

# HOUSING MARKET OUTLOOK

## London CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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### New Home Market

#### More Singles and Fewer Apartments Expected for 2010

With some 1,850 new homes expected to be started in both 2009 and 2010, new home construction is expected to remain relatively stable. This is mostly due to a weak rebound of single-detached home construction,

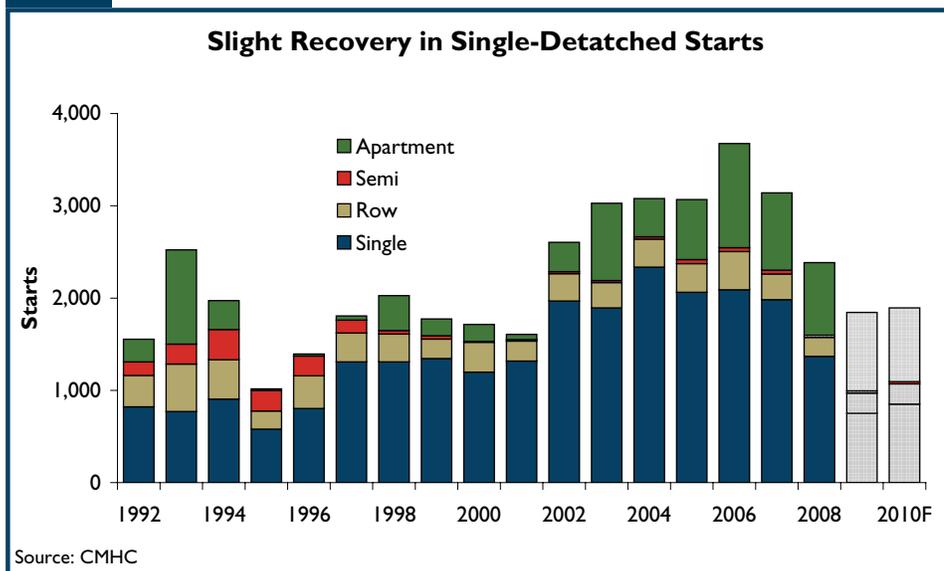
which is expected to increase by only 50 units from the 2009 level.

The weak rebound in single-detached home construction is mostly due to competition from the resale market, especially from the nearly new category (homes of 1-5 year vintage). Strong growth in new single-detached home construction before 2006 created a large stock, and some of

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Figure 1



<sup>1</sup> The forecasts included in this document are based on information available as of October 1, 2009.

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them are being offered for sale in the resale market. These homes are very popular among doctors, nurses or other health care or natural sciences related professionals. During the past few years, they tended to purchase new from builders because the resale market was tight. However, with a larger offering of nearly new homes on the market, they tend to find what they want in the resale market. With listings of resale homes expected to remain high, these professionals will tend to purchase from resale than directly from builders.

There are reports that some builders may be building up inventories in order to better compete with the resale market, by being able to have homes ready for customers to move into as soon as the transaction closes. However, at the end of September, the level of completed and unabsorbed homes dropped to 99 units, down from nearly 200 units earlier this year.

Apartment construction will be relatively strong in 2009 and 2010. Overall apartment starts will reach 850 units in 2009, and 800 units in 2010. Many of them will continue to be in the high-end rental category. Empty nesters and retirees who like the convenience of an apartment lifestyle are the key customer group for these apartments.

Condominium apartments are also becoming a factor in the London housing market. The popularity of high-end rental apartments among empty nesters and retirees has resulted in some showing interest in ownership. Developers are beginning to build high rise condominiums to satisfy this demand.

## Resale Market

### Market Remains Balanced

Although it has come back from the dip in the late 2008, the resale market in the London Census Metropolitan Area (CMA) will continue to cool down. Sales of resale homes through the Multiple Listing Service (MLS®) will reach 7,500 units, down 13 per cent from 2008, and another 4 per cent in 2010.

While the slowdown in existing home sales is mainly due to higher unemployment, higher-end and nearly new homes will keep the level of resale home sales healthy. Homes aged between one and five years are very popular among health care and natural science professionals. With healthy employment, these professionals will continue to support the resale market. First time buyers will also become a more significant factor for resale home sales. With the fertility rate increasing in this segment of consumers, they will be out shopping for entry level resale homes.

Homeownership continues to be very accessible in London, which helps sustain demand for resale homes. The income required to own a home in London is much lower than actual household income. The relationship between required and actual incomes in London also implies that buyers in London tend to find it easier to become homeowners than buyers in a number of other centres in Ontario. While the past strong price growth of resale homes eroded affordability in London to some degree, the drop in mortgage rates and slower price growth more than offset the previous erosion. The improved conditions likely drew buyers who had postponed their purchases in late 2008 and early 2009 back into the market, as well as others who brought forward purchases planned for 2010.

