HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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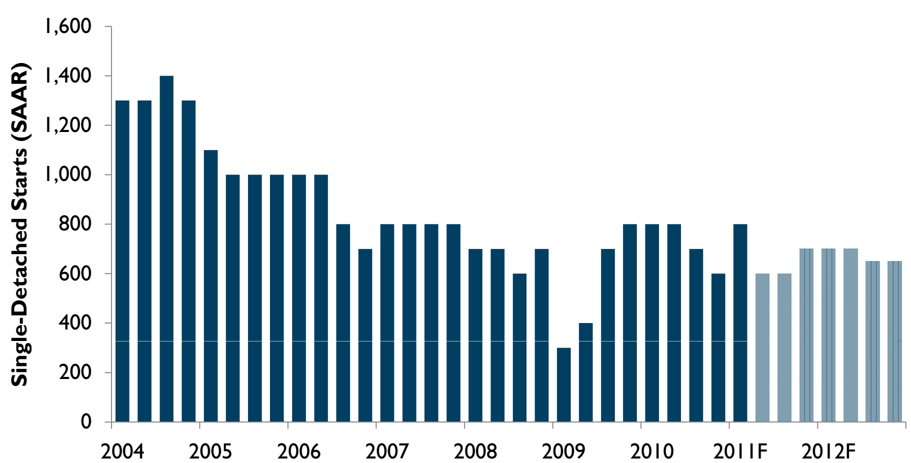
Market at a Glance

- Home sales in Niagara will decline in 2011, but regain most of the lost territory in 2012, supported by increasing employment.
- On average, home price growth will match inflation over the next two years, but the pace will accelerate in 2012 as the resale market tightens up.
- With less demand spilling over from the resale market to the new home market, housing starts will decline by almost nine percent in 2011 but recover fully the next year.

Figure 1

Starts to Decline in 2011 and Increase in 2012



Source: CMHC forecasts

[1] The forecasts included in this document are based on information available as of April 28, 2011.

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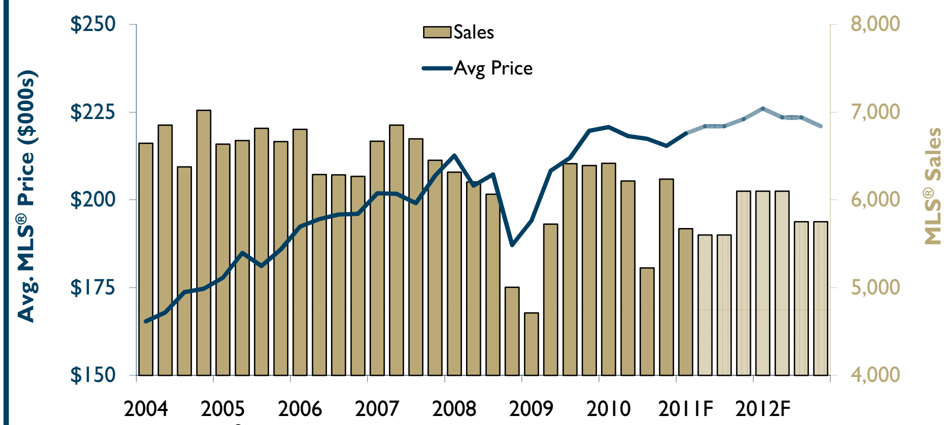
Figure 2

Sales to Stabilize Before Increasing in Fourth Quarter and Into 2012



Source: CMHC, CREA (MLS®)

* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate.

Resale Market

Prices to Grow at Rate of Inflation in 2011 and 2012

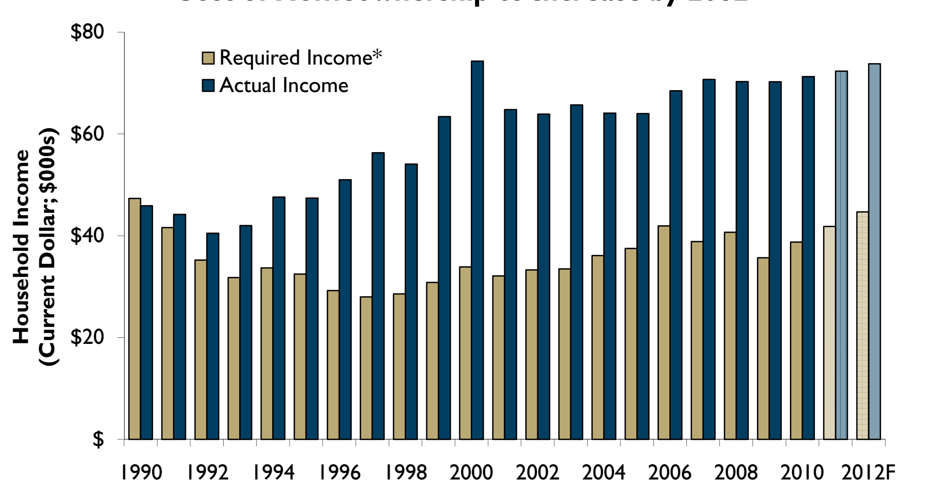
New mortgage rule changes and prospects of rising interest rates in early 2010 encouraged buyers to accelerate their home purchases, causing housing demand to rise in late 2010 and remain buoyant early in 2011.This volatility will moderate during 2011 as mortgage carryings costs move higher and demand slows among first time buyers. Sales will stabilize by mid-year before moving up in the fourth quarter and into the first half of 2012 as more buyers return to the market. On average, home prices will rise at the rate of inflation despite lower sales. They will remain flat in the second and third quarter, before increasing in the fourth quarter.

