HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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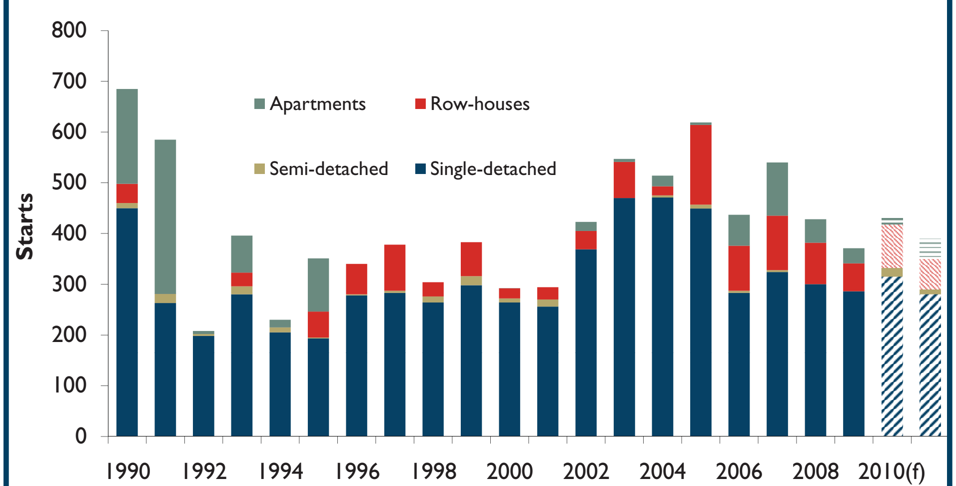
Market at a Glance

- The pull forward of sales in both the resale and new home markets will dampen demand in the final quarter of 2010 and early 2011
- Existing home sales will bottom out in the fourth quarter of 2010 and will pick up slightly throughout 2011. However, on average, sales will decline in 2011.
- Starts will follow the same pattern as the resale market, declining in late 2010 and recovering throughout 2011. The decline between the average levels from 2010 to 2011 will be more pronounced than in the resale market.

Figure 1

New Home Starts Cooling off in 2011



Source: CHMC forecasts

[1] The forecasts included in this document are based on information available as of October 8, 2010.

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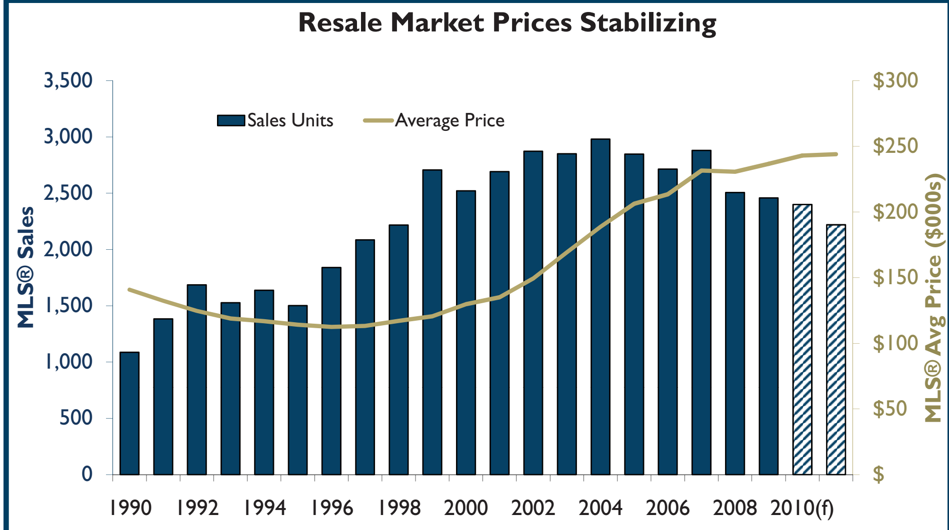
Figure 2



Source: CREA (MLS®), CHMC forecasts

Resale Market

Gradual resale market recovery in 2011

Sales of existing homes, on average, will be down moderately in 2011. The lower level of sales in the last half of 2010 will continue into early 2011, but as the economy slowly improves, sales will pick up in the latter part of 2011. Sales were lower in the second half of 2010 due to the pull-forward of home purchases into late 2009 and the first half of 2010 as homebuyers bought in anticipation of increased mortgage rates in the second half of 2010. Both first-time buyers and move-up buyers brought forward their home purchases, thus depleting the pool of potential buyers. This bring-forward effect will end in early 2011 and demand will return to more normal levels in the latter part of 2011. With home prices rising modestly but mortgage rates easing in 2011, affordability will improve marginally and continue to support housing demand. The income required[1] to buy a home at the average resale price will ease in 2011, but affordability remains a challenge. Except for Toronto and Kitchener, the required income to purchase a home takes up more of actual income in Peterborough than it does in any other of the other CMAs in Ontario.

