2021

RESIDENTIAL HOUSING MARKET OUTLOOK FOR THE YEAR AHEAD

ONTARIO

THE HALLMARK REPORT

RE/MAX HALLMARK
BROKERAGES • INDEPENDENTLY OWNED AND OPERATED | RAISING THE BAR

TORONTO | OTTAWA | YORK REGION | DURHAM REGION | SIMCOE COUNTY

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INTRO

Most of us could not have predicted the events of 2020. Covid-19 and the pandemic made and continues to make its mark on the world, Canada and our communities. The real estate markets throughout North America, after an initial shutdown, came roaring back to record-breaking growth and sales. We seem to have avoided a major recession, but we cannot ignore what just happened.

With much economic uncertainty associated with Covid-19, forecasting real estate trends for the upcoming year and years requires a deep dive into statistics. Our expectation is that Covid-19, as we know it now, will have less of an impact moving forward towards the end of this year. However, there is no sense of what the long-term effects will be or what the future will look like. The Hallmark Market Report analyzes real estate trends with a specific focus on “opportunities,” but not everyone agrees on the merits of a niche-focused strategy.

The Hallmark Market Report includes third-party research, opinions and findings from both local and international sources, as well as Hallmark independent research, to provide some broader context for changes in the Ontario and Canadian real estate market.

This edition looks at 2020 and the huge impact of the global Covid-19 pandemic on the housing market, which had far-reaching effects through falling interest rates, the stemming of immigration to Canada, Bank of Canada mortgage bond purchases, disposable income caused by the need to stay home and the emergence of COVID-19 vaccines. With more than enough uncertainty in 2021, the Canadian real estate market will be kept on the edge. ABOUT THE HALLMARK REPORT #THR2021

AVERAGE RESIDENTIAL SALE PRICE (YEAR OVER YEAR)

AVERAGE PRICE ALL HOME TYPES

11.75%

2019 - $886,715

2020 - $990,952

AVERAGE PRICE DETACHED HOMES

12.44%

2019 - $1,325,667

2020 - $1,490,627

AVERAGE PRICE CONDOMINIUM

6.09%

2019 - $634,140

2020 - $672,805

AVERAGE DAYS ON MARKET

-9.21%

2019 - 20 DAYS

2020 - 18 DAYS

HALLMARK'S NUMBERS

AVERAGE DAYS ON MARKET

13 DAYS

NUMBER OF TRANSACTIONS

8,449

AVERAGE SALE PRICE (ALL HOME TYPES)

$1,089,538

DATA COMPILED FROM REDATUM AND INTERNAL DATA INFORMATION- JAN 1, 2020 - DEC 31, 2020

TORONTO

From office towers and shopping, much of our economy in Toronto was built throughout the 20th century on a model of the large urban centre. The COVID crisis decimated this idea, at least for a time, allowing us to work, shop, watch and learn from anywhere. The resilient Toronto economy will continue to blend past and present, physical and digital, further dispersing economic activity and potentially ushering in a new era of decentralization into the suburbs.

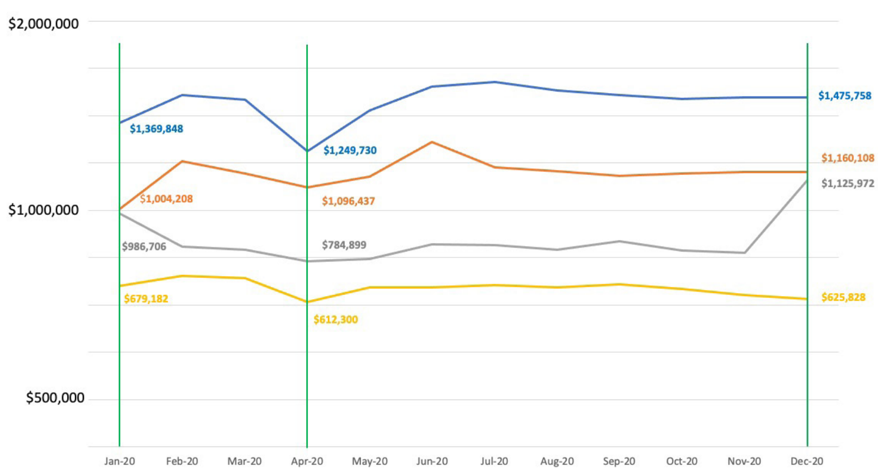
The Toronto market, along with every other market in 2020, had a tumultuous year. After a relatively steady 2019, the market was primed for a speed up in spring, but the lockdown that started in mid-March put an abrupt hold on that prospect. Luckily, this pause was only temporary, and buyers returned to the market again in May and June. By the fall, Toronto was demonstrating seller's market conditions, with fewer listings than demanded from buyers and low interest rates resulting in even more buyers.

During the first major lockdown, Torontonians began weighing their housing options. The lure of more yard space, proximity to parks, lakes, rivers and other green spaces called strongly to those of us stuck working at home. The pandemic accelerated the shift out of the Core of many of our cities – at least for now.

Surveys show that 32% of Canadians no longer want to live in large urban centres, with many hoping to move to the suburbs or more rural areas. But despite this change in attitudes, the Toronto market continued to stay hot throughout 2020 after its initial and brief dip in March. Despite these unprecedented and uncertain market conditions, the Toronto residential real estate market ended 2020 on a high, with 95,151 home sales taking place throughout the year. This was an 8% increase YOY and the third best year on record for sales. New listings couldn't quite keep up, with a mere 3% increase YOY, and likely helped push up the average home price across the Toronto Region by 13% annually to a new annual record of $929,699.

The rental market in Toronto took a hit from the loss of immigration, the curbing of the influx of students due to virtual learning taking precedent, as well as the persisting results of new regulations on Airbnb properties. With one-bedroom units down 17% in October 2020 compared to a year before, the Toronto rental market continues into 2021 on the same path.

