HOUSING MARKET OUTLOOK
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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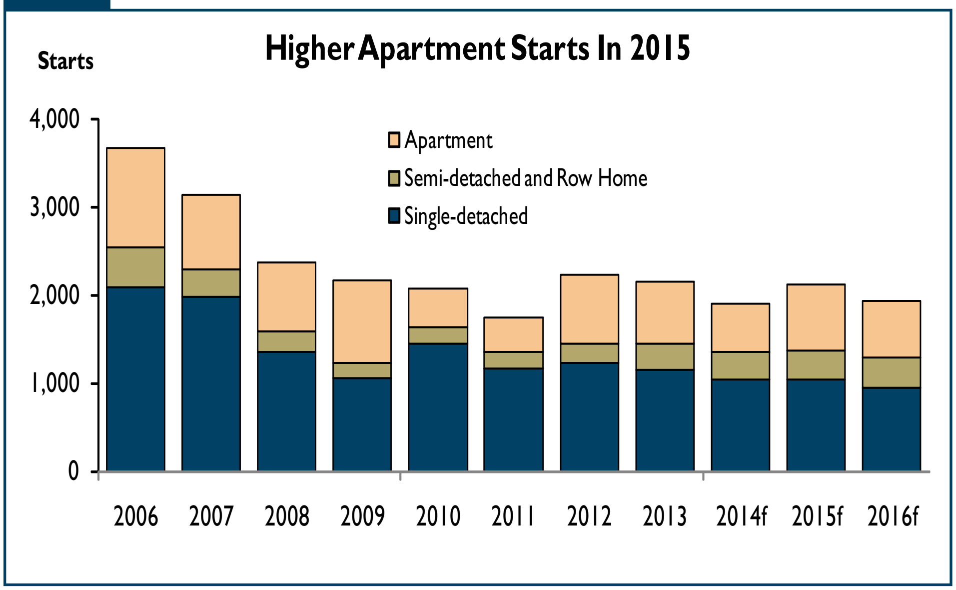
Highlights

- Higher housing starts in 2015
- Existing home sales will increase next year
- The average vacancy rate will be stable in 2015

Figure 1



Source: CMHC (Starts and Completions Survey), CMHC forecasts

The forecasts included in this document are based on information available as of October 22, 2014.

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New Home Market: Greater Demand For Lower Priced New Homes

Total housing starts will increase slightly in 2015, primarily due to higher starts of apartments and row homes. To understand why, we need to look at the state of existing home market. Resale properties priced similar to a new condominium apartment or row home spent less time on the market in the first half of 2014. The length of time needed to sell the average existing home priced from $250,000 to $350,000 will continue to decrease into early 2015, moving closer towards the 40 day benchmark synonymous with a seller's market in London. Demand for those homes will increase due to job growth and no material change in mortgage rates. New home sales offices offering condominium apartments or row homes will get more traffic as a result of the tighter resale market in the $250,000 to $350,000 price range and a low number of unsold completed units.

The growing number of households headed by someone 55 years of age and older will keep demand stable for new condominium apartments and row homes after mortgage rates begin to edge higher in late 2015. At the time of the 2011 Census, households headed by someone 55 years of age and older owned approximately half of the condominium units built in London in the previous five years. The vast majority of these households consist of one person or couples without children, deciding to downsize due to a changing lifestyle and in preparation for a lower income after retirement. They will be far less sensitive to higher mortgage rates than the growing number of 25 to 34 year old households, which generally have less equity in the home being purchased.

Rental apartment starts will be stable through 2016. Half of London's households headed by someone 25 to 34 years of age were renters in 2011[1]. Now that the echo boomer cohort has moved into the 25 to 34 age segment there will be a larger number of households seeking rental accommodation. A steady level of international migration will also support growth in the rental housing stock. Statistics Canada's National Household Survey also tells us that approximately two-thirds of households immigrating to London from 2006 to 2011 became renters.

Only a minor increase in single-detached starts is expected next year due to an above average number of completed and unsold units available for purchase. A large proportion of new single-detached homes are purchased by move-up buyers, since they are more likely to have the equity needed to qualify for a mortgage on the more expensive property. From mid 2014 to mid 2015 resale property owners will have an easier time cashing in the equity of their existing home. Greater demand for resale homes during that period will increase their chances of finding a buyer. However, some move-up buyers will opt to purchase one of the many ready to move in completed and unsold units on the market, instead of putting down a deposit on a pre-construction home.

Single-detached starts will decrease in 2016. Resale property owners will be less likely to find a buyer later in 2015, as higher mortgage rates begin to edge up and temper housing demand. As a result, there will be fewer potential move-up buyers putting down a deposit on a pre-construction unit. Higher mortgage rates will also affect demand for new single-detached homes more than other less expensive dwelling types.

