

HOUSING MARKET OUTLOOK

Winnipeg CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

New home market will rebound in 2010

¹New home construction in the Winnipeg CMA will move upward in 2010 following a slower year for builders in 2009. Local builders are on pace to start 1,925 homes in 2009,

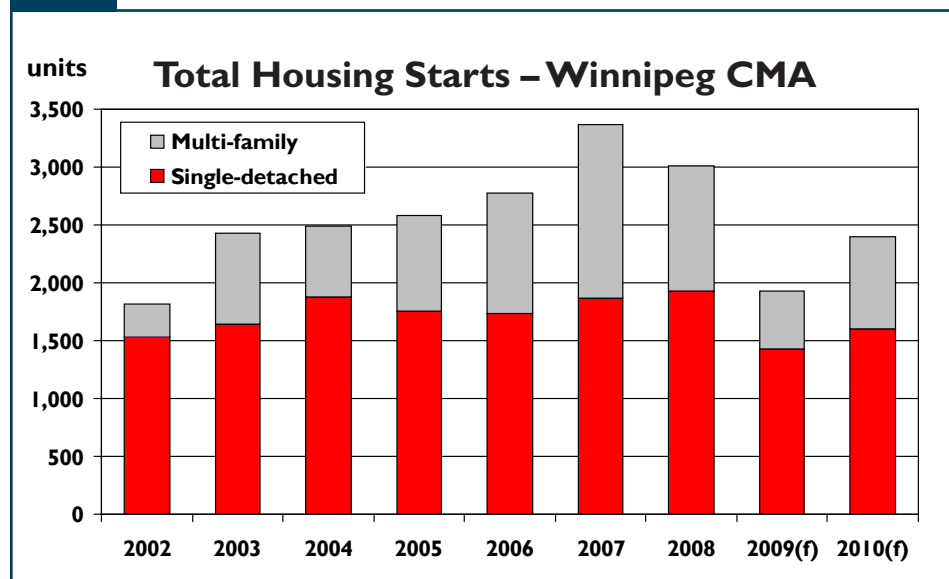
a decline of 36 per cent from 2008, before production will move up 25 per cent to 2,400 units in 2010.

To the end of September 2009, total starts are 33 per cent below the same period in 2008, with 1,504 foundations poured compared to 2,247 during the first nine months of 2008. This reduction has been a response to elevated inventories in both the single-detached and

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Figure 1



Source: CMHC, CMHC Forecast (f)

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

multi-family markets as well as a lower level of demand created by the economic uncertainty that existed over the first half of the year.

Given demographic patterns in the Winnipeg CMA, both 2009 and 2010 will see the rate of household formation in the city surpass housing starts. Lower starts to adjust for heightened inventories are necessary to bring levels in line with long term averages and the new home market into balance again.

Single-detached sector will see growth in 2010

The single-detached sector will finish 2009 with 1,425 starts, down more than 26 per cent from 2008. Activity will rebound in 2010 when 1,600 starts will be recorded, 12 per cent more than 2009. Price growth will remain positive, but modest, with the New House Price Index rising 2.5 per cent in 2009 and 3.0 per cent in 2010.

While the number of single-detached units under construction has recently moved slightly below the ten-year average at 691 units, the number of complete and unabsorbed units remains high by historical standards at 199 units. That compares to a ten-year average of 169 units. Nonetheless, the decline in starts earlier in the year has allowed for the absorption of many complete and unabsorbed units, which reached their peak of 301 units in November of last year. Despite the recent decline in inventory, builders have been hesitant to start new spec units given current market conditions.

The challenges faced by builders in 2009 are underscored by the 1,053 single starts recorded through September, a decline of 28 per cent from the same period in 2008.

With the modest return of sales activity over the summer months, builders can expect a move toward stronger building conditions over the remainder of 2009 and 2010.

Builders have largely worked their way through their backlog of orders dating to the end of 2008. While some were able to stretch these orders out over several months to provide some starts activity in the spring and summer months, that luxury no longer exists and builders must rely on current sales to continue starting homes.

Winnipeg new home buyers remain cautious about purchases

Sales have started to build over the summer months for homebuilders. The low interest rates have helped to entice purchasers to consider a newly built dwelling. Equally important is that prospective home buyers have become more convinced of the soundness of the local economy and are now more prepared to purchase a new home.