CITY OF TORONTO AVERAGE HOME PRICES 2020



AVERAGE RESIDENTIAL SALE PRICE (YEAR OVER YEAR)

AVERAGE PRICE ALL HOME TYPES

19.34%

2019 - $408,875

2020 - $487,967

AVERAGE PRICE DETACHED HOMES (2 Storey)

18.57%

2019 - $488,668

2020 - $579,418

AVERAGE PRICE CONDOMINIUMS

18.94%

2019 - $300,089

2020 - $356,953

AVERAGE DAYS ON MARKET

-30.39%

2019 - 37

2020 - 26

HALLMARK'S NUMBERS

AVERAGE DAYS ON MARKET

16 DAYS

NUMBER OF TRANSACTIONS

7,894

AVERAGE SALE PRICE (ALL HOME TYPES)

$531,655

DATA COMPILED FROM REDATUM AND INTERNAL DATA INFORMATION- JAN 1, 2020 - DEC 31, 2020

OTTAWA

Exceptionally strong regional market, Ottawa, where the benchmark price for single-family homes surged by 22% year-over-year to $593,000. The Ottawa real estate district encompasses a large area, about five times Ottawa itself. It includes the downtown and suburban areas, as well as a number of rural areas.

While every area in the Ottawa real estate district saw increases this past year, not all areas increased at the same rate. There are still many affordable options in the outer areas of the city. Canadians are starting to re-think city living in favour of more space and larger properties. Many buyers are coming from bigger urban centres like Toronto to secure properties in and around the capital. Ottawa's luxury market is seeing the best performance overall, with buyers looking to scale up where they can.

Near the end of 2020, Ottawa real estate prices were up 19.2% YOY for both condo sales and freehold homes. This rather high increase is reflective of a strong recovery after the initial halt in March. Ottawa is home to a high number of government and technology sector workers who have been able to weather the pandemic relatively unscathed. This market is expected to continue along its current upward trajectory.

In 2019, 35% of properties purchased were sold at or below $400K, while in 2020, it was only 16% of homes. The market is certainly exhibiting a major shift in terms of availability in lower price ranges. The total number of residential and condo units sold throughout 2020 was 18,971, compared with 18,613 in 2019, increasing by 2%. In the residential dwelling category, unit sales went up by 3%, with 14,455 properties exchanging hands last year compared to 14,030 in 2019. In the condominium residential category, sales decreased slightly by 1.5%, with 4,516 units sold in 2020 versus 4,583 in the previous year.

Going forward, we fully expect Ottawa's resale market to continue to be robust in 2021. There are no indicators to suggest that this is an overheated market – it is simply very active, insulated and very strong.

ENTRY-LEVEL MARKET

Typical Buyer: Young couple
Typical Property: Townhome
Average Price: $400K-$500K

LUXURY MARKET

Typical Buyer: Move-up buyer
Starting Price: $900K

CONDO MARKET

Typical Buyer: Single buyer, retiree/downsizer
Average Price in 2020: $378,385

DRIVING DEMAND

SOLD

Move-up homebuyers

POPULAR PROPERTY

One-storey detached home

HOTTEST NEIGHBOURHOODS

- Orleans
- Barrhaven
- Kanata/Stittsville

AVERAGE RESIDENTIAL SALE PRICE (YEAR OVER YEAR)

AVERAGE PRICE ALL HOME TYPES

18.40%

2019 - $507,189

2020 - $600,571

AVERAGE PRICE DETACHED HOMES

19.30%

2019 - $546,684

2020 - $652,309

AVERAGE PRICE CONDOMINIUM

11.50%

2019 - $386,924

2020 - $431,371

AVERAGE DAYS ON MARKET

-25.35%

2019 - 39

2020 - 29

HALLMARK'S NUMBERS

AVERAGE DAYS ON MARKET

24 DAYS

NUMBER OF TRANSACTIONS

3,872

AVERAGE SALE PRICE (ALL HOME TYPES)

$633,289

DATA COMPILED FROM REDATUM AND INTERNAL DATA INFORMATION- JAN 1, 2020 - DEC 31, 2020

SIMCOE COUNTY

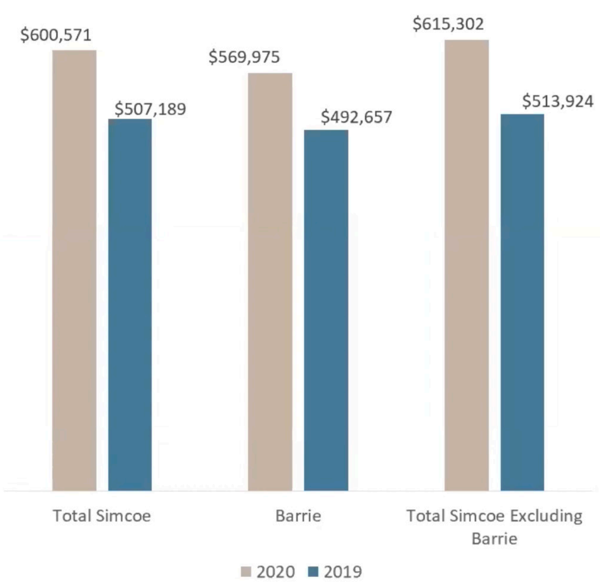
The typically regional character of real estate outside Toronto, with housing prices generally getting higher the closer you get to the city, was equalized slightly this year. This was fuelled primarily by the collective desire for more space and bigger affordable properties. And all of this within an acceptable driving distance to Toronto.

Barrie is the fourth most costly region in Ontario, with an average home price just north of $604,000. This represents a 20% increase over last year. 95% of Barrie is in a strong seller's market, with more buyers than inventory. This compares to a 68% seller's market in 2019 and indicates the competitiveness of the housing market within the city.

Recreational property markets also saw an uptick in retiree buyers. While retirees are historically a significant buyer demographic for the recreational property market, the pandemic has spurred demand as retirees advance their plans to improve their quality of life by moving to cottage country. Sixty-eight per cent of regions reported an increase in retiree buyers compared to last year.

Demand from homebuyers leaving the Greater Toronto Area is expected to remain very high in 2021, putting pressure on housing supply and prompting continued price growth in the region.

2020 vs 2019 Avg. Price



Source Bdar Data

AVERAGE RESIDENTIAL SALE PRICE (YEAR OVER YEAR)

AVERAGE PRICE ALL HOME TYPES

2019 - $906,091

15.10% **2020 - $1,042,929**

AVERAGE PRICE DETACHED HOMES

2019 - $1,129,158

13.49% **2020 - $1,281,555**

AVERAGE PRICE CONDOMINIUM

2019 - $524,807

9.37% **2020 - $574,003**

AVERAGE DAYS ON MARKET

2019 - 28

-20.04% **2020 - 22**

HALLMARK'S NUMBERS

AVERAGE DAYS ON MARKET

21 DAYS

NUMBER OF TRANSACTIONS

1,155

AVERAGE SALE PRICE (ALL HOME TYPES)

$1,097,697

YORK REGION

From 2006 to 2019, housing prices and average rents have increased significantly faster than household incomes. Simultaneously, York Region's housing market underwent a major shift away from single-family dwellings toward medium and high-density housing like condos and townhouses.

