

HOUSING MARKET OUTLOOK

Thunder Bay CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Market at a Glance

- Existing home sales will fall nine per cent this year and show some improvement early in 2012. Listings shortages will continue to put upward pressure on prices with average resale prices rising 7.1 per cent in 2011 and another 6.0 per cent next year.
- Total housing starts will rise 80 per cent this year on the strength of improved apartment starts while falling back slightly next year. Single-detached home starts will trend up in 2012 hitting 195 units while finishing this year at 190 units.
- In-migration will be the driver of population growth given slowing natural births. The interplay between these two variables will determine population gains versus losses going forward.

Figure 1

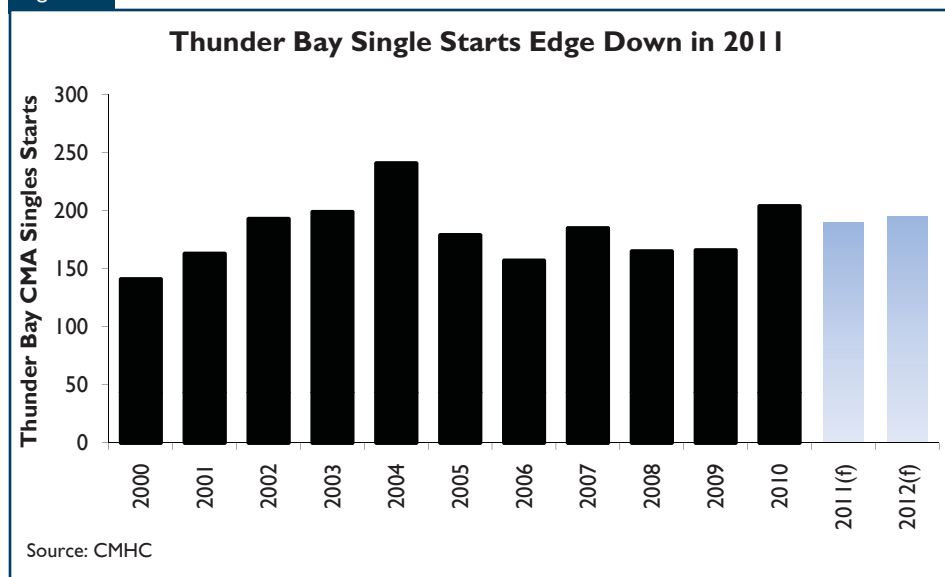


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*The forecasts included in this document are based on information available as of October 5, 2011.

Resale Homes Market

Resale Activity Will Remain Steady in 2012

Uncertainty in credit and financial markets will temper gains in consumer spending and housing demand for the remainder of 2011. After falling nearly ten per cent this year, sales will grow modestly in 2012 by 1.5 per cent. Improving sentiment in credit and financial markets along with accommodating five year mortgage rates should support more first time buyer activity early in 2012.

Additionally, modest improvement in job fortunes in 2012 should provide underlying support for the housing market. Stronger average weekly earnings over the second and third quarters in Thunder Bay reflect full time job stability. Furthermore, higher paying service sector jobs primarily in knowledge based vocational sectors have brought Thunder Bay incomes to being almost in line with Ontario average weekly earnings. Increasing average income will help maintain housing demand in 2012.

Although still below last year's levels, active listings have improved recently. This has resulted in the days on the market indicator rising. In concert with this trend is a slowing in the trend of homes selling over list price. While the resale market is slowing gradually, seeing over one quarter of homes selling at or over list price and an average selling time of four weeks indicates a trend that will keep Thunder Bay in seller's market territory this year and next.

Yet, there are some variables of concern in the resale housing market. Households headed by those aged 25-44 are viewed as being most active in the housing market, often buying their first and possibly their second home during this time frame. However, in Thunder Bay, a growing, aging baby boomer pool of households aged 45-64, is less mobile and more likely to remain in their homes for longer periods of time. As a result, this has created a shortage of housing options at higher price points and limited the amount of trade-up activity.

Recovering demand combined with tight supply conditions suggests Thunder Bay prices will outpace price growth for most Ontario markets this year and next. Average prices will continue to rise growing by 7.1 per cent in 2011 and a further 6.0 per cent in 2012.

