

# HOUSING MARKET OUTLOOK

## Kingston CMA



CANADA MORTGAGE AND HOUSING CORPORATION

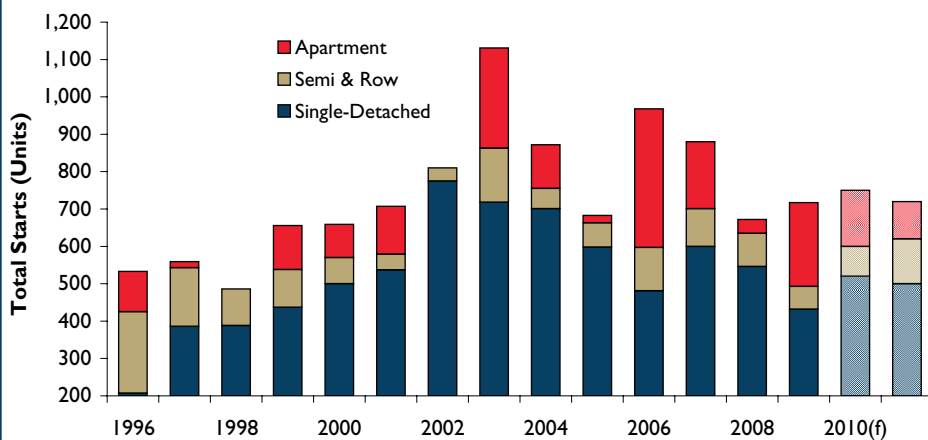
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### Market at a Glance

- Sales of existing homes will increase by 3.6 per cent this year before seeing a marginal decline next year as rising carrying costs will slightly decrease demand for homeownership, particularly among first-time buyers.
- There has been strong price growth in the resale market since the second half of 2009. Therefore in 2010, expect price gains of 2.5 per cent. With moderating sales activity and increasing new listings, the rate of change in average MLS® price growth will slow and follow the national rate of inflation in 2011.
- Starts will remain very strong at 750 units in 2010, their highest level since 2007. In 2011, however, starts will edge lower as rising mortgage rates and reduced spill-over demand from the existing home market dampen new home market activity.

Figure 1

#### Kingston's Housing Starts Will Remain Strong in 2010



Source: CMHC (Starts Survey); f = CMHC Forecast

<sup>1</sup> The forecasts included in this document are based on information available as of April 23, 2010.

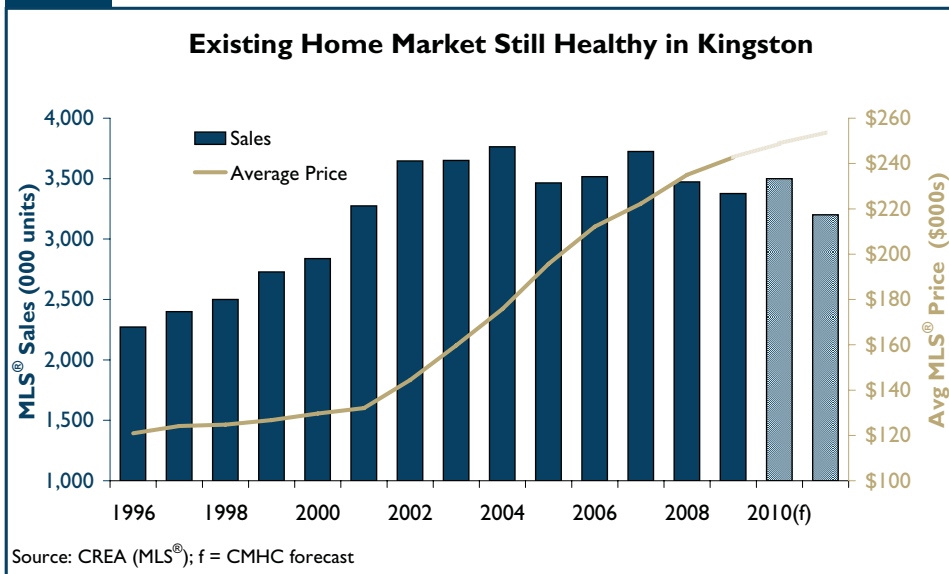
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Figure 2



return to a more sustainable level next year. Despite the moderation in MLS® sales, our resale projection for 2011 suggests more activity than the 15-year average sales of 3,090 units.