By 2051, York Region's population is expected to grow by 2.02 million people. Keeping up with the projected population growth will be difficult, especially in the affordable housing sector. Currently, 50% of York Region's single-detached homes are priced under $1 million. Meanwhile, 9% of homes in Durham Region fall within that range as well as 86% in Peel Region.

Three of the five Ontario markets exhibiting some degree of balanced conditions are in York Region: the SNLRs for Richmond Hill, Vaughan and Markham are below 60%. Buyers are most interested in freehold properties with backyards to accommodate their growing families. It is common to see multiple offers on such listings, given the limited inventory. Homes listed in the $1 million range are the most competitive, with buyers able to secure a 4-bedroom, detached property within the $1,100,000 – $1,400,000 range in York Region.

16,571 sales were reported through TRREB's MLS® System in 2020, up by 21% compared to 2019. Year-over-year sales growth was strongest in the GTA regions surrounding Toronto, with average home prices at $1,066,000 and average DOM at 22 days in York Region.

AVERAGE RESIDENTIAL SALE PRICE (YEAR OVER YEAR)

AVERAGE PRICE ALL HOME TYPES

2019 - $610,599

15.70% **2020 - $706,503**

AVERAGE PRICE DETACHED HOMES

2019 - $670,781

16.06% **2020 - $778,527**

AVERAGE PRICE CONDOMINIUM

2019 - $387,556

9.66% **2020 - $425,020**

AVERAGE DAYS ON MARKET

2019 - 23

-30.66% **2020 - 16**

HALLMARK'S NUMBERS

AVERAGE DAYS ON MARKET

13 DAYS

NUMBER OF TRANSACTIONS

2,002

AVERAGE SALE PRICE (ALL HOME TYPES)

$737,248

DATA COMPILED FROM REDATUM AND INTERNAL DATA INFORMATION- JAN 1, 2020 - DEC 31, 2020

DURHAM REGION

Durham Region is growing and thriving more every day – new housing developments, businesses and amenities offer exciting opportunities for this vibrant community to live, work and play. As the region expands and the population increases, the GO service is expanding to serve the region with more frequent service, more stations, cleaner technology and more connections.

Durham Region and its eight municipalities (Ajax, Brock, Clarington, Oshawa, Pickering, Scugog, Uxbridge, and Whitby) saw a burst of activity in the early summer months. An influx of homebuyers from outside the region began taking advantage of low interest rates and relocated to the area in search of larger homes and more green space. This shift marked a new trend in home-buying preferences to more space, less density and lower prices.

Durham region enjoys a diverse housing market. The present lack of supply is expected to continue to drive prices higher in this region. Economic forecasts project a healthy increase in Oshawa's GDP to 5.8% and an increasing amount of activity over the next year.

Durham region's continued growth will include new malls, a growing university and the expansion of highway 407.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COLLECTION

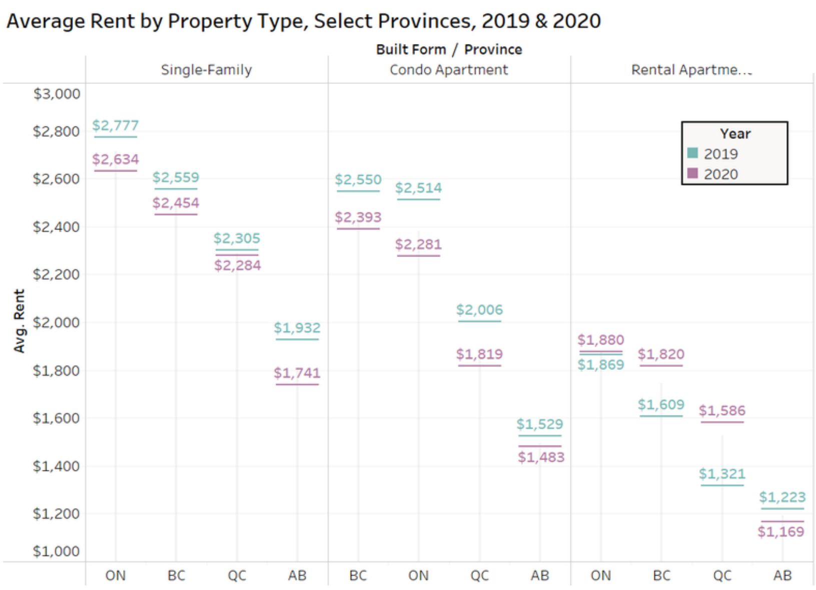
PROVINCIAL RENTAL RATES

The average rent in British Columbia was up 9.5% annually in 2020 to $1,996 per month, while Ontario's rent declined by 7.8% annually to $2,090 per month. Condo apartment rents also declined in four provinces, with Ontario and Quebec both experiencing declines of 9.3% annually and Alberta showing the smallest change (-3%).

Hamilton experienced the highest growth, at 24% annually, followed by Kitchener at 17% and London at 16%. Markham, North York and Mississauga all dropped by 7% annually, with Toronto down 9%.

The COVID-19 pandemic threw a wrench into the rental market in Ontario. The biggest factors were job losses for workers lower on the pay spectrum and a major decline in immigration. Most low-income workers rent and many (if not most) immigrants, international students and temporary workers rent when they first arrive in Canada. These factors pulled significant demand from the market.

The vaccine rollout has begun and the second wave of COVID-19 is showing signs of slowing down. We expect the rental market to rebound over the next three to four months, sometime in Q3-2021. One positive for landlords is the resale housing market remains strong, which will entice some landlords to sell their properties and reduce the rental supply.



