely take a year to 18 months to accurately evaluate the results of the Fair Housing Plan. The measures certainly resulted in the immediate pause in investor activity in the resale housing market and the new low-rise housing market, but investors continue to support the high-rise condominium market with numerous successful launches post-announcement.

> The response we were seeing in the Toronto market seems almost emotional and almost a knee-jerk reaction to some of the changes, which suggests that these impacts will be short-lived if all other fundamentals remain intact" - *Dana Senagama, Principal Market Analyst, CMHC (July 2017)*

There have been suggestions that the recent declines in the Ontario market represent the start of a housing crash, but RBC Economics believes *"that the risk of a downward spiral is low"* and it will probably take *"a few more months for southern Ontario markets to adjust."*

2.7.1 The Fair Housing Plan Failed to Identify the Real Offenders

Scotiabank Economics wrote in March that *"The main factors driving GTA housing markets remain strong domestic fundamentals, including low borrowing costs, solid job gains, aging millennials, provincial in-migration, increased immigration, and a lack of supply."* However, they also felt that in early 2017 *"much of the increase in prices likely reflects speculative activity"* and at the time suggested *"a tax on sellers who flip a property within a certain period of time."*

A tax on sellers flipping property in less than a year was surprisingly absent from the Fair Housing Plan. Long-term investors provide much-needed rental supply, which is a positive for any real estate market. Short-term investors on the other hand, especially highly leveraged ones keen on flipping a property in three to nine months, add volatility to the market, unwanted risk, and the higher probability of a housing market correction. The government should have taken aim at domestic speculators, who likely comprise a much bigger share of the residential resale transactions than foreign speculators.

MAIN FACTORS DRIVING GTA HOME PRICES

- LOW BORROWING COSTS
- AGING MILLENNIALS
- PROVINCIAL IN-MIGRATION
- INCREASED IMMIGRATION
- LACK OF SUPPLY

2.7.2 All of the Fair Housing Plan's Measure can be Reasonably Justified, Except One

Rent control was the biggest mistake in the Fair Housing Plan, and is absolutely terrible policy. Rent control only benefits existing tenants that aren't looking to move, assuming their landlords keep up with regular maintenance on the unit. This measure will make overall affordability worse, not better.

2.7.3 Conclusion

In conclusion, the only way to ensure that prices don't get out of hand during robust economic conditions is for housing supply to keep pace with housing demand, and that is extremely difficult to accomplish. Supply is constrained by Lake Ontario, the Greenbelt, restrictive zoning, NIMBYs, and underfunded infrastructure, while demand is boosted by strong employment growth, consistent immigration, and low interest rates. These factors all attract real estate investors.

Enacting measures to push down ownership demand is the best short-run option, but it often hurts prospective first-time buyers. Demand solutions can result in swift price drops that hurt recent buyers, and they can drive up demand for non-ownership housing, and increase rental rates for the most vulnerable residents. Supply is a long-run solution, but the costs of production are high (leading to lofty end-selling prices), the product type permitted doesn't always match the underlying demand, and one of the consequences of new housing is an improved neighbourhood, and thus even higher values.

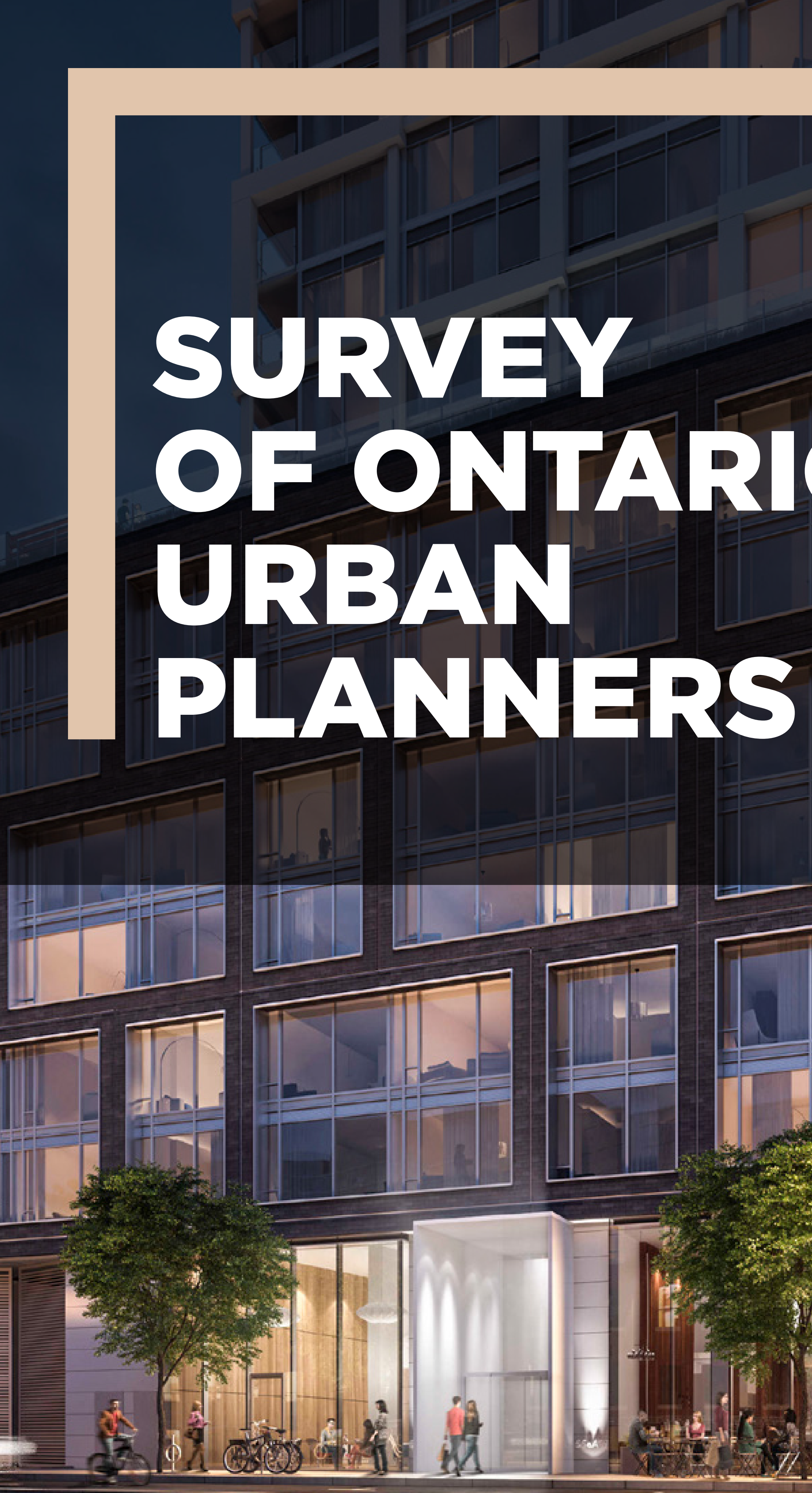
The unsolvable problem is that many Torontonians continue to prefer ground-oriented housing to apartment living. There is only so much land available to increase the single-family built form, and there is nothing the government can do about that reality short of filling up Lake Ontario or opening up the Greenbelt (we are not suggesting either of these options). Secondly, high-rise rental buildings and condominiums take years to plan, entitle, and build, and spikes in demand only result in supply of that product type on a three to five year lag, so there isn't much the government can do about supply in the short-run. Price volatility is virtually guaranteed in a market that relies on large high-rise apartments to deliver the bulk of the new housing supply.

The government needed to act to curb the excessive price growth, but many of the policies enacted were unwise, while others were not strong enough.

The views of MEI economist Mathieu Bédard echo many of our own: *"Cities like Vancouver and Toronto would be expensive places to live even without misguided policies. Lots of people want to live in a big city, because these places tend to be economic juggernauts, full of opportunity."* In relation to housing affordability, the Fair Housing Plan's *"distortionary policies have not only failed to address the matter; they have made things worse."*

"Rather than letting artificially limited supply drive prices up and drive the poor away from cities, governments should allow the price mechanism to work, incentivizing developers to build more when prices go up. It would be better to target support for those who truly need it than to distort the market with well-intentioned but counterproductive measures."

SURVEY OF ONTARIO URBAN PLANNERS



3.0 Survey of Ontario Urban Planners

One of the 16 measures announced as part of Ontario's Fair Housing Plan that wasn't discussed in the previous section focused on urban planning. The provincial government plans to work with municipalities *"to better reflect the needs of a growing Greater Golden Horseshoe through an updated Growth Plan."*

The Growth Plan for the Greater Golden Horseshoe is legislation with a long-term plan to *"manage growth, build complete communities, curb sprawl and protect the natural environment."* The problem arises when the government directs growth to locations and built forms that don't align with demand in the marketplace. That misalignment results in skewed housing values in the short run, despite the fact that it may be in the best interest of the region from a financial, political, and environmental perspective.

We wanted to survey both public and private urban planners to get their opinion on land-use economics in the region, the impact of current and expected changes to planning-related policies and procedures, and what impact these changes will have on real estate prices and the decision making of buyers and sellers in Ontario moving forward.

3.1 Affordability in the Greater Golden Horseshoe

According to the Desjardins Affordability Index, residential property in Ontario is the least affordable that is has been over the past ten years. Toronto is the second least affordable market in Canada in the first quarter according to Desjardins, behind only Vancouver. Affordability dropped dramatically in Kitchener-Cambridge-Waterloo as well as St. Catharines-Niagara in Q1-2017, likely because of ex-GTA residents adding demand to those markets. Given the spike in house prices, we didn't really need an index to tell us things got a lot more expensive for buyers without substantial financial assistance.

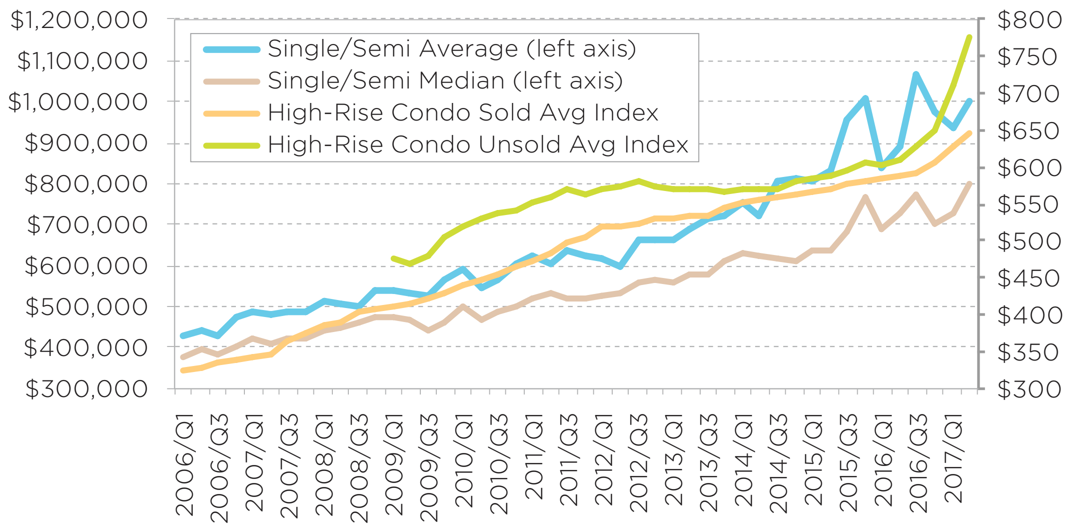
The question ultimately becomes, are these other Canadian cities appropriate comparables to Toronto, likely not. The Canadian Centre for Economic Analysis pointed out that *"Toronto could be seen as relatively cheap"* when you compare its price-to-income ratio to Hong Kong, Hanoi or Mumbai, but is likely closer to world class cities like Berlin, Boston and Melbourne. To note, there are new condos selling in Boston for $1,800 psf with no parking.

In a recent guest column, analysts at the Fraser Institute point out that *"the Houston metropolitan area is roughly as populous as the Greater Toronto Area (about 6.5 million people), and has grown substantially in recent years. Cities in the Houston area issued building permits for almost 64,000 housing units in 2014, compared to 36,000 units in the Toronto and Oshawa census metropolitan areas."* House prices in Houston are half of what they are in the GTA. Why aren't we building as much as Houston, and is this lower level of supply to blame for record house price growth?

3.1.1 Urban Planners Blame Urban Containment Policies for New Home Price Growth

Whether you think the Greater Toronto Area is appropriately priced from a global perspective, the data shows that the average price of a new single-detached or semi-detached house has increased from about $430,000 at the start of 2006 to $1M at the end of Q2-2017 according to data from CMHC. A 1,000 square foot (sf) new condo unit would have sold for approximately $323,000 in 2006, it traded for twice as much as that in 2017 per Urbanation data (see **Figure 15** – CMHC end-selling prices on the left axis and Urbanation index prices on the right axis).

