

HOUSING MARKET OUTLOOK

Peterborough CMA



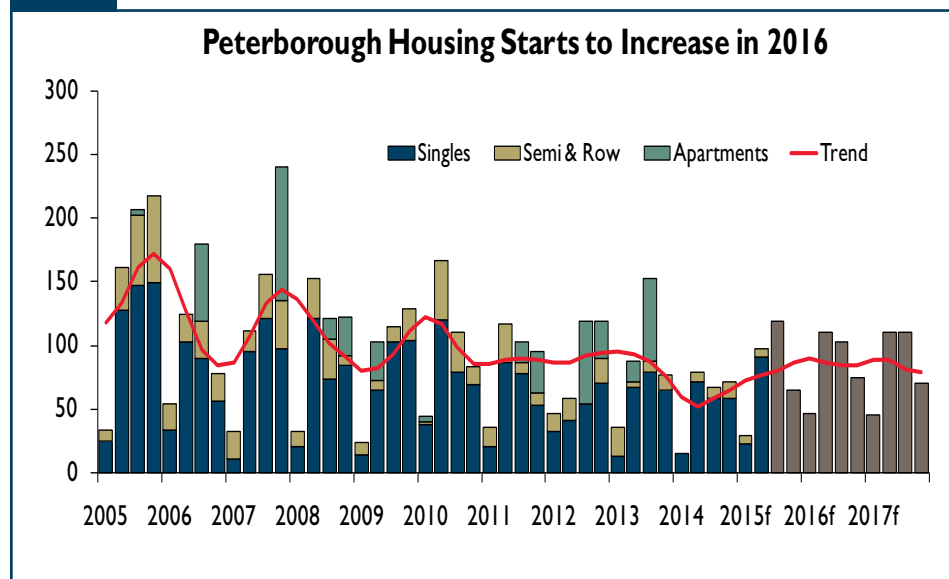
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- New home construction to increase in 2016 and stabilize the year after.
- Existing home sales to continue their upward trend.
- The resale home market will be balanced with price growth in the five per cent range, but affordability will begin to decline.
- The average vacancy rate will decrease slightly over the forecast horizon.

Figure 1



Source: CMHC (Starts and Completions Survey)

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

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New Home Market: Total Housing Starts to Increase

The 2016 total housing starts in Peterborough Census Metropolitan Area (CMA) are forecast to increase by 8.1 per cent to 335 units, which is in line with the five-year construction average of 337 units. The average annual household formation rate is projected to be around 350 between 2011 and 2016, which is consistent with the lower rate of housing starts in the last five years. Housing starts in 2017 will remain unchanged from 2016 levels.

A relatively tight resale home market over the last few quarters and declining new home inventories (completed & unabsorbed) provided a boost to the residential construction sector in the first half of 2015. This momentum will be carried well into 2016. We will see increased construction activity in the high-rise segment next year, following more than two years without any apartment starts. Demand for apartments is growing at a slow rate in Peterborough, so one apartment building can produce enough supply to satisfy demand for a considerable period. There weren't any apartments under construction at the end of August 2015.

Single-detached starts, which historically make up more than two thirds of total starts, are expected to increase the most in 2015, but still remain well below the levels recorded before 2011. In 2016 and 2017, the number of single-detached starts will stay close to the 2015 levels. Slower household growth in younger repeat buyer age groups and higher prices for newly built single-detached houses

mean that demand will remain below the levels of a few years ago. Semi-detached and townhouse starts are expected to remain at current levels over the forecast horizon, although townhouse starts will rise slightly in 2017.

