HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK
## St. Catharines-Niagara CMA

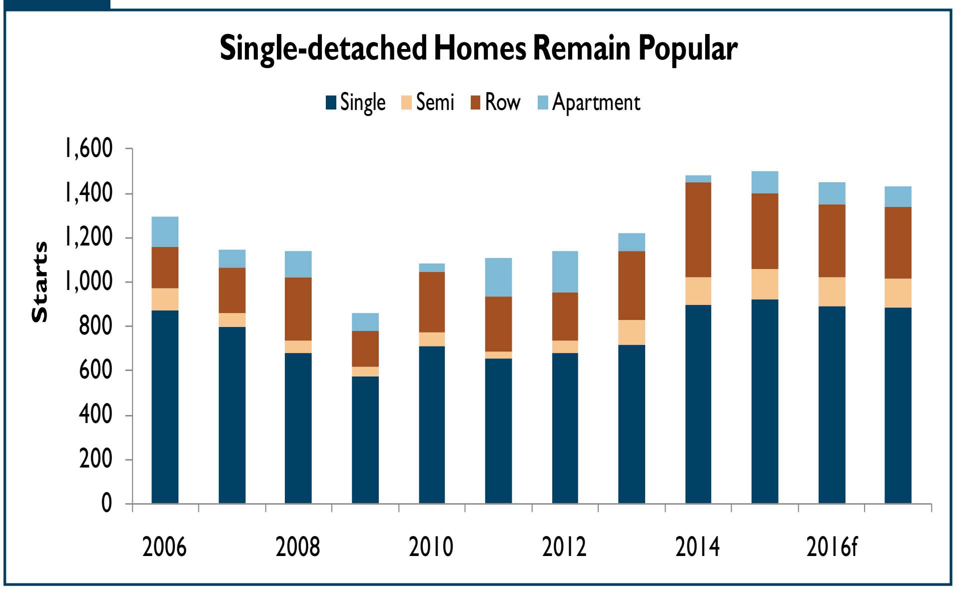
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2015

## Highlights

- Single-detached home starts will increase slightly in 2016. Total starts will decrease in 2017.
- The resale market will favour sellers in 2016 and 2017, as the average price will climb by two to three per cent over the next two years.
- Full-time employment and wages will continue to increase in 2016 and 2017.

Figure 1




Source: CMHC; f = forecast

The forecasts and historical data included in this document reflect information available as of September 29, 2015.

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## New Home Market – Single-Detached Starts And Average Price Increase In 2016

More construction of single-detached, semi-detached, and apartment homes will increase total starts significantly in 2015, but townhouses will decrease after a robust 2014. Job and wage growth will allow more households to purchase single-detached and semi-detached homes. Condo and rental apartment starts will increase to provide more housing options for the growing number of youth and empty nesters in the region. Single-detached housing starts will increase in 2016, but moderation from all other housing types will decrease total starts. Continued job and wage growth and consumer confidence will attract more buyers to new single-detached homes. In 2017, total housing starts will decrease because higher mortgage rates in late 2016 will put some downward pressure on home affordability in 2017.

The average price for a new single-detached home will increase significantly in 2015 because buyers are purchasing pricier homes. Increased confidence about future job and wage growth is influencing the type of home purchased. In 2016, the average new single-detached home price will continue to climb but at a slower pace due to an increase in first-time buyers, who typically purchase moderately priced housing. In 2017, average new single-detached price growth will be just under two per cent, as higher mortgage rates and modest wage growth will shift some demand to the existing homes market.

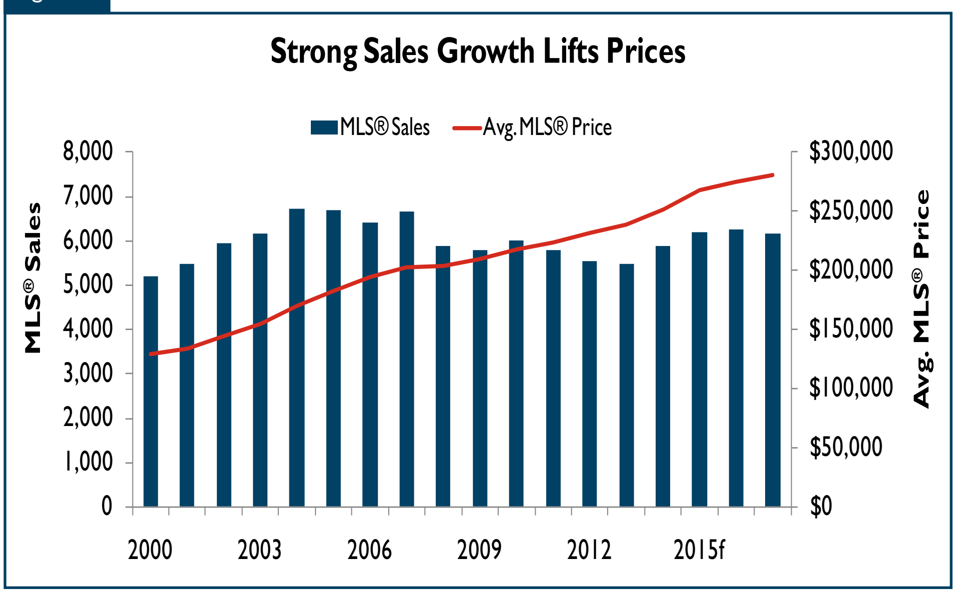
## Existing Home Market – The Existing Homes Market Tightens Further In 2016

