HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Hamilton CMA

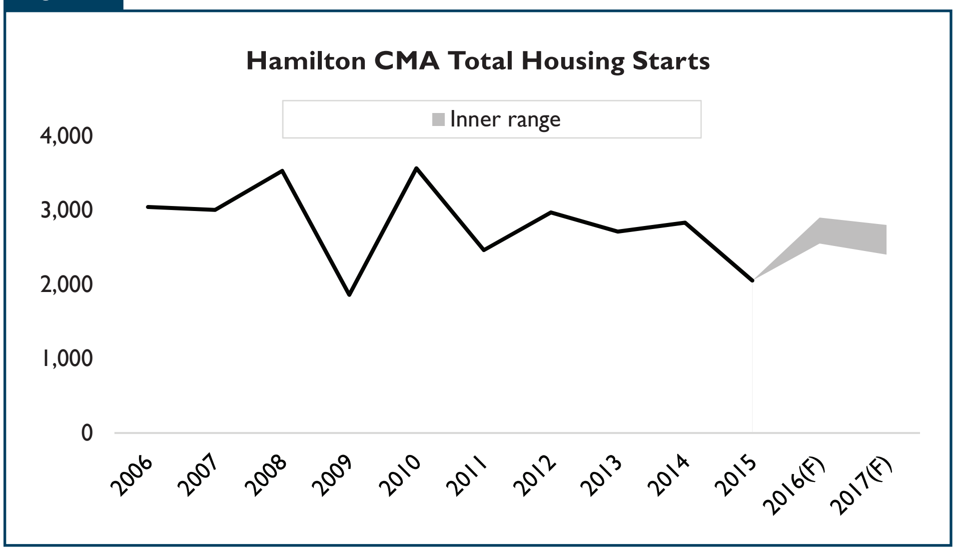
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2016

Highlights[1]

- Total housing starts will lie within the 2,550 to 2,900 unit range in 2016.
- Existing home sales will continue their upward trend reaching the 16,200 to 17,000 unit range in 2016.
- Rental apartment vacancy rate will edge lower from 3.4 per cent in 2015, to 3.2 per cent in 2016.
- Employment will increase by one per cent in 2016 compared to 0.4 per cent in 2015.

Figure 1



Source: CMHC; (F) = CMHC Forecast

[1] The forecasts and historical data included in this document reflect information available as of April 29, 2016.

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New Home Market: Housing Starts Will Rebound in 2016

Hamilton Census Metropolitan Area (CMA) total housing starts will lie within the 2,550 to 2,900 unit range in 2016. The steep decline in total housing starts that occurred in 2015 was primarily due to an increase in the number of unsold new townhouses. Specifically, the number of newly completed and unsold units reached 287 units in 2015, up from 92 units in 2014. This resulted in some builders scaling back activity to manage the relatively high inventory levels. From a historical perspective, however, the number of completed and unsold units in 2015 was significantly lower than the peak of 659 units in 2001.

As many first time buyers shift their preference in favour of townhouses and condominium apartments, we project multi-unit housing starts to be in the 1,600 to 1,700 unit range in 2016, up from 932 units a year ago. First-time buyers tend to be more price sensitive than other buyers. New townhouses and condominium apartments are generally more affordable than new single-detached dwellings. In the first quarter of 2016, multi-unit housing starts were 520 units up from 30 units compared to the same period in 2015. The proportion of multi-unit housing starts will be in the range of 58 to 60 per cent of total starts in the next two years, up from 45 per cent in 2015. A tight resale market where the supply of affordable homes is limited will propel some buyers to purchase less expensive types of new homes. This in turn will support multi-unit housing starts in the next two years.