After the increased construction activity during 2015 and 2016, some moderation is expected at the end of 2016 through to 2017. Ground oriented homes will continue to dominate the marketplace in 2017 with a 3.3 per cent increase in low rise home construction. Peterborough will remain a relatively inexpensive market, when compared to other markets neighbouring the Greater Toronto Area (GTA). Single-detached dwellings are a popular choice among middle-aged people, who are already retired or near retirement from areas such as Toronto and the Durham Region. Steady in-migration

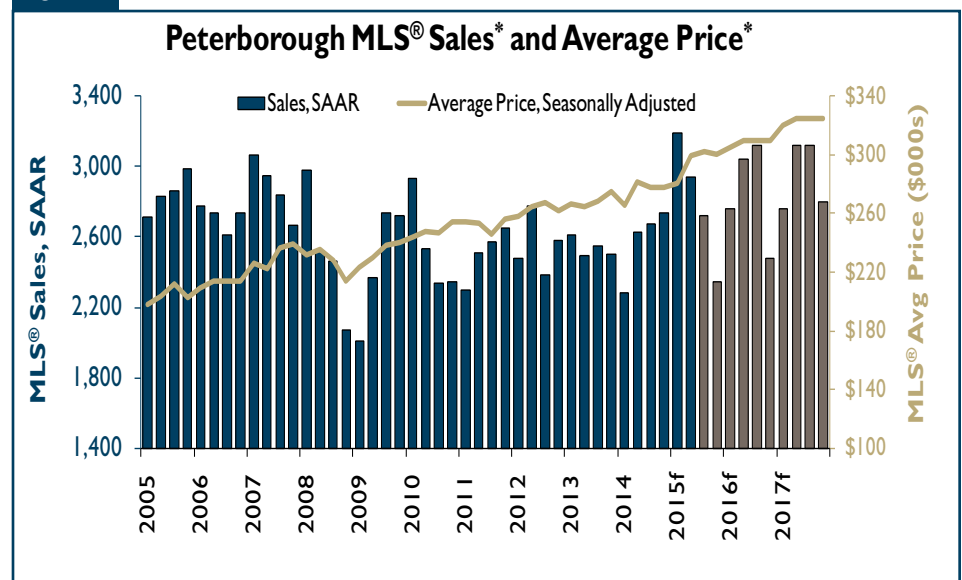
of homebuyers from these areas will support residential construction in the Peterborough CMA. Single-detached starts will remain a good barometer of the strength of the new residential construction market.

Existing Home Market: Demand Will Remain Strong

Continuing low mortgage rates, improving employment and intra-provincial migration will support strengthening sales over the forecast horizon. In particular, sales will increase by 1.8 per cent in 2016 and by 3.5 per cent in 2017. Should affordability decline more than projected, sales will be lower than expected in 2016 and 2017.

Last year's employment strength has made consumers confident about taking on major financial

Figure 2



Source: CMHC, adapted from CREA (MLS®)

* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate.

MLS® is a registered trademark of the Canadian Real Estate Association

commitments, such as buying a home. During the first eight months of 2015 residential sales were very strong. While both May and August sales exceeded their month's average by 38 per cent, June sales exceeded the month average by 50 per cent. Overall, 2015 is on track to beat the last year sales by approximately eight per cent with the momentum to be carried into 2016.

Stronger employment for the 25-44 age group (which include both first-time and move-up home buyers) in 2014 and the first two quarters of 2015 will mean more demand for existing homes. Job growth will continue in 2016 and 2017, although at a modest rate of under two percent. The average price of an existing home in Peterborough is half the average price of an existing home in the GTA. As the gap between Toronto and Peterborough average prices continues to widen, expect the demand for housing to be stronger in 2016 and 2017, as more people relocate to the area. As the smallest census metropolitan area, Peterborough offers many of the advantages of a large city at lower cost. With the expansion of Peterborough's Airport the area may see important economic, environmental and social benefits. Improving economic prospects in the region and in Ontario will continue to support housing demand.

Through most of 2015, Peterborough has been on the border of balanced and sellers' territory, with the sales-to-new listings ratio rising above 60 per cent. This puts upward pressure on resale prices. The year-to-date average price of a resale home increased by five per cent in 2015 and is forecast to increase around five per

cent in 2016 and 2017. It should be noted, that buyers from outside the CMA are showing a greater presence in the local resale market. These buyers add to sales but not to local listings, which explains in part the elevated sales-to-new listings ratio. New listings are forecast to remain at a high level of about 5,050 in 2016 and 5,100 in 2017 as existing homeowners will be inclined to list their homes for sale after seeing price appreciation for several years. An increase in listings will bolster the inventory of homes in the marketplace such that balanced market conditions are expected to prevail through 2017.