FIGURE 15 **NEW SINGLE-FAMILY & HIGH-RISE CONDOMINIUM PRICES**
Greater Toronto Area: Q1-2006 to Q2-2017



Source: CMHC, Urbanation Inc.

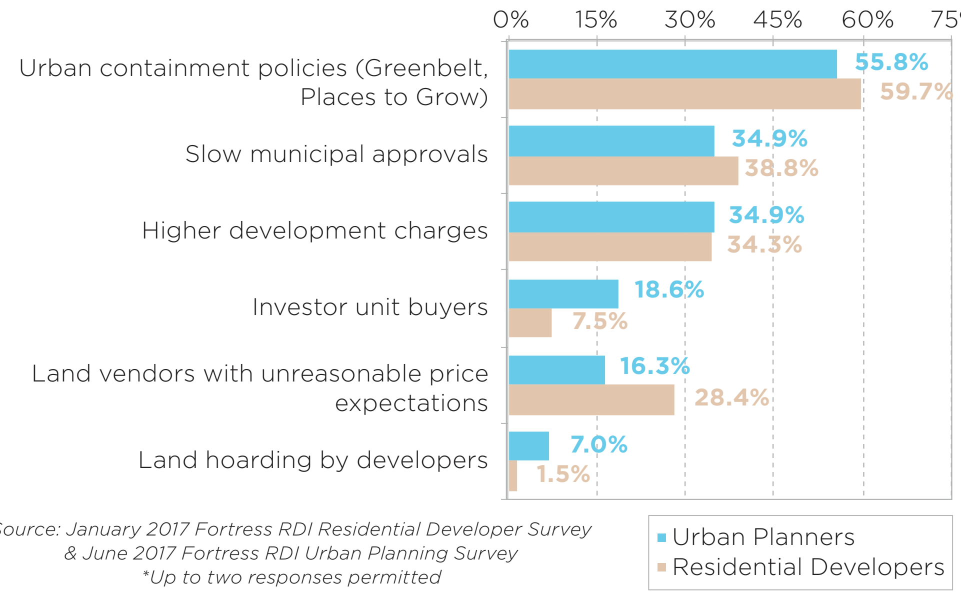
In January 2017, we asked residential builders and developers about price inflation: “What are the primary drivers of new house price growth?” We permitted up to two responses to this multiple-choice question. The top responses were urban containment policies (60%), slow municipal approvals (39%) and higher development charges (34%).

> While a number of factors like land speculation, foreign ownership and flipping homes have led to the shortage in affordable housing, the number one reason is a lack of supply — exacerbated by the Places to Grow Act” *– Benjamin Tal, Deputy Chief Economist, CIBC World Markets (June 2017)*

In June of this year, we asked the same question to urban planners and the top responses were nearly identical, with 56% saying urban containment policies like the Places to Grow and the Greenbelt, 35% saying slow municipal approvals, and 35% saying higher development charges (see **Figure 16**). Overall, we received 53 responses to our questionnaire: 39 private planners and 14 public planners. Strangely, only three public planners that took the survey chose to answer this specific question, and all three chose the same answer: land hoarding by developers. None of the private planners chose that option.

FIGURE 16

FORTRESS SURVEY OF URBAN PLANNERS
What are the Primary Drivers of New House Price Growth*



Source: January 2017 Fortress RDI Residential Developer Survey & June 2017 Fortress RDI Urban Planning Survey
**Up to two responses permitted*

3.2 Planning Approvals in the GTA are Taking Too Long

Just under 35% of private planners felt that GTA municipal approvals were taking too long and are partially responsible for higher house prices. None of the public planners admitted that slow approvals contributed to house price inflation, but they did admit that approvals were slower than they could be. In a report published by CUPE Local 79, the union surveyed its planning members in the City of Toronto, and found that 92% of respondents don't think their division *"has enough staff to complete work in a timely and satisfactory fashion"* and two-thirds of those respondents feel their ability to *"oversee development and implement the City's planning needs has been 'significantly' decreased."*

> The problem is that we have the same staff levels we did in 1997. The planning division is overworked and understaffed. It drives planners nuts. It drives developers nuts. And it drives councillors nuts" – *Joe Cressey, Toronto Ward 20 Councillor (March 2017)*

3.2.1 The Building Approval Process Takes over Two Years on Average in the GTA

Ryerson University's Centre for Urban Research & Land Development (CUR) surveyed Rescon's members regarding planning approvals (Rescon stands for Residential Construction Council of Ontario). The summary report was published in July of this year, and the results showed that the average new home development takes 25.5 months to go through the building approvals process (Site Plan Control or Plan of Subdivision and building permit). Approximately 45% of respondents felt their applications were unnecessarily delayed due to the length of the approval process.

3.2.2 The Average High-Rise Building took Nearly 3.5 Years to be Approved in the City of Toronto

The University of Toronto's Building Tall Research Group studied the approvals of 174 tall towers in the City of Toronto over the past decade, and found that *"the time to complete the approvals process has more than doubled in the past 10 years"* and *"A nine-month approvals target, as outlined in the Toronto Development Guide, actually took nearly 3.5 years on average in 2016."*

These results are no surprise, as it is clear that the City of Toronto staff is overworked and underpaid, as the CUPE Local 79 survey showed that 43% of city planners work overtime daily, with 51% of those employees rarely or never paid for those extra hours logged. The report quotes one planner that said, *"everything is so typically rushed, rash decisions are being made for serious matters."* In key districts, staff *"are regularly unable to meet key performance targets as legislated by the Planning Act."*

The U of T Building Tall Research Group found that *"42% of condo applications that successfully appealed to the Ontario Municipal Board (OMB) from 2006 to 2016 indicated that 'failure of the City to announce a decision' compelled an OMB appeal."*

3.3 Ontario Planners Don't Feel an Overhaul of the OMB was Necessary

According to The Government of Ontario, *"The Ontario Municipal Board (OMB) is an independent adjudicative tribunal that conducts hearings and makes decisions on matters that have been appealed to the OMB under specific provincial legislation. While the OMB has a mandate under a large number of statutes, the majority of appeals arise under the Planning Act for planning instruments, such as official plans, zoning by-laws, subdivision plans, consents and minor variances."*

The U of T report found a major increase in the number of tall building applications making their way to the OMB in Toronto: *"in 2013 only 20% of all successful proposals came from the OMB, but in 2016, 70% of all proposals approved in that year came from the OMB and only 30% were approved at City Council."*

"The OMB has long been criticized for overturning the City's decisions and allowing uncontrolled growth within the City" writes the U of T report authors. Resident groups are adamant that they should be able to plan the future of their neighbourhoods, yet they rarely consider the impact on affordability in their community or the region. When someone blocks a new project or pushes for fewer units, they are denying someone's right to live in that neighbourhood.

The planning process should consider the needs of future residents and not just existing residents. A new housing paper written by noted economics professors Ed Glaeser of Harvard and Wharton's Joe Gyourko concludes that: *"if decisions are made by majority vote, development projects face a considerable disadvantage, especially since many of the potential beneficiaries of a new project may not live in the jurisdiction when the project is debated."*

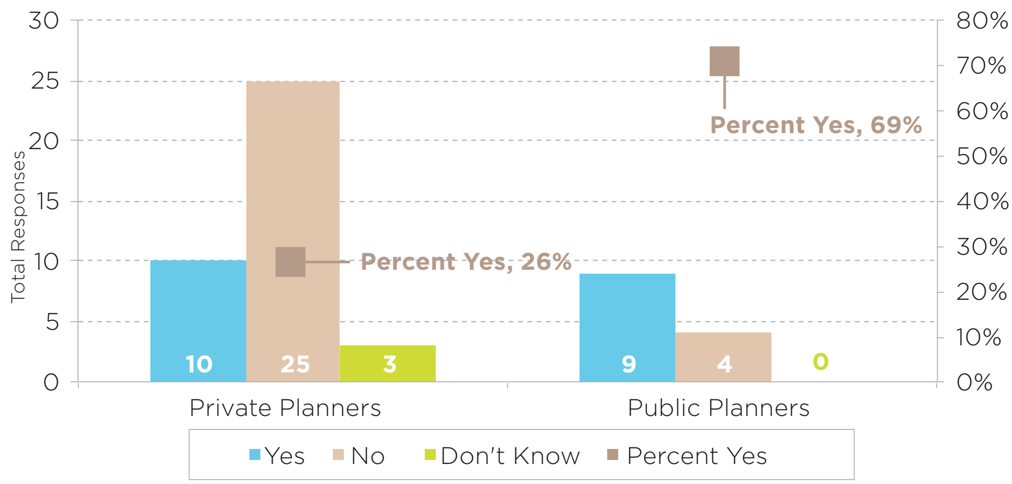
Many in the planning community believe the proposed OMB changes would put considerably more power into the hands of locals, many of which are only looking out for their property value, not the long-term needs of the city as a whole. The OMB will be replaced by a Local Planning Appeals Tribunal, and there is concern this tribunal will not uphold the high-density intent of the Places to Grow Act.

> Economically successful metropolitan areas have been unable to build enough housing to meet the demand of their growing workforces, resulting in higher real estate prices and hardship or displacement for poor and middle income households. But voters who say they are concerned about housing affordability often oppose construction of the dense and multi-unit housing needed to address housing shortages in their local area" – *William Marble & Clayton Hall, Stanford University (April 2017)*

We asked Toronto area urban planners if they thought the OMB needed to be overhauled, and 57% of respondents said no, 37% said yes, and 6% said I don't know. **Figure 17** presents the results broken down by private and public planners. Only 26% of private planners felt the OMB needed to be overhauled, while 69% of public planners felt it should.

FIGURE 17

FORTRESS SURVEY OF URBAN PLANNERS
Do you Think the OMB Needed to be Overhauled?



Source: June 2017 Fortress RDI Urban Planning Survey

3.3.1 Urban Planners Believe that Good Planning Should Not be Influenced by Politics

The OMB overhaul question included an optional comment section, and many of the planners chose to expand on their multiple-choice response. Several planning professionals felt the OMB needed to be reformed, but not overhauled or replaced, *"the OMB serves an important function and isn't 'broken'"* but *"certainly does need to market itself better as acting in the broader public interest, not against it."*

There were many comments that mirrored these opinions: *"Good planning should not be influenced by politics"* and *"By placing power in Council's hands, they have really placed the power with local ratepayers and organized NIMBY groups."* The *'Not In My BackYard'* (NIMBY) folks have a major impact on development in the GTA, as Fortress and many of our development partners have shied away from potential projects we felt would have too much community opposition. Many locals oppose any intensification: *"All these people don't want change, but the province dictates intensification."* There is genuine concern that the new system replacing the OMB will result in fewer project applications and pared-down approvals as *"there will be too much power in the hands of municipal politicians. They will be under pressure to refuse higher density developments by the people who elect them every four years."*

> It helps to remember that a single building facing local opposition can represent dozens, if not hundreds, of homes for Torontonians and their families. If limiting OMB influence leads to more projects being thwarted or scaled back by city council, there could be serious implications for housing affordability in the city" - *Steve LaFleur and Josef Filipowicz, Frasier Institute (March 2017)*

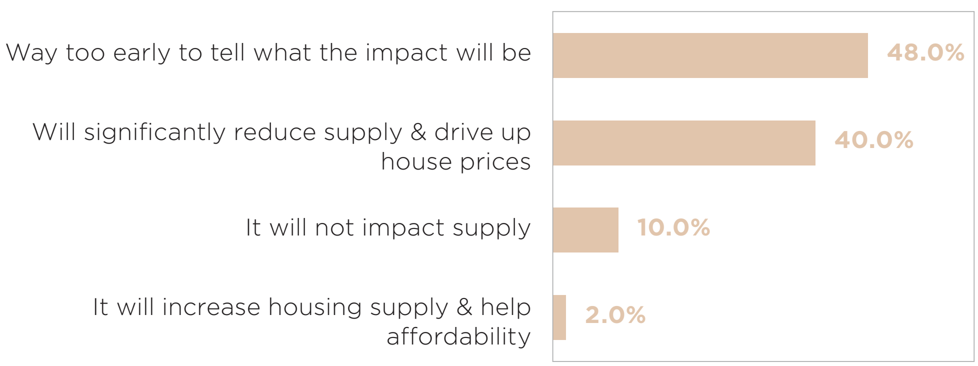
3.3.2 Planners say it's Too Early to Tell if Land Planning Appeals Tribunal Will Decrease Housing Supply

There is concern among the development community and think tanks like the Frasier Institute, that a dumbed-down land planning appeals board will result in fewer housing units being approved. We put this question to Ontario urban planners: Given your understanding of the proposed changes to be introduced with the new Local Planning Appeal Tribunal, what impact do you think it will have on new housing supply?

