HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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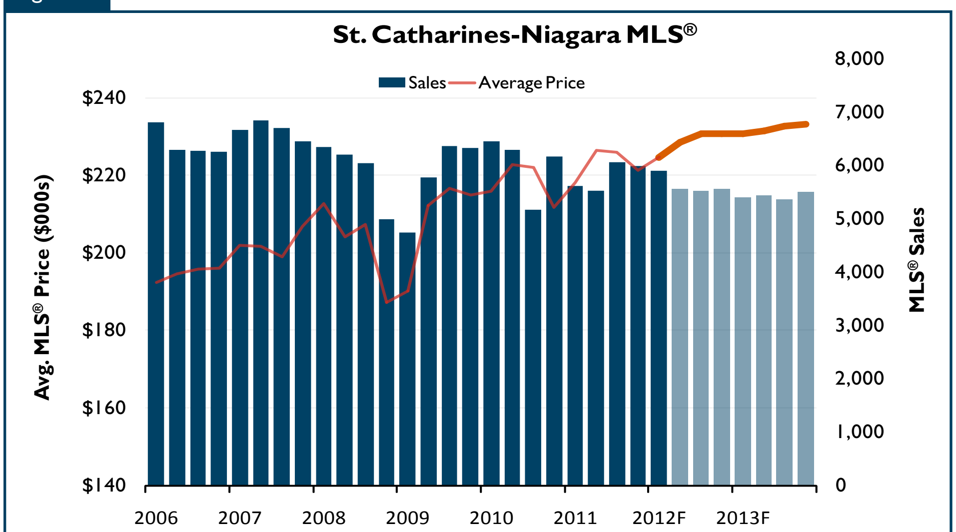
Market at a Glance

- The economy in the St. Catharines-Niagara CMA is expected to have limited employment growth as a number of factors including migration trends constrain potential growth.
- The pace of starts is expected to slow in both 2012 and 2013 compared to 2011. Row homes are expected to increase as a proportion of overall starts.
- Resale activity is expected to slow over the next two years. The market will remain balanced as sales slow and sufficient listings come to market to serve demand.

Figure 1



Source: CREA, CMHC

* The forecasts included in this document are based on information available as of April 27, 2012.

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Resale Market

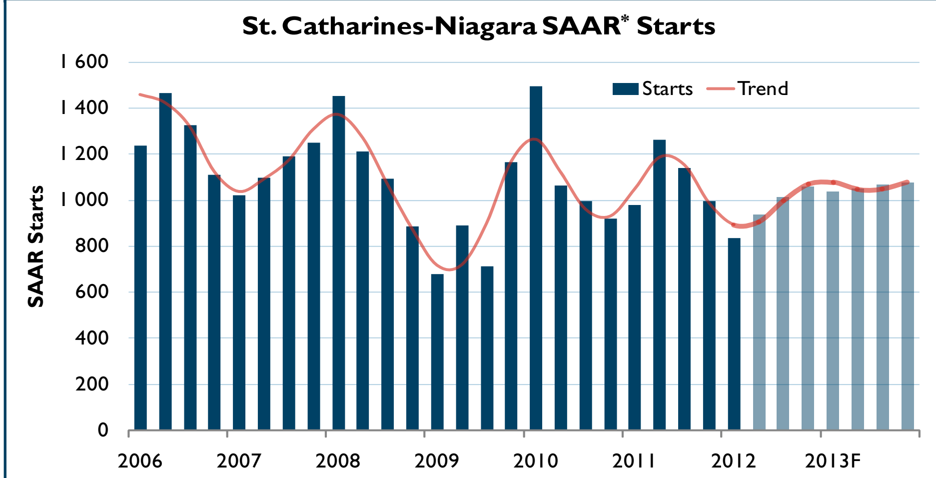
A market in balance

MLS® sales in the St. Catharines-Niagara CMA have been fairly stable over the past four years, with annual sales remaining within a 225 unit range and averaging just over 5,800 sales. Through the latter part of 2011, seasonally adjusted sales consistently grew on a quarterly basis. The first quarter of 2012 showed some softening. It is expected that seasonally adjusted sales will decrease slightly from their first quarter level and then remain quite consistent through the remainder of 2012. Through 2013, much of the same is expected with sales picking up slightly at the end of the year as the economic recovery builds strength. A low interest rate environment will continue to provide strength to the resale market through the remainder of 2012, however, mortgage market conditions are expected to tighten in 2013. Employment and incomes are forecast to grow at a slower pace over the next 18 months in the CMA as compared to 2011. The net effect of tighter mortgage market conditions and slower employment growth will be for lower existing home sales over the next two years. Should higher than expected economic growth in the United States lead to a faster pace of economic growth in Ontario, stronger employment growth will help bolster the existing home market.

