HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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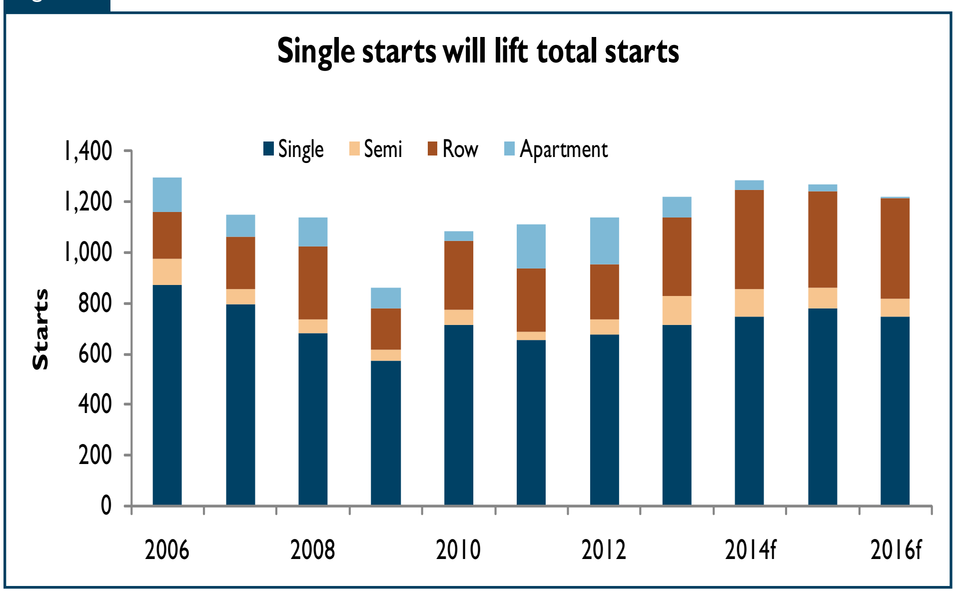
Highlights

- Single-detached housing starts will increase in 2015 and 2016
- Existing home sales and price will continue to climb in 2015 but moderate in 2016
- The purpose-built rental apartment vacancy rate will trend down over the forecast horizon.

Figure 1



Source: CMHC

The forecasts included in this document are based on information available as of October 22, 2014.

Table of Contents

New Home Market – More Low-Rise Housing Starts Will Lift Total Starts

Total starts will increase in 2014 by just over five per cent. Increased construction of new single-detached homes and townhouses will lead to this increased in total starts. In 2015, total starts will remain fairly flat with an increase in starts of single-detached homes offset by fewer starts of townhouses and semi-detached homes. In 2016, total starts will continue to moderate as single-detached starts ease and builders start fewer apartments. Townhouses, the most affordable low-rise housing option, will increase by almost four per cent.

The low mortgage rates and a tighter resale market are attracting buyers to the new home market in 2014. Affordable low-rise housing is important for new home owners. Among single-detached homes, the share with prices under $400,000 is increasing while fewer homes in the highest price ranges are being built. These homes are attractive to the older households moving to the area who wish to downsize, but still prefer low-rise housing. Strengthening employment, particularly for 25 to 44 year olds, will bring some first-time buyers to the new home market, keeping demand for affordable low-rise housing at a relatively high level. Since the price gap between low-rise housing and apartments is not large in St. Catharines-Niagara compared to other regions, buyers choose to buy low-rise housing over apartments. Builders will respond to reduced demand and the relatively high vacancy rate for apartments by decreasing apartment starts over the forecast period.

Due to slower wage growth, demand is increasing for the lower priced single-detached homes. The average single -detached home price will settle at approximately $390,000 in 2104, a decrease of close to six per cent from 2013. Lower priced single-detached home starts will keep average prices stable throughout 2015 and 2016.