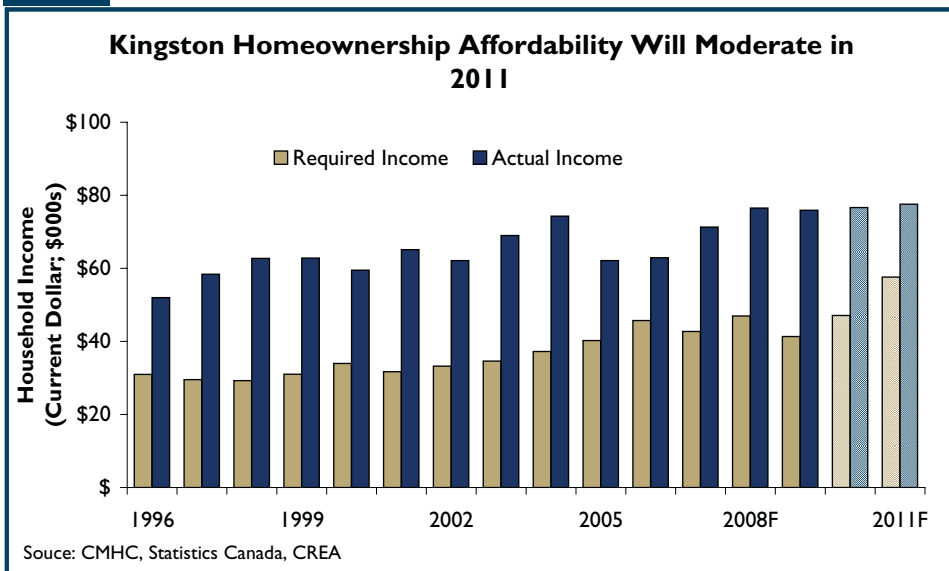
### More Balanced Market Conditions Will Slow Price Growth in Kingston

Expected higher mortgage rates and to a lesser extent the impact of the HST have coaxed some potential buyers into the resale market. In the next few months, this “pull forward” effect on sales will continue to put upward pressure on home prices in 2010 – causing the annual average MLS® price to increase by 2.5 per cent. However, as new listings outpace sales in late 2010 through 2011, conditions in the existing home market will become more balanced. This means the rate of change in average MLS® prices will slow and follow the national rate of inflation. So, expect a modest average MLS® price growth in 2011.

### Required Income to Purchase a Home in Kingston Will Increase in 2011

The strong price increases since the second half of 2009 and the expected rise in mortgage rates will push mortgage carrying costs higher and housing demand will weaken gradually. However, household income growth will continue to sustain strong consumer spending and will partially offset the impact of increased mortgage carrying costs. On balance, and according to the latest CMHC estimation, required income<sup>2</sup> to buy

Figure 3



## Resale Market

### Resale Transactions to Remain Above 15 Year Average

Low mortgage rates and improved job market conditions will support stronger existing home sales in the Kingston area this year. However, home sales will moderate during the

second half of 2010 and into next year as rising mortgage carrying costs dampens demand among first time buyers. The prospect of higher housing costs has encouraged many potential homebuyers to accelerate their decision to buy. Therefore, existing home sales, as measured by the Multiple Listing Service® (MLS®)<sup>1</sup>, are forecast to

<sup>1</sup> MLS® is a registered trademark of the Canadian Real Estate Association.

<sup>2</sup> The Required Income is carrying costs on average-priced MLS home divided by 32 per cent. Actual Income is average household income – 2008 to 2011 estimated using actual and forecast changes in average weekly earnings. Carrying costs based on 35 year amortization, 10 per cent down-payment, average posted fixed 5-yr. mortgage rates.

a home has increased relative to the actual income for the average household. As a result, slight erosion in homeownership affordability is projected for 2011.

## New Home Market

### New Home Construction Will Remain Strong in 2010

Total housing starts in Kingston will edge higher in 2010 at 750 units before easing into 2011. Both single and multi-family home construction will boost starts activity this year. Buoyant resale markets, improving labour market conditions and low inventories will support new construction demand in the short run. While expected higher mortgage rates will work to soften homeownership demand in late 2010 through 2011, prospects for stronger labour market recovery in Kingston should partially offset the slight decline in affordability. Given that the average new home price in Kingston is less than the \$400,000 threshold, the HST is expected to have an insignificant effect on Kingston's new home market.

