HOUSING MARKET OUTLOOK

Hamilton

Canada Mortgage and Housing Corporation

www.cmhc.ca

Fall 2005

New Home Market
Construction will drop

Moderate job growth, falling migration and rising new house prices will curtail demand for new homes next year. Housing starts are expected to drop by 20 per cent by end of 2005, and a further six per cent next year. These forecasts seem especially low as they are compared against record high starts in 2004. From a historical perspective, starts will be in line with the preceding ten year average.
Given that long term mortgage rates are expected to remain low, new homes (especially multi-family homes such as condominium apartments and town homes) will remain affordable for first-time home buyers.

Skyrocketing prices of new single-detached homes will soften demand and hence lead to a fall in construction by nine per cent in 2006. Increasing demand for lower priced multi-family homes in the resale market will be responsible for the expected fall of three per cent in new multi-family dwelling construction next year.

The cost of land, labour and materials, which is captured by the New Home Price Index (NHPI), will put upward pressure on new home prices. The index is expected to increase by 6.4 per cent next year from six per cent this year. Land shortages and a low listings supply in the resale market will boost the demand and lift the prices of new detached homes to increase by 10 per cent in 2006. The average absorbed price of a single-detached home will top $400,000 next year. Traditionally expensive markets like Ancaster and Burlington will lead the way in new home price growth as their increasing desirability as residential localities among move-up buyers will push up their price tag. New detached homes in the downtown Hamilton core will remain less expensive compared to many of the other markets within Hamilton, and will be especially attractive for first time home buyers.

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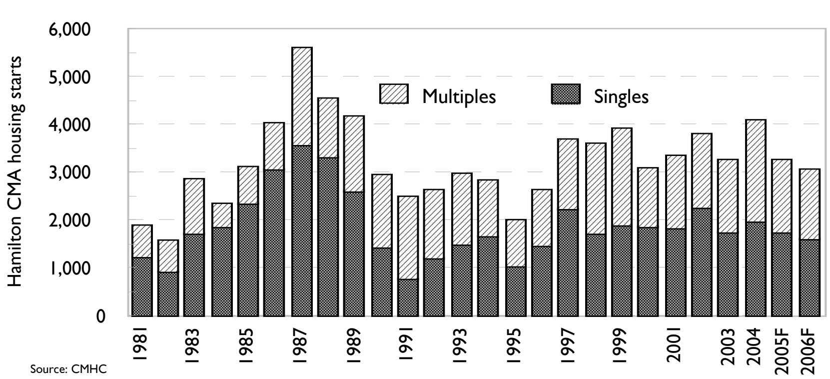
Starts will decline



Source: CMHC

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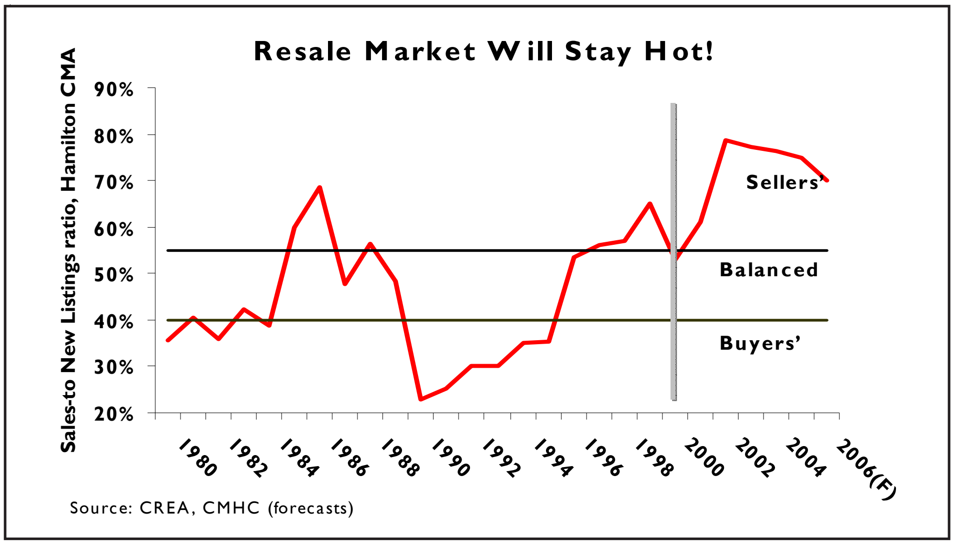
Resale Market

Sales will ease



A decline in migration, especially from other parts of Ontario, moderate job growth and rising house prices will soften housing demand for resale homes next year. Expect existing home sales to edge down by 1.5 per cent to 12,800 units in 2006. This is by no means an indication of the market cooling as sales will be above the levels achieved during the previous peak of the late 1980s.

Hamilton has been characterised by low new listings supply. New listings have been trending lower since the mid-1990s. During the last two years there has been a slight deviation from this trend. Rising house prices have encouraged more people to put their homes up for sale in a hot housing market. New listings have started to creep upwards, rising by four per cent in 2004 from the previous year. While new listings are expected to increase by five per cent next year they will still remain well below the peak levels seen in the mid 1990s.