Other factors outside of employment and interest rates will continue to place downward pressure on the resale market. Since 2005 there has been a consistent out-flow of people in the 25-44 age group, the demographic generally identified as being first time buyers. This out migration is not expected to reverse significantly over the forecast horizon given the employment outlook and expectation that continued strength in the Western provinces and relatively higher wages will entice young workers to migrate.

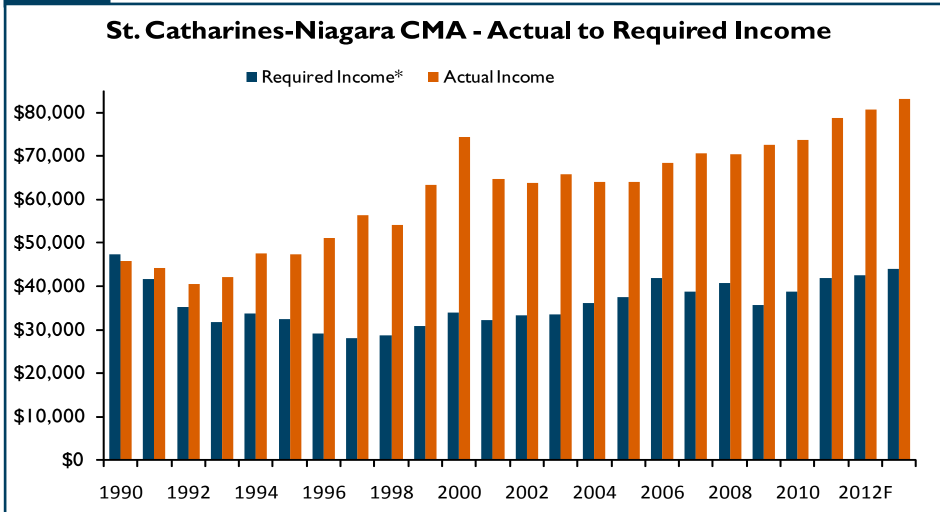
The resale market tightened in the fourth quarter of 2011 as listings contracted late in the quarter. Listings have since recovered and the sales-to-new-listings (SNL) ratio indicates that the market is in balance. Resale activity will moderate through 2012 and into 2013, and a sufficient number of new listings

Figure 2



Source: CMHC. *SAAR (Seasonally Adjusted Annual Rate). Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

Figure 3



Source: CMHC, Statistics Canada, CREA

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

are expected to maintain a balanced market. Two factors are expected moderate the pace that new listings are introduced to the market, which, in combination with slower sales, will lead to a market in the mid to high end of the 'balanced' range. Firstly, price appreciation in line with inflation will constrain growth of home equity accumulation and thereby homeowners ability to trade up, encouraging some homeowners to stay in their current homes. Secondly, decreasing lot sizes throughout the CMA will change the 'upgrade' decision for some owners. Moving to a new home in many municipalities would entail having a smaller lot. Consequently some homeowners will renovate their existing property and bypass moving altogether.

With a balanced market over the next two years, resale homes in the region will on average remain relatively affordable versus other Ontario centres as determined by a GDS (gross debt service) ratio of 32 per cent. Wages and home prices in the CMA are expected to yield a ratio of about half the 32 per cent guideline. This shows that the average household in the Niagara Region is well-positioned to service a mortgage for the average resale home.

New Home Market

Row home starts to increase

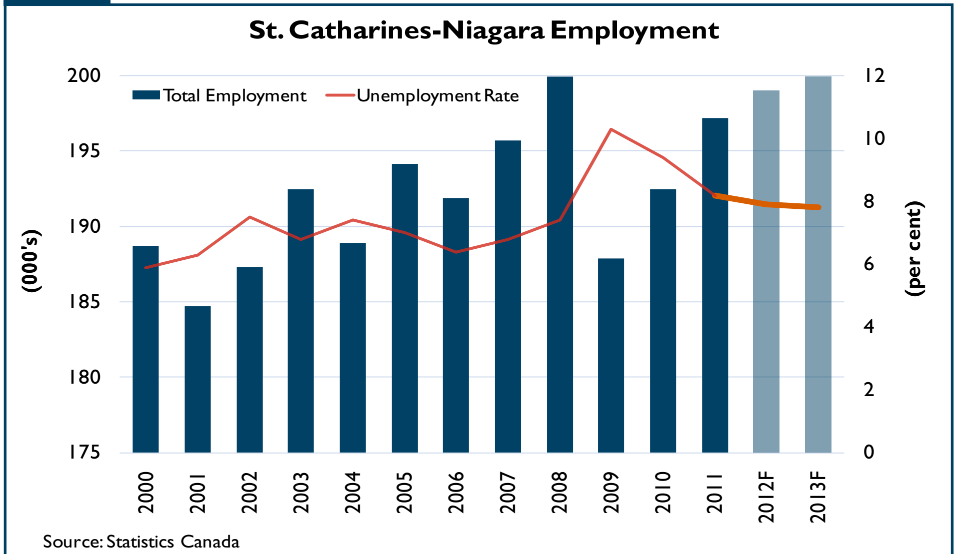
New home starts are currently pointing to a slower year than 2011 as measured by the first four months of the year. Although the pace of starts is expected to pick up momentum near the end of the year, the year-end starts tally for both 2012 and 2013 will be lower than in 2011. Improving economic conditions in Ontario will cause retirees to continue to be a source of migration to the Niagara Region and strength in that segment of the new home market.

