



FORECAST

Charlottetown

SUMMARY

Canada Mortgage and Housing Corporation

VOLUME 7 EDITION 1
FIRST QUARTER 2004

Multiple Starts Expected to Decline in 2004

Migration Helps to Buoy Housing Market

Charlottetown's housing market is expected to remain strong, in historical terms, over the next two years, despite a slowdown in economic growth. After an estimated 1.8 per cent growth in the provincial economy in 2003, the economy is expected to slow in 2004 due to a number of factors.

The tourism sector failed to record growth in 2003 and actually posted a decrease for the third year in a row. This is mainly attributed to the rising Canadian dollar, which is prompting many to head south of the border for their vacation. Also, the number of tourists from the U.S. has dropped again, due to security concerns and the rising dollar, which is making the area less attractive.

The agriculture sector has been hit hard with both concerns about BSE and a surplus of potatoes from the 2003 growing season. The potato issue is of concern as it has left many of the Island's farmers with warehouses full of product.

There is, however, a positive aspect from this situation, as there is now ample product available for the Island's food processing plants. This should allow processors to increase their volumes without having to import any raw materials.

On the positive side, the Island has some major projects scheduled to start in 2004, the largest being the new federal government building in Charlottetown. Positive net migration is also contributing to the strong demand for housing in the Charlottetown area. Between 1997 and 2002, approximately 1,330 people moved into Queens County, of whom almost 65 per cent came from within the province. This shows that P.E.I. is no exception to the national trend of urbanization, which is creating a strong demand for housing in most Canadian cities.

Total housing starts are expected to remain strong this year as a result of the continued strength of single starts in the Charlottetown area, as well as a pickup in multiple starts in Summerside. Housing starts are expected to decline slightly in 2004 with total starts reaching 750, down from 814 in 2003.

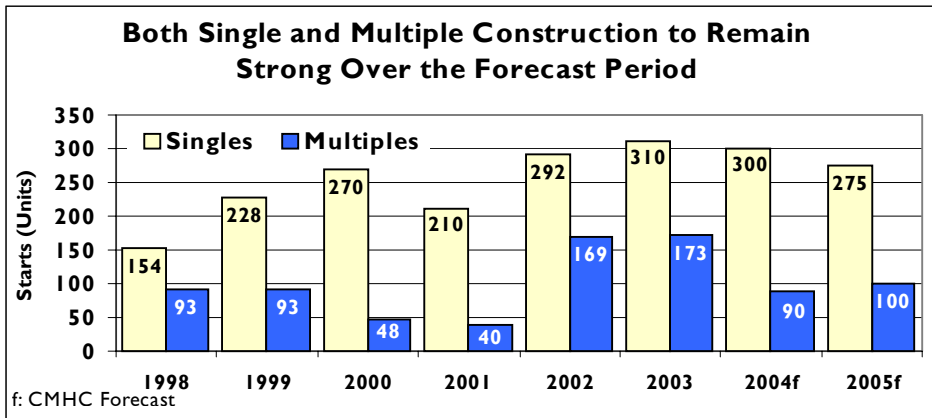
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Rental Market

Vacancy Rate to Increase Slightly in 2004

Despite the strong demand for rental units in the Charlottetown area, the vacancy rate is expected to inch up to 4.0 per cent in 2004. The reason for the rising vacancy rate is the high level of multiple unit construction the area has recorded over the past two years. In 2003, there were 173 new multiple units built in the Charlottetown area, which is in addition to the 169 units built in 2002. With so many units coming on the market, there will be a delay before all of the new units can be fully absorbed, and one result of this is the increased vacancy rate. However, as construction slows in 2004 and many of the new units are absorbed by the local market, expect the vacancy rate decrease in 2005.

