

# F

# ORECAST

*Kitchener*

## SUMMARY

Canada Mortgage and Housing Corporation

ISSUE: SPRING 2004

### New Home Market

#### 2004 Starts

#### Remain Strong

Housing starts remained strong in 2003 totalling 3,955 - down only 4% from the 13-year high set in 2002 (4,130 total starts). Declining mortgage rates and sustained population and employment growth have driven this high level of residential construction.

Close to 40-percent of all starts occurred in the Kitchener City area, with the cities of Waterloo and Cambridge each accounting for just under 30% of new residential construction activity. Based on the number of proposed units currently contained in pending, draft-approved and registered plans, the City of Kitchener is expected to accommodate an increasingly

larger proportion of new residential development going forward.

Moderate economic growth, coupled with low average mortgage rates, is forecast to continue through 2004. This is expected to result in another banner year for new home construction in the Kitchener CMA. Total starts are forecast at 3,879 - down only 2% compared to 2003.

In line with an emergent trend over the past 2 years, multiple family starts have been on the rise, with construction of single-detached units declining. This trend is expected to continue through 2004, with a forecast 14% increase in multiple starts versus a drop in singles starts of almost 10%.

The forecast decline in single detached construction is due in large part to increasing price. The average price of a new single-detached house steadily increased between 2001 and 2003. In 2004, the average price is expected to increase 3.7% over 2003, to \$241,306.

As new single detached homes have become less affordable, demand for multiple family dwellings, including semi-detached and row units, has

#### IN THIS ISSUE

##### New Homes

1 2004 Starts Remain Strong

##### Resale Market

2 Kitchener-Waterloo Sales  
2 Cambridge Sales

##### Rental Market

3 Demand for Rental Units Remains Low

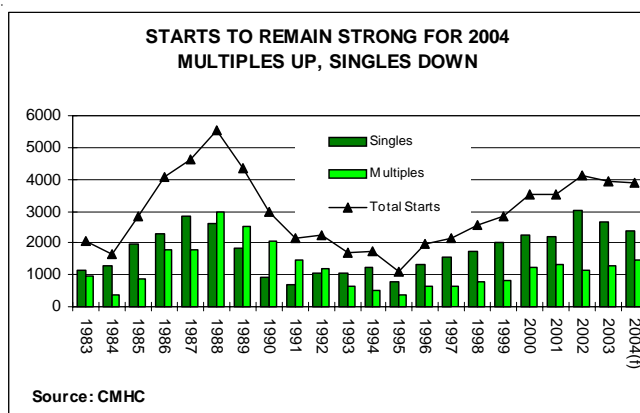
##### Economic Indicators

3 Growth Expected at a Moderate Pace in 2004

3 Consumer Confidence Remains High

3 Mortgage Rate Outlook

4 Forecast Summary



increased. Actual and forecast increases in multiple starts indicate that builders have and will continue to respond to this demand in 2004.

While still forecast to be at high levels, total starts for 2005 are expected to decline below 2004 levels, due in large part to the forecast decline in mortgage rates. Average prices above \$200,000 will continue to fuel demand for new, multi-family units.

Jason Mercer

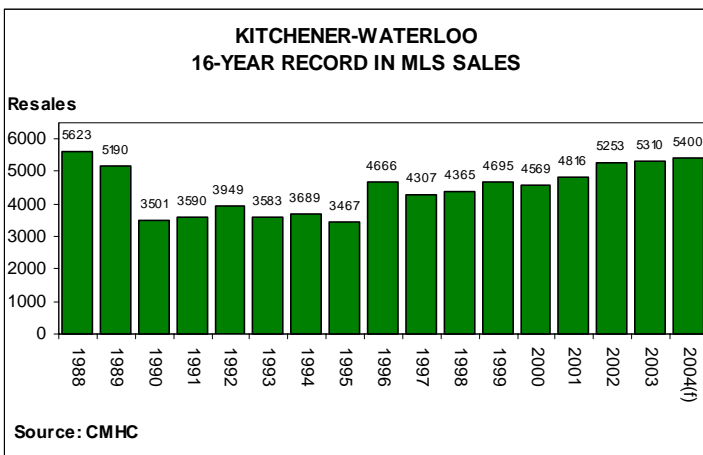
CMHC, Market Analysis

Direct Line: (416) 218-3410 \* Fax: (416) 218-3314  
jmercerc@cmhc-schl.gc.ca \* www.cmhc.ca



HOME TO CANADIANS  
Canada

# Resale Market



## Kitchener-Waterloo Sales and Price Forecast to Rise Further in 2004

Total MLS sales in 2003 amounted to 5,310 - up 1.2% over 2002. This growth edged the local resale market closer to the record sales level set 15 years earlier in 1988. Almost 70-percent of resales were for single-detached homes, with condominium (predominantly townhome) sales the second greatest category.

