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# HOUSING MARKET

## OUTLOOK

## Charlottetown

### Total Starts Expected to Decline in 2005

Canada Mortgage and Housing Corporation

www.cmhc.ca

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#### Migration Helps to Buoy Housing Market

Statistics on PEI showed that the Island's economy advanced by a moderate 1.6% in 2004. The two major items holding back the economy last year were the falling potato prices and a drop in tourism for the fifth consecutive year. Although net potato production exceeded 2003 levels, farm cash receipts decreased in the order of \$20 million for the year as a result of decreased prices. Tourism also continued to falter in 2004, due in part to the strength of the Canadian dollar and competition from other tourist destinations.

PEI also experienced a number of smaller setbacks in 2004, including the collapse of Polar Foods, which may explain the decline in fisheries exports, and a slow-down in non-residential construction.

However, there were some bright spots for the year, including residential construction in particular. In 2004, total starts in Charlottetown reached 490 units, a 1.4 per cent increase from the

2003 level. Positive net-migration is contributing to the strong demand for housing in the Charlottetown area. Between 1998 and 2003, approximately 1,500 people moved into Queens County, of which over 50 per cent came from within the province. This is further evidence that PEI is no exception to the national trend of urbanization which is contributing to the strong demand for housing in most Canadian cities.

The Charlottetown economy should also benefit from improved capital spending in 2005. Based on a recent study of capital intentions spending, the Island should realize an increase of 10% from 2004. The new \$40 million Federal Building is also slated to start in 2005, and should provide a boost for the Capital region's economy.

The housing sector is expected to perform well in 2005. However, residential construction will unlikely match the near record levels seen in 2004.

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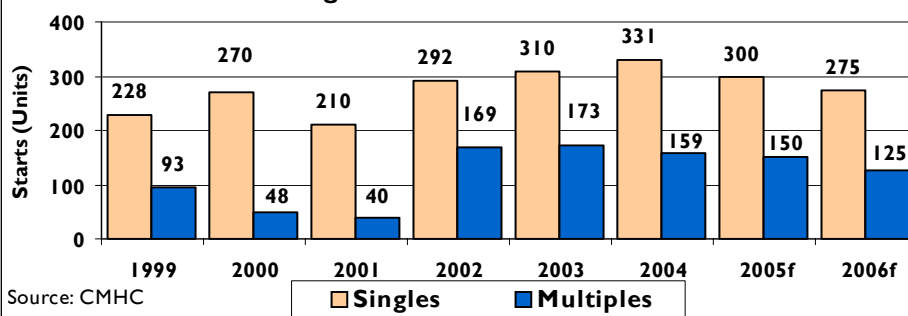
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*MLS® is a registered certification mark of the Canadian Real Estate Association*

