

FORECAST

St. John's

SUMMARY

Canada Mortgage and Housing Corporation

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Housing Demand To Ease But Remain Strong

The blistering pace of home buying activity experienced within the St. John's region in recent years is expected to taper off in 2005. The slight reduction in housing demand is predicated on the expectation for steadily rising interest rates and weaker income growth which, when combined with rising house prices, will erode affordability and moderate overall sales activity. When coupled with job losses throughout 2004, expect both MLS® sales and housing starts to edge down in 2005. While housing demand will wane, solid fundamentals such as migration to the region and associated population growth will sustain home buying demand at healthy levels.

MLS® Sales to Fall From Record Levels

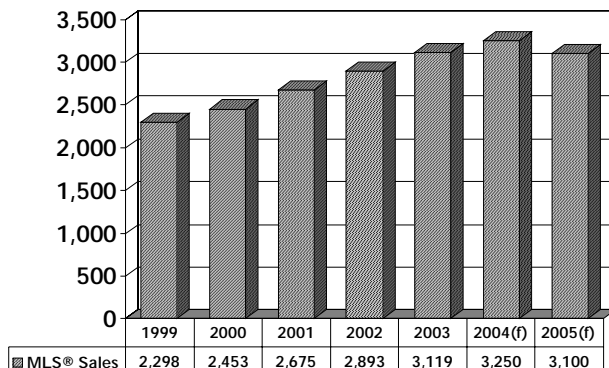
Following nine consecutive years of growth, MLS® residential sales through the Eastern Newfoundland Real Estate Board are expected to ease next year. At 3,100 units, MLS® sales will decline approximately 5.0 per cent from the record levels achieved in 2004. Expectations for steady interest rate increases will likely prompt some potential buyers to accelerate their plans and enter the market in late 2004. These circumstances will likely siphon off a portion of home buying demand from next year. Affordability pressures brought about by the combination of rising prices, higher interest rates and weaker income growth will also erode home buying demand in 2005. Nevertheless, at 3,100 units,

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MLS® - Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

MLS® Sales - St. John's and Area



Source: Eastern Newfoundland Real Estate Board, CMHC forecast.



HOME TO CANADIANS
Canada

MLS® sales will remain quite healthy in historical terms. These affordability pressures will dampen sales activity within the first-time buyer segment. Ongoing demand from an expanding seniors population and the demographic shift towards smaller households will continue to stimulate move-down activity. The baby boom generation, now in their late 30's to late 50's, will remain a major influence on housing demand in 2005 and beyond. While the boomers will drive demand for all forms of housing, they will remain a key source of move-up activity.

Price Growth Moderates Next Year

The strong price growth that occurred this year is not expected to be repeated in 2005. As inventories steadily increase and demand begins to slow, expect price growth to moderate to more sustainable levels. With supply and demand pressures easing, the market will move to more balanced conditions by mid-year. This will mark an end to the sellers market conditions which have prevailed since early 2002. Bungalow prices are forecast to increase in the three to four per cent range. Prices for two-storey homes will continue to outpace bungalows with gains of between five and six per cent anticipated next year. **CMHC's Benchmark House Price Survey** indicates that prices for bungalow units in select neighborhoods advanced some 6.0 per cent this year while two-storey dwellings posted gains of between 8.0 and 12.0 per cent.

Demand for Higher Priced Homes on the Rise

As expected, the trend towards the purchase of higher priced homes has continued throughout 2004. Analysis of MLS® residential sales during the the first nine months indicates that sales above

Price Growth Moderates Next Year

Bungalow

	July 2002	July 2003	July 2004	July 2005(f)
St. John's East	\$150,000	\$154,000	\$161,000	\$166,000
St. John's West	\$143,000	\$146,000	\$155,000	\$160,000
Mount Pearl	\$140,000	\$143,000	\$152,000	\$156,000

Two Storey

	July 2002	July 2003	July 2004	July 2005(f)
St. John's East	\$196,000	\$200,000	\$220,000	\$230,000
St. John's West	\$192,000	\$196,000	\$212,000	\$222,000
Mount Pearl	\$192,000	\$197,000	\$220,000	\$230,000

Source: CMHC Benchmark House Price Survey.

