HOUSING MARKET OUTLOOK
St. John's CMA

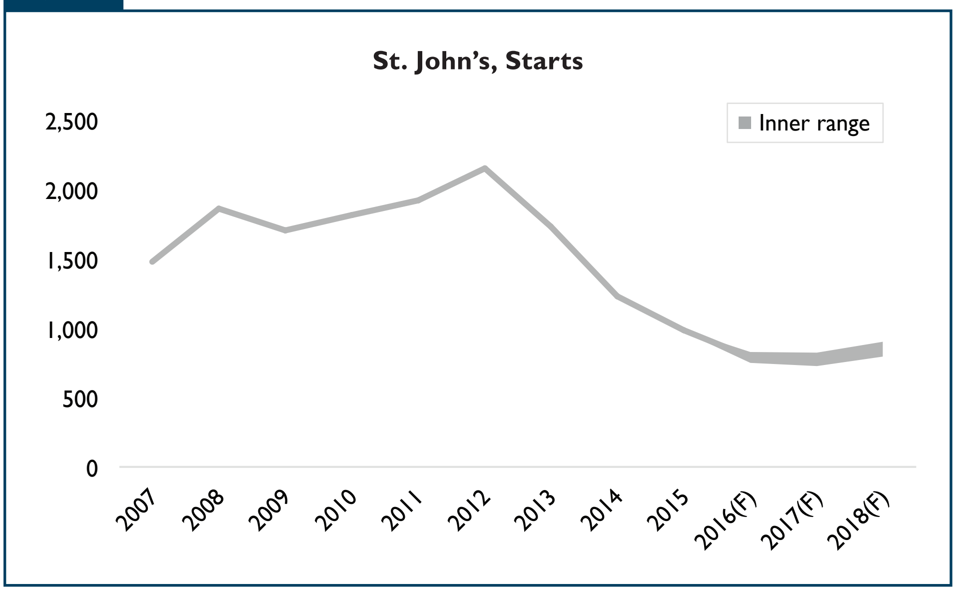
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2016

Highlights[1]

- Depressed oil prices contribute to economic weakness and uncertainty.
- Tepid new home construction activity expected over forecast period.
- MLS® sales and prices remain under pressure through 2018.

Figure 1



Source: CMHC. (F): Forecast.

[1] The forecasts and historical data included in this document reflect information available as of September 30, 2016.

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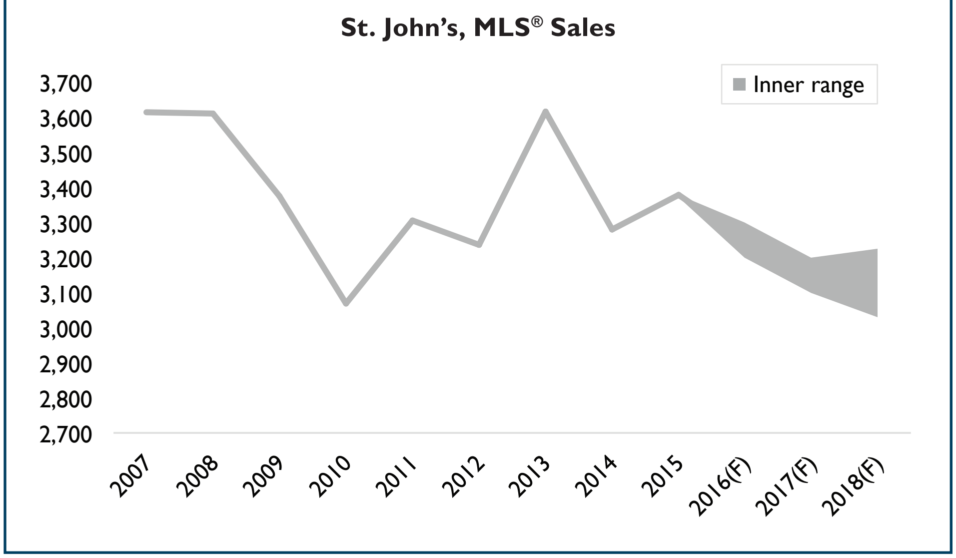
Economic Trends

Economic growth in the St. John's area will be below the pace of the rest of Atlantic Canada's major centres over the forecast period. GDP will decline in both 2016 and 2017 before a return to moderately positive economic growth by 2018. The provincial government's current fiscal situation is unprecedented in terms of the size of the current deficit and total debt. The province will continue to be pressured to look for new revenue sources and expenditure cuts could continue if oil prices remain lower for longer. In 2018 and beyond, the province's economic future should begin to brighten, with the new Hebron offshore oilfield in production and the return of energy and resource investment activity. Oil prices are likely to gradually improve as global supply realigns with demand in the coming years.

