HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
London CMA

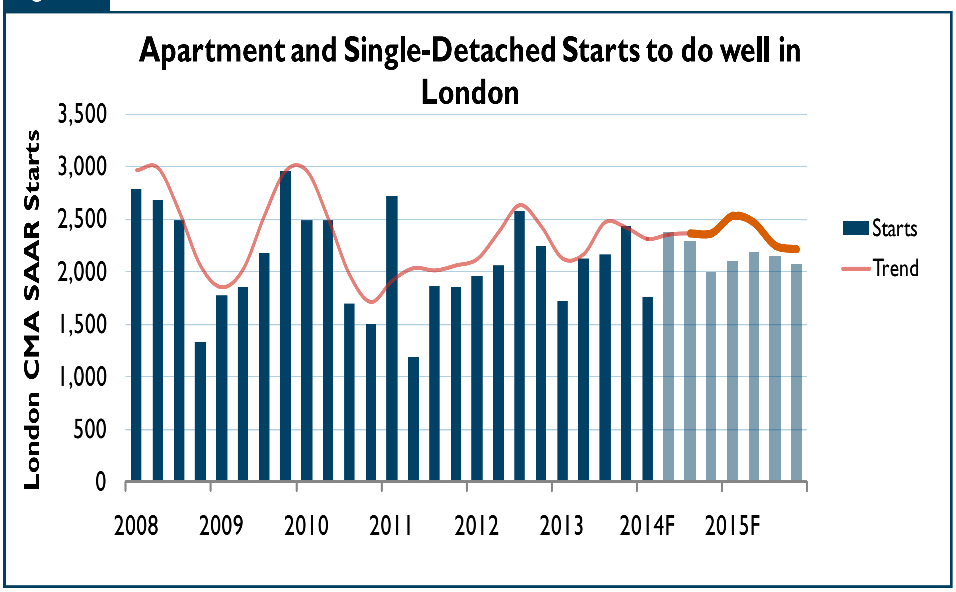
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Starts will be stronger in 2014 with a lot of activity pulled forward to Q2 and Q3.
- MLS® sales will slow across the board with St. Thomas and Middlesex Centre slightly outperforming.
- Rental Market supply and demand will be balanced to keep the vacancy rate relatively stable.
- Job gains and wage growth are forecast for 2014 and 2015.

Figure 1



Source: CMHC forecast. Starts are seasonally adjusted and are multiplied by 4 to show an annual rate.

The forecasts included in this document are based on information available as of April 30, 2014.

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Housing market intelligence you can count on

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HOME TO CANADIANS

New Home Market: Construction will Increase Slightly as Compared to 2013

New construction will grow by two per cent in 2014 to 2,195 starts over the 2,163 homes started in 2013. Single-detached and apartment starts will be the drivers of stronger starts activity in 2014. The wealth effect from stock market gains through 2013, growth in employment, particularly for 45-64 year olds and the continuation of the supportive low mortgage rate environment will combine to entice some Londoners to buy a new home. Start activity in 2015 will slow to 2,135 units, primarily as a result of fewer apartment starts.

Changes to development charges in the City of London are on the horizon and will cause start activity to be pulled forward into the second and third quarters of 2014. Single-detached starts within and outside of the City of London are forecast to do well. Notable areas for home construction outside of the City are St. Thomas and Middlesex Centre. St. Thomas had a slow first quarter for single-detached starts although the average price differential between London and St. Thomas will continue to entice buyers to explore housing options there. Higher value homes in Middlesex Centre will continue to be popular through 2014 given the supportive interest rate environment. Sales at the higher-end of the market outside of the City will be in part supported by increases in farm-land values throughout Southwestern Ontario, allowing some land owners to borrow on the increased value to build a new home.

