



HOUSING NOW

Prince Edward Island

YOUR LINK TO THE HOUSING MARKET

Canada Mortgage and Housing Corporation

VOLUME 5, EDITION 3
THIRD QUARTER 2003

Urban Areas Continued to Show Strength

Rural Starts Fall Short of the 2002 Level

✓ Housing activity on Prince Edward Island reached 250 units during the third quarter of 2003, a decline of 101 units when compared to 2002. However, it is important to note that 2002 was the best third quarter in over 25 years.

✓ Total single starts in the third quarter fell to 174 units, a significant decrease when compared to the 265 units started during the same period last year. Total multiple starts also decreased during this period, dropping to 76 units from 84 in 2002. This drop in single starts was not unexpected, when considering the level of single rural activity the Island experienced in the second quarter.

✓ Total housing starts in Charlottetown remained almost unchanged in the third quarter with 170 units when compared to 186 during the same period last year. This occurred as a result of continued strength of both singles and multiple construction in the capital region. While single starts remained unchanged at 108 units, multiple starts decreased by 16 units in 2003, to 62 units.

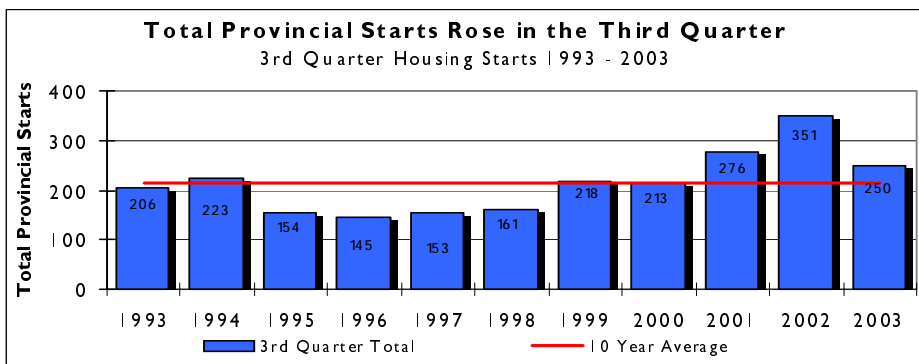
✓ Single starts in Summerside in the third quarter rose to 18 units in the third quarter, from 15 units during the same period last year. Multiple starts also increase during the same period reaching 12 units.

✓ The strength of the housing activity on PEI in the third quarter, came from the urban areas. Housing construction in the region is expected to remain strong for the remainder of 2003.

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Source: CMHC



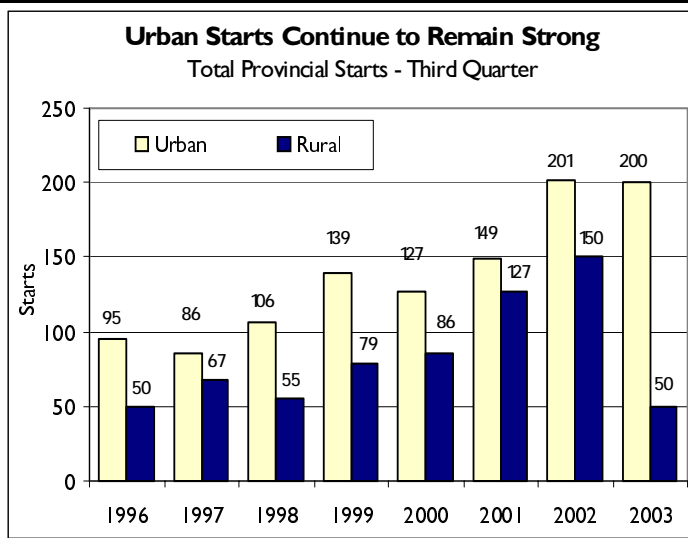
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CHARLOTTETOWN & SUMMERSIDE

