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HOUSING MARKET

London

OUTLOOK

Canada Mortgage and Housing Corporation

www.cmhc.ca

New Home

Market

Higher rates to cut starts in 2006

Next year will see a return to a more typical level of new home construction after three consecutive near-record years for area builders. Demand for new housing will be squeezed by lower sales of existing homes and somewhat higher mortgage rates. The result will be a 13 per cent fall in starts to 2,710 units, still well above the 2,000 unit average recorded over the last 10 years.

The price of a new single-detached

house at completion in the London CMA averaged \$270,502 in the first eight months of 2005, surging 11.5 per cent from a year earlier. With prices expected to gain a further 4 per cent this year and interest rates beginning to edge higher, affordability will be a factor for some potential buyers. As a result single-family starts are forecast to slide a further 4 per cent in 2006 after a 17 per cent drop in 2005.

Empty nesters demand luxury multiples

A focus on luxury apartment and townhouse construction targetted at empty nesters will keep multiple housing starts above historic norms

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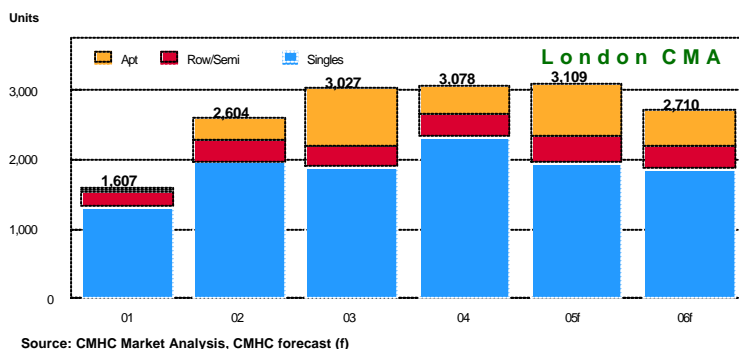
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in 2006, although there will be a fall back from the 1,164 units anticipated this year. In addition, a further 100 units of affordable rental accommodation are expected to be added to the 129 units planned to start in 2005.

The shift to more luxury accommodation continues in the single-detached market as well. With the average resale residential property gaining 26 per cent in value over the last five years, potential move-up buyers have substantial equity at their disposal. Builders are catering to this more affluent consumer, as evidenced by a jump in the share of single-family homes priced above \$300,000 from

Total starts to fall back



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just 14 per cent in 2003 to 25 per cent in the first eight months of 2005.

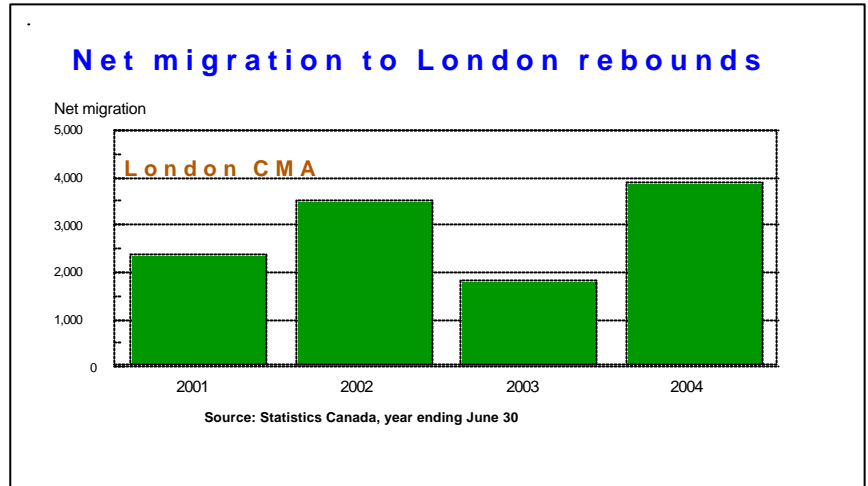
Economic factors are in support of a still healthy, but somewhat lower level of new home construction. Consumer sentiment, while still marginally positive, is becoming more cautious in the face of slightly higher mortgage rates and rising energy costs. Employment growth has slowed but the region continues to create jobs. Positive job creation over the last twelve months combined with comparatively affordable housing prices caused a resurgence in net migration to the London area, further boosting current and future demand for housing.

London attracting more international migrants

The surge in net migration in 2003-2004 set the stage for much of the recent strength in the housing market. The increase was mainly attributable to more immigrants from other countries and more net migration from other areas of Ontario. Although more recent data is available only at the provincial level, the apparent continued strength in international immigration suggests that this source of housing demand should have been sustained in the 2004-2005 period.

Looking at the migration data by age group, between the prime first-time buying ages of 25 and 44 there was both a drop in the number of people leaving the London area and an increase in the number of new arrivals. The result was a net gain of 1,454 persons, up from 622 a year earlier.

Not only are there more arrivals in



the home-buying age group, the incoming migrants have become on average wealthier. The median prior year income of taxfilers among newcomers in 2003-2004 was 12.7 per cent higher than just a year previous. Thus, the overall picture is of more, better-off migrants boosting demand for both new and existing housing in the London metro market.