Single-detached housing starts are forecast to be in the 950 to 1,200 unit range in 2016 and 900 to 1,150 unit range in 2017. Price growth for single-detached homes had been stronger than warranted by increases in fundamental factors such as income growth. Consequently, the income required to buy a single-detached home in the Hamilton CMA surpassed the actual income of the average household in 2015, according to the latest CMHC calculations. This will reduce the demand for new single-detached housing in the next two years, particularly in Flamborough, Ancaster and Burlington where house prices have been significantly higher than the CMA average.

Overall, total housing starts will stabilize within the 2,400 to 2,800 unit range in 2017 as they revert to the long-run average level. The trend in housing starts generally mirrors household formation in the long run. Gains in total employment, positive net intra-provincial migration and low mortgage rates will help stabilize residential construction in Hamilton. Home ownership affordability remains favourable, as the Hamilton area continues to attract buyers from the Greater Toronto Area (GTA) where home prices continue to trend up.

As a gauge of future housing construction, the total number of residential building permits increased to 422 units in February 2016, up from 142 units in the previous month, on a seasonally adjusted basis. February marked the highest number of residential building permits since July 2015. The multi-unit housing segment (which includes semi-detached, townhouses and apartments) was entirely responsible for the February increase in residential building permits.

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

Existing Home Market: Sales Will Continue Upward Trend

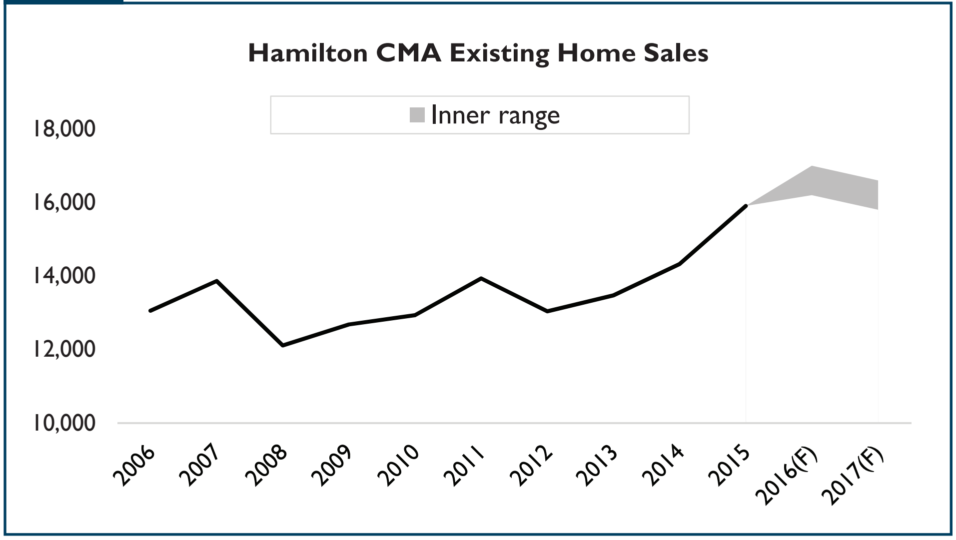
Existing home sales will continue their upward trend reaching the 16,200 to 17,000 unit range in 2016. The projected increase in sales will be partly supported by an inflow of buyers from other municipalities, particularly from the Greater Toronto Area (GTA). The average house price in Toronto continues to grow, which in turn has widened the price gap between Toronto and Hamilton. Consequently, some potential buyers will move to Hamilton while commuting to work in Toronto. The long commute could be more prevalent among the 25 to 44 age group, as they are more sensitive to house price changes.

Sales will drop to a lower level that could lie within the 15,800 to 16,600 unit range in 2017. The expected increase in mortgage rates coupled with elevated prices will result in carrying costs rising faster than incomes. The homeownership affordability challenge will be more pronounced in the pricier sub-markets such as Flamborough, Ancaster and Burlington. Meanwhile, neighbourhoods within the Old City of Hamilton will continue to record higher sales, as these areas remain more affordable compared to other areas within the Hamilton CMA.