**Both Single and Multiple Construction to Remain Strong Over the Forecast Period**



## Rental Market: Vacancy Rate to Decrease Slightly in 2005

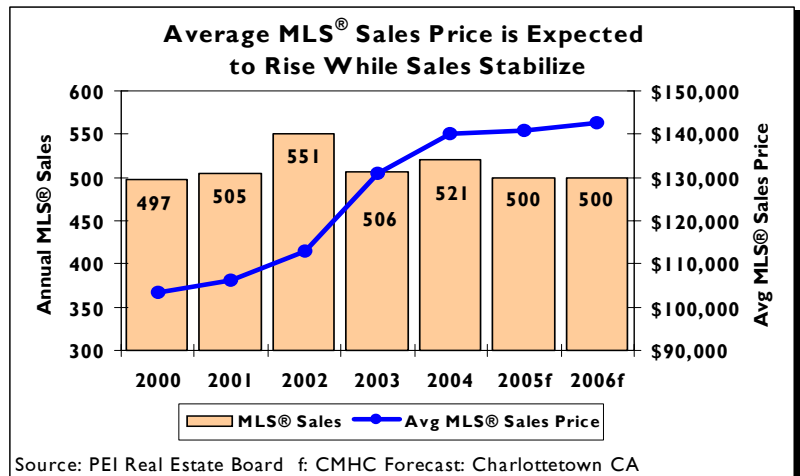
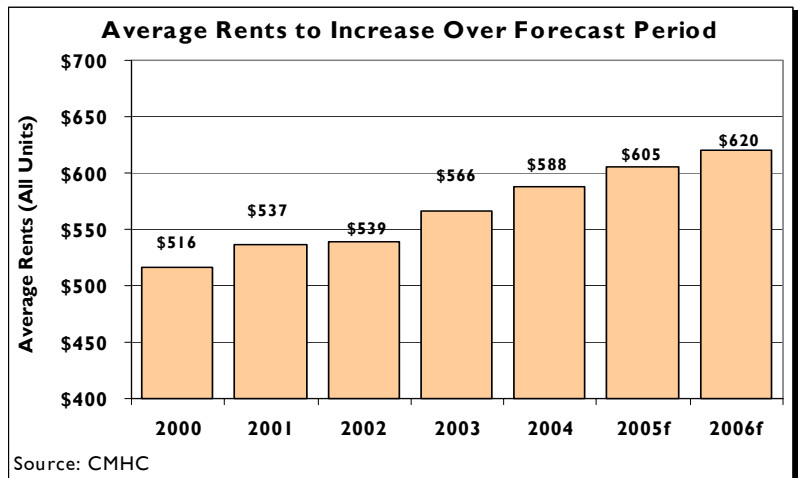
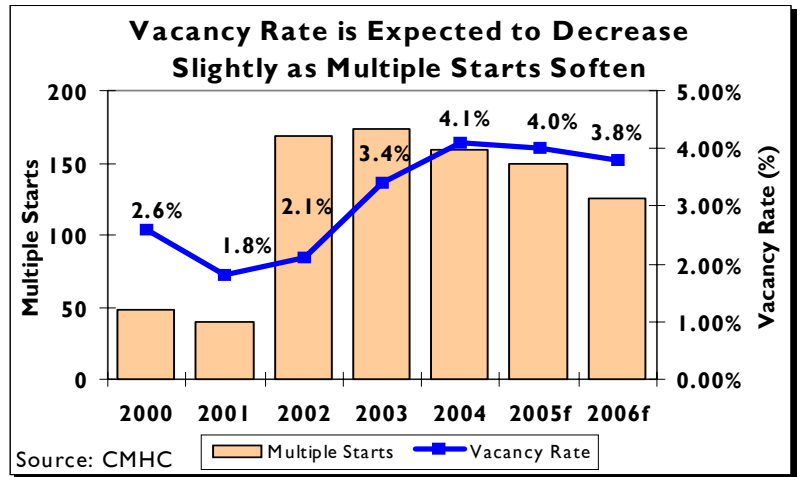
Continued demand for rental units in the Charlottetown area is expected to reduce the vacancy rate to 4.0 and 3.8 per cent in 2005 and 2006 respectively. This forecast will be supported by in-migration, which should remain positive over the forecast period, and continued easing of multiple starts. Since reaching a near record low of 1.8 per cent in 2001, the vacancy rate has been rising incrementally as a result of increased multiple starts. In the three-year period from 2002 to 2004, there were over 500 new multiple starts in the Charlottetown area, which represents over 10 per cent of the region's current rental universe. The substantial rise in new units being added to the market has resulted in an increase in the vacancy rate, and the average time of absorption to lengthen. In 2004, multiple starts eased from the previous year's levels. Further declines are expected over the forecast period for both multiple starts and the vacancy rate.

### High-End Units Push Up Average Rents

Average rents for units in either an apartment or row structure in the Charlottetown area increased by 3.9 per cent to \$588 in 2004. Expect average rents to increase at a similar pace over the forecast period, due to a combination of new high-end units being added to the rental market, and the 2.0% rent increase allowed by IRAC in 2005.

### Resale Market: Sales to Remain Strong in the Charlottetown Area

Sustained employment growth, strong consumer confidence and the rising cost of new homes will drive MLS® sales over the next two years. The widening gap between new and existing home prices is seen as one of the major influences of the resale market over the forecast period. As this gap widens, many perspective buyers will choose to purchase an existing home with the thought of renovation. This will be especially true for some first-time buyers, as new homes prices rise out of financial reach for many households. However, despite strong demand for existing homes, our forecast indicates no growth in sales as a result of the thin supply of quality listings under \$120,000. Expect 500 units to be sold through the MLS® system in both 2005 and 2006.