Existing home sales will be higher in 2015. Existing home sales have been trending up since the first quarter when the harsh winter kept many buyers away. The upward trend will continue into 2016 with an increase in sales of one per cent, as job growth and the drop in mortgage rates at the start of this year will continue to attract buyers. Furthermore, the price gap between new and existing homes, as well as the price gap between the average existing home in St. Catharines-Niagara and nearby markets such as Hamilton and Toronto, will continue to support demand from outside the region. Existing home sales will moderate in 2017 decreasing by close to two per cent. Higher mortgage rates at the end of 2016 will deter some buyers from purchasing an existing home.

The existing home sales forecast is subject to some upside and downside risks due to this market's close proximity and strong links with the U.S. economy. A weaker than expected Canadian dollar (relative to the U.S. dollar) and greater than expected U.S. economic growth would lift existing home sales further through better job market conditions. On the other hand, a stronger than expected Canadian dollar and weaker than expected U.S. economic growth could depress existing home sales.

New listings will decrease by half a per cent in 2015. While price growth has continued to attract homeowners to list their homes, purchases by buyers from outside St. Catharines-Niagara do not add to the listings pool, putting downward pressure on listings. In 2015, the existing homes market in St Catharines-Niagara will remain tight and favouring sellers. Average price growth will come in at close to seven per cent in 2015, as housing demand

Figure 2




Source: CREA (MLS®), MLS® is a registered trademark of the Canadian Real Estate Association (CREA). Forecast: CMHC.

for existing homes will outstrip supply, supported by robust wage growth.

In 2016 and 2017, new listings will remain relatively flat. Slightly decreasing sales and moderate price growth will decrease new listings, as first-time home buyer demand strengthens. The market will continue to favour sellers but sales growth will be much slower than new listings growth, which will bring the sales-to-new-listings ratio lower. Average existing home price will increase by two to three per cent. While St. Catharines-Niagara remains one of the most affordable housing markets in Ontario, higher home prices over the course of the forecast period driven by demand will decrease affordability slightly.

## Rental Market – Demand For Rental Increases

The purpose-built apartment vacancy rate will trend down in 2015 and settle at 3.4 percent. More jobs for youth will allow them to move to rental, taking over the units left behind as previous tenants move to other rental or homeownership. A tighter rental market has allowed landlords to charge higher rents. The average monthly rent for a two-bedroom unit in St. Catharines-Niagara will increase by the maximum allowed provincial rent increase guideline in 2015.

Year-to-date, up to June 2015, there has been 28 rental completions by private owners. During the same period, there were 109 private rental and eight social housing units under construction. A majority of the completed and under construction units are townhouses and apartments. The rental stock in the region is older and new additions to the universe will be comfortably absorbed given the tightening of the region's rental market.

