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MARKET INSIGHTS

THE CANADIAN SOURCE FOR HOUSING INFORMATION MARCH 2018

A Message From Teranet

It is our pleasure to share with you the next edition of the Teranet Market Insights report. This report delivers comprehensive analysis and new insights on the real estate market in Canada. It includes compiled data from the Ontario & Manitoba land registries and other provincial jurisdictions across Canada.

In this edition, we focus on the Canadian Condo Market. Please enjoy and share the report. Visit www.teranet.ca for access to regular updates on our market reports!

Introduction

Beneath the skyline of cranes, the lower-priced but flourishing condo market in major metropolitan cities is expected to continue to thrive. With buyers discouraged by high prices or simply priced out of detached homes, Baby Boomers that are downsizing and liking the low-maintenance lifestyle, and Millennials that love the "live, work, play lifestyle", condo popularity shows no sign of slowing.

While condo demand continues to be strong, some buyers who have been looking to enter the condo market sector as a more affordable option, may now be getting priced out of this segment in markets such as Toronto and Vancouver. And at first glance, the condo boom appears to benefit buyers betting on price appreciation and can allow first-time buyers to get a foothold in real estate. It may not however meet the goals of Canadian families looking for an affordable alternative to the sky-high prices of detached homes and a house that will grow with them.

The Most Active Condo Markets In Canada

Market Share

Spoiler alert, Ontario contributes the most inventory of condos to the Canadian Real Estate Market. Would you be surprised to know that Toronto is the leader from a city standpoint? Probably not.

So you're probably thinking, "yes, that's pretty obvious, tell me something I don't know". Overall, the market share of Condo's as a total of all residential inventory in Canada is 13.8%*. In 2017, Condo's as a percentage of total residential transactions accounted for 25.6% and are eating into the traditional "single-family" property type market transactions.

Not surprisingly, from a city standpoint, Toronto has held onto the number 1 spot in Canada for condo sales activity throughout the last decade. The total volume of condo sales in Toronto has typically been more than the combined sales of next top 4 municipalities throughout the last 10 years.

*Analysis does not include NFLD, PEI or SK

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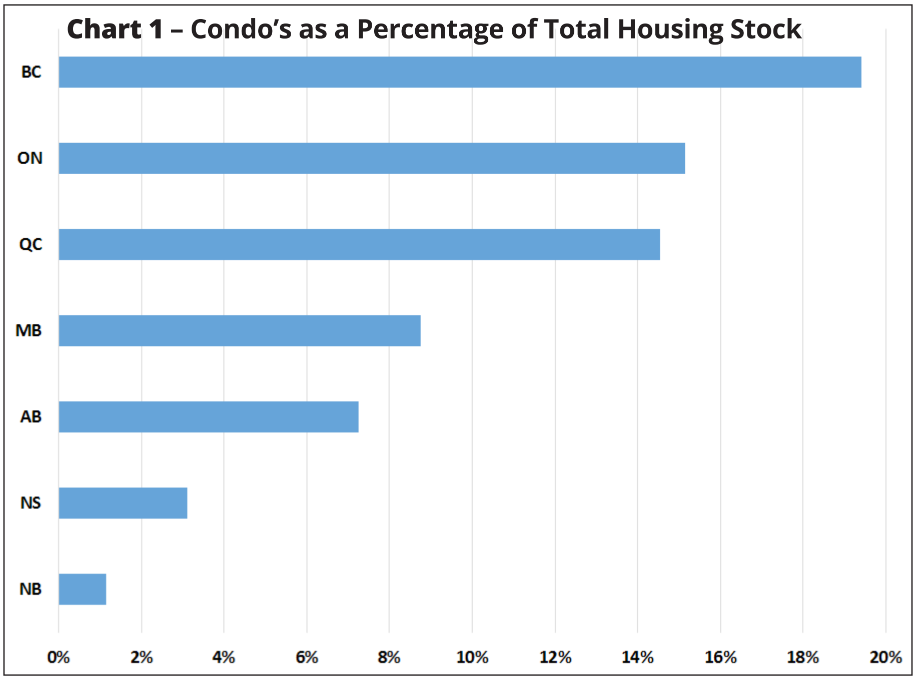
The Most Active Condo Markets In Canada (*continued*)



