



FORECAST

Northern Ontario

SUMMARY

Canada Mortgage and Housing Corporation

New Home Market

Singles Starts To Rise Again in Sudbury and Thunder Bay

Single-detached starts in both Thunder Bay CMA and Greater Sudbury CMA will rise above their 2003 totals this year. Starts in the first quarter of any year are never a great indication of what is to come in the year ahead given the variability of winters from year to year. A severe winter can stymie winter construction efforts on single family construction no matter how strong the demand. Both markets have experienced steady growth since 1999 in Sudbury and 2000 in Thunder Bay with no visible signs of a slowdown. Looking at a 35 year average of singles construction in Thunder Bay, it has not been since 1992 that an above average year was witnessed. Similarly in

Sudbury, a twenty-five year average of singles starts indicates Sudbury has not been above average since 1994. This below average new construction through the bulk of the 1990's and tightening resale markets in both major Northern Ontario centers have left move-up buyers with rather scanty choice in terms of newer resale product. Consequently, new supply is being brought forward by builders, anxious to fill the void that the resale market cannot supply. After counting 296 singles starts in Greater Sudbury in 2003, expect 320 in 2004 while in Thunder Bay, starts will finally push over the 200 mark to 210 in 2004, a figure not attained since 1994. (see **Chart below**)

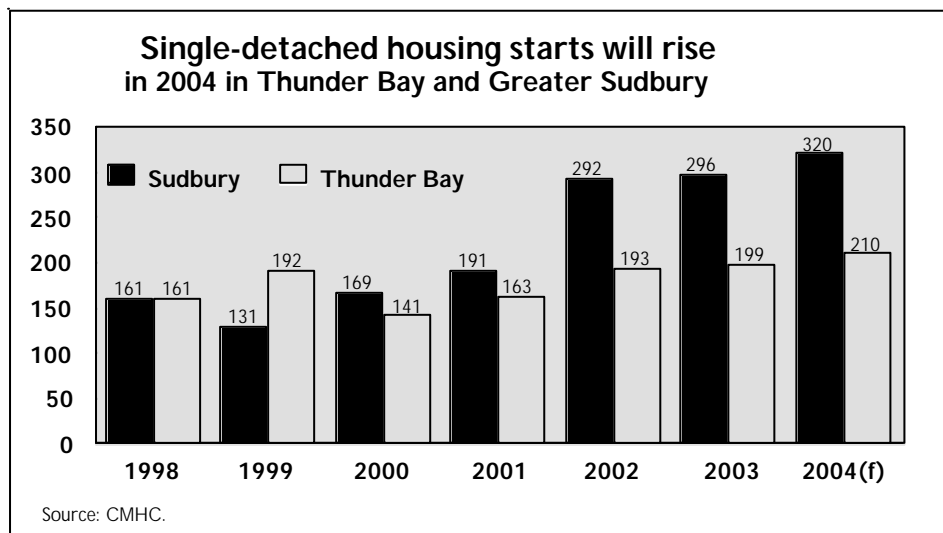
Multiple unit development remains low despite the vacancy rate falling to 3.3 per cent in October in Sudbury. A new downtown condominium project is in the

SPRING 2004

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works. A phased approach is planned with 30 units representing the first phase of three. Plans for condominiums are also on the drawing board for Thunder Bay with two sites being contemplated, both by experienced condominium builders. CMHC is forecasting 60 units to start in 2004. The vacancy rate is even lower in Thunder Bay, 3.0 per cent in fact, based on CMHC's October 2003 survey. Despite the declining rate, there are no firms plans for apartment construction in the city.

Average new construction prices are on the rise primarily due to increases in lumber and sheathing materials. CMHC's survey of house prices upon completion and occupancy in Thunder Bay in 2004:Q1 indicates that sixty per cent of all absorptions were over \$200,000 compared to less than half in 2003:Q1.

