

HOUSING MARKET OUTLOOK

London



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New Home Market Another Strong Year Ahead

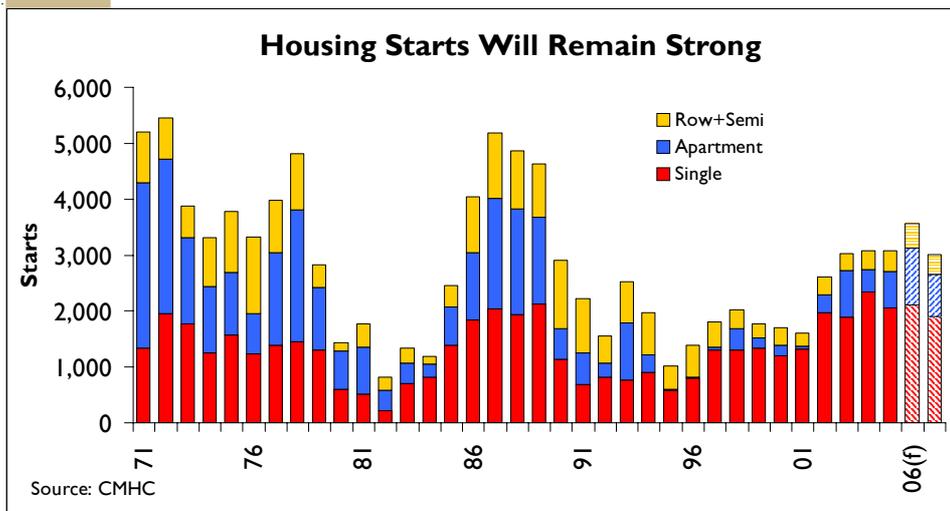
New home construction in the London census metropolitan area (CMA) will hit a 17-year record high in 2006. Total housing starts, fuelled by the robust demand for multiple-family homes, will exceed the 3,500 mark. Low mortgage rates, immigration, and a high level of employment will continue to benefit the housing market.

Housing starts in 2007 will total 3,000 homes, well above the 20-year historical average of 2,600 homes. Single-detached home starts will edge lower by ten per cent from 2,100 homes in 2006 to 1,900 homes in 2007. The biggest drop in housing starts will be found in the volatile apartment segment. After a record setting year in 2006, apartment starts will drift lower by 30 per cent to 750 homes in 2007. Apartment completions will reach 1,000 units in 2007, a level not seen for more than a decade.

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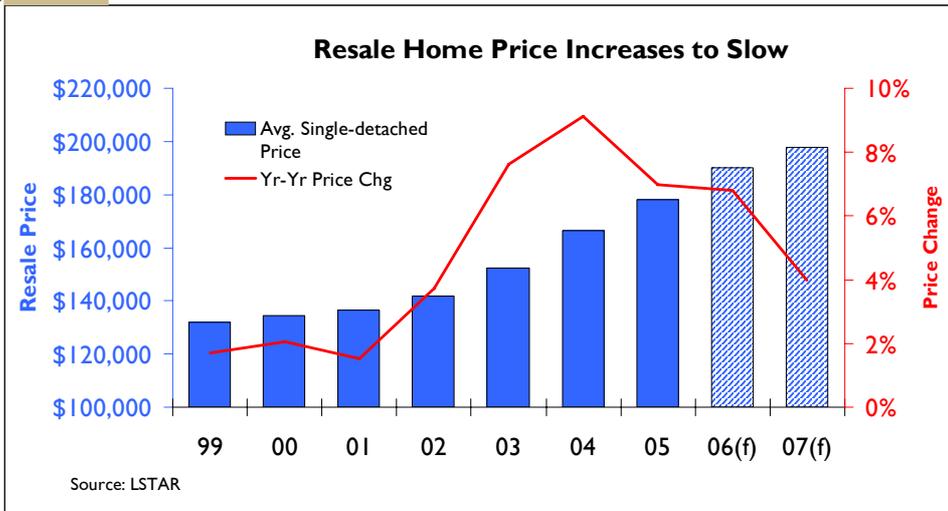
Figure 1



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Figure 2



Due to an adequate supply of residential lots, single-detached home construction dominates homeownership market in London. The strong demand for homeownership drove new single-detached home prices up three times the inflation rate over the past three years. Price increases also outpaced income gains. This resulted in a gradual erosion of homeownership affordability.

Demand for less expensive new single-detached homes has picked up since the fourth quarter of 2005. The percentage of new home priced under \$250,000 has risen from 47 per cent in 2005Q4 to 52 per cent in 2006Q3. The most popular homes, which have price tags between \$175,000 and \$250,000, accounted for almost half of the total new single-detached homes sales in the first three quarters of 2006. New homes priced between \$250,000 and \$300,000 have taken the second spot, making up close to 30 per cent of total new home sales. The average newly completed and absorbed single-detached home price is expected to go up close to the inflation rates in 2006 and 2007.

