

HOUSING MARKET OUTLOOK

St. John's CMA



Canada Mortgage and Housing Corporation

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Softening of Demand for Homeownership

Past interest rate hikes, escalating new home construction costs and mediocre income growth will result in a softening of demand for homeownership once again this year and next. On the up-side, the renovation sector will be strong. With a variety of housing related costs now at an all-time high, buyers remain price sensitive when considering the purchase of a home.

As a result, perceived affordability continues to be a key driver within the local housing market. Accordingly, the overall level of housing activity will continue to trend lower as historically strong house price growth and higher mortgage rates soften the demand for both new and existing homes throughout 2007 and 2008.

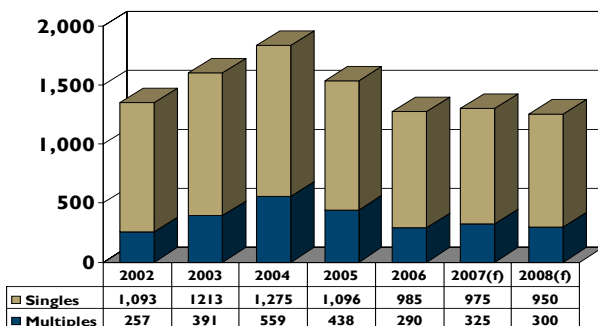
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Figure 1

Housing Starts Activity will Remain Flat

Housing Starts- St. John's Region



Source: CMHC. Forecast 2007, 2008

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Resale Market

MLS® Sales will Gradually Slow

After posting record sales for seven consecutive years, the local resale market is expected to gradually slow this year and next. In view of that, our forecast calls for MLS® sales to retreat 8.0 per cent to 3,250 units in 2007 and 6.0 per cent to 3,050 in 2008. With most new home sales now going through MLS®, the continued downward trend in housing starts is expected to negatively impact total MLS® sales over the forecast period. Last year's surge in active listings provided more choice in the existing home market and drew buyers away from the higher-priced new home construction market. The growing new versus existing "price gap" is causing more first-time buyers to choose existing over new, but rising housing related costs will dampen overall resale activity relative to recent levels. However, stable mortgage rates and minimal price growth will still result in fairly solid levels of MLS® sales throughout 2007 and 2008.

Resale Market Remains Classified as Buyers

Following three years (late 2002 to mid 2005) of sellers market conditions in the St. John's region, the resale market became balanced in 2005, but only remained as such for less than a year, as strong sales activity was offset by a steady climb in active listings. In fact, 2006's surge in active listings drove the sales-to-active listings ratio down to its lowest level since 1999. As a result,

the St. John's resale market became classified as buyers in May of 2006 and remains so today. With the market consistently over-supplied, home buyers have enjoyed a much broader choice of inventory than in years past. As buyers conditions prevail, the average time on market continues to increase and price growth has been non-existent since late 2005. With buyers increasingly price sensitive, realtors will find it more difficult to close deals on properties until there is a convergence between buyers' and sellers' price expectations. In fact, recent market analysis indicates that this may finally be beginning to occur. Our current forecast is for active listings to remain high, as some sellers attempt to capitalize on equity gains, while others downsize as per recent demographic trends. Accordingly, the local resale market is expected to remain classified as buyers throughout the remainder of 2007.

Minimal Price Growth due to Buyers Market

With the market classified as buyers, expect to see limited price growth once again this year and next. Our average MLS® house price is forecast to increase nearly 3.0 per cent to \$142,250 in 2007 and 2.0 per cent to \$145,000 in 2008. Despite an active move-up buyer segment, declining numbers of them will cause two-storey homes to experience limited price growth over the forecast period. In fact prices have softened relative to late 2005, in particular, for homes priced over \$300,000. The rising cost of homeownership vis-à-vis higher mortgage carrying costs and energy

costs will continue to create reduced demand from first-time home buyers. As a result, demand for bungalows without basement apartments will ease somewhat and price growth will be restrained compared to the levels experienced in previous years. Based on our benchmark house price survey, expected price growth of 2.0 per cent for both two-storey and bungalow dwellings is in line with our average existing MLS® house price forecast.

