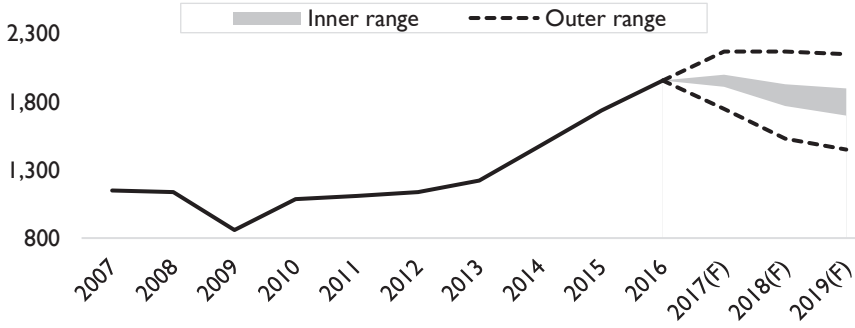
HOUSING MARKET OUTLOOK

St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

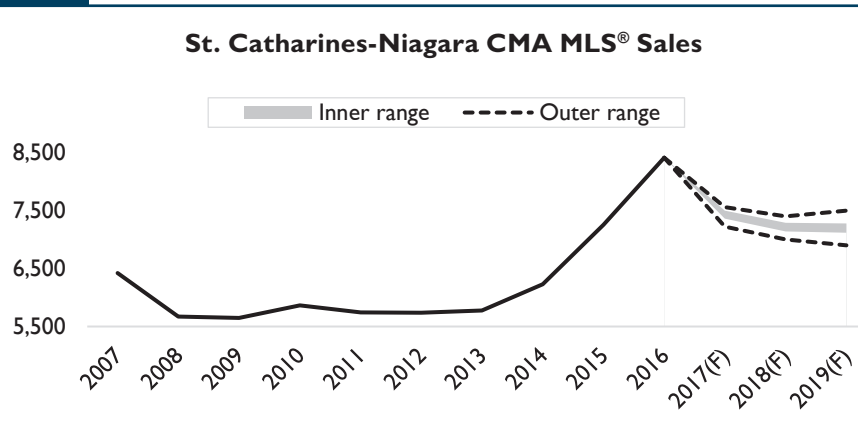
Date Released: Fall 2017

Figure 1



Source: CMHC (Starts and Completions Survey); (F)= CMHC forecast

Figure 2



Source: CREA; (F) = CMHC forecast

Highlights[1]

- Eroding affordability will cause pull-back in both starts and sales and encourage a gradual shift demand to higher-density housing.
- The average MLS®[2] price will grow at a more modest pace
- After a prolonged decline, rising employment and new investment indicate the manufacturing sector has started growing again.

New Home Market

After reaching a 26-year high in 2016, starts in the St.Catharines-Niagara Census Metropolitan Area (SCN) are stabilizing at this high level in 2017. Despite double-digit price increases, new home sales remained steady through the first half, supporting the high number of starts this year. Unusually low inventories are also a factor leading to high starts this year. Strong price growth is shifting starts from singles to the relatively more affordable row homes. The higher prices along with gradually increasing mortgage rates will lead to declines in singles starts over the next two years.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

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

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Since price increases in the region over the past two years have been stronger than in the GTA or Hamilton, the migration to the area for more affordable housing will slow somewhat. Limited land availability in the more popular areas of the Niagara region will also reduce singles starts.