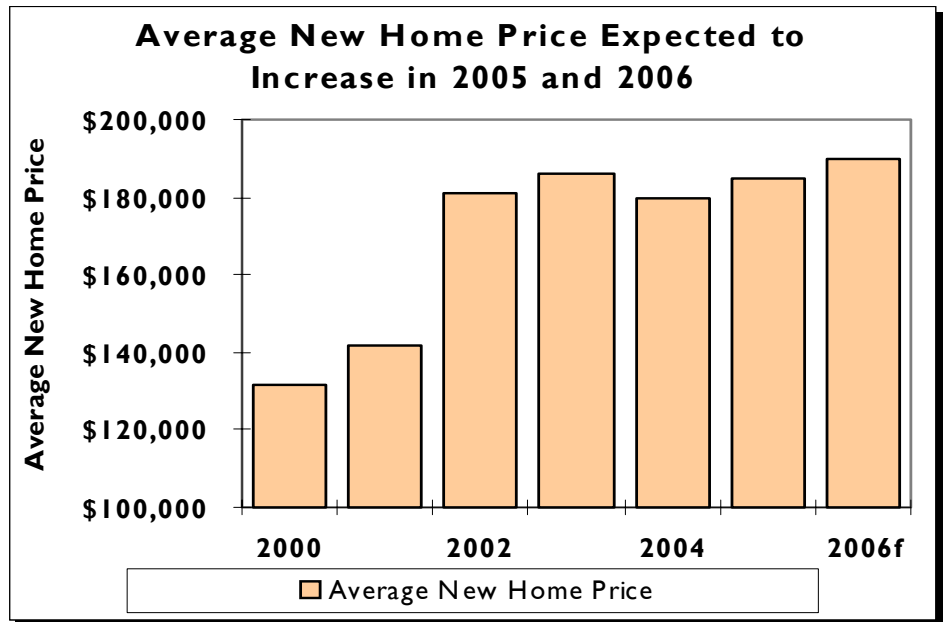
### New Home Prices to Rise in 2005

More people are choosing to build larger, more elaborate homes, which are more expensive due to the increased levels of labour and materials involved. As a result, the average new home price has been increasing steadily over the past five years.

The rise in new home prices is also the result of the increased costs of land, labour and materials which is measured by the New House Price Index (NHPI). The NHPI showed that the average increase in the

Charlottetown area was 3.7 per cent, in 2004. This means that it cost 3.7 per cent more to build the exact same house in 2004 than it did in 2003. This differs from the average new home price which records the average price of all the new homes built in the Charlottetown area in 2004. The results of this showed that the average new home price fell 3.5 per cent to \$179,488 in 2004.

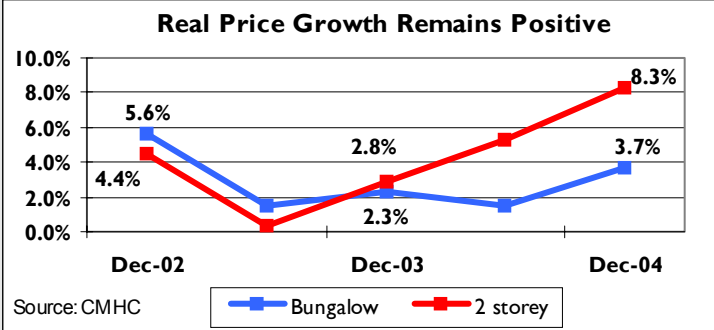
Although falling slightly in 2004, the trend of people building more expensive homes is expected to continue over the forecast period. Expect the average new home price to reach \$190,000 by the end of 2006.



## CMHC'S SINGLE FAMILY HOME BENCHMARK APPRAISALS GAUGING REAL PRICE GROWTH IN CHARLOTTETOWN

When calculating the actual increase in house prices, using the average sales price from the MLS® system can be misleading. For example, if there are a larger number of expensive homes sold in a given quarter, the average sales price can be artificially increased. As a result the value of all homes in the entire area has not increased, just the type and location of homes sold has changed. In an effort to provide the most comprehensive housing data available, CMHC now conducts a Benchmark Appraisal on a semi-annual basis in both Charlottetown and Summerside. The goal of this exercise is to determine the actual increase in home prices over time.

