

H

OUSING MARKET

OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

New Home Market

Single-family activity steady but multiples drop off in 2005

CMHC forecasts single-family housing starts will level off at 600 starts both this year and next. On the demand side, the absorption trend has been fairly constant at about 41 units per month over the past two years, indicating that this is the peak level of demand. On the supply side, limitations of land development and skilled labour are among the key factors dictating the peak level of production.

At the end of August, the total supply of single-family units at various stages of construction as well as those completed and unoccupied has reached 423 units, the highest point on our records going back to 1999. Of this supply, 385 units were under construction, up over 18 per cent compared to the end of August 2004. The number of completed and unoccupied single units was up markedly from 24 units to 38 units.

The current supply of units under construction and those completed and unoccupied is sufficient to last nine months at the current absorption trend. This is an apparent over-supply but we expect home builders have boosted their inventory in anticipation of demand in the fall and throughout the winter. Accordingly, CMHC is classifying the new single-family market as balanced.

Minor rental increases and sharply rising prices of new homes may cause some potential first-time buyers to postpone homeownership or seek homes in the existing resale market. Employment gains and improved in-migration should partly mitigate the effect of these factors. As a result, we forecast 600 single-family housing starts in each of 2005 and 2006.

Average price of new singles up almost nine per cent in 2005

By the end of 2005, the average price of a new single family home in Regina will surpass \$200,000 for the first time reaching an average price of \$210,000. Rising costs for land development, labour inputs and building material costs have resulted in higher prices for consumers. Demands from move-up buyers for more expensive amenities and features have contributed to the expansion of the average price.

REGINA

FALL 2005

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Regina will see another strong year for multi-family construction in 2005 with 400 units started. This is far below our original forecast which called for 650 units.

3 Resale market

Existing home sales will fall back by almost five per cent this year to 2,650 sales compared to 2,785 seen in 2004. In 2006, existing housing sales will bounce back to 2,800 sales, just in excess of the 2004 level.

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Our forecast calls for an average vacancy rate of three per cent for the city of Regina in 2005 and 2006.

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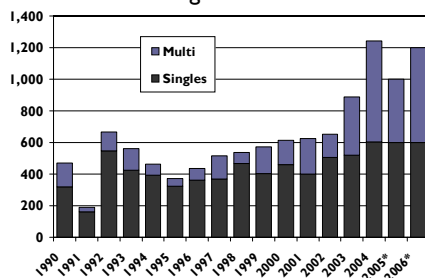
4 Economy

After a strong year of employment growth in 2004, 2005 employment will see very little increase in the number of employed.

Mortgage rates will remain low in 2005 and rise moderately in 2006.

5 Forecast Summary

Single and Multiple Housing Starts
Regina CMA



Source: CMHC, CMHC Forecast(*)

An increasing share of new home absorptions is occurring in the higher price ranges, leading to further increases in average price. All price ranges above \$200,000 have seen an increase in market share in 2005. On a year to date basis, sales of homes priced in excess of \$200,000 have captured 50 per cent of the new housing market compared to 36 per cent at the end of 2004.

The average price per square foot in the city as a whole is about \$141 for land and building, not including G.S.T. In terms of the most popular new neighbourhoods, the average per square foot price for a single-family dwelling is \$140 in Lakeridge and \$143 for Windsor Park. A comparison with other centres reveals that Regina is one of the most affordable cities on the Prairies to purchase a new home.

The increase in average price is expected to moderate in 2006 as home builders encounter some price resistance from consumers. Rising prices may encourage some potential new home buyers to consider the resale market and slightly higher mortgage rates may lead to some buyers lowering their expectations with respect to amenities and size of home.

2006 to see recovery in multi starts as demand from seniors grows

Regina will see another strong year for multi-family construction in 2005 with 400 units started, yet this is far below our original forecast which called for 650 units. In fact, there were no apartment style units started in the city until the third quarter and row housing starts have also been lethargic. Notwithstanding the slowness of activity compared to 2004, this year has been strong compared to the ten year (1994 to 2004) average of just over 200 units.

We expect multiple starts will reach the 600 unit level in 2006 as demand from the 55 and older age group inevitably increases. Luxury apartments and single and semi-detached condominium units

will be the most popular forms for this demographic group.

Although starts have been slow, home builders have been busy completing and selling units to home buyers. The supply of apartment condominiums under construction and completed and unoccupied has been reduced from 278 units at the beginning of 2005 to 156 units at the end of August.

Almost 150 condominium apartment have been absorbed at last count in 2005. The current absorption trend is now between eight and ten units per month, due to the low inventory of completed and unoccupied units. In fact, the number of apartments that are completed and unoccupied is at a historically low level.

The duration of the current supply late in 2005 (including units under construction and completed and unabsorbed), has now reached 20 months, the highest level since early 2004. We expect apartments to be absorbed quickly upon completion thus reducing the apparent over-supplied market to a balanced state.