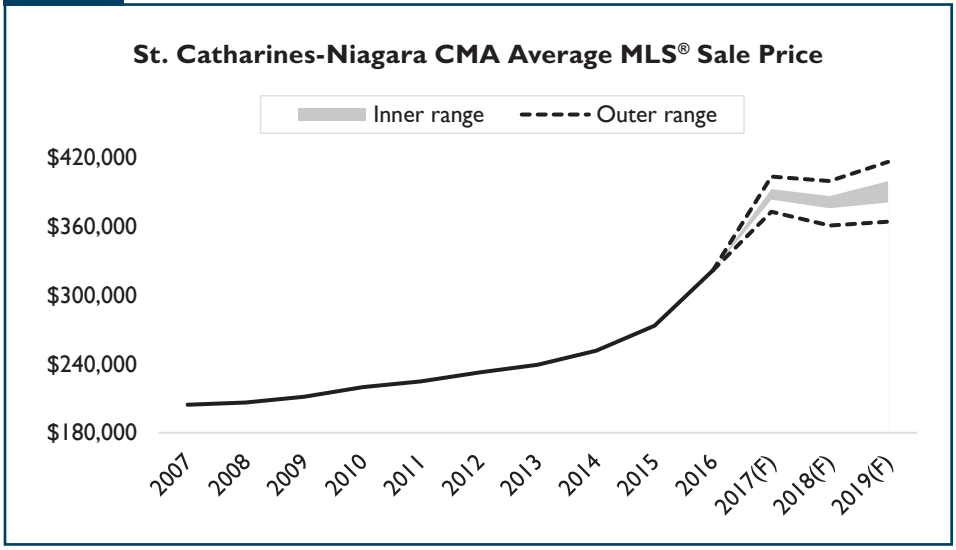
Demand for condominium apartments is growing slowly so larger projects take several years to be fully sold. Sales are at a point where a relatively large number of condo apartment starts could occur late this year or in early 2018. Eroding affordability over the next two years will push demand towards condo apartments and several projects have begun sales, but they are unlikely to start until later in 2019. The extension of rent controls creates a risk that starts of apartments intended for the rental market will be lower than previously expected.

Developments in migration are a risk to the forecast. Although in relative terms, SCN has become less affordable, it remains more affordable than Hamilton or the GTA. If GTA prices recover quicker and migration to the region continues to increase, starts could reach the upper bound of the forecast range. If migration is slower than expected, starts would fall to the lower bound of the forecast range.

Resale Home Market

Buyers from Hamilton and the GTA attracted by the relatively affordable prices in St. Catharines-Niagara had been a growing source of demand since 2015, but buyers with expectations of capital appreciation raised demand sharply in early 2017. Those expectations shifted in the second quarter and by the third, sales were down to a level more consistent with demand from owner-occupiers. The introduction of the *Ontario Fair Housing Plan* may have also moderated buyer and homeowner price expectations. Sales are expected to continue to ease in the fourth quarter, bringing the annual total well below the record of 2016, but still above 2015, when sales were already relatively strong.

Figure 3



Source: CREA; (F) = CMHC forecast

With mortgage rates beginning to creep up and prices sharply higher from the 2016 average, eroding affordability will cause sales to ease further in 2018. Although affordability will remain a concern in 2019, sales are expected to stabilize as pent-up demand begins to build and some first-time buyers return to the market.

The average price dropped after the peak in April, but moved up again in August and September. However, with new listings remaining high, and active listings continuing to rise, further declines in prices can be expected in the fourth quarter. The average price for the year will be well below the April peak, but still up more than 20% from 2016.

The drop in prices will limit further growth in new listings, keeping the market in balance in 2018 despite easing sales. Both sales and new listings will be stable in 2019, keeping the market in balance and prices rising gradually. Although there is some variation, sales are down across all communities and dwelling types, and prices have eased for most of them.

As in the new home market, the main risk to the forecast is migration to the region. It remains an attractive community for retirees and pre-retirees and continued growth in out-of-town demand could tighten the market more than expected, driving prices up towards the upper bound of the forecast range. This possibility would be more likely if Toronto price growth is above expectations. Conversely, if the gap between St. Catharines-Niagara and Toronto narrows, out-of-town demand could ease pushing prices closer to the lower bound of the price forecast range.