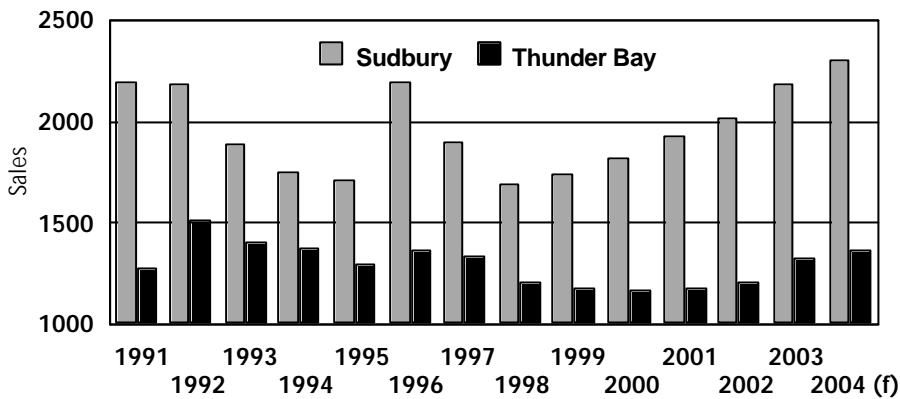


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HOME TO CANADIANS
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Resales will continue rising in Sudbury and Thunder Bay in 2004



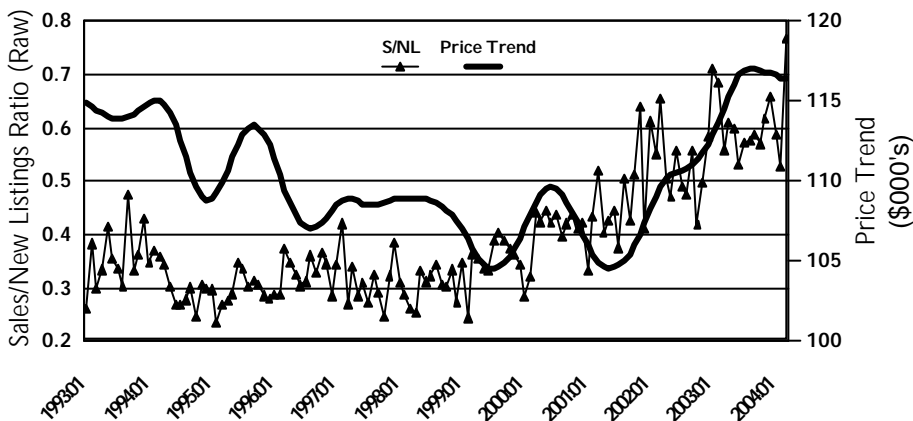
(f) CMHC Forecast.
Source: Sudbury REB, Thunder Bay REB.

Greater Sudbury and Thunder Bay Resale Market to Tighten Further in 2004

Greater Sudbury Forecast

After a couple lackluster months in January and February, 248 sales were recorded in March, the highest figure ever for a March in that market. CMHC is forecasting a five per cent gain in sales in Sudbury this year. Employment growth, low interest rates and reduced out-migration are primary reasons for the buoyant forecast in Sudbury.

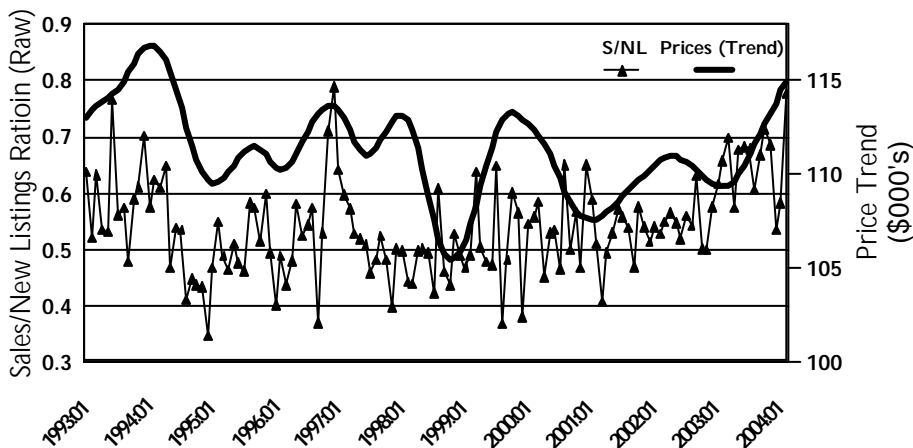
As Sales to New Listings Ratio Trended up Sudbury Average Prices Rose



Last data point is March 2004
Source: Sudbury Real Estate Board

Whereas declining listings have been a story in Greater Sudbury in the past few years, there are signs this is changing. 2004Q1 was remarkable for a couple reasons in Sudbury. New listings have outstripped the previous year's new listings for four consecutive months and currently are up eight per cent to March 31st so it appears that sufficient Sudbury homeowners are willing to act on news of the improving market and list their homes. Listings are 40 to 60 per cent higher in the two highest price ranges in the market.