Single-detached and apartment starts account for the slower pace of starts in the first four months of 2012 as compared to the same period a year prior. While single-detached construction will continue to account for the majority of starts in the CMA, we expect to see a lower final tally of singles starts over the next two years than in 2011. Townhome starts have increased in the first four months of the year and will increase in both the proportion of overall starts and in absolute terms over the next two years. Two factors will contribute to this growth. Firstly, land constraints in more densely populated municipalities are leading to higher land costs which will encourage higher density development. The second factor is demographics. Townhomes are gaining popularity as a housing option as the population ages.

There is an appetite for high-end housing (i.e., new homes priced over $400,000) in the CMA. This demand is coming as a result of retirees continuing to be a source of in-migration to the CMA and the construction of 'executive' homes. Young families are reported to be favouring larger new homes as well, although in the $300,000-350,000 price range.

High-end homes will continue to be an important component of the new home market in the CMA for the above-noted reasons. Since 2005, in-migration to the CMA has been the based on those 45 years of age and over. These people are generally able to afford a larger home as they have built up equity in and sold their previous home in pricier urban markets. Concerns around growth in China and the Euro-debt issue are resurfacing, however, the recovery in the United States is expected to

Figure 4



Source: Statistics Canada

continue through the remainder of the year and into 2013, giving retirees confidence in their financial position.

Local Economy

Slower growth expected

As is the case in the whole of Ontario, 80% of employment in the CMA is based in the service-producing sector. Employment in the goods-producing sector is expected to remain stable over the next few years in the region. The service sector will therefore be the main source of employment growth. Employment grew just over two per cent in 2011 over 2010 on gains in the health care, educational, and public administration sectors. Employment gains in these higher paying sectors were reflected in substantial gains in average wages for the year. Through 2012 and 2013, publicly-funded sectors are expected to remain at their current employment levels although efforts at all levels of government to limit budgetary increases will constrain growth for the foreseeable future.

The out-migration of 25-44 year-olds in the CMA will constrain employment growth as well. Immigration is serving to mitigate some of the outflow of younger workers. Economic immigrants to the CMA tend to be accompanied by small families. The ratio of family members to economic immigrants has grown modestly over the past five years to 1.5 family members for every economic immigrant in 2010[1]. Although employment growth over the next two years is expected to be modest, immigrants largely choose to settle where they have a network of family and friends. Therefore, the Niagara Region can expect to continue to benefit from immigration in-flows.

It is expected that the relatively slow growth of employment will be the result of a number of factors. Modest population growth and the continued out-migration of 25-44 years olds will combine to limit the availability of skilled labour to fill vacancies. Although some vacancies will remained unfilled, the quality of employment will improve as some part-time positions will transition into full-time positions on improving economic conditions. Part-time positions account for a slightly elevated proportion of total employment as compared to the pre-recession period. The transition of some part-time positions to full-time positions will not lead to a net gain in employment, although the average wage in the CMA will post gains beyond what would be expected given the forecast pace of employment growth.

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

[1] Citizenship and Immigration Canada, Facts and Figures 2010 Digital Library

Forecast Summary
St. Catharines-Niagara CMA
Spring 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	5,808	6,024	5,798	5,580	-3.8	5,425	-2.8
MLS® New Listings	11,691	12,346	11,561	11,150	-3.6	10,900	-2.2
MLS® Average Price ($)	209,563	217,938	223,066	227,973	2.2	231,165	1.4
New Home Market							
Starts:							
Single-Detached	574	714	655	625	-4.6	625	0.0
Multiples	285	372	455	400	-12.1	435	8.8
Semi-Detached	42	60	34	35	2.9	38	8.6
Row/Townhouse	164	271	247	255	3.2	277	8.6
Apartments	79	41	174	110	-36.8	120	9.1
Starts - Total	859	1,086	1,110	1,025	-7.7	1,060	3.4
Average Price ($):							
Single-Detached	368,423	378,640	387,693	398,000	2.7	402,500	1.1
New Housing Price Index (% chg.)	-0.6	0.8	-0.5	1.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	4.4	4.4	3.2	3.2	0.0	3.2	0.0
Two-bedroom Average Rent (October) ($)	804	817	833	855	-	872	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	187,900	192,500	197,200	199,000	0.9	200,000	0.5
Employment Growth (%)	-6.2	2.4	2.4	0.9	-	0.5	-
Unemployment rate (%)	10.3	9.4	8.2	7.9	-	7.8	-
Net Migration	847	1,603	1,538	1,160	-24.6	1,200	3.4

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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