HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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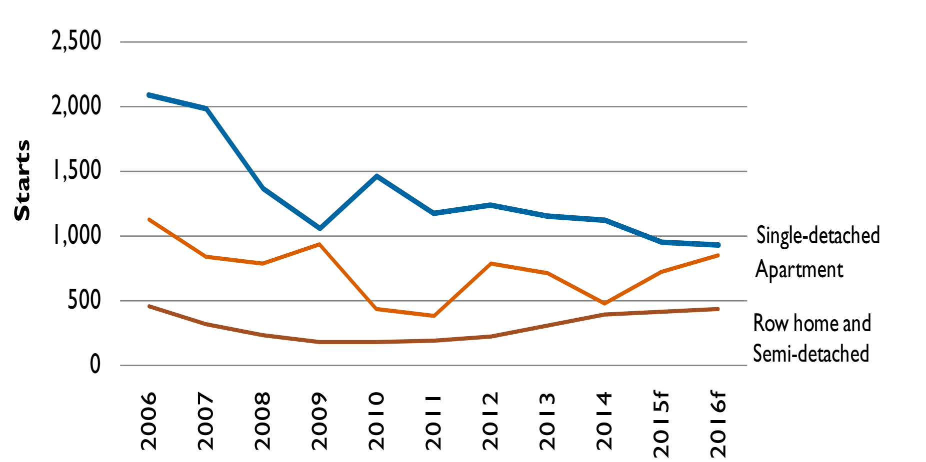
Highlights

- Housing starts will increase to 2,100 units this year and grow to 2,200 units in 2016.
- Existing home sales will increase slightly to 8,850 homes sold in 2015 and grow to 9,000 homes sold in 2016.
- Average vacancy rate will decrease both this year and next.

Figure 1

Higher Apartment and Row Home Starts in 2015



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

The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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New Home Market: Largest Increase in Rental Apartment Starts

Total housing starts will increase by approximately five per cent to 2,100 units in 2015. The largest increase in starts will be in the rental apartment segment, after a quiet year in 2014. The average vacancy rate in London has decreased over the past five years. The market for newer rental apartments was very tight in 2014, with a vacancy rate of just 1.2 per cent in buildings completed in the year 2000 or later. Demand has increased for newer rental apartments as they offer the greatest number of amenities and generally are located close to core city facilities and public transportation.

Demographic demand in London will support higher rental apartment starts. Census data on housing tenure in London show that households headed by someone 25 to 34 years old and 75 years of age and older are among the top three most likely to live in rental housing. Therefore, population growth in those age groups will lead to rental household growth. A stable number of immigrants into London will also support rental apartment starts. Statistics Canada's National Household Survey revealed that approximately two-thirds of immigrant households lived in rental housing in their first five years in London. Approximately 2000 to 3000 people immigrated to London annually over the past five years.

Condominium apartment and row home starts are also expected to be higher this year. To understand why, we need to look at the state of the existing home market in the same price range as most new condominium apartments and row homes. The market for existing homes priced from $200,000 to $350,000 has tightened and favoured sellers over the past six months. The seasonally adjusted average number of days on market for existing homes priced from $200,000 to $350,000 was 40 days over that period, which is synonymous with a seller's market in London. Demand for those homes is expected to increase in 2015 and 2016, leading to an even tighter market. Developers will increase condominium apartment and row home starts in 2015 and 2016 due to the supply-demand imbalance in the $200,000 to $350,000 price range.

Single-detached starts will decrease in 2015 to 950 units. A greater share of single-detached starts in the past year had not been sold prior to construction, as builders sought to attract buyers looking for move-in ready new homes with quick closings. Many of these buyers prefer to sell their existing home in current market conditions and purchase a newly-built home right away. The number of unsold new single-detached homes rose during the first quarter of 2015, causing builders to decrease starts to the lowest level in the past five years. An unseasonably cold February was one of the primary reasons for the larger inventory of unsold new single-detached homes, as some sales were delayed till later in the year. Buyers that planned to buy a home in the first quarter but were deterred by the bad weather will resume their search. Demand will also increase in 2015 due to job growth and stable mortgage rates. Consequently, the unsold inventory will decrease and lead to higher single-detached starts during the year. However, growth in single-detached starts will be limited due to a balanced market for resale homes listed over $400,000. A sufficient number of resale homes are listed over $400,000 to satisfy many buyers looking in that price range. Single-detached starts are expected to decrease again in 2016. Price growth and slightly higher mortgage rates will affect demand for new single-detached homes more than for less expensive dwelling types.