Almost half of the respondents felt that it was too early to tell what the impacts will be, while 40% felt it would reduce supply and drive house prices up. One respondent felt it would increase supply (see **Figure 18**).

FIGURE 18

FORTRESS SURVEY OF URBAN PLANNERS
Given your understanding of the proposed changes to be introduced with the new Local Planning Appeal Tribunal, what impact do you think it will have on new housing supply?



Source: June 2017 Fortress RDI Urban Planning Survey

One of the consequences of the new appeals body will be *"New housing supply will tend to be realized where opposition is the weakest and not necessarily where it would best be located"* believes one of the planner respondents. The Frasier Institute understands the concerns of many locals and the politicians that represent them: *"Preserving the charm of older neighbourhoods can be an attractive idea, but the resulting trade-off can be less housing units in the city — and more in the suburbs,"* potentially farther away from where the jobs are, leading to longer commutes and traffic congestion.

3.3.3 Most People Don't Understand the OMB, So Honest Debate is Lacking

One of the most interesting comments from a planner broached the topic of the misunderstanding of the true role of the OMB and their objectives: *"A lot of the decision making has been based on misinformation spread by the Toronto Star, certain councillors from Toronto and elsewhere. There has not yet been an informed debate or discussion about saner options."*

> Municipal governments are not the exclusive defenders of the public interest. The OMB provides an equal footing to developers, landowners, ratepayer groups, environmental groups and municipalities. It ensures a fair hearing process to either debate or mediate over how development can best serve the public interest. These proposed changes undo that" - *Ian Flett, Municipal and Land Use Planning Lawyer, Eric K. Gillespie Professional Corporation (May 2017)*

Public opinion was certainly swayed by a recent Toronto Star article that appeared online with the title *This Under-Qualified, Unelected Group is Calling the Shots on How our Communities are Planned.* The chief planner for Toronto, Jennifer Keesmaat, who is not a fan of the OMB, tweeted in February that the statement was a lie, and that only 573 of 596 applications for planning approvals in Toronto in 2016 were based on City Planning's recommendation and didn't go to the OMB (96%). The authors of the Star piece were quick to point out that Keesmaat herself felt that the "threat of the OMB" resulted in compromising or settling for a "less than desirable" outcome for the City.

One of the section headers in the CUPE Local 79 report on the results of the City of Toronto planning survey is *Good Planning Takes Time* and one of the findings was *"spending more time on the files would allow them to develop increased sensitivity to area-specific issues and community concerns."* If the City was appropriately staffed, they could have been better able to deal with local issues, fewer applications would have gone to the OMB, and fewer residents and politicians would have voiced concerns about the decisions, and those decisions wouldn't have garnered the negative media attention that they have.

If the City of Toronto thinks good planning takes time, but admits they have not spent the time on the applications, the City should take responsibility for some of the "bad planning" decisions and not direct the blame at the OMB, or developers.

3.4 The Lack of Ground-Oriented Housing Supply is Leading to Dramatic Market Distortions

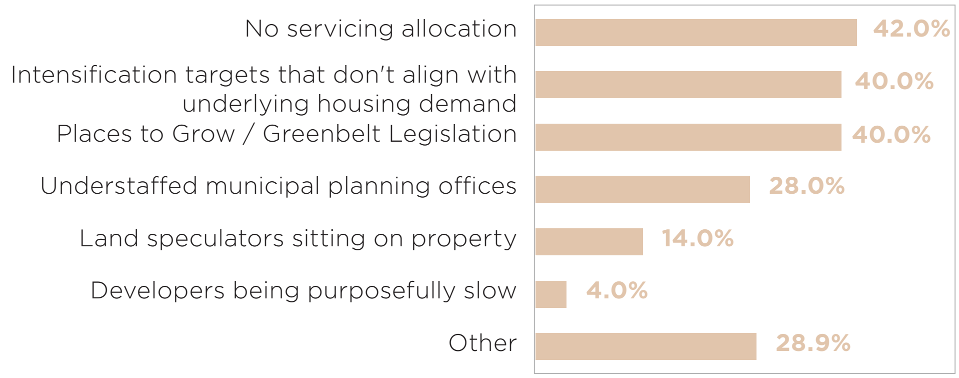
Don Given of Malone Given Parsons, one of GTA's foremost experts on land use policy, points out that the majority of population growth projected in the Places to Grow Act is scheduled to occur outside the City of Toronto. Single-family housing continues to be the most desirable built form among Torontonians, especially families. Many still view condominium apartments as a stepping stone to low-rise living, not a lifetime housing solution (rightly or wrongly).

As mentioned earlier, demand has dramatically exceeded supply in the new home market in the GTA. The unsold inventory of ground-oriented new housing (singles, semis and row) was approximately 1,400 units at the end of June per data from the Altus Group, a 25% decline year-over-year. We would argue that a healthy level of supply should be around 10,000 to 12,000 units. As a result, average prices for ground-related product has increased 41% annually.

We asked urban planners: In your opinion, what is impeding low-rise new home supply? Up to two responses were permitted (see **Figure 19**). The top three responses were very close, no servicing allocation (42%), intensification targets that don't align with underlying housing demand (40%) and the Places to Grow/Greenbelt legislation (40%). There is some overlap with the last two responses obviously.

FIGURE 19

FORTRESS SURVEY OF URBAN PLANNERS
In Your Opinion, What is Impeding New Ground-Oriented Housing Supply?*



*Source: June 2017 Fortress RDI Urban Planning Survey *Up to two responses permitted*

3.4.1 Inadequate Infrastructure Spending is Holding up New Low-Rise Developments

New home developments – even with full municipal planning approvals - can't proceed unless they are hooked up to the water mains and sewage pipes and this "servicing allocation" is often rationed by the regions. According to the York Region: *"In order for local municipal growth to occur, it is essential that water and wastewater servicing is available. The amount of servicing capacity, expressed in population, is 'assigned' to local municipalities, and in turn, the local municipalities allocate that capacity to developers to support residential growth."*

The servicing capacity is allocated based on "forecasted growth." Amazingly, when these regions update their water and wastewater capacity assignments, actual growth is close to their previous forecast – but how could it possibly exceed it? How can growth significantly surpass forecasts, when they control how many new homes will be approved, and vacancy is already low? It is not likely that residents will start having six kids or 10 people will live in a new townhouse. Many regions erroneously believe they are building enough housing because they are hitting their forecasted growth target. When the free market is not determining housing growth levels in the GTA's suburban communities, and new low-rise developments are being held up because of servicing constraints, supply is inadequate and values shoot up. Just four years ago you could purchase a new townhouse in Richmond Hill for $300 psf, that price is well over $600 psf today.

3.4.2 Insufficient Housing Supply is Contributing to a Rise in Adults' "Failure to Launch"

A better way to determine if a region is allowing for enough growth is to look at the most obvious signal, house prices. Even before this speculative bubble hit the GTA in January, prices were regularly hitting 7%, 8%, or 12% annual growth – this clearly shows that supply is not keeping up with demand. A second, more obscure method, is to look at how many adults are still living with their parents (if you can't find and/or afford a place, you stay in your parental home and 'fail to launch').

According to the 2016 Census, the southern Ontario metro areas have the highest proportion of adults aged 20-34 living with their parents: Toronto, 47%; Oshawa, 47%; Hamilton, 45%; Barrie, 41%; and St. Catharines-Niagara, 41%. Compare these rates to the Quebec CMA at 24%, the Edmonton CMA at 27%, and the Calgary CMA at 29%. The GTA is clearly not building enough (and the right type) of housing if nearly half of young adults are still living with their parents.

Population growth is being suppressed because of a lack of housing and high shelter-related costs, as young adults put off marriage and having children because they can't afford to do these things. Statistics Canada reports that: *"One-person households accounted for 28.2% of all households in 2016—the highest share since Confederation in 1867."* In the Toronto CMA the rate is 32.3%. The fact that inadequate housing is resulting in people postponing their dream of starting a family is really a tragedy of our planning system.

3.4.3 The Real Estate Industry is Not Delivering the Type of Housing People Want

The Places to Grow Act includes an intensification target, which means *"a minimum of 40% for all new residential development occurring within urban areas."* The urban area is sometimes referred to as the built-out area, or built boundary. In May it was announced that the target would be bumped up to 60%. Don Givens indicated in a presentation at Ryerson University that typical intensification in the '905' region has been 20% and *"Market opportunities for that level of intensification vary widely but the Province's targets do not. Unless the Province alters the policy to recognize the different conditions across the GTHA, it is unrealistic to expect the target to be achieved."*

> The provision of sufficient housing to match population growth is in crisis, particularly with regard to single and semi-detached forms of housing which continue to be the preferred choice for housing families" *– Don Given, Malone Given Parsons Ltd. (May 2017)*

In a comment relating to the question summarized in Figure 18, a planner said *"new density objectives are out of keeping with market preferences … public sector policy insists on behavioural change from general population in its housing choices."* Perception is slowly changing, but we believe there is still a significant portion of the population that will move 30 to 60 minutes away from their current residence to afford the type of home they want. Provincial legislation can't change the long-held preferences of every Torontonian.

In our social media survey of the general public, we asked: Which of the following housing options would you choose if the monthly costs (rent or mortgage payment) were identical? A three bedroom, 2,000 sf suburban townhouse with a big back yard, located a one hour drive from your place of employment or a three bedroom, 1,000 sf downtown condominium apartment with a lake view, located a five minute walk from your place of employment. Just under 36% of respondents chose the townhouse located one hour from their job, surprisingly, the results were only slightly higher for respondents aged 35-54 at 40%. Plenty of people are willing to endure a very long commute to live in their favoured housing choice.

3.4.4 New Single-Family Home Sales Outside the GTA are Booming

According to data from the Altus Group, there were approximately 6,700 new single-family home sales in the Greater Golden Horseshoe outside the GTA in 2014, accounting for 27% of the GGH total low-rise sales. Sales in 2016 increased by 91% over the 2014 total, and accounted for 41% of the GGH low-rise new home sales total last year.

Altus notes that, *"the average price of a single-family home in the GGH regions outside the GTA at the end of 2016 was roughly half that of a single-family home in the GTA, and roughly the same as the average price of a condominium apartment unit within the GTA."* A survey conducted by Altus of new home sales agents at these projects showed that the buyers are predominately from the GTA, with some projects selling as much as 95% of their units to GTAers.

A survey of 422 millennials by the 416 Research Group found that: *"Non-owning millennials' projection of future homeownership area is surprisingly not aligned with where they currently live ... with 33% of millennial non-owners expecting to move outside the GTA."* Senior economists at BMO Capital Markets note that it is not just end-users looking outside the GTA, as high prices have caused buyers to *"drive to qualify,"* and investors have *"cast a wider net"* as well.

Investors, like end-users are looking for affordable product to buy.

3.4.5 Housing Sprawl Appears to be Getting Worse and Not Better

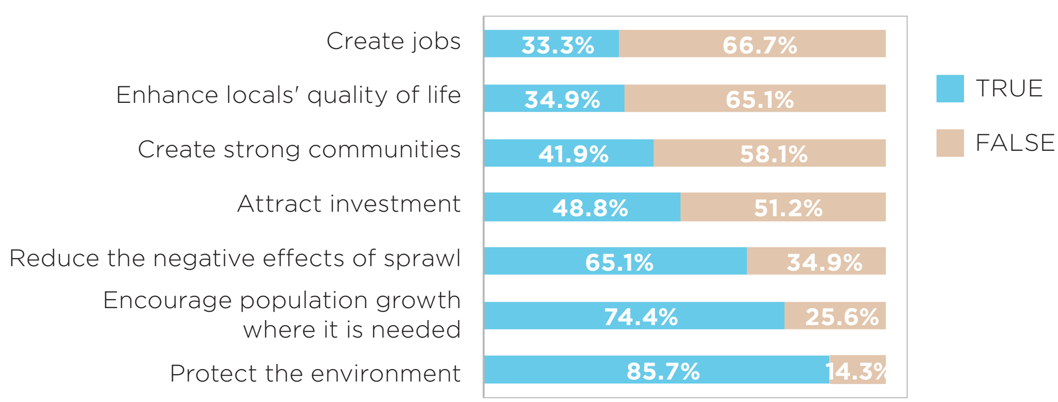
As the Altus sales data shows, there are 6,000 more GGH low-rise sales outside the GTA than there were two years ago, the lion's share of these buyers are likely GTAers that now commute considerable distances to work. Many, if not most, of these commuters should have been accommodated closer to their place of employment. It is likely that a small share of these people are self-employed, and are taking their jobs with them. Sprawl in the GTA may have been reduced, but it has been moved somewhere else.