WOMEN LEAVE THE WORKFORCE IN DROVES DURING PANDEMIC

Statistically, most of the people exiting the labour force are women. The pandemic shifted female participation in the labour force from a historic high to a three-decade low. While more than one million women have regained employment, two key cohorts (ages 20-24 and 35-39) continue to drop. In the younger cohort, the majority are enrolling in post-secondary education and preparing to re-enter the workforce. But among women aged 35-39, many are leaving the labour force regardless of their education. Women with children under 6 made up 41% of the labour force in February but accounted for two-thirds of the ensuing exit from the labour force.

This trend is likely to persist until parents feel secure sending their children to school or daycare. This is key to our economic recovery. Recent federal commitments to a policy of universal, affordable childcare and early learning could support that shift. But it will require active participation of provinces and flexibility from employers to ensure that parents manage the new realities of work.

Years of age

	20 - 24	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54
Women	-26,458	-17,501	+39,869	-45,783	+30,778	-37,932	+54,650
Men	+5,669	-2,596	-7,556	-37,355	+62,562	+7,322	+9,567

Source: Statistics Canada, RBC Economics

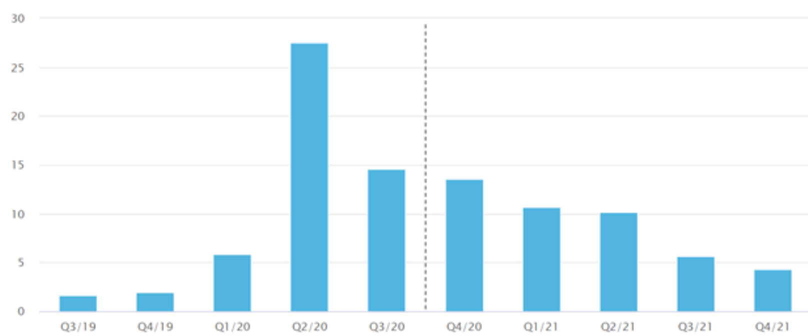
CANADIANS SOCKING AWAY CASH

The household savings rate reached its highest level in 20 years. Prior to the pandemic, Canadians saved just 2-3 percent of their disposable income, but that jumped to 28.2 per cent in the second quarter of 2020. Knowing that pot of cash is just sitting there, we're interested in monitoring where the extra money will go. Will it go toward paying down household debt or will it be spent on goods and services? This jump in the savings rate came in the second quarter, amid a unique set of circumstances. Disposable incomes climbed sharply due to higher government transfers in the form of emergency wage benefits, while household spending fell amid COVID-19 shutdowns.

Canadians are sitting on a trove of unspent cash. The increase in savings this year makes sense, since the pandemic has limited spending. However, it became apparent at the end of last year that households had been socking away a little more before this year started. The pandemic was a blow to the economy, but households were worried before it was even on their radar. There seems to be a light at the end of the tunnel for the pandemic. How will our money habits and financial values be affected on the other side?

Canadians are socking away cash

Canadian household savings rate, percent of disposable income

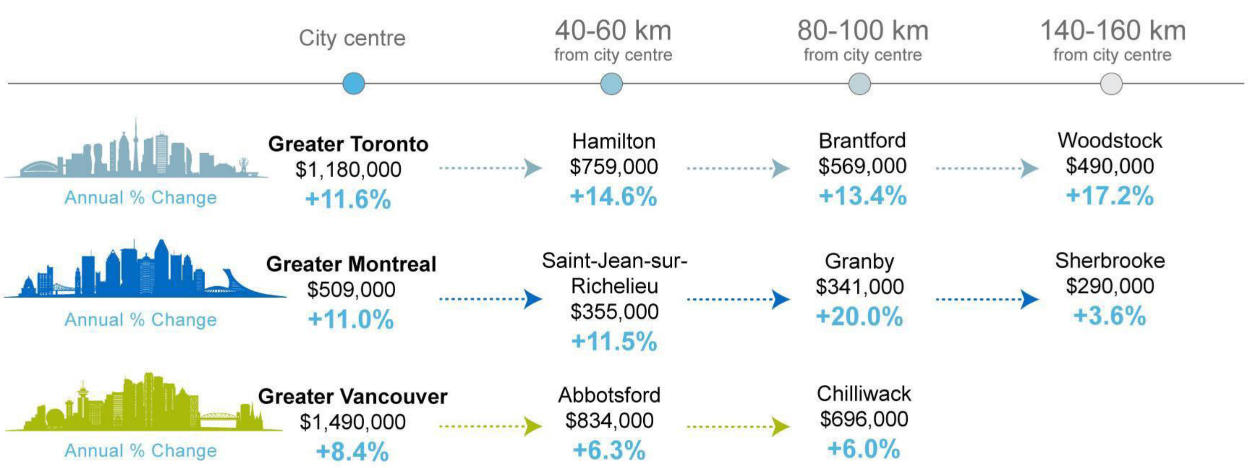


Source: Statistics Canada, RBC Economics | *Period after dashed line represents RBC forecast

SO LONG BIG CITY LIFE: REMOTE WORK LOOSENS TIES TO PRICEY MARKET

As work becomes less tied to the office or disappears completely, the pandemic is fundamentally changing the appeal, necessity and feasibility of living in a big urban centre. City dwellers are hearing the call of bigger yards and larger living spaces. That has driven up prices in smaller communities. It has also increased rental options and lowered rents in cities.

Working from home won't be a silver bullet for Canada's affordability issues. Even a small fraction of Canadians opting to move their big-city incomes to more distant locales could overwhelm smaller communities and make affordability more challenging for local residents, whose incomes are lower. Some major factors causing them to move to smaller urban centres include cost of living and lower tax rates. We think there is a little more to this. We know the cost of living in Toronto & Vancouver is high, so surely quality of life is a factor in those locations as well. The places people are leaving are cities that are becoming much too expensive for the average person to live. It's too early in the pandemic to know definitively how many people will leave cities. It could be months or years before we know the pandemic's full impact on urban areas, and much is still uncertain.



NEW HOUSING

Builders broke ground on more new homes in August amid a surge in construction on apartments, condos and other types of multiple-unit housing projects in urban centres. The increase came as the annual pace of urban starts increased 7.1% in August to 248,154. The pace of urban starts of apartments, condos and other types of multiple-unit housing projects climbed 9.1% to 201,214 units, while single-detached urban starts fell 1.0% to 46,940.