Rising Sales to Listings Ratio Explain Rising Average TBay Prices



Last data point is February 2004
Source: Thunder Bay Real Estate Board

The sales to new listings ratio, a measure of resale market tightness, averaged nearly 60 per cent in 2003 compared to 52 per cent in 2002. Over the first three months of 2004, the ratio dropped back to 51.4 per cent indicating the market is coming more into balance.

Sudbury resale price growth as shown in the chart at left has been strong for the past couple years. While sales growth has been substantial, it's been the steady drop in new listings that has caused tightness in the market. Now we are on the verge of a seller's situation but a strong first quarter increase in new listings will temper that move and result in a smaller price increase in 2004. Sudbury average price will increase by 3.0% to \$121,000 in

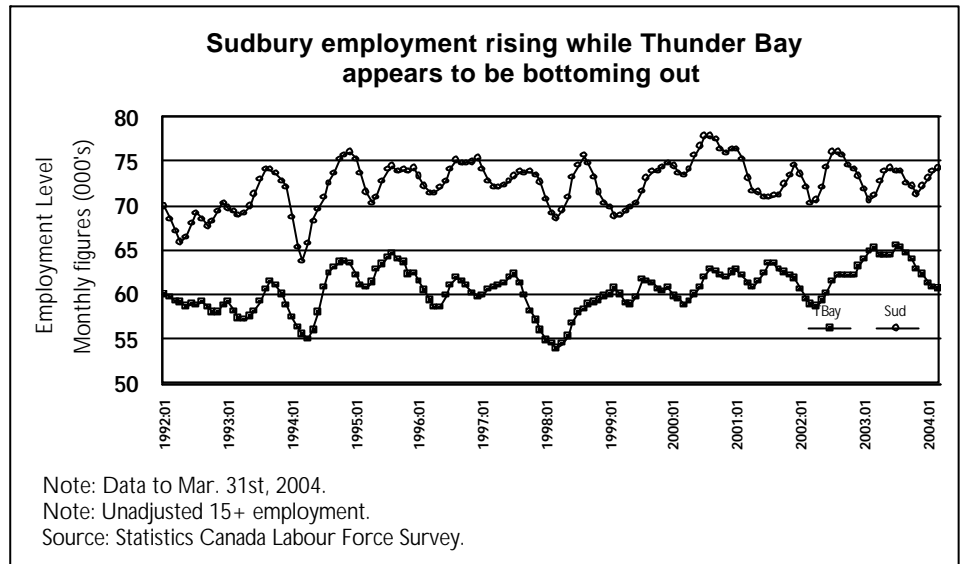
2004 compared to a strong 6% increase last year.

Thunder Bay Forecast

After rising nine per cent in 2003, sales should rise a more modest 3.0 per cent in 2004 in Thunder Bay despite employment losses. Low carrying costs and reduced out-migration supporting demand will be the chief influences here.

New listings have fallen continually in Thunder Bay since 1996 leading to a tightening in the resale market and renewed interest in new single-detached construction. With a pick-up in the resale market occurring, one would expect Thunder Bay homeowners to see opportunities to capitalize on this trend. New listings in March were 235 up from 214 in March 2003, a potential signal that the homeowners are reacting to strengthening demand. Historical active listings clearly show the downward trend in the Thunder Bay market. The figure for active listings in February was the lowest in 12 years. The sales to new listing ratio shown in the chart on the previous page is moving up leading the upward movement in average price.

As mentioned, average prices are forecast to rise two per cent after dipping slightly in 2003. Although employment growth will not be a stimulative factor for the resale market, low interest rates, insufficient listings levels and an improved migration story will provide enough fuel to spark the rise in average values. Thunder Bay's market should remain balanced in 2004.



