



FORECAST

St. John's

SUMMARY

Canada Mortgage and Housing Corporation

VOLUME 7 EDITION 1
FIRST QUARTER 2004

Local housing market remains healthy

While the local housing market will remain quite healthy in historical terms, CMHC predicts a modest slowdown in homebuying activity this year and next. Deficit reduction measures by the provincial government, highlighted by workforce cutbacks and a two-year wage freeze, will impact consumer confidence and have a slightly dampening effect on housing demand. These effects will be largely offset by low interest rates and sustained employment and income growth. The local housing market will also benefit from gradual population increases stemming from ongoing movement of persons to the region.

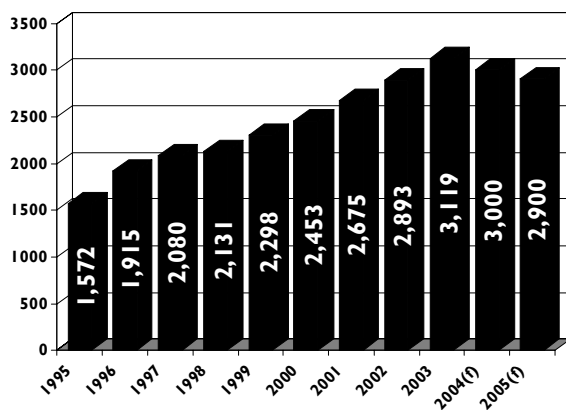
Another Year of Brisk MLS® Sales

Following five consecutive years of record-breaking activity, MLS® residential sales are forecast to be at slightly lower levels in both 2004 and 2005. However, the continuation of low interest rates will maintain a brisk level of homebuying activity and moderate the overall decline. The dip in MLS® residential sales will also be tempered by the ongoing sale of newly constructed homes sold through the system. At 3,000 units this year and 2,900 units in 2005, MLS® residential sales will remain strong in historical terms.

IN THIS ISSUE

- 1 **Resale Market:** Another Year of Brisk MLS® Sales
- 2 Price Growth Eases as Supply Picks Up
- 2 Homes Priced Between \$150,000 and \$200,000 Fastest-Growing Segment
- 2 **New Homes Market:** Another Strong Year for Housing Starts
- 3 Single Starts Fall From 30-Year High
- 3 Mortgage Rate Outlook Positive for Housing
- 3 Detached Starts Growth Due to More Two-Storey Homes
- 4 **Forecast Summary**

MLS® Sales - St. John's and Area



Source: Eastern Newfoundland Real Estate Board, CMHC forecast.



HOME TO CANADIANS
Canada

Price Growth Eases as Supply Picks Up

With homebuying demand expected to moderate and the supply of active listings on the rise, the resale market is forecast to move to more balanced conditions by the end of the year. As a result, expect prices for bungalows to increase in the two per cent to three per cent range this year. Similar to recent trends, robust demand from move-up buyers will support a slightly higher pace of growth for two-storey homes of between three and four per cent. **CMHC's Benchmark House Price Survey** indicates that prices for bungalow units in select neighbourhoods increased around four per cent last year while two-storey dwellings posted gains of

Price Growth Expected to Ease

	Bungalow		
	Jan. 2003	Jan. 2004	Jan. 2005(f)
St. John's East	\$153,000	\$159,000	\$163,000
St. John's West	\$146,000	\$151,000	\$154,000
Mount Pearl	\$143,000	\$148,000	\$151,000

	Two Storey		
	Jan. 2003	Jan. 2004	Jan. 2005(f)
St. John's East	\$200,000	\$210,000	\$217,000
St. John's West	\$195,500	\$206,000	\$214,000
Mount Pearl	\$196,000	\$205,000	\$211,000

Source: CMHC Benchmark House Price Survey. (f) CMHC forecast.