Ontario cities led the country in terms of the volume of new homes under construction, with a 32% jump. Ottawa saw sizable jumps in construction compared to 2019. This is a solid level of building activity, considering the pandemic. The housing demand from immigration and students has waned, causing rents to fall. In turn, investors may become less interested in funding new apartment and condo buildings, which has created opportunities for first time buyers.

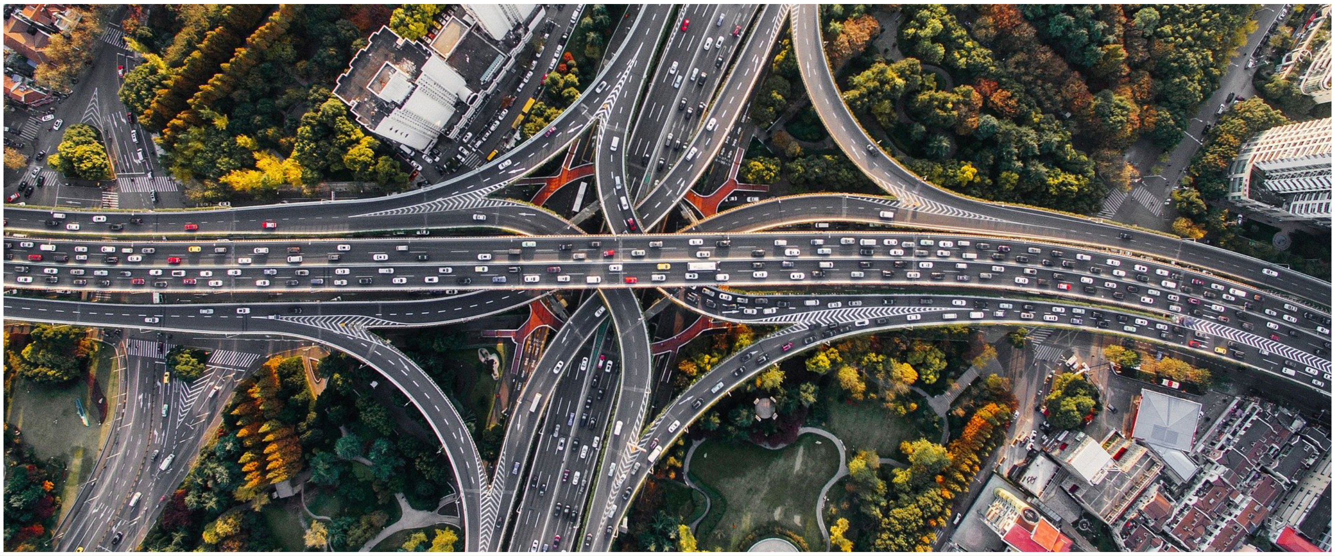
BIG URBAN CENTRE EXODUS

In the early months of the pandemic, buyers did indeed gravitate toward the suburbs. We know this because over 50% of transactions in various real estate boards represented buyers from the GTA – buyers who chose suburban locations. But it's hardly the exodus from cities that some had speculated.

I would also note that there was a large uptick in Toronto home purchases in that same three-month period. Meanwhile, we do not anticipate a massive move to the countryside. You've heard this from us for a long time now. First-time buyers will be a significant force again this year and in years to come. Their numbers are only going to grow.

I don't see the condo market collapsing across the country — though I do see significant issues in the market, such as rising inventory levels when compared to single-family homes.

For now, there still appears to be demand, as sales were higher in December 2020. The primary reasons to buy a downtown condo are twofold — convenient access to work and lifestyle. Therefore, the fact that some people won't have to live close to work if they are working from home is only a short-term concern. Secondly, if we lose some of the lifestyle reasons to live in a city, as we have in the wake of COVID (restaurants, nightlife, retail and the like), that takes away some of the rationale behind buying a downtown condo. There's no need to panic yet, because with larger distribution of vaccines, re-opening of borders, the arrival of new immigrants, foreign students and government small business loan stimulus, we will likely see prices grow in the 3rd quarter of 2021.



BANK OF CANADA PURCHASES MASSIVE AMOUNTS OF CANADA MORTGAGE BONDS DURING PANDEMIC

When the pandemic hit, one of the programs taken on board by the Canadian government in order to stimulate the economy was to have the Bank of Canada purchase massive amounts of Canada Mortgage Bonds. This allowed financial institutions access to lending cash for credit-worthy customers. The effects of this buying of Canada Mortgage Bonds were to keep fixed mortgage rates low and led to record-breaking, all-time low rates in September 2020.

With many watching the falling rates and wondering whether they would dip below 1%, the Bank of Canada announced that they would end this emergency measure on October 26, 2020. The announcement dashed hopes that interest rates would dip below the 1% mark. While, potentially, this action could lead to higher rates, since it could mean that banks have less access to cash for lending, resulting in their raising rates to temper demand, instead, we believe that due to the slow performance of the economy and the continued lockdown measures, it will likely lead to a period of stability, with rates neither rising, nor falling significantly.

While this change will likely put pressure on fixed mortgage rates, it could take time for the change to work itself through the Canadian financial markets. The bottom line here is that we are all pretty confident that though rates will start to rise, the increase will be modest and will start in the first quarter of 2023. The only reason that might stop rates from rising — at least by too much – even if bond yields do head higher, is the COVID-19 vaccine, if it takes longer to distribute, or if too many choose not to take it and the virus stays in the community. This could cause the economy to take another dip. But we remain hopeful that this will not be the case.