Existing Home Market: Greater Price Growth In 2015

Existing home sales will be higher in 2015, primarily due to growing demand in the first half of the year. Mortgage rates will be relatively unchanged at historical lows. More Londoners will be earning wages that allow them to purchase the average resale home due to steady full time job growth that began in the latter half of 2014. The resale market will be balanced but tighten, causing the average price of an existing home to appreciate by about 1.5% in the first half of 2015.

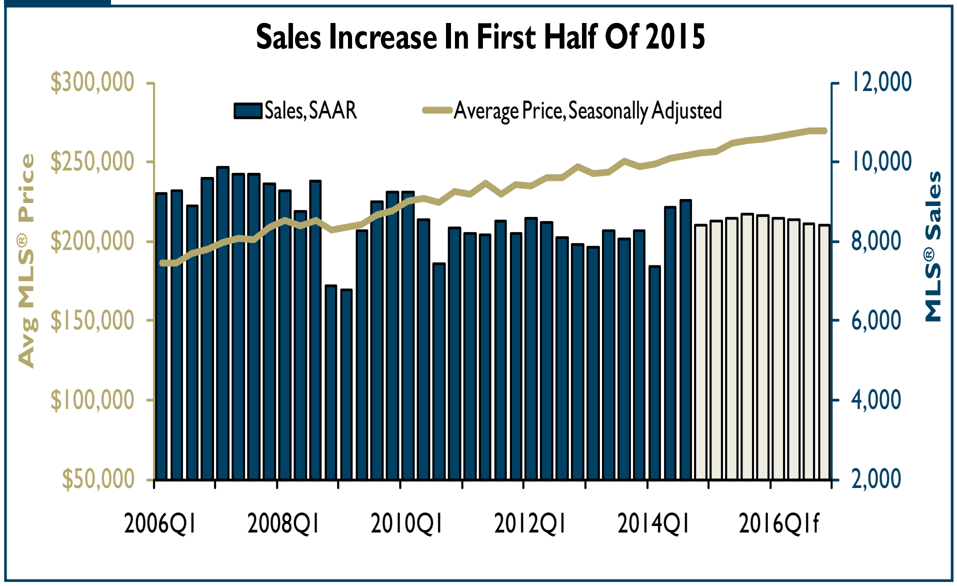
More full time jobs for people aged 25 to 44, in particular, will contribute to an increase in first-time buyers. The greatest share of first-time buyers come from this age group, which is getting larger due to the echo boomer cohort. Despite the existence of low mortgage rates from 2009 to present, a lack of job creation for this age group has kept some potential first-time buyers on the sidelines. A greater number of first-time buyers in the resale market will lead to higher sales under $250,000. Less expensive

[1] Statistics Canada, National Household Survey

regions of London CMA, such as the eastern area of the City of London and St. Thomas will attract more buyers.

In 2015, sales will increase into the fall due to continued job growth in the first half of the year and a slight pick-up in the number of households added by migration. Better job prospects in London will reduce out-migration to Western Canada. Some of the additional households choosing to remain in London will purchase a home. Net migration from outside Canada and within Ontario is expected to be stable.

