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ORECAST

Kitchener

SUMMARY

Canada Mortgage and Housing Corporation

ISSUE: FALL 2004

New Home Market

Strong Starts Sustained in '05

The new home market in the Kitchener CMA will experience another strong year in 2005. This positive outlook is based on robust growth in jobs and population in the metropolitan area, coupled with the continuation of sellers' market conditions in relation to resale homes.

Total starts are forecast to decline by 5.7 per cent to 3,730 this year. In 2005, starts will decline at a similar rate to 3,525. Even with these declines, starts will remain very high compared to new home construction over the past 20 years.

These slight annual declines will

occur, in part, due to rising prices and mortgage rates, which will force some buyers out of the market. A temporary shortage of buildable lots in the Cities of Cambridge and Waterloo (to a lesser extent) will also play a role.

Based on current staging of development reports, a growing proportion of new residential development is expected to occur within the City of Kitchener. However, substantial building activity is also expected in Woolwich Township over the next two to three years.

Due to the continuation of strong market conditions, new home prices have risen steadily since the mid-1990s. As a result, single detached homes have become less affordable for many potential buyers. This has

prompted increased interest in less-expensive alternatives, such as townhomes or semi-detached units. In line with these changing preferences, single-detached starts have decreased and multiple starts have risen over

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Resale Market

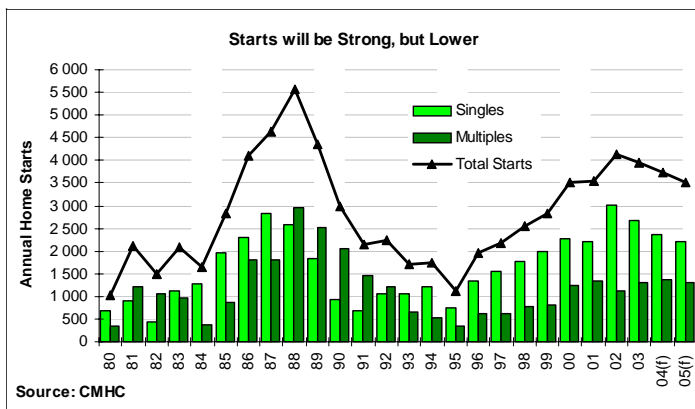
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the past two years. Given that price increases are expected to continue this year and next, by 3.5 and 3.4 per cent respectively, demand for single detached units will decline at a greater rate than multiple units through 2005.

Jason Mercer

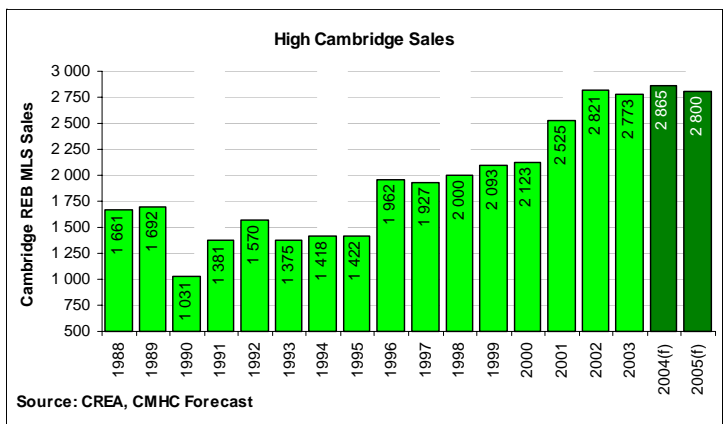
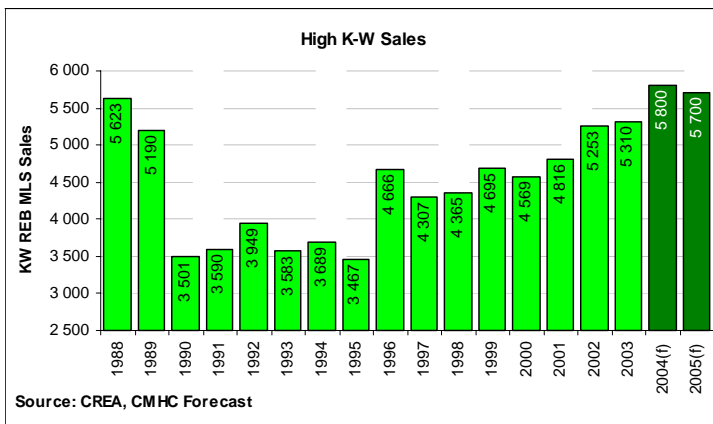
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Resale Market



Kitchener-Waterloo

High sales and rising prices

The continuation of local job growth and historically low mortgage rates will see demand remain high in the Kitchener-Waterloo resale market next year.

Following a 24-year record of 5,800 sales (forecast) this year, the resale market will level off in 2005. Next year's sales will amount to 5,700 - down less than two per cent from 2004. This slight decline will largely be the result of rising prices and mortgage rates.

Home prices will continue to rise at a pace similar to the past two years. The 2005 average resale price will climb to \$219,000 in 2005 - an increase of approximately seven per cent over the 2004 average of \$204,500 (forecast).

