

RE/MAX CONDOS PLUS

CORP. BROKERAGE

INDEPENDENTLY OWNED AND OPERATED

MARKET FORECAST



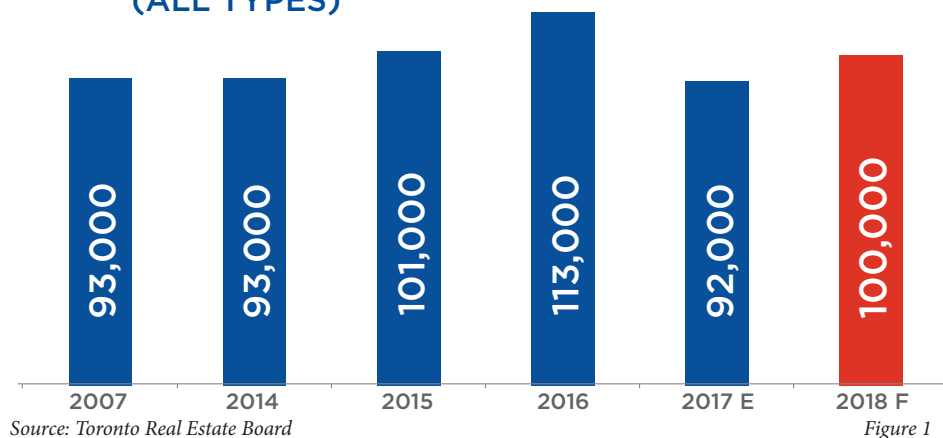
JANUARY 2018

2018 Sales Forecast

This is a difficult year to forecast with all the mortgage and tax changes made by Governments in 2017. Most of these changes have a short-term impact, as buyers and sellers need time to understand and adjust. The latest(OSFI) change requiring conventional mortgage borrowers to qualify at the contract rate plus 2% comes into effect January 1st. We saw only a modest increase in

buyers trying to beat the start date in November and December. Hence, we believe that this change may slow the market in the first few months of 2018 but will have minimal impact in the long term. The Toronto Real Estate market will continue to be driven by the influx of people to the GTA (over 100,000 per year) and the continued economic growth of the City as a major international centre.

TREB ANNUAL SALES (ALL TYPES)



FIVE MARKET PREDICTIONS:

1 Resale Sales on TREB will hit 100,000 units – up 10% from 2017. The Table (Figure 1) suggests a return to a normal volume after last year's boom and bust market. Our forecast is based on the fact that there are lots of buyers waiting for the market to settle down and for more listing product.

2 Resale Prices are expected to be flat overall. The GTA is no longer a homogeneous market. We expect some markets to experience price drops of up to 5%, others to be flat, and some markets will increase by 5-10%.

3 The 'Sweet Spot' in the GTA will be properties located in the 416 area between \$500,000 and One Million. There is a shortage of listings in this market area and most millenni-

als want to live there and can afford these prices. There will be an excess of listings in the 905 area over a million and a half dollars and this will negatively impact prices.

4 Pre-construction sales usually have three measurables: sales, under construction, and completions. Sales are the least reliable and completions are the most meaningful, as these units are added to the resale pool. Given the GTA population growth and replacement needs, 45,000 new units are required each year to keep the market in balance. The Table (Figure 2) shows that in only one year did we achieve that level of completions. Our Forecast calls for 42,000 completions for 2018, based on sales and starts in 2015 and earlier.

BUYING VS RENTING



Condo
\$400,000
 5% Downpayment
\$20,000

AFTER 5 YEARS



EQUITY
 Principle Downpayment:
\$20,000
 Paid Down:
\$56,436

Appreciation **↑ \$62,710**
 at 3% per year

\$140,146



PROFIT:
\$120,000
 Tax Free

CAN A RENTER SAVE THAT OVER 5 YEARS?

5 Finally, let's look at the pre-construction condo market downtown. In 2017, developers were selling units at \$900 -1,000/sf when the resale market was \$800+. Why the gap? There was a lack of new projects in the first half of the year and the frenzy of the resale market in the first quarter of the year spilled over. Buyers of these units will have problems long term as they wait for the resale market to catch up. A bigger concern short term is how many buyers will not qualify for a rental mortgage under the new mortgage rules? Look for a big jump in the Assignment Market in the second half of the year, providing opportunities for millennials who have been shut out of the resale market.