Employment Growth In Sudbury and Thunder Bay Opposite of 2003

Look for Thunder Bay and Sudbury to each experience different years compared to 2003 in terms of employment growth. It appears the two largest markets in Northern Ontario are being affected by commodity demand forces that will affect each market differently. Labour uncertainty is behind both Falconbridge and Inco in Sudbury and nickel prices are strong which bodes well for the local employment picture there. Already, Sudbury employment is ahead four per cent over last year with it expected to finish 2004 three per cent ahead of 2003 essentially making up the job losses in 2003. Thunder Bay's employment fortunes appears to be on track to experience a year like Sudbury had last year with job losses. To date, employment is off six per cent but appears to be troughing. Expect employment to finish the year off two per cent from a strong 2003. Uncertainty in forest products is one particular area of concern in the Northwest. The lack of an agreement in softwood lumber and the relatively high Canadian dollar are taking its toll, although things could be much worse. Recent news of the Synfuel power project being

delayed and possibly scuttled all together removes, for the time being, some favourable stimulus to local employment market. The opening of the Thunder Bay Regional Health Sciences Centre in February was a bright spot in the first quarter. Finally, construction related to the Northern Ontario Medical School, opening in the fall 2005 with campuses in both Thunder Bay and Greater Sudbury will benefit both major Northern Ontario markets.

Mortgage Rates Still Low By Historical Standards

Short-term mortgage 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 same maturities. Therefore low interest rates in those markets call for posted mortgage rates to stay low over the next few quarters. One, three and five year posted closed mortgage rates are expected to remain relatively flat for the remainder of this year, perhaps rising by 25 basis points. Next year these rates will begin to increase by 50-75 basis points and are expected to be in the 4.25-5.25, 5.75-6.75 and 6.25-7.25 per cent range respectively.

FORECAST SUMMARY
Northern Ontario

REALESTATE MARKET	2002	%chg	2003	%chg	2004(f)	%chg
Sudbury MLS sales*	2,031	4.9	2,191	7.9	2,301	5.0
Sudbury MLS average price	\$110,826	2.8	\$117,441	6.0	\$121,006	3.0
Sudbury New Listings (Total)	3,913	-10.3	3,662	-6.4	3,589	-2.0
Thunder Bay MLS sales*	1,214	3.3	1,324	9.1	1,364	3.0
Thunder Bay MLS average price	\$114,365	1.5	\$113,190	-1.0	\$115,454	2.0
Thunder Bay New Listings (Total)	2,083	-1.2	1,980	-4.9	1,940	-2.0
NEW HOME MARKET	2002	%chg	2003	%chg	2004(f)	%chg
Sudbury Starts						
Total	298	56.0	306	2.7	330	7.8
Single family	292	52.9	296	1.4	320	8.1
Multiple (semi, row, apt)	6	n/a	10	66.7	10	0.0
Thunder Bay Starts						
Total	195	-7.6	211	8.2	280	32.7
Single family	193	18.4	199	3.1	210	5.5
Multiple (semi, row, apt)	2	-95.8	12	500.0	70	483.3
RENTAL MARKETS	2002	%chg	2003	%chg	2004(f)	%chg
Sudbury Vacancy rate (Oct. '02)	5.1%	n/a	3.6%	n/a	3.3%	n/a
Average rent, two-bed. apt.	\$647	4.4	\$651	0.6	\$664	2.0
Thunder Bay Vacancy rate (Oct. '02)	4.7%	n/a	3.3%	n/a	3.0%	n/a
Average rent, two-bed. apt.	\$657	0.0	\$672	2.3	\$685	1.9
ECONOMIC OVERVIEW	2002	%chg	2003	%chg	2004(f)	%chg
Mortgage rate, 1 year	5.17	n/a	4.84	n/a	4.18	n/a
Mortgage rate, 5 year	7.02	n/a	6.39	n/a	6.13	n/a
Sudbury Net Migration**	-336	n/a	-200	n/a	-100	n/a
Thunder Bay Net Migration **	-336	n/a	-300	n/a	-250	n/a
Sudbury Employed (Annual avg.)	73,500	1.1	72,500	-1.4	74,500	2.8
ER 590 *** Employed	254,500	1.9	254,200	-0.1	n/a	n/a
Thunder Bay Employed (Annual avg.)	60,900	-2.2	64,300	5.6	63,000	-2.0
ER 595 **** Employed	115,100	4.8	118,100	2.6	n/a	n/a

* Based on SREB/TBREB (Sudbury/Thunder Bay Real Estate Board) territories.

** Source of Migration data is Statistics Canada Small Area Data Division

*** Economic Region 590 includes the Northeastern Ontario Districts excluding Sudbury CMA.

**** Economic Region 595 includes the Northwestern Ontario Districts excluding Thunder Bay CMA.

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