Housing Market Overview

Urban Starts Show Continued Strength in the Third Quarter

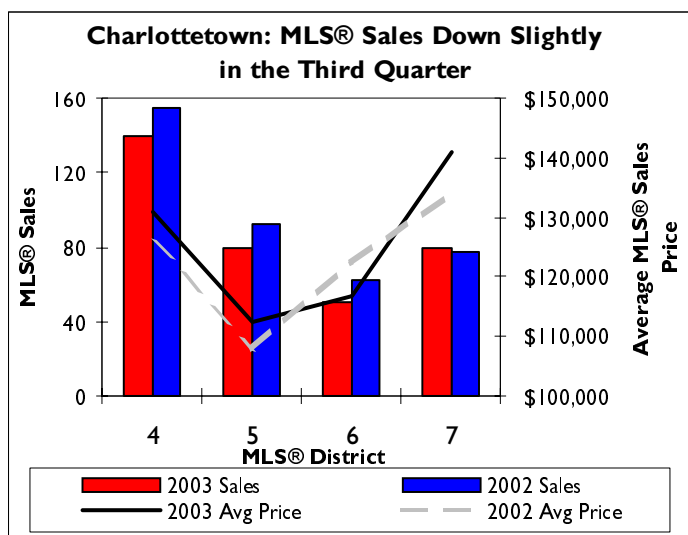
- ✓ The strong results seen in the third quarter were mainly a result of continued strength in the urban areas. Total urban starts in the third quarter reached 200 units, which almost essentially equalled the 2002 level of 201 units. Rural starts however, decreased to 50 units from 150 during the same time last year.
- ✓ The decrease in rural starts in the third quarter was expected when considering that starts increased by 180 per cent in the second quarter when compared to the 2002 level. This level of construction activity was not sustainable and as a result, rural starts recorded a drop of 50 units in the third quarter.
- ✓ On a year-to-date basis rural starts have reached 191 units compared to 200 units in 2002, while urban areas recorded 428 units, an increase of 9 units from last year.



Source: CMHC

MLS® Average Sales Price Sets a New Record in Charlottetown

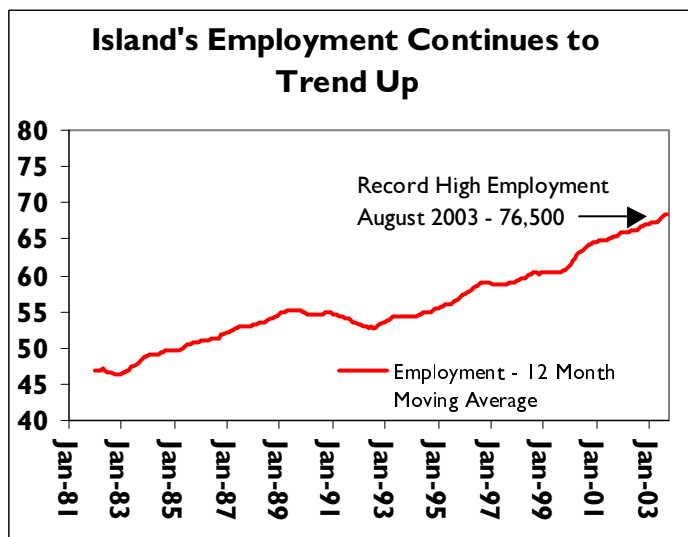
- ✓ On a year-to-date basis MLS® sales have dropped marginally in 3 of the 4 Districts that make up the Charlottetown area. The only district to post an increase was District 7 (See Table 2 on Page 3) where sales increased to 80 units, a gain of 3 over the previous year.
- ✓ Despite the overall decline in sales during the first 9 months of 2003, the average sales price for Charlottetown has increased. District 7 continues to be a popular location with home buyers, and as a result the average sales price increased to \$140,887 a gain of by a impressive 12 per cent. The only District to post a decline in average sales price was District 6, where the sales price retreated by a modest 5 per cent from the 2002 level.



Source: PEI Real Estate Board

Employment Growth Continued in the First Nine Months of 2003

- ✓ In August of 2003, employment levels in PEI rose to 76,500 a new all time high. This level surpasses the previous record of 74,100 set in August 2002.
- ✓ On a provincial basis, the third quarter of 2003 saw the number of people employed increase by 2.9 per cent, when compared to the same period last year. This means that there were about 2,133 more Islander's working in the third quarter of 2003 than in 2002.
- ✓ In the third quarter, PEI show the provincial unemployment rate decreased to 8.0 per cent from 9.5 per cent from the same period last year.