Labour market conditions have continued to soften for the fourth year in a row this year. Economic weakness has resulted in additional labour pressures for Newfoundland and Labrador (NL) and the St. John's area, as the labour market was already impacted over the last year by the rise in the number of unemployed Alberta commuters. Employment throughout the St. John's area is forecast to decline 0.3 per cent in 2016 and 0.4 per cent in 2017, with growth of 0.4 per cent in 2018. The unemployment rate is expected to remain elevated as labour force and employment pressures persist around a weakening economy that is also being impacted by a lack of new capital project activity.

Figure 2



Source: CREA; (F) = CMHC Forecast.
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Net migration is not expected to stabilize over the current forecast. With a lack of employment growth, out-migration from NL to other parts of Canada is expected to increase this year and in 2017 and 2018. A weaker outlook for employment compared to other regions of Canada will force people to look for opportunities outside NL. Although it will be lower than recent years, international immigration is expected to remain positive as more refugees come to Canada, including the St. John's area. Immigration to NL from outside Canada will also be driven by international students coming to St John's to study.

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.

New Home Construction

Demand for housing is expected to remain flat over the forecast period as a result of a negative outlook for key market drivers such as population, income and employment. Accordingly, the single-detached housing market will range from 575 to 625 starts both this year and next, and from 625 to 675 starts in 2018.

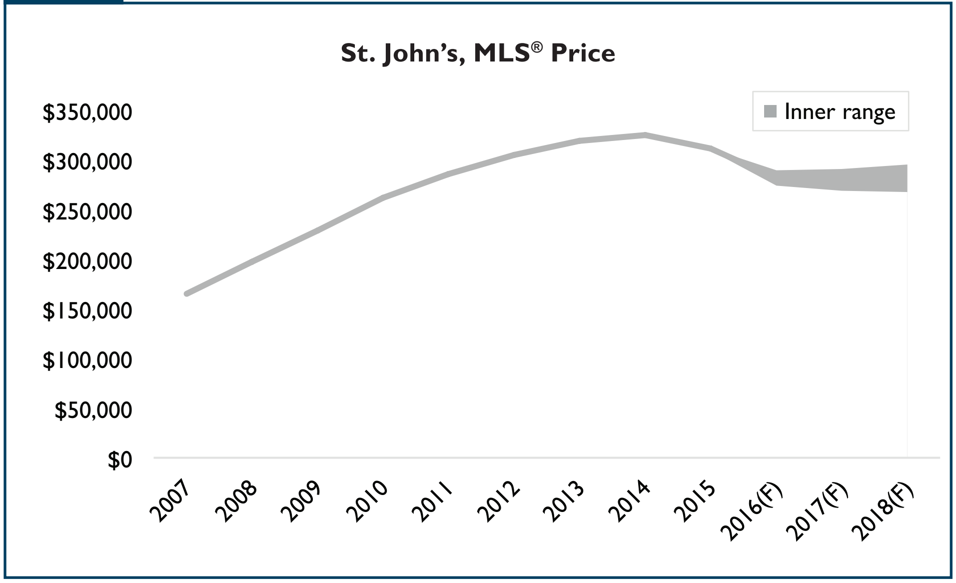
In the absence of economic growth, multi-unit construction activity is expected to remain well below prior year levels with no large rental projects expected to break ground over the forecast period. Basement apartments and small multi-unit rental projects targeted at seniors and affordable housing projects, are expected to be key components of market activity. Renewed demand for semi-detached and row units is also expected to contribute to the number of multiple starts over the forecast period. As a result, the range for multiples will be from 180 to 200 units this year, 165 to 185 units in 2017 and 185 to 215 in 2018.

MLS® Sales and Prices

A lack of employment and economic growth did not materially impact sales activity overall in 2015 and sales are expected to remain flat through 2018. Lower-priced ($250,000 to $350,000) home segment sales activity is expected to be robust as pent-up demand gets met, particularly among first-time buyers. This segment represents the largest within the St. John's area housing market at over half of all activity. Lower oil prices will continue to contribute to negative economic growth and this is expected to impact resale housing activity over the forecast period. As a result, MLS® sales will range between 3,200 to 3,300 units this year and between 3,100 to 3,200 units in 2017 and 3,025 to 3,225 units in 2018.