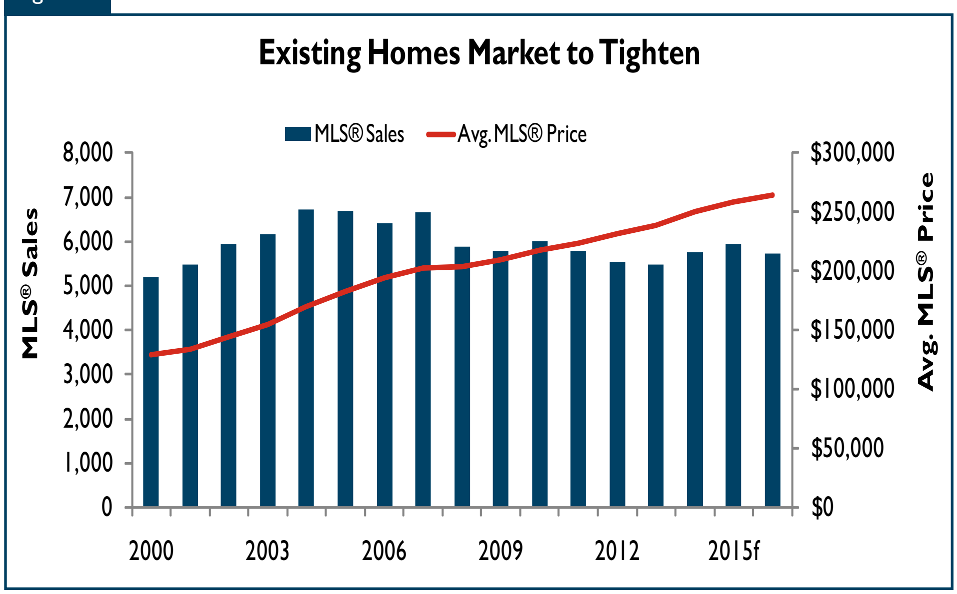
Existing Home Market – Resale Market Will Tighten In 2015

Sales of existing homes have been climbing since the start of the second quarter of 2014. This trend will continue into the second half of the year. Low mortgage rates and a growing number of people settling in the region will continue to support existing home sales. Job growth in 2015 will support homeownership. In particular, stronger employment growth among 25 to 44 year-olds will strengthen first time buying. The lower average price in St. Catharines compared to other markets will continue to attract buyers from outside of the region in 2015 and 2016. However, the sales level will be slightly lower in 2016 than in 2015 given the slower employment growth and higher mortgage rates.

After several years of decline, new listings will grow in 2014 as stronger price growth will draw out more new listings. People moving to the region are playing a larger role in the market. Contrary to local buyers who usually contribute to both listings and sales, out-of-town buyers do not contribute to local listings. Thus, their presence in the market will be a constraint on new listings growth. With mortgage rates rising in 2016, the resale market will moderate. Sales will decrease more than listings leading to a cooler market. However, the sales-to-new-listings ratio will continue to signal that the market is balanced.

A tighter market in 2014 will push the average price up by almost five per cent to $250,000. In 2015, mortgage rate increases late in the year will slow down price growth. In the past, declining mortgage rates offset most of the impact of rising prices, keeping

Figure 2



Source: CREA (MLS®), MLS® is a registered trademark of the Canadian Real Estate Association (CREA). Forecast: CMHC.

increases in mortgage carrying costs in line with income growth. With mortgage rates rising, buyers will be less able to bid up prices, and price growth will become more aligned with income growth. Average price growth will come in at just over three per cent in 2015 which is slightly more muted than 2014. Affordability will not erode significantly because stronger wage growth will keep spending power intact. In 2016 average price growth will slow further as a result of the gradual increase in mortgage rates.

Rental Market – Increased Rental Demand Will Lower Vacancy Rate

The vacancy rate will be up in 2014 but will decline gradually in 2015 and 2016. This trend will be almost entirely due to changes in rental demand. Since May 2014, some 15 to 24 year olds have been having difficulty finding employment, and consequently are continuing to live with their families. Employment among 25 to 44 year olds has been weak in 2014 so the movement from rental to homeownership has been slow. At the same time, overall employment has not been strong enough to attract workers to the region. Such migrants tend to rent when they first arrive. With stronger employment growth in 2015, these trends will reverse and despite the somewhat slower employment growth the following year, continue into 2016.