Figure 2

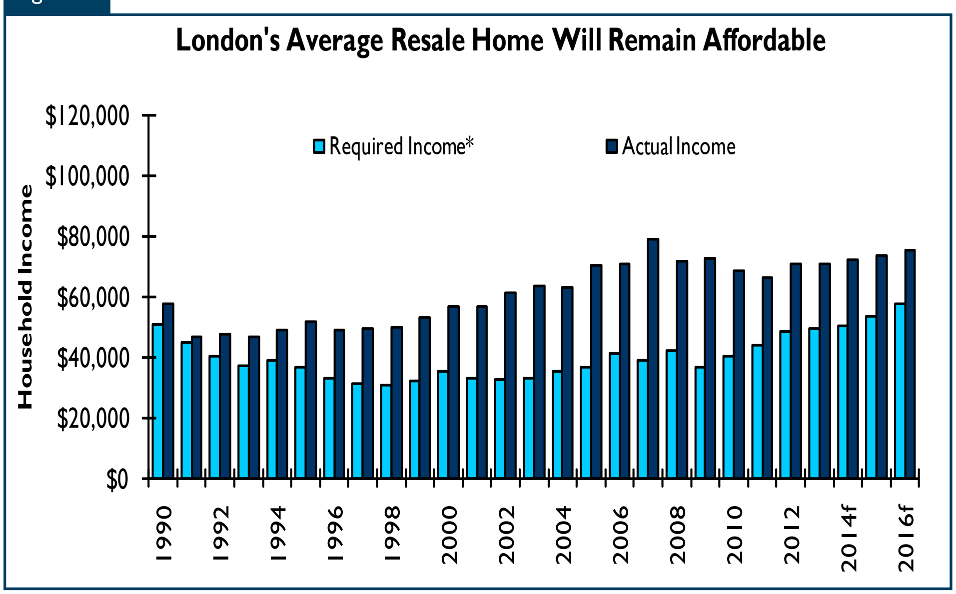


Source: CREA (MLS®), CMHC forecast. Note: Sales are seasonally adjusted and are multiplied by 4 to show an annual rate. Prices are seasonally adjusted. MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Both short and long term mortgage rates will edge up later in 2015, and despite sustained job growth, this will constrain sales. New listings will increase as homeowners respond to greater price growth earlier in the year. With demand stabilized due to higher mortgage rates, expect less price appreciation for the average resale home.

Sales will decrease slightly in 2016 as mortgage rates continue to be a constraint. Less price growth is expected due to fewer sales and a similar number of new listings. Job growth and stable migration will prevent a more substantial reduction in homeownership demand from occurring. So will the relative affordability of the average resale home to the average London household. Higher mortgage rates and price growth will increase the cost of homeownership. However, the average London household will still have more than sufficient income to be able to afford the average resale home in 2016.

Figure 3



Source: CMHC, Statistics Canada, CREA
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

Rental Market: Vacancy Rate to Stabilize in 2015

The vacancy rate for purpose-built rental apartments will be stable in 2015. Growth in the rental housing stock will match the increase in rental demand. New rental housing apartments will be ready for occupancy. In addition, the re-opening of the renovated Delaware Hall residence at Western University will provide more options to student renters.

Greater rental demand will be supported by more full time jobs for young adults. Given average rent is approximately $750 per month for a one-bedroom apartment a young adult in London could afford to move into rental housing after securing a full time job. International migration will remain stable and continue to add renter households to London, as will higher enrolment at London's two post-secondary schools.

The number of rental households added by job growth, stable migration and higher post-secondary school enrolment will be partly offset by a higher number of households exiting the rental market for homeownership. The difference between the carrying cost of an average resale condominium apartment or row home and average two-bedroom rent is small enough in London to encourage existing renters to buy, should their job prospects improve. The majority of the households leaving the rental market for homeownership will do so prior to mortgage rates edging higher in late 2015. However, the number of buyers coming from the rental market will not decrease considerably as the average renter household will still be able to afford a starter home.

In 2016, the vacancy rate will decrease slightly. Rental households will increase more than the number of rental completions. As in 2015, rental demand will be supported by job growth, stable migration and higher student enrolment. However, fewer rental households will be able to buy a home compared to 2015 as mortgage rates and prices move up. A smaller number of vacant units will lead to greater rent growth than in 2015.

Economic Trends: Lower Unemployment Rate In 2015

Growth in London's economy will lead to greater housing demand in 2015. The unemployment rate will decrease as the number of jobs added exceeds the increase in the labour force. More full time jobs will support greater household formation, particularly among the growing 25 to 34 age segment. The 2011 Census revealed that nearly one-quarter of 25 to 29 year olds in London lived with their parents. Job stability encourages younger adults to de-couple from the parental home or other shared accommodation.

Expansion projects at a few of London's largest employers, namely the London Health Science Centre, St. Joseph's Health Centre, Western University and Fanshawe College will keep non-residential construction employment stable into 2016. An increase in total construction employment is expected next year after factoring in the rise in residential construction activity. Earlier phases of expansion projects at the London Health Sciences Centre and Western University led to the creation of higher paying jobs at both employers in 2014. More employment opportunities will be generated in the health care and education industries over the next two years as more of their expansion projects will be completed.

Jobs will be added in 2015 and 2016 in industries benefiting from greater US manufacturing production, such as transportation and warehousing, as well as wholesale trade. The share of London's employment in truck transportation, for example, is more than the provincial average given its geographical proximity to US borders. Job growth in these industries was already evident this year due to a strengthening US economy. A higher volume of goods shipped to and from the US over the next two years will help to create jobs in London.

London's own manufacturing industry will also be positively impacted by a strengthening US economy in 2015 and 2016. Greater demand for goods produced in London will stabilize employment in the industry most severely affected by the 2008 US economic recession. Food and transportation equipment manufacturing sales in Ontario are trending up in 2014, London's two largest manufacturing sectors. London based companies in food and transportation equipment manufacturing have hired new workers this year, offsetting some of the jobs eliminated by the closing of the Kellogg's plant. Manufacturing sales in these sectors are expected to increase in each of the next two years, translating to greater job growth in London.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For

2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast

NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Short term and long term mortgage rates are expected to edge up gradually later in 2015.
Employment	Job growth in 2015 will increase housing demand. Similar job growth in 2016 will keep housing demand stable as mortgage rates gradually increase.
Net Migration	Positive net migration will continue to stimulate demand for all types of housing, specifically rental accommodation.
Resale Market	Resale markets are expected to be balanced, with price growth expected in both years.