New listings will remain at a strong level in 2011. With more listings relative to sales, the market will be balanced and buyers will be able to take more time to make their homebuying decision. A balanced resale market implies little price growth, so the average price of homes sold in the resale market will remain virtually unchanged in 2011.

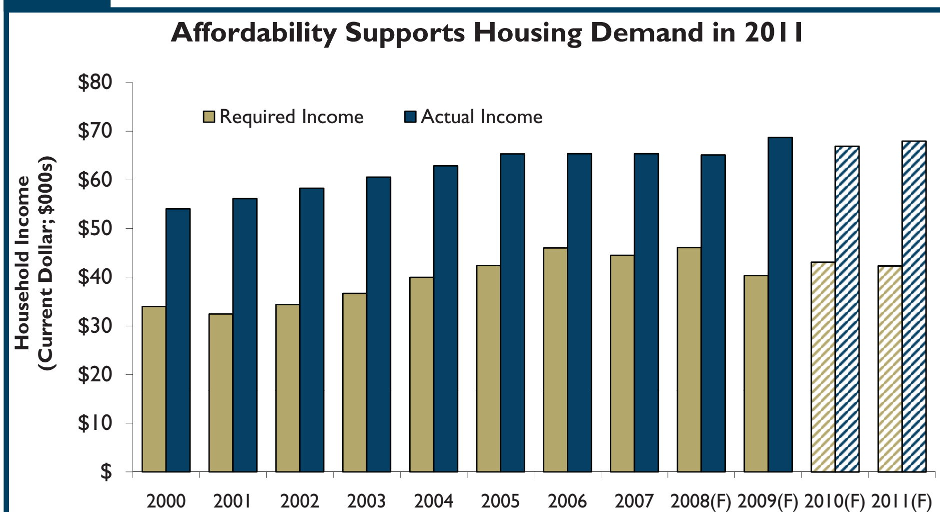
Demand for homes will be boosted by the movement of retiring baby boomers from the GTA as well as other CMAs in Southern Ontario. Baby boomers are attracted to Peterborough for many reasons, including a more tranquil setting and lower prices. The price differential between a resale home in the GTA and in Peterborough would enable boomers to sell their current home, buy a home in Peterborough and enjoy their retirement years.

New Home Market

Housing starts slide

After a very strong rebound in the first half, housing starts will move down significantly in late 2010. The

Figure 3



Source: CMHC, Statistics Canada, CREA

[1] Required income is mortgage carrying costs divided by .32 to reflect the usual qualifying criteria of most lenders. Mortgage carrying costs are based on a ten per cent downpayment, the posted fixed fixed five-year mortgage rate and a 35 year amortization.

record high number of building permits issued in 2009 translated to the stronger starts in early 2010. Also, some homebuyers brought their new home purchases forward into the latter part of 2009 and the first half of 2010 in anticipation of rising mortgage rates. The consequence was a drop in sales later in the year. This effect will dissipate early in 2011 allowing a gradual recovery in new construction. A more balanced resale market in 2011 will mean less spill-over to the new home market, reinforcing the gradual nature of the recovery in starts. Overall, starts in 2011 will be down considerably from 2010 despite the recovery in the second half of the year.

Single-detached homes will continue to dominate the market with a market share of over 70 per cent. Inventories of completed but unsold singles are at a very low level and any increase in demand will translate into a rise in new construction. Builders have turned to smaller detached homes to accommodate the lifestyle of retiring boomers. Peterborough is included in the Growth Plan for the Greater Golden Horseshoe and building types which use land more intensely will increase as a percentage of total starts to comply with provincial requirements.

Given the higher number of smaller singles in the City of Peterborough in 2010, new home prices declined. Indeed, the average price of new detached homes completed in the first three quarters of 2010 was 11 per cent lower than in the same period of 2009. In 2011, the average price will begin to move up again both because there will be more larger homes and also because higher materials cost will lead to a moderate increase.

The shift to less expensive homes and more intense building types will continue. Starts of semi-detached homes, townhouses and apartments will hold steady in 2011 after strongly increasing in 2010.