The seven per cent growth in average price next year, while still very strong, will be down from the

2004 level of eight per cent. This slower growth will result from an increasing supply of new listings. More and more households will seek to benefit from selling their homes at high prices. As a result, the Kitchener-Waterloo market will be trending from a tight sellers' conditions to a more balanced state.

Rising prices coupled with forecast mortgage rate hikes will result in increasing monthly payments for home owners. The average monthly payment (principal and interest) will rise next year to \$1,065 - up \$114 in comparison to 2004. While higher, it is important to note that the average monthly payment in 2005 will still be very low historically. In real terms (constant 2004 dollars), next year's average payment will be slightly more than half the payment experienced in 1990. Consequently, the resale market will remain strong.

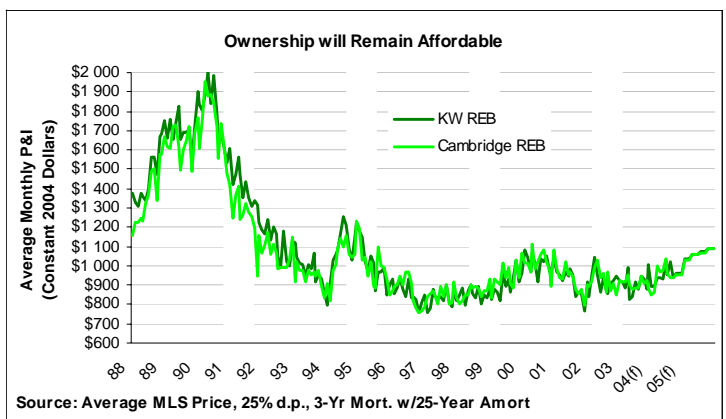
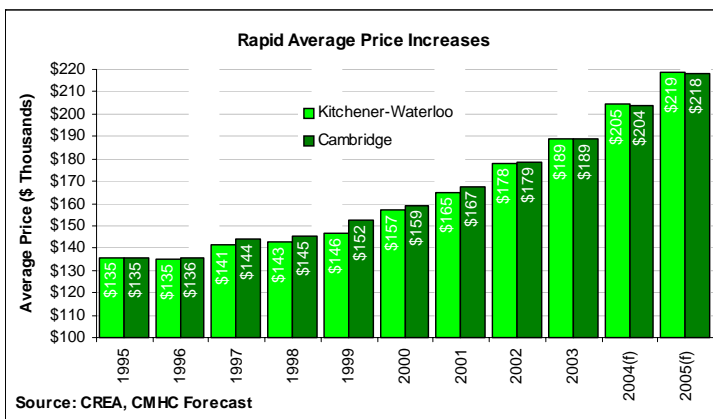
Cambridge

Near record sales and prices

Influenced by the same economic factors, the Cambridge resale market will also remain strong.

Sales will reach record levels in 2004 at 2,865, and will only decline slightly to 2,800 in 2005. At the same time, the average resale price will continue to trend upward, reaching \$218,000 next year. Similar to Kitchener-Waterloo, however, the rate of price increase will decline over the next 14 months as the market moves to a more balanced state.

The cost of home ownership will also rise in the coming year. The monthly payment (principal and interest) in 2005 will average \$1,060. This will represent an increase of approximately 14 per cent over the 2004 average of \$930.



Rental Market

Vacancy remains high historically

The average vacancy rate this year is at the highest point since 1993, at 3.6 per cent (forecast). Demand for rental units in the Kitchener CMA has declined due to the increased flow of tenants moving into the home ownership market.

Kitchener's vacancy rate will decline only slightly in 2005 to 3.2 per cent. Strong economic growth and historically low mortgage rates will continue to encourage tenant households make the move to home ownership.

A substantial rise in rental home supply will also occur this year and into 2005, with 435 rental units started year-to-date. While students and other in-migrants will absorb some of this supply, these new units will still play a part in sustaining high vacancy rates.

The high vacancy rate will serve to negate rent increases next year. The average rent for a 2-bedroom apartment this year and next will be \$754.

Economic Overview

Robust Job Growth in '05

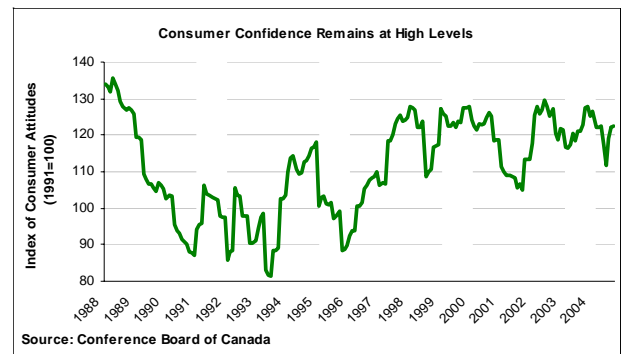
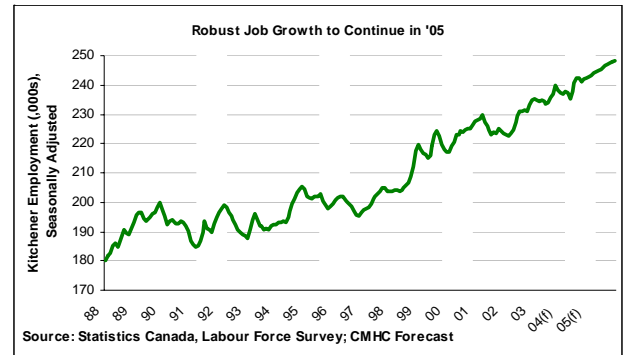
The Kitchener CMA has experienced a sustained period of strong job creation. Between 1988 and 2003, the average annual employment growth equalled approximately 1.8 per cent. This growth rate, which was greater than that observed for Ontario as a whole, saw total jobs increase from 186 to 236 thousand.