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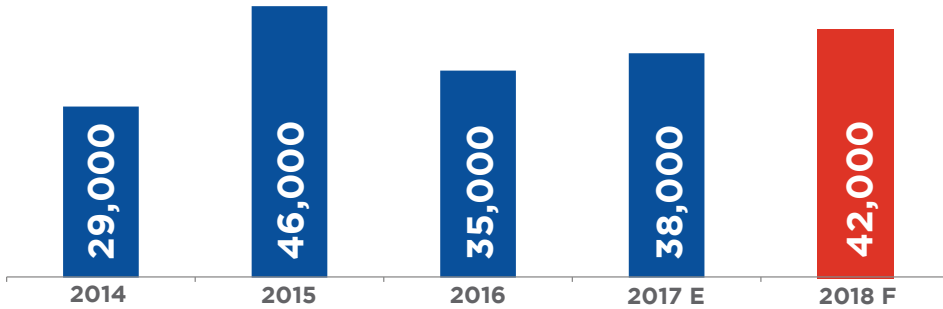
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GTA NEW HOUSE COMPLETIONS (ALL TYPES)



Source: Toronto Real Estate Board

Figure 2

2018 RENTAL MARKET FORECAST

Over the last few years, the condo rental market has been about twice the size of the resale market downtown. But with rent controls, expect more tenants to just stay put. For tenants and investors here is what to expect:

FOUR MARKET PREDICTIONS:

1 Leases on TREB will be 15% lower in number than for 2017 and 23% lower than 2015. 2017 leases were matching previous years' numbers until the introduction of rent controls (1.8% per year). See the Table. (Figure 3) Prices for vacant units will increase by 10%+. The result will be a two-tier system. Will some tenants try to sublet at higher prices (although illegal)?

2 The City's efforts to license Airbnb will have no impact on rental supply. Airbnb condos make up

about 1% of the condo rental stock downtown.

3 Investors who are unable to increase their rents to cover their costs (applying to the Rental Tribunal will be a waste) will simply sell their units to end users in the resale market.

4 And for politicians who care – a vacancy tax should cost more to implement than it will produce in revenues.

HOUSEHOLD DEBT TO DISPOSABLE INCOME

Current Debt to Household Income

171%

(The Government says this is a problem)



PERSON 1

- Makes **\$100,000** per year
- **\$35,000** in credit card debt
- Rents for **\$2,400** per month

Debt to Disposable Income Ratio is under

35%

The Government says this person is responsible

PERSON 2

- Makes **\$100,000** per year
- Has **\$300,000** mortgage
- Equity in property is **\$50,000**



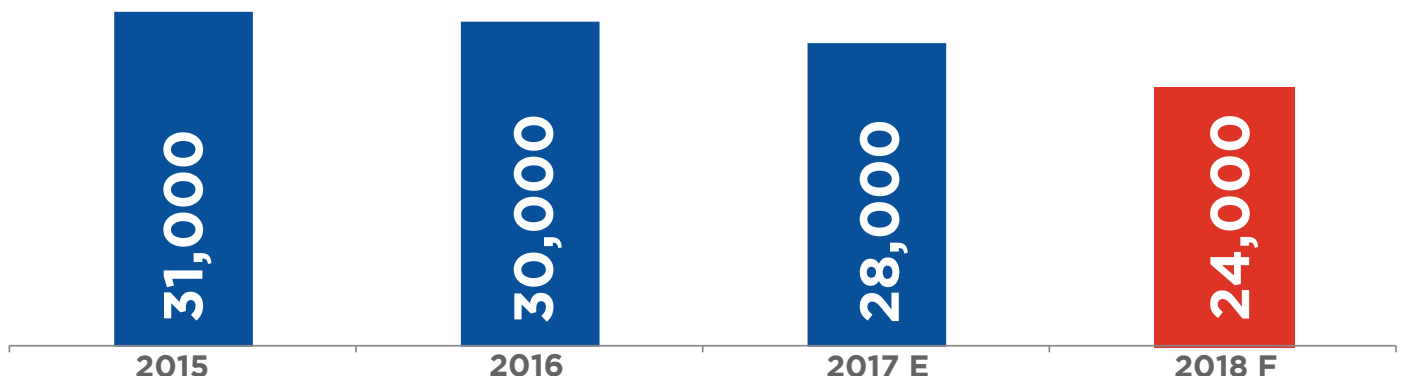
Debt to Disposable Income Ratio is

300%

The Government says this person is in trouble!

WHO DO YOU WANT TO BE?

TREB ANNUAL LEASES (ALL TYPES)



Source: Toronto Real Estate Board

Figure 3

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