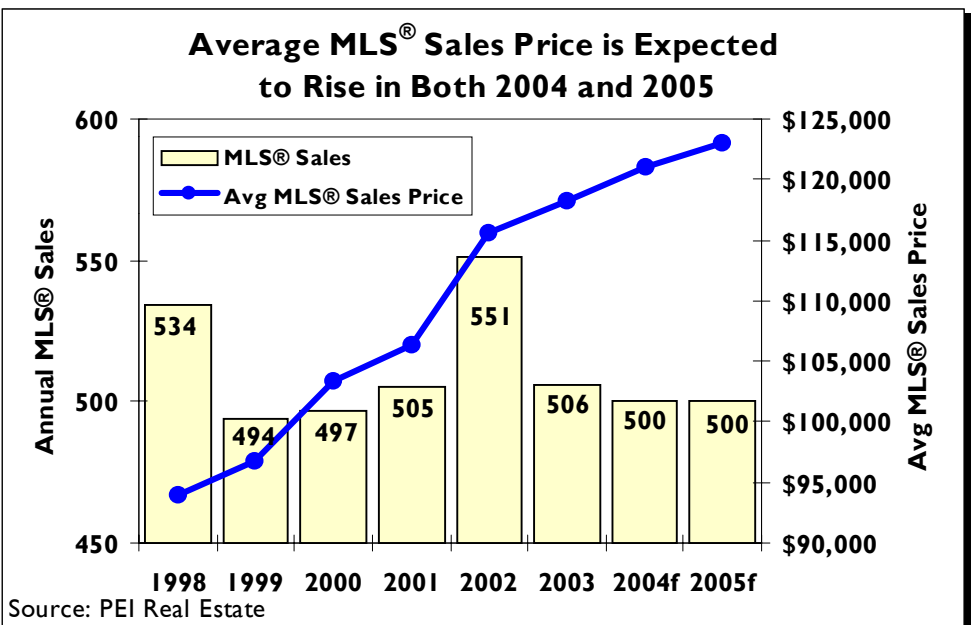
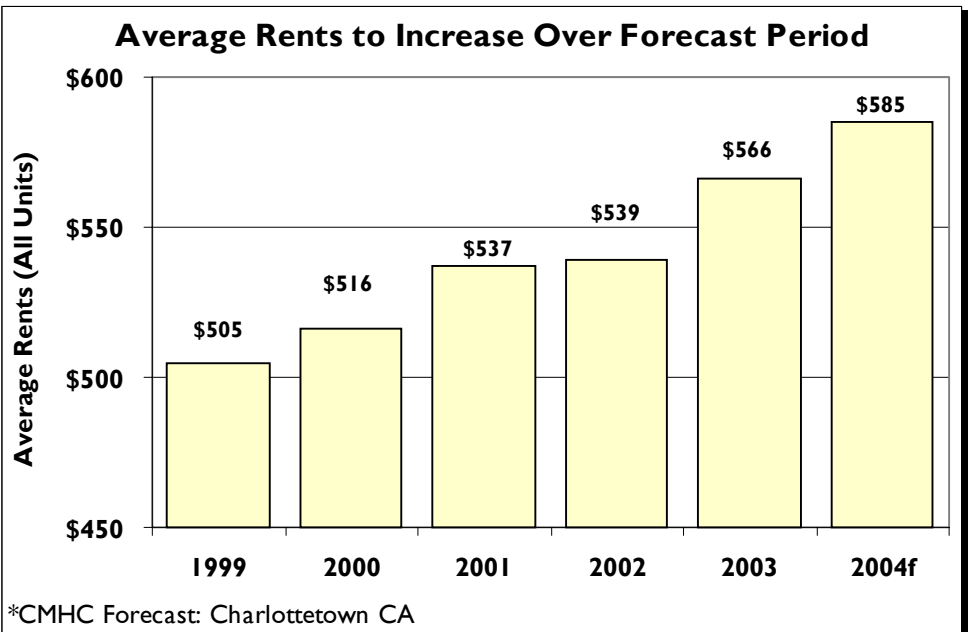
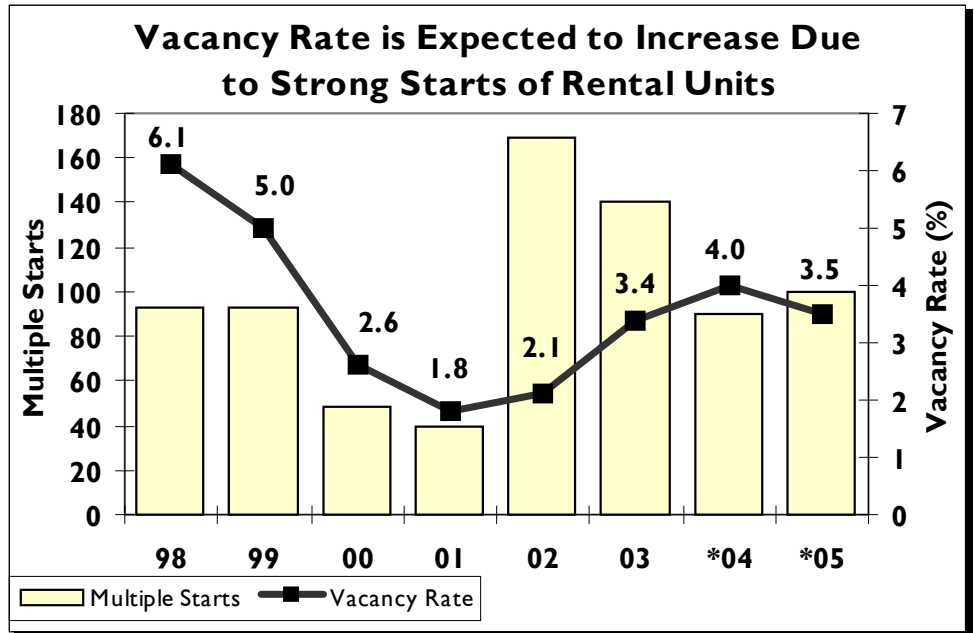
High-End Units Push Up Average Rents