Demographic trends will also constrain single-detached starts in 2015 and 2016. Recent population growth in London has been in age groups that are generally unable to afford or historically have not purchased new single-detached homes. A small percentage of 25 to 34 year olds can afford the average new single-detached home in London CMA, which will sell for about $400,000. They are much more likely to be able to afford a resale home, followed by a new row home or condominium apartment. The vast majority of people 55 years of age and older are not move-up buyers. At this stage in their life they are unlikely to move to a larger home or a home that causes their monthly housing related payments to increase. Demand for new single-detached homes will continue to be supported by older households migrating from pricier housing markets, such as Toronto, Ottawa and Hamilton. In most cases, these migrant households will have lowered their monthly housing costs by moving to London and purchasing a new single-detached home.

Existing Home Market: Greater Price Growth for Remainder of 2015

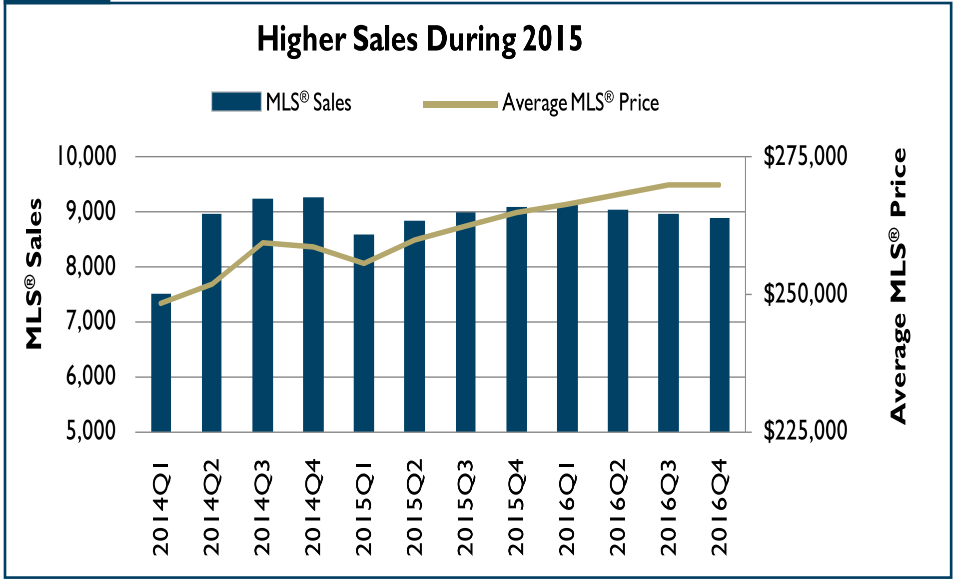
Existing home sales will be slightly higher in 2015. Sales will rebound after a brief setback in the first quarter. An unseasonably cold month of February caused some potential buyers to delay their purchase to later this year, resulting in lower first quarter sales. Mortgage rates will be relatively unchanged at historical lows in 2015. Employment will also support housing demand. Continuing with the trend that started in the second half of 2014, more Londoners will be employed full-time and earning wages that meet the income qualification criteria for a mortgage on the average resale home.

The resale market will tighten over the remainder of 2015, as sales will increase more than new listings. Growth in new listings has slowed after they reached near record levels in the second half of last year. The resale market will be balanced, causing the average price of an existing home to appreciate around three per cent on an annual basis. Growth in the average price of a resale home will be constrained, as a greater share of sales will be of homes purchased for less than $250,000. First-time buyer demand is expected to increase in London. As a result, less expensive regions of the London CMA, such as the eastern and southern areas of the City of London will attract more buyers.

More full-time jobs for people aged 25 to 44 will contribute to an increase in first-time buyers. A large percentage of first-time buyers come from this age group, which has grown due to the echo boomer cohort. Despite the existence of low mortgage rates from 2009 to present, weak employment conditions for this age group for much of that period kept many potential first-time buyers on the sidelines.