Homes Priced Between \$150,000 and \$200,000 Fastest-growing Segment

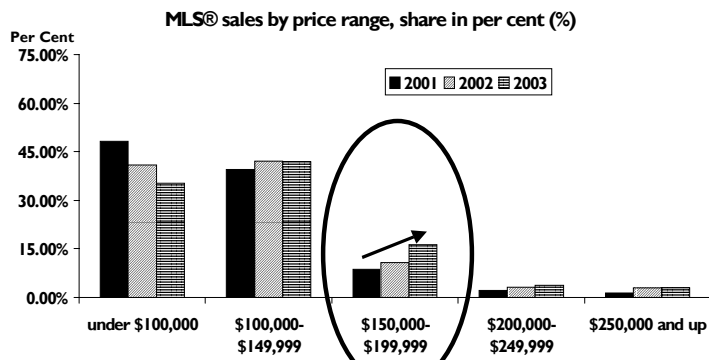
Analysis of MLS® residential sales indicates that homes priced between \$150,000 and \$200,000

New Homes Market

Another Strong Year for Housing Starts

Following on the heels of the best performance since 1975, housing starts will remain strong over the forecast period but will be modestly lower than last year's sizzling pace. Uncertainty over government cutbacks, a sharp rise in construction costs and more choice in the existing homes market will be largely responsible for the slight decline. Accordingly, housing starts will fall marginally to 1,550 units in 2004 and 1,500 units next year.

Homes Priced Between \$150,000 and \$200,000 Fastest Growing Segment



Source: Eastern Newfoundland Real Estate Board.

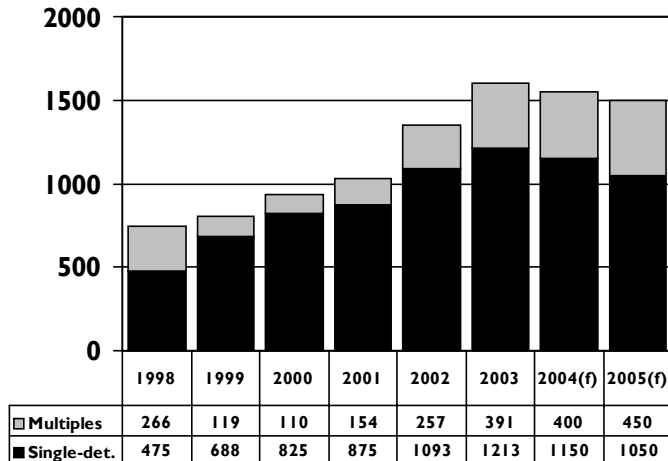
close to six per cent. It should be noted that **CMHC's Benchmark House Price Survey** analyses price movement for homes that are between 10 and 15 years old. Analysis of prices for homes under five years of age indicates price growth of between seven and 10 per cent last year. This largely reflects stronger demand for these newer homes, as many are typically of higher quality and are located in newer neighbourhoods.

Forecast Summary, First Quarter 2004

represent the fastest-growing market segment. In terms of both sales and market share, this segment has more than doubled in the past two years. More move-up activity, and the fact that with such low interest rates buyers can afford to purchase more expensive homes, are among the major reasons for this growth. Sales of new homes through the MLS® system are also having an impact, as a portion of these newly built units are priced in this range.

The recovery in the multiples market, which began in 2000, will continue. A burgeoning condo market, further gains in single homes with basement apartments, and growing demand for more affordably priced, medium-density options, such as semi-detached dwellings will sustain the recovery. As a result, multiple starts will rise marginally to 400 units this year and climb again to 450 units in 2005.

Housing Starts - St. John's CMA



Source: CMHC.

Single Starts Fall from 30 Year High

Rising prices, the ongoing shift to more affordable, medium-density housing options and increased choice in the existing homes market will have the largest impact on single starts in coming years. While singles are forecast to slow from recent levels, they will remain strong when compared to most of the last decade. Expect singles to edge down to 1,150 units in 2004 and fall further to 1,050 units in 2005. With demand remaining strong and construction costs maintaining their upward trend, the average price of a new home will advance five per cent this year to a record level of \$170,000. As demand pressures ease, price growth will moderate to around three per cent in 2005.