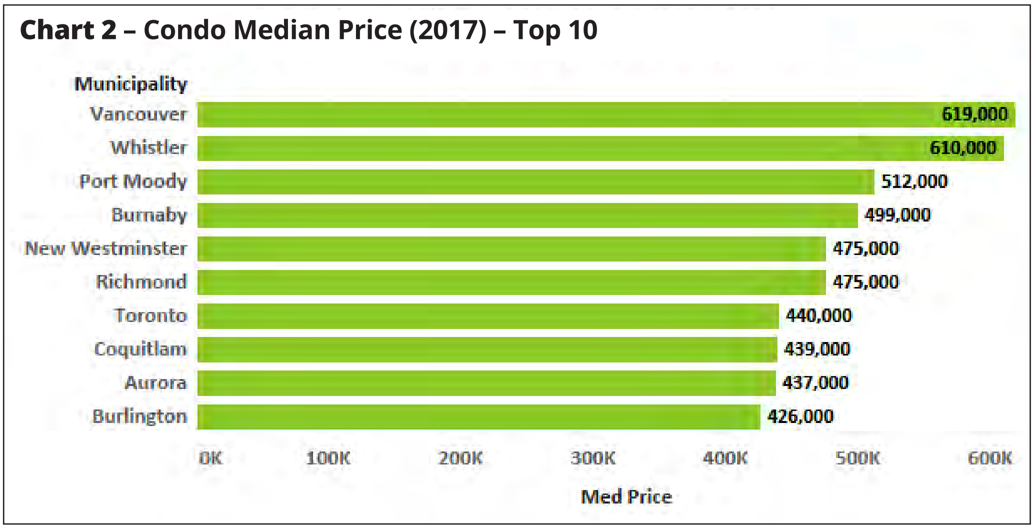
Source: Teranet

seven of the top ten most expensive municipalities were from BC. In fact, Toronto (position 7) is the first entry from Ontario. Aurora and Burlington are the only other two municipalities from Ontario that round out the top 10.

Although Ontario contributes the highest number of condo's in terms of total inventory, primarily driven by Toronto, BC has the highest percentage of condo inventory in relation to the total number of residential properties **(Chart 1)**. In BC, condos represent approximately 20% of the housing stock, where Ontario and Quebec represent approximately 15% of their respective housing market.

Condo Affordability

Even with a higher percentage of condo stock available, from a valuation standpoint, Vancouver continues to be the most expensive market for condos **(Chart 2)**. In 2017,



Source: Teranet

New Condo Development in Ontario

In Ontario, there is no question that Toronto dominates new condo market development. Hands down. In 2015 at its peak, Toronto was responsible for the construction of 64% of all new condos in Ontario, while in 2017 (Q1-Q3) the city was responsible for 57% of all new units.

If you're not already aware, the top FSA for new condo development in Toronto is M5V as it represents 17% of all new condo units built in 2017 **(Chart 3)**. M6A, M4W and M2J are other areas of interest which are showing higher than average activity.

Although new condo development remains strong in Ontario, Toronto has posted negative YoY growth % in terms of new development since its peak in 2015 with a -11% YoY decline in 2017 (Q1-Q3).

Canadian Sales Activity

Over the last 10 years, the total number of condo transactions across Canada have shown YoY increases, except for 2012, 2013 and now 2017 where there has been a slight softening in activity **(Chart 4)**. The last 3 years in BC and ON have seen sustained growth in sales activity in comparison to the years prior as new units come into play and as the trend towards single detached homes softens.