New listings have fallen as the selling by owners who expected prices to decline which was observed in late 2008 has moderated. However, the supply of newly-listed homes will remain high as a result of a higher unemployment rate. New listings

Figure 2

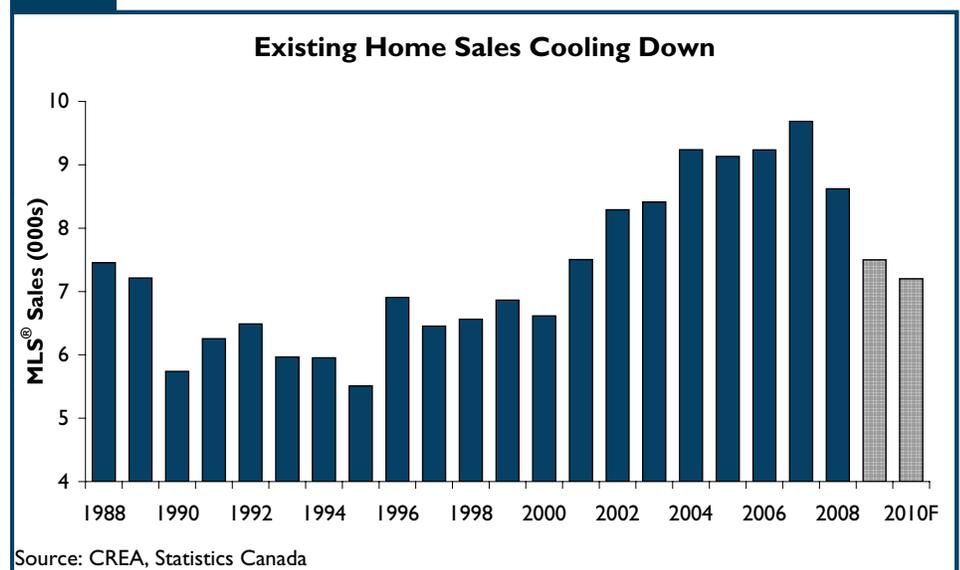
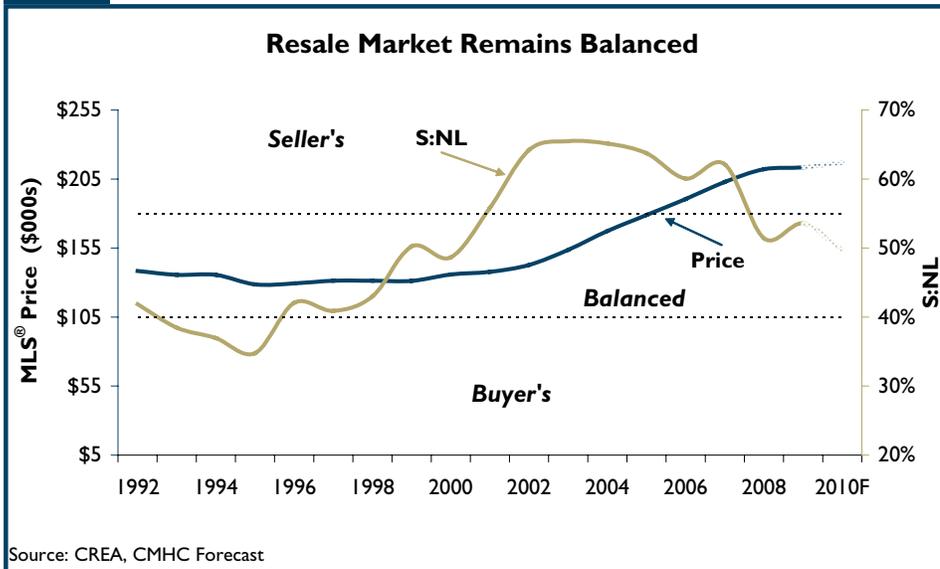


Figure 3



are expected to be around 14,000 in 2009, down 17 per cent from the level in 2008. With sales slowing along with new listings, the sales-to-new-listings ratio (SNLR), a leading indicator of price growth and measure of market conditions, will remain balanced market territory until the end of 2010. Consequently, price growth is expected follow the general rate of inflation. The average price of a resale home in 2009 is forecast to be \$213,500 and \$216,700 in 2010.

counterpart will hamper exports of manufactured goods and therefore the recovery in manufacturing employment. Traditionally, those who work for the manufacturing sector tend to purchase resale homes. With manufacturing sector employment remaining soft, there will likely be less demand for resale homes for the next few years.