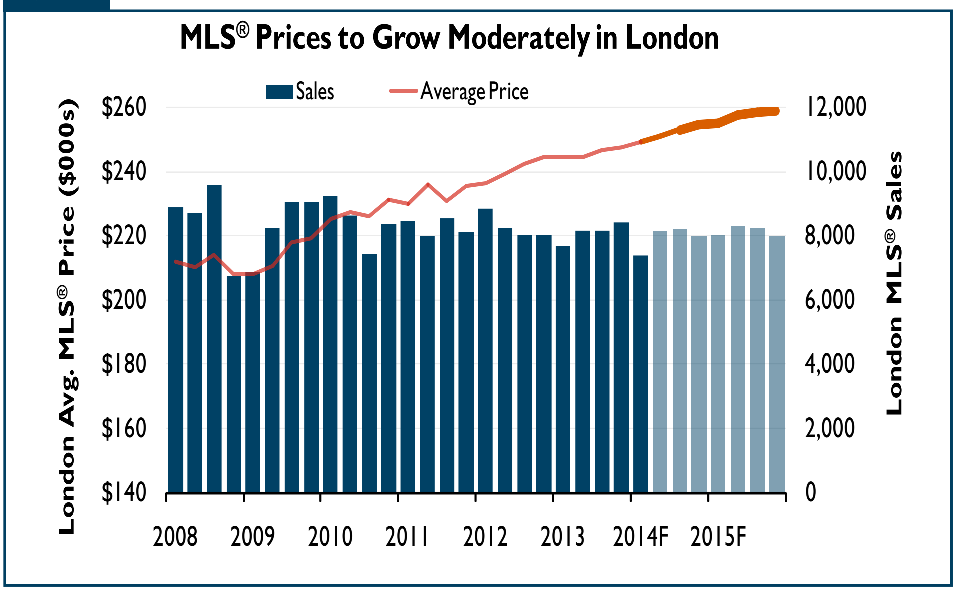
Rising inventory levels of expensive new single-detached homes will prompt developers to offer less expensive housing types for sale to potential buyers. More developers will unveil town home projects throughout the City. Town homes are an attractive housing option for both older Londoners and for first-time buyers and their construction will continue to be strong through 2014 and into 2015. This current year will not bring the year-over-year increase in row house starts that was experienced through 2013, although, the 2013 pace of starts will be maintained in 2014. Townhouse starts through the first quarter indicates that the pattern of starts in 2014 will not be as concentrated in the North and South of London as it was in 2013. While the mortgage carrying cost for the average town home is close to the average rent of a two bedroom apartment in the CMA, which will encourage some renters to move into ownership, the spread between the two will widen over the next two years. This will tip the balance of the own/rent decision towards renting in 2015. The aging population in London will continue to create demand for row housing given their lower upkeep requirements.

Existing Home Market: London's Resale Market to Slow Slightly in 2014

MLS® sales in 2014 will total 7,970 homes, slightly lower than the 2013 tally of 8,113. The cold grip of winter contributed to a slower than anticipated start to 2014 which will be the primary contributor to the lower sales relative to 2013. 2015 will see 2.3 per cent growth in MLS® sales over 2014, as the job market begins to improve.

In 2013, growth of resale market sales in the $300,000 to $500,000 price range significantly outperformed sales in the whole CMA where overall sales declined. Throughout 2014, sales across the board will be slower and the same level of outsized growth is not anticipated for any price range. While sales are expected to decline

Figure 2



Source: CREA (MLS®), CMHC forecast. Note: Sales are seasonally adjusted and are multiplied by 4 to show an annual rate. Prices are seasonally adjusted. MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

consistently, sales of higher-end homes may hold up better than expected given the higher net worth of buyers of such homes who are less sensitive to movements in mortgage rates and anticipated improvements in employment.