Source: Statistics Canada

Table 1
Activity Summary By Area
Prince Edward Island

Area	TOTAL HOUSING STARTS			COMPLETIONS			UNDER CONSTRUCTION								
	3rd Quarter		January-September	3rd Quarter		January-September	As at September 30								
	2003	2002	% chg	2003	2002	% chg	2003	2002	% chg						
Charlottetown CA	170	186	-9%	374	381	-2%	106	106	0%	208	208	0%	275	275	0%
Summerside CA	30	15	100%	54	38	42%	14	21	-33%	45	45	0%	9	9	0%
Total Urban Areas	200	201	0%	428	419	2%	120	127	-6%	229	253	-9%	362	286	27%
Total Rural Areas	50	150	-67%	191	200	-5%	15	75	-80%	181	274	-34%	172	142	21%
Total PE	250	351	-29%	619	619	0%	135	202	-33%	410	527	-22%	534	428	25%

Source: CMHC

Table 2: MLS Activity in Urban Centres**

	3rd Quarter			Year-to-Date								
	Sales		Avg Sale Price	Sales		Avg Sales Price						
	2003	2002	% Chg	2003	2002	% Chg						
Charlottetown CA**												
District 4	90	65	38%	\$136,739	\$126,287	8%	140	155	-10%	\$130,917	\$125,620	4%
District 5	46	40	15%	\$112,077	\$112,792	-1%	79	92	-14%	\$112,528	\$108,098	4%
District 6	38	26	46%	\$116,421	\$129,407	-10%	51	62	-18%	\$116,784	\$122,404	-5%
District 7	48	32	50%	\$136,475	\$140,814	-3%	80	77	4%	\$140,877	\$134,299	5%
Total, CA	222	166	34%	\$128,094	\$124,042	3%	350	415	-16%	\$126,984	\$114,087	11%
Summerside CA	164	95	73%	\$100,332	\$96,555	4%	253	195	30%	\$101,530	\$97,995	4%
TOTAL	386	232	66%	\$116,299	\$107,219	8%	603	610	-1%	\$116,304	\$108,943	6.8%

* Source: PEI Real Estate Association

**District 4: Charlottetown City, Spring Park & West Royalty

**District 5: Sherwood, Parkdale, East Royalty & Hillsborough Parks

**District 6: Comwall, North River & Winsloe

**District 7: Bumbury, Southport, Crossroads, Keppoch, Kinlock, Tea Hill, Alexandra to Cherry Valley

Third Quarter 2003

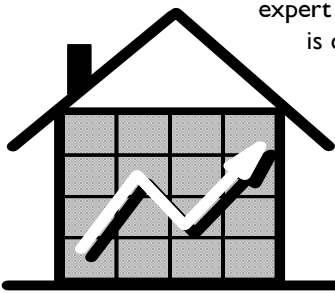
**TABLE 3
STARTS BY AREA
CHARLOTTETOWN CA**

Area/ Period	Single	Semi	Row	Apartment & Others	Total
Charlottetown City:					
Third Quarter 2003	50	12	0	34	96
Third Quarter 2002	27	8	0	46	81
Year-to-Date 2003	99	16	0	82	197
Year-to-Date 2002	69	14	0	105	188
Cornwall Town:					
Third Quarter 2003	5	4	6	0	15
Third Quarter 2002	7	0	0	4	11
Year-to-Date 2003	15	6	6	0	27
Year-to-Date 2002	18	0	0	7	25
Stratford Town:					
Third Quarter 2003	16	6	0	0	22
Third Quarter 2002	14	0	0	20	34
Year-to-Date 2003	42	14	0	29	85
Year-to-Date 2002	34	2	0	30	66
Remainder of Charlottetown CA:					
Third Quarter 2003	37	0	0	0	37
Third Quarter 2002	52	0	0	8	60
Year-to-Date 2003	65	0	0	0	65
Year-to-Date 2002	92	0	0	10	102
Total - Charlottetown CA:					
Third Quarter 2003	108	22	6	34	170
Third Quarter 2002	100	8	0	78	186
Year-to-Date 2003	116	20	3	56	374
Year-to-Date 2002	213	16	0	152	381

Source: CMHC

NEED MORE DETAILED INFORMATION?