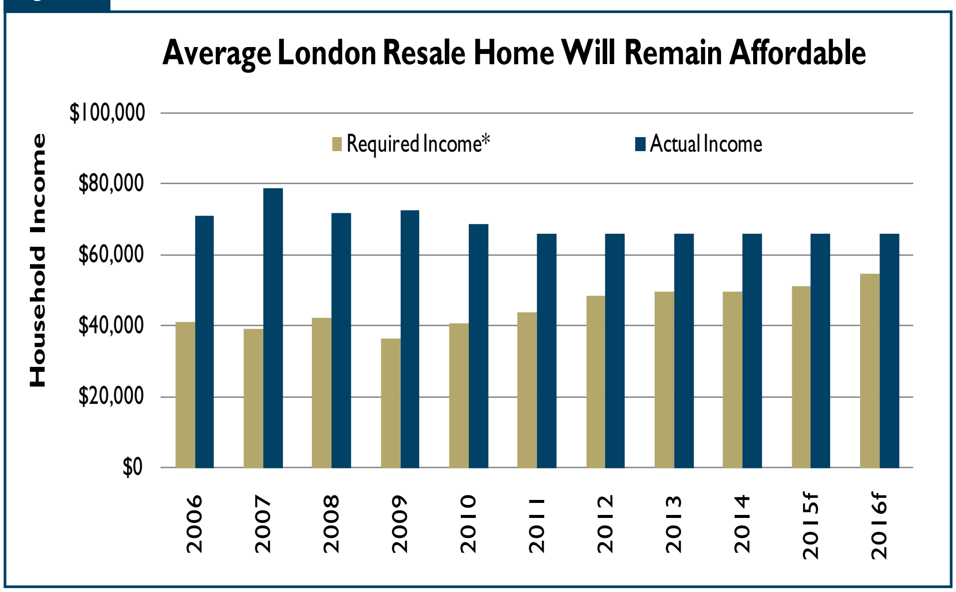
Sales will increase into the first quarter of 2016 due to job growth and a slightly higher number of households added by migration. Improving job prospects in London

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).

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.

and a weaker economy in Western Canada will reduce out-migration to other provinces. 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.

Both short and long term mortgage rates will start to edge up in early 2016. Combined with higher prices this will constrain sales, particularly from first-time buyers. The average London household will still have more than sufficient income to be able to afford the average resale home in 2016. Therefore, sales are only expected to decrease slightly during the second half of next year. Job growth and stable migration will prevent a more substantial reduction in homeownership demand from occurring. With demand softening slightly, expect less appreciation in the price of an average resale home in late 2016. Annual sales will slightly exceed the total this year, primarily due to a strong first half of 2016.

Rental Market: Vacancy Rate to Decrease in 2015

The vacancy rate for purpose-built rental apartments will decrease from 2.9 per cent to 2.7 per cent in 2015. The rental housing stock will not grow enough to keep pace with the increase in rental demand generated by job growth, population growth in the 25 to 34 year old and 75 and over age segments, stable immigration and higher enrolment at London's post-secondary schools.

Greater rental demand will be supported by more full-time jobs, particularly for the growing number of Londoners aged 25 to 34 years old. Given average rent is approximately $750 per month for a one-bedroom apartment, 25 to 34 year olds that cannot afford to purchase a home can still afford to leave the parental home to rent.

Developers in London are building rental apartments geared to the senior population, providing options to those wishing to downsize from ownership housing and stay within their community. Growth in the 75 and older population will support rental demand, as census data show the homeownership rate in London decreases at age 75.

The number of rental households transitioning to homeownership is not expected to increase this year. Growth in the carrying cost of the average resale home will be greater than growth in average two-bedroom rent, which historically has led to fewer first-time buyers from the rental market. The increase in first-time buyers in 2015 will mostly come from the growing number of young adults that were living in the parental home. Some of them will be able to bypass the rental market and buy a home as they've saved enough to keep up with rising prices.

In 2016, the vacancy rate will continue to decrease to 2.5 per cent. Growth in the number of rental households will again be greater than the increase in rental units. Rental demand will continue to be supported by the same factors as in 2015. In addition, rising home prices and slightly higher mortgage rates will cause fewer renters to transition into homeownership next year. A lower vacancy rate will continue to put upward pressure on average two-bedroom rent.