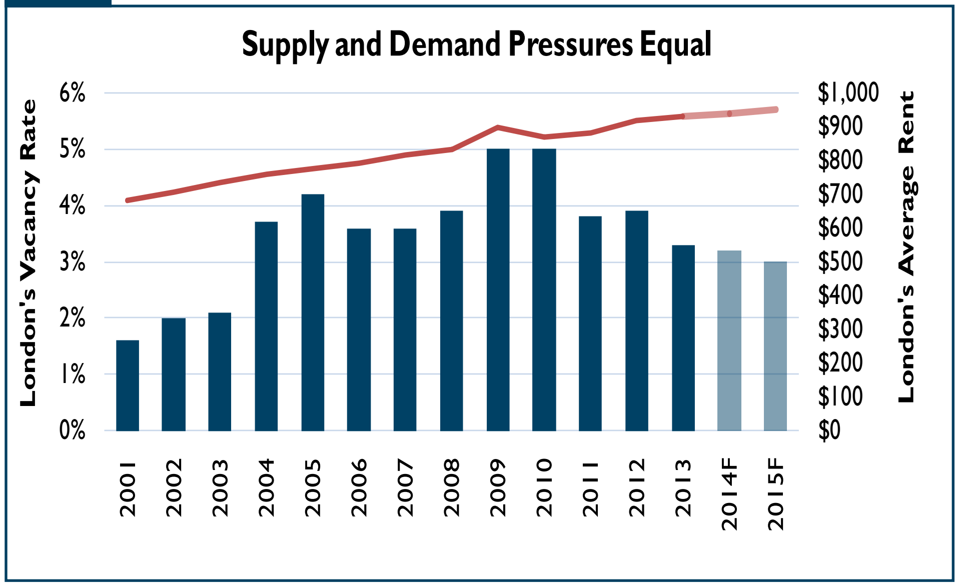
The sales-to-new listings ratio will remain in balance for the CMA as a whole, in turn limiting upward price pressure. Listings will slow in conjunction with slower price growth in 2014. St. Thomas is likely to see upward price pressure due to demand for affordable homes and demand for the more expensive homes in Middlesex Centre will also be strong. MLS sales in Middlesex Centre through the first quarter were strong, just as was seen on the new home market. Improving employment, wage growth and the favourable gap between the average actual income and the income required to carry the average mortgage (while staying within the 32 per cent GDS threshold) will support price growth in 2014 beyond the pace of inflation in London. The average MLS® transaction in London will remain affordable for the average household.

Rental Market: Supply and Demand to Keep Vacancy Rate Relatively Stable

Vacancy rates in London are forecast to be 3.2 per cent in 2014 and 3.0 per cent in 2015. This forecast is meant to show relative stability of the vacancy rate. A significant decline in vacancy rates between 2012 and 2013 will limit the potential for further downward movement in the vacancy rates over the next two years. A positive outlook for employment and mortgage rates will result in increasing home buying demand which will also limit any significant declines in the vacancy rates. Demand for rental apartments will be driven by the rate of formation of smaller households, in-migration of 15-24 year olds from within the province who tend to be renters and improving employment opportunities for young Londoners.

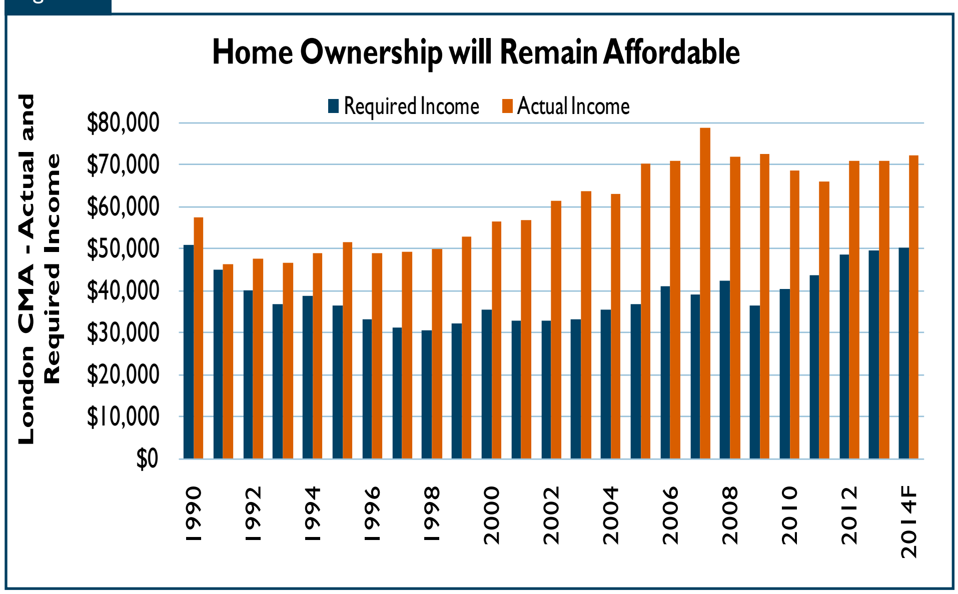
Growth in the number of immigrants to the CMA and a slowing of out-migration to the western provinces are two demographic factors that will support the rental market in 2014 by increasing demand for rental units.