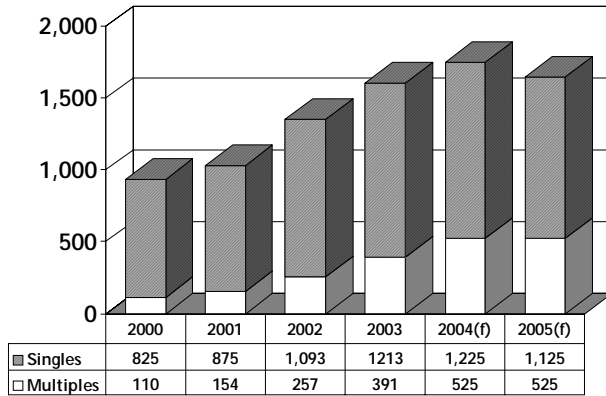
\$200,000 increased 56 per cent over last year and accounted for approximately 9 per cent of the market. Furthermore, all price ranges above \$150,000 have experienced significant sales growth. This was highlighted by homes in the \$250,000 to \$350,000 range which have more than doubled. Low interest rates and a large pool of baby boomers, many of which are at their peak career earnings stage are major factors behind the growth in move-up activity. Many of these individuals are capitalizing on equity gains in their existing dwellings and are demanding larger homes with quality finishes to house growing families. Although move-up buyers are largely responsible for this growth, an expanding seniors population is also stimulating high-end sales. While more seniors are moving down in size, they are not necessarily moving down in price. They are building more ranch style homes and buying condos. They are also willing and able to pay for the extras. This ongoing demographic shift will continue for some time helping to sustain demand for higher priced housing.

New Homes Market

Shift to Multiple Units Continues

Smaller households, an aging population and rising house prices will maintain the shift towards more multiple style dwellings. These conditions will fuel demand for lower priced semi-detached units targeted to first-time buyers, single parent households and a portion of empty nesters who choose to move-down. Underlying demographic trends will also keep condominium starts at current levels. Affordability pressures will sustain demand for single-detached homes with basement apartments as more buyers require the additional rental income to purchase a home. Expect new rental stock to remain concentrated in basement apartments with an additional boost coming from private investment in seniors apartments and publicly funded affordable housing. Accordingly, multiple housing starts will increase to 525 units in 2004 and remain at that level next year.

Housing Starts- St. John's CMA



Source: CMHC. Forecast 2003, 2004.

Single Starts Remain Brisk but Edge Lower

At 1,225 units, single starts will increase for the sixth consecutive year and hit a 31 year high in 2004. The outlook for 2005 calls for a modest reduction with single starts falling to 1,125 units. Despite the slight decline, this level of activity will be quite strong in historical terms having only been surpassed four times since 1973. Higher construction costs and rising interest rates remain the key factors behind the call for fewer single-detached starts as more home buyers opt to purchase lower priced semi-detached and row units. To the end of August, the average price of a newly built single-detached home climbed to a record high of almost \$176,000. By comparison, prices for newly built semi-detached homes have averaged approximately \$136,000 over the same period. With new home prices forecast to advance another 5.0 per cent next year, the trend towards the purchase of less expensive, multiple style dwellings will continue. Rising inventories of existing homes will also moderate single-detached starts in 2005.

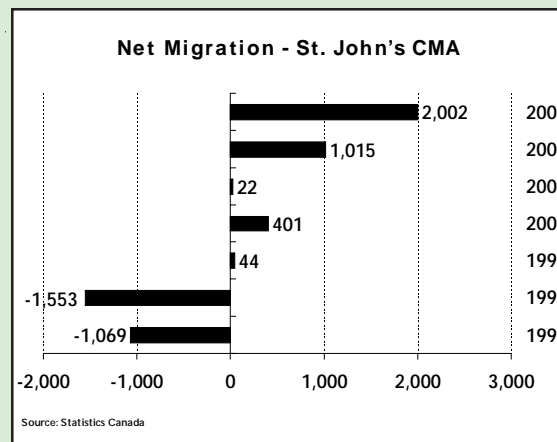
Mortgage Rates Headed Up

The outlook for improved economic conditions in Canada and the US and expectations for heightened inflationary pressures will lead to a sustained increase in interest rates during the remainder of this year and into 2005.