The number of new listings is anticipated to remain at a relatively low level, holding the Sales-to-New-Listings Ratio (SNLR[2]) in the range of 68 to 75 per cent during the forecast period. In line with strong sellers' market conditions, the average existing home price in the Hamilton CMA will be in the $463,000 to $487,000 range in 2016 and $468,000 to $510,000 range in 2017.

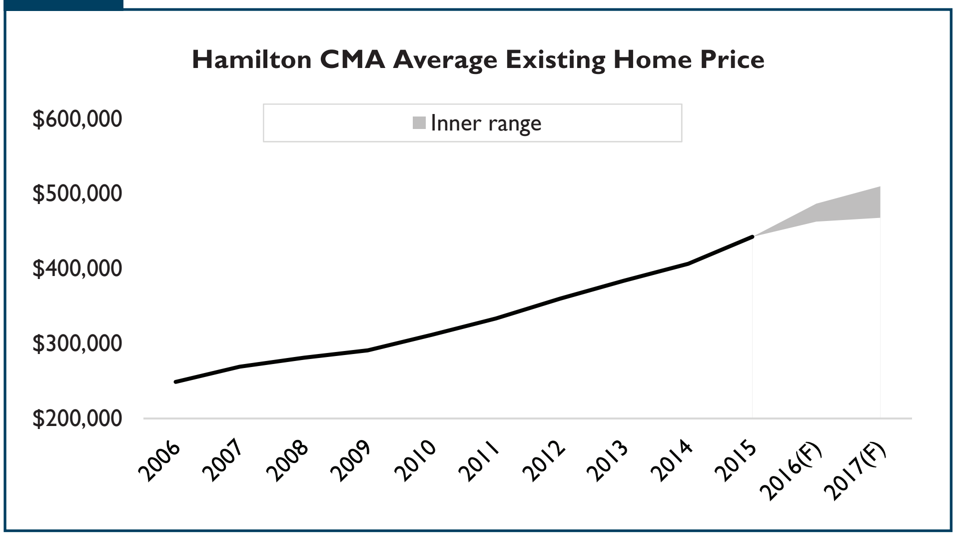
The income required[3] to buy a home in Hamilton increased faster than the actual income of the average household, according to the latest CMHC calculations. Despite this phenomenon, Hamilton is still regarded as a more affordable housing market compared to the Greater Toronto Area (GTA). The average home price in the GTA remains elevated and consequently, many potential buyers that are priced out of the GTA market tend to move into the Hamilton area in search of affordable homes. The inflow of buyers from the GTA moving into Hamilton has translated to strong demand for ownership housing across Hamilton, as well as creating more competition for the local buyers.

Figure 2



Source: Canadian Real Estate Association (CREA); (F) = CMHC Forecast

Figure 3



Source: CREA; (F) = CMHC Forecast

Based on the migration data from Statistics Canada, people moving in from Toronto were the largest source of net intra-provincial migration to Hamilton in the 12 months ending June 2014. According to Statistics Canada's migration estimates, the number of people that left other communities within Ontario to live in the Hamilton CMA, which is referred as net intra-provincial migration, was 3,219 in the year ending June 30, 2015 relatively unchanged from the same period in 2014. The total population for the Hamilton CMA is projected to reach

2 New listings are a gauge of the supply of existing homes, while sales are a proxy for demand. The SNLR is an indicator of price pressure in the existing home market. In the Hamilton-Burlington market area, a sales-to-new-listings ratio above 60 per cent is associated with a sellers' market. In a sellers' market, home prices typically rise more rapidly than the general inflation.

3 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.

777,900 in 2016, up 0.8 per cent from the 2015 level. The total population in the Hamilton CMA will increase further to 784,000 in 2017.