New Home Market

Single Detached Construction To Top Historic Averages

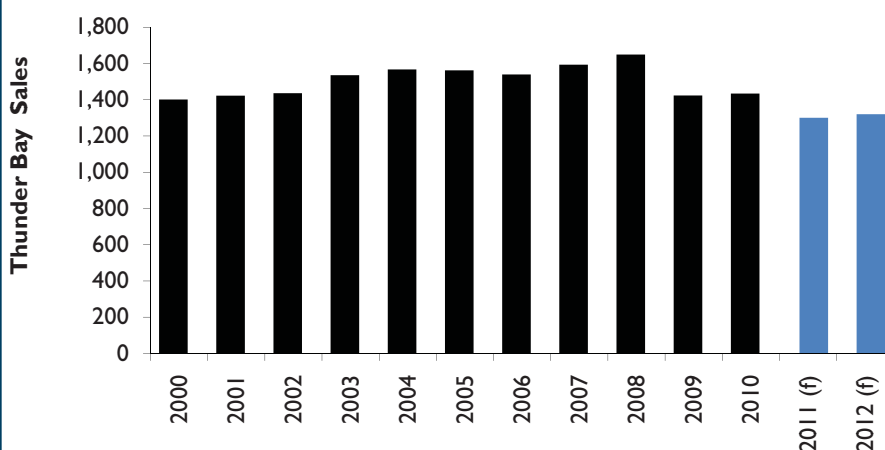
CMHC expects starts to ease to 190 units before edging up to 195 units in 2012. Both totals if achieved will top the 15 year average for single detached starts in the Thunder Bay market of 180 units.

More phases of existing subdivisions will fuel suburban expansion in 2012 and at least one sizeable dormant urban fully-serviced subdivision will be brought back on stream to compete with other existing land supply. Since the market is dominated by pre-sold or owner built new construction, very few units sit unoccupied after completions have been observed. This year is no exception with only two unabsorbed units on average each month available for buyers.

Multi-family home construction, which includes semi-detached, townhomes and condominiums, has already topped 2010 levels and will finish 2011 well above last year's mark while 2012 stands to be another good year with several projects currently at various stages of planning. With relatively low vacancy rates and continued demand for ownership alternatives, two hundred and ten row and apartment starts will commence in 2011 and another 190 in 2012 in Thunder Bay. The majority of activity will be apartments in 2011 while 2012 will be dominated by condominiums

Figure 2

Resales to improve slightly in 2012



(f) CMHC Forecast; Note: TBREB sales are for Districts 1 & 2 only.
Source: TBREB, CMHC.

with an above average number being ground oriented condominiums, an uncommon sight in Thunder Bay.

Average new home prices in Thunder Bay have crept over \$300,000 over the past year but still remain relatively low compared to other census metropolitan areas in Canada. Incomes have risen but it remains to be seen whether those that are experiencing earnings growth are motivated to move to alternative accommodation especially given the aging in place phenomenon observed in the local market. The New Home Price Index for Sudbury-Thunder Bay has not risen this year as expected. In fact, it will fall nearly one per cent this year and will be hard pressed to recover in 2012.

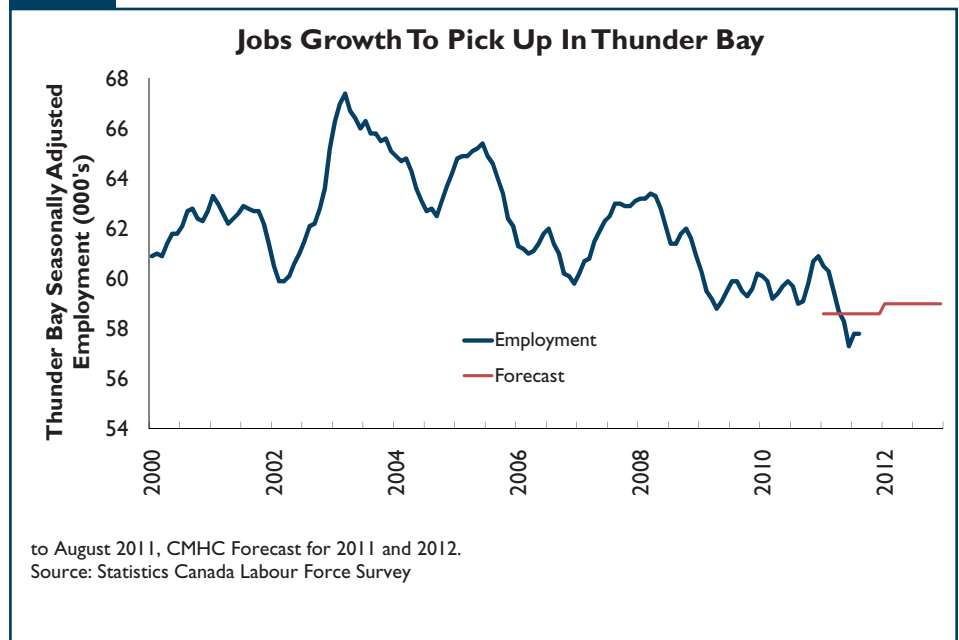
Economic Overview

Employment Growth Weakens Before Stabilizing

Thunder Bay employment has weakened thus far in 2011 and stands to fall 2.3 per cent this year but should stabilize to grow nearly one per cent in 2012. Weakness is being witnessed in the services-producing sector, part-time job market and youth job market (15-24) most acutely. Youth employment (15-24) has been in a steady state of decline since 2005 and shows no signs of recovery.