In June of 2005, the Ministry of Infrastructure released a statement entitled *Historic Act Supports Planning for Economic Growth* that discussed the Place to Grow Act. The backgrounder included the following passages: *"For the first time, we will be able to plan for the kind of growth Ontarians want – the kind that creates jobs, attracts investment and protects the environment."* The Act's intent was to *"address the negative effects of urban sprawl and encourage population growth where it is needed"* and in conjunction with the Greenbelt, *"we can create strong, sustainable communities that are more respectful of the environment and enhance our quality of life."*

We asked the urban planning community if, 12 years later, any of these stated goals/mandates had been achieved (true or false). **Figure 20** shows that Ontario professional planners believe the act has failed in four of the seven desired outcomes. Over two-thirds of planners felt the Places to Grow Act has been unsuccessful in creating jobs, and it may have resulted in a net loss of jobs from people moving out of the GTA, and a decrease in suburban construction jobs (some labourers will have moved to high-rise, but not all). About 65% of respondents felt the Act has not enhanced locals' quality of life (it may have prevented it from getting worse).

FIGURE 20

FORTRESS SURVEY OF URBAN PLANNERS
The Places to Grow Act (2005) backgrounder included a number of stated goals/outcomes, please indicate if you think those goals have been achieved.



Source: June 2017 Fortress RDI Urban Planning Survey

Nearly 85% of respondents believe the environment has been protected by the Places to Grow Act. Almost three-quarters of respondents felt the Act was successful in encouraging population growth where it is needed, yet nearly 60% felt it has not created strong communities.

Over 65% of respondents felt The Growth Plan was successful in reducing the negative effects of sprawl, but we disagree. Forcing people to move away from their friends and family to find adequate housing is clearly a negative effect of reducing GTA sprawl, and one that cannot be measured in dollars and cents.

It has been mentioned several times and we'll repeat it here again, a reduction in sprawl leads to a reduction in the type of units that people desire (single-family homes), driving up the value of existing ground-oriented housing. Higher and rapidly rising values lead to more speculative investment, but also lead to more protectionist and NIMBY attitudes, as owners now have that much more financial incentive to protect their high-value and rapidly-rising asset.

Our government must ultimately decide if this trade-off is worth it. Ontario has an abundance of farms, forests, and rural open spaces, but not an abundance of housing. Shouldn't quality of life, strong communities, and affordable housing take priority over greenspace within an hour of Canada's biggest and most influential city? Perhaps it is short-term pain for long-term gain?

> To protect resources we have in abundance, growth constraints create artificial and costly shortages of housing and other real estate. These constraints not only make housing more expensive but also make housing prices more volatile (meaning bubbles and crashes)"
> *- Randal O'Toole, Senior Fellow, Cato Institute (October 2016)*

There is definitely an anti-suburban overtone in the housing sprawl debate, and very few solutions to how we address the divide between housing preferences and the housing supply the province wants. More ideas need be presented and brought forward about how we can keep current residents in their existing neighbourhoods by providing a diverse range of housing choices, both in urban and suburban areas. Instead of trying to impede new greenfield subdivisions from being built, we need to plan and build better suburbs that can evolve over time into the walkable, transit-friendly communities we all envy.

> Creating a complete city involves challenging the prevailing anti-suburban ideology of core area influential opinion leaders and policy makers. The prevailing ideology amongst some policy makers is that suburban land-form and housing is somehow immoral – nothing of merit happens there, the suburbs consume land, and the suburbs are characterized by polluting car culture."
> *– Dave Hardy, Registered Professional Planner, Hardy Stevenson and Associates Limited (August 2017)*

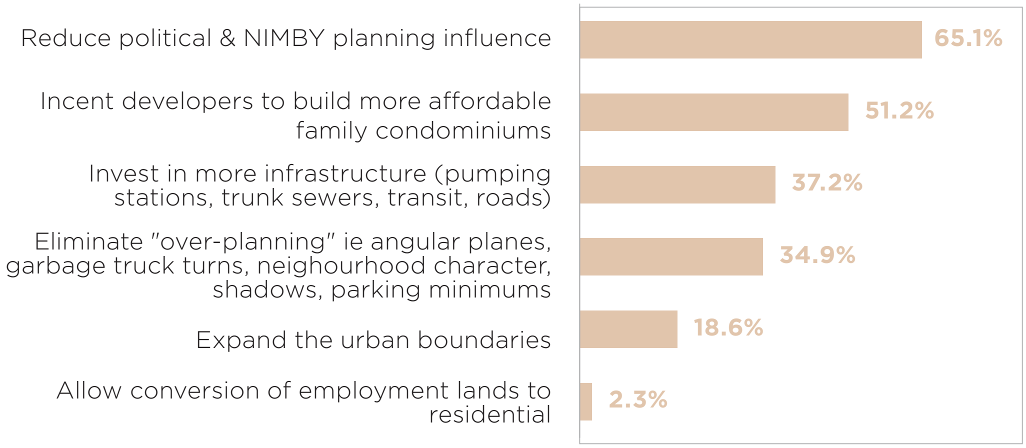
3.5 Solutions and Ideas to Solve GGH Housing and Planning-Related Issues

Clearly a negative effect of undersupplying the housing market in the GTA is long-term residents leaving their communities and the connections they've made because of high shelter costs. One of the guiding principles of the Growth Plan for the Greater Golden Horseshoe (2017) is to *"support a range and mix of housing options"* to *"serve all sizes, incomes, and ages of households"* yet GTA buyers are driving record new home transactions and prices in low-rise subdivisions outside the GTA. We asked urban planners how we could better accommodate these 'priced-out' households locally (up to two responses were permitted). **Figure 21** shows that 65% of planners believe that reducing political and NIMBY planning influence is the GTA would help increase supply and keep locals from 'driving to affordability.'

> NIMBYism has grown substantially over time, and it now erupts in opposition to all manner of new development. This behavior isn't just selfish; it's destructive. By limiting density and clustering, NIMBYs hold back the urban innovation that powers growth." – *Richard Florida, Director, Martin Prosperity Institute at the University of Toronto (April 2017)*

FIGURE 21

FORTRESS SURVEY OF URBAN PLANNERS
GTA buyers are driving record new home transactions & prices in low-rise subdivisions outside the GTA.
How can we accommodate these buyers locally?*

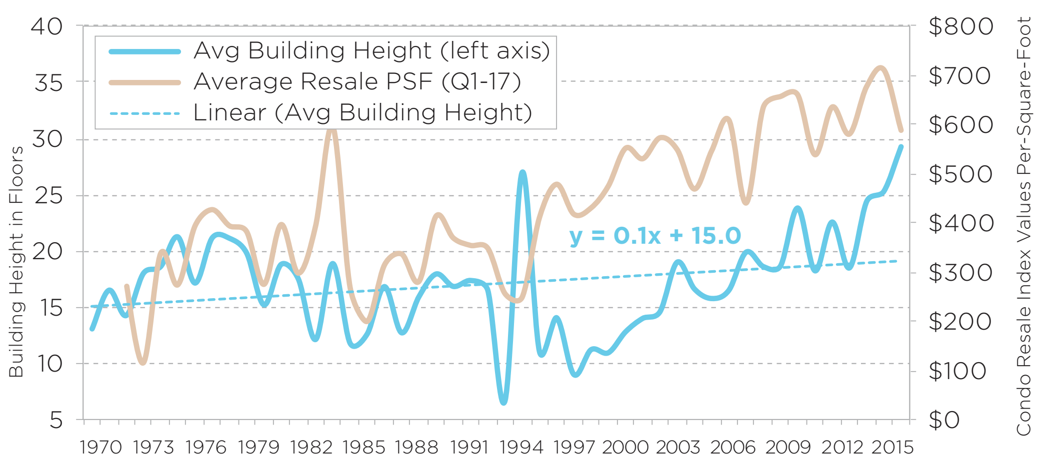


*Source: June 2017 Fortress RDI Urban Planning Survey *Up to two responses permitted*

One of the biggest complaints by NIMBYs is the height of towers, but the average height of a condominium apartments in the new City of Toronto has increased by just 0.1 floors per year, as the taller towers were offset by the increase in smaller projects in the outer-416 area (see **Figure 22**).

FIGURE 22

AVERAGE CONDO APARTMENT HEIGHT & RESALE VALUE BY YEAR REGISTERED | City of Toronto: Q1-2017



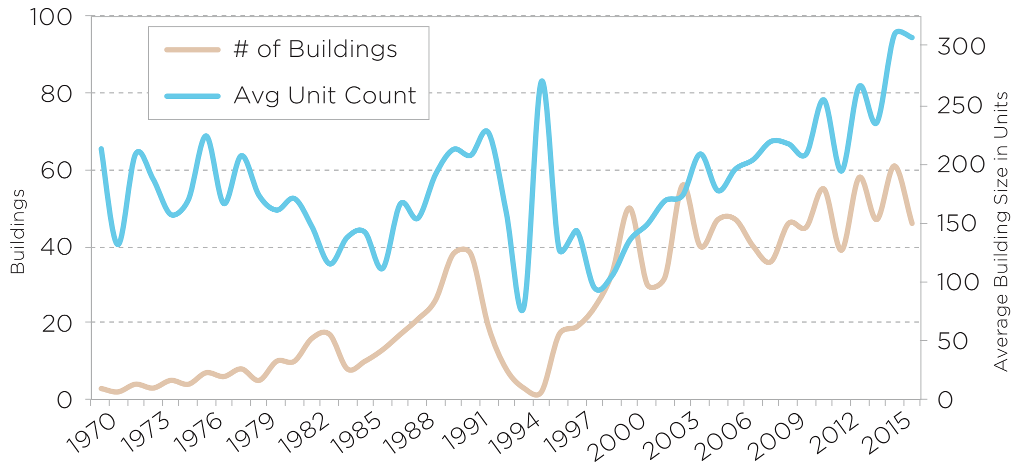
Source: Urbanation Inc.

However, the average height is pretty obscure and has shot up recently. NIMBYs are likely more upset about the cumulative impact of all of the towers, and the fact that they are more expensive (see the resale value increase by year of construction in figure above). **Figure 23** shows that the City of Toronto has been completing 30 to 60 condominium apartments per year since 1999, with a record 61 registered in 2015. The average unit count has shot up, with the mean suite count in 2015 and 2016 above 300 (it was 342 in Q1-2017).

FIGURE 23

ABSOLUTE NUMBER OF COMPLETED CONDOMINUM APARTMENT PROJECTS & AVERAGE BUILDING SIZE BY YEAR REGISTERED

City of Toronto: Q1-2017

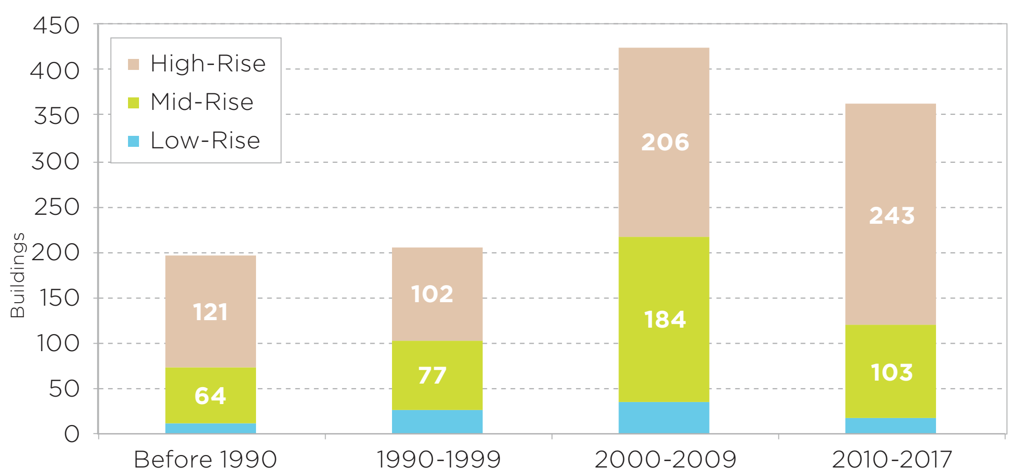


Source: Urbanation Inc.

There continues to be a push for more smaller-scale developments, but as land costs soar, developers find it difficult to make the numbers work on mid-rise sites, with many developers dissuaded from pursuing them based on an expected and/or prolonged NIMBY and/or planning battles. **Figure 24A** shows low-rise (4-storey or below) and mid-rise (5 to 12-storeys) apartments are trending well behind the pace set between 2000 and 2009 on an absolute basis. **Figure 24B** shows that high-rise towers registered since 2000, account for 67% of the total, up from 50% in the 20 years prior. **Figure 24C** shows that high-rise towers are slowly getting taller, averaging 29-storeys from the beginning of 2000 to the end of March 2017.