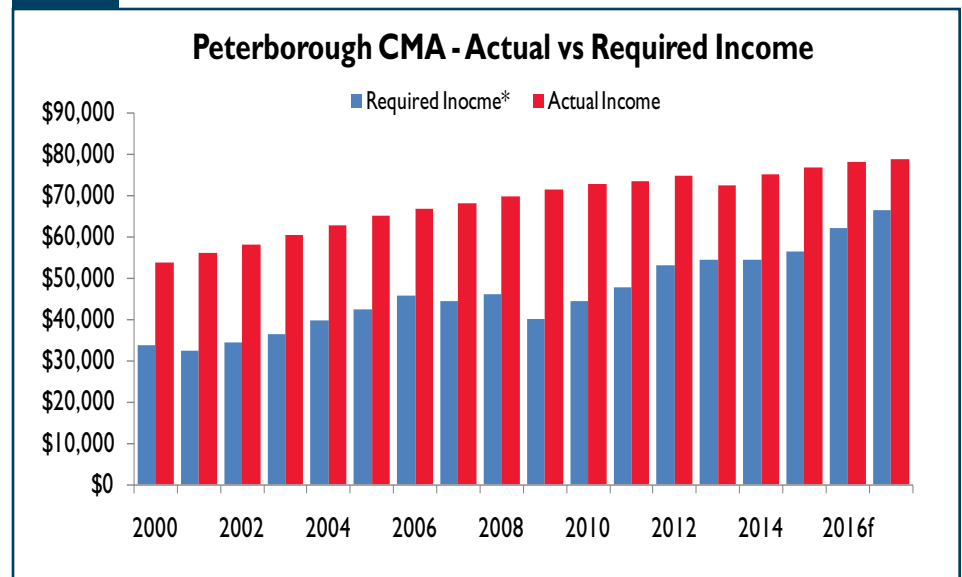
Although incomes will be growing through the forecasted period, the combined impact of changes in home prices and mortgage rates will cause the income required to buy a home in Peterborough to increase faster than the average actual income in the area.

As a result, affordability will decrease over the forecast horizon.

Rental Market: Vacancy Rate to Decline Slightly in 2016

The vacancy rate for privately-initiated rental apartment buildings with three or more units in the Peterborough CMA is anticipated to decrease slightly to 3.0 per cent in 2016 and 2.8 per cent in 2017. Continued migration to the region will increase demand for rentals, but only slightly. Historically, Intra-provincial migration, those who move to the region from other parts of Ontario, has been the largest contributor of new residents. More specifically, students, young households and seniors support demand for rental apartments. This year and next year Inter-provincial migrants will add to rental demand as slower economic activity in the Prairies

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 the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

will drive people east in search of better employment opportunities and affordable housing.

Students and young adults moving out of their parents' homes into rental accommodation are a major source of rental demand. Until recently employment situation in the region wasn't favourable for young people to move out of their parents' homes. However, a few hundred of jobs have been added since 2013, which makes the idea of renting a unit possible. Furthermore, the increase in enrolment at the three post-secondary institutions in Peterborough (Trent University, Fleming College, Seneca College School of Aviation) will generate more renters.

On the supply side, rental apartment completions and a number of conversion projects due for occupancy this year and early next year will partially offset the strong rental demand expected in 2016. If the growth in demand for rentals is not as strong as expected, there is a risk that the increased supply could put upward pressure on vacancy rates.

Economic Trends: Modest Employment Gains Through 2017

The housing market outlook is based on moderate economic growth. After a full recovery in 2014, employment in Peterborough CMA is expected to show modest gains of 3.3 per cent this year, 1.6 per cent in 2016 and 1.6 per cent in 2017.

With a weaker Canadian dollar and a stronger U.S. economy, sectors tied directly to exports and foreign trade will benefit. Specifically, manufacturing and trade will show some strength as well as transportation and

warehousing, accommodation and food services. The tourism industry will also profit from these trends as more cottage country enthusiasts from the U.S. come to the region. Finally, more jobs will be added in the health care and social assistance sector, as demand from the aging population increases for these services.