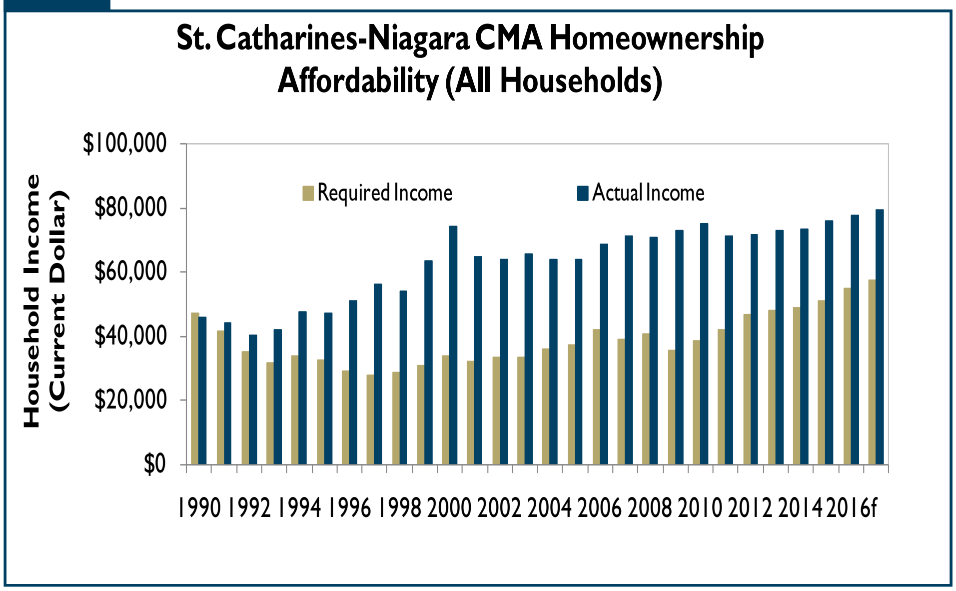
In 2016 and 2017, the purpose-built apartment vacancy rate will continue dropping and the average rent for a two-bedroom apartment will increase by two per cent, again the maximum allowed provincial rent increase guideline. Economic growth attracting new residents for work and study coupled with local youth leaving the family home will tighten the rental market further. As a proxy for St. Catharines-Niagara data from the recent 2011 census for Ontario suggests that over 50 per cent of youth aged 20-29 are still living with family. For St. Catharines-Niagara this is about 23,110 youth still living at home.

This forecast is subject to some risks. Stronger than expected U.S. economic growth will raise wages further and create more jobs in the region. This would not only attract more new residents but also provide the means for local youth to leave the family home. On the other hand stronger economic growth in other Canadian regions relative to Ontario may decrease migration, which would mean fewer people looking for rental units.

## Economic Trends – The Unemployment Rate Decreases Further In 2016

Since February 2015, seasonally-adjusted employment has increased each consecutive month with the majority of that growth coming from full-time employment for youth and those aged 25-44. As job growth outstrips labour force growth, the unemployment rate will continue to decrease and wages will continue to increase. A weaker Canadian dollar and US economic growth is increasing demand for goods and services in St. Catharines-Niagara. The Pan-Am games also lifted the jobs market in the summer.

Figure 3




Source: CMHC, Statistics Canada, and 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 a 10 per cent down payment, the posted fixed five year mortgage rate and the longest available amortization for a mortgage.

In 2016, job growth will continue to outpace labour force growth. Wages will continue to rise and the unemployment rate will decrease. Slightly stronger labour force growth in 2016 will give employers more choice. Wages, while robust, will not grow at the same rate of 2015. Full-time employment will continue to expand for youth and those aged 25-44. Further growth in the U.S. economy will continue to raise business confidence and lead to further capital investments and employment. Data from the Niagara Falls Bridges Commission suggests the seasonally-adjusted net flow of people coming into Canada from the U.S. has been trending up since March 2015. The flow into the region is for both vacation and work-related purposes. Sectors such as accommodation and food services, manufacturing, and trade will grow as a result of the increased flow. Health and social services will also grow in 2016 given increased local demand for these services from the sizeable aged population in St. Catharines-Niagara. In 2015, the Ontario government provided funds to renovate some area hospitals and these investments will pay off in 2016. These renovations will provide higher quality care for local residents and new residents recently relocated to the region. Finally, the construction sector will continue to expand given increased demand for new home construction.

Employment in 2017 will grow in line with the labour force, which will moderate wage growth. The unemployment rate will remain stable.

## Mortgage Rate Outlook

### Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

| Mortgage rates | | |
|---|---|---|
| 1 Year | Q3 2015 | 2.90 |
| | Change from Q3 2014 | -0.24 |
| | 2014 | 3.14 |
| | 2015 (F) | 2.60 to 3.30 |
| | 2016 (F) | 3.00 to 3.80 |
| | 2017 (F) | 3.90 to 4.80 |
| 5 Year | Q3 2015 | 4.65 |
| | Change from Q3 2014 | -0.14 |
| | 2014 | 4.88 |
| | 2015 (F) | 4.10 to 5.20 |
| | 2016 (F) | 4.70 to 6.00 |
| | 2017 (F) | 5.10 to 6.50 |

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2015 data

## Trends at a Glance

| Key Factors and Their Effects on Housing Starts | |
|---|---|
| Mortgage Rates | Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand. |
| Employment | Full-time job growth in large key sectors will allow more households to enter homeownership or rental. |
| Income | Robust wage growth due to a tighter job market will preserve households' spending power and allow them to save money to purchase big items such as a home. |
| Net Migration | Relative affordability of the housing market in St. Catharines-Niagara compared to nearby markets will continue to promote migration. A growing local economy will also attract workers from outside the region. |
| Existing Home Market | A tight resale market favouring sellers will continue to lift the average price of existing homes in St. Catharines-Niagara. |

## Risks to the Outlook

### Upside Risks

- Stronger than expected domestic demand in the United States that would positively impact Canadian exporters and likely drive greater-than-expected housing demand.
- A decision to begin year-round GO train service will significantly affect the local economy and the housing market positively.