Also relevant is that sales during the fourth quarter of 2009 will surpass those in the fourth quarter of 2008 when builders' reported sales activity was weak. Given the volume of building activity in Winnipeg during the winter months, however, it is unlikely that these sales will translate into significant starts activity until the spring of 2010.

The relatively large price disparity between the average new home and the average resale dwelling is still not in favour of builders. New homes had a year-to-date average price of \$363,629 through August, compared to the average resale price of \$217,341. While new homes may offer many of the amenities and square

footage not available in the average resale home, the price differential creates a barrier for the new buyer that is not easily overcome. Further evidence of the difficulty faced by builders is that only about 10 per cent of resale homes sell for more than \$350,000. This limits the pool of potential buyers who might consider a new home rather than a resale dwelling.

Absorption of new homes has remained robust in the face of the weaker economic environment, up four per cent year-to-date through August. In part, this is due to the relatively low levels of spec building done by Winnipeg builders. It also is reflective of a relatively robust labour market during the economic downturn as purchasers who signed contracts were in a position to take possession upon completion.

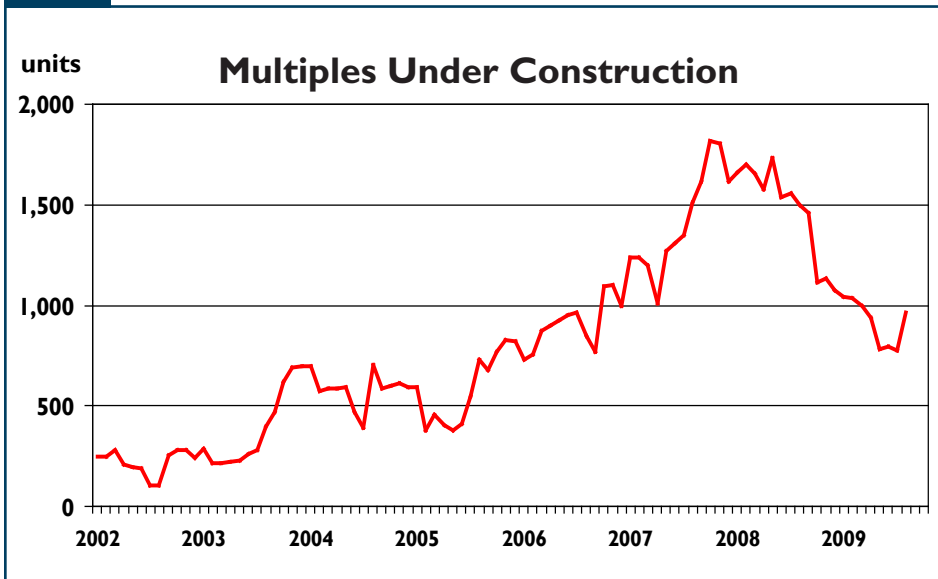
Prices gains continue in both 2009 and 2010

While builders have discussed the need to narrow the price gap between new and resale homes, price growth has remained strong in 2009. This is, in part, a reflection of higher land prices in the areas of the city where new development is taking place. It also stems from the fact that most homes being completed and absorbed today were priced and signed for many months ago. The average new home will change hands at a price of \$365,000 in 2009 before moving upward to \$380,000 in 2010.

Multi-family sector faces volatility over the forecast period

Although subject to volatility, multi-family starts will fall by 54 per cent in 2009 to 500 units before

Figure 2



Source: CMHC, September 2009

rebounding to 800 units in 2010. The sizable percentage changes are indicative of a relatively small market where the addition or deletion two projects over the course of a year creates large swings in the growth rate. Demand for rental units and modestly priced condominium units will stay strong as the traditional sources of demand for such product remain intact.

Inventories remain elevated but are moderating

The supply of multi-family units has declined significantly over the course of 2009, exiting August with 33 per cent fewer units under construction or completed but not occupied compared to the previous year. Despite that decline however, more than 1,200 multiple dwelling units are either complete and awaiting a buyer or under construction, 48 per cent higher than the preceding 10-year average.

While the supply of multi-family units remains high, it is not evenly distributed among tenure and price points. Condominiums selling at higher prices form the bulk of the inventory, while the supply of rental units and more modestly priced condominium units sit much closer to long term average levels.

The implication of this scenario for the market going forward is that builders who have resources tied up in higher end condominiums will be somewhat reluctant to commit new resources to more modestly priced projects while they have substantial unsold inventory waiting to clear. As such, the prospect of significant new supply coming online in the coming quarters is much reduced, even in the most desired price points.