Economic Trends: Lower Unemployment Rate This Year

Housing demand will be supported by job growth in London in 2015. The labour market added jobs in the second half of 2014 and will continue to add more jobs this year, primarily due to favourable conditions for the export economy. Depreciation of the Canadian dollar against the US dollar has accelerated in the past six months, due to the drop in oil prices and a strengthening US economy. These fairly recent developments have yet to fully impact the London labour market. As a result, more jobs will be added in industries such as manufacturing, as well as transportation and warehousing. The exchange rate will stabilize at a new lower level, which will continue to support employment in these industries into 2016. London firms that manufacture motor vehicle parts are expected to add jobs due to greater vehicle production in North America, most notably at the GM plant in Ingersoll. Higher sales in food manufacturing will lead to job creation in one of London's largest manufacturing sectors.

Construction employment is expected to increase due to higher housing starts and new non-residential projects, such as the second phase of the Fanshawe College downtown campus. Jobs will be added in the health care and social assistance industry, supported by demand for these services from an aging population and the migration of older households to London. Employment in the agricultural industry will also continue to trend up.

Job growth will be greater than growth in the labour force in 2015, causing the annual unemployment rate to decrease from 7.5 to 6.9 per cent. The labour force has been barely edging up in London, however improving labour market conditions will cause more people that had exited the labour force to start looking for work again. Stronger growth in the labour force next year will offset much of the employment growth, resulting in just a slightly lower unemployment rate of 6.7 per cent.

Mortgage Rate Outlook

Mortgage Rates are Expected to Remain at or Close to Current Levels Over the Forecast Horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Mortgage rates		
1 Year	Q1 2015	2.97
	Change from Q1 2014	-0.17
	2014	3.14
	2015 (F)	2.30 to 3.50
	2016 (F)	2.40 to 4.00
5 Year	Q1 2015	4.76
	Change from Q1 2014	-0.40
	2014	4.88
	2015 (F)	4.00 to 5.50
	2016 (F)	4.20 to 6.20

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2015 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to remain at or close to current levels over the forecast horizon.
Employment	Job growth in 2015 will increase housing demand. Similar job growth in 2016 will keep housing demand relatively stable when mortgage rates rise slightly.
Net Migration	Positive net migration will continue to stimulate demand for all types of housing, specifically rental accommodation.
Resale Market	The resale market will be balanced, causing the average price of a resale home to increase by two and a half to three per cent in both years

Forecast Risks

This outlook is subject to some risks, including:

- While lower oil prices are a net positive globally, global growth in the first quarter has disappointed. There is risk of a period of protracted global economic weakness and slow, possibly negative, price growth.
- Growth in Emerging Market Economies (EMEs) could disappoint. In China, economic growth projections have been revised downwards closer to 7%.
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to adverse shocks. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on other parts of the economy and on inflation.
- An upside risk to our outlook is a stronger than expected growth in the United States since it would benefit Canadian exporters and likely drive greater-than-expected housing demand.

Forecast Summary London CMA Spring 2015	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	1,234	1,153	1,116	950	-14.9	925	-2.6
Multiples	1,006	1,010	867	1,140	31.5	1,280	12.3
Semi-Detached	38	24	22	30	36.4	30	0.0
Row/Townhouse	179	278	372	385	3.5	400	3.9
Apartments	789	708	473	725	53.3	850	17.2
Starts - Total	2,240	2,163	1,983	2,090	5.4	2,205	5.5
Average Price ($):							
Single-Detached	357,513	367,684	392,558	403,000	2.7	410,000	1.7
Median Price ($):							
Single-Detached	329,000	343,000	368,000	375,000	1.9	380,000	1.3
New Housing Price Index (% chg.)	1.3	1.8	1.9	1.8	-	1.8	-
Resale Market							
MLS® Sales	8,272	8,113	8,751	8,850	1.1	9,000	1.7
MLS® New Listings	16,160	16,371	17,003	17,050	0.3	17,000	-0.3
MLS® Active Listings	3,193	3,038	3,058	3,030	-0.9	3,015	-0.5
MLS® Average Price ($)	241,160	246,943	255,452	262,500	2.8	268,500	2.3
Rental Market							
October Vacancy Rate (%)	3.9	3.3	2.9	2.7	-0.2	2.5	-0.2
Two-bedroom Average Rent (October) ($)	919	924	943	965	2.3	980	1.6
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	242,300	240,400	243,000	245,500	1.0	247,600	0.9
Employment Growth (%)	1.9	-0.8	1.1	1.0	-	0.9	-
Unemployment rate (%)	8.7	8.6	7.5	6.9	-	6.7	-
Net Migration	3,297	2,607	2,148	2,400	11.7	2,650	10.4

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), 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

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, YouTube and Flickr.

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