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# OUSING MARKET

# OUTLOOK

## Kitchener CMA

Canada Mortgage and Housing Corporation

www.cmhc.ca

## NEW HOME MARKET

Issue: Spring 2005

### Starts Will Remain Strong

Though lower, new home construction will remain well above the historical average in 2005.

Foundations will be laid for 3,780 new homes - a slight decline of 3.4 per cent in comparison to last year.

This strong demand for new homes will be driven by one of the tightest resale markets in southern Ontario. Steady job growth and very low mortgage rates will encourage households to move into home ownership. This will keep the demand for existing homes very high relative to supply. Many buyers will turn to the new home market to

take advantage of more choice.

Strong demand coupled with a shrinking supply of serviced lots and increased construction costs will result in price increases well above inflation. The New House Price Index (NHPI) suggests that price will rise by 6.5 per cent in 2005.

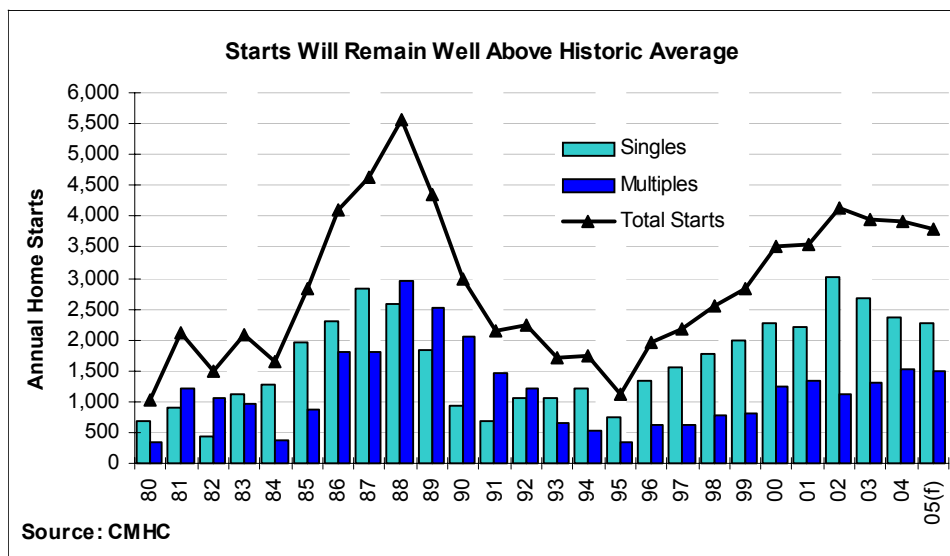
Since 2002, single-detached starts have been trending lower. Over the same period, the proportion of multiple family starts has been increasing. This substitution to lower priced home types has resulted from strong home price increases experienced since the beginning of the new millenium. Some

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households have found it difficult to purchase new single detached homes. This trend will continue and single starts in 2005 will decline at a greater rate than multiple family starts.

The geography of development will shift in favour of Kitchener City. Staging of Development reports suggest that the proportion of development accounted for by the Cities of Cambridge and Waterloo will decline, partly due to a temporary shortage buildable lots.