Thunder Bay's role as a staging centre for mining exploration, mine development and operation in a global environment of relatively strong demand for those raw materials found in Northwestern Ontario will be important to medium to long term growth in the local job market. Meanwhile, while the lumber industry continues to consolidate, pulp, newsprint and value added product development provide some optimism

Figure 3

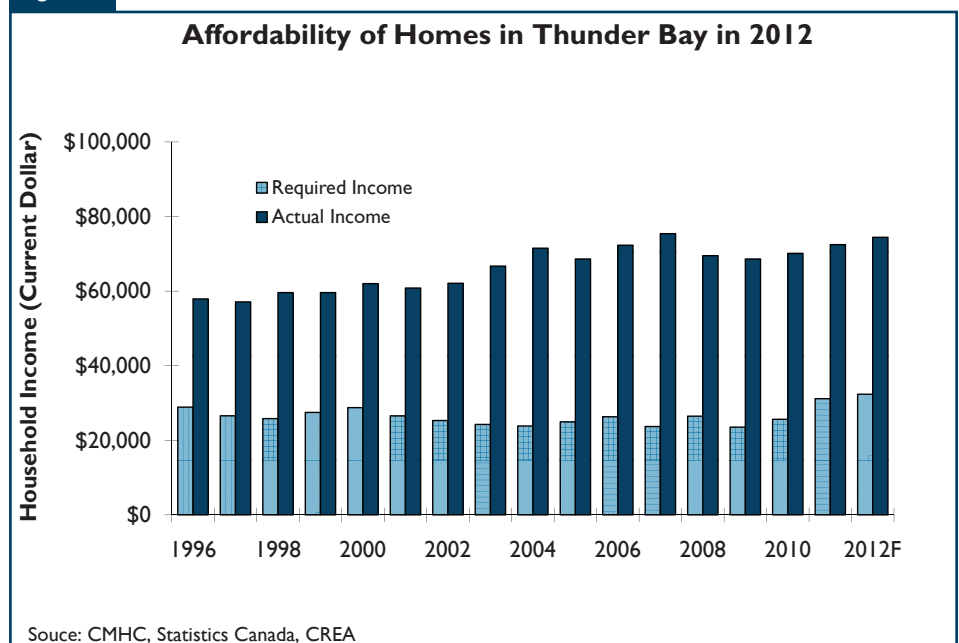


to the forest products sector. Thunder Bay's rapid transit car producer appears to have a solid body of work for the foreseeable future and the emerging knowledge-based economy

with a focus on medical research will continue to add jobs in an incremental way.

As mentioned, demand is relatively strong for mining commodities

Figure 4



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 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

produced in Northwestern Ontario. Gold prices ranged between \$1600 and \$1900 per ounce in the third quarter. Nickel, copper, palladium, platinum and other base metals and specialty commodities are priced at the higher end of their recent ranges. Mining producers, explorers and suppliers will continue to impact the Thunder Bay economy over the coming years in a positive way. The Ring of Fire Development, north of Greenstone, will be most noteworthy in this regard.

Stronger income growth stemming from the continued movement towards more knowledge sector jobs is being observed. Look for average weekly earnings to grow 3.4 per cent this year and another 2.7 per cent in 2012.

Migration improvement offsetting natural increase decline

Intercensal demographic counts to 2010 confirm an ongoing trend to deaths outpacing births on an annual

basis in Thunder Bay as a result of our aging population. Conversely, net migration has become positive as in-migration to Thunder Bay from the region that includes Kenora District, Rainy River District and small communities within Thunder Bay District grows. In addition, the emergence of more knowledge-economy jobs has brought immigrants from outside the province and Canada. The aforementioned trends should continue for the foreseeable future keeping Thunder Bay's population stable to growing slightly.

Mortgage rate outlook

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest

rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. 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 until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Forecast Summary Thunder Bay CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	1,649	1,423	1,434	1,300	-9.3	1,320	1.5
MLS® New Listings	2,839	3,193	2,905	2,700	-7.1	2,750	1.9
MLS® Average Price (\$)	139,301	145,074	155,060	166,000	7.1	176,000	6.0
New Home Market							
Starts:							
Single-Detached	165	166	204	190	-6.9	195	2.6
Multiples	2	14	18	210	**	190	-9.5
Semi-Detached	2	6	10	10	0.0	10	0.0
Row/Townhouse	0	4	4	16	**	10	-37.5
Apartments	0	4	4	184	**	170	-7.6
Starts - Total	167	180	222	400	80.2	385	-3.8
Average Price (\$):							
Single-Detached	244,158	270,513	319,582	332,000	3.9	341,000	2.7
Median Price (\$):							
Single-Detached	245,000	274,900	309,900	325,000	4.9	335,000	3.1
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	5.5	0.7	-0.5	-1.0	-	-0.5	-
Rental Market							
October Vacancy Rate (%)	2.2	2.3	2.2	2.0	-0.2	1.5	-0.5
Two-bedroom Average Rent (October) (\$)	719	742	763	771	1.0	790	2.5
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	62,200	59,600	59,800	58,600	-2.0	59,000	0.7
Employment Growth (%)	-0.5	-4.2	0.3	-2.0	-	0.7	-
Unemployment rate (%)	5.9	8.3	6.6	6.7	-	6.8	-
Net Migration	-7	110	239	300	25.5	350	16.7

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

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