Figure 3



Source: CMHC

Figure 4



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

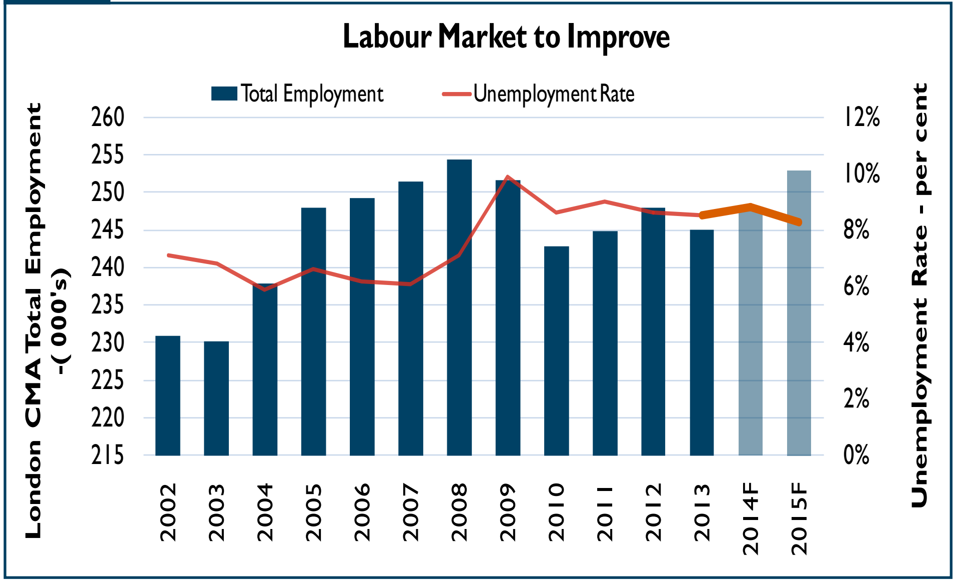
The average rent will increase modestly in both 2014 and 2015 to $940 and $952 respectively. Average rent increases will be constrained by low inflation which in turn limits the maximum allowable rent increase as per the Provincial guideline. A widening gap between the average two bedroom rent and mortgage carrying costs of the average row home will be supportive of the rental market, especially in 2015. Average price growth for town homes in 2014 and particularly in 2015 that is faster than growth of average rents, will put downward pressure on vacancy rates.

Increased rental supply will put upward pressure on vacancy rates, especially in 2015 although the above noted demand factors will continue to outweigh increases to supply to keep the vacancy rate stable in the CMA. There were 568 rental apartment units under construction as towards the end of 2013. Based on the historical average construction time for apartments in London, less than half of those units will be completed prior to the Fall 2014 Rental Market Survey.

Economic Trends: Jobs will Support Housing Demand

Employment is forecast to grow by 1.2 per cent and 2.0 per cent in 2014 and 2015 respectively. Following a softening of employment in 2013, particularly in the service and manufacturing sectors, 2014 will bring more employment opportunities to London. Announcements such as the General Dynamics contract tells us the CMA's manufacturing sector prospects are good despite some difficult times in 2013. The forecast[1] for 2014 shows that US automotive sales and residential starts to continue to increase. This increased demand from our neighbour to the South in conjunction with the lower Canadian dollar will position London's manufacturing sector well to take advantage of export related growth. Statistics Canada recently indicated that Canadian manufacturing sales have increased in 8 of the past 10 months and that unfilled orders in the transportation industry increased by nearly a quarter. London's service sector will also improve, specifically, the high-tech and professional sectors should see job gains in 2014. The lower Canadian dollar will benefit the Information and Communications Technology (ICT) sector which is reported to have close ties to the United States. With businesses in the US ramping up investment spending, IT related industries will benefit.