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# RESALE MARKET

## Record Sales in KW

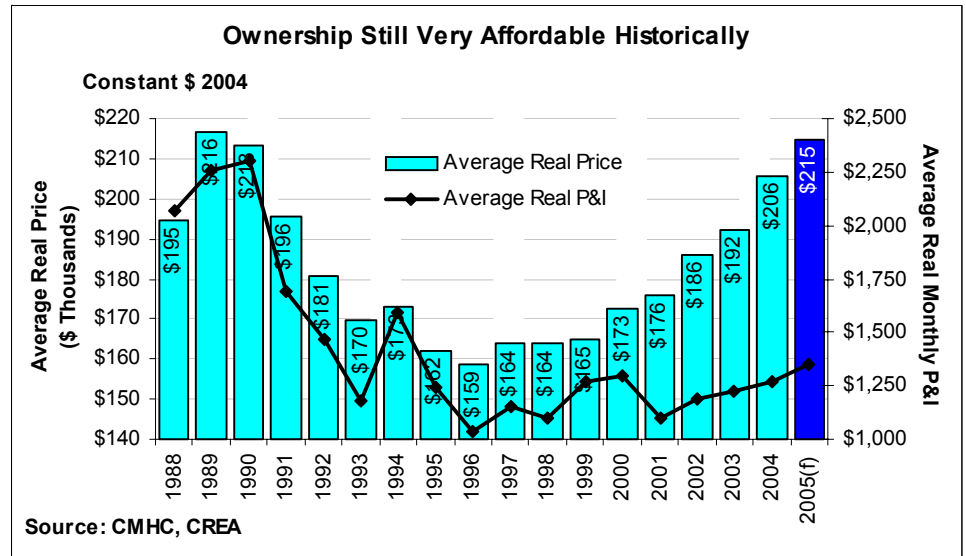
Steady job growth, sustained immigration and very low mortgage rates will combine to produce another record year in the Kitchener-Waterloo resale market. Sales will level off at a new record of 6,000 - a 1.2 per cent increase over last year.

Supply, as measured by new listings, will also level off in 2005. Rising at a slightly greater rate than sales, new listings will plateau at 8,800 - up 2.3 per cent in comparison to 2004.

Tight market conditions experienced over the last four years will persist. The Sales-to-New-Listings Ratio (SNLR) will average 68 per cent - well within the seller's market range.

When the SNLR trends above 55 per cent for a sustained period of time, price increases above inflation will occur. Strong real price growth has been experienced on an annual basis since 2000 and will continue in 2005. The average resale price will grow by 6.5 per cent to \$219,000.

Price growth above inflation has raised concerns regarding the



affordability of home ownership in the Kitchener area.

As average price and mortgage rates rise, they will boost the average monthly mortgage payment<sup>1</sup> to \$1,379 this year. However, it is important to note that in real (inflation-adjusted) terms, the payment will be equal to only approximately 60 per cent of the level reached at the peak of the last housing market cycle in 1989.

It is also important to note that a good number of resale homes will continue to be offered at prices below the average. These will include quality multiple family homes, such as townhomes and semi-detached

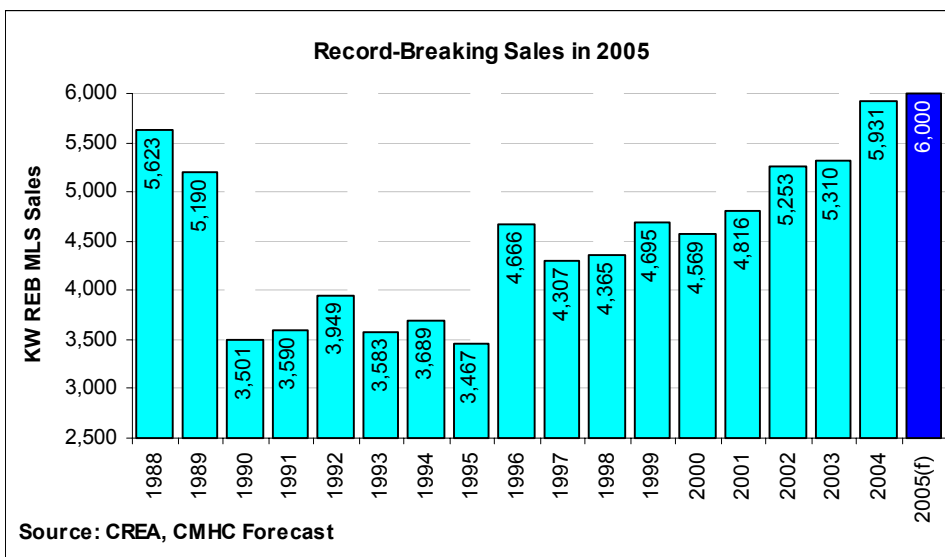
houses. In the first quarter of this year, the average price of a multiple family homes was only 70 per cent of the combined average resale price in Kitchener-Waterloo (\$152,314 versus \$213,931). As in the new home market, households discouraged by the high price of single-detached homes will be able to find affordable alternatives going forward through 2005.