The erosion in homeownership affordability company with high levels of net migrants in recent years will result in higher multiple-family home starts. This is especially true for rental apartments. The ageing population has and will continue to add to high-end rental demand.

Resale Market Sales Remain Strong

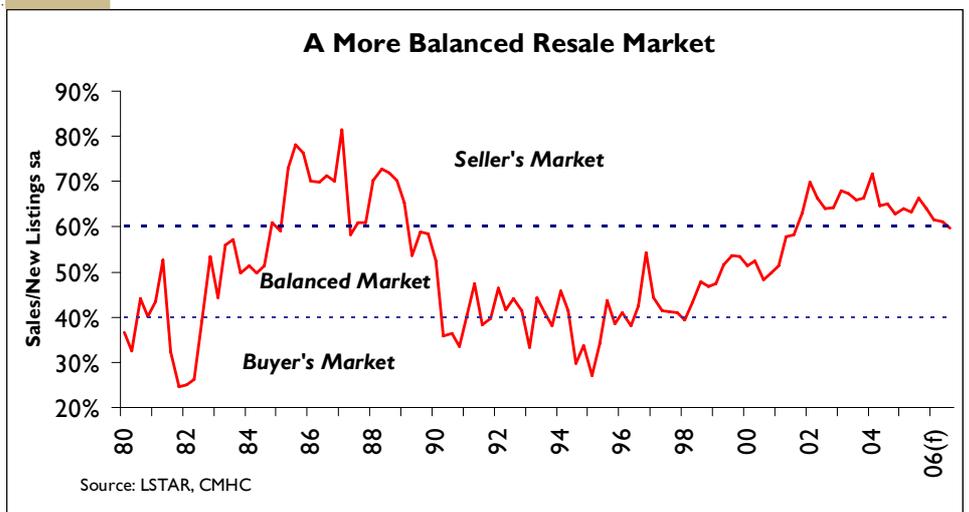
2006 will be the second-best year for the London resale market. Total

sales through the Multiple Listing Service (MLS) will reach 8,900 homes, down less than one per cent from the all time record set in 2004. Following three years of strong home price gains, the average single-detached resale home price will climb six per cent to \$190,200 in 2006. Next year sales will pull back five per cent to 8,500 homes. Nonetheless, sales in 2007 will be more than 20 per cent above the 20-year resale average.

London's sales-to-new listings ratio, an indicator of the balance between supply and demand, remains above 60 per cent and continues to point to sellers. This ratio has been trending lower after peaking in 2004. This trend will continue into 2007 as supply outpaces demand. New listings will reach a historical high level of 15,700 units in 2007.

More choice for buyers will also ease the pressure on home price. The average resale single-detached home price will grow four per cent to \$197,800 in 2007.

Figure 3



In the first nine months of 2006, 55 per cent of homes sold in the resale market were priced under \$175,000 compared to less than five per cent in the new home market. The most popular two housing types in the resale market are two-storey detached homes and bungalows. Sales of these two house types have accounted for more than one third of total home sales in the London area in the past two decades. The large price gap between new home and existing home prices will continue to draw potential homeowners and sellers into the resale market in 2007.

St. Thomas has the tightest resale market in the London CMA. Sales-to-new listings ratio has stayed around 70 per cent since 2004. Home sales in 2006 will total 700 units, slightly shy of the record of 722 units set in 2005.

Economic Trends

Employment Resumes Growth in 2007

London's job market will start growing again in 2007. A high Canadian dollar and restructuring in the auto industry have dragged down employment growth in the London area since the fourth quarter of 2004. The new Toyota auto plant in Woodstock will start operation in 2007. This will boost total employment in the London-Woodstock area. Total employment will rise 1.5 per cent in 2007 and two per cent in 2008, representing gains of 3,900 and 4,500 jobs.

Growth in employment will add to consumer's confidence and housing demand. Improving economic conditions in 2007 will support healthy resale and new home markets in the London area.

Youth employment in the London area has been growing since late 90s. The growth in youth employment will continue to fuel the demand for rentals.