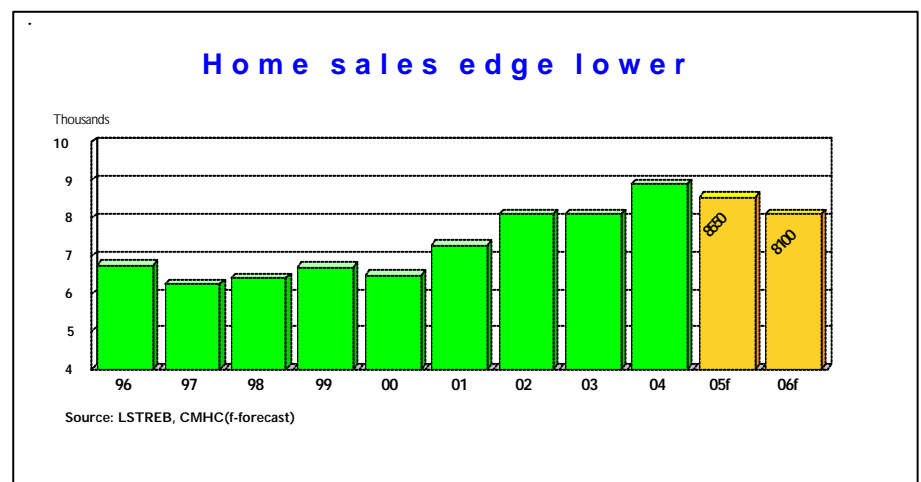
Residential building permit activity has continued unabated in 2005. As of August 2005 there were building permits issued for 5 apartment buildings totalling 509 units which hadn't yet started construction. These buildings are forecast to start towards the end of this year or early in 2006, sustaining multiple housing starts over the near term.

Resale Market

Sales edging lower

After coming close to matching last year's record in 2005, next year will see a slight fallback in MLS* sales to 8,100 units. Despite the slowdown, low mortgage rates and a supportive economic environment will keep sales of existing homes in London-St. Thomas area well above the historical trend.

With slower sales, listings will stay on the market longer, moving the market closer to a balanced state. The result will be an easing in the pace of price increases to 2.6 per cent. While this gain is below the 5.2 per cent jump in prices expected for 2005, it is above the expected rate of inflation for the fifth consecutive year.



*Multiple Listing Service(MLS) is a registered certification mark owned by The Canadian Real Estate Association.

Split level and ranch styles gain sales

With the escalating price of new single-detached homes, those types of existing homes which were the closest substitutes have done especially well in 2005. Four level back and side split styles and raised and regular ranches all showed year over year sales gains in the first three quarters of 5.1 per cent or more.

Another strong market segment was condominium apartments, buoyed by empty nester demand. Sales of high rise condominium apartments in the year to September were 21.9 per cent higher than a year earlier. In the third quarter of 2005 the average apartment was selling for 16.5 per cent more than a year earlier.

Mortgage Rates Modestly Higher

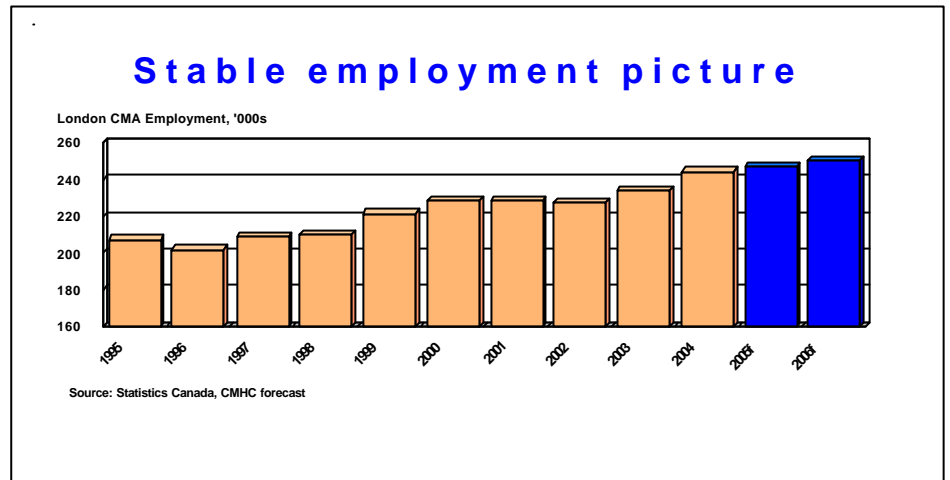
Mortgage rates will remain low in 2005 and rise moderately in 2006. Tame inflation and a strong Canadian dollar will restrain the size and speed of Canadian interest and mortgage rate increases in 2005 and 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per

Economic Trends

Employment growth stable

The London and area economy will see a modest level of net new jobs over the forecast period. Total employment is forecast to gain 1.5 per cent next year after edging higher by 1.0 per cent in 2005. Faster labour force gains will see the

has been one of the sources of new employment in the region. Other industries showing employment gains have been public administration, educational services, and business, building and other support services. While there have been minor job losses in the manufacturing sector over the last year, strong economic growth expected in the