Rental Market: Vacancy Rate Will Edge Lower in 2016 and 2017

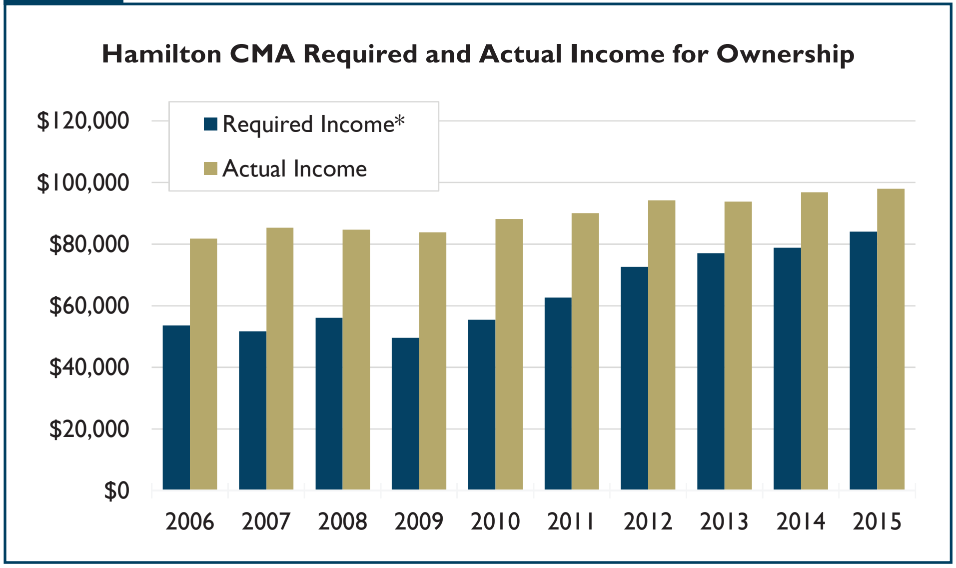
Hamilton's average rental apartment vacancy[4] rate will edge lower from 3.4 per cent in 2015, to 3.2 per cent in 2016. The average vacancy rate will decline further to 2.9 per cent in 2017. Strong employment among young adults and the inflow of international migrants will increase the demand for rental accommodation. New immigrants typically move into rental accommodation when they first arrive in Canada.

The favourable employment conditions for young adults will encourage some potential renters to move out of their parents' home to form a separate household. In addition, a likely rise in mortgage rates during the second half of 2017 will reduce homeownership demand among potential first-time buyers. Some renter households will be discouraged from vacating their current rental units in favour of homeownership. On the supply side, a lower number of apartment starts in 2015 will translate to fewer completions in 2016. The limited supply of purpose-built rental units will put downward pressure on apartment vacancy rates.

Economic Trends: Hamilton Employment Growth Will Strengthen

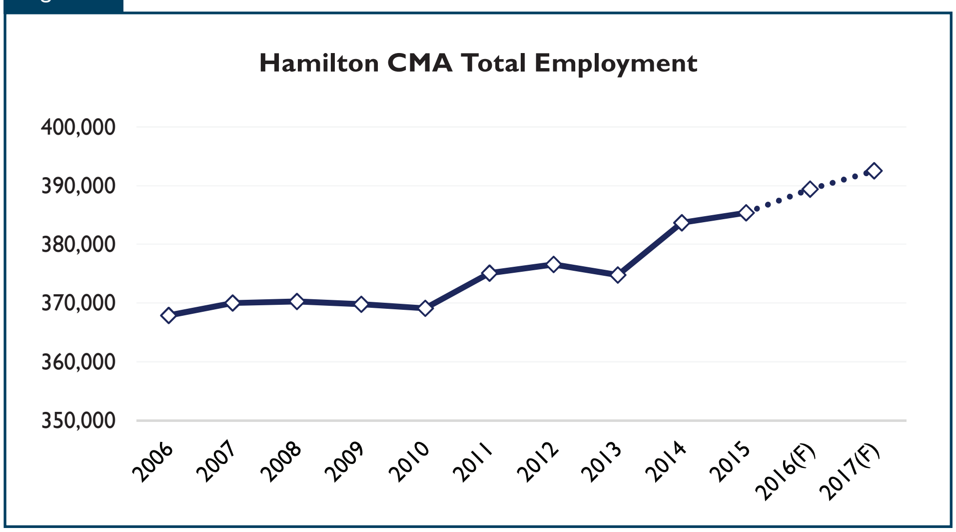
Hamilton's total employment will increase by one per cent in 2016 compared to 0.4 per cent in 2015. Most of the job gains in 2016 will be full time positions, as employers' confidence in Hamilton's economic growth remains high. The improvement in job creation will be supported by a stable U.S. economy, particularly in the export related sectors. This was evident in the amount of net job creation in the manufacturing sector. Specifically, employment in the manufacturing sector increased by 6.6 per cent in 2015, compared to an increase of only 1.3 per cent in the previous year. Generally, there is a three-month lag between changes in U.S. economic growth and Hamilton's total employment, according to CMHC analysis.

