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2011 Condominium Apartment Forecast for the Toronto CMA

HIGHLIGHTS

- Urbanation is forecasting 16,000 new condominium sales for 2011 in the Toronto Census Metropolitan Area (CMA)
- The Toronto CMA will experience record condominium apartment starts and completions in 2010, both are expected to decline in 2011
- Zero growth expected in the resale condominium market in the CMA despite an elevated level of project registrations

Interested in subscribing to Urbanation's quarterly *Condominium Market Survey*, please contact us today:

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Despite a mild summer for new condominium apartment sales in the Toronto Census Metropolitan Area (CMA), sales at several new project launches in October were very strong and the CMA remains on pace for the second highest annual sales total on record.

The 19,000 new condominium sales projected for 2010 are well back of the 22,654 sales recorded in 2007, but top the approximately 14,500 sales realized in both 2008 and 2009. Based on historical data published in Urbanation's quarterly *Condominium Market Survey*, we believe that 16,000 – 17,000 annual new condominium apartment sales is a sustainable level of sales for the CMA. As will be the case at the end of 2010, the Toronto CMA market has the capability to absorb more than 16,000 – 17,000 units on an annual basis, but the major problem lies in financing and building such a high volume of suites. Secondly, there are concerns that the number of tenants with the financial wherewithal to afford these high-rent suites offered by the ever increasing share of investors will inevitably shrink as more units are delivered, and prices in the new condominium market continue to rise rapidly.

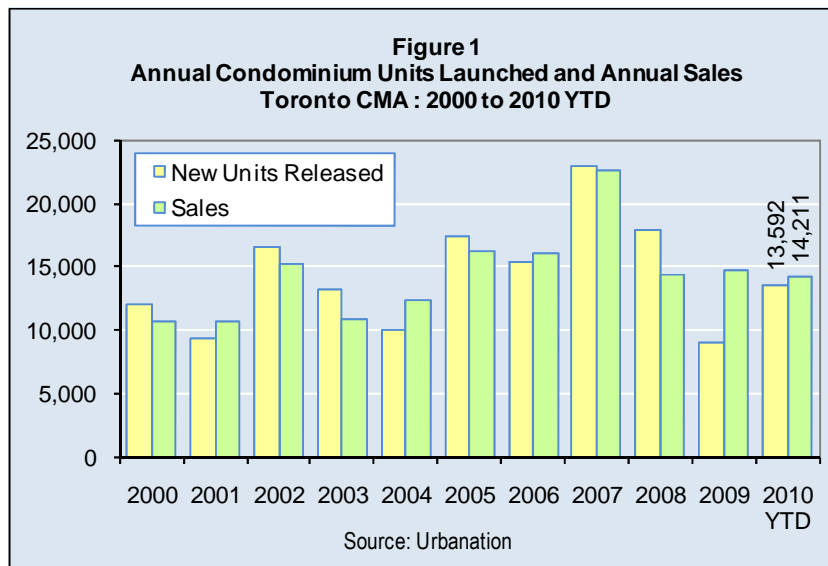
The trepidation regarding condominium apartment tenants has been fodder for analysts in this market for several years, however with approximately 18,000 condominium completions in the CMA in 2010 (almost twice as many as 2009), there will be much greater competition for these tenants than ever before. However, Urbanation does not believe that these factors will have a significant dampening on new condominium sales in 2011.

From discussions with developers and brokers, there is confidence that no major correction in sales or pricing is forthcoming, and they plan on bringing 15,000 to 16,000 new condominium units to market next year. This figure is important because throughout the past decade there has been a consistent relationship between the number of new condominium sales and the number of suites released in a calendar year (with the exception of 2009 when very little product was launched

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during the first half of the year). Figure 1 presents data on that one-to-one relationship from 2000 to 2010 year-to-date (January to September).