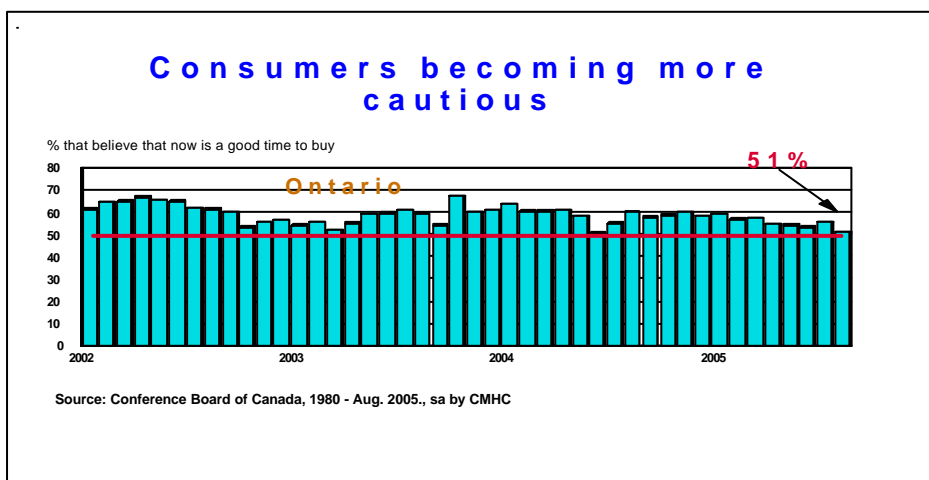
average unemployment rate in London jump to 6.5 per cent in 2005 before falling back to 6.1 per cent next year.

With the strength in the real estate sector over the last year, the Finance, Insurance and Real Estate industry

United States for 2006 bodes well for export sales and job creation.

Recent events in the oil market and elsewhere have somewhat shaken consumer confidence. However, in the most recent Conference Board of Canada survey more than half of Ontarians reported they still feel it is a good time to purchase a big-ticket item.

For local consumers, confidence has been reinforced by a series of developments. These include the upcoming Toyota plant in Woodstock, the minimal impact of the recent auto contract negotiations on jobs in St. Thomas and the planned expansion at Kelloggs in London.



FORECAST SUMMARY

London and area forecast completed October 4, 2005

RESALE MARKET	2003	2004	2005(f)	2006(f)	Percentage change (%)	
					2005	2006
London & St. Thomas Real Estate Board						
MLS ¹ Sales	8,120	8,903	8,550	8,100	-4.0%	-5.3%
MLS Average Price	\$152,586	\$166,465	\$175,500	\$180,400	5.2%	2.8%
MLS New Listings	12,181	13,569	14,050	13,900	3.5%	-1.1%
Sales-to- New Listings Ratio	67%	66%	61%	58%		

NEW HOME MARKET

London CMA (census metropolitan area)

Starts

1. Single-detached	1,893	2,336	1,945	1,860	-17%	-4%
2. Multi-family	1,134	742	1,164	850	57%	-27%
3. Total Starts [1+2]	3,027	3,078	3,109	2,710	1%	-13%

Multi-family by Type

Semi-detached	22	26	24	30	-8%	25%
Townhouse - Rental/Owner	39/236	75/228	59/311	80/220	22%	-19%
Apartment - Rental/Owner	837/0	333/80	665/105	470/50	86%	-32%

Average Price* (Single-detached homes)

Bungalow/Ranch	\$213,526	\$240,922	\$269,314	n/a	11.8%	n/a
Two-storey	\$241,709	\$253,113	\$269,388	n/a	6.4%	n/a
All single-detached units	\$231,237	\$246,948	\$270,502	n/a	9.5%	n/a

* 2005 data for Jan.-Aug. period

New Housing Price Index(1997=100)	115.0	120.4	126.1	131.1	4.7%	4.0%
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RENTAL MARKET

Apartment Vacancy Rate	2.1%	3.7%	4.4%	4.0%		
Average Rent (2 bedroom)	\$736	\$758	\$772	\$787	1.8%	2.0%

ECONOMIC OVERVIEW

Mortgage Rate (1 year term)	4.84	4.59	4.94	5.52		
Mortgage Rate (5 year term)	6.39	6.23	5.95	6.27		
Employed (000's)	234.4	244.4	246.8	250.5	1.0%	1.5%
Employment Growth (000's)	6.9	10.0	2.4	3.7		
Unemployment Rate (%) London /Ontario	6.8 /7.0	5.9 /6.8	6.5 /6.7	6.1/6.6		

f = CMHC forecast. Consensus mortgage rate forecast Oct, 2005.

Sources: Statistics Canada, London & St. Thomas Real Estate Board, CMHC

Housing Market Outlook is CMHC's outlook for new residential construction and sales of existing homes. The housing market outlook is released May 16 and October 24.

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