Figure 4



Source: Statistics Canada; CREA; CMHC calculation
*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

Figure 5



Source: Statistics Canada; (F) = CMHC Forecast

[4] In structures with three or more units purpose-built for the rental market

The health care services and public administration sectors are poised to increase during the forecast horizon, mostly due to the anticipated increase in government spending. The demand for workers in these sectors is highly sensitive to government expenditures in infrastructure, health and social programs which can be cyclical. The health care and social services sector is also driven by demographic changes and is typically immune from business cycles. With a total of 50,275 workers in 2015, the health care and social services sector was the largest employer across the Hamilton CMA. The share of health care employment in Hamilton reached 13 per cent in 2015, up from 12.4 per cent in the previous year.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

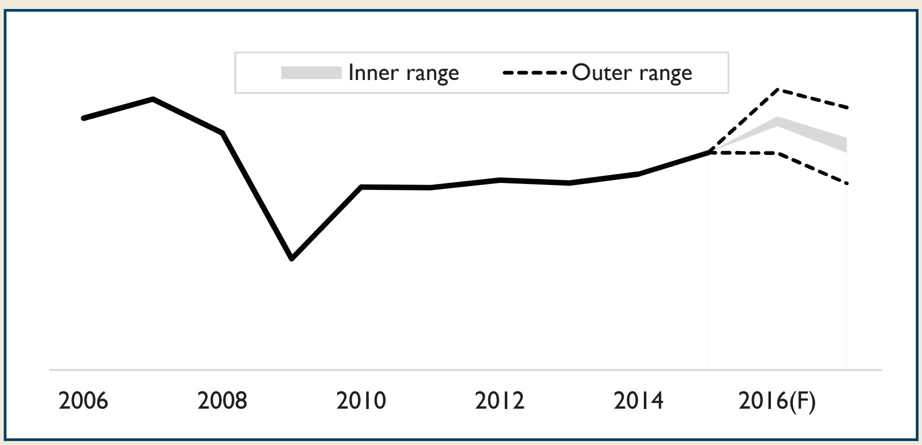
According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

