

HOUSING MARKET OUTLOOK

St. Catharines-Niagara



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New Home Market

Starts Will be Healthy,
But Slightly Lower in
2007

Despite slightly lower starts, 2007 will be a healthy year for the new home construction industry, with starts remaining well above the historical average. Total starts will reach 1,380 units, down three per cent from 2006. Multiple home starts in 2007 will increase to 430 units, up two per cent from this

year's level. Single detached starts are expected to fall by five per cent to 950 units.

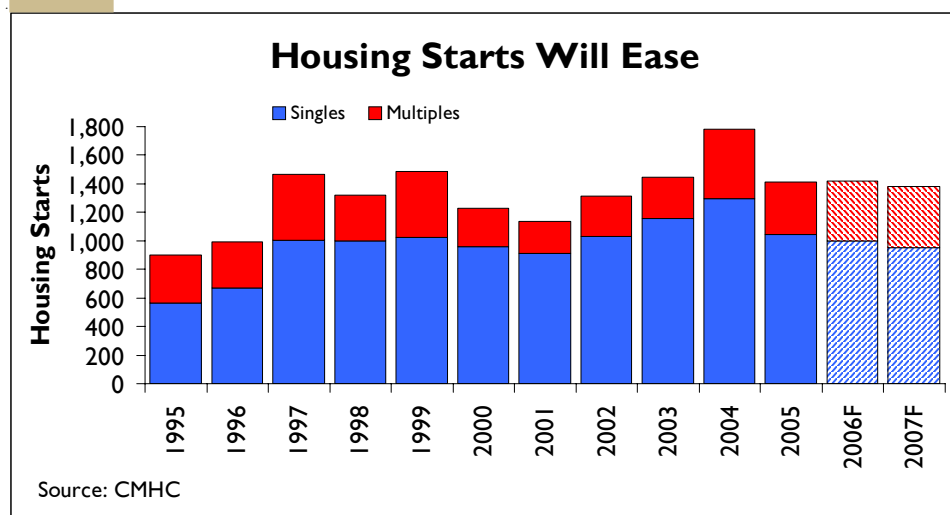
Demand factors that will work to keep home construction respectable include low mortgage rates and net in-migration. Mortgage rates will remain stable through 2007. Positive net migration, especially from Toronto and Hamilton, will support the demand for new single-detached housing in the Niagara region.

Factors that will dampen the demand for new single-detached homes

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Figure 1



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include higher mortgage carrying costs and a rising supply of resale home listings. In spite of stable mortgage rates, pricier homes will lift mortgage carrying costs. The influx of homes put up for resale will increase home buyer choice in the existing home market and limit the spill-over of demand into the new home market. Although employment levels will remain high, stalling job growth will impact buyers' ability to become homeowners.

On the supply side, a rising number of newly completed and unsold homes, and limited land for residential construction, will hinder new detached home starts. Even though single-detached home starts will edge lower, they will remain the product of choice for homebuyers. Two of every three homes built in this region will be single detached homes.

Multiple family home construction will benefit from the higher prices of single-detached homes. Buyers will look to more affordable types of housing. As a result, condominium and townhome constructions will boost multiple home starts this year.

Resale Market

Resales Slow in 2007

Following a strong showing in 2006, home resales will ease up. Sales are expected to edge lower by three per cent, to 6,400 units in 2007. With the number of listings on the rise, and sales expected to slow, resale market will become more balanced.

While positive in-migration and above average consumer confidence will continue to create a supportive environment for resale home demand, the negative demand factors

will win out and cause a slowdown in home sales. Slightly higher mortgage carrying costs as a result of rising resale home prices will reduce many buyers' ability to enter home ownership, particularly for the first time buyers. High but stalling employment has stopped adding to the demand for resale homes.

Rising resale home prices will encourage more and more people to list their homes for sale to cash in on equity gains and will add to the supply of existing homes.

With the number of new listings on the rise and sales expected to slow, the Sales-to-New Listings Ratio (SNLR), a leading indicator of future price growth and measure of market state, will move below the 55 per cent level. A Sales-to-New Listings ratio above 55 per cent suggests a sellers' market, while more balanced conditions tend to occur when the SNLR is between 35 per cent and 55 per cent.

Prices are expected to grow at a slower pace, averaging the same rate as the general rate of inflation. The average price of a resale home is

forecast to increase by three per cent to \$203,000 in 2007, on the tail of six per cent growth in 2006.

Economic Trends

Stalled Job Growth

Employment is a major housing demand factor. Following a period of strong job growth during the late 1990's, employment has stalled at its highest level since 2000. Jobs are expected to grow by only one per cent in 2007.