Market Analysis Products and Services are designed to suit your needs. CMHC is the source for expert analysis and comprehensive data on housing. If you are in the housing industry, it is critical that you understand the trends and factors behind Prince Edward Island's housing markets. There is no substitute for the thorough, concise analysis of housing market developments that you get with CMHC's market data and analysis. Contact CMHC's Market Analyst for Prince Edward Island:



Your Link to the Housing Market

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ORECAST

Charlottetown

SUMMARY

Canada Mortgage and Housing Corporation

VOLUME 6 EDITION 3
THIRD QUARTER 2003

Multiple Starts Show Continued Strength in 2003

Migration and Low Interest Rates Buoy the Housing Market

A combination of low interest rates, strong employment, and positive migration are expected to bolster the Charlottetown housing market for the remainder of 2003 and into 2004.

Interest rates have remained low over the past few years and are not expected to increase significantly over the forecast period. Although a slight increase is expected, as the capital markets begin to rebound in 2004, it will not be enough to dissuade most homebuyers.

Employment in the capital region is poised to set an all-time record in 2003, with an average of 19,877 people employed in the first three quarters, an increase of 330 jobs from the same period in 2002. Overall, there was a gain in both part-time and full-time employment over the first 9 months of 2003. During the past year the increase in

employment has come mainly from the agriculture, public administration, transportation, storage, and communication utilities sectors. These factors are a sign of the regions diversifying economy and will help to bolster the housing market in the coming years.

Positive net-migration is also contributing to strong demand for housing in the capital region. According to Statistics Canada 2001 Census, the Charlottetown CA's population increased by 1,134 people from 199 to 2001. When these numbers are examined more closely, it appears that the majority of these people have simply moved to the area from rural parts of the Island. This shows that P.E.I. is no exception to the national trend of urbanization, which is creating a strong demand for housing in Canadian cities.

Our current forecast indicates that 290 single-family homes will be started in both 2003 and 2004. Our forecast also calls for 140 and 100 multiple units over the same period; bringing total starts to 430 units in 2003 and 390 units in 2004.

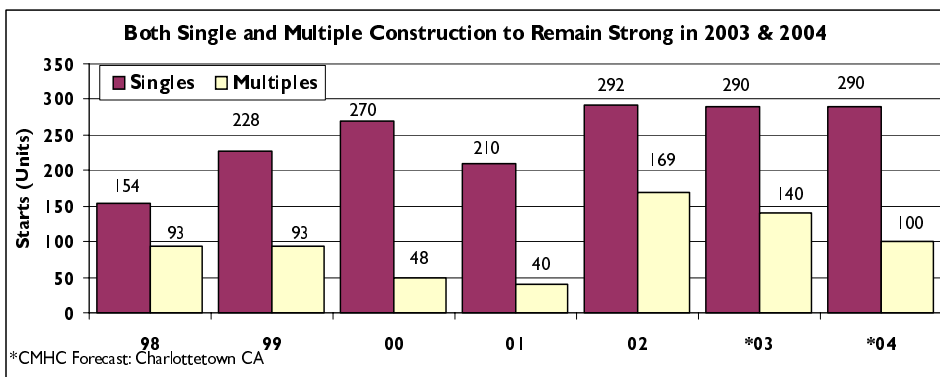
IN THIS ISSUE

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- 2 Average Rents to Increase over Forecast Period
- 2 Vacancy Rate is Expected to Increase due to Strong Multi-Unit Starts
- 3 Average MLS® Sales Price is Expected to Rise in Both 2003 and 2004