Coming in the near future to the Region is the Research and Innovation Park at Trent University. The City of Peterborough is involved in this project that will leverage the intellectual capital of the university to attract new business, create employment, support entrepreneurs and foster community prosperity. With more jobs shifting to knowledge-based sectors, there will be more demand for highly skilled workers who receive higher wages than in more traditional industries, and who in turn will support demand for housing. Examples include a number of recent start-ups and publicly-funded projects to upgrade public infrastructure such as the Thompson Bay Dam reconstruction and the ongoing Otonabee Dam Deck rehabilitation.

The improving labour market conditions will have a positive impact on income growth. After a three per cent decline in 2013, average annual earnings recovered at a growth rate of 3.7 percent in 2014 and are expected to increase by 2.0 percent in 2015 and 1.8 percent in 2016. This will cushion some of the impact of rising mortgage rates and rising home prices, and it will help to keep ownership and rental costs within an affordable range for many households.

Population growth is a key factor in determining changes in housing demand. With deaths exceeding births, the natural rate of population change

in Peterborough CMA is negative. Therefore, migration flows remain very important factor for housing demand. During the past five years, approximately 530 people on an annual basis have been added to the Peterborough CMA population due to migration. Almost all of these migrants came from within Ontario. Lower net migration was reflected in lower home sales in 2013 and lower housing starts in 2014. However, during the first eight month of 2015, residential sales were very strong, supported by improved economic conditions, increasing demand from buyers who are downsizing and relocating to the area to take advantage of more affordable housing options, as well as a smaller outflow of people to other provinces due to a weaker labour market in Western Canada.

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

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

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.

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	Total employment will increase by 3.3 per cent in 2015 and 1.6 per cent in both 2016 and 2017. Gains in full time jobs will continue to support housing demand.
Income	Moderate growth is expected due to the modest pace of economic growth in Canada.
Migration	Migration will remain positive because of the attractiveness and affordability of Peterborough's housing market compared to Toronto and Durham Region. In-migration (intra-provincial & inter-provincial) will stimulate demand for all types of housing over the forecast horizon.
Resale Market	Balanced market conditions are expected to prevail over the forecast horizon.
Other	Proximity to the Greater Toronto Area (GTA) and the housing price differential between GTA and Peterborough CMA will stimulate demand for single-detached housing.

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.

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.

Downside Risks

- A broader slowdown in the economic growth of China will

Forecast Summary Peterborough CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	197	224	203	250	23.2	260	4.0	260	0.0
Multiples	146	130	29	60	106.9	75	25.0	75	0.0
Semi-Detached	2	0	2	4	100.0	5	25.0	5	0.0
Row/Townhouse	50	48	27	40	48.1	40	0.0	50	25.0
Apartments	94	82	0	16	n/a	30	87.5	20	-33.3
Starts - Total	343	354	232	310	33.6	335	8.1	335	0.0
Average Price (\$):									
Single-Detached	327,943	318,141	318,073	340,000	6.9	350,000	2.9	360,000	2.9
Median Price (\$):									
Single-Detached	293,990	299,000	320,000	330,000	3.1	340,000	3.0	345,000	1.5
New Housing Price Index (% chg. Ontario)	4.1	2.1	1.7	n/a	-	n/a	-	n/a	-
Resale Market									
MLS® Sales	2,553	2,539	2,578	2,800	8.6	2,850	1.8	2,950	3.5
MLS® New Listings	4,843	4,887	4,976	5,000	0.5	5,050	1.0	5,100	1.0
MLS® Average Price (\$)	264,946	271,161	280,686	295,000	5.1	310,000	5.1	325,000	4.8
Rental Market									
October Vacancy Rate (%)	2.7	4.8	2.9	3.2	0.3	3.0	-0.2	2.8	-0.2
Two-bedroom Average Rent (October) (\$)	904	915	952	975	2.4	990	1.5	1,005	1.5
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	58,500	54,900	60,500	62,500	3.3	63,500	1.6	64,500	1.6
Employment Growth (%)	1.6	-6.2	10.2	3.3	-	1.6	-	1.6	-
Unemployment rate (%)	8.5	9.6	8.2	7.8	-	7.2	-	6.8	-
Net Migration	580	401	321	450	40.2	480	6.7	510	6.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = apartments 3+

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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