Local Economy

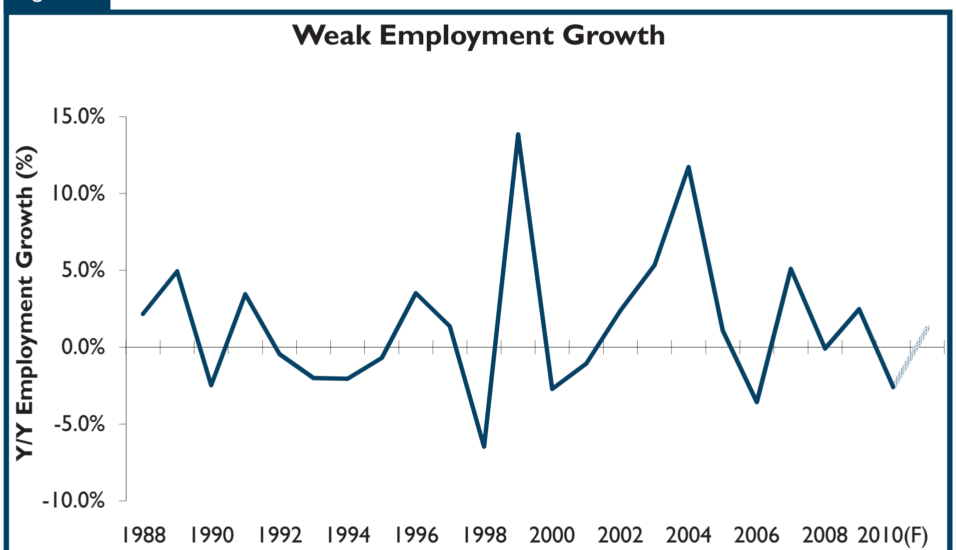
Employment still a challenge

Employment will continue to be a challenge in Peterborough. After more than 2,000 job losses in 2010, employment in 2011 is expected to show slight improvement, increasing by about two per cent. Currently, there are 6,000 less jobs than at the peak before the recession. As the labour force did not decline at the same rate as employment, the unemployment rate jumped to over nine per cent in 2010 and will remain at this elevated level in 2011. Uncertainty about the job market in Peterborough will delay homebuying decisions. Workers in the 45-64 age group continue to be the hardest hit by the slowdown in employment. The labour force in Peterborough is relatively old and when employers cut jobs, older workers close to retirement are the first to be laid off. Although Peterborough has a relatively low level of exposure to manufacturing jobs, the goods-producing sector continues to shed jobs, while the services sector is moving in the opposite direction. The completion of several infrastructure projects and the Peterborough airport expansion will sustain employment and offset the decline in manufacturing.

Migration not sufficient to raise population growth

Net migration into the Peterborough CMA is expected to reach 550 persons in 2011. Intra-provincial migration will be the driving force behind migration to the area. The vast majority of people moving to Peterborough come from Toronto and from neighbouring areas, but Peterborough has attracted new

Figure 4



Source: Statistics Canada, CMHC forecasts residents from Southern Ontario communities as far away as St. Catharines and Kitchener. The population of Peterborough has one of the highest median ages in the province and population growth only comes from migration as natural increase is negative.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary Peterborough CMA Fall 2010	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	2,880	2,506	2,458	2,400	-2.4	2,220	-7.5
MLS® New Listings	5,085	5,264	4,578	5,000	9.2	5,100	2.0
MLS® Average Price ($)	231,596	230,656	236,637	243,000	2.7	244,000	0.4
New Home Market							
Starts:							
Single-Detached	324	300	286	315	10.1	280	-11.1
Multiples	216	128	85	115	35.3	110	-4.3
Semi-Detached	4	0	0	18	n/a	10	-44.4
Row/Townhouse	107	82	55	85	54.5	60	-29.4
Apartments	105	46	30	12	-60.0	40	**
Starts - Total	540	428	371	430	15.9	390	-9.3
Average Price ($):							
Single-Detached	342,152	345,328	348,765	315,000	-9.7	320,000	1.6
New Housing Price Index (% chg. Ontario)	2.6	3.5	0.1	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.8	2.4	6.0	6.7	-	6.2	-
Two-bedroom Average Rent (October) ($)	822	850	875	880	-	895	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	56,700	56,600	53,400	51,000	-4.5	51,800	1.6
Employment Growth (%)	5.2	-0.2	-5.7	-	-	-	-
Unemployment rate (%)	5.7	6.3	7.6	9.7	-	9.4	-
Net Migration	331	618	578	500	-13.5	550	10.0

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 = apartments 3+

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