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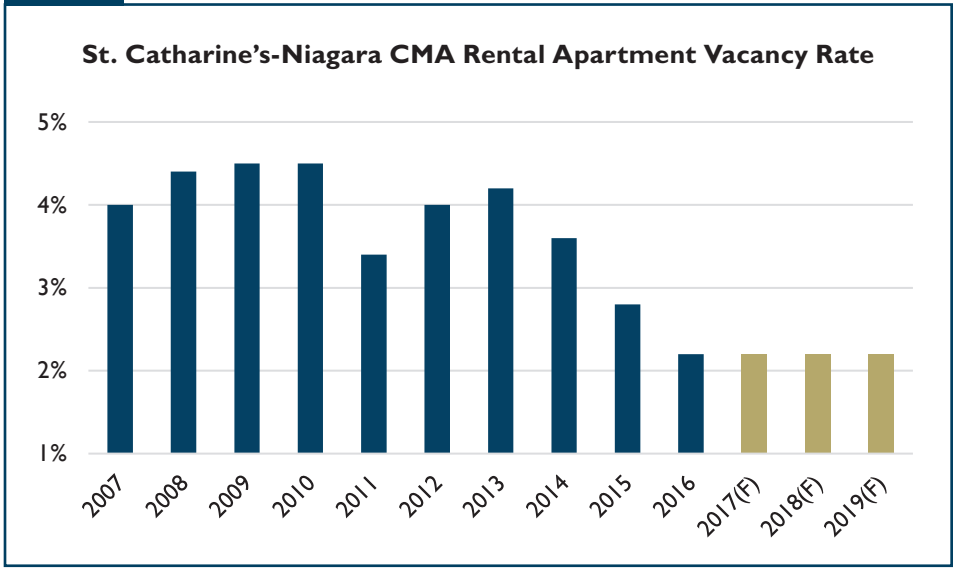
Rental market

A relatively high number of primary market rental units[3] have been completed since June 2016. At the same time, the sharp increase in prices beginning in 2016 has likely slowed movement out of rental into ownership, strengthening rental demand. This slower movement will likely offset the lower number of immigrants to the region in 2017, keeping the increase in demand similar to the increase in supply.

Looking to 2018 and 2019, some increase in supply in both the secondary rental market and the affordable rental market will take some pressure off the primary rental market. However, with the extension of rent controls, there is some risk that growth in primary market rental market supply will be slower than previously expected. Growth in rental demand is also expected to slow.

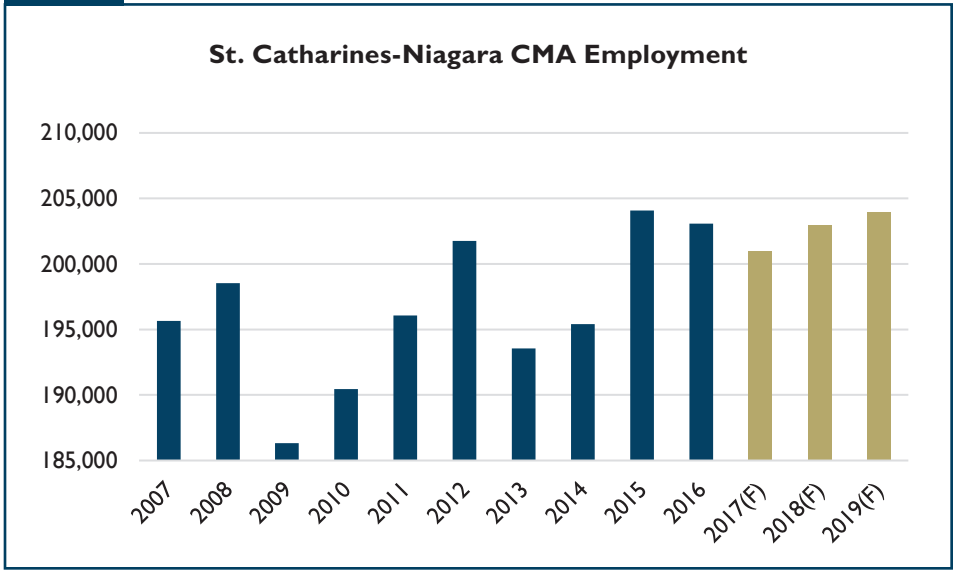
With the market relatively tight, rents are being increased substantially at turn-over. This implies the average increase in rents 2017 will be above the guideline of 1.5%. Although the market will remain tight, turnover is expected to decrease, keeping rent increases closer to the guideline in 2018 and 2019.