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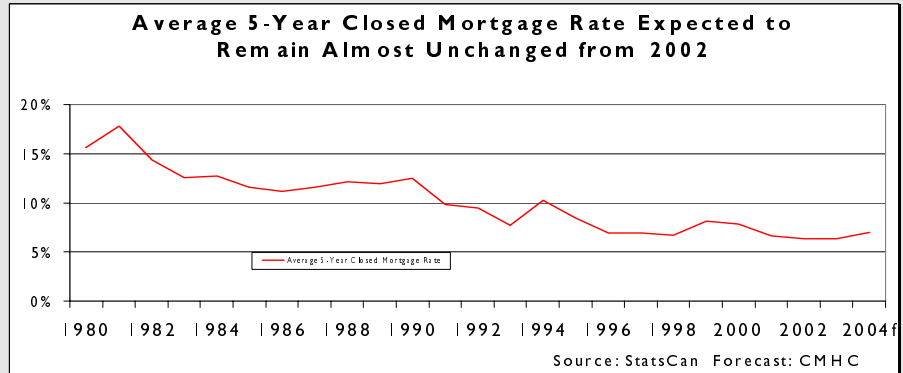
Mortgage Rates to Rise But Remain Low in Historical Terms

The easing pace of economic growth and inflation which began in the second quarter of 2003 means the central bank will follow an accommodative monetary policy by keeping administered interest rates low over the next few months. As the U.S. economy improves and interest rates south of the border begin to rise by next year, Canadian interest rates will rise too in an effort to keep inflation stable and preserve the value of the currency.

As a result, the outlook for mortgage

rates for the remainder of 2003 and 2004 calls for modest increases but they will remain low in historical terms. Easing inflation and lingering concerns over trade, health and geopolitical risks will keep mortgage rates low in the near future prior to rising slightly next year.

One, three and five-year mortgage rates are expected to be in the 4.25-5.25, 5.25-6.25, and 6.00-6.75 per cent range, respectively this year. Mortgage rates are forecast to rise by 0.50-0.75 per cent next year. Similar to recent trends, discounts from posted rates will remain a major competitive instrument within the market.



New Home Prices Expected to Rise in 2004

Over the last eight 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.

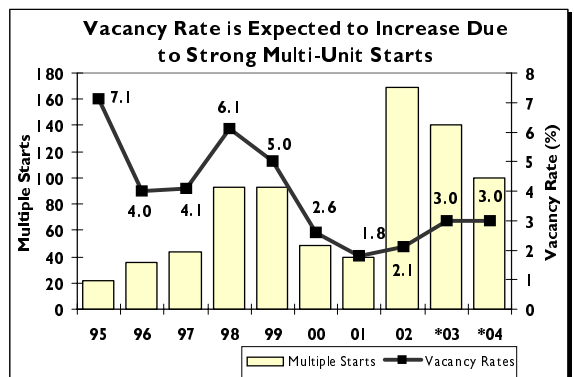
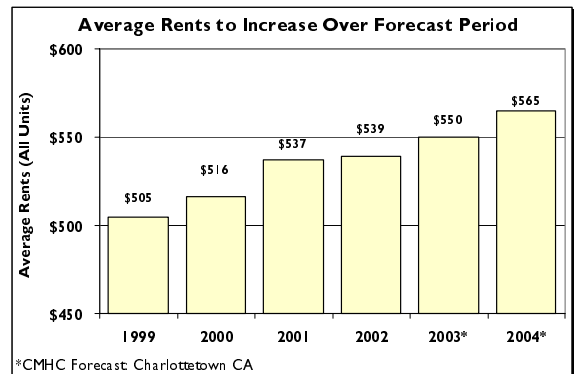
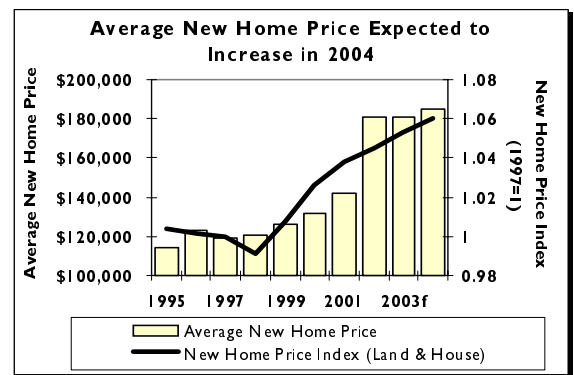
Overall, when compared to other goods and services, the cost of a new home in Charlottetown is relatively less expensive today than eight years ago.