## Similar Situation in Cambridge

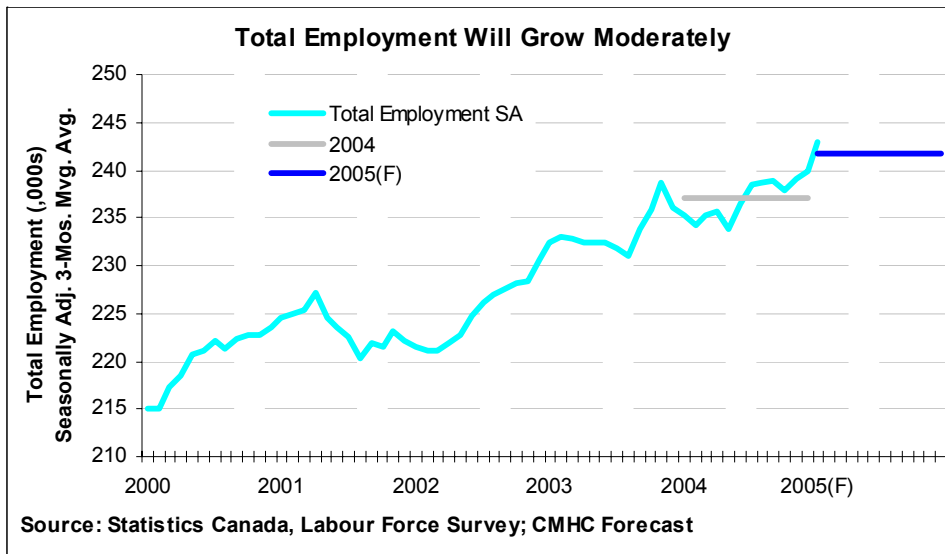
The resale market under the Cambridge Real Estate Board will experience conditions similar to Kitchener-Waterloo.

Sales are expected to come in at near-record to record levels of between 2,800 and 2,900. At the seasonally adjusted annual rate, sales for the first quarter were approximately 2,850.

The sales-to-new-listings ratio suggests that seller's market conditions will prevail over the next year. Average price growth will occur at a rate similar to Kitchener-Waterloo. The average resale price, under the Cambridge Real Estate Board, will reach approximately \$223,000.



<sup>1</sup>The average monthly mortgage payment is calculated using actual and/or forecast average MLS price, posted three-year fixed mortgage rate, with a 25 per cent down payment and a 25-year amortization period.



## Rental Market

### Will Remain Soft in 2005

Record resale home sales and strong home construction will keep the demand for rental below the Kitchener average. The average vacancy rate will drop only slightly to 3.2 per cent, due to rising prices and mortgage rates, as very price-sensitive households postpone their home buying decision. Average rent will grow below inflation.