One, three and five-year posted closed mortgage rates are expected to edge slightly higher for the remainder of this year. Next year, mortgage rates will increase by another 50 to 100 basis points and are expected to be in the 4.75-6.00, 6.00-7.00, and 6.75-7.75 per cent range, respectively. Given the highly competitive lending market, consumers will continue to benefit from the practice of discounting from posted rates.

Demographic Trends and Household Formation in St. John's

While there are many factors that influence housing demand in the market place, trends in population and household formation play a crucial role. Higher migration levels cause household formation to increase and this creates growing demand for housing. Healthy employment gains in St. John's over the last few years and expansion in the oil and gas industry have contributed to a steady stream of people moving to the the capital region. Between 1999 and 2003, approximately 10,000 jobs were created within the St. John's region with over 96 per cent being full-time. This strong labour market performance has been a major factor behind the upturn in positive net migration. Between 1999 and 2003, migration to St. John's has resulted in a net gain of approximately 3,500 persons. Changes in household composition also spurs household formation. In 2001, St. John's had the highest proportion among Canada's census metropolitan areas (CMA's) of 20-29 year olds living at home. According to the census, there were some 27,500 persons within this age group. At 2.6 persons for the average household in 2001, this equates to more than 10,000 potential households to be formed. Growing full-time job opportunities and income gains since this time has allowed many of those within this age group to move out and either rent an apartment or lay claim to their own dwelling. From 1999-2003, average full-time employment growth for 15-24 year olds (2.6 per cent) outpaced average employment growth for all in the labour market with the greatest gains coming between 2001 and 2002 (up 17.4 per cent). While slower economic and employment growth will have a slightly dampening effect on migration flows this year and next, net migration will remain positive. Accordingly, population growth will continue and have a positive impact on housing demand.



St. John's Metropolitan Area October 2004

RESALE MARKET	2003	2004(f)	% Chg	2005(f)	% Chg
MLS Average Monthly Active Listings	953	1,000	4.9%	1,050	5.0%
MLS Sales	3,119	3,250	4.2%	3,100	-4.6%
Benchmark House Price (3 Bed. Bungalow, July)					
East	\$154,000	\$161,000	4.5%	\$166,000	3.1%
West	\$146,000	\$155,000	6.2%	\$160,000	3.2%
Mount Pearl	\$143,000	\$152,000	6.3%	\$156,000	2.6%
NEW HOMES MARKET					
Absorption Rates (Monthly Average)					
Single and Semi-detached	96	100	4.2%	95	-5.0%
Starts	1,604	1,750	9.1%	1,650	-5.7%
Single	1,213	1,225	1.0%	1,125	-8.2%
Multiple	391	525	34.3%	525	0.0%
Ownership	391	525	34.3%	475	-9.5%
Rental	0	0	N/A	50	N/A
Average Absorbed New House Price	\$161,800	\$176,000	8.8%	\$185,000	5.1%
RENTAL MARKET					
Vacancy Rate (October)	2.0%	2.5%		3.5%	
Rental Rate (annual % chg) 2 bdr	3.1%	5.0%		5.0%	
ECONOMIC OVERVIEW					
Mortgage rate (3 yr. term)	5.82%	5.67%		6.53%	
Mortgage rate (5 yr. term)	6.39%	6.33%		7.12%	
Employment growth	1,800	-1,000		500	
Net Migration	2,000	1,250		1,000	

Housing Now is published 4 times a year for the Newfoundland market. Forecast Summary is included in the first and third quarter editions. Annual subscriptions to the Housing Now for Newfoundland are \$55.00 plus applicable taxes. This publication is also available in French. For more information, or to subscribe, contact Michèle Clark at the Atlantic Business Centre at (902) 426-4708. Order no. 2084

Ce document est disponible en français. Veuillez communiquer avec Michèle Clark au Centre d'affaires de l'Atlantique au (902) 426-4708.

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