Who's Buying Condo's

Do you think that Millennials are the primary driver? Well, if you're looking in the city of Toronto, you'd be right. But move outside of the city limits, and Millennials simply aren't the largest buying

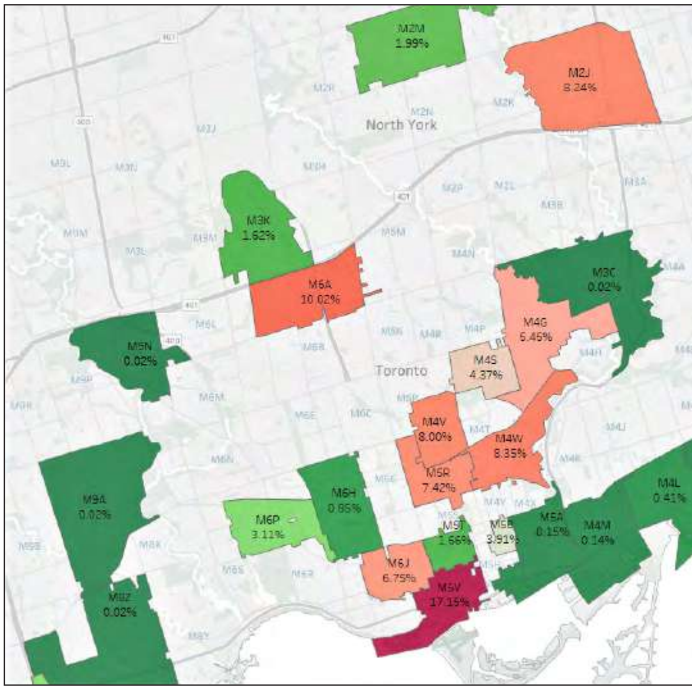


Chart 3 – 2017 Toronto New Condo Units

Source: Teranet

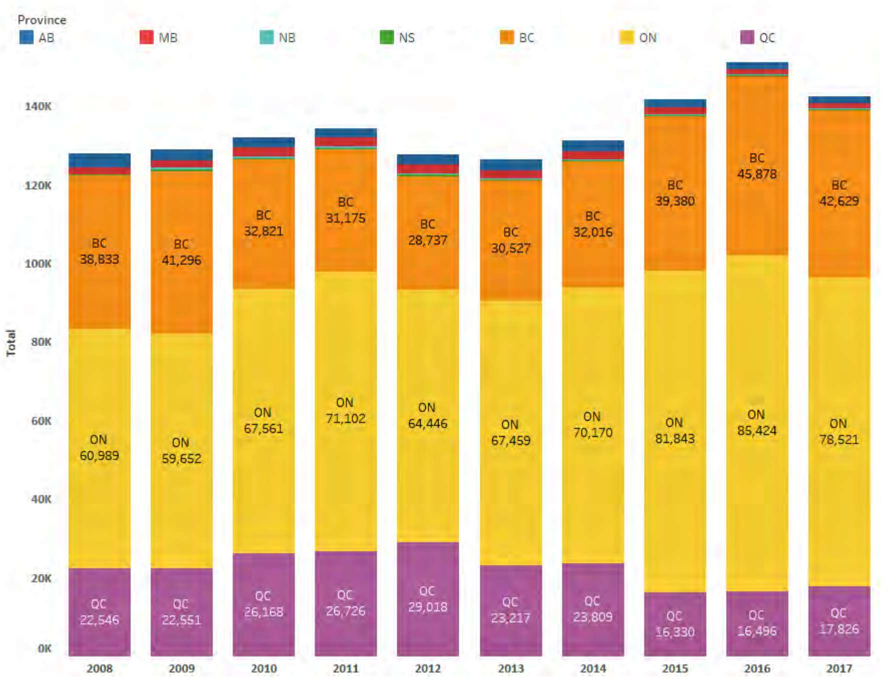
group for condo's. Surprisingly, Millennials are only in the driving seat in two of the top 10 markets in Ontario (Toronto & Kitchener).

And if you think it's all first time home buyers (FTHB), again, you'd be right if you only guessed that for the city of Toronto. In Toronto, 68.2% of first time home buyers purchased condo properties in 2016 and the trend was increasing in 2017. The next highest percentage of FTHB purchasing condo's was in York region, where condo's represented 31%, in comparison to Toronto's 68%. FTHB in all other areas skew towards non-condo purchases, and more so the further away from "urban" areas.