Strong sales and low new listings supply will result in tight resale home market conditions. One measure of market state is the sales-to-new listings ratio (SNLR), also a good indicator of price pressures. A market with SNLR above 55 per cent is considered in favour of sellers, while a ratio below 40 per cent, of buyers. Price growth above the general rate of inflation is often a characteristic feature in a sellers' market. Hamilton has been in strong sellers' territory for the last four consecutive years. Expect the market to remain in favour of sellers in 2005, with a SNLR of a whopping 72 per cent.

Next year will prove no exception and the SNLR is expected to top 68 per cent.

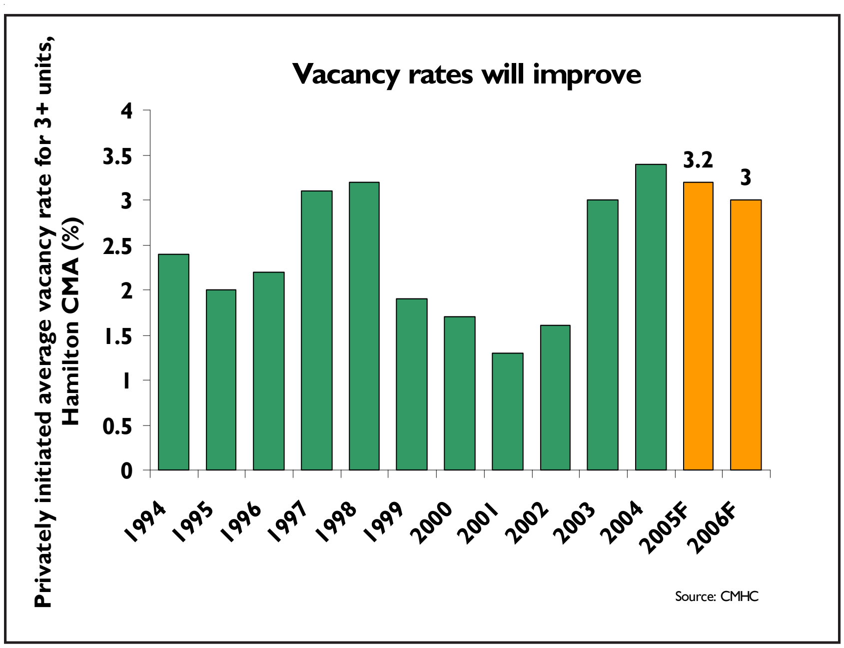
Under such tight market conditions, expect strong price growth. Whilst the rate of price increases will slow, the average Multiple Listings Service (MLS) price is expected to rise by five per cent to $240,000. This will be approximately two times the general rate of inflation as measured by Statistics Canada's Consumer Price Index (CPI). Markets such as Ancaster, Flamborough and Burlington are expected to top price growth next year.

Rental Market

Vacancy rates will improve

Rising house prices and immigration will help to boost rental demand next year. The average apartment vacancy rate is expected to drop to three per cent in 2006 from the predicted 3.2 per cent this year.

Inflation adjusted rents have been on the decline since 2001. The Ontario Rent Review Guidelines stipulates that rent increases on occupied units must be below 1.5 per cent in 2005. It is expected that the average rent increase next year will be in line with the new guideline and below the general rate of inflation.



Economic Overview

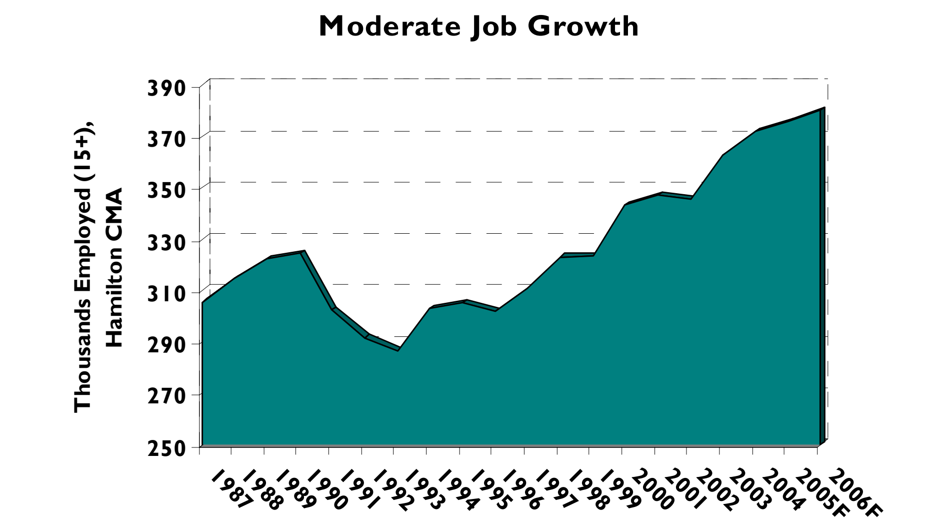
Moderate job growth

Hamilton's economy is largely dependent on the manufacturing sector for job growth and economic prosperity. The strengthening of the Canadian dollar against the US dollar and other currencies will adversely effect its manufacturing export base. The effect on oil prices in the wake of the recent hurricanes in the US will be to put inflationary pressures on manufacturing output and most likely dampen demand for its exports. These factors collectively will affect the job market next year. Employment is expected to grow by a moderate one per cent next year.