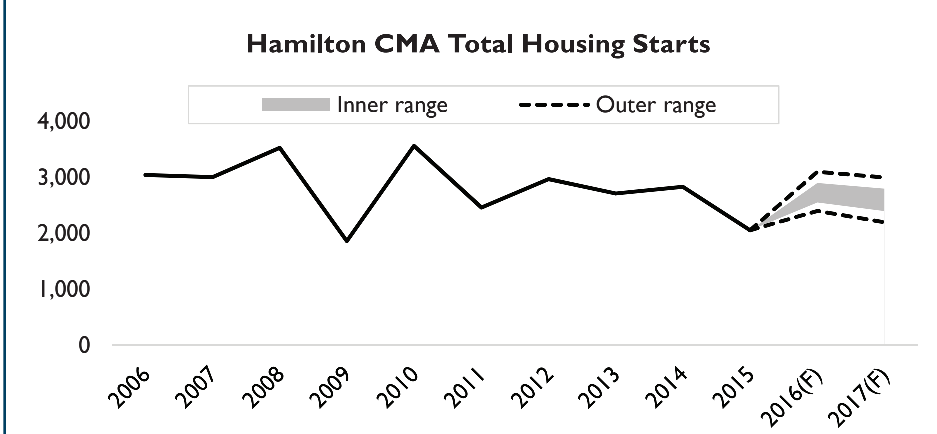
Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Inflation will continue to trend below target in Canada and U.S. in 2016, but will trend towards target in 2017. For now, no further policy rate cuts are assumed in Canada in 2016. However, interest rates will start to rise in the first half of 2017.
Employment	Hamilton's total employment will increase by one per cent in 2016 compared to 0.4 per cent in 2015. The health care services and public administration sectors are poised to increase during the forecast horizon, mostly due to the anticipated increase in government spending.
Income	Hamilton CMA average weekly earnings will increase faster than the rate of inflation during the forecast horizon. The net result is a real wage increase which will support homeownership demand.
Net Migration	Migration from the GTA will continue to stimulate demand for low rise housing in 2016 and 2017, although to a lesser degree than in the past two years. International migration has been strong, reflecting improved economic conditions. As such, immigration will be more supportive of the rental market in 2016 and 2017.
Existing Home Market	Existing home sales are poised to continue upward trajectory and will be in the 16,200 to 17,000 range in 2016, before stabilizing within the 15,800 to 16,600 range in 2017 as mortgage rates start increasing gradually in the second half of the year. The number of new listings during the forecast horizon will remain below the 10 year average. Sellers' market conditions will continue to prevail, putting upward pressure on the rate of growth in Hamilton's average home price. Specifically, the average home price will be in the $463,000 to $487,000 range in 2016 and $468,000 to 510,000 range in 2017. Housing starts will be supported by a tight resale market in the next two years, as the trends in existing home sales typically lead trends in new home construction.

Forecast Risks

A heightened level of uncertainty poses some risks to the Hamilton economic and housing outlook. This can result in a wider range of possible outcomes versus our forecast. There is some evidence of a short-term build-up of supply in Hamilton, particularly in the townhouse segment. A high number of unsold new homes could result in fewer housing starts and consequently pushing the total housing starts forecast towards the lower bound of the outer range in the next two years. Conversely, a faster absorption of the current inventory

Figure 6



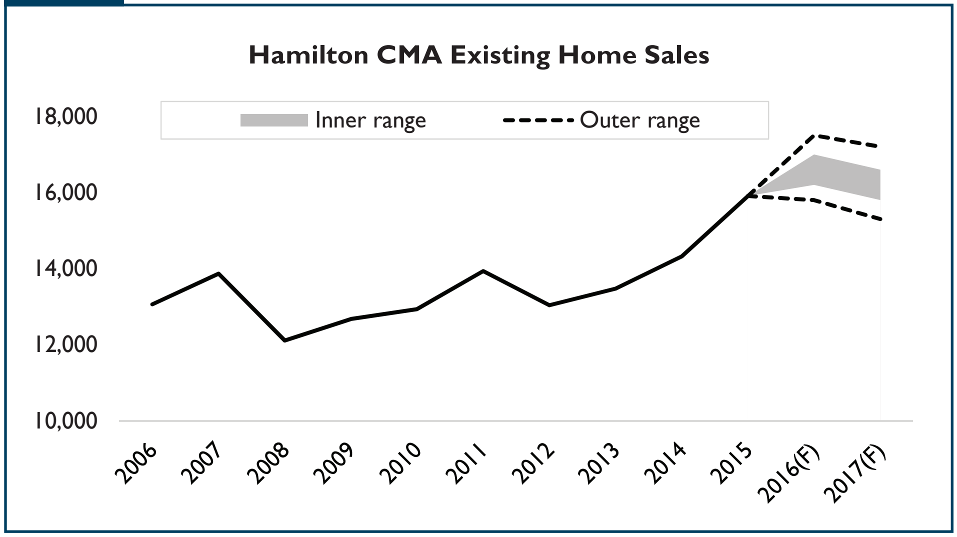
Source: CMHC; (F) = CMHC Forecast

of new homes could result in the number of housing starts reaching the upper bound of the outer range.