Prices started to decline in late 2014 and 2015 for the first time after several years of significant price growth. For this year through 2018, average residential prices are expected to remain under pressure, due to a lack of material growth in population, income and employment that will weigh on housing demand. Average prices are expected to be in the range of $274,000 to $290,000 this year, $269,000 to $291,000 in 2017 and $267,500 to $295,500 in 2018.

Figure 3



Source: CREA; (F) = CMHC Forecast.
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Rental Market

A lack of new large rental apartment projects will constrain growth within the rental market universe over the forecast period, with large projects being on hold pending an economic rebound. Smaller affordable housing projects for seniors are likely because of the aging population demand, but won't have a material impact on market rents. As such, average rents are not expected to change materially, while the vacancy rate will see some pressure through 2018 because of economic weakness. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment bungalow homes excluded) is expected to be five per cent this year, 5.5 per cent in 2017 and 5.2 per cent in 2018. The average two-bedroom monthly rent is expected to increase to $925 this year, $930 in 2017 and $940 in 2018.

Mortgage Rates are Expected to Rise Modestly Over the Forecast Horizon

Mortgage rates are expected to increase very modestly over the period 2016-2018. This is consistent with the expected pick-up over the horizon for inflation and real GDP growth by several forecasting institutions.

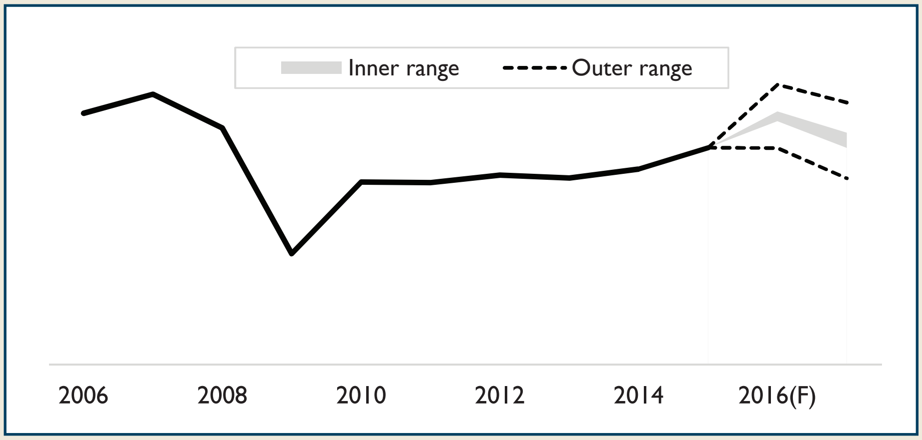
According to our base case scenario, the posted 5-year mortgage rate is expected to be within a 4.5 to 4.9 per cent range in 2016 and within a 4.4 to 5.2 range in 2017. For 2018, the posted 5-year mortgage rate should lie within a 4.5 to 5.7 per cent range.

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	Mortgage rates are expected to stay near current levels until the end of 2016, before rising modestly over the forecast horizon. This should contribute to a slight moderation in housing demand by the end of 2018.
Employment	A muted labour market in the St. John's area will not be overly supportive of the housing market. People may not spend if they are not certain about their future income and employment opportunities.
Income	Average weekly earnings are under pressure, resulting in negative real wage growth, which will not contribute positively to housing demand.
Population	Population growth is not expected to be a factor in terms of supporting the housing market over the forecast period.
Resale Market	Economic weakness will see MLS® sales lower, with no price growth expected.

The Impact of Mortgage Regulation Changes

On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be "stress tested" to ensure borrowers can afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This "stress test" approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which the home borrower qualifies and it is not an increase in the mortgage rate itself. As a result, borrowers could adjust their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor. According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced changes could be different across the country. Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

Forecast Risk Discussion: The Outer Ranges for Starts, Sales and Prices

This outlook is subject to some risks, which could push the actual activity outside the narrow range included in our forecast. To help communicate these risks, outer ranges have been added to our narrower forecasts.