### Move-up Buyer Segment Still Active in Kingston

Single-detached starts should remain relatively strong over the next two years as gains in Kingston City are expected to offset weaknesses in South Frontenac Township. As of the first quarter 2010, Kingston City accounts for approximately three out of every four housing starts in the CMA. Given that it's the economic power house of the entire CMA, Kingston City will continue to

dominate housing market activity in the area – a trend that is likely to continue at least in the medium term. In fact, most of the CMA's population is concentrated in Kingston City where the major industries are located. As well, the inventory of completed and unoccupied single-detached dwellings is relatively low, supporting expansion in new single-detached construction.

On the other hand, the number of homes listed for sale on the existing home market has increased in recent months, providing more choice in the market-place. This reduces the spill-over demand into the new homes market and as a consequence, many first-time home buyers may lean toward the existing home market where prices are relatively more affordable than new construction. On balance, construction for single-detached homes is forecast to reach 520 units in 2010 before seeing a marginal decline in 2011. Year-to-date starts for this type of dwellings have exceeded last year's levels, supported by strong employment growth among the high-end home buyer category.

Since June 2009, the largest gains in Kingston's employment have been among the 45 to 64 age group. In fact, this age group posted a fourteen per cent year-over-year employment gain in March 2010. Consequently, in the second half of 2009 – when the housing market bounced back, the market share of new homes sold at prices above \$450,000 remains relatively unchanged from pre-recession level. This trend clearly suggests that the move-up buyer segment is still active in Kingston and

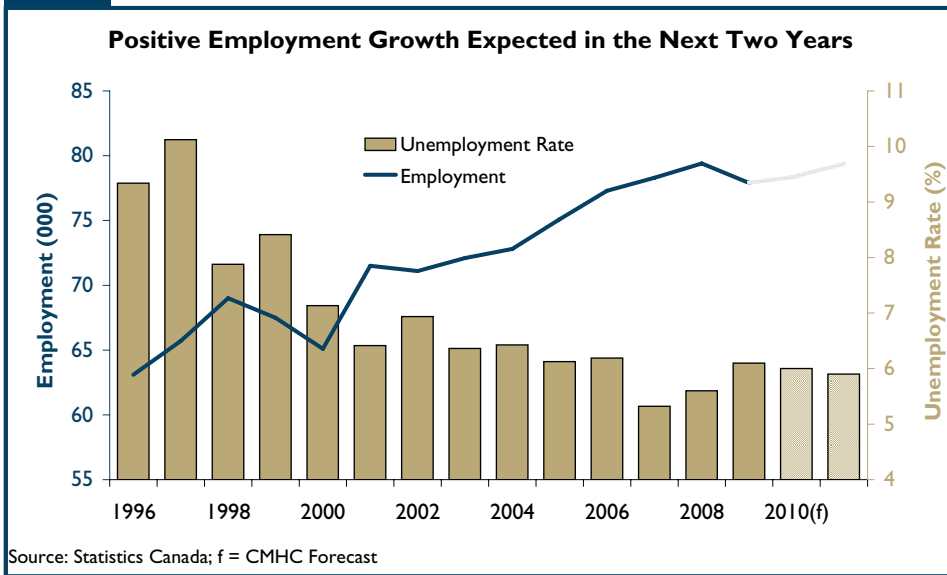
will continue to boost demand for new single-detached dwellings.

### Demand for Smaller Dwellings to Increase in 2011

While single-detached dwellings are most popular among home buyers in Kingston due to the demographic composition, some first-time buyers will be more likely to settle for a less expensive home as mortgage carrying costs are expected to rise in the next few months. Therefore, row starts will begin to gain momentum late this year and further into 2011 as demand shifts in favour of smaller dwellings. Following a modest increase this year, semi-detached starts are projected to register a notable gain in 2011. Currently, the inventory levels of row and semis are low compared to last year. This will result in higher starts for this type of dwellings in the next two years.

On the apartment front, there were no apartment structures completed in 2009 which means that the 224 apartment units started last year are expected to be completed in 2010. This large number of expected completion will undoubtedly put upward pressure on the vacancy rates. On the other hand, the rising mortgage rates will slow the movement of first-time buyers into the homeownership market. Therefore, this increase in demand for rental accommodation should partially absorb the influx of supply into the rental market. Given the forces of supply and demand interaction, apartment starts will taper off in the next two years.