Demand for rental and modestly priced condominiums remains strong

On the demand side, multi-family units of several types are still sought after

by both buyers and renters. However, demand for condominiums shifted dramatically in October 2008 from high-end units to more modestly priced ones. The vast majority of the multi-family units in inventory are at the higher end of the price spectrum. Absorptions of multi-family units continue to run above 2008 levels, itself a very strong year.

With the vacancy rate across the CMA remaining near one per cent, newly completed rental units are being absorbed quickly, despite higher average rents. Typically, vacancy rates in new apartment dwellings have been just below four per cent. Demand for this product will continue to be high over the forecast period and vacancy rates are not expected to rise significantly.

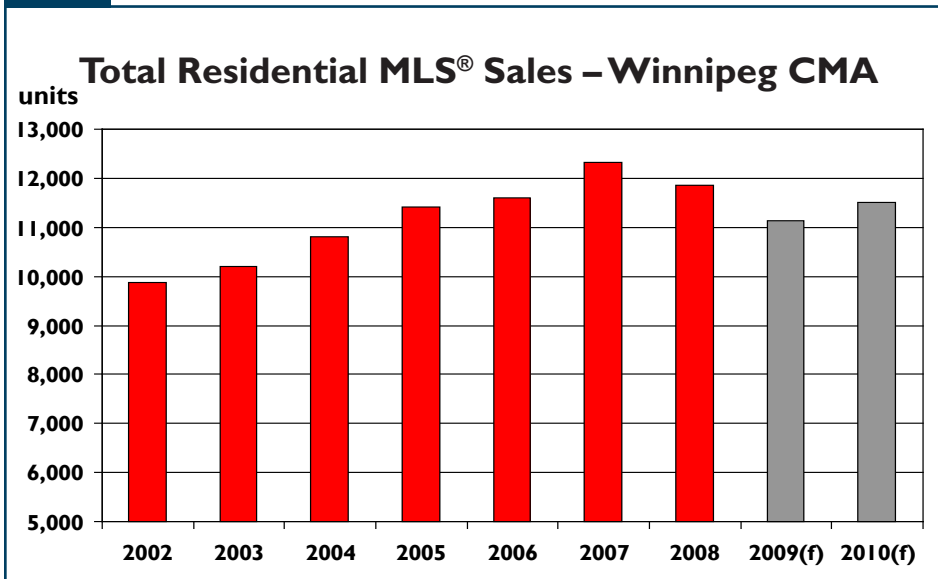
Overall, the multi-family market is facing a heightened level of supply, but care should be taken not to generalize the entire market on the basis of one particularly underperforming sector. Multiple-family units slated for rental and those selling at prices close to the average resale price in the city are much closer to balanced market conditions than those condominium units selling for more than \$250,000. The market for these units will take several quarters to clear in the face of tepid sales and an elevated level of supply.

RESALE MARKET

Existing home sales lead the recovery in 2009 and 2010

Sales of existing homes have rebounded strongly from the fourth quarter of 2008 and the first three months of 2009. While sales are on pace to finish 2009 marginally below

Figure 3



Source: CREA, CMHC Forecast (f)

2008 levels, they will rise in 2010 to post 11,500 sales, an increase of 3.4 per cent from 2009 when 11,125 resale units will change hands. Average prices will move upward in line with long term averages, despite markedly tighter resale conditions. The average resale price of homes in the Winnipeg CMA will see a gain of 3.9 per cent reaching \$214,000 in 2010.

In addition, more modest price growth has caused potential sellers to resist putting their homes on the market since price gains will be minimal. They may also be responding to the general economic uncertainty that has taken hold and are unwilling to consider a life decision that adds some uncertainty to that environment. As a result, the pace of new listings has also

slowed. Through August, new listings were down almost 12 per cent on a seasonally adjusted basis, year-over-year basis.