Average rents for units in either an apartment or row structure in the Charlottetown area increased by 5.0 per cent to \$566 in 2003. Expect average rents to increase at a similar pace over the forecast period, as numerous new high-end units are added to the local rental market.

Resale Market

Sales to Remain Strong in the Charlottetown Area

Sustained employment, income growth and strong consumer confidence will continue to drive MLS® sales. However, the rising cost of homeownership, due partially to increasing interest rates, will moderate overall demand. When combined with a thin supply of

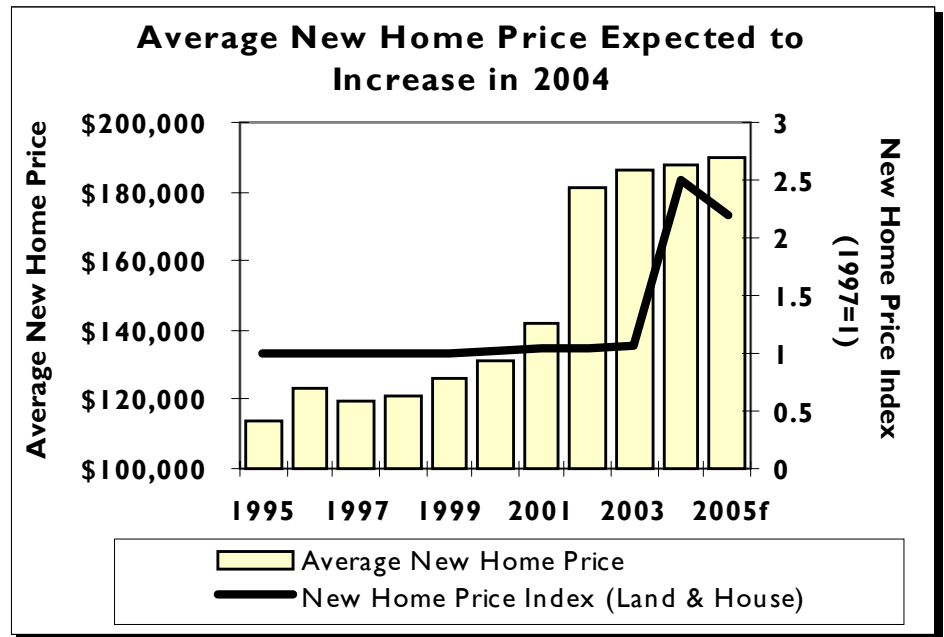


quality listings, expect resale activity to tone down from last year's record high. The thin supply of listings is especially acute when one looks at the under \$120,000 price range. Nevertheless with an expected 500 units to be sold through the MLS® system in 2004, this will still represent a strong year in historical terms.

New Home Prices Expected to Rise in 2004

Over the last nine years, the price of building a new home, including the purchase of a lot, as measured by the New Housing Price Index (NHPI) has been outpaced by the Consumer Price Index (CPI) in Charlottetown. The NHPI measures changes over time in the contractors' selling prices of new residential houses and provides results individually for the structure (house), land and a combined total cost.

Overall, when compared to other goods and services, the cost of a new



home in Charlottetown is relatively less expensive today than nine years ago.

Although the average new home price has decreased in relative terms over the past few years, it has been increasing steadily in actual dollars. This is the result of people choosing to build larger and more elaborate

homes, not an actual increase in price. Over the past five years the average price has increased, from \$120,850 in 1998, to \$185,996 in 2003. This represents an increase of 49.7 per cent. The trend of people building more expensive homes is expected to continue, and as a result, expect to see the average new home price to exceed \$190,000 by the end of 2005.