Forecast Risks

This outlook is subject to some risks, including:

- While the outlook for the Canadian housing sector is one of moderate growth in the near term with moderation expected in the medium-term, there are risks to the Canadian housing sector outlook. First, there is some evidence of a short-term build-up of supply in select housing markets, particularly in the multi-unit segment. Second, household debt-levels, while stabilizing, continue to be high relative to historical standards.
- Given that Canada is an open economy, there are a number of global market risks to consider as well that could put added pressure on housing market supply imbalances and the ability of households to service their debt, through their impact on household incomes, employment and lending rates, were they to occur.
- There is a risk of a slowdown in China, with the chance China could miss its 2014 growth targets, coupled with uncertainty regarding the stability of the Chinese banking system.
- In the Euro area, there are deflationary concerns due to prolonged low inflation and a weak growth outlook. As a result, the Euro zone could move to the use of further stimulus measures, like quantitative easing, to encourage economic growth.
- In Japan, recent increases in sales taxes have led to larger than anticipated reductions in economic growth. Declining growth could lead to further stimulus measures taken in Japan.
- There is heightened concern about how renewed geo-political tensions in the Middle East could impact global markets, particularly commodities.
- While the growth forecast for the U.S. has been upgraded from a disappointing first quarter of 2014, there remains uncertainty in regards to the strength of the post-recession recovery in the U.S. A less optimistic economic growth forecast could weaken Canadian economic performance, particularly exports. While Canadian exports are showing signs of recovery, the strength of the recovery is uncertain and could take longer than currently anticipated.

- Recent upward movements in Canadian consumer prices could lead to pressure to raise interest rates earlier than currently anticipated and would likely translate to rising mortgage rates. However, the Bank of Canada has indicated that it expects recent upward price movements to only be temporary, primarily reflecting a weak Canadian dollar. In any case, the BOC noted in its June 2014 Financial System Review that a significant housing market correction would require a market event leading to declining household incomes and rising unemployment. Gradual increases in mortgage rates, in and of themselves, are not expected to have a significant impact on housing demand.
- Canadian debt levels relative to income may leave households vulnerable to adverse shocks.

Forecast Summary London CMA Fall 2014	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	1,176	1,234	1,153	1,050	-8.9	1,100	4.8	950	-13.6
Multiples	572	1,006	1,010	855	-15.3	1,080	26.3	995	-7.9
Semi-Detached	12	38	24	30	25.0	30	0.0	30	0.0
Row/Townhouse	177	179	278	275	-1.1	300	9.1	315	5.0
Apartments	383	789	708	550	-22.3	750	36.4	650	-13.3
Starts - Total	1,748	2,240	2,163	1,905	-11.9	2,180	14.4	1,945	-10.8
Average Price ($):									
Single-Detached	347,430	357,513	367,684	390,000	6.1	397,500	1.9	402,500	1.3
Median Price ($):									
Single-Detached	325,000	329,000	343,000	367,500	7.1	373,000	1.5	378,500	1.5
New Housing Price Index (% chg.)	0.4	1.3	1.8	1.7	-	1.8	-	1.8	-
Resale Market									
MLS® Sales	8,272	8,272	8,113	8,400	3.5	8,550	1.8	8,500	-0.6
MLS® New Listings	16,947	16,160	16,371	16,900	3.2	17,000	0.6	16,950	-0.3
MLS® Active Listings	3,377	3,193	3,038	3,065	0.9	3,090	0.8	3,100	0.3
MLS® Average Price ($)	233,731	241,160	246,943	252,000	2.0	261,500	3.8	268,300	2.6
Rental Market									
October Vacancy Rate (%)	3.8	3.9	3.3	3.5	0.2	3.5	0.0	3.2	-0.3
Two-bedroom Average Rent (October) ($)	881	919	924	930	0.6	940	1.1	960	2.1
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	242,900	247,800	244,900	244,600	-0.1	248,800	1.7	252,300	1.4
Employment Growth (%)	-0.8	2.0	-1.2	-0.1	-	1.7	-	1.4	-
Unemployment rate (%)	9.0	8.6	8.5	7.6	-	7.3	-	6.8	-
Net Migration	2,339	3,340	2,460	2,700	9.8	3,000	11.1	3,200	6.7

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), 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.

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