FIGURE 24A

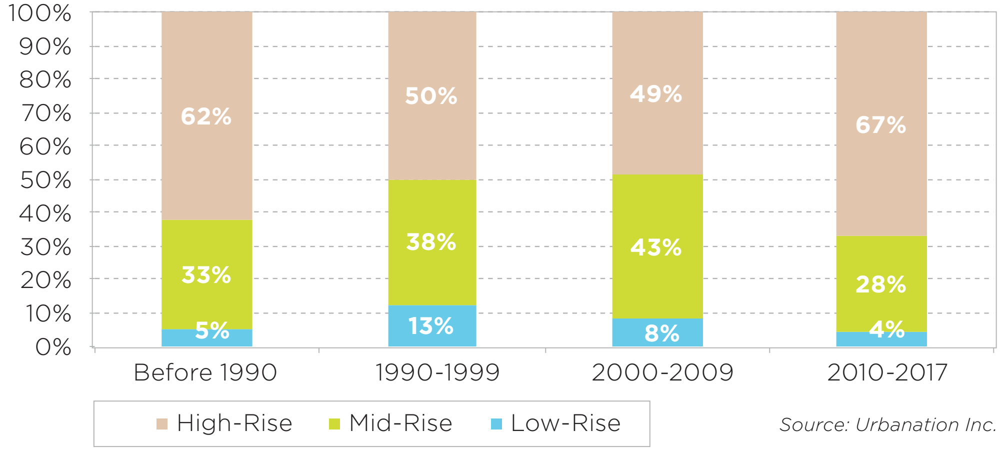
BREAKDOWN OF EXISTING CONDO APARTMENTS BY TYPE & YEAR REGISTERED | City of Toronto: Q1-2017



Source: Urbanation Inc.

FIGURE 24B

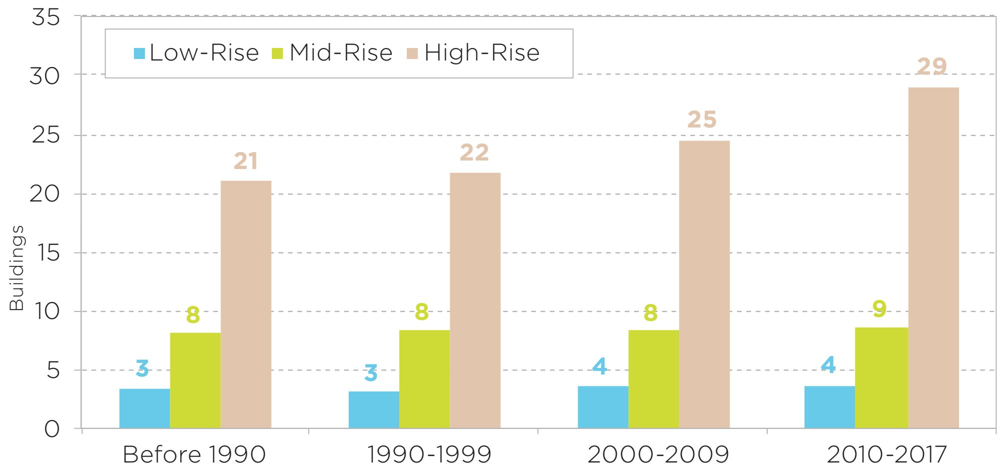
PERCENTAGE BREAKDOWN OF EXISTING CONDO APARTMENTS BY TYPE & YEAR REGISTERED | City of Toronto: Q1-2017



Source: Urbanation Inc.

FIGURE 24C

AVERAGE HEIGHTS OF EXISTING CONDO APARTMENTS BY YEAR REGISTERED | City of Toronto: Q1-2017



Source: Urbanation Inc.

3.5.1 Family-Sized Condominiums Are Not Popular with Developers

The other top idea from urban planners to house more people locally is to incent developers to build more family-sized units, which was mentioned by half of the respondents. One of the biggest NIMBY criticisms outside of building heights is that the development industry in Toronto hasn't built large condominiums suitable for families. There is a simple answer as to why; people don't buy them.

Larger units are generally priced much lower on a per-square-foot basis than smaller units, and generally cost less to construct (fewer walls, only one front door and one kitchen), but even at a discount on the index price, they are often the last to sell when offered by developers. Investors had finally started to warm up to them recently, but now are likely to shy away because rent control will push them back to smaller units that turn over more frequently. Families have a hard time committing a 20% down payment on a unit they won't take possession of for four years. High condo fees and prohibitive downtown daycare costs are also big negative factors.

Clearly the Ontario government wants people to adjust to higher densities and intensification, so perhaps they should incent developers to provide these units by discounting development charges on three bedroom units, or providing tax incremental financing for apartment buildings that cater to families.

3.5.2 Intensification needs Infrastructure

Likely the best way to incent developers to build in an area is to invest in faster modes of transportation. The extension of Highway 404 drove sales in East Gwillimbury, Keswick and Sutton, and the subway extension into Vaughan has led to an unprecedented boom in new condominium sales at the intersection of Jane Street and Highway 7. If you want higher densities, you need transit. Of the professional planners that took our survey, 37% felt investing in infrastructure like pumping stations, trunk sewers, transit, and roads, was a key to accommodating more home buyers in the GTA.

> Planners need to remind themselves what drives high density residential markets. Typically it's a mix of factors including affordability, lifestyle, quality urban spaces, investment potential, and demographics. Transit can play a big role in this mix, but only when it's frequent and affordable." – *Mark Conway, President, N. Barry Lyon Consultants (April 2016)*

Without these investments, higher-density targets are not likely to be reached. As Don Given of Malone Given Parsons notes Halton Region and Durham Region are getting undersized investment in transit, and can't support the same intensification as York Region and Peel Region.

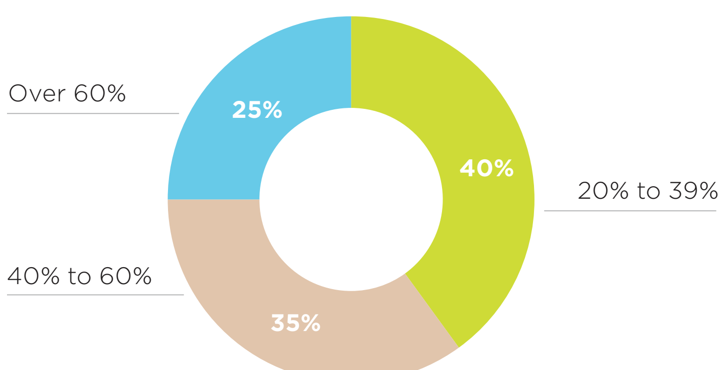
3.5.3 Urban planners are skeptical that a 60% intensification target is achievable

We wanted to know what level of intensification is appropriate, so we asked urban planners this question: By 2031, a minimum of 60% of all residential development occurring annually will be required to occur within the built-up area. If you were setting policy to benefit the maximum number of residents, over the greatest spectrum of criteria (affordability, sustainability, inclusiveness, etc) where would you set the target?

Figure 25 shows that 40% of Ontario-based urban planners believe the intensification target should be between 20% and 39%, while 35% felt it should range from 40% to 60% (essentially where it is now), but 25% of respondents felt it should be over 60%.

FIGURE 25

FORTRESS SURVEY OF URBAN PLANNERS
If you were setting policy to benefit the maximum number of residents, over the greatest spectrum of criteria (affordability, sustainability, inclusiveness, etc) where would you set the target intensification target?



Source: June 2017 Fortress RDI Urban Planning Survey

The comments from planners on this question addressed the immense difficulties in achieving the higher intensification targets, and that they won't improve affordability. *"It is complicated to have 60% of residential development within built up areas,"* remarks one planner, hypothesizing that the only way to do it is through mass demolition of old homes and businesses, but worries *"we don't have roads to accommodate multiple transit options to support such a large demographic yet."* Another commenter faulted municipal councilors who *"want 1950's urban sprawl development standards to prevail"* as a major roadblock for hitting a higher intensification target, at the same time as *"applying restrictive policies to prohibit severances"* which stifle infill.

There was concern that the suburbs were not being appropriately programmed, *"much more efficient use of greenfield land can and should be facilitated. Currently designs for these areas are being driven by engineers who demand massively overbuilt roads and window streets that sterilize the landscape and consume way too much land. Suburban commercial also has to be reformed so it serves a more local function as opposed to massive malls at major intersections."*

Lastly, a private planner didn't think the current intensification target made sense, and would lead to higher housing costs, *"The targets are unreasonable, particularly in the context of the outer ring communities. Restrictive planning policy, DCs, cost of land, and other costs of infill drive up per unit housing so you get smaller housing at same price. Does not necessarily increase affordability."*

3.5.4 Infill development is much more expensive than greenfield development

The cost of land is rarely mentioned in discussions about the Places to Grow Act and housing affordability in general. BMO Capital Markets notes that new home prices are *"running at the strongest pace since the late 1980s,"* and the gains *"have been split evenly between construction costs and underlying land values."*

CIBC's Ben Tal points out that in the GTA *"land prices for low-rise units continue to accelerate, and the lag factor suggests that there is more to come"* and *"Land for high-rise projects in the GTA is getting scarcer and scarcer. The low-hanging fruit (mostly parking lots) is no longer available."*

Intensification targets push development into built-up areas where land is scarce and more expensive, especially land anywhere near transit. Also keep in mind that infill development typically means smaller properties and *"Lot size is the strongest predictor of price per acre at the parcel level"* according to a recent study by a University of Illinois economics professor – smaller lots, higher prices (add in the higher costs associated with assembling several properties). So a developer is already starting with a higher cost base than before. If the site is a concrete high-rise development, you'll likely require higher equity to fund the development, and your construction costs will be much higher compared to a wood-frame project. In a recent report, The Canadian Centre for Economic Analysis showed that a 1,480 single-detached house would cost about $200,000 to build, while the same construction costs would generate only an 880 sf condominium in a 30-storey high-rise. This is even before you consider the much higher land and financing costs. It is very difficult to keep overall new home prices from rising drastically when downtown concrete high-rise projects are the dominant built form.

Despite this reality, we continue to get ignorant analyses that shows that the GTA is building the same amount of units as in prior years, so house price gains must not be a supply issue. The shift from ground-oriented housing to apartments has been dramatic; in 2007, 27% of completions in the Toronto CMA were apartments (condo and rental tenure), while 51% of completions in the first half of 2017 were apartments (actually lower than 2015 at 74% and 2016 at 57%). Not only that, we showed in a blog post earlier this year that the GTA is building 26% less square footage than a decade ago based on the shift to condominium apartments (and thus fewer bedrooms are being built as well), which drives up the costs of housing with "more space." As shown above, the cost base on a per-square-foot basis for apartments is much higher, which leads to much higher end-selling prices on a per-square-foot basis. For example a new single-detached house in Oshawa is available for $1 million for 3,000 sf ($333 psf), while a 500 sf downtown condo is priced at $475,000 for 500 sf ($950 psf, excluding parking).

> Construction costs of high-rise residential dwellings per square foot are higher than low-rise construction, and land prices zoned for high-rise reflect the added value from being able to build more units on the property. Hence while moving to a family sized condo unit may make sense for some, in most cases it will not, due to affordability constraints." – *Canadian Home Builders Association (March 2017)*

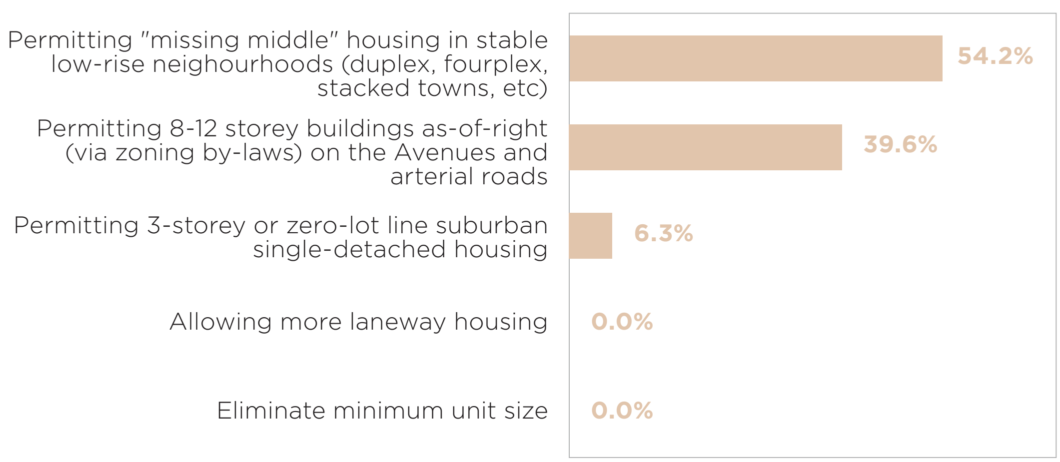
Getting back to the Houston example presented in section 3.1 that compared the supply of new housing between Toronto and the Texas metro, it is more than just comparing the total number of building permits pulled annually. Yousaf Shaw of Hemson Consulting notes that Houston can approve 50,000-plus units annually because it *"has an adequate supply of suburban greenfield land upon which to accommodate units at reasonable prices."* In a past edition of The Land Economist, Shaw compared global powerhouses to Houston: *"Central cities such as San Francisco, New York and London, on the other hand, can only accommodate growth on a limited supply of land that is often constrained by the capacity of existing infrastructure. The demand for housing in these larger cities is mostly met through high-rise housing which can take longer to build and is more expensive to construct."*

3.5.5 More creative ground-oriented housing options are needed to improve affordability

Based on the assessment above, we need more housing, but we need more wood-frame housing (that preferably is not all located in outer-suburban locations). When we surveyed urban planners, they were supportive of a middle ground solution. In our planning questionnaire, we asked: Which of the following changes do you think would have the biggest positive impact on housing affordability? **Figure 26** shows that 54% of respondents chose 'permitting "missing middle" housing in stable low-rise neighbourhoods.' Several Toronto planners have been pushing for more duplexes, triplexes, and stacked townhouses – predominantly small-scale wood-frame infill developments that can subtlety add density to an existing neighbourhood.