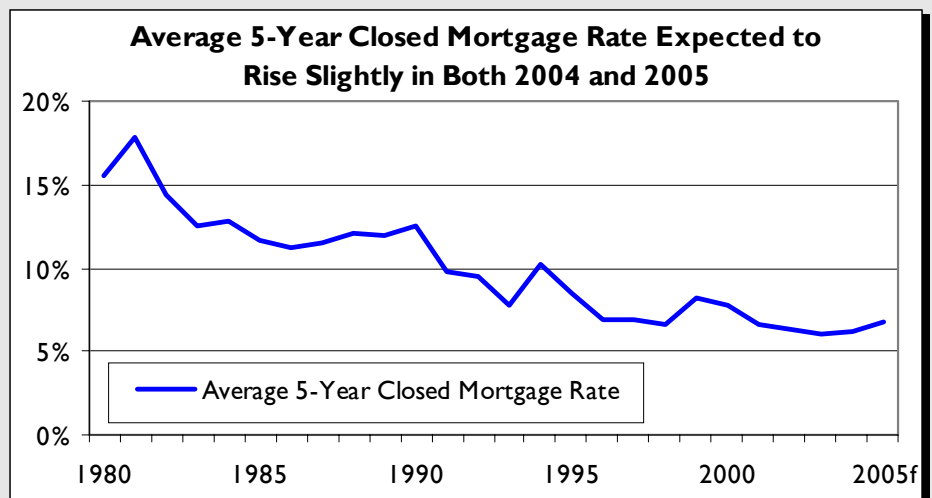
Mortgage Rates on the Rise but Still Low by Historical Standards

Short-term rates move in tandem with the prime rate, while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets with the same maturities.

Therefore, low interest rates in those markets call for mortgage rates to also stay low over the next few quarters. Our outlook calls for mortgage rates to remain flat this year, perhaps rising by 25 basis points. Next year, rates will

begin to increase by 50–75 basis points, with the one-year posted rate in the 4.25–5.25 per cent range. The three- and five-year posted mortgage rates are expected to be in the 5.75–6.75 and 6.25–7.25 per cent range, respectively.

Spreads between mortgage rates and comparable bond yields have allowed lenders some room for discounts in recent years, with these conditions likely to persist in the near term.



Source: Statistics Canada & CMHC

FORECAST SUMMARY

Greater Charlottetown Area

	2000	2001	2002	2003	2004*	2005*	% chg
NEW HOME MARKET							
Starts							
Total	318	300	461	483	390	375	-19.3%
Single-family	270	250	292	310	300	275	-3.2%
Multiple/Rental	48	50	169	173	90	100	-48.0%
Average New House Price	\$131,384	\$141,904	\$180,973	\$185,996	\$188,000	\$190,000	1.1%
Complete and Unoccupied (Dec)	8	6	8	19	14	16	
RESALE MARKET							
MLS [®] Active Listings (June peak)	224	240	196	N/A	N/A	N/A	##
MLS [®] Sales	497	505	551	506	500	500	-1.2%
Average Sales Price	\$103,435	\$106,335	\$115,603	\$118,188	\$121,000	\$123,000	2.4%
RENTAL MARKET							
Vacancy Rate (October)	2.60%	1.80%	2.10%	3.40%	4.00%	3.50%	
Average Rents (All units)	\$516	\$537	\$539	\$566	\$585	\$600	
Rental Rate (annual % change)		4.07%	0.37%	5.01%	3.36%	2.56%	
ECONOMIC OVERVIEW							
Mortgage Rate (3 yr. term)	8.17%	6.88%	6.28%	5.82%	5.46%	6.04%	
Mortgage Rate (5 yr. term)	8.35%	7.40%	7.02%	6.39%	6.13%	6.73%	
Employed	17700	19600	18600	19100	19300	19600	1.0%

* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

Housing Now is published 4 times a year for the Prince Edward Island market. **Forecast Summary** is included in the first and third quarter editions. Annual subscriptions to the **Housing Now** for Prince Edward Island are \$55.00 plus applicable taxes. This publication is also available in French. For more information, or to subscribe, contact Cynthia Way at the Atlantic Business Centre at (902) 426-4708. Order no. 2088

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