Rental supply will be relatively stable from 2014 to 2016, and consequently have limited impact on the vacancy rate. Although new rental apartments are being completed in St. Catharines-Niagara, the total number of privately-initiated rental apartments has gone down over the past several years. Even as new apartments are completed, others are removed from the market, either temporarily or permanently, for a variety of reasons including renovation and conversion to other uses.

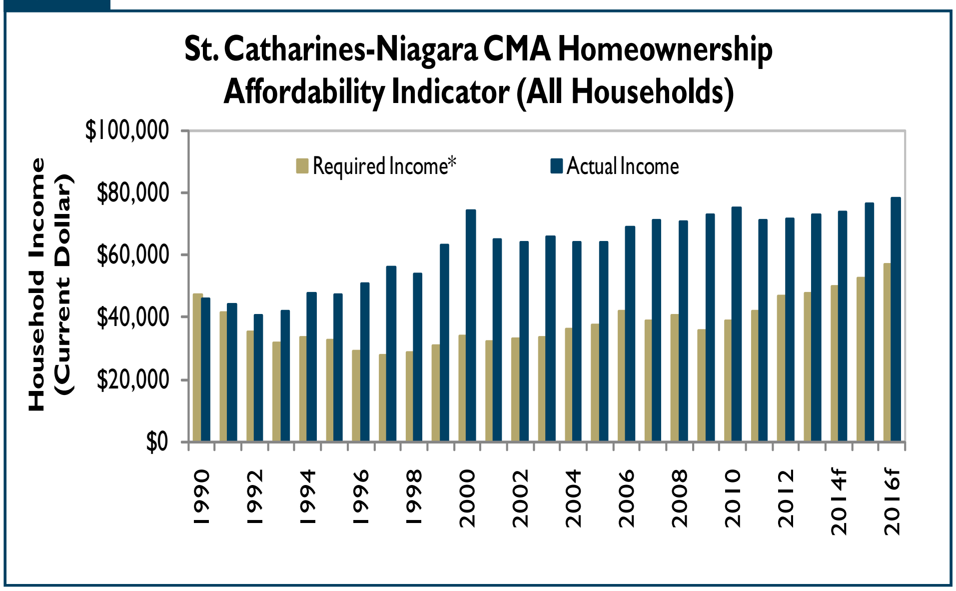
While total supply is not growing, the addition of new rental units is putting upward pressure on the average rent. New rental apartments built after the early 1990s are not subject to the provincial rent guidelines. As more new projects are absorbed and become a larger share of the total rental stock they push the average rent up in the region. The overall average rent will increase by close to two per cent in 2014. The rent increase guideline of 0.8 per cent will slow the average rent increase to 1.6 per cent in 2015. Growth in rents will be somewhat stronger in 2016.

Economy – Employment Growth Will Raise Wages

Employment growth will be quite muted at just over one half a per cent in 2014. Employment in St. Catharines-Niagara is growing slowly after an adjustment in the services sector. The goods-producing sector in the region has remained fairly stable and an expanding US economy will stimulate stronger growth in 2015. Key industries in the goods-producing sector include construction, manufacturing, and agriculture. The pick-up in the goods sector will lift the services sector. A cheaper dollar will lift trade, transportation and warehousing and a key sector for this region - accommodation and food services. The proportion of seniors in the population is relatively larger in St. Catharines- Niagara than it is in other communities, and this will continue to support health and social services.

While employment growth will strengthen in 2015, the labour force will remain constant. Workers over 45 make up about half the labour force and retirements will offset additions to the labour force due

Figure 3



Source: CMHC, Statistics Canada, and CREA.

*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on a 10 per cent down payment, the posted fixed five year mortgage rate and the longest available amortization for a mortgage.

to young workers joining and new residents moving to the area for work. Consequently, the unemployment rate will fall in 2015. In 2016, employment will grow at about the same rate as the labour force keeping the unemployment rate constant.