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 \$180,638 (Jan-Sept) in 2003. This represents an increase of 49.7 per cent. The trend of people building more expensive home is expected to continue, and as a result, expect to see the average new home price exceed \$181,000 in 2004.

Vacancy Rate to Increase Slightly in 2003

Demand for rental units in Charlottetown is expected to remain strong in both 2003 and 2004. Despite strong demand, the vacancy rate for the Capital region is expected to inch up to 3.0 per cent in 2003, with little movement expected in 2004. The expected rise in the vacancy rate is not due to a decrease in demand, but rather an increase in supply. With interest rates at near 50-year lows, many developers have decided to build new rental properties. As a result, there has

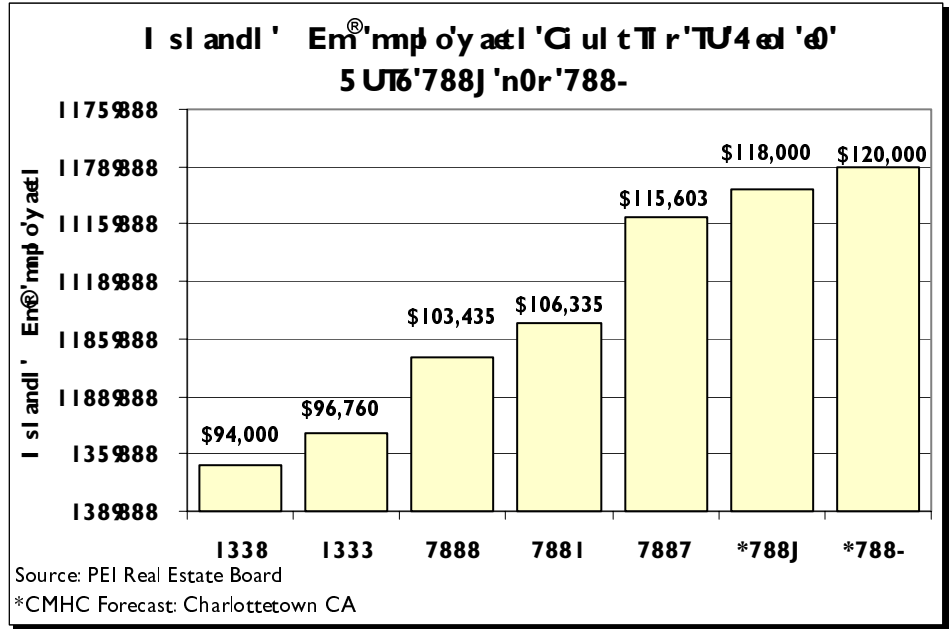


been about 350 new high-end rental units added to the local rental market since 2001. To put this into perspective, there has been as many rental units added to the local rental stock since 2001, as there was between the six year period from 1994 to 2000. It is expected that 140 and 100 units will be added to Charlottetown's rental stock in 2003 and 2004, respectively.

Due to high levels of construction activity at the high-end of the rental spectrum, results from CMHC's annual Rental Market Survey conducted in October are expected to show rental rates rising to \$550 this year and further to \$560 in 2004.

Sales to Remain Strong in the Charlottetown Area

MLS® sales are expected to decrease slightly to 525 homes in 2003 and



remain at this level again in 2004, due mainly to a shortage of listings in the under \$120,000 price range.

The average sales price is expected to rise by a modest 2.0 per cent in 2003, after a sustainable jump of 8.7 per

cent in 2002. This increase will occur due to a shortage of listing in the under \$120,000 price range, as well as the low interest rates which allows buyers to choose larger more expensive homes.

What's it worth today?