Figure 4



Source: CMHC (Fall Rental Market Survey); (F) = CMHC forecast

Figure 5



Source: Statistics Canada (Labour Force Survey); (F) = CMHC forecast

Economic trends

Despite recovery in employment in the second half, employment will be down in 2017. The main loss of employment occurred in construction, following completion of several major projects. The manufacturing sector appears to have turned the corner with employment on an upward trend since bottoming out in early 2015, and reports of over $600 million in investments by a variety of manufacturers, including food, metal fabricating, packaging and automotive manufacturing. However, the current slow-down in automotive demand in the US could limit the upturn in the manufacturing sector.

Employment is expected to fully recover in 2018 and continue to grow modestly in 2019. However, the region is influenced by the US/Canadian dollar exchange rate and the recent strengthening could slow activity, particularly in accommodation and food services, an industry which had been growing recently. Moreover, given its close ties to US, there is a risk that the renegotiation of NAFTA could lead to significant adjustment in the region.

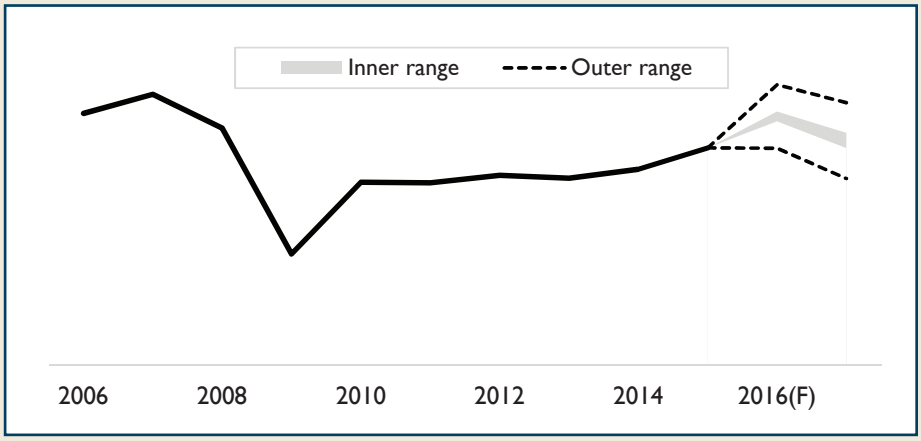
[3] Units in row or apartment structures with 3 or more units intended to be rented.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary St. Catharines-Niagara CMA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	896	1,002	1,438	1,180	1,220	1,170	1,230	1,060	1,140
Multiples	583	735	519	770	830	620	680	660	740
Starts - Total	1,479	1,737	1,957	1,950	2,050	1,800	1,900	1,700	1,900
Resale Market									
MLS® Sales	6,228	7,254	8,412	7,350	7,500	7,150	7,300	7,100	7,300
MLS® Average Price($)	251,634	273,357	321,583	384,700	392,300	375,600	387,400	380,700	400,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	3.6	2.8	2.2	2.2	2.2	2.2
Two-bedroom Average Rent (October)($)	892	909	958	985	1,000	1,020
Economic Overview						
Population	406,736	408,674	411,700	413,800	415,800	418,000
Annual Employment Level	195,400	204,100	203,100	201,000	203,000	204,300

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

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. MLS® data includes the St. Catharines - Niagara and Welland boards. CMHC Forecast (2017-2019).

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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