Low mortgage rates and rapid price appreciation in the resale market motivated many home owners to put up their homes up for sale in the first half of 2010. With home prices expected to grow modestly and sales expected to decline in 2011, there will be a decrease in the number of new listings in the region as some home owners wait for more robust price appreciation. New listings will decline through most of 2011 before increasing again next year. The sales to new listings ratio decreased from 56 per cent in the fourth quarter of 2010 to 41 per cent in the first quarter of 2011. Going forward, new listings are expected to decline faster than sales which will result in a tighter market. The downward trend in the average resale price reversed in the first quarter of 2011 and prices will grow modestly and more in line with inflation for the rest of the year. The median resale price also increased slightly in the first quarter of 2011, but a reduction in the gap between median and average resale home prices indicates that demand is increasing at the lower end.

Increases in mortgage rates, along with modest increases in the average home price, will push up mortgage carrying costs for homebuyers over the next several years. Some home buyers will have to purchase a home at

Figure 3

Cost of Homeownership to Increase by 2012



Source: CMHC, Statistics Canada, CREA

[1] Required income is mortgage carrying costs on an average-priced MLS® home divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the forecast of posted fixed five-year mortgage rate and 35-year amortization for a mortgage loan.

a lower price in order to qualify for a mortgage or postpone their purchase until a later date. Even with average weekly earnings expected to increase at the rate of inflation over the next two years, the gap between the income required to buy a home and actual incomes will decrease by 2012 to its lowest level since 2006. Despite this, Niagara will still be an attractive region to purchase a home when compared to other, more expensive, centers like Toronto, Hamilton or Guelph. Furthermore, improving economic and migratory conditions will provide some offsetting support for housing demand in 2012

New Home Market

Balanced Resale Market Limits Demand for New Housing

Housing starts will pull back in 2011 after an increase last year. Seasonally adjusted starts in Niagara Region have been declining since the first quarter of 2010. Starts have now stabilized in the last two quarters and will remain virtually flat for the remainder of the year, before picking up in 2012. However, in 2011 housing starts will be almost nine per cent lower than in 2010. A balanced resale market, a slow rate of population growth and land constraints will limit home starts this year. Land constraints will continue to be an ongoing issue in the region. There is more land available for development in the south, in places like Wainfleet and Port Colbourne. However, demand is stronger in the north, for example, in the city of St. Catharines, where land is limited. There will be fewer single-detached development projects and more town home and apartment construction in the north by 2012.

Starts will decline in 2011 for all housing types except apartments. Building permits for multi-residential units have increased by 75 per cent in the last two quarters from last year, while permits for single-detached units have declined by 17 per cent during that same time period. Residential construction activity will shift towards apartments this year and next because of land constraints in Niagara Region. Apartment starts will nearly double in 2011 from 2010. This will occur because municipalities are encouraging higher density construction projects and because demand from downsizing homebuyers is increasing. Nonetheless, single-detached homes remain the preferred housing type for buyers. In the first four months of 2011, singles made up 62 per cent of total starts. The decline in town home starts has been greater than expected. The decline in town home starts is partly due to fewer young families living in and purchasing homes in Niagara Region.