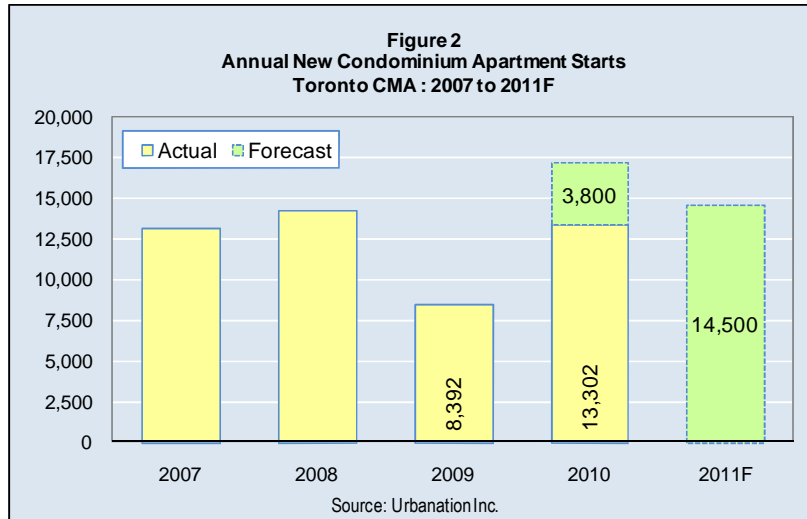
With over 5,000 units expected to launch in Q4-2010, these 20+ projects are forecasted to sell just under 5,000 units, bringing annual new condominium sales to 19,000 for 2010 and new units launched this year to 19,000 as well. Urbanation anticipates this statistical relationship holding in 2011 and is forecasting 16,000 new condominium sales in 2011.

Last year was the first in which Urbanation made a Toronto CMA condominium apartment starts forecast, predicting 14,000 starts for 2010. With approximately 4,000 starts scheduled for Q4-2010, the year-end construction starts total will be approximately 17,000 in 2010, a tremendous result coming off just 8,400 starts last year when lenders closed their wallets to all but the top developers. However, when considering the two year average (less than 13,000 starts) and the fact that there were just over 13,000 starts in 2007 and approximately 14,100 in 2008, starts are not keeping up with the elevated sales volumes over the past five years.

Urbanation reviewed the list of projects currently in the pre-construction phase of development and has estimated based off that list that condominium apartment starts will range from 14,000 to 15,000 in 2011 (see Figure 2 on page 3).

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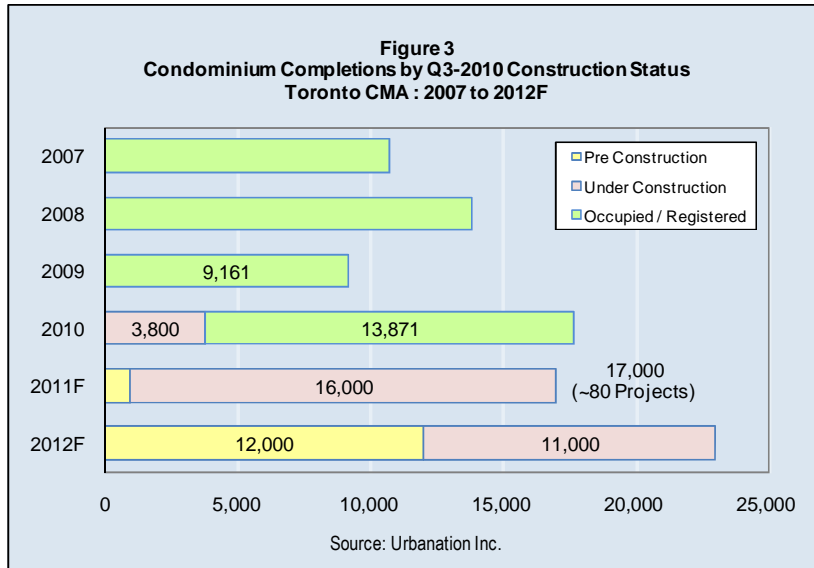


The press had a field day with the report by other analysts in this market in early 2010 when they predicted 23,000 to 25,000 condominium apartment completions in the Toronto area – “oversupply was imminent” was the ubiquitous headline. Despite these overestimates and exaggerations, Urbanation forecasted 19,000 new condominium completions for 2010, and it appears that 17,500 to 18,000 will be final figure. Given the slower pace of starts in 2009, and the larger projects started in 2010 (and their longer construction times), completions are expected to decrease to approximately 17,000 in 2011, but will likely surpass 20,000 in 2012 (refer to Figure 3 on page 4).