The sales trend observed in 2003 is forecast to continue through 2004. The strong economic outlook coupled with a predicted decline in average mortgage rates has led to a forecast historic high in MLS sales in Kitchener-Waterloo, at 5,400 units in 2004. This will represent an annual increase of 1.7%.

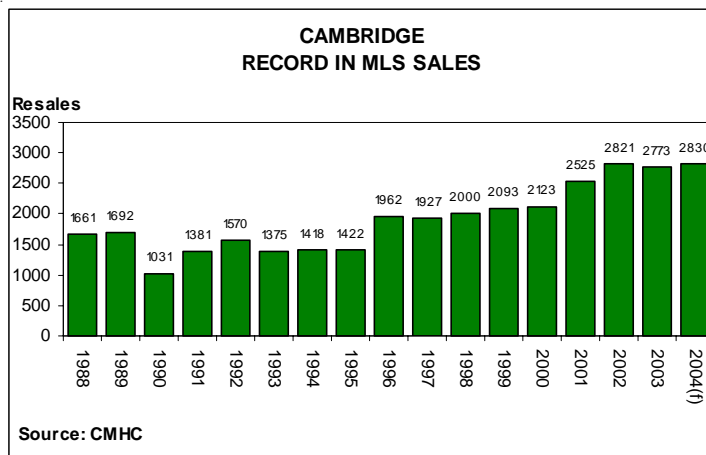
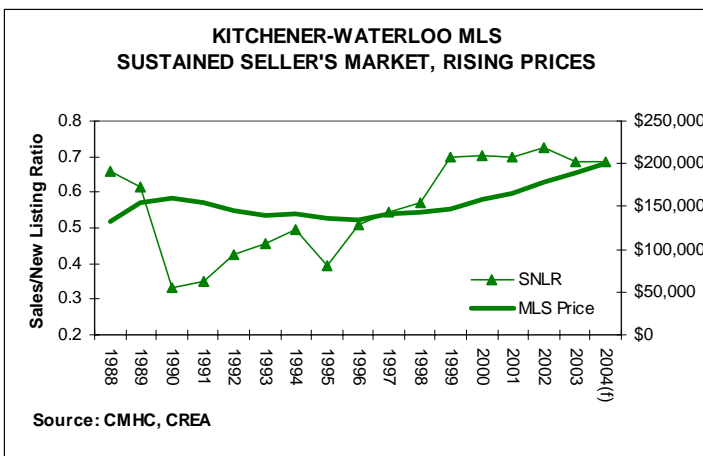
The average price of resale homes in Kitchener-Waterloo also rose substantially in 2003. Relative to 2002,

the last year's average price rose 6.4% to \$188,905. The sustained rise in average price over the past 5 years has also resulted in an increasing number of new listings year-over-year. In 2003, the number of new listings rose to 7,753 - a 7.3% increase.

The parallel rise in sales and new listings has resulted in a sales to new listing ratio (SNLR) at or near 0.70 - pointing to a strong "seller's market," where supply is tight relative to demand. This situation is the basis for recent price increases.

The "seller's market" is forecast to continue through 2004. In response to continuing price increases, new listings are expected to grow 2% to 7,900 in 2004, resulting in a SNLR estimated at 68.4%. This will drive the average resale price in Kitchener-Waterloo even higher to \$200,000, representing a 5.9% increase over 2003.

In 2005, sales are expected to remain strong - declining only slightly back to 2003 levels. This lower level of sales will result in average price increases of a lesser magnitude, as compared to 2004.