The results of this benchmark, which is in its third year, have shown that there has been actual price growth occurring in homes in the Charlottetown area. While the average MLS® sales price of homes in the Charlottetown area increased by 9.5 per cent 2004, the real appreciation of homes was slightly less at 3.7 and 8.3 per cent for 2-storey and bungalows respectively.



## MORTGAGE RATES WILL REMAIN LOW FOR THE REST OF 2005 AND RISE MODERATELY IN 2006

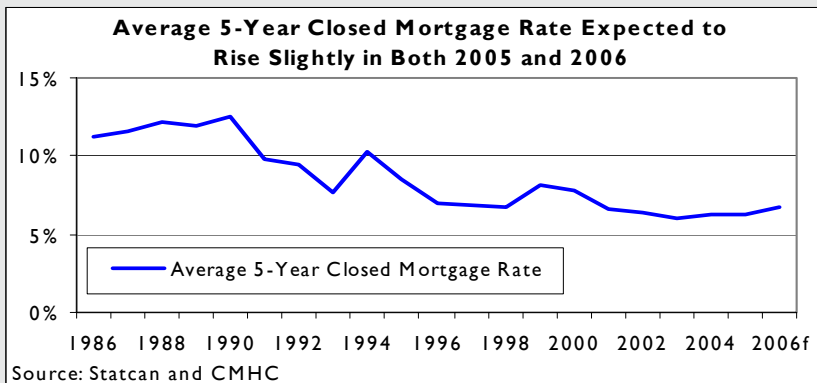
Short-term mortgage rates move in tandem with the prime rate, while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Posted mortgage rates are forecast to rise moderately as interest rates head up in 2005-06. However, tame inflation, a strong Canadian dollar vis-à-vis the U.S. dollar, and slower economic growth in Canada will restrain the size and speed of

Canadian interest and mortgage rate increases in 2005-06.

Mortgage rates are expected to remain low, rising by less than 50 basis points annually this year and next. One, three and five-year mortgage rates are forecast

to be in the 4.50-5.50, 5.50-6.50, and 5.75-6.75 per cent range respectively in 2005. However, rising posted mortgage rates will not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.



# FORECAST SUMMARY

## Greater Charlottetown Area

	2001	2002	2003	2004	2005*	2006*	% chg
<b>NEW HOME MARKET</b>							
<b>Starts</b>							
Total	300	461	483	490	450	400	-8,2%
Single-family	250	292	310	331	300	275	-9,4%
Multiple/Rental	50	169	173	159	150	125	-5,7%
Average New House Price	\$141 904	\$180 973	\$185 996	\$179 488	\$185 000	\$190 000	3,1%
Complete and Unoccupied (Dec)	6	8	19	14	12	14	
<b>RESALE MARKET</b>							
MLS <sup>®</sup> Sales	505	551	506	521	500	500	-4,0%
Average Sales Price	\$106 355	\$112 986	\$131 013	\$139 988	\$141 000	\$142 500	0,7%
<b>RENTAL MARKET</b>							
Vacancy Rate (October)	1,80%	2,10%	3,40%	4,10%	4,00%	3,80%	
Average Rents (All units)	\$537	\$539	\$566	\$588	\$605	\$620	
Rental Rate (annual % change)	4,07%	0,37%	5,01%	3,89%	2,89%	2,48%	
<b>ECONOMIC OVERVIEW</b>							
Mortgage Rate (3-yr. term)	6,88%	6,28%	5,82%	5,65%	5,81%	6,28%	
Mortgage Rate (5-yr. term)	7,40%	7,02%	6,39%	6,23%	6,28%	6,72%	

\* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

**Housing Market Outlook** is published 2 times a year for the Charlottetown market in the Spring and Fall. Annual subscriptions to the **Housing Market Outlook** for Charlottetown are \$40.00 plus applicable taxes. This publication is also available in French. For more information, or to subscribe, contact Michele Clark at the Atlantic Business Centre at (902) 426-4708. Order no. 7377EE

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