Row condominiums have maintained a fairly steady supply throughout 2005 running between 140 to 170 units. Turnover has been brisk with an absorption trend of 14 to 16 units per month. The duration of supply now stands at 10 to 11 months. We consider this market to be balanced.

The average price of a condominium apartment in Regina has reached \$123,671. This is a very modest apartment condominium compared to Saskatoon and other Prairie centres. This year, condominium apartments priced in the \$100,000 to \$119,999 range have shared the market equally with those priced \$120,000 to \$139,999. We expect the average price of apartment condominiums to increase as higher-priced, luxury units appealing to seniors and empty-nesters move into dominance as they have throughout the prairies.

Turning to row housing, average price is \$138,700. Units priced in the \$120,000 to \$139,999 range captured most of the absorptions in this submarket with over 42 per cent of the total absorptions. Absorptions of row units priced in the \$140,000 to \$159,999 range also captured a large portion of the total absorptions recorded so far in 2004. As the current inventory of row and apartment units is absorbed, we expect prices to increase, reflecting the higher land, material and labour costs of newly-built housing.



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RESALE MARKET

Existing housing sales bounce back in 2006

Existing home sales will fall back by almost five per cent this year to 2,650 sales compared to 2,785 seen in 2004. In 2006, existing housing sales will bounce back to 2,800 sales, just in excess of the 2004 level. Home buyers should return to the existing housing market as escalating new house prices and rising mortgage rates make the carrying cost of an existing home more attractive vis à vis those of a new home. Steady listings and modest employment growth will support the increase in sales of existing homes.

Constant new listings activity and lower sales have resulted in a larger inventory of listings. In fact, the inventory of active listings was up almost 16.5 per cent in August 2005 compared to the end of August 2004. A wider choice of existing homes should help foster increased sales volumes.

Average resale prices up in excess of 10 per cent

The average price of resale housing is rising rapidly. We forecast average price will increase more briskly in 2005 and 2006 with increases in excess of ten per cent in both those years.

Although a portion of this significant increase in average price can be attributed to an escalation in the price of a typical single-family existing home, it is evident that much of the increase stems from a shift in the proportion of sales in higher price ranges. The Association of Regina Realtors reports there has been

a 32 per cent increase in the number of sales over \$160,000. The share of sales captured by this range year-to-date has increased from 16 per cent in August 2004 to 22 per cent in August 2005 representing a six percentage point increase in the share of sales in this range.

The Association of Regina Realtors reports an average listing period of over 33 days, up from a year-to-date average listing period of 28 days at the end of August 2004. As higher-priced properties tend to take longer to market and as there is an increasing proportion of these properties being sold, we would expect to see an increase in the listing period.

Considering all aspects of the demand and supply for existing housing as well as economic and demographic factors, CMHC is forecasting the overall Regina existing housing market to be balanced for the rest of 2005 and 2006. Good quality listings in popular price ranges will display many of the characteristics more typical of seller's market conditions.

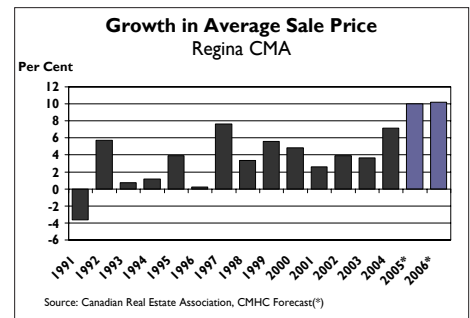
Cost of homeownership expected to jump

Home ownership costs will head upward in 2005 and 2006 in the face of rising mortgage rates and higher house prices. Over the last six years, low mortgage rates have helped offset rising prices in both the new and existing home markets. CMHC is forecasting interest rate increases in late 2005 and in 2006. Due to their modest nature, however, these

increases are not expected to have a negative impact on the shift to homeownership.

In 2006, CMHC is forecasting the principle and interest payment necessary to service the debt on an existing home purchased at the average MLS price will be about \$881 monthly compared to \$717 monthly for a similar purchase in 2004. An increase in average price of 21 per cent in the period of 2004 to 2006 combined with a forecast increase in the five year mortgage rate of 0.15 percentage points will result in a 22.8 per cent increase in the monthly principle and interest payment.

CMHC estimates that the income required to service the debt on an existing home purchased at the 2006 average selling price will increase almost 23 per cent compared to estimated income requirement in 2004. Forecast increases in the mortgage interest rate and average cost of a resale home will both contribute to the increase in the income required to purchase a home.