As people lost their jobs in the manufacturing sector, they spent less

and this led to job losses in some service-related sectors, particularly retail trade. This trend will continue into 2010. Youth (ages 15-24) were most affected by this trend. However, overall service industries will continue hiring and help offset job losses, with health care and natural sciences leading the way.

With a brighter economic outlook in the U.S, some automotive plants in or around London CMA will be or are considering adding more shifts.

The exchange rate of Canadian dollar to U.S dollar is moving towards parity as a result of global economic recovery and higher oil prices. The strength in Canadian dollar will likely result in less export demand for London's manufactured goods and in turn, impact manufacturing employment in this region.

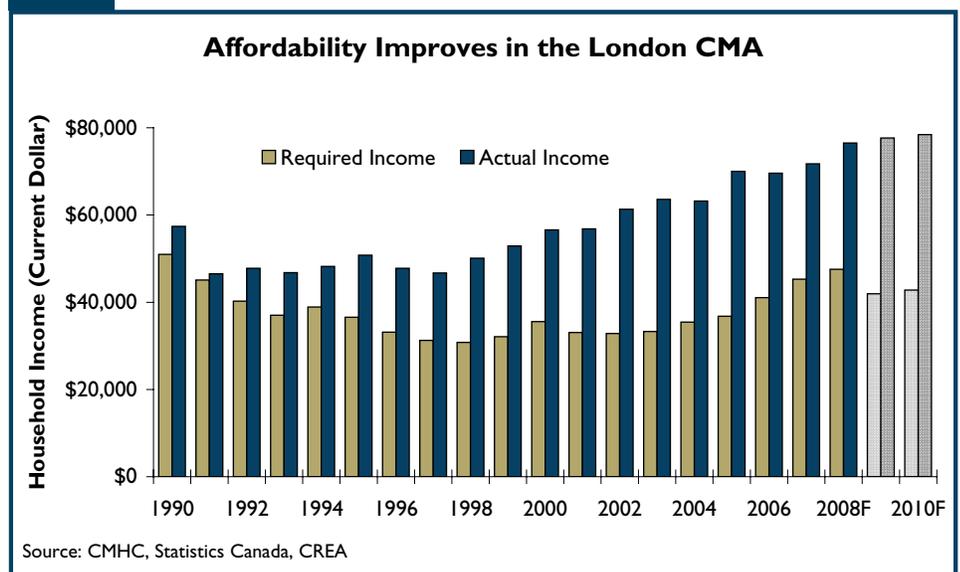
Traditionally, those who work in the health care and natural sciences sector tend to favour new single-detached homes. Their incomes and

## Economy

### Employment

High unemployment will likely persist in 2009 before it improves somewhat in 2010. The increase in the unemployment rate was mostly caused by job losses in London's manufacturing sector. However, with a brighter economic outlook in the U.S, employment in the manufacturing sector will pick up somewhat, but not enough to offset the losses which occurred during the past few years. In addition, the continuing strength of the Canadian dollar against its US

Figure 4



job security support their purchase of new, higher-end homes. With more nearly-new homes listed in the resale market, they tend to buy resale because these homes are readily available. These health care and natural science professionals will be the key driver for resale home sales for the next few years.

## Demographics

Net migration makes an important contribution to London's housing demand. International immigrants will account for much of the migration to London, followed by intra-provincial migrants. The number of inter-provincial migrants, however, will remain negative.

Latin America and the Middle East are the sources of the largest groups of immigrants who settle in London. Many of them come because their families and friends are already here. Strong job growth during the past few years also encouraged immigrants to select London as their final destination in Canada.

According to the Census 2006, Toronto is the major source of intra-provincial migrants for London. The majority of migrants from Toronto are young. Aged between 20 and 35, these young migrants have been supporting London's rental and resale markets during the past few years.

International migrants are likely to purchase resale townhouses in London because carrying cost tends to be similar to rental. When international migrants arrive in London, most of them favour high-rise rental apartments with easy access to transportation and amenities.

Once they are accustomed to living in London, they tend to move to townhouses close to their original location.

As for intra-provincial migrants, while some of them tend to rent when they first arrive to London, many of them purchase single-detached homes because resale homes are more affordable in London than the areas they come from. For those who rent, their transition from rental to ownership is relatively fast, within two years many of them would move into ownership homes. Some of the London's intra-provincial migrants purchase new single-detached homes. They tend to work for in the health care sector and their income levels do support these purchases.