New Home Market

Housing Starts Activity will Remain Flat

On-going population losses and higher interest rates will cause provincial housing demand to continue to soften this year and next. Consequently, total provincial housing starts will retreat to 2,125 units in 2007 and to 2,050 in 2008. Conditions within the St. John's metro area will remain favourable, but not as strong as in previous years. The overall level of residential construction activity will remain flat, due to historically high new home prices, high mortgage carrying costs and fewer in-migrants to the region. An expected decline in overall home buying demand will constrain residential construction activity within the metro region both this year and next. Minimal price growth, combined with higher input and development costs, and higher mortgage rates will result in further gains in monthly homeownership costs and prevent some potential buyers from entering the new home market. As demand eases, competition from the large inventory

of less expensive existing homes will also restrain total housing starts over the forecast period. Therefore, total housing starts are forecast at 1,300 units within the St. John's region in 2007 and 1,250 in 2008.

Stable Multiple Starts Activity

Multiple housing starts activity will be relatively stable this year and next, mainly due to higher numbers of condominium starts, as well as an increase in affordable housing projects. Positive net-migration, due to increased economic activity and employment, and demographic trends such as smaller household structures and an aging population, will support higher condo starts in 2007 and 2008. However, the general reduction in home buying demand will limit any growth in semi-detached starts over the forecast period. Much of the pent-up demand for this product was met in 2004 and 2005 and there is now a retraction in semi-detached starts. That being said, new lower-priced semi-detached units will always remain attractive to certain buyers, provided that new single-detached house prices remain relatively high in price and/or continue to climb in price over the forecast period. In view of this, our multiple housing starts forecast is 325 units in 2007 and 300 the following year.

Rental Market

Vacancy Rate Remains Stable

Several factors will keep the vacancy rate relatively stable throughout 2007 and 2008. The movement of renter households to home ownership will continue at a slower pace, as home ownership costs rise. Youth (age 18-24) net-migration losses will persist and once again have a negative impact on the vacancy rate, as approximately 90 per cent of this age group tend to be renter households. Demand for basement apartments in new single-detached homes to meet home-buyer affordability requirements will continue to compete with and affect the performance of larger rental projects. Public sector (CMHC & NL Housing) investment in affordable rental housing will increase the supply this year and next. Accordingly, the vacancy rate for private structures containing three or more units is forecast to remain at 5.0 per cent in 2007 and 4.8 per cent in 2008. Although the vacancy rate will hold relatively steady, expect monthly rents to increase by 1.5 per cent and 2.5 per cent this year and next year respectively, as landlords attempt to recover the large investment associated with renovation to the rental stock in recent years.

Mortgage Rates

Mortgage Rates will Remain Low

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 2008. Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates. One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Forecast Summary St. John's CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	3,265	3,211	3,537	3,250	-8.1	3,050	-6.2
MLS® New Listings	6,020	6,793	7,292	7,365	1.0	6,260	-15.0
MLS® Average Price (\$)	131,499	141,167	139,542	142,250	1.9	145,000	1.9
New Home Market							
Starts:							
Single-Detached	1,275	1,096	985	975	-1.0	950	-2.6
Multiples	559	438	290	325	12.1	300	-7.7
Semi-Detached	256	140	104	125	20.2	125	0.0
Row/Townhouse	47	31	24	25	4.2	25	0.0
Apartments	256	267	162	175	8.0	175	0.0
Starts - Total	1,834	1,534	1,275	1,300	2.0	1,250	-3.8
Average Price (\$):							
Single-Detached	179,165	196,437	202,698	212,800	5.0	219,200	3.0
Median Price (\$):							
Single-Detached	160,000	170,000	175,812	184,600	5.0	190,140	3.0
New Housing Price Index (% chg.)	5.4	5.6	3.7	3.0	n/a	3.0	n/a
Rental Market							
October Vacancy Rate (%)	3.1	4.5	5.1	5.0	-0.1	4.8	-0.2
Two-bedroom Average Rent (October) (\$)	618	634	635	645	1.6	660	2.3
One-bedroom Average Rent (October) (\$)	521	539	542	550	1.5	565	2.7
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	0.10	6.29	-0.12
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	0.18	6.80	0.17
Annual Employment Level	89,500	90,300	93,400	95,000	1.7	97,000	2.1
Employment Growth (%)	-0.8	0.9	3.4	1.7	n/a	2.1	n/a
Unemployment rate (%)	9.0	8.9	8.1	8.0	n/a	8.0	n/a
Net Migration	1,648	415	107	300	180.4	350	16.7

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

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