### Downside Risks

- A broader slowdown in the economic growth of China will negatively affect Canada through weaker demand for Canadian exports as well a downward pressure put on commodity exports.
- 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 a potential correction. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on the economy.

**Forecast Summary**
**St. Catharines-Niagara CMA**
**Fall 2015**

| | 2012 | 2013 | 2014 | 2015(F) | % chg | 2016(F) | % chg | 2017(F) | % chg |
|---|---|---|---|---|---|---|---|---|---|
| **New Home Market** | | | | | | | | | |
| **Starts:** | | | | | | | | | |
| Single-Detached | 678 | 717 | 896 | 920 | 2.7 | 930 | 1.1 | 885 | -4.8 |
| Multiples | 459 | 506 | 583 | 745 | 27.8 | 560 | -24.8 | 545 | -2.7 |
| Semi-Detached | 60 | 111 | 128 | 139 | 8.6 | 134 | -3.6 | 131 | -2.2 |
| Row/Townhouse | 215 | 310 | 424 | 340 | -19.8 | 329 | -3.2 | 324 | -1.5 |
| Apartments | 184 | 85 | 31 | 266 | ** | 97 | -63.5 | 90 | -7.2 |
| Starts - Total | 1,137 | 1,223 | 1,479 | 1,665 | 12.6 | 1,490 | -10.5 | 1,430 | -4.0 |
| | | | | | | | | | |
| **Average Price ($):** | | | | | | | | | |
| Single-Detached | 435,429 | 415,078 | 393,000 | 415,000 | 5.6 | 423,300 | 2.0 | 430,073 | 1.6 |
| | | | | | | | | | |
| **Median Price ($):** | | | | | | | | | |
| Single-Detached | 387,990 | 389,900 | 370,990 | 404,000 | 8.9 | 411,272 | 1.8 | 417,852 | 1.6 |
| | | | | | | | | | |
| New Housing Price Index (% chg.) | 2.0 | 3.1 | 2.4 | 2.0 | - | 1.7 | - | 1.6 | - |
| | | | | | | | | | |
| **Resale Market** | | | | | | | | | |
| MLS® Sales | 5,554 | 5,483 | 5,875 | 6,200 | 5.5 | 6,250 | 0.8 | 6,150 | -1.6 |
| MLS® New Listings | 10,023 | 9,656 | 9,848 | 9,800 | -0.5 | 9,800 | 0.0 | 9,750 | -0.5 |
| MLS® Average Price ($) | 232,050 | 238,450 | 251,297 | 267,700 | 6.5 | 275,000 | 2.7 | 281,000 | 2.2 |
| | | | | | | | | | |
| **Rental Market** | | | | | | | | | |
| October Vacancy Rate (%) | 4.0 | 4.1 | 3.6 | 3.4 | -0.2 | 3.3 | -0.1 | 3.0 | -0.3 |
| Two-bedroom Average Rent (October) ($) | 862 | 872 | 892 | 905 | 1.5 | 925 | 2.2 | 945 | 2.2 |
| | | | | | | | | | |
| **Economic Overview** | | | | | | | | | |
| Mortgage Rate (1 year) (%) | 3.17 | 3.08 | 3.14 | 2.60 to 3.30 | - | 3.00 to 3.80 | - | 3.90 to 4.80 | - |
| Mortgage Rate (5 year) (%) | 5.27 | 5.24 | 4.88 | 4.10 to 5.20 | - | 4.70 to 6.00 | - | 5.10 to 6.50 | - |
| Annual Employment Level | 201,800 | 193,500 | 195,400 | 199,000 | 1.8 | 202,000 | 1.5 | 204,000 | 1.0 |
| Employment Growth (%) | 2.9 | -4.1 | 1.0 | 1.8 | - | 1.5 | - | 1.0 | - |
| Unemployment rate (%) | 8.0 | 8.6 | 7.7 | 6.8 | - | 6.5 | - | 6.5 | - |
| Net Migration | 1,754 | 1,505 | 1,232 | 1,109 | -10.0 | 1,150 | 3.7 | 1,155 | 0.4 |

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

# 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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