Across Ontario, over the last 5 years, Boomers and Gen Xer's maintained about 30% market share of condo transactions. It wasn't until 2016 when Millennials caught up to those cohorts and now all 3 share similar market share activity around 28% (Chart 5).

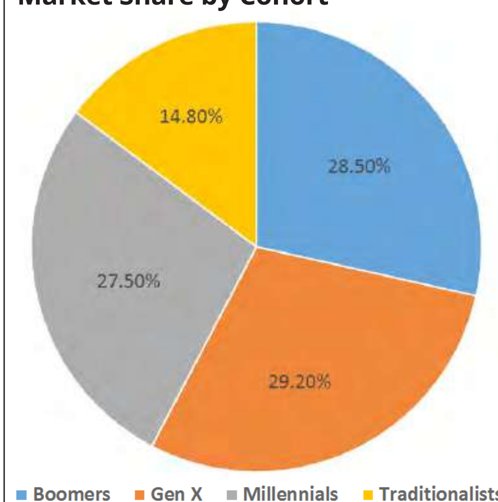
Outside of the top 10 cities, it's the Baby Boomers who are the most active purchasers of condo's, with Millennials actually being the lowest. Which means, when it comes to condo's, it appears Millennials are still flocking towards the city centers and boomers are downsizing and are liking the low-maintenance lifestyle. OR, perhaps there is a different story yet to be defined. It's quite possible that the boomers haven't yet come to town, only the bank of Mom and Dad have arrived a little early to support their children. Keep in mind that the name on title and those who are actually living there as their primary residence could be drastically different. For those Boomers that may not be ready to adopt the condo life themselves quite yet, don't lose sight of them as they remain a strong buying group for both personal and investment reasons.

Chart 4 – National Condo Sales



Source: Teranet

Chart 5 – Condo Transaction Market Share by Cohort



Source: Teranet

Leveraging Flood Risk Analysis to Mitigate Risk

Condo popularity is on the rise and for those financing the properties, whether it be a reputable financial institution or the bank of mom and Dad, is your investment protected? What happens in the event of a flood and are you asking all of the right questions before investing? For example, are you investing in properties that are a high risk to flood? With help from DMTI, we're able to take a closer look on a few regions to understand your exposure.

What risk does flood pose in Canada?

Floods are the most frequently occurring natural hazard in Canada. According to the Institute for Catastrophic Loss Reduction (ICLR), the Canadian Disaster Database indicates that 241 flood disasters have occurred in Canada between the years 1900 and 2005, almost five times as many as the next most common disaster (wildfire).

Over the past few decades, urban flooding has been a growing problem, resulting in more than $20 billion in flood damage between 2003 and 2012, according to the federal government.

What is the risk of flood peril to condos in Canada?

In order to provide answers to this question, a condominium database for Canada was created by Teranet and DMTI Spatial combined with flood hazard maps highlighting areas that could be impacted by river flood (*where the water rises over its banks*), surface water (*where water will pool due to elevation differences*) and storm surge (*coastal flooding*).

Three key markets were focused on as part of this analysis: Toronto, Vancouver and Montreal.

Toronto, ON

The flood risk analysis (using the 1/100 year return period) for Toronto revealed that approx. 1.2% of all condo buildings may be impacted by river flood risk and approx. 5.9% of all condo buildings may be impacted by surface water flood risk.