Figure 4



to attract new immigrants, the City of Kingston has recently launched a Web Portal for newcomers to Kingston. This web technology is aimed at helping newcomers explore the great opportunities that the city has to offer. Meanwhile, at the provincial level, net migration is expected to rise this year and next as global economic growth reduces uncertainty and encourages international travel again. Over the forecast period, Ontario will lose fewer migrants to the west as the provincial economic outlook becomes more favourable.

## Economic Overview

### Positive Employment Growth Expected in the Next Two Years

Currently, Kingston's economic indicators are mixed. On the positive side, retail trade activity is up, sales of big ticket items are up, and business bankruptcies are down – pointing to a healthy economic outlook for the next two years. On the negative side however, the rising Canadian dollar will act as a drag on tourism and export related industries.

On the employment front, the severity of the global economic downturn that began in late 2008 caused Kingston to register its first negative annual employment growth in seven years. In the coming years however, as the local economic recovery becomes more entrenched, employment growth in Kingston will bounce back into positive territory. As a result, expect employment to grow by 0.6 per cent in 2010 and further in 2011. As well, income growth will remain steady and will continue to outpace inflation in the next two years. Furthermore, the unemployment rate in Kingston

will continue to be at historically low levels, attracting additional residents into the area – keeping demand for housing relatively strong.

### Migration Supports Population Growth

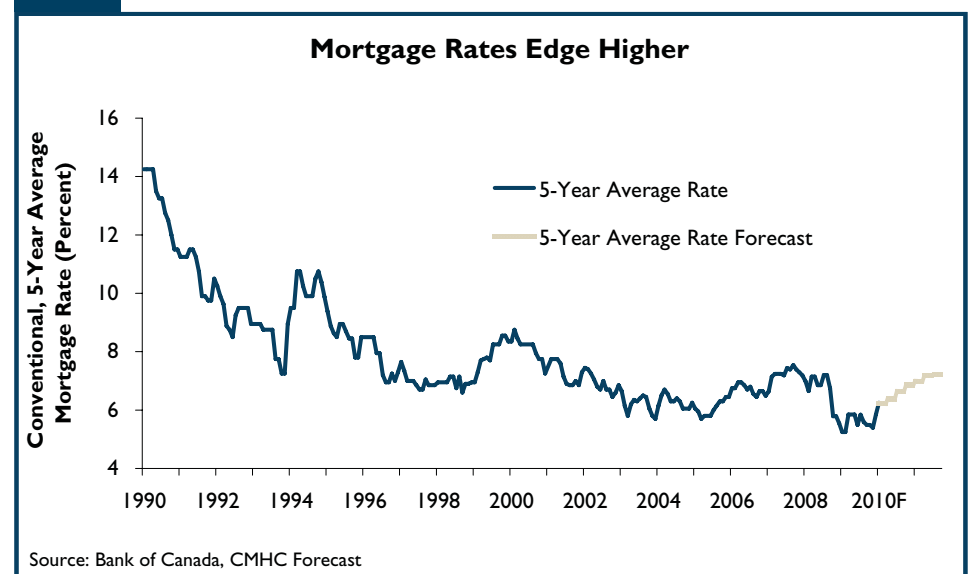
Overall, the population of the Kingston CMA will continue to grow, supported by positive inter-provincial and intra-provincial migration. In essence, net migration is projected to add about 500 people each year over the forecast period. In an effort