The number of births is increasing both because the number of mothers having children is increasing and, on average, the number of children each mother has is also increasing. It is as a result of women having baby at later age (age 30-40) and echo boomers (age 12-32) beginning to move into child bearing

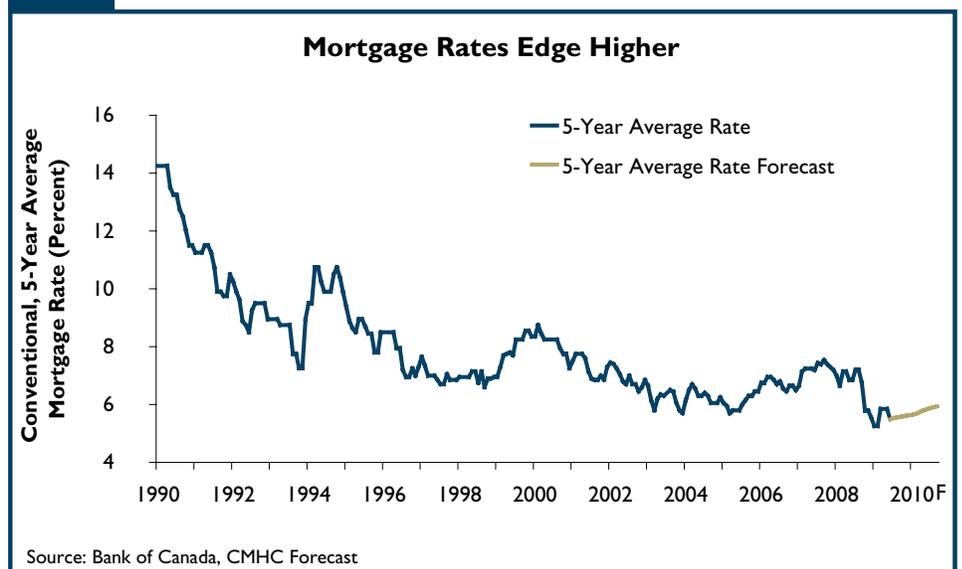
age. With new family members, these first time buyers will be shopping for entry level resale homes. They will be one of the key drivers in London's resale home market.

## Mortgage Rates Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Figure 5



Forecast Summary London CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
<b>Resale Market</b>							
MLS® Sales	9,234	8,620	8,620	7,500	-13.0	7,200	-4.0
MLS® New Listings	15,376	15,590	16,769	14,000	-16.5	14,500	3.6
MLS® Average Price (\$)	190,521	202,908	212,092	213,500	0.7	217,000	1.6
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	2,090	1,983	1,369	750	-45.2	850	13.3
Multiples	1,584	1,158	1,016	1,090	7.7	1,040	4.6
Semi-Detached	42	42	24	20	-16.7	20	0.0
Row/Townhouse	414	278	205	220	7.3	220	0.0
Apartments	1,128	838	787	850	8.0	800	-5.9
Starts - Total	3,674	3,141	2,385	1,840	-22.9	1,890	2.7
<b>Average Price (\$):</b>							
Single-Detached	273,548	290,342	320,039	321,000	0.3	322,000	0.3
<b>Median Price (\$):</b>							
Single-Detached	250,975	266,000	295,900	310,000	4.8	312,000	0.6
New Housing Price Index (% chg.)	5.2	3.6	3.5	1.5	-	1.0	-
<b>Rental Market</b>							
October Vacancy Rate (%)	3.6	3.6	3.9	4.2	0.3	5.0	0.8
Two-bedroom Average Rent (October) (\$)	790	816	834	840	-	850	-
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	245,600	247,400	244,300	238,000	-2.6	239,000	0.4
Employment Growth (%)	1.0	0.7	-1.3	-6.0	-	0.7	-
Unemployment rate (%)	6.2	6.1	7.0	10.2	-	9.8	-
Net Migration <sup>(1)</sup>	2,369	2,659	2,600	2,300	-	2,400	-

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), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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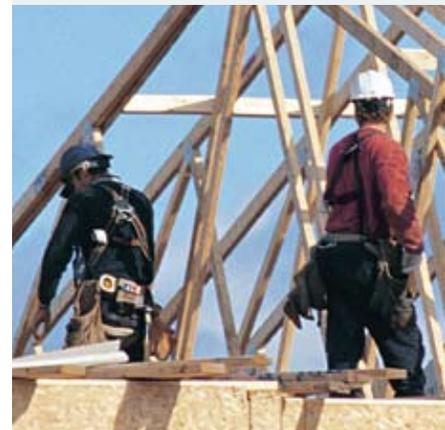
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