## Demand Factors

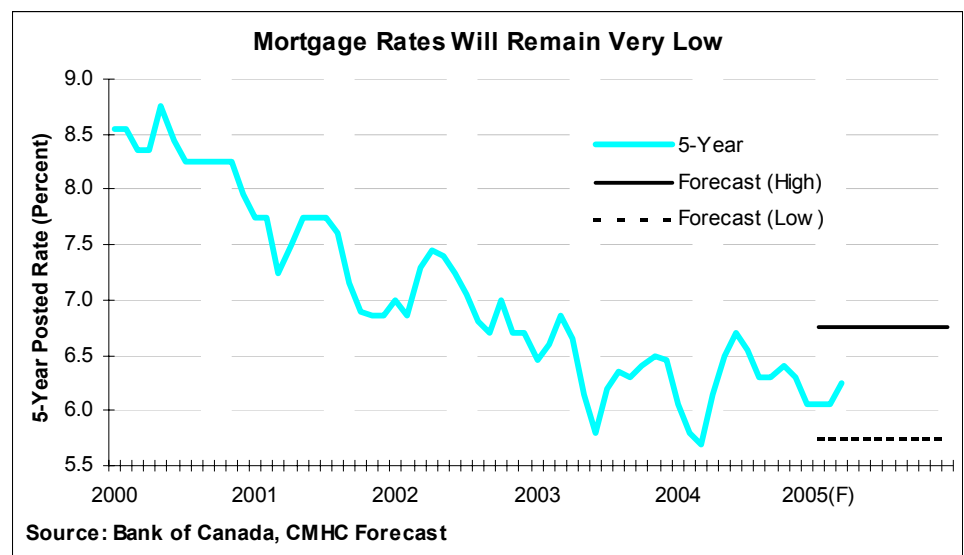
### Job Growth to Continue

Moderate job growth of two per cent will be experienced in 2005, with total employment reaching 242,000. This job forecast is in line with the 1.9 per cent average annual increase between 2000 and 2004. Full-time job creation has been the driver of this growth. This trend has continued through the first quarter of 2005.

The healthy labour market conditions will have a positive influence on the demand for housing. This influence will come from two sources. First, young people, who have gained employment, will decouple from their parents and move into a home of their own.

Second, migrants, who have been attracted to the Kitchener area by the steady job prospects, will also be in the market for housing this year. As baby boomers move beyond their child-bearing years, migration will increasingly become the main engine of population growth.

Demand for housing will continue to be focussed on the ownership market in 2005. Ownership demand will be primarily driven by the continuation of very low mortgage rates. Coming off historic lows in 2004, rates are expected to climb only slightly through the end of the year. Low mortgage rates will be beneficial to first-time buyers. These households are more rate-sensitive due to smaller down-payments and thus larger debt-to-equity ratios.



## Mortgage Rate Outlook

*Mortgage rates will remain low for the rest of 2005 and rise moderately in 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.

Posted mortgage rates are forecast to rise moderately as interest rates head up in 2005-06. However, tame inflation, a strong Canadian dollar vis-à-vis the U.S. dollar, and slower economic growth in Canada will restrain the size and speed of Canadian interest and mortgage rates increases in 2005-06.

Mortgage rates are expected to remain low, rising by less than 50 basis points annually this year and next. One, three and five-year mortgage rates are forecast to be in the 4.50-5.50, 5.50-6.50, and 5.75-6.75 per cent range respectively in 2005. However, rising posted mortgage rates will not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.

## OUTLOOK SUMMARY

### KITCHENER CENSUS METROPOLITAN AREA

<b>NEW HOME MARKET</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>% Change</b>	<b>2005(F)</b>	<b>% Change</b>
Starts						
Single-detached	3,007	2,663	2,374	-10.9%	2,280	-4.0%
Multi-family	1,123	1,292	1,538	19.0%	1,500	-2.5%
Total	4,130	3,955	3,912	-1.1%	3,780	-3.4%
NHPI - Annual Change (Per Cent)	4.1%	3.3%	4.5%	-	6.5%	-

#### **RESALE MARKET**

Kitchener-Waterloo						
MLS <sup>1</sup> Sales	5,245	5,310	5,931	11.7%	6,000	1.2%
MLS <sup>1</sup> New Listings	7,224	7,757	8,601	10.9%	8,802	2.3%
Sales-to-Listings Ratio	72.6%	68.5%	69.0%	-	68.2%	-
MLS <sup>1</sup> Average Price	\$177,551	\$188,905	\$205,639	8.9%	\$219,000	6.5%

#### **RENTAL MARKET**

Apartment Vacancy Rate	2.3%	3.2%	3.5%	-	3.2%	-
Average Rent (2 bedroom)	\$750	\$754	\$765	1.5%	\$777	1.6%

#### **ECONOMIC OVERVIEW**

Mortgage Rate (1 year term)	5.17%	4.84%	4.59%	-	5.01%	-
Mortgage Rate (3 year term)	6.28%	5.82%	5.65%	-	5.81%	-
Mortgage Rate (5 year term)	7.02%	6.39%	6.23%	-	6.28%	-
Employed (000's)	226.0	233.8	237.6	1.6%	242.4	2.0%
Net Migration (Census Year)	4,879	3,558	3,134	-11.9%	3,700	18.1%

Sources: CREA, Kitchener-Waterloo Real Estate Board, Real Estate Board of Cambridge, Statistics Canada, and Conference Board of Canada

<sup>1</sup>Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

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