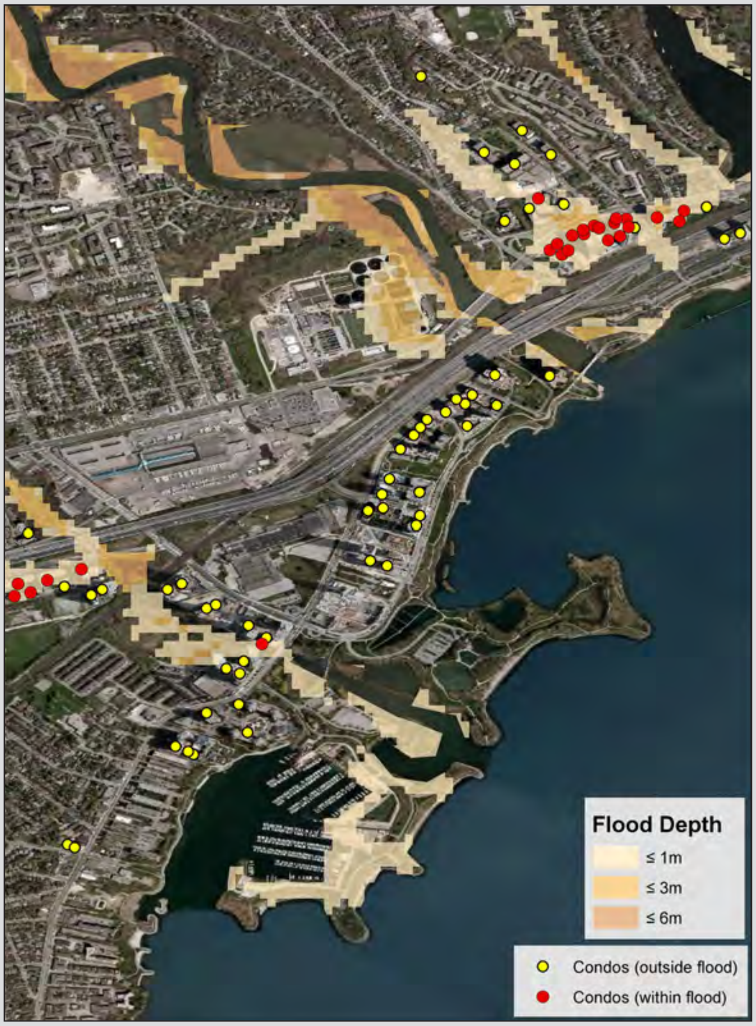


Figure 1: Toronto, Ontario - Condos falling within the river flood hazard map for the 1/100 year return period

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Leveraging Flood Risk Analysis to Mitigate Risk (*continued*)

Vancouver, BC

The flood risk analysis (using the 1/100 year return period) in Vancouver revealed that approx. 7.3% of all condo buildings may be impacted by surface water risk and approx. 3.2% of all condo buildings may be impacted by storm surge flood risk.

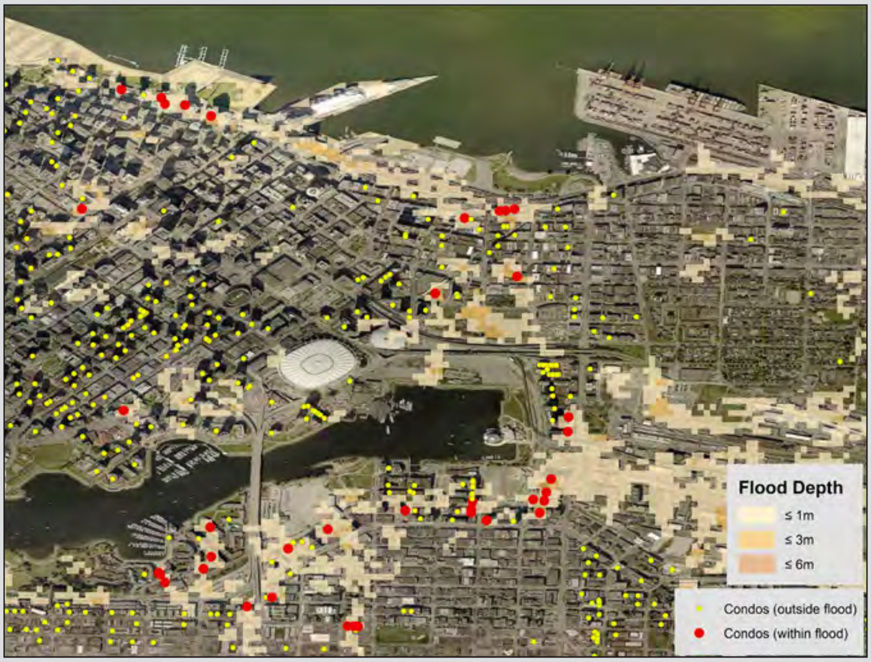

Figure 2: Vancouver, British Columbia - Condos falling within the surface water hazard map for the 1/100 year return period