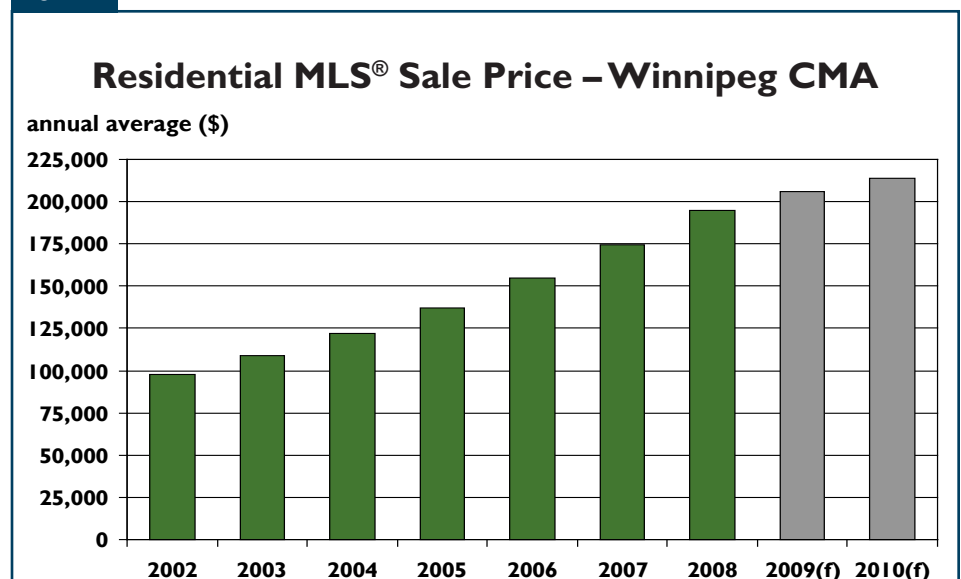
Demand has returned to all price points

With an economic rebound forecast in 2010 and positive demographic trends expected to continue, the demand for home ownership in Winnipeg will remain high. The weaker sales environment experienced in the first quarter of 2009 has given way to a strong rebound in resale housing demand. Seasonally adjusted sales have grown every month since March 2008, and demand is expected to remain strong through the balance of the forecast period. A weak first quarter was the result of buyers avoiding homes in the higher price ranges. By fall however, sales are occurring with regularity in all price brackets.

Fewer homes for sale in Winnipeg

The supply of active listings has moved steadily downward over the course of 2009. With buyers returning to the market in numbers approaching the peak levels of recent years, new listings are being converted to sales in about one month on average. Under such circumstances, active listings have no opportunity to grow. Through August, there were 1,103 active listings on a seasonally adjusted basis, down 25 per cent from a year earlier. This is also slightly below ten-year average active listings levels for the CMA.

Figure 4



Source: CREA, CMHC Forecast (f)

Balanced market conditions persist; trending to Sellers'

The decline in new and active listings coupled with returning strength in sales, is tilting market balance in favour of the seller once again. The sales-to-active-listings ratio was above 80 per cent on a seasonally adjusted basis in September and only the modest price growth is preventing a classification of the market as Sellers'. Continued economic health and population growth that supports more substantial price growth would be enough to prompt the change.

Price gains in the first half of the year will moderate going forward

Despite an otherwise strong resale market, average annual price growth, while strong, has been contained at 3.5 per cent through August. Much of this has to do with the substantial average price fluctuations over the last quarter of 2008 and the first quarter of this year.

The seasonally adjusted average price has risen every month in 2009 and the rate of increase is also rising. Much of the initial increase in 2009 was because of the return of buyers to price points above \$150,000, and therefore compositional in nature. Going forward, price gains will be more modest as they will reflect the general rise of all house prices.

One of the hallmarks of Winnipeg's resale market has been its relative affordability when compared with other Canada centres. Affordability was tested in recent years due to persistent double-digit price growth from 2003 to 2008. Moving forward, low interest rates, a strengthening job

market, and the modest price growth forecasted will serve to keep increases in carrying costs for potential homeowners to a minimum over the forecast horizon.

RENTAL MARKET

With few changes in the rental market environment over the past year, and few on the horizon in 2010, vacancy rates and average rents will remain little changed from their 2008 levels. The October 2009 vacancy rate will be one per cent, unchanged from the previous year. The average rent for a two bedroom unit will be higher than last year at \$800, up from \$769 in 2008.