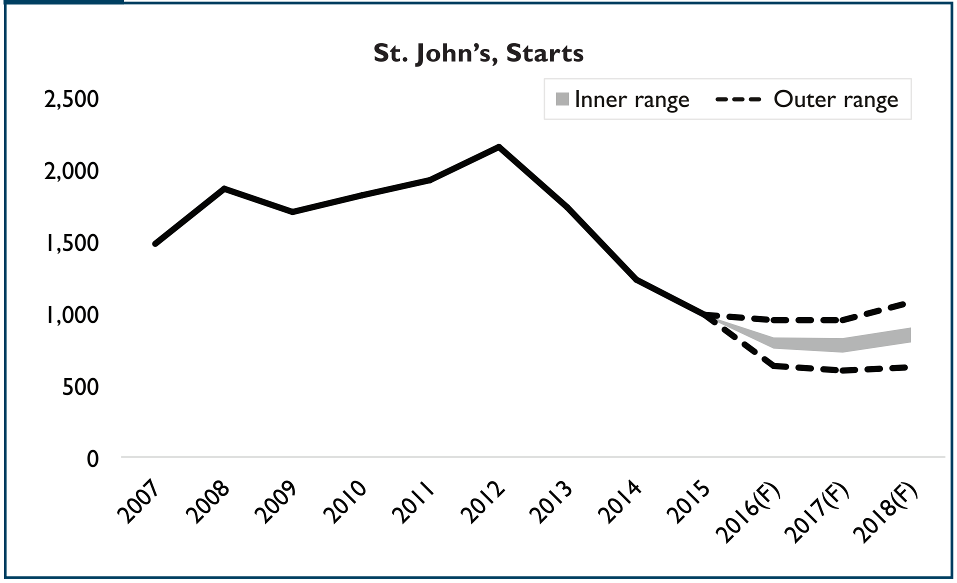
Outer Ranges for Starts Through 2018

- Housing starts reached 985 units in 2015 which was lower than 1,230 units in 2014. Housing starts in St. John's CMA are expected to have an outer range from 630 to 950 units in 2016, 600 to 950 units in 2017 and from 625 to 1,075 units in 2018.

Risks to the Outlook for Starts in St. John's CMA

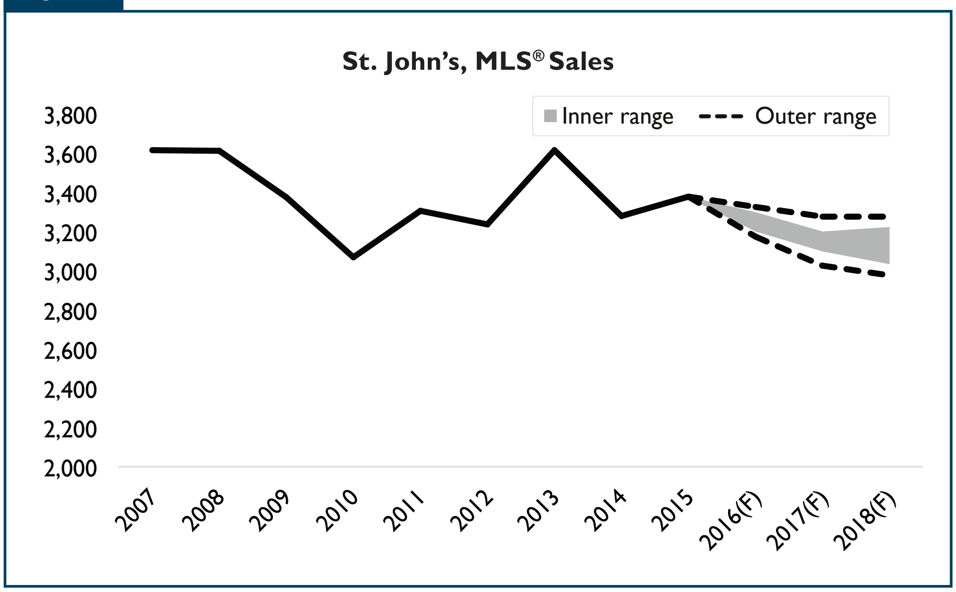
- Oil prices are likely to gradually improve as global supply continues to pull back. There is also the risk that supply does not adjust and prices remain depressed, impacting economic growth, thereby pushing starts activity to the lower end of the current range.
- The unemployment rate is expected to remain elevated due to a weakening economy that is also being impacted by a lack of new capital project activity. If oil prices were to improve at a greater than expected rate from current levels, capital project activity would also likely improve. This would cause employment and economic growth to stabilize and improve over the forecast, resulting in starts moving up toward the upper end of the current range.
- With no large rental projects expected to break ground over the forecast period, multi-unit construction activity is expected to remain well below prior year levels. An improving outlook would shift the focus back to new rental projects as the current demographic outlook does support additional demand in a stable economy.

Figure 4



Source: CMHC. (F): Forecast.

Figure 5



Source: CREA; (F) = CMHC Forecast.
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Outer Ranges for MLS® Sales Through 2018

- MLS® sales reached 3,378 in 2015 following a slightly lower level of 3,281 sales in 2014.
- MLS® sales in St. John's CMA are expected to have an outer range from 3,175 to 3,325 units in 2016, 3,025 to 3,275 units in 2017 and 2,975 to 3,275 units in 2018.