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ECONOMIC OVERVIEW

Modest gain in employment in 2005 and 2006

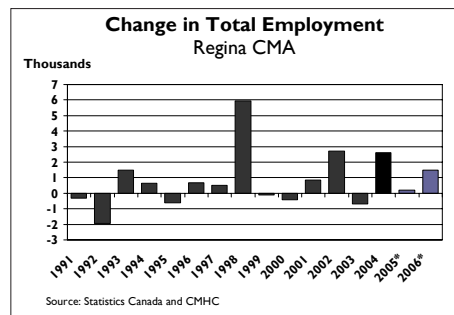
After a strong year of employment growth in 2004, 2005 employment will see very little increase in the number of employed. A modest gain of 1,500 employed is expected in 2006. Regina's Goods Sector has kept total employment above water in 2005, countering employment losses in the Service Sector.

There have been limited employment increases in the Utilities and Manufacturing industrial sector. Food Manufacturing and Petroleum Products Manufacturing have been the industries underpinning this growth.

Year-to-date average Construction Sector employment is running at 5,550 employed and trending down slightly compared to 2004 employment. Unemployment is only 3.2 per cent, considerably lower than the unemployment rate for all industries of 5.1 per cent.

Although employment is up in many important sectors, income earned is in

decline. The estimate of Average Weekly Earnings has trended down all year and is now showing a decline of 2.3 per cent. This statistic is down in the Food Manufacturing, Mining and Oil and Gas Extraction and Fabricated Metal Manufacturing sectors. Estimated Average Weekly Earnings is up in Petroleum Manufacturing and Machinery Manufacturing as well Professional, Scientific and Technical Services. We expect income gains to return to positive territory in early 2006 as employment gains pick up and the unemployment rate trends down.



Posted mortgage rates to rise moderately in 2005 and 2006

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.



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. However, rising posted mortgage rates may not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.

RENTAL MARKET

Average vacancy rate stays at three per cent – rent gains modest

Our forecast calls for an average vacancy rate of three per cent for the city of Regina in 2005 and 2006. Notwithstanding some increase in mortgage interest rates and rising prices, homeownership will continue to lure households away from rental housing. Modest employment gains and the many services offered in the city will attract in-migration and discourage out-migration, thus ensuring steady growth in the number of new rental households.

Historically, rental increases have been modest in the capital, averaging about two per cent annually for both one and two bedroom apartments. In nominal terms, average rent increases of \$13 per month for both one and two bedroom suite types are common. We expect little

variation in this pattern in 2005 and 2006. Nominal increases will range from \$10 to \$20 depending on the location and suite type.

BUILDING OPPORTUNITIES

CMHC's 2004 Housing Observer provides a comprehensive overview of Canadian housing conditions and trends and they key factors behind them.

The Observer gives a portrait of Canada's housing stock, how Canada's changing demographics and socio-economic factors influence our housing, and discuss the key trends in housing finance and the factors impacting the affordability of housing in Canada.



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CMHC FORECAST SUMMARY

Regina Housing Market Outlook - Fall 2005

	2002	2003	%Chg	2004	%Chg	2005*	%Chg	2006*	%Chg
RESALE MARKET									
MLS®(1) new listings (Monthly Avg.)	339	292	-13.9%	325	11.1%	320	-1.5%	320	0.0%
Total MLS® Sales	2,817	2,640	-6.3%	2,785	5.5%	2,650	-4.8%	2,800	5.7%
Average MLS® Price	\$100,751	\$104,419	3.6%	\$111,869	7.1%	\$123,000	10.0%	135,500	10.2%
NEW HOME MARKET									
Starts									
Total	651	889	36.6%	1,242	39.7%	1,000	-19.5%	1,200	20.0%
Single-family	504	521	3.4%	605	16.1%	600	-0.8%	600	0.0%
Multiple-family	147	368	150.3%	637	73.1%	400	-37.2%	600	50.0%
Average New House Price									
Single-family	\$169,863	\$184,099	8.4%	\$192,949	4.8%	\$210,000	8.8%	220,000	4.8%
RENTAL MARKET									
Vacancy rate (Oct) -Per cent	1.9	2.1		2.7		3.0		3.0	
2-bedroom Rent (Annual Per Cent Chg)	2.3%	140.0%		2.2%		2.5%		2.5%	
ECONOMIC OVERVIEW									
Mortgage rate (3 yr term)	6.28	5.79		5.65		5.64		6.00	
Mortgage rate (5 yr term)	7.02	6.39		6.23		6.05		6.38	
Employed	106,900	106,200	-0.7%	108,800	2.4%	109,000	0.2%	110,500	1.4%
Employment growth (# jobs)	2,800	-700		2,600		200		1,500	
Net-migration (Census Year)	-500	0		0		0		0	

* CMHC Forecast

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan

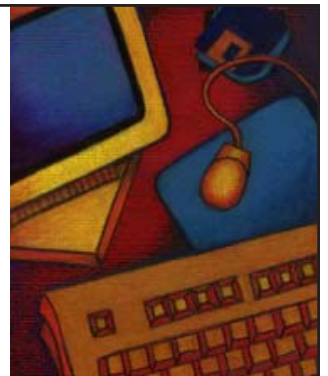
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