Figure 5



Source: Statistics Canada, CMHC

New graduates of local institutions will support entry-level workforce demand and a greater mass of employers in this sphere should help attract experienced workers. As employment opportunities improve, wages will see upward pressure and more Londoners will be attracted to the labour force.

Mortgage Rate Outlook

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

- Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will

[1] Consensus Economics Inc. Consensus Forecasts April 2014

remain low and will continue to support housing market activity over the forecast horizon.

- According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Mortgage rates		
1 Year	Q1 2014	3.14
	Change from Q1 2013	0.14
	2014 (F)	3.00 - 3.50
	2015 (F)	3.20 - 4.25
5 Year	Q1 2014	5.15
	Change from Q1 2013	-0.06
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Employment	Housing starts will increase to 765 units in 2014 and then again to 810 units in 2015
Income	Following a year with no wage growth, incomes in London will increase by just below two per cent in 2014 and will post slightly faster growth in 2015.
Population	Population growth will continue to come from immigration and inter and intra-provincial migration supported by a stronger employment outlook.
Resale Market	A slow start to 2014 will lead to fewer transactions than a year prior with total sales for the year of 7,965. 2015 will show growth to 8,150 sales.
Mortgage Rates	Commentary provided by NO.

Forecast Risks

This outlook is subject to some risks, including the following:

- The number of multiple housing units currently under construction in some local markets remains relatively high from a historical standpoint. As these units are progressively completed, inventories of newly completed and unabsorbed units may rise in the short to medium term, if they are not entirely absorbed by demand. Should the inventory of new units increase inordinately, builders may delay or reduce the size of some construction projects. This could lead to a sharper-than-expected moderation in starts.

- Canadians are still accumulating debt, albeit at a stable pace. Nonetheless, levels of household debt remain relatively high. With historically elevated house prices in some urban centres, these factors have made the Canada's economy more vulnerable to some economic shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.

- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.

- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets.

Forecast Summary
London CMA
Spring 2014

	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	1,176	1,234	1,153	1,185	2.8	1,175	-0.8
Multiples	572	1,006	1,010	945	-6.4	935	-1.1
Semi-Detached	12	38	24	25	4.2	25	0.0
Row/Townhouse	177	179	278	285	2.5	310	8.8
Apartments	383	789	708	635	-10.3	600	-5.5
Starts - Total	1,748	2,240	2,163	2,195	1.5	2,135	-2.7
Average Price ($):							
Single-Detached	347,430	357,513	367,684	366,250	-0.4	372,300	1.7
Median Price ($):							
Single-Detached	325,000	329,000	343,000	336,000	-2.0	337,500	0.4
New Housing Price Index (% chg.)	0.4	1.3	1.8	1.9	-	2.0	-
Resale Market							
MLS® Sales	8,272	8,272	8,113	7,970	-1.8	8,150	2.3
MLS® New Listings	16,947	16,160	16,371	16,265	-0.6	15,980	-1.8
MLS® Active Listings	2,639	2,743	2,696	2,585	-4.1	2,615	1.2
MLS® Average Price ($)	233,731	241,160	246,943	252,000	2.0	257,750	2.3
Rental Market							
October Vacancy Rate (%)	3.8	3.9	3.3	3.2	-0.1	3.0	-0.2
Two-bedroom Average Rent (October) ($)	881	919	924	940	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	242,900	247,800	244,900	248,000	1.3	253,000	2.0
Employment Growth (%)	-0.8	2.0	-1.2	-0.3	-	1.6	-
Unemployment rate (%)	9.0	8.6	8.5	8.8	-	8.3	-
Net Migration	2,339	3,340	2,460	2,590	5.3	2,675	3.3

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

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

CMHC—HOME TO CANADIANS

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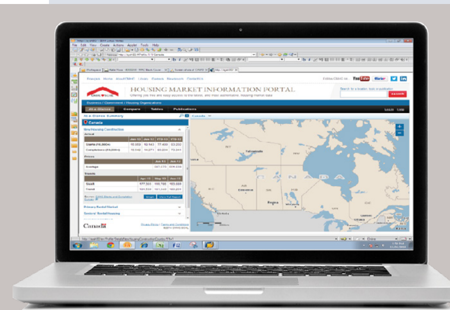

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