SOURCE: TRADINGECONOMICS.COM | BANK OF CANADA

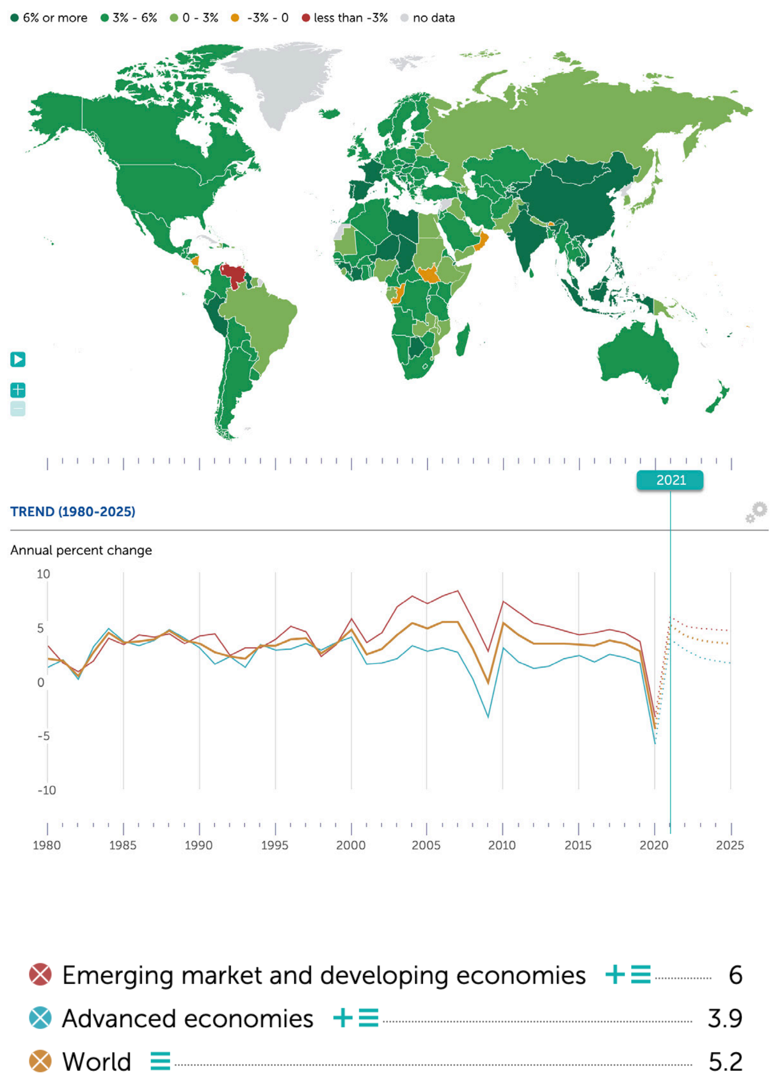
GLOBAL REAL ESTATE INVESTMENT

Our local economic perspective is reflected in what has been happening on the world stage, with worldwide economic growth rebounding in the third quarter of 2020. It is expected to sit at around 4% below its pre-pandemic level at the start of 2021. But new restrictions in many countries are expected to cause global GDP growth to diminish, leading to a slow recovery.

Global real estate debt investment continued to be supported in 2020 by record-low interest rates, government assistance packages and diversification of lender profiles. While global investors remain conservative, their number and amount of new transaction quotes continued to climb. In general, debt pricing for high-quality assets has gone back to pre-pandemic levels, which is helping to support elevated refinancing and quarterly investment activities.

When it comes to residential real estate, the world market has performed similarly to here in Canada, with growth later in the year making up for the dip at the beginning of the pandemic. The student and senior housing sectors have suffered worldwide and may take some time to get back to a growth trajectory once the vaccine has been administered to enough of the population for heard immunity to take place.

Overall, the world economy had a rough ride in 2020, but after slow growth into 2021, worldwide GDP is expected to recover and grow late into 2021 and into 2022.



Source International Monetary Fund

HOUSEHOLD DISPOSABLE INCOME/DEBT

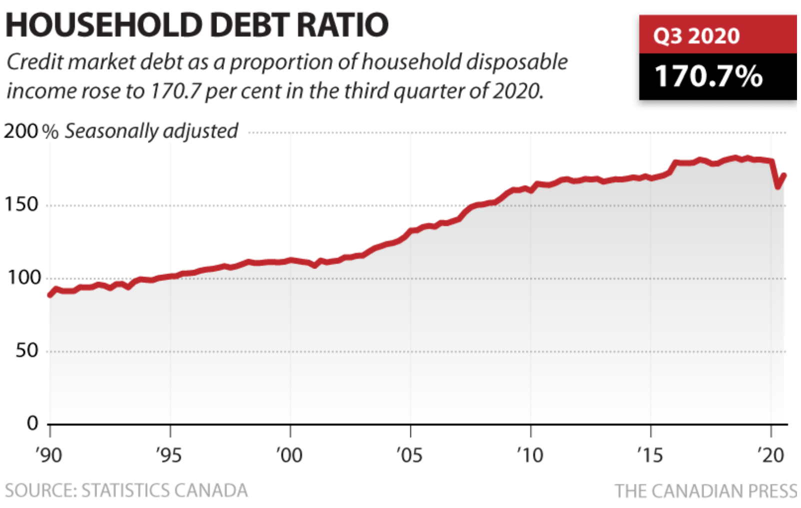
When the first lockdown went into effect, Canadians had nowhere to spend their money and were able to take advantage of various income supports and payment deferrals offered by the government. This led to a record for household savings in the second quarter, at $90.1 billion.

According to Statistics Canada, Canadian households owed an average of $1.71 for every dollar of disposable income in the third quarter of 2020, which meant that household debt as a percentage of disposable income had increased to 170.7% from earlier in the year. But this ratio was still far below the average $1.81 for every dollar of disposable income owed by Canadian households at the end of 2019.

Wealthier people or those with higher household incomes were more likely to experience higher increases in their savings, as they were more commonly able to continue to work from home during the lockdown, meaning incomes stayed the same, while spending dropped off due to the inability to travel or visit bars and restaurants.

With interest rates hitting record lows at the same time as this rise in disposable income, for some, the real estate market was able to benefit. The very favourable costs of borrowing led to a record rise in housing investment and mortgage borrowing, which surged to highs not seen before. As more people approached lenders for mortgage loans, the demand rose to a high of $28.7 billion, bringing total mortgage debt to nearly $1.63 trillion.

We expect that the shortage of properties for sale combined with record low interest rates and higher levels of disposable income will lead to the continued growth of the real estate market into 2021, with housing prices expected to rise by between 5.5% and 7.5%.



IMMIGRATION AND ITS EFFECTS ON CANADIAN REAL ESTATE

For the last 40 years, immigration has been a pillar of Canadian housing demand. Over the last decade, newcomers have played an integral role in the country's major housing markets. But immigration has become yet another casualty of the coronavirus pandemic in 2020, as international borders were closed, and people told to stay put.

