

THE ONTARIO RESIDENTIAL COUNCIL OF CONSTRUCTION ASSOCIATIONS (ORCCCA)



The Ontario Residential Council of Construction Associations (ORCCA) is a Council comprised of employer associations located in Toronto that are actively engaged in the negotiation, administration and interpretation of collective agreements in the residential sector.

The ORCCA was established with the primary purpose of serving as a forum for the discussion of issues influencing residential construction in Ontario. The Council is engaged in the collection and distribution of information pertaining to this sector. ORCCA also represents the interests of unionized construction builders and contractors. Its mission is to promote sound labour relations policies and practices.

Scope of Engagement

The project was performed by RiskAnalytica, in collaboration with Will Dunning Inc., a Toronto-based economic research firm specializing in housing market analysis, including project-specific market feasibility studies. The goals of the project were:

- Identifying and describing key economic risks and indicating the extent of their influence on central Ontario residential housing market activity.
- Conducting macroeconomic and risk analyses of the residential housing market activity in central Ontario.
- Using the results of macroeconomic analyses to:
 - Forecast economic and housing market trends for central Ontario
 - Forecast the evolution of the construction activity in the region;

ORCCA's Challenges

- Lack of information on the potential fluctuations of the central Ontario residential construction and housing markets and on the factors that affect these fluctuations.
- Lack of information on the potential demand for housing as well as on the economic and demographic determinants of this demand.

RiskAnalytica Solutions

Research Design

To achieve the goals of the project, RiskAnalytica, in collaboration with Will Dunning Inc., conducted research on the risks and economic factors that are expected to influence the Ontario and central Ontario residential construction market over the next four years.

Two approaches were adopted in determining the key risk factors and their influences:

1. A **risk-based approach** was used to determine key scenarios and sensitivities of leading indicators to change.
2. An **economic approach** was used to generate the base forecast for central Ontario housing and condo market activity.

Research Methodology

The two approaches were applied to construct a robust economic simulation model, which was subsequently used to perform the required analyses.

The construction of the economic simulation model was comprised of the following key sources of demographic and economic data:

1. **Sources of housing market demand**
 - a) Demographics projections:
 - Population growth;
 - Employment and unemployment rates.
 - b) Income and purchasing power:
 - Household income;
 - Labour income;
 - Average weekly earnings.
 - c) Consumer demand and supply chain considerations:
 - Personal expenditure on goods and services;
 - Building permits.
2. **Sources of housing market supply**
 - a) Revenues;
 - b) Corporate profits;
 - c) Manufacturing shipments,
 - d) Multifactor productivity;
 - e) Capital expenditures;
 - f) Distribution consideration (retail trade trends and wholesale trade trends).
3. **Macroeconomic trends:**
 - a) GDP (income- and expenditure-based);
 - b) Disposable income;

- c) Corporate profits;
- d) Exports and imports;
- e) Inflation;
- f) Relative productivity and domestic productivity.

4. Financial Indicators

- a) Interest rates (short and long term);
- b) Foreign exchange rates (notably the Canadian dollar versus the US dollar);
- c) TSX, S&P and Dow Jones Industrial Index;
- d) Commodity-based metals index (CRB).

The methodology used to generate the **key housing forecasts** for central Ontario took into account two key factors that affect the ability of households to buy homes:

- a) Employment, which gives households the ability and confidence to make a home purchase, and is also required for obtaining mortgage financing;
- b) The cost of home ownership.