According to the most recent data released from the Statistics Canada, net migration to Hamilton fell by a staggering 20 per cent to 4,124 people last year. Intra-provincial migrants, or those moving into Hamilton from other parts of Ontario, are critical for housing demand as they tend to have the financial means to enter home-ownership as soon as they take up residence. Net intra-provincial migration fell by more that 60 per cent to 485 people last year. This decline will have a negative impact on housing demand next year.

Net international migration jumped by 13 per cent in 2004. Immigrants typically enter home-ownership 5-10 years of taking up residence in Canada. In the interim, they tend to rent. This surge in immigration will have a positive impact on rental housing demand and will be felt over the next several years.

The rising Canadian dollar appears to have had a negative impact on consumer confidence. This is evident from the downward shift in the Ontario Index of Consumer Attitudes this year. With the onset of higher shipping and transportation costs from rising gas prices, consumer attitudes are expected to remain low in the immediate future. The lower consumer confidence will be reflected in the housing market as a decline in demand.

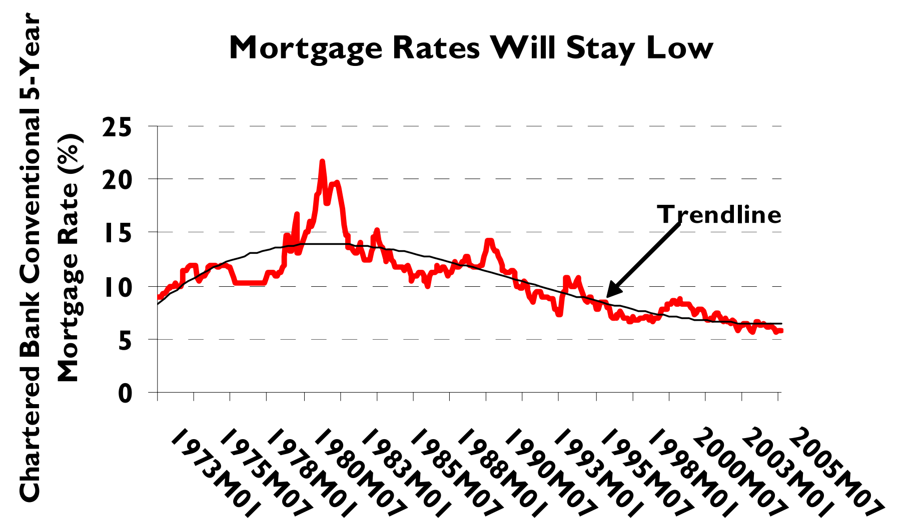


Source: Statistics Canada, CMHC (forecasts)

Mortgage rates will stay low

Mortgage rates will remain low in 2005 and rise moderately in 2006. Tame inflation, and a strong Canadian dollar vis-à-vis the U.S. dollar will restrain the size and speed of Canadian interest and mortgage rate increases in 2005 and 2006.

Short-term mortgage rates are expected to be 25-35 basis points higher in 2005 than in 2004 while longer-term rates will be lower by a similar amount in 2005 compared to the previous year. While still low by historical norms, mortgage rates are expected to rise gradually by 25- 50 basis points in 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges respectively in 2005-06.



Source: Bank of Canada, CMHC (trend)

FORECAST SUMMARY
HAMILTON CENSUS METROPOLITAN AREA
Fall 2005

NEW HOME MARKET	2003	2004	2005F	2006F	% Change
Starts					
Single-detached	1,743	1,995	1,750	1,600	-8.6%
Multi-family	1,517	2,098	1,510	1,460	-3.3%
Total	3,260	4,093	3,260	3,060	-6.1%
Average New House Price					
Single-detached	$285,755	$316,705	$364,211	$400,632	10.0%
RESALE MARKET					
Hamilton-Burlington and District REB					
MLS[1] Sales	12,807	13,176	13,000	12,800	-1.5%
MLS New Listings	16,555	17,223	17,998	18,898	5.0%
Sales-to-Listings Ratio	77.4%	76.5%	72.2%	67.7%	-
MLS Average Price	$197,744	$215,922	$229,000	$240,000	4.8%
ECONOMIC OVERVIEW					
Mortgage Rate (1 year term)	4.84	4.59	4.94	5.95	-
Mortgage Rate (5 year term)	6.39	6.23	5.52	6.27	-
Employed (000's)	363.0	372.0	376.0	380.0	1.06%
Employment Growth (000's)	16.1	9.3	4.2	4	-
Net Migration (tax filer data)	5,132	4,124	4100f	4000f	-2.4%

Sources: CREA, Hamilton-Burlington and District Real Estate Board, Statistics Canada, and Conference Board of Canada
1 Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

Housing Market Outlook is CMHC's forecast for new home and resale markets. Issues are released in the Spring and Fall of each year.
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