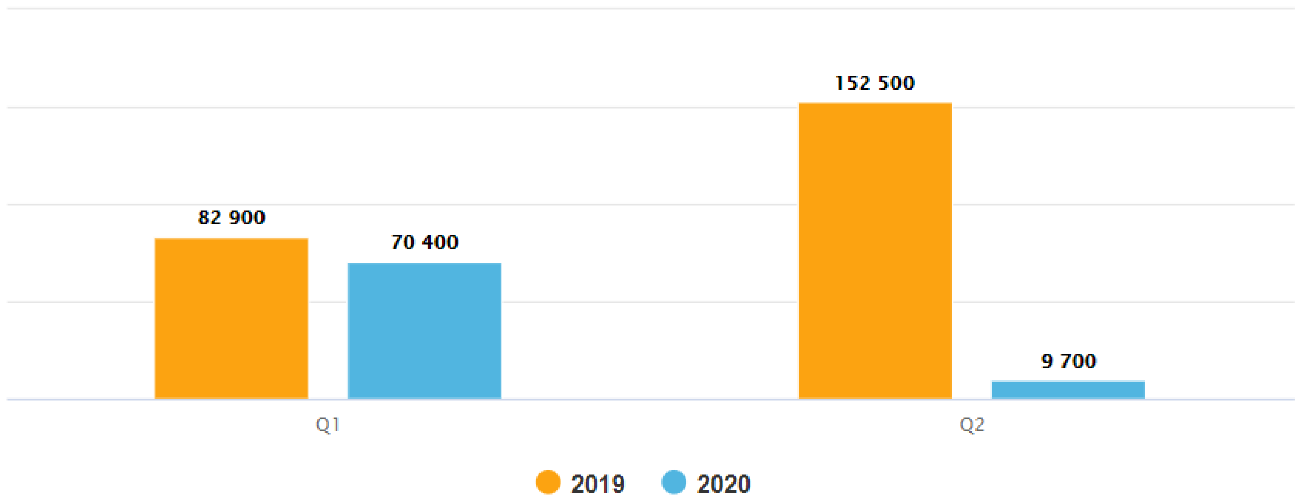
According to the latest data from Refugees and Citizenship Canada, a little more than 19,000 new permanent residents arrived in Canada in June. This is down 44.2 per cent from the same time in 2019. In the recent year-to-date, the number of foreign nationals admitted into Canada was also down approximately one-third from the year previous. Ontario, specifically, one of Canada's top destinations for newcomers has reported a whopping 41.8% decline in immigration. Added to the fact that more non-permanent residents left Canada in 2020 than arrived, the impact was dramatic: total net migration collapsed by 94%.

Not surprisingly, this decline has had a large impact on the Canadian real estate market, as the usual hundreds of thousands of people immigrating to Canada have not arrived to contribute to overall housing demand.

We expect this situation will continue to have an effect on rental demand in larger markets, since immigrants tend to rent in their first 5-10 years after landing in Canada. This could have negative repercussions for condo markets in the short term, but it does create opportunities for first-time homebuyers.

Migration to Canada plummets

Number of people



Source: Statistics Canada, RBC Economics

HOUSING MARKET SPLIT: CONDOS VS. FAMILY HOMES

As we've seen, Canadian real estate prices have been soaring this year. But if we look closer, we'll notice an increasingly larger gap has opened between the condo market and the freehold market. Prices have risen in the freehold home market, especially in the dense Toronto market, while downtown condo prices have been dropping. The aggregate benchmark price for the combined condo and freehold markets reached $646,700 in November of 2020, up 0.58% from the month before, which represents an increase of 11.33% compared to November 2019.

The momentum from the freehold market has driven gains in the entire Canadian real estate market, leading to the fastest rate of growth since 2017, while the freehold market left the condo market floundering in its wake.

Condo apartment prices have now returned to pre-pandemic levels. With vaccine roll outs, there are indications that the condo market will recover sooner than expected.

For now, we look to see the gap between these two markets continue to increase early in 2021. As the gap between condos and freehold housing continues to widen, we can eventually expect consumers will begin turning to the substantial affordability in the condo market, closing the price gap between freehold and condos. A return to pre-pandemic life should also contribute to the closing of this gap, but when that will finally happen remains to be seen.

Greater Toronto Area New Condominium Market Summary

	2020			2019			Annual Change		
	GTA Total	City of Toronto (416)	GTA 905	GTA Total	City of Toronto (416)	GTA 905	GTA Total	City of Toronto (416)	GTA 905
Sales	18,247	8,959	9,288	25,389	14,547	10,842	-28.1%	-38.4%	-14.3%
New Launches (units)	18,004	9,218	8,786	25,296	14,504	10,792	-28.8%	-36.4%	-18.6%
Unsold Units (year-end)	13,801	10,083	3,718	14,177	9,942	4,235	-2.7%	1.4%	-12.2%
New Launch Avg. Sold Price (psf)	$1,063	$1,227	$928	$964	$1,107	$793	10.3%	10.8%	16.9%

EMERGING OPPORTUNITIES

Niche sectors are very important to create income and investors are also looking at niche assets that show promise, including the following:

● Single-family rental housing:

As people look for more space during the pandemic, either to work from home or get outdoors, many will consider moving from apartments to single-family homes, even if they are still renting. This type of housing is more common in the suburbs, particularly, where excess land near urban centres is available.

● Industrial & Employment land:

With aging populations and so much funding in the research and development space going toward serving the life sciences industry, a growing investment and development opportunity is emerging. Some Canadian cities, such as Montreal, have vibrant clusters of life sciences activities, as do several other markets, where companies are eager to be near the top in research talent.

● Self-storage:

A good niche opportunity, especially as people grapple with space constraints at home during the pandemic, is self-storage. Some have noted that the strong demand for self-storage reflects an ongoing trend as more multifamily housing has been built in Canada.

ONTARIO ECONOMIC OVERVIEW

As a turbulent 2020 came to an end, there was a glimmer of hope for 2021 and beyond. Although we are still experiencing the second wave of the pandemic, vaccines have finally arrived and are very slowly being rolled out. With this, comes the hope for large bursts of growth that will come with the easing of restrictions and ability to get back to economic life as we knew it before. We can expect that people will get out and make up for lost time – putting their burgeoning 2020 savings to good use and giving the economy a much-needed boost in 2021 and beyond.

