

# HOUSING MARKET OUTLOOK

## London CMA



CANADA MORTGAGE AND HOUSING CORPORATION

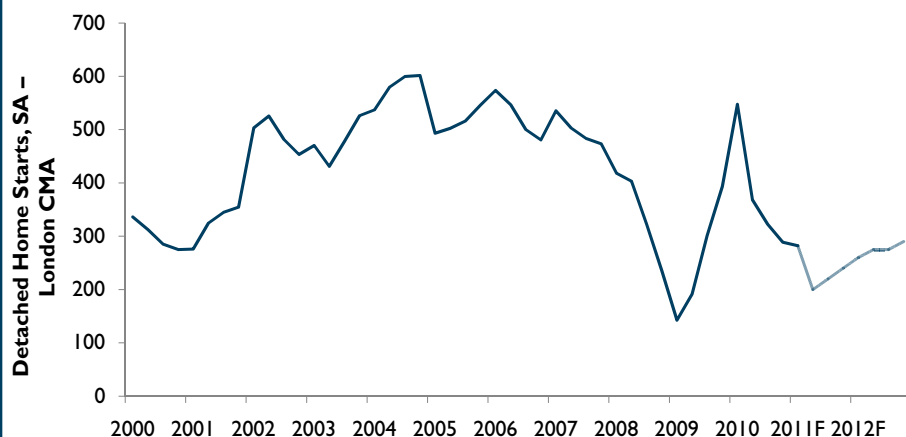
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### Market at a Glance

- Existing home sales will decline in the first half of 2011 and then gradually increase through the latter half of the year and into 2012.
- New home construction will follow the trend in existing home sales with a few months lag.
- Weakness in the manufacturing sector will cause employment to remain soft.

Figure 1

#### Starts Recovering Modestly



Source: CMHC forecasts

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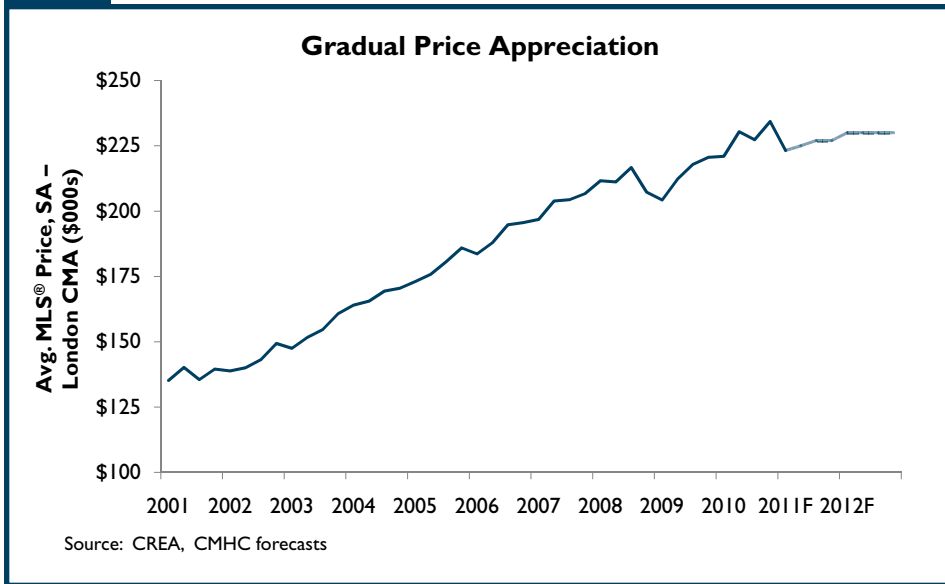
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<sup>1</sup> The forecasts included in this document are based on information available as of April 28, 2011.

Figure 2



improving labour market conditions.

The income required to buy a home will increase only slightly faster than the actual incomes in London, which means that the negative impact on sales will be very small.

Move-up buyers are less sensitive to costs and tend to base their buying decisions more on changing preferences or needs, (e.g., more space needed to accommodate additional family members). Demand from this group, as a result, has been stable and will remain that way throughout 2011. This is most noticeable in areas popular among repeat buyers where sales have either increased or remained unchanged compared to last year, while sales in areas popular with first time buyers moved lower. For the remainder of 2011, the resale market will be mainly supported by move-up buyers. Areas that offer homes suited to their needs will continue to do well.