A stronger-than-expected private domestic demand in the United States could mean stronger job growth in Hamilton, as most products made in Ontario are exported into the United States. A favourable employment environment will boost housing demand. This could push the sales forecast towards the upper bound of the outer range. A weaker-than-expected job growth coupled with a spike in home prices could result in the sales forecast shifting towards the lower bound of the outer range.

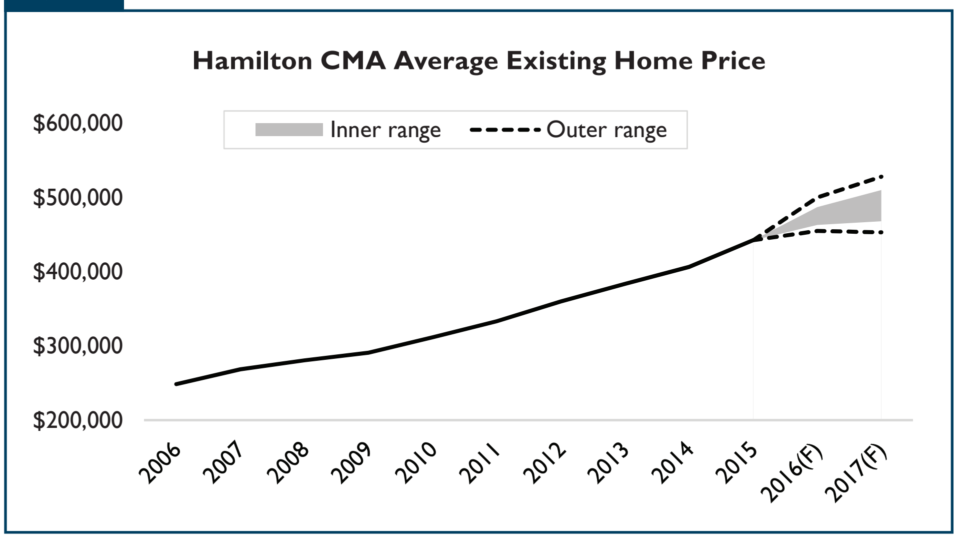
A steeper-than-expected decline in the number of new listings coupled with strong sales could result in the house price forecast drifting higher towards the upper bound of the outer range. Near record-high house prices and debt levels relative to income leave households vulnerable to a potential correction. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on the economy and subsequently the housing market. This could increase the possibility of home prices moving towards the lower bound of the outer range.

Figure 7



Source: CREA; (F) = CMHC Forecast

Figure 8



Source: CREA; (F) = CMHC Forecast

Forecast Summary
Hamilton CMA
Spring 2016

	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	1,159	1,153	1,122	950	1,200	900	1,150
Multiples	1,550	1,679	932	1,600	1,700	1,500	1,650
Starts - Total	2,709	2,832	2,054	2,550	2,900	2,400	2,800
Resale Market							
MLS® Sales	13,471	14,324	15,907	16,200	17,000	15,800	16,600
MLS® Average Price($)	383,892	406,366	442,493	463,000	487,000	468,000	510,000
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	3.4	2.2	3.4	3.2	2.9
Two-bedroom Average Rent (October)($)	932	959	1,034	1,060	1,090
Economic Overview					
Population	758,287	765,213	771,703	777,900	784,000
Annual Employment Level	374,800	383,700	385,400	389,400	392,500

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range. (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2016-2017).

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 almost 70 years.

CMHC helps Canadians meet their housing needs. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer objective housing research and information to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

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

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.

Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

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