Sectors that are sensitive to the high Canadian dollar will be affected negatively. For example, employment in the tourism sector has been high since 2000. However, the strong Canadian dollar, tight security measures with delays in border crossings, and dipping consumer confidence in the U.S. will discourage tourism from the U.S. Examples of the tourism sector already showing signs of weakening include the Fallsview Casino resort, the largest employer of the tourism industry in this region, which will be cutting 104 management jobs by the end of 2006.

Figure 2

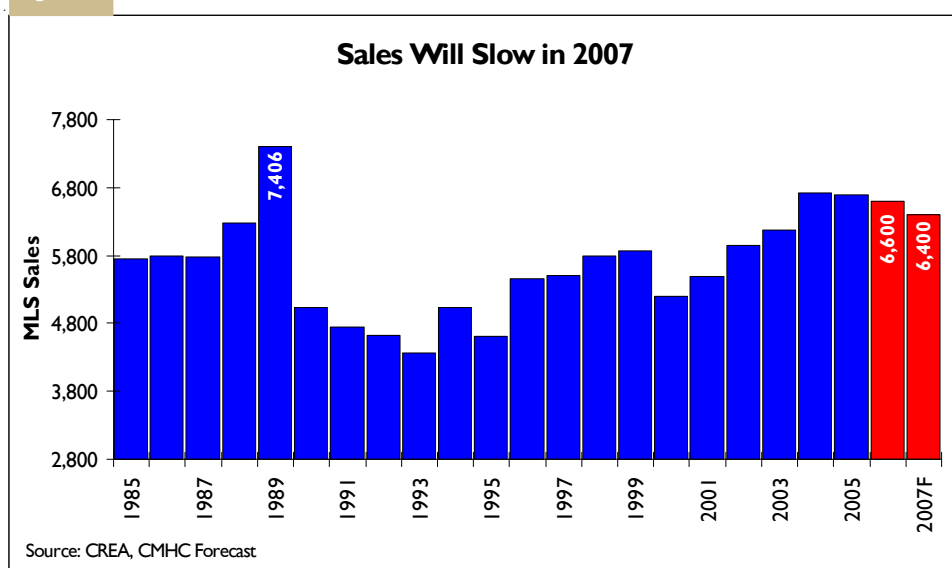
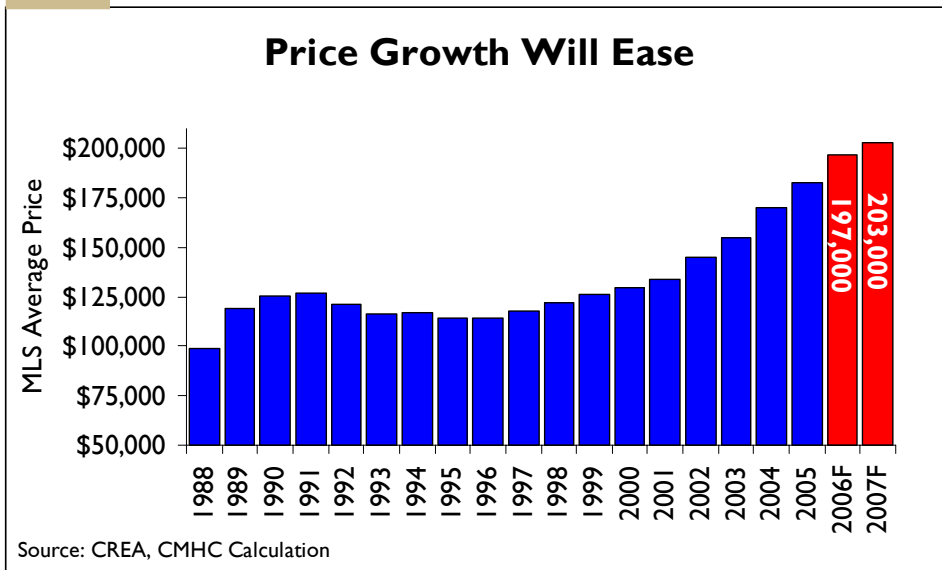