Despite low vacancy rates, only minimal gains for the rental market universe

While the rental market universe in the Winnipeg CMA has experienced reductions in 14 of the last 16 years, 2009 will likely buck that trend. Several new rental projects will reach completion and units that had been

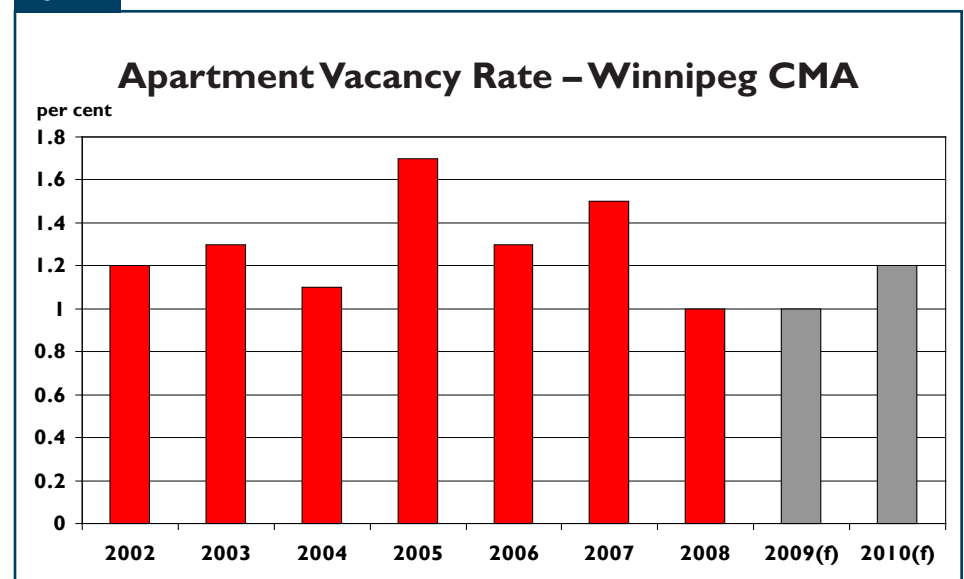
temporarily removed for renovation in previous surveys will return. The increase in the available units will offer some relief to those searching for accommodations in the face of a one per cent vacancy rate. However, a significant rise in the vacancy rate is not expected, as the additions will form a very small share of the more than 50,000 rental units in the city.

Removals from the universe will be minimal in 2010. The city will continue to demolish boarded up buildings which would represent a permanent, rather than temporary, removal from the universe. To the extent that landlords voluntarily remove units to conduct renovations, the universe count will be lower as well.

Demand remains robust with support of demographic trends

In the second quarter of 2009, Manitoba experienced its highest quarterly growth rate on record. The majority of the growth is because of strong international immigration

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

to the province. Typically, more than 75 per cent of the immigrants settle in Winnipeg. While the population growth will impact demand for all types of housing, it will be most pronounced in the rental market as international immigrants tend to be renters during their first years in the country.

While the heightened rental demand from newcomers to the country will outweigh all other demand factors, there will be an increasing number of households who currently rent who will consider homeownership as an alternative. With limited selection of rental units, generally affordable resale prices, and historically low interest rates, some potential renters may consider forgoing rental accommodations and purchase a home.

Rental rates grow slightly in advance of guidelines

Rents will continue to move upward in 2010 and will be above the Residential Tenancies Branch's mandated increase of one per cent. There are several reasons for this.

First, there is a small but growing share of the universe that is exempt from the guidelines because it is either newly built (earning a 20-year exemption from the guidelines) or substantially renovated (earning a five-year exemption). During the exemption period, landlords in these units may increase their rents at any rate the market will bear. In addition, new units tend to come on the market at well above average rent levels, serving to move the average rent upward.

Secondly, landlords may apply for an above guideline increase for a variety of reasons. Since many do so with

success, a significant portion of the rental universe experiences rent increases above the guidelines.

MORTGAGE RATE 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.