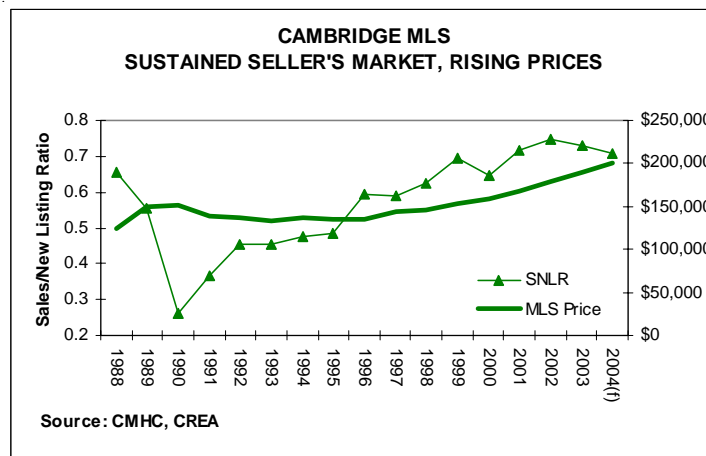


## Cambridge Sales, Price Increase at Record Pace

The Cambridge resale market performed in a similar manner to Kitchener-Waterloo in 2003. MLS sales remained at high levels relative to 2002, with a small decline of 1.7% over the record sales posted in 2002. However, favourable economic conditions and mortgage rates are forecast to push sales back to record levels, with 2,830 MLS sales in 2004.

New listings are also forecast to increase by 5.2% to 4,000 in 2004. This will result in a sales to new listing ratio of 0.71 - clearly indicating a sustained "seller's market" situation. The continued short supply of resale homes relative to demand will push prices substantially higher than those experienced in 2003.

The average resale price in 2004 is forecast to rise 6.1% to \$200,500.



# Rental Market

## Demand for Rental Units Remains Low

Vacancy rates reached their highest level in 10 years in 2003, at 3.2%. Demand for rental units in the Kitchener CMA declined due to the increased flow of tenants moving into the home ownership market.

The vacancy rate is forecast to remain at the same level through 2004. Sustained economic growth and historically low mortgage rates will see tenant households continue to make the move to home ownership.

A substantial rise in rental unit supply will also occur this year. This is where the first quarter of 2004 saw the completion of almost 500 rental units, with over 600 currently under construction. However, this new supply will be partially absorbed by the continued influx of double cohort students, in addition to in-migrants responding to increased employment opportunities in the Kitchener CMA.

The high vacancy rate has served to keep rent increases below inflation. The average rent for a 2-bedroom apartment in 2003 rose by only 0.5% over 2002, from \$750 to \$754. Similar rent increases can be expected for 2004.

# Economic Overview

## Growth Expected at a Moderate Pace in 2004

The Kitchener economy grew at an above average pace in 2003, with a 7% growth in real GDP and a 3% growth in employment. Driving this growth was the construction industry, with employment increasing by close to 48% over 2002. Following the expansion in the construction sector was related employment in finance, insurance and real estate, with growth of almost 27%.

In contrast with construction and related industries, the manufacturing sector experienced a decline in 2003, with employment dropping 1.1%. This decline was due, in large part, to a sluggish US economy and high Canadian dollar, which served to keep demand for exports low.

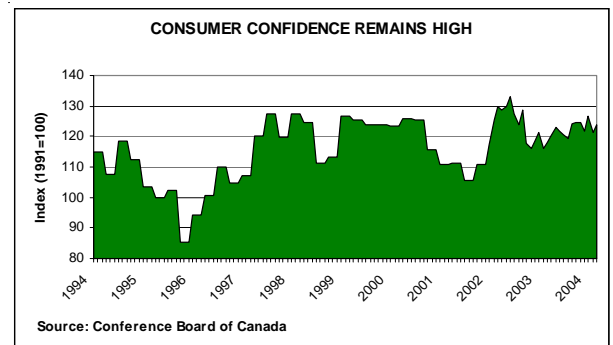
Driven largely by the residential sector, 2004 construction activity in Kitchener is expected to remain at similar levels to 2003. As a result, the type of growth witnessed in this sector last year is not expected to carry forward. However, as the US economy continues to strengthen through 2004, with increases consumer and business expenditure, we can expect

a rebound in export-based manufacturing employment in Kitchener. This will push overall employment higher this year, albeit at a more moderate pace.

Sustained economic growth in 2004 will result in continued population immigration of a similar magnitude to 2003, with an overall increase of 2% year-over-year.