FIGURE 26

FORTRESS SURVEY OF URBAN PLANNERS
Which of the Following Changes do you Think would have the Biggest Positive Impact on Housing Affordability?



Source: June 2017 Fortress RDI Urban Planning Survey

Unfortunately, many Toronto neighbourhoods simply don't allow this type of intensification. A planner added a comment to this question: *"Recent strides have been taken by all levels of government to increase densities along arterial/collector corridors, but everyone is afraid to touch existing low density neighbourhoods."* The major pushback against this type of housing in Toronto's 'yellowbelt' (the stable neighbourhoods that make up three-quarters of the city's land area) has raised demand pressures in other neighbourhoods, and sparked the massive construction boom that has NIMBY's blood pressure boiling.

Despite the building boom we have going on, recent urban planning grad Cheryll Case looked at the City of Toronto Census data and found that *"30 neighbourhoods actually declined in population and another 65 were essentially frozen, gaining less than one person per kilometre despite the city's 7.6 per cent population growth between 2011 and 2016."* Empty-nest baby boomers are dominating many neighbourhoods, and clearly not renting out their accessary units or bedrooms when their children leave home.

None of the planners felt an increase in laneway housing or allowing for smaller units would improve housing affordability.

When we asked the general public for their opinion on housing construction, 84% said they viewed new homes positively, that they add jobs, boost supply, and new residents support local shops and restaurants. 16% of respondents view new housing negatively, as it hurts their property values, adds traffic congestion, comes with unwanted shadowing, and there is not enough infrastructure to support new residents (parks, schools, transit). As we know, these 16% of people are often the loudest and biggest adversaries for the real estate industry.

3.6 Final Thoughts

Land-use planning has wide ranging and often overlooked economic and social consequences. A lack of housing supply can result in households leaving neighbourhoods they grew up in and established roots, separating them from their friends and extended families because of a lack of suitable and affordable accommodation. There is anecdotal evidence that couples are putting off having children because of high shelter costs and daycare costs, while employers may look to cheaper municipalities if they can't attract top talent because of an unreasonably high cost of living.

> The responsiveness of the housing supply is related to the severity of local land-use and housing supply regulations. Thus, by limiting the ability of developers to build new housing, regulations slow down the efficient flow of labor and limit local economic growth." – *Raven Molloy (nee Saks), Economist, Board of Governors of the Federal Reserve System (2005)*

Urban planning professionals have raised some serious concerns that the Places to Grow Act, proposed changes to the Ontario Municipal Board, understaffed municipal planning offices, and restrictive zoning will reduce new housing supply moving forward and exacerbate the social, economic and financial issues presented above.

"The new layers of approvals are also a big factor in pushing up house prices [in the GGH], builders say. They complain that the Growth Plan has added so much bureaucracy at the provincial and local levels that it now often takes years—and an average of $48,000 per unit in compliance costs and fees—to get approvals to develop even serviced land." – *John Daly, ROB Magazine (January 2017)*

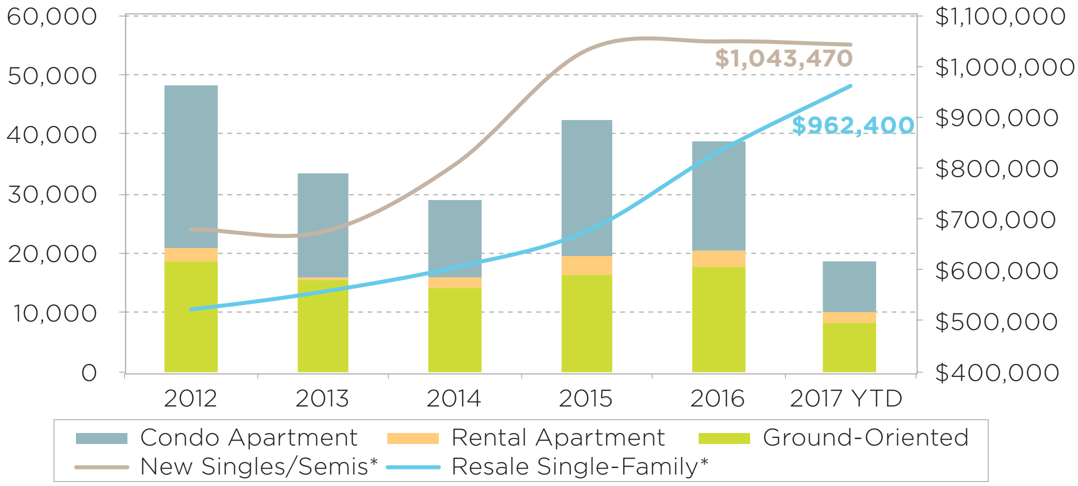
"Economists like [Shamubeel] Eaqub and industry groups like BILD are urging policymakers to allow more development - either by standing up to nimbyism and densifying neighbourhoods, or by relaxing anti-sprawl measures. Some economists also suggest that governments get back in the business of building social housing, which they argue is part of the reason free-market homes were affordable in the first place. None of these options are politically easy, but there aren't really any other alternatives." – *Daniel Tencer, HuffPost Canada (December 2016)*

METROPOLITAN LEVEL HOUSING MARKETS

4.1 TORONTO CMA

FIGURE 27

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE SINGLE-FAMILY VALUES
Toronto CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, MLS HPI *December (2012-2016), June 2017*

There were 18,776 housing starts in the first half of the year in the Toronto CMA, slightly below the approximately 19,500 during the same period in 2016 (see **Figure 27**). Economist Will Dunning is forecasting 43,200 starts for the Toronto CMA in 2017, which would eclipse last year's total of 39,027. About 55% of starts were for apartments (47% with condominium tenure, 8% with rental tenure) and 45% were for ground-oriented housing. Just over one-third of the starts were in the former City of Toronto, with about 13% of activity occurring in Brampton.

In June, the average absorbed new single-detached or semi-detached house in the Toronto CMA was sold for $1.04 million. Monthly readings of average values have ranged from $900,000 to $1.1 million over the last two years, with median values ranging from $700,000 to $850,000. At the end of June there were 333 completed and unsold new singles or semis in the Toronto CMA, available at an average price of $1.65 million, 41% of these units were located in North York and are likely spec-built custom homes. New condominium prices on a per-square-foot basis were up 10% annually in the GTA ($587 psf to $647 psf) per Urbanation, with the biggest increases not in the City of Toronto (9%), but Vaughan (19%), Markham (20%), and Mississauga (21%).

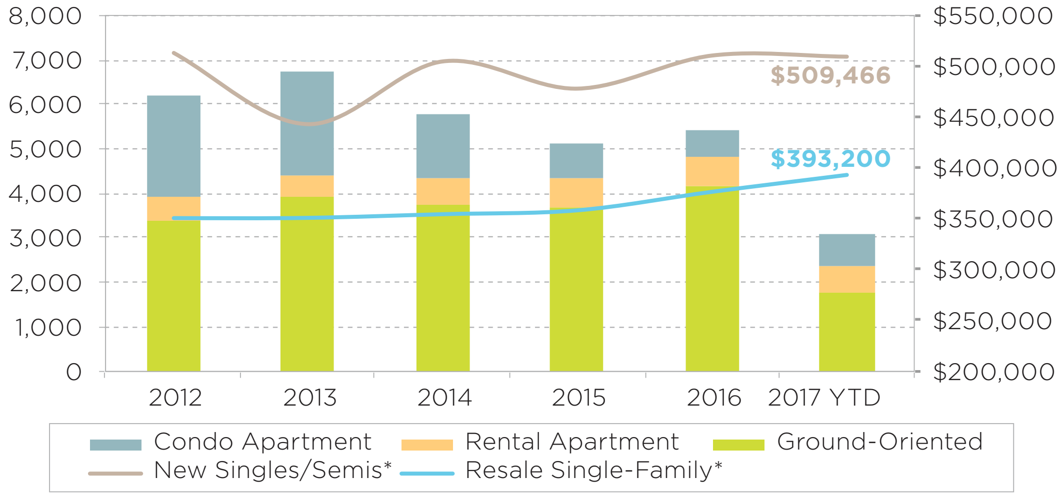
The MLS Home Price Index for the Greater Toronto area resale single-family homes shows an average price of $962,000 in June, a 24% increase year-over-year, but a monthly decline of 1%. Resale condo prices have accelerated faster than single-family prices, increasing by 31% annually to $467,000 in June, increasing 1% month-over-month, as this more affordable product hasn't been negatively impacted by government intervention in the market.

> "Spurred by government intensification policies, deteriorating affordability of single-family homes for end users, and continued interest by investors in rental income, the condominium apartment market in the GTA has been booming. There are currently about 90,000 condominium apartment suites either under construction or at the pre-construction sales stage in the GTA." – *Patricia Arsenault, Executive Vice President, Altus Data Solution (June 2017)*

4.2 OTTAWA CMA

FIGURE 28

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE SINGLE-FAMILY VALUES
Ottawa CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, MLS HPI *December (2012-2016), June 2017*

New construction in the Ottawa CMA has picked up in 2017 and is on pace for the best year since 2013. Starts in the CMA of 3,071 in the first six months of the year are up nearly 40% over the same period last year (refer to **Figure 28**). There have already been more condominium apartment starts in 2017 than all of 2016. Slow absorption in the new condo market in recent years led to more developers looking at non-ownership options; rental apartments accounted for 20% of 2017 starts in the CMA, with ground-oriented housing holding a market share of 57%.

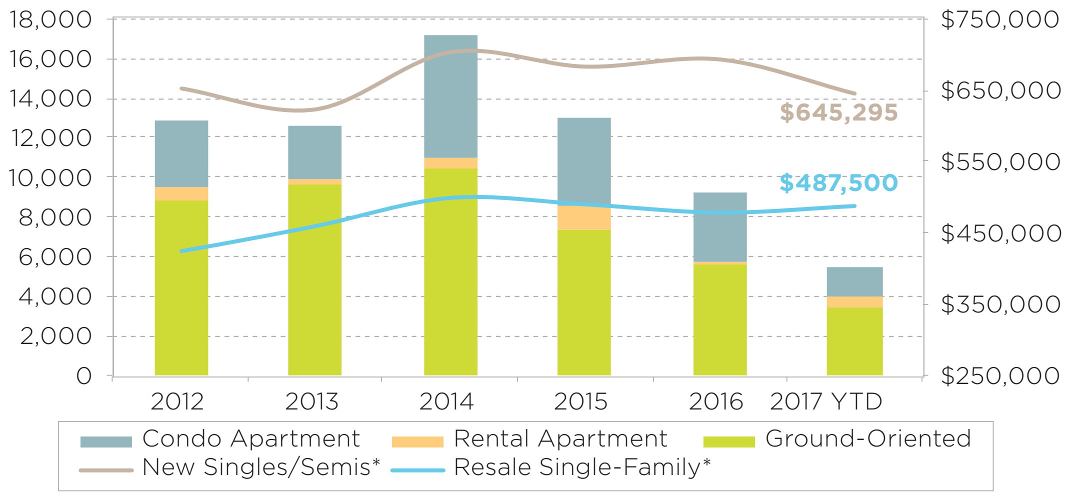
There has been very little movement in new single-detached and semi-detached pricing in the Ottawa area, with the average value ranging from $475,000 to $550,000 in most months over the past five years. The single-family resale market was relatively flat until very recently, the 6.2% increase year-over-year in June is the highest annual growth rate since 2010. After two years of depressed resale condo market pricing, which saw the average value decline from $270,000 in 2014 to $255,000 in early 2017, prices are now up 2% annually, the highest growth rate since 2012.