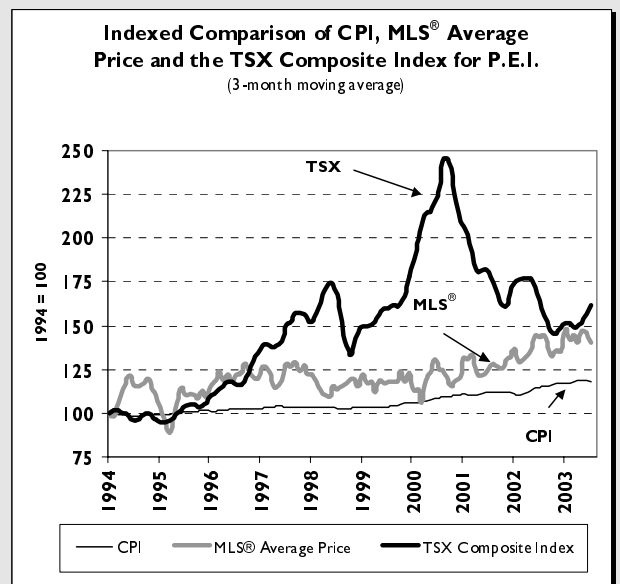
A comparison of residential real estate, stocks, and the general cost of living on PEI

It is hard to ignore the daily cacophony of advice streaming from financial planners and investment specialists in the business section of the newspaper and on television with respect to where to park your money for a rainy day. Often there are conflicting opinions about stocks versus residential real estate as the key to financial freedom. While individual investment advice is a personal decision and no investment is immune from risk, it is interesting to look at how local housing markets have compared to Canada's key stock index over the past ten years especially when compared to the local cost of living.

Over the past ten years the average MLS® resale price on PEI climbed 40 per cent from just under \$69,000 in

1994 to around \$100,000 today. This compares with a 62 per cent gain on the TSX Composite Index over the same time frame. Although the TSX has outperformed the local housing market over the last ten years, the extreme degree of volatility in the stock market far exceeds the fluctuations in the area's residential real estate market. In addition to the favourable tax treatment afforded to primary residences, a home is also a place to live, which is a fairly important consideration in any financial plan. Finally, when measured against the region's general cost of living, overall gains in both stocks and residential real estate have exceeded inflation as measured by the Consumer Price Index (CPI). In other words, regardless of where you

parked your money ten years ago, it would have posted a positive real rate of return by today (although some investment choices may have resulted in more sleepless nights instead of a place to sleep).



Sources: Canadian Real Estate Association
Statistics Canada: Consumer Price Index
TSX Group Inc.

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FORECAST SUMMARY

Greater Charlottetown Area

	1999	2000	2001	2002	2003*	2004*	% chg
NEW HOME MARKET							
Starts							
Total	321	318	300	461	430	390	-6.7%
Single-family	228	270	250	292	290	290	-0.7%
Multiple/Rental	93	48	50	169	140	100	-17.2%
Average New House Price	\$126,150	\$131,384	\$141,904	\$180,973	\$181,000	\$185,000	0.0%
Complete and Unoccupied (Dec)	7	8	6	8	7	10	
RESALE MARKET							
MLS [®] Active Listings (June peak)	278	224	240	196	N/A	N/A	N/A
MLS [®] Sales	494	497	505	551	525	525	-4.7%
Average Sales Price	\$96,760	\$103,435	\$106,335	\$115,603	\$118,000	\$120,000	2.1%
RENTAL MARKET							
Vacancy Rate (October)	5.00%	2.60%	1.80%	2.25%	3.00%	3.00%	
Average Rents (All units)	505	516	537	539	550	565	2.0%
Rental Rate (annual % change) 2-bed. unit	0.60%	0.60%	0.78%	1.0%	1.2%		
ECONOMIC OVERVIEW							
Mortgage Rate (3 yr. term)	7.40%	8.17%	6.88%	6.28%	5.76%	6.01%	
Mortgage Rate (5 yr. term)	7.56%	8.35%	7.40%	7.02%	6.42%	6.83%	
Employed	17,200	18,600	19,100	19,450	19,700	19,800	1.3%

* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

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