

# F

# ORECAST

Charlottetown

## SUMMARY

Canada Mortgage and Housing Corporation

VOLUME 7 EDITION 3  
THIRD QUARTER 2004

### Housing Starts To Slow Slightly in 2005

#### Migration and Low Interest Rates Buoy the Housing Market

A combination of low interest rates, strong employment, and positive migration are expected to keep the Charlottetown housing market healthy for the remainder of 2004 and into 2005.

Interest rates have remained low over the past few years and are not expected to increase significantly over the forecast period. Although a slight increase is expected, as the capital markets begin to rebound in 2005, it is not expected to be enough to dissuade homebuyers.

Employment in the capital region is expected to match the record level set in 2003, with an average of 19,775 people employed throughout the year. Part-time employment posted a gain over the first 9 months of 2004, while full-

time posted a moderate drop from last year's level. For the first three quarters in 2004 the increase in employment has come mainly from the Trade, Finance and Insurance, and Public Administration sectors. These factors are a sign of the regions diversifying economy and will help to bolster the housing market in the coming years.

Positive net-migration is also contributing to strong demand for housing in the capital region. According to the 2003 Tax Filer Data, the Queen's County area, which encompasses Charlottetown, recorded positive net-migration of 1,332 people from 1997 to 2002. When these numbers are examined more closely, it appears that the majority of these people (858 or 65 per cent) have moved to the Capital Region from other parts of the Island. This emphasizes the fact that P.E.I. is no exception to the national trend of urbanization, which is creating strong demand for housing in Canada's cities.

#### IN THIS ISSUE