The moderate employment growth in 2014 is dampening average weekly earnings growth. The average weekly wage will be slightly less in 2014 than in 2013. In 2015, with the drop in unemployment signalling a tighter labour market, income growth will more than recover the ground lost in 2014. Productivity gains will support further wage growth in 2016, although the pace will slow from 2015.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast

NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Increased mortgage rates will raise mortgage carrying costs slightly but not enough to deter homeownership for most households in 2015.
Employment	Increased employment growth across diverse sectors will support housing demand in rental and homeownership.
Income	Strong wage growth will drive increased household consumption of durables and non-durables.
Net Migration	Relatively affordable low-rise housing will attract an increased number of new residents to St. Catharines-Niagara, particularly among the older age groups.
Existing Home Market	A tighter resale market will bring buyers to the new home market. These buyers will be interested in low-rise housing, in particular, single-detached homes.

Forecast Risks

- While the outlook for the Canadian housing sector is one of moderate growth in the near term with moderation expected in the medium-term, there are risks to the Canadian housing sector outlook. First, there is some evidence of a short-term build-up of supply in select housing markets, particularly in the multi-unit segment. Second, household debt-levels, while stabilizing, continue to be high relative to historical standards.
- Given that Canada is an open economy, there are a number of global market risks to consider. There is a risk to China's growth slowing down in 2014 and some stability concerns of its banking system. In the Euro zone prolonged low inflation and weak growth outlook have led to some deflationary concerns. In Japan, recent sales tax hikes has decreased consumption and affected economic growth. Increased tensions in the Middle East could impact global markets, particularly commodities.
- While the growth forecast for the U.S. has been upgraded from a disappointing first quarter of 2014, there remains uncertainty in regards to the strength of the

post-recession recovery in the U.S. A less optimistic economic growth forecast could weaken Canadian economic performance, particularly exports. While Canadian exports are showing signs of recovery, the strength of the recovery is uncertain and could take longer than currently anticipated.

- Recent upward movements in Canadian consumer prices could lead to pressure to raise interest rates earlier than currently anticipated and would likely translate to rising mortgage rates. However, the Bank of Canada has indicated that it expects recent upward price movements to only be temporary, primarily reflecting a weak Canadian dollar. In any case, the BOC noted in its June 2014 Financial System Review that a significant housing market correction would require a market event leading to declining household incomes and rising unemployment. Gradual increases in mortgage rates, in and of themselves, are not expected to have a significant impact on housing demand.

- Canadian debt levels relative to income may leave households vulnerable to adverse shocks.

Forecast Summary
St. Catharines-Niagara CMA
Fall 2014

	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	655	678	717	750	4.6	780	4.0	750	-3.8
Multiples	455	459	506	535	5.7	490	-8.4	470	-4.1
Semi-Detached	34	60	111	105	-5.4	80	-23.8	70	-12.5
Row/Townhouse	247	215	310	390	25.8	380	-2.6	395	3.9
Apartments	174	184	85	40	-52.9	30	-25.0	5	-83.3
Starts - Total	1,110	1,137	1,223	1,285	5.1	1,270	-1.2	1,220	-3.9
Average Price ($):									
Single-Detached	387,693	435,429	415,078	390,000	-6.0	390,000	0.0	391,000	0.3
Median Price ($):									
Single-Detached	349,900	387,990	389,900	380,000	-2.5	384,000	1.1	388,000	1.0
New Housing Price Index (% chg.)	-0.5	2.0	3.1	2.2	-	1.8	-	2.1	-
Resale Market									
MLS® Sales	5,798	5,554	5,483	5,750	4.9	5,950	3.5	5,750	-3.4
MLS® New Listings	11,561	10,023	9,656	9,946	3.0	10,000	0.5	9,900	-1.0
MLS® Average Price ($)	223,065	232,050	238,450	250,000	4.8	258,000	3.2	265,000	2.7
Rental Market									
October Vacancy Rate (%)	3.2	4.0	4.1	4.7	0.6	4.3	-0.4	3.1	-1.2
Two-bedroom Average Rent (October) ($)	833	862	872	890	2.1	905	1.7	920	1.7
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	197,200	202,600	194,400	195,525	0.6	198,630	1.6	199,705	0.5
Employment Growth (%)	2.4	2.7	-4.0	0.6	-	1.6	-	0.5	-
Unemployment rate (%)	8.2	7.8	8.5	7.5	-	5.9	-	6.0	-
Net Migration	-840	1,786	1,261	1,290	2.3	1,340	3.9	1,365	1.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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