Figure 3



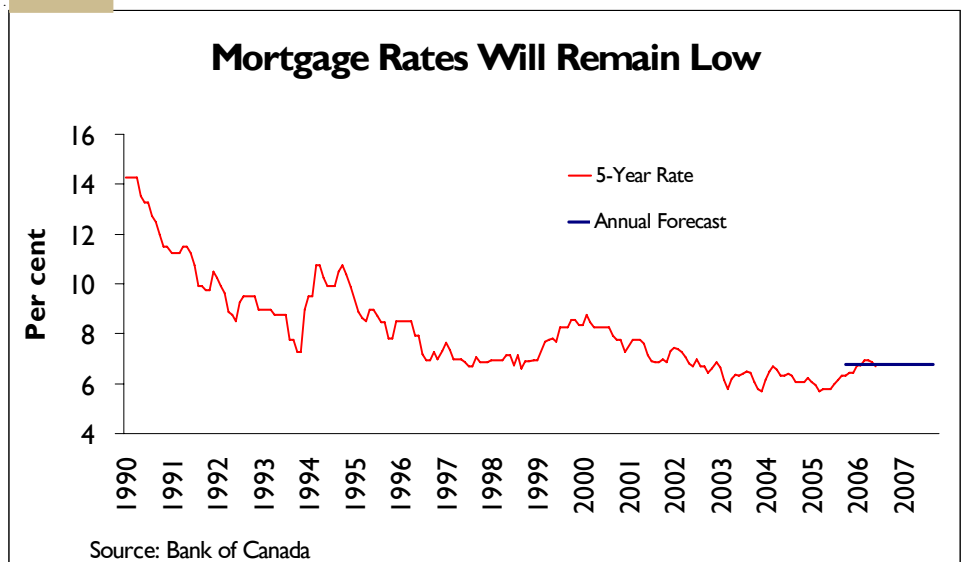
Employment growth will be negatively affected by the cooling U.S. economy where much of the region's exports go. A slowdown in automotive sales in the U.S. will negatively impact many suppliers of automotive components in this region. Following heavy job losses earlier this decade, employment in the manufacturing sector will stabilize in 2007, as companies continue to adjust to the higher Canadian dollar and high energy costs.

Net Migration Powers Population Growth

St. Catharines-Niagara's Population is expected to grow by more than 1,600 by 2007. Net migration will continue to power population growth in St. Catharines Niagara CMA. The natural increase of the population accounts for very small portion of overall population growth.

Lower prices of single detached homes relative to homes in South-Central Ontario, larger home sizes and a better quality of life will continue to drive the in-migration to this region, especially from Toronto. In-migration will continue, fuelled by the widening home price gap between Toronto and St. Catharines-Niagara CMA.

Figure 4



Wealthier move-up buyers make up the largest portion of the population, followed by the empty nesters and retirees.

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.

ST. CATHARINES-NIAGARA CENSUS METROPOLITAN AREA							
Forecast as of Oct 2006							
	2002	2003	2004	2005	2006	2007F	% Change
NEW HOME MARKET							
Housing Starts							
Single-Detached	1,032	1,154	1,292	1,043	1,000	950	-5.0%
Multiples	285	290	489	369	420	430	2.4%
Total Housing Starts	1,317	1,444	1,781	1,412	1,420	1380	-2.8%
NHPI Annual % Change	1.9%	4.9%	6.9%	7.0%	4.5%	3.50%	-22.2%
RESALE MARKET							
MLS® Sales	5,951	6,174	6,723	6,715	6,600	6400	-3.0%
MLS® New Listings	8,828	9,270	10,000	10,909	11,800	12,300	4.2%
Sales-to-New Listings Ratio	67.4%	66.6%	67.2%	61.6%	55.9%	52.0%	-7.0%
MLS® Average Price	\$ 144,720	\$154,550	\$170,425	\$182,605	\$197,000	\$203,000	3.0%
RENTAL MARKET							
Apartment Vacancy Rate	2.4%	2.7%	2.6%	2.7%	2.4%	2.4%	
Average Rent (2 bedroom)	\$ 695	\$704	\$722	\$736	\$752	763	1.5%
ECONOMIC INDICATORS							
Mortgage rate (1 year)	5.17%	4.84%	4.59%	5.06%	6.27%	5.50%-6.50%	
Mortgage rate (3 year)	6.28%	5.82%	5.65%	5.59%	6.45%	5.75%-6.75%	
Mortgage rate (5 year)	7.02%	6.45%	6.23%	5.99%	6.67%	6.00%-7.00%	
Job Growth	1.0%	1.9%	-2.3%	2.7%	-2.1%	0.50%	
Unemployment Rate	7.4%	6.8%	7.4%	7.2%	7.4%	6.90%	
Net Migration	1,422	1,461	1,590	1,500	1,500	1600	6.7%

Sources: Canadian Real Estate Association, Statistics Canada, Bank of Canada, CMHC Forecast

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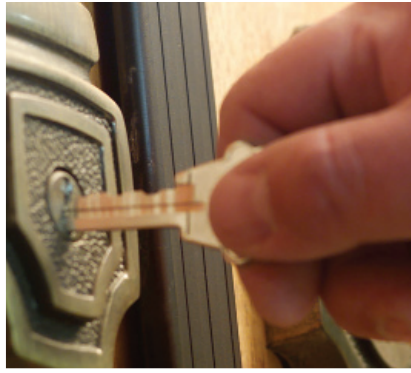
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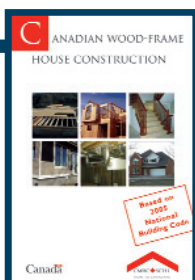
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