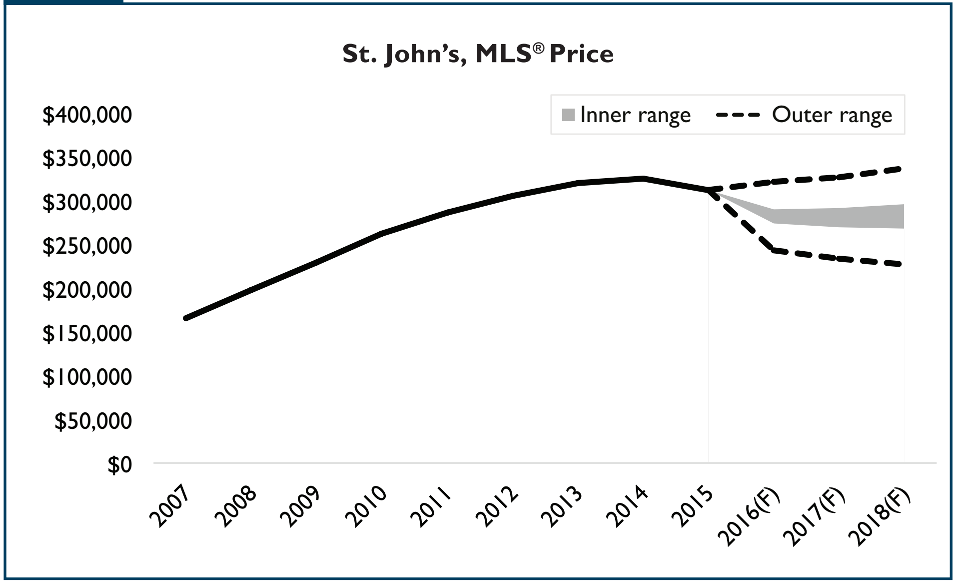
Risks to the Outlook for MLS® Sales in St. John's CMA

- If first-time buyer activity slows more than expected, MLS® sales activity would remain in the lower end of the current range over the forecast. A further decline in current oil prices, as well as more negative economic growth, would also impact resale housing activity towards the lower end of the range of the forecast. The NL government's spring 2017 budget could also have a negative impact if there are significant job losses within the St. John's region.

Outer Ranges for MLS® Prices through 2018

- MLS® prices dropped a bit to $296,812 in 2015 following a slightly higher average price of $306,405 in 2014. MLS® Prices are expected to have an outer range from $243,000 to $321,000 in 2016, $233,250 to $326,750 in 2017 and $226,725 to $336,275 in 2018.

Figure 6



Source: CREA; (F) = CMHC Forecast.
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Risks to the Outlook for MLS® Prices in St. John's CMA

- Average residential prices could continue to decline further than expected, driven by a lack of growth in population, income and employment, thus impacting housing demand and prices continuing to shift to the lower end of the range. The NL government's spring 2017 budget could also have a negative impact on prices if there are significant job losses within the St. John's region. An increase in MLS® sales activity, tied to better economic growth than expected, would reduce the supply of resale homes available to potential buyers, helping to stabilize and shift house prices toward the upper end of the forecast range.

Forecast Summary St. John's CMA Fall 2016									
	2013	2014	2015	2016(F)		2017(F)		2018(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	1,243	907	729	575	625	575	625	625	675
Multiples	491	323	256	180	200	165	185	185	215
Starts - Total	1,734	1,230	985	750	830	725	825	800	900
Resale Market									
MLS® Sales	3,617	3,281	3,378	3,200	3,300	3,100	3,200	3,025	3,225
MLS® Average Price($)	301,333	306,405	296,812	274,000	290,000	269,000	291,000	267,500	295,500
Economic Overview									
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.50	4.90	4.40	5.20	4.50	5.70

	2013	2014	2015	2016(F)	2017(F)	2018(F)
Rental Market						
October Vacancy Rate (%)	3.2	4.6	4.7	5.0	5.5	5.2
Two-bedroom Average Rent (October)($)	864	888	923	925	930	940
Economic Overview						
Population	209,069	212,257	214,285	217,000	215,900	215,500
Annual Employment Level	114,000	116,300	115,900	115,500	115,000	115,500

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 30th September 2016. (L)=Low end of Range. (H)=High end of range.

It is possible that 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 caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Newfoundland and Labrador Association of REALTORS®. CMHC Forecast (2016-2018).

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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