> Active new condominium apartment inventory continues to decline, as projects are registered and limited new projects are being brought to the market. With seven of 12 active developments being under construction, it is projected that we will enter a period in 2018 where limited supply will be on the market." - *Kevin McMahon, Founder, Urban Logic Research & Advisory (August 2017)*

4.3 CALGARY CMA

FIGURE 29

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE SINGLE-FAMILY VALUES
Calgary CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, MLS HPI *December (2012-2016), June 2017*

The new housing market is showing signs of recovery in Calgary. Housing starts through six months in the Calgary CMA are up 43% year-over-year to 5,525 (see **Figure 29**). However, starts are still trending well below the 12,000 to 14,000 annual pace that prevailed in most of the years between 2002 and 2005, and 2012 and 2015 when the Calgary market was strong. Just under 30% of the starts were for condominium apartments, 10% for rental apartments, with the remaining share being ground-oriented housing (singles, semis and row).

Despite the improvement in new construction activity, there is still an inventory overhang. In March of 2017, the level of built and unsold developer inventory topped 2,000 units, the highest level in over 25 years. Unsold inventory has declined over the last couple months but remains very high historically.

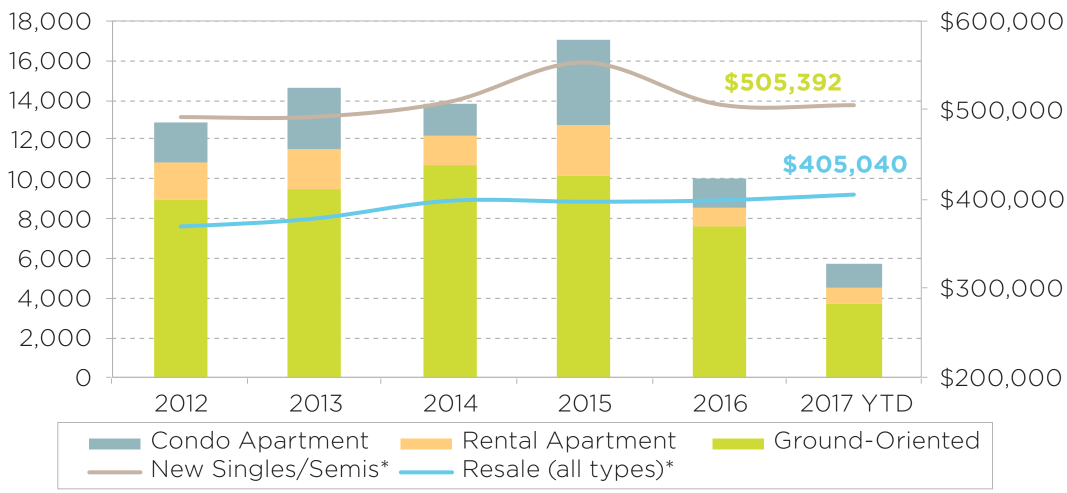
New single-detached and semi-detached house prices continue to trend downward in the CMA, as developers have not been introducing large luxury product to the market. In the resale market, single-family prices increased annually for the first time in two years in April, and were up 1.4% year-over-year in June to just under $490,000. Condominium apartment prices have yet to recover and were down another 3.5% annually in June to about $264,300 (the market peak value was $298,000 in October 2014).

> After experiencing generally flat conditions through much of 2016, the new multi-family home sector of Calgary's residential market showed some signs of life in the first quarter of 2017. What was particularly encouraging was the increase in buying activity by investors in condominium projects in the inner sub-markets." *- Kimberly Poffenroth, Senior Market Analyst, Urban Analytics, Q1-2017*

4.4 EDMONTON CMA

FIGURE 30

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE HOME VALUES
Edmonton CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, Brookfield RPS *December (2012-2016), June 2017*

Residential housing starts in the first half of 2017 in the Edmonton CMA increased by 16% annually to 5,729 (see **Figure 30**). New construction activity will likely finish the year well below the levels present during the boom years in the mid-2000s and earlier this decade. Ground-oriented housing remains the dominant built form, accounting for 66% of starts in 2017, with condominium apartments taking a 21% share, and rental apartments accounting for the remaining 13%.

The 2,240 units of completed and unabsorbed new housing supply in the Edmonton CMA at the end of June is the highest level on record over the past 25 years. Despite the pickup in new construction activity, there is still significant unsold inventory for the market to absorb.

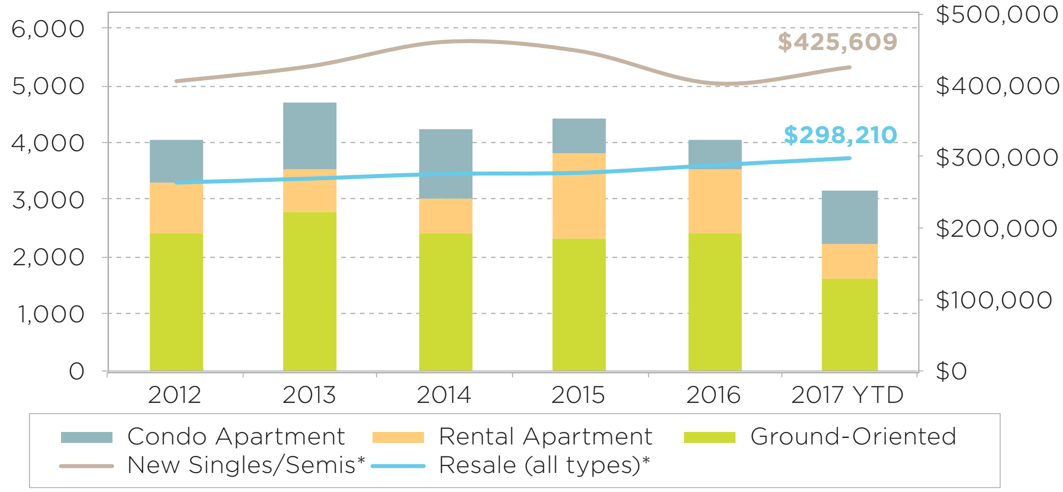
The average new single-detached or semi-detached home in the CMA has remained in the range of $475,000 to $550,000 for almost every month over the past five years. The average price of $505,000 in June of 2017 is down 2.1% from the same month in 2016. Resale prices overall are up 2.3% year-over-year according to the Brookfield RPS Home Price Index. The REALTORS Association of Edmonton reports the average single-family home price of approximately $454,000 in June represents a 4.4% annual increase, but condominium apartments dropped 0.6% annually to about $260,000.

> Although companies are now constructing fewer spec homes, which should reduce the oversupply to a balanced two-year inventory within a few months, Edmonton will likely see little change in the market for about the next year. Consumers still have power in their hands for the next little while." - *Alex Ruffini, Owner, Intelligence House (June 2017)*

4.5 WINNIPEG CMA

FIGURE 31

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE HOME VALUES
Winnipeg CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, Brookfield RPS *December (2012-2016), June 2017*

There were 3,168 housing starts in the Winnipeg CMA in the first half of 2017, an 82% increase over the same period from 2016 (refer to **Figure 31**). The metro area is on pace to top the highest level of new construction activity in 25 years, which was the 4,705 starts in 2013. Condominium apartments accounted for 30% of the starts in 2017, compared to just 13% in both 2015 and 2016 overall. Ground-oriented housing captured a market share of 51%, while 19% of CMA starts this year were for rental apartments.

The 433 units of standing inventory owned by builders and developers is the lowest that figure has been since 2013, as absorptions have exceeded completions in the Winnipeg CMA by 25% in 2017. Clearly there is very strong demand for new housing in Winnipeg.

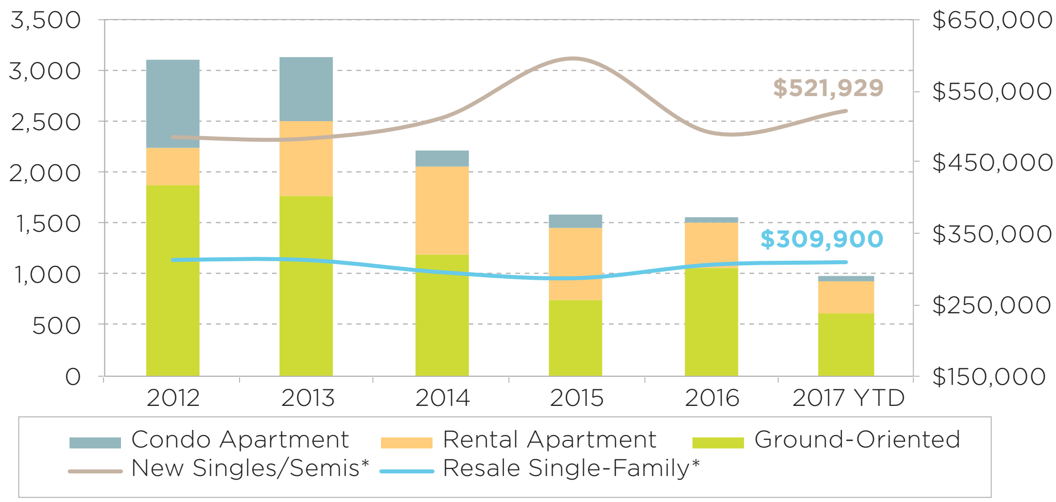
Despite the strong demand, new home prices have been fairly stagnant, which is likely due to the fact that CMHC single-detached and semi-detached average prices reflect average values of homes at completion, not at the time of the transaction (and is thus a lagging indicator). Over the last five years, new homes have ranged from about $400,000 to $450,000. Overall, resale figures show homes in Winnipeg are nearly $300,000 on average, up 4.5% year-over-year per Brookfield RPS. According to WinnipegREALTORS, the average single-detached home traded for just over $320,000 in June 2017, a jump of 3.8% over the same month last year. Resale condominiums sold for just under $250,000 in June, a 4.6% jump year-over-year according to the WinnpegREALTORS professional association.

> "In recent years, the Winnipeg CMA has experienced an expansion to the condominium market. Condominiums have become an increasingly popular choice among homeowners, which is partially a reflection of the changing economic and demographic landscape. Seniors and young adults continued to be the most common condominium owners, in part due to the relative affordability and ease of maintenance that they offer. At the same time, a historic lack of supply allowed condominium construction to take off in 2012." *– Heather Bowyer, Senior Market Analyst, CMHC (June 2017)*

4.6 REGINA CMA

FIGURE 32

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE SINGLE-FAMILY VALUES
Regina CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, MLS HPI *December (2012-2016), June 2017*

Like the Calgary and Edmonton metro area, the Regina CMA is showing signs of recovery following two years of slower activity following their most recent booms. There were 972 housing starts in the first half of the year in the Regina CMA, a 66% increase year-over-year. **Figure 32** presents data on housing starts broken down by their intended built form and tenure, which shows that starts were just above 1,500 in both 2016 and 2017, well below the levels in 2012 and 2013. However, the CMA only averaged 963 starts annually in the 2000s, so the market is still well above historical norms. Rental apartment construction is very common in Regina, accounting for 32% of starts in 2017, with ground-oriented housing capturing a 64% market share. New condominiums haven't been a major factor in the market since 2013.

There were 388 units of completed and unabsorbed new housing supply at mid-year in the CMA, down from the market peak of nearly 500 units in 2015, but still elevated historically.

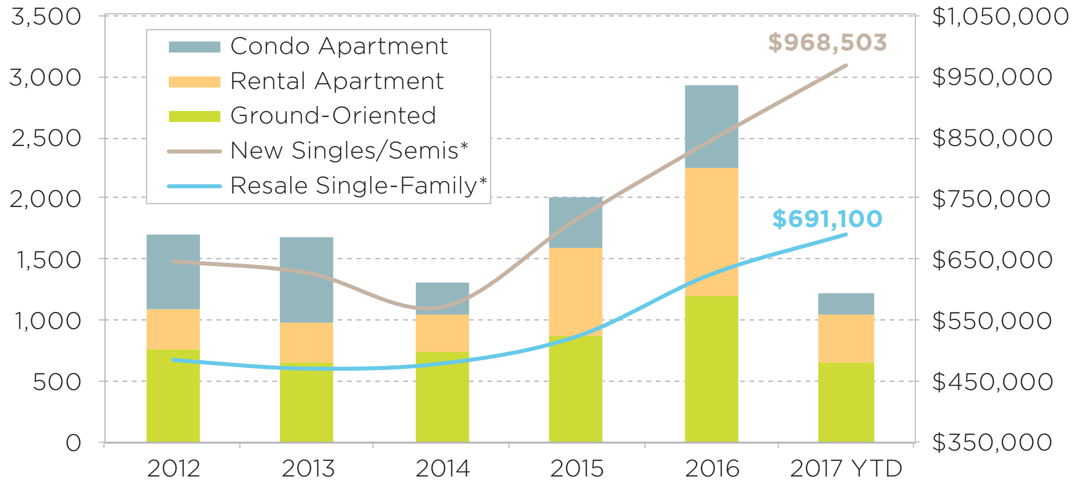
Given the size of the Regina CMA, new home prices are relatively high at just over $520,000 in June 2017 on average (singles and semis only). New home values have fallen in the range of $450,000 to $550,000 on a monthly basis since 2010. Resale single-family house prices have been relatively flat since early 2012, hovering around $300,000. In the late 2000s, average condo prices grew by upwards of 70% annually in Regina, moving from $90,000 to $185,000 on average in two years. In June of 2017, the average resale condominium apartment sold for $188,300, an increase of 3.5% year-over-year.