Montreal, QC

The flood analysis (using the 1/100 year return period) in Toronto revealed that approx. 15.0% of all condo buildings may be impacted by river flood risk and approx. 11.4% of all condo buildings may be impacted by surface water flood risk.

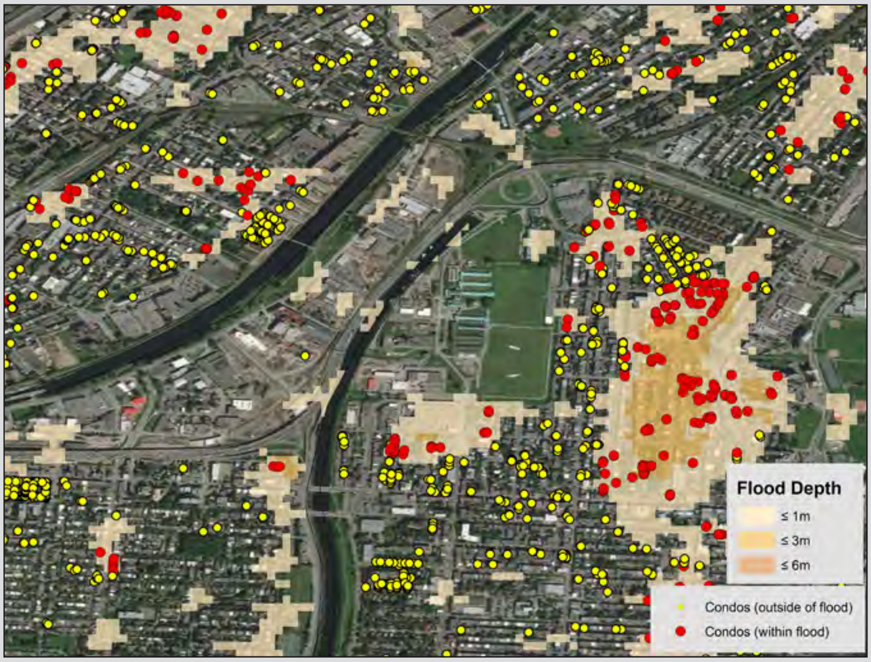

Figure 3: Montreal, Quebec - Condos falling within the surface water hazard map for the 1/100 year return period

Leveraging Flood Risk Analysis to Mitigate Risk (*continued*)

What does this mean to my business?

As per the Insurance Bureau of Canada (IBC) for flood perils, 20% of Canadian households could be qualified as high risk, and about 10% of those would be considered very high risk which equates to about 1.8 million households.

Understanding the impact of natural disasters such as catastrophic flooding is a complex issue. Many customers are challenged with identifying and mitigating their total risk and exposure within their existing portfolio.

Here are some additional areas for consideration that would benefit from this type of analysis:

Risk Mitigation:

- Enhance real-time mortgage adjudication processes, speed time to decision and reduce manual intervention with enhanced insight into the precise location of the property as it relates to a flood zone.

Risk Analysis:

- Validate capital adequacy requirements and better understand and reduce exposure by being able to assess the total accumulated risk to a portfolio as it relates to proximity within flood plains.

Site Planning:

- Enhance infrastructure and site planning analysis by understanding the potential risk of flood before deployment.

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A DIGITAL MAP PRODUCTS COMPANY

The analysis conducted by DMTI Spatial using its platform Location Hub supports real-time flood risk analysis, portfolio accumulation risk analysis and the real-time visualization of the potential exposure to flood zones. This provides key data of importance to better forecast exposure and mitigate risk. www.dmtispatial.com | 1-877-477-3684

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