## Resale Market

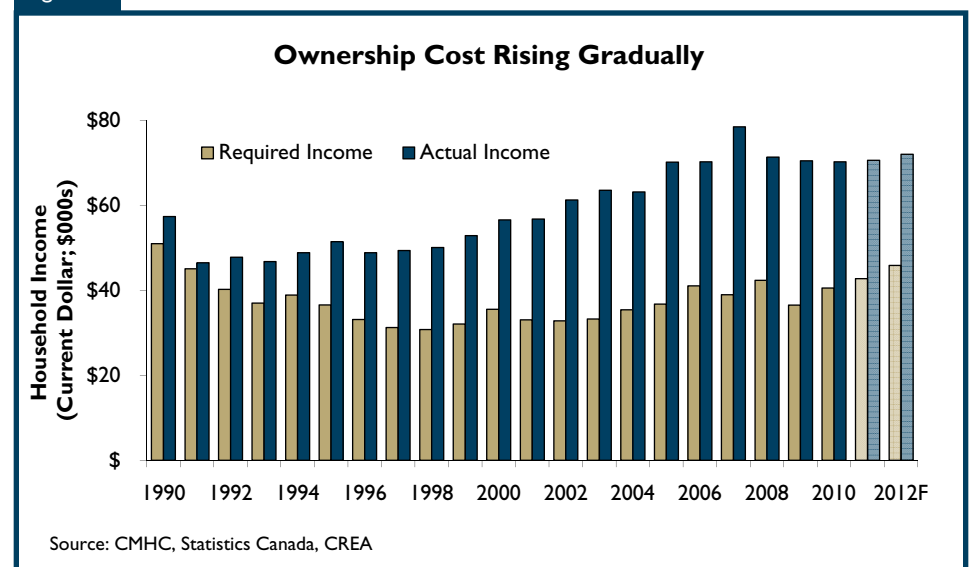
### Move-Up Buyers Will Support Existing Home Sales

Existing home sales in London will moderate before growing again later this year and into 2012. The spring market will be relatively subdued with a lower presence of first-time buyers. However, there will be enough move-up buyers to support the market until the market improves in the later part of the year.

First-time buyers are sensitive to changes in housing costs and lack the level of income and equity that repeat buyers enjoy on average. Furthermore, many purchased in early 2010 to avoid higher mortgage rates and transaction fees expected later in the year. It will take time to replenish the pool of first time buyers so there will be fewer of them to support the market for the remainder of 2011. Moreover, local employment conditions

remain soft, which will hamper their ability to become homeowners. The withdrawal of first time buyers is most noticeable in London South and in the townhouse/condo category, where sales have dropped considerably. However, first time buying activity will increase in 2012 supported by

Figure 3



<sup>1</sup> Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on the average MLS® price, a 10 per cent down payment, the forecast of the posted fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

Supply will be in abundance to balance the market throughout 2011. The resale value of existing homes remained sufficiently attractive after the market cooled off in the third quarter of 2010 to encourage many empty nesters to put their homes up for sale. This translated into more listings in the first quarter of 2011. The prospect that higher interest rates might slow sales later in the year also prompted some people to list in the first quarter. With empty nesters trying to tap into their equity so they can downsize elsewhere, the number of new listings will remain high in 2011.

The average price of resale homes, however, will move down, partially due to an adjustment in townhouse/condo prices. The price swing in the first two quarters of 2010 was mainly due to double digit price growth in the townhouse/condo category when the average price of a resale single-detached home was growing at less than four per cent. However, as the market cooled off in the second half of 2010, the average price of townhouse/condos went down, resulting in a slower growth in the average price in the second half of 2010, and the subsequent drop in the first quarter in 2011. For the remainder of 2011, while the average price will gradually move up, townhouse/condo prices will continue to move down and offset some of the gain in the average price.

## New Home Market

### Soft New Home Construction

Single-detached home construction will be soft during the first two quarters of 2011 before some strengthening in the second half of the year.

More choice in the resale market has been dampening demand for new single-detached homes since mid-2010. Generally speaking, when the resale market is tight, there is more demand spilling over to new home construction. When there is plenty of choice, fewer people buy new. Listings didn't fall as much as sales in the third quarter of 2010 and have continued to increase since then. Considering that many of these homes are well located, readily available, and sometimes fairly new, many move-up buyers are deciding to buy resale instead of new. Among these buyers are health care professionals as employment in the healthcare sector continues to be strong. As the resale market gradually tightens in the second half of 2011, detached home starts will move up gradually as well.

Strong competition from the resale market and a rising inventory of new homes will mean some builders will offer more discounts, keeping the average new detached home price flat. Between 2007 and 2009, the average price of newly completed homes showed double digit growth due to demand for higher priced homes. In 2010, demand for more affordable new homes increased which brought down the average price. While this trend may reverse again in 2011, rising inventory and more competition will restrain price growth. The new home price index (NHPI), which measures the change in the prices of homes which have the same attributes, is expected to increase by only one per cent in 2011.

The number of rental apartment starts will decline in 2011. Construction of a condominium apartment earlier

this year means that only about 200 rental apartment units are expected for this year, which is much lower than the robust level of more than 1,000 units per year between 2006 and 2009. Supply has grown faster than the number of renters so the vacancy rate has risen. The expectation of more rental apartment completions will also restrain initiation of new projects to some degree. Consequently, rental construction will remain soft for the next two years. With less construction the vacancy rate will decline gradually.