## Consumer Confidence Remains High

Ontario consumer confidence, as measured by the Conference Board of Canada's Index of Consumer Attitudes,

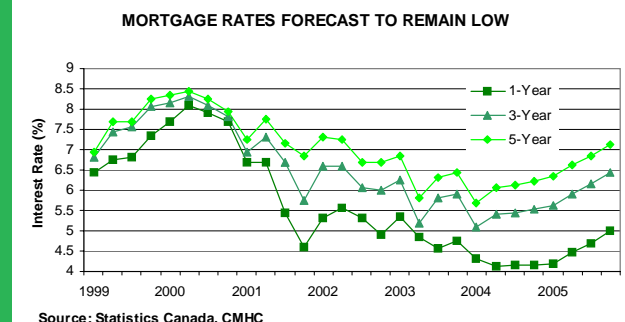


improved throughout 2003 from a low in February and March. The consumer confidence index in Ontario peaked at a high of 126.8 in January 2004, up from low of 116.1 seen in February 2003. This high confidence level is expected throughout the year, as employment continues to grow.

# Mortgage Rate Outlook

Low inflation and accommodative monetary policy will keep Canadian interest and mortgage rates low over the next few quarters. As economic growth strengthens this year and into 2005, monetary policy will become less accommodative and short-term Canadian interest rates will rise 50-100 basis points next year. Short-term rates will fall early this year and begin an upward trend later in the year, remaining flat to modestly higher in 2004. Long-term yields are forecast to increase about 25 basis points later this year after inflation bottoms out and economic growth gains momentum.

Average interest rates for 1, 3 and 5-year mortgages are forecast to be lower in 2004 relative to 2003. Next year these rates will increase and are expected to be in the 4.25-5.25, 5.75-6.75, and 6.25-7.25 percent range respectively. Spreads between mortgage rates and comparable bond yields have remained at 150-250 basis points, providing lenders with some room for discounting.



## FORECAST SUMMARY KITCHENER CENSUS METROPOLITAN AREA

NEW HOME MARKET	2001	2002	2003	% Change	2004F	% Change
<b>Starts</b>						
Single-detached	2,197	3,007	2,663	-11.4%	2,400	-9.9%
Multi-family	1,340	1,123	1,292	15.0%	1,479	14.5%
Total	3,537	4,130	3,955	-4.2%	3,879	-1.9%
Average New House Price						
Single-detached	\$228,469	\$229,102	\$232,755	1.6%	\$241,306	3.7%
<b>Complete and Unoccupied (September)</b>						
Single-detached	129	126	109	-13.5%	110	0.9%
Multi-family (semi, row, apt.)	156	82	124	51.2%	110	-11.3%
<b>RESALE MARKET</b>						
<b>Kitchener-Waterloo</b>						
MLS Sales	4,805	5,245	5,310	1.2%	5,400	1.7%
MLS New Listings	6,874	7,224	7,753	7.3%	7,900	1.9%
Sales-to-Listings Ratio	70.1%	70.1%	68.5%		68.4%	
MLS Average Price	\$164,544	\$177,551	\$188,905	6.4%	\$200,000	5.9%
<b>Cambridge</b>						
MLS Sales	2,525	2,821	2,773	-1.7%	2,830	2.1%
MLS New Listings	3,514	3,763	3,803	1.1%	4,000	5.2%
Sales-to-Listings Ratio	71.7%	71.7%	72.9%		70.8%	
MLS Average Price	\$167,227	\$178,598	\$189,008	5.8%	\$200,500	6.1%
<b>RENTAL MARKET</b>						
Apartment Vacancy Rate	0.9%	2.3%	3.2%		3.2%	
Average Rent (2 bedroom)	\$722	\$750	\$754	0.5%	\$758	0.5%
<b>ECONOMIC OVERVIEW</b>						
Mortgage Rate (1 year term)	6.14	5.17	4.84		4.18	
Mortgage Rate (5 year term)	7.4	7.02	6.39		6.13	
Employed (000's)	225.7	228.7	235.8	3.1%	240.1	1.8%
Employment Growth (000's)	2	3	7.1		4.3	
Net Migration (Census Year)	5,074	4,684	4,782	2.1%	4,878	2.0%

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)

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

Jason Mercer, M.Sc.PI  
Direct Line: (416) 218-3410  
e-mail: [jmercerc@chmc-schl.gc.ca](mailto:jmercerc@chmc-schl.gc.ca)

Forecast Summary is published by Canada Mortgage and Housing Corporation, and included with subscriptions to **Housing Now**. All rights reserved.

To become a subscriber or for more information about CMHC's wide range of housing related publications, please call 1-800-493-0059.

Housing Now is published four times yearly for the Kitchener Metropolitan market. Forecast Summary Supplement is included with the 1st and 3rd quarter reports. An annual subscription to the Kitchener Housing Now is \$55.00. To order, please contact Ontario customer service at 1-800-493-0059.

© 2004 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada

Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this

publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.