Robust job growth will continue through 2004 and 2005, with total employment reaching 240 and 246 thousand respectively. The majority of these employment gains will be centred in the manufacturing and service sectors. Growth in construction employment will remain flat or decline slightly.

Consumer Confidence High

Provincially, a positive employment picture and

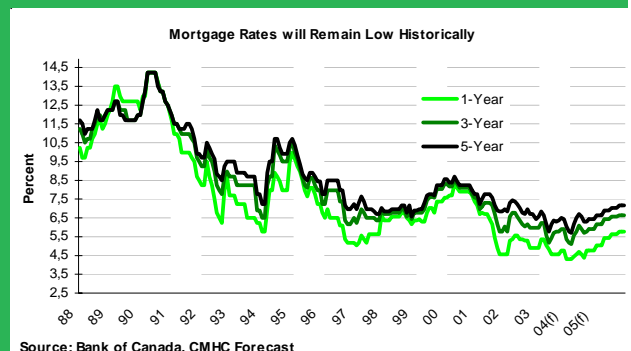
favourable interest rates have served to keep consumer confidence at high levels relative to those seen in the mid to late 1990s. Given the strong local economy, consumer confidence in the Kitchener area is arguably high as well. With strong employment and low interest rates expected to carry forward through next year, a large component of the local population should still feel comfortable purchasing and paying for a home over the long term.



Mortgage Rate Outlook

Increasing economic growth suggests that the Bank of Canada will raise the overnight rate target (its administered policy interest rate) over the next few months. The Bank is expected to raise interest rates by 50-75 basis points by the end of 2004. In 2005, the economic environment is expected to improve further. This will prompt the Bank to move the overnight rate to higher levels - likely by 100-150 basis points over the course of the year.

One, three and five-year posted closed mortgage rates are expected to remain relatively flat for the remainder of 2004. In 2005, these rates will increase by 50-100 basis points 4.75-6.00, 5.75-6.75 and 6.25-7.50 respectively.



FORECAST SUMMARY

KITCHENER CENSUS METROPOLITAN AREA

NEW HOME MARKET	2002	2003	2004(F)	% Change	2005(F)	% Change
Starts						
Single-detached	3,007	2,663	2,350	-11.8%	2,220	-5.5%
Multi-family	1,123	1,292	1,380	6.8%	1,305	-5.4%
Total	4,130	3,955	3,730	-5.7%	3,525	-5.5%

Average New House Price						
Single-detached	\$229,102	\$232,755	\$240,855	3.5%	\$249,140	3.4%

Complete and Unoccupied (September)

Single-detached	126	109	84	-22.9%	90	0.9%
Multi-family (semi, row, apt.)	82	124	188	51.6%	131	-11.3%

RESALE MARKET

Kitchener-Waterloo						
MLS ¹ Sales	5,245	5,310	5,800	9.2%	5,700	-1.7%
MLS ¹ New Listings	7,224	7,753	8,388	8.2%	8,961	6.8%
Sales-to-Listings Ratio	70.1%	68.5%	69.1%	-	63.6%	-
MLS ¹ Average Price	\$177,551	\$188,905	\$204,500	8.3%	\$219,000	7.1%

Cambridge

MLS ¹ Sales	2,821	2,773	2,865	3.3%	2,800	-2.3%
MLS ¹ New Listings	3,763	3,803	3,992	5.0%	4,186	4.9%
Sales-to-Listings Ratio	71.7%	72.9%	71.8%	-	66.9%	-
MLS ¹ Average Price	\$178,598	\$189,008	\$204,000	7.9%	\$218,000	6.9%

RENTAL MARKET

Apartment Vacancy Rate	2.3%	3.2%	3.6%	-	3.2%	-
Average Rent (2 bedroom)	\$750	\$754	\$754	0.0%	\$754	0.0%

ECONOMIC OVERVIEW

Mortgage Rate (1 year term)	5.17%	4.84%	4.56%	-	5.48%	-
Mortgage Rate (5 year term)	7.02%	6.39%	6.28%	-	6.95%	-
Employed (000's)	228.7	235.8	239.5	1.6%	245.7	2.6%
Employment Growth (000's)	228.7	7.1	3.7	-	6.2	-
Net Migration (Census Year)	4,490	3,248	3,606	11.0%	3,964	9.9%

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

¹Multiple 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.

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