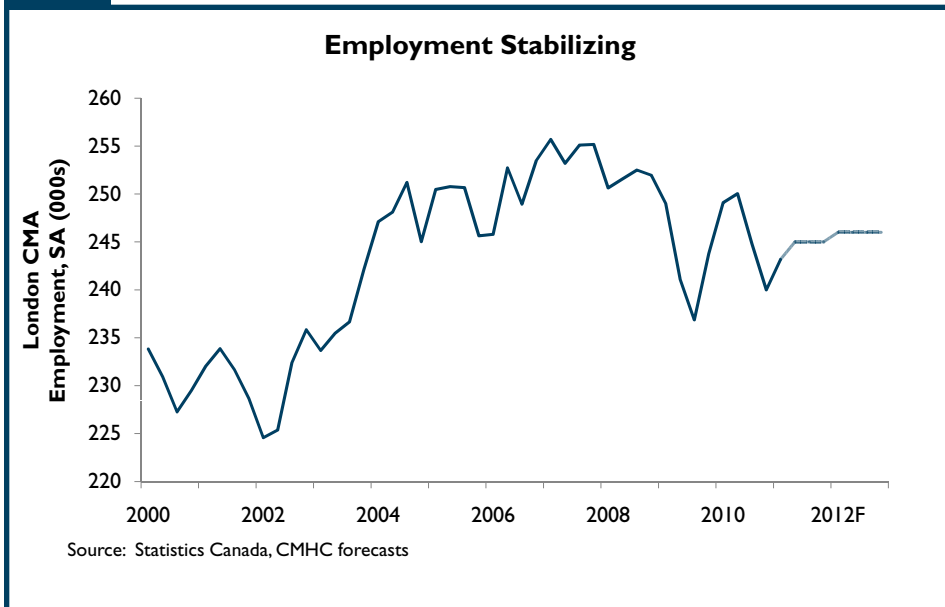
## Local Economic Outlook

### Stabilizing Employment

An uptick in employment in the first quarter of 2011 was due to a strong service sector hiring offsetting some of the losses in the goods producing sector. However, with manufacturing sector employment remaining soft and most of the service-related sectors other than health care on a hiring freeze, employment in the second half of the year will remain flat.

Employment in the manufacturing sector has been trending downward since 2002, exacerbating the job losses in 2008 and 2009 and limiting the subsequent recovery. A higher Canadian dollar, a global restructuring in the automotive sector and more global competition, remain headwinds for the manufacturing sector. Although some manufacturers have announced new investment plans, this has not yet been sufficient to produce a turnaround in employment as some investments are more capital and less labour intensive. While manufacturing employment stabilized during the last

Figure 3



quarter of 2010, the downward trend reappeared in the first quarter and is not expected to reverse direction until later this year when U.S labour markets are on a more solid footing.

The jump in service sector jobs came from a strong hiring in the health care sector. Employment in this sector is more insulated from the economic downturn and has been supporting job growth. Employment in service sectors other than healthcare, however, will be flat for the rest of 2011 since employers have finished their hiring during the last two quarters and are not expecting further expansion.

### Migration

Net migration to the London CMA in 2011 and 2012 will stabilize following some additional recovery. Soft local employment conditions and a stronger economy in the western provinces will contribute to an increase in the number of Londoners leaving.

International migration will, however, continue to be high and bring in new residents. London has attracted most of its immigrants in the past few years from the African and the Middle East region as well as the Asia and Pacific region.

### Mortgage Rate Outlook

On April 12th, the Bank of Canada

announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

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

Forecast Summary London CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
<b>Resale Market</b>							
MLS® Sales	8,620	8,314	8,389	8,100	-3.4	8,300	2.5
MLS® New Listings	16,769	14,795	16,171	16,000	-1.1	16,100	0.6
MLS® Average Price (\$)	212,092	214,510	228,114	226,000	-0.9	230,000	1.8
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	1,369	1,056	1,461	900	-38.4	1,100	22.2
Multiples	1,016	1,112	618	620	0.3	720	16.1
Semi-Detached	24	12	20	20	0.0	20	0.0
Row/Townhouse	205	169	163	200	22.7	200	0.0
Apartments	787	931	435	400	-8.0	500	25.0
Starts - Total	2,385	2,168	2,079	1,520	-26.9	1,820	19.7
<b>Average Price (\$):</b>							
Single-Detached	320,039	341,898	347,634	340,000	-2.2	345,000	1.5
<b>Median Price (\$):</b>							
Single-Detached	295,900	307,900	320,000	310,000	-3.1	314,000	1.3
New Housing Price Index (% chg.)	3.5	1.4	2.7	1.0	-	1.3	-
<b>Rental Market</b>							
October Vacancy Rate (%)	3.9	5.0	5.0	4.8	-0.2	4.2	-0.6
Two-bedroom Average Rent (October) (\$)	834	896	869	878	-	895	-
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	251,600	242,800	244,900	245,000	0.0	246,000	0.4
Employment Growth (%)	-1.1	-3.5	0.9	0.0	-	0.4	-
Unemployment rate (%)	7.1	9.9	8.6	8.6	-	8.2	-
Net Migration	2,569	1,634	1,912	2,200	15.1	2,200	0.0

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),

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

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

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