Mortgage Rate Outlook Positive for Housing

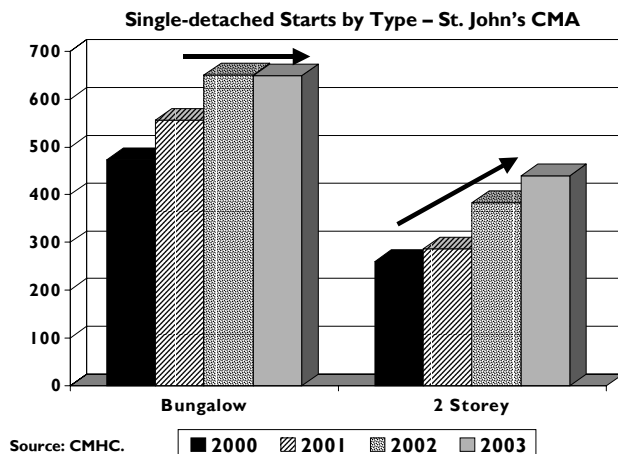
Short-term rates move in tandem with the prime rate, while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets with the same maturities. Therefore, low interest rates in those markets call for mortgage rates to also stay low over the next few quarters. 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.

Detached starts growth due to more two-storey homes

Growth in the local residential construction industry in recent years has been broad-based, with both single-detached and multiple-unit dwellings experiencing steady increases. While the recovery in multiples is encouraging, single-detached units remain the dominant house form and accounted for over 75 per cent of activity last year. A closer look at detached starts indicates that, while bungalow-style units accounted for 60 per cent of this segment in 2003, growth was entirely due to an increase in two-storey homes. In fact, starts of two-storey homes advanced 14.3 per cent last year and have jumped almost 70 per cent since 2000. This rate of growth far exceeds bungalow starts, which were flat in 2003 and have increased 37 per cent since 2000.

The surge in construction of two-storey homes in recent years in part reflects a growing pool of move-up buyers. The glut of baby boomers--many in their peak earning years--and, to a lesser extent, young professionals, is creating more move-up activity. Movement to the region of people involved in the expanding oil and gas industry is also stimulating this market segment. Furthermore, with interest rates hovering around 50-year lows, homebuyers are able to borrow more, which allows them to build larger homes with quality finishes.

Growth in detached starts due to more two-storey homes



Source: CMHC.

St. John's Metropolitan Area

April 2004

RESALE MARKET	2003	2004(f)	% Chg	2005(f)	% Chg
MLS Average Monthly Active Listings	953	1,000	4.9%	1,050	5.0%
MLS Sales	3,119	3,000	-3.8%	2,900	-3.3%
Benchmark House Price (3 Bed. Bungalow, January)					
East	\$153,000	\$159,000	3.9%	\$163,000	2.5%
West	\$146,000	\$151,000	3.4%	\$154,000	2.0%
Mount Pearl	\$143,000	\$148,000	3.5%	\$151,000	2.0%
NEW HOMES MARKET					
Absorption Rates (Monthly Average)					
Single and Semi-detached	96	95	-1.0%	90	-5.3%
Starts	1,604	1,550	-3.4%	1,500	-3.2%
Single	1,213	1,150	-5.2%	1,050	-8.7%
Multiple	391	400	2.3%	450	12.5%
Ownership	391	350	-10.5%	400	14.3%
Rental	0	50	N/A	50	0.0%
Average Absorbed New House Price	\$161,800	\$170,000	5.1%	\$175,000	2.9%
RENTAL MARKET					
Vacancy Rate (October)	2.0%	2.0%		2.5%	
Rental Rate (annual % chg) 2 bdr	3.1%	5.0%		5.0%	
ECONOMIC OVERVIEW					
Mortgage rate (3 yr. term)	5.82%	5.46%		6.04%	
Mortgage rate (5 yr. term)	6.39%	6.13%		6.73%	
Employment growth	1,800	1,000		1,000	
Net Migration	2,000	1,500		1,000	

Housing Now is published 4 times a year for the Newfoundland & Labrador market. **Forecast Summary** is included in the first and third quarter editions. Annual subscriptions to the **Housing Now** for Newfoundland & Labrador 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. 2084

Ce document est disponible en français. Veuillez communiquer avec Cynthia Way au Centre d'affaires de l'Atlantique au (902) 426-4708.

© 2004 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior

written permission of Canada Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and

opinions contained in this publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.