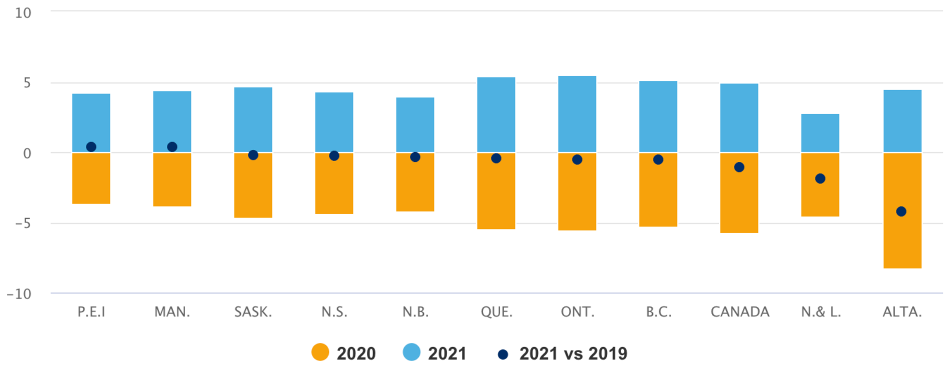
Ontario's GDP fell by 5.6% in 2020, underperforming all other provinces aside from Alberta, whose economy suffered from a collapse in oil prices on top of the pandemic. Ontario is expected to break even or show very slight growth in 2021, with projected GDP growth set to be 6.1%, compared to a national average projected growth of 5%. The year is expected to start slow, with restrictive measures still in place. Later in the year, growth prospects get more positive, with measures loosening and positive projects kicking back into gear. Overall, a stronger rebound is expected from Ontario over the other provinces, due to a great accumulation of pent-up demand during 2020.

According to the most recent provincial budget, Ontario has plans to increase spending on infrastructure into 2022/23, which will also help stimulate the real estate market in the province by contributing to the gentrification and accessibility of more neighbourhoods.

There are continued concerns about the provincial deficit, with the net debt-to-GDP ratio expected to rise 2.6 percentage points from its current level, which could lead to a weakening of the economy or a rise in interest rates. However, with heavy investment in infrastructure, continued growth in both residential and non-residential construction and growing labour markets, Ontario is poised for steady growth later in 2021.

Provincial economies to recover strongly—though still partially—in 2021

Real GDP, annual % change (2020 and 2021) and % change from 2019 to 2021



Source: Statistics Canada, RBC Economics

WHAT'S IN STORE FOR THE 2021 HOUSING MARKETS?

In the end, the rollercoaster that was 2020 left Canada's housing market more or less where it began in the year, full of bidding wars, escalating prices and buyers unable to find a home they can afford, which will continue in 2021. We see little that will stop activity or prices from reaching new heights in the year ahead.

We project price trends to stay firm in most regions of the province, taking property values up by single digits in larger urban centres such as Toronto & Ottawa and double digits in smaller urban centres such as Durham and Simcoe county.

Low available supply is the reason property values will continue to go up. Strong demand pre-pandemic and the historic market rally since the summer have cleaned up inventories in many parts of the province and the country. Relative to the 10-year average, active listings had plummeted between 50% and 61% in Ontario, despite a surge in condo listings.

We think it will be easier for first-time homebuyers to get into the market in 2021. First-time homebuyers will have a limited opportunity to enter the housing market, but not in the single-family detached market; it will almost certainly be in the urban condo market. Condos will soften for the first half of the year, but they will stabilize in the second half. In other words, the time to act is now.

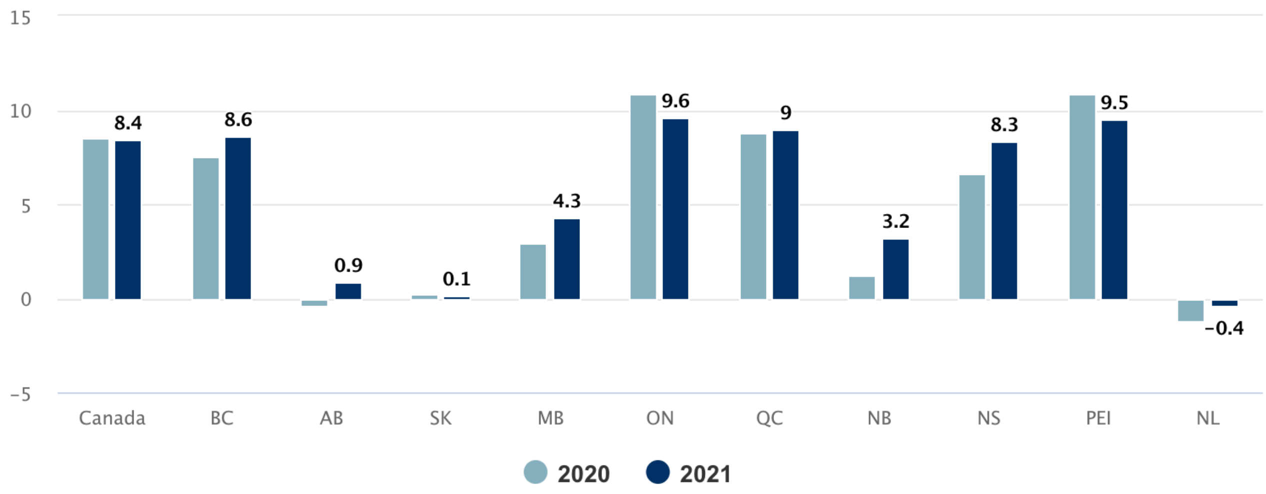
Timing is key, as the 2020 spring lockdown taught us, minimal market activity created an opportunity that few took advantage of, and by summer, when Canadians adjusted to the new pandemic normal, the market resumed to barnburner status. The wild card in 2021 is the COVID-19 vaccine. How quickly it's distributed and, of course, its efficacy will affect what happens in the markets on all fronts. We don't think there's going to be any regulatory changes, which have been the main disruptions for the past 5 years, since the government can't afford to derail the only engine of the economy.

It's important to note the upswing in property values in Ontario isn't just a big market story. The pandemic has heated up prices in smaller markets in the province too. In fact, we are likely to see stronger gains in smaller markets than in core urban areas because condo prices are likely to stay flat through much of 2021.

The main factors the real estate market is riding on continue to be a lack of supply, interest rates, an increase in demand due to re-opening of borders, the arrival of immigrants and students and an erosion of affordability.

Prices to rise in all but one province

Annual % change in aggregate benchmark price



Source: RPS, RBC Economics

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