ECONOMIC OUTLOOK

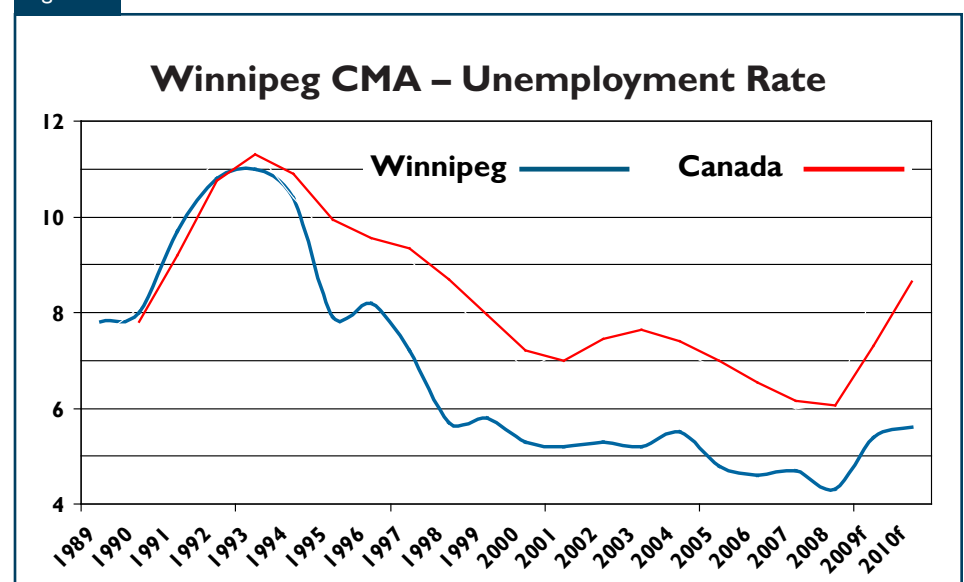
Local economy remains strong coming out of downturn

The local economy weathered the economic downturn quite well relative to the rest of the country. The unemployment rate remained below five per cent for much of 2009 and is expected to rise to only 5.6 per cent in 2010, among the lowest in the country. The influx of new Manitobans settling in Winnipeg will continue at a record pace, driving the CMA labour, housing, and retail markets.

Population growth rate sets a record in 2nd quarter

The population growth rate in Manitoba set a record in the second quarter of 2009 based largely on the influx of international immigrants. As has been the case for several years, more than 75 per cent of the

Figure 6



Source: Statistics Canada, CMHC forecast

newcomers chose to make Winnipeg their home. In 2009, the net gain from migration is expected to reach 9,350 people, while 9,400 will be recorded in 2010.

Manitoba continues to lose a few hundred people every quarter to other provinces, but that loss is dwarfed by international immigration. Manitoba, and by extension, Winnipeg, will continue to reap the benefits of a strong labour market, the Provincial Nominee Program, and housing affordability relative to the rest of the country, keeping inter-provincial outflows to a minimum.

Winnipeg's labour force will grow, but employment will not keep up

Winnipeg's labour market has weathered the economic downturn

relatively well. The unemployment rate moved above five per cent as late as July and is expected to peak at only 5.6 per cent in 2010. The rate of population growth will support the expansion of the labour force over the entire forecast period.

Under the current economic environment, job growth has been predominantly in part-time employment. That trend should continue for several quarters as employers remain cautious to adding permanent staff until they are certain of a sound footing for the economic recovery. Part-time employment growth, however, bodes well for rental demand as part-time employees tend to be renters.

Despite the recent uptick in the unemployment rate, upward pressure on wages should remain given its modest level by historical standards.

With inflation well contained, the prospect for continued real wage gains, which have become the norm over the last four years, is high.

A number of capital investments will take place in the CMA over the forecast period. Such expenditures are related to transportation, culture, and commercial infrastructure. The aerospace sector will also be a driver of the local economy as major contracts for at least two firms have been signed over the last six months.

Forecast Summary Winnipeg CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	11,594	12,319	11,854	11,125	-6.1	11,500	3.4
MLS® New Listings	14,786	14,490	16,050	30,000	86.9	28,000	-6.7
MLS® Average Price (\$)	154,607	174,203	196,940	206,000	4.6	214,000	3.9
New Home Market							
Starts:							
Single-Detached	1,737	1,870	1,930	1,425	-26.2	1,600	12.3
Multiples	1,040	1,501	1,079	500	-53.7	800	60.0
Starts - Total	2,777	3,371	3,009	1,925	-36.0	2,400	24.7
Average Price (\$):							
Single-Detached	264,401	307,244	349,154	365,000	4.5	382,000	4.7
New Housing Price Index (% chg.)	8.5	9.4	11.8	2.0	-	2.5	-
Rental Market							
October Vacancy Rate (%)	1.3	1.5	1.0	1.0	-	1.2	-
Two-bedroom Average Rent (October) (\$)	709	740	769	800	-	825	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	382,200	390,500	395,900	389,700	-	390,500	-
Employment Growth (%)	2.0	2.2	1.4	-0.2	-	0.2	-
Unemployment rate (%)	4.8	4.6	4.7	5.2	-	5.5	-
Net Migration ⁽¹⁾	4,487	7,359	6,250	6,000	-4.0	6,500	8.3

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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

(1) 2008 migration data is forecasted

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

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