## 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. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case

Figure 5



scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage

rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

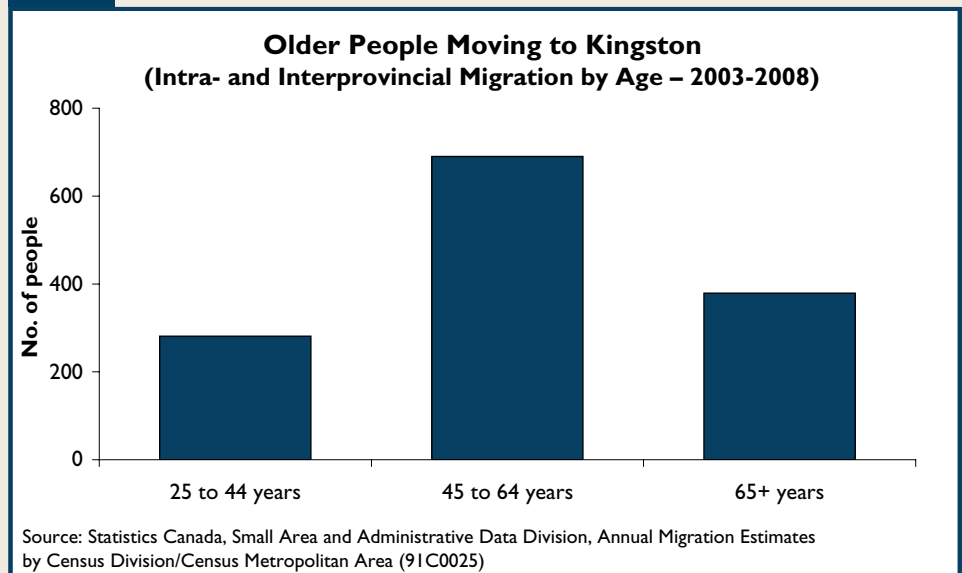
Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

## Migration, Aging and the Impact on Housing

Kingston is considered an attractive place for retirees to enjoy a modest urban lifestyle. While the youth population has been shrinking in recent years, the empty nesters and seniors populations are expected to continue growing rapidly. Given that most seniors prefer to age in place in familiar surroundings, new listings growth may slow as seniors become a larger part of the Kingston population. This means newcomers will have to turn to the new home market to meet their housing needs. Currently, in-migration by people aged 45 to 64 is accelerating and this will support demand for single-detached dwellings in the medium term. Increasingly, they will demand houses which can be easily adapted to their changing needs and will be low-maintenance and have lower operating costs. Looking to the

longer term, some may choose one-storey homes for the time when they begin having difficulty climbing stairs as they age.

Figure 6



Forecast Summary Kingston CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
<b>Resale Market</b>							
MLS® Sales	3,725	3,473	3,377	3,500	3.6	3,200	-8.6
MLS® New Listings	6,716	7,281	6,259	6,850	9.4	6,950	1.5
MLS® Average Price (\$)	222,300	235,047	242,729	248,800	2.5	253,700	2.0
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	600	546	432	520	20.4	500	-3.8
Semi-Detached	16	48	20	30	50.0	50	66.7
Row/Townhouse	85	41	41	50	22.0	70	40.0
Apartments	179	37	224	150	-33.0	100	-33.3
Starts - Total	880	672	717	750	4.6	720	-4.0
<b>Average Price (\$):</b>							
Single-Detached	266,145	258,693	269,153	281,000	4.4	290,000	3.2
<b>Median Price (\$):</b>							
Single-Detached	260,000	254,900	269,300	279,500	3.8	288,000	3.0
<b>Rental Market</b>							
October Vacancy Rate (%)	3.2	1.3	1.3	1.6	0.3	1.2	-0.4
Two-bedroom Average Rent (October) (\$)	856	880	909	935	2.9	960	2.7
One-bedroom Average Rent (October) (\$)	701	743	756	770	1.9	800	3.9
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.20	5.56	1.34
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	78,300	79,400	77,900	78,400	0.6	79,400	1.3
Employment Growth (%)	1.3	1.4	1.9	0.6	-	1.3	-
Unemployment rate (%)	5.3	5.6	6.1	6.0	-	5.9	-
Net Migration <sup>(1)</sup>	179	1,057	1,127	350	-	500	-

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

(1) 2009 and 2010 migration numbers are forecasts



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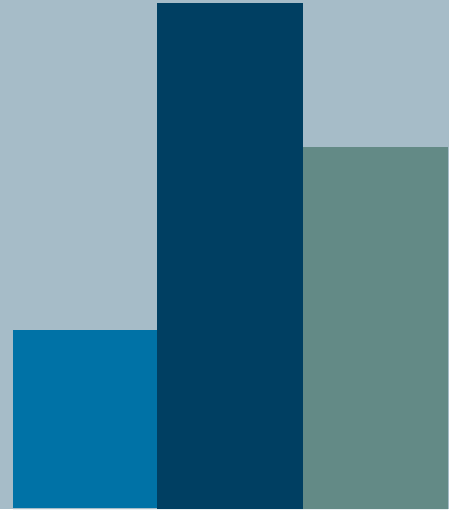
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