> Regina's real estate market continues to tread water, as prospective homeowners patiently wait for the region's resource-based economy to rebound. Although a considerable amount of sales activity has been shelved for the better part of two years, purchasers have recently begun to be more optimistic, entering the market in order to capitalize on the region's depressed home values. This has resulted in multiple offer situations being seen at certain price points." - *Mike Duggleby, Broker and Managing Partner, Royal LePage Regina Realty (June 2017)*

4.7 VICTORIA CMA

FIGURE 33

HOUSING STARTS BY PRODUCT TYPE, NEW & RESALE SINGLE-FAMILY VALUES
Victoria CMA: 2012 to 2016, 2017 Year-to-Date



*Source: CMHC, MLS HPI *December (2012-2016), June 2017*

The Victoria housing market is arguably the hottest in the country. New single-detached and semi-detached house prices were approximately $969,000 in June, an increase of 45% annually (see **Figure 33**). Single-family resale house prices were up 18% year-over-year, while resale condominiums jumped in value by 22% annually according to June MLS Home Price Index data.

Housing starts in the first half of the year were down 23% year-over-year, but the Victoria CMA experienced a record-high level of construction activity last year. 2017 starts were comprised of 15% condominium apartments, 31% rental apartments and 54% ground-oriented housing. Over 95% of the new homes completed in the metro area in 2017 were already sold prior to construction concluding.

There were just 42 units of completed and unabsorbed developer inventory in the CMA as of the end of June 2017, down from nearly 600 units three years ago. There are just 13 units of standing condo inventory, the lowest level in over a decade. There are 27 built and unsold single-detached homes, with an average asking price of $1.49 million.

> The housing boom we're in is for the first time driven not only by a single major factor like retirees choosing Victoria as a retirement destination, but also young people flocking to the Island for jobs and downsizers turning to condos. On top of that, rising rental rates have also started to push people towards ownership." – *Steve Cox, Owner, Cox Developments (June 2017)*

HIGHLIGHTS

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HUFFINGTON POST

Excerpt from Huffington Post

TORONTO AND VANCOUVER HOUSING IS GOING TO GET EVEN PRICIER

August 2017

Housing in Toronto and Vancouver is very expensive, and it is going to get worse. The respective provincial governments took action to combat the rapid price growth in these metro areas, with the biggest moves being taxes aimed at foreign buyers. The immediate reaction to the taxes were huge declines in transactions in the resale market. Market interventions on the demand-side of the equation are the best solutions short-term, but they may not have a lasting impact on the market unless paired with processes aimed at encouraging supply. Vancouver and Toronto have targeted supply measures to free up homes left empty by their owners, as well as actions to curb short-term rental platforms like AirBnB (to add those homes back into the rental stock). Supply measures take time, and the average resale house price in the Greater Vancouver area in now approximately $70,000 above the peak-price prior to the market intervention last year, demonstrating that the impact of the foreign buyer tax was temporary.

NEXT HOME

Excerpt from Next Home

WHERE SHOULD I GO IF I WANT A "FAMILY-SIZED" NEW HOME?

August 2017

There doesn't appear to be any affordable new single-detached housing options within a one to one and a half hour drive of Toronto. However, you might want to consider a larger condominium. In Q1-2017, Urbanation Inc reported that 9% of units in new projects that launched in the GTA earlier this year were three bedroom units ranging from 785 sf to 1,532 sf. Prices here range from $523,000 to $1.38 million.

In conclusion, if you're looking a 'family-sized' new home, you're going to have to adjust your expectations, either by location or product type. Not in the market for a high-rise condominium, but can't afford the single-detached home you really want? Perhaps a stacked townhouse is a better fit. We're launching the Vic Towns with our partner Solotex Corporation in North York and we've seen the popularity of 2- and 3-storey stacked townhouses with rooftop terraces. Who needs a backyard when you have a great view?

HUFFINGTON POST

Excerpt from Huffington Post

'YIMBY' GROUPS TAKE FIGHT TO AFFLUENT BOOMERS' WAR ON MILLENNIALS

June 2017

In Toronto, a new YIMBY group has started. Housing Matters is described as a group of urbanists and activists, working toward a growing, dynamic and affordable Toronto achieved through increasing housing options. YIMBYs push the basics of Economics 101, the more supply that is built in an area, the lower prices will be. At the end of the second event hosted by Housing Matters, the panelists admitted they were skeptical a YIMBY movement could take off, as homeowners are the majority, and don't want the value of their biggest asset to decline.

Unfortunately, millennials are sidetracked, railing hysterically against foreign buyers that purchase luxury homes they'd never have afforded anyway, or against landlords that raise their rents in the wake of higher condo fees, utility costs and property taxes. Millennials can't win a war against interest rates, the global economy or offshore capital seeking safe haven, but a fight for more infill townhomes, social housing, laneway suites, rental apartments or even downtown skyscrapers is one they can prevail at.

BUZZBUZZHOME

Excerpt from BuzzBuzzHome.ca

BIG DATA WITH BIG BEN: INVESTOR INTEREST IN ONTARIO'S NEW HOMES FALLS, SPIKES ELSEWHERE

June 2017

BuzzBuzzHome sends out approximately 20,000 home shopper inquiries across Ontario every month, and registrants on their site indicate if they are one of the following: just researching, a first-time buyer, downsizing, upsizing, buying as an investor, looking for a rental unit, or "not sure yet." BuzzBuzzHome sent me the data on the change in inquiries in the three weeks leading up to the announcing of the Fair Housing Plan (16 measures designed to cool the housing market in the Greater Golden Horseshoe), and the three weeks after the announcement. The overall result, a 35% decline! Interest from investors decreased 49%. It certainly makes sense that investors, who don't need to buy for shelter purposes, would hold off to see if the government's housing intervention resulted in a major decline in new home prices.

You might be wondering if it was a seasonal decline, what happened last year? Well during the same period in 2016, inquiries increased 11%, including a 30% increase in investor activity. It certainly appears that the announcement has spooked potential buyers, especially investors.

RENX.CA

Excerpt from RENX.ca

DOES TORONTO HAVE A CONDO-FLIPPING PROBLEM?

May 2017

How long do investors and pre-construction purchasers typically hold onto their units? When looking at the period in which annual listings are the highest for the largest projects registered between 2012 and 2015, the average project experiences the most listings at seven to nine quarters post-registration (average 2012 – eight, 2013 – seven, 2014 – nine, 2015 – seven).

Therefore, it seems like a significant portion of investors are holding for two years after a condo building has been registered. In conclusion, do we have a condo-flipping problem in Toronto? It doesn't appear so.

Most condo investors purchase in the first few months after a new condominium launches. They hold during the 12-month pre-construction period, the 30-month construction period (average build duration per CMHC data in Q1 of 2017), the six-month interim occupancy period, and 24 months post-registration. That is a six-year commitment, which is likely outside of any what would be considered a flip.

TORONTO SUN

Excerpt from Toronto Sun

ARE WE BUILDING ENOUGH HOUSING IN ONTARIO?

May 2017

The Fair Housing Plan backgrounder included a chart comparing housing starts to household formation that made this claim: Housing supply in Ontario seems to be aligning with demographics. There are only a couple ways that a new household can be formed in Ontario: a new home or accessory dwelling must get built, or a vacant unit has to be filled. So if you're not building enough housing, you're not going to get a big increase in household formation, as the vacancy rate is very low in most GGH municipalities. An aging population, smaller new unit sizes, plus increases in vacation properties, AirBnB usage, and university enrollment have all prevented growth in vacancies. Therefore, household formation and new housing starts or completions will always be fairly closely aligned over an extended period of time. A better indicator of whether housing supply is meeting underlying demographic demand is how long are young people living at home with their parents, and home many young professionals are still living with one or two roommates.

TORONTO SUN

Excerpt from Toronto Sun

DEVELOPERS ARE NOT HOARDING LAND

April 2017

According to the CMHC, the average price of a new single-detached home that was absorbed in February (completed and previously sold) was just under $980,000 in the Toronto Census Metropolitan Area (CMA), an increase of 3.7% annually. If you're looking for a ready to move-in completed new single-detached house, you're in luck, the average price has actually declined year-over-year. The bad news is that average price is still $1.81 million.

Despite the more modest price increase over the past year, which was likely highly influenced by a lack of completions in prime areas like Toronto, Mississauga and Markham, the average price of a new single-detached home has doubled over the past 10 years. The building industry has complained that land-use restrictions have reduced the supply of housing. Between 1997 and 2006, the Toronto CMA completed about 16,000 new single-detached houses per year, that figure has dropped to 10,000 over the last decade. In February, economist Will Dunning wrote that according to his calculations, the cumulative shortfall of low-rise construction now exceeds 100,000 homes in the Greater Toronto Area.

HARVEY KALLES MAGAZINE

Excerpt from Harvey Kalles Magazine

HOW HIGH CAN THEY GO?

Spring 2017

The Federal Reserve Bank of Dallas has established a new International House Price Database in which they track single-detached resale house prices in 23 countries. As of Q3-2016, Canadian house prices were up 15.5% annually, the highest rate of growth among the various nations. New Zealand was a distant second at 10.7%. Over the past five years, house prices in Canada have increased by just over 40%, second to New Zealand's 54%.

Let's start with those two countries, why would they be at the top of the list? First off, both regularly appear on most of the top ten lists of the best countries to live in the world. Secondly, and more importantly, their major metro areas account for a large portion of country's population. Auckland accounts for approximately 32% of New Zealand's population, while the Toronto and Vancouver metro areas combined account for about 25% of Canada's population (and often up to 40% of the yearly housing transactions). The highest paying jobs, and thus the wealthiest residents are located in cities, and they are bidding up the nicest properties in the nicest neighbourhoods, typically low-rise areas with limited ability to add new supply.

2018 JOB GROWTH FORECAST

Source: Altus Group

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Ben Myers, the Senior Vice President at Fortress Real Developments, works with his fellow executives and the stakeholder management team to evaluate residential, retail and commercial development opportunities by providing his perspective on the projected revenue and absorption. Ben's due diligence focuses primarily on the merits of the development partner, site location and proposed built form.

Ben has spent 15 years working as a real estate analyst and consultant, providing builders, developers, bankers, insurers, and the government with pricing and product recommendations, forecasts, and other advisory services. He is passionate about understanding the residential housing market, having started his career working at the largest market research company serving the U.S. homebuilding industry, and cutting his teeth in Toronto with Clayton Research Associates' urban economics team. Ben became the 'voice of the condominium market' as the head of the GTA's most prominent high-rise apartment data and consulting firm, becoming a go-to source for the media, and an in-demand public speaker.

Ben has continued his passionate pursuit of housing truths at Fortress, by introducing The Market Manuscript, 50-75 page bi-annual housing and economic trend report that examines national, metro and local employment, demographic, construction, and new home sales statistics.

In 2017, Ben was a judge at the Real Estate Ryerson Case Competition, a panelist at the OREA/OHBA/FRPO Ontario Housing Summit, as well as the Land & Development Conference, a keynote speaker at the Macquarie Housing Symposium, and a moderator at the North American New Apartment Construction Expo. He discussed housing expectations on the CBC News Network, and the potential outcomes of the Ontario Fair Housing Plan on AM 640's The John Oakley Show, BuzzBuzzHomes' Facebook Live, and TVO's The Agenda with Steven Paikin. This year Ben has contributed content and written guest posts for The Toronto Sun, The Huffington Post, YP Next Home, Harvey Kalles Magazine, and RENx.

As a sports fanatic, Ben is a faithful supporter of the Blue Jays and Raptors. His own career included playing collegiate baseball at Dallas Baptist University and club volleyball at The University of Texas at Arlington, where he received an undergraduate degree in Economics. Ben continues to pursue higher education, taking courses in real estate mathematics, capital markets, appraisal, development finance, and global real estate trends at UBC's Sauder School of Business and the MIT Centre for Real Estate. Ben is enrolled in a big data analytics course this fall at Columbia University in New York City.