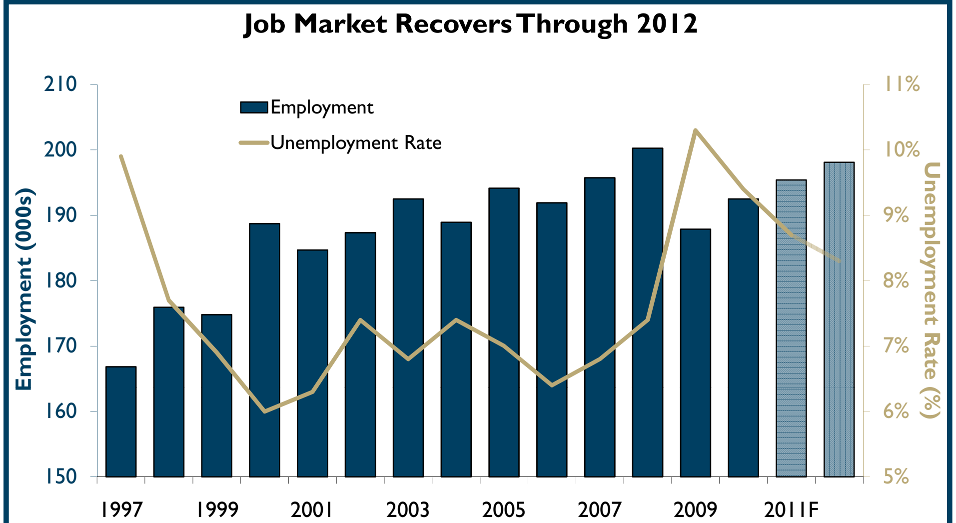
With overall demand for new homes easing, the average price of new single-detached units in Niagara Region has declined in recent months. However, as more buyers from other parts of Ontario, mainly Toronto, and outside of Canada settle into Niagara Region, new home prices will continue to rise, appreciating at the rate of inflation in 2011 and 2012. The New Home Price Index, which tracks price appreciation in equivalent homes, has been relatively stable over the past two years. As the economy and labour market recovers, expect the index to increase gradually as the cost of land and labour start moving up again.

Economic Factors

Employment Improving at a Slower Rate in 2011 and 2012

An improving employment situation will benefit the resale and new home markets despite expected increases in mortgage rates. Employment growth in the region is supported by growing demand for labour from industries such as health care, education, tourism and information technology. Employment growth, especially in the manufacturing sector, will not be as strong as in previous years and will be lower in 2011 and 2012 compared to 2010. However, as the US economy improves, this will have a positive impact on key Niagara manufacturing industries, such as the automotive industry. Although employment is improving, part time employment is growing at a faster rate than full time employment. People that have full time employment are more likely to make a purchase or get approved for the purchase of a home by a financial institution. The annual unemployment rate in Niagara Region will remain higher than the provincial average but will keep improving, albeit at a slower rate, in the next two years.

Figure 3



Source: Statistics Canada

An improving local economy has benefited Niagara Region since inter-provincial migration to other parts of the country has recently declined and international and intra-provincial migration to the region increased. Intra-provincial migration will continue to increase, especially from older families and retirees/pre-retirees from the Greater Toronto Area. However, with an aging population and negative natural increase, meaning more deaths than births, the population grew only modestly in 2009 and 2010. This slow population growth limits the demand for new housing. When looking at net migration by age between 2005 and 2009, there was a net loss into the region of people in the 18 to 44 age group. This group is the main source of renters and first time homebuyers.

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
St. Catharines-Niagara CMA
Spring 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	5,896	5,808	6,024	5,750	-4.5	5,900	2.6
MLS® New Listings	12,428	11,691	12,346	12,000	-2.8	12,200	1.7
MLS® Average Price ($)	203,647	209,563	217,938	221,000	1.4	224,000	1.4
New Home Market							
Starts:							
Single-Detached	680	574	714	650	-9.0	660	1.5
Multiples	458	285	372	340	-8.6	390	14.7
Semi-Detached	56	42	60	50	-16.7	50	0.0
Row/Townhouse	288	164	271	210	-22.5	240	14.3
Apartments	114	79	41	80	95.1	100	25.0
Starts - Total	1,138	859	1,086	990	-8.8	1,050	6.1
Average Price ($):							
Single-Detached	375,998	368,423	378,640	384,000	1.4	390,000	1.6
New Housing Price Index (% chg.)	4.3	-0.6	0.8	1.8	-	2.9	-
Rental Market							
October Vacancy Rate (%)	4.3	4.4	4.4	4.2	-0.2	4.0	-0.2
Two-bedroom Average Rent (October) ($)	777	804	817	835	-	850	-
Economic Overview							
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	200,300	187,900	192,500	195,400	1.5	198,100	1.4
Employment Growth (%)	2.3	-6.2	2.4	1.5	-	1.4	-
Unemployment rate (%)	7.4	10.3	9.4	8.7	-	8.3	-
Net Migration	55	796	936	1,000	6.8	1,070	7.0

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 = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

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