Mortgage Rates Have Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected

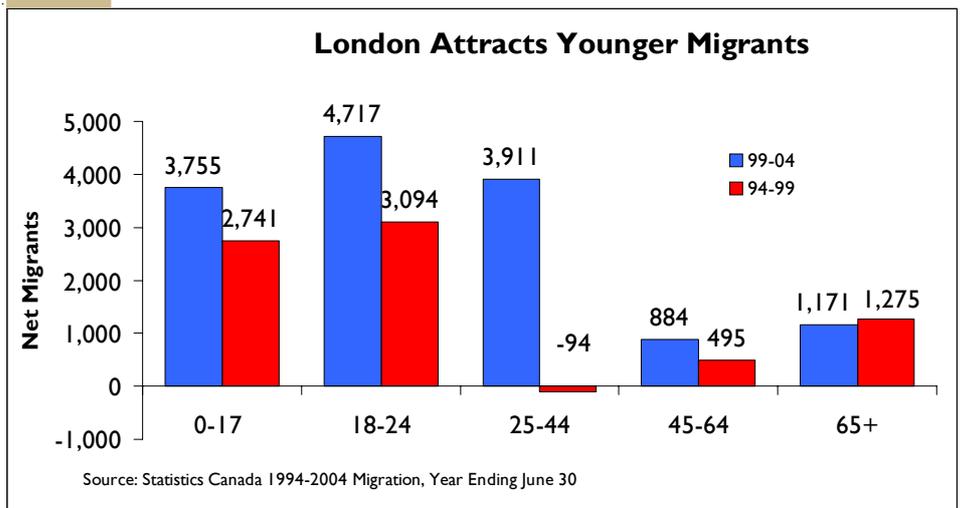
to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Demographic Trends

Young People Move Into London

More than 60 per cent of population growth in the London CMA came from migration. In recent years, London has attracted more youth (renters) and people in the prime working age (first-time home buyers). The arrival of more migrants in these two age groups contributed to the strong resale and rental markets in the region.

Figure 4



FORECAST SUMMARY

London and area forecast completed October 2006

	2003	2004	2005	2006(f)	% Ch.	2007(f)	% Ch.
NEW HOME MARKET							
London CMA (Census Metropolitan Area)							
Starts							
1. Single-detached	1,893	2,336	2,063	2,100	1.8%	1,900	-9.5%
2. Multi-family	1,134	742	1,004	1,468	46.2%	1,134	-22.8%
3. Total Starts [1+2]	3,027	3,078	3,067	3,568	16.3%	3,034	-15.0%
Multi-family by Type							
Semi-detached	22	26	44	50	13.6%	44	-12.0%
Townhouse - Rental/Owner	39/236	75/228	58/252	23/367	25.8%	21/319	-12.8%
Apartment - Rental/Owner	837/0	333/80	650/0	1030/0	58.5%	555/195	-27.2%
Average Price* (Single-detached Homes)							
Bungalow/Ranch	\$213,526	\$240,922	\$273,619	\$273,500	0.0%	\$278,500	1.8%
Two-story	\$241,709	\$253,113	\$267,633	\$276,050	3.1%	\$281,800	2.1%
All Single-detached	\$231,237	\$246,948	\$270,936	\$274,100	1.2%	\$280,800	2.4%
* 2006 data for Jan. - Mar. period							
New Housing price Index (1997 = 100)	115.0	120.4	126.3	132.5	4.9%	137.3	3.6%
RESALE MARKET							
London & St. Thomas Real Estate Board							
MLS Sales	8,153	8,953	8,873	8,900	0.3%	8,500	-4.5%
MLS Average Price	\$152,539	\$166,464	\$178,060	\$190,200	6.8%	\$197,800	4.0%
MLS New Listings	12,181	13,555	13,732	14,750	7.4%	15,700	6.4%
Sales-to-Listings Ratio	67%	66%	65%	60%		54%	
RENTAL MARKET							
Apartment Vacancy Rate	2.1%	3.7%	4.2%	4.0%		4.5%	
Average Rent (2 bedroom)	\$736	\$758	\$775	\$791	2.0%	\$808	2.2%
ECONOMIC OVERVIEW							
Mortgage Rate (1 year term)	4.84	4.59	5.06	6.27		5.50-6.50	
Mortgage Rate (5 year term)	6.39	6.23	5.99	6.67		6.00-7.00	
Employed (000's)	234.4	243.6	243.1	243.0	0.0%	246.9	1.6%
Employment Growth (000's)	7.0	9.2	-0.5	-0.1		3.9	
Unemployment Rate (%) London/Ontario	6.8/7	5.9/6.8	6.6/6.6	6.3/		6.2/	

f=CMHC forecast, Consensus mortgage rate forecast Oct. 2006.

Sources: Statistic Canada, London & St. thomas Real Estate Board, CMHC

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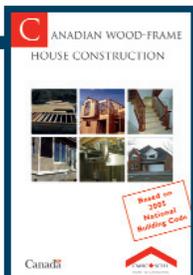
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