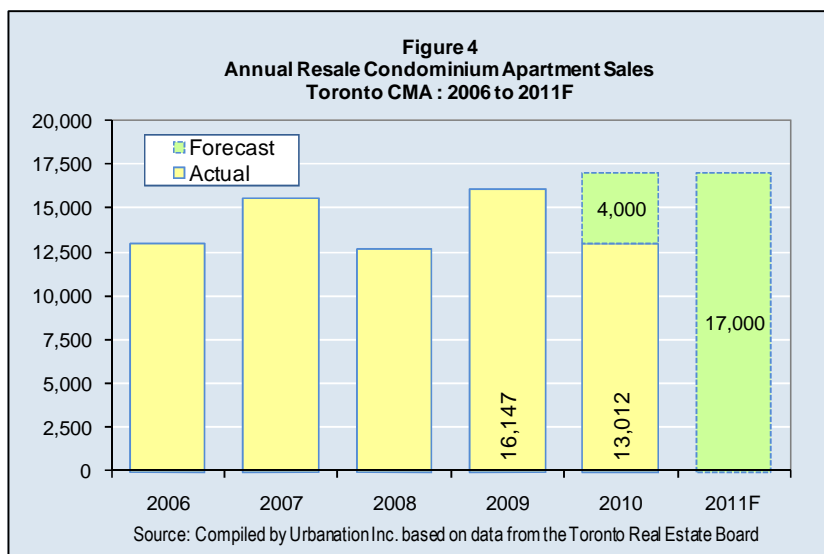
With the record number of condominium completions in the CMA market in 2010, there were 9,000 completed and not registered units at the end of Q3-2010. These units will register and compete in the resale market in the coming months, adding to a resale market coming off three consecutive quarters of elevated listings activity. Pricing has flattened overall in the CMA over the past two quarters and Q3-2010 was the first quarter in which the sales volume has shown signs of softening following the early 2009 recession. Urbanation recently revised its 2010 forecast for resale condominium apartment sales from 18,000 to 17,000 following the slower than expected third quarter results.

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Despite the high number of units expected to hit the resale market in 2011, Urbanation expects the market to experience zero growth and realize 17,000 resales next year. A slower turnover rate of units is expected while matching 2010's record resale transaction pace (see Figure 4).



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Urbanation presented the 16,000 to 17,000 sustainable figure in the second paragraph of this forecast, and figures between or close to that range came up throughout the subsequent analysis of sales, starts, completions and resale activity. Others have postulated that the Toronto CMA new condominium apartment market is undersupplied or could absorb 30,000 units annually, however over the past five years the market fundamentals have shown no signs that the market is undersupplied or that it can sell anywhere near 30,000 condominium apartment units.

Urbanation remains bullish on the Toronto CMA condominium market despite some of the negative data presented above. If developers take “less-aggressive” pricing strategies at launch, interest rates stay low, and investors stay interested, the market should continue to chug along in 2011 barring another global economic meltdown.

Urbanation is the most comprehensive source of condominium data on the Toronto market. We only track condominium activity, and we understand the dynamics of the market better than anyone. Since 1981, Urbanation has analyzed Toronto condominium data, publishing the “industry bible” – Urbanation’s *Condominium Market Survey*. This quarterly report tracks new, resale and future condominium projects. Urbanation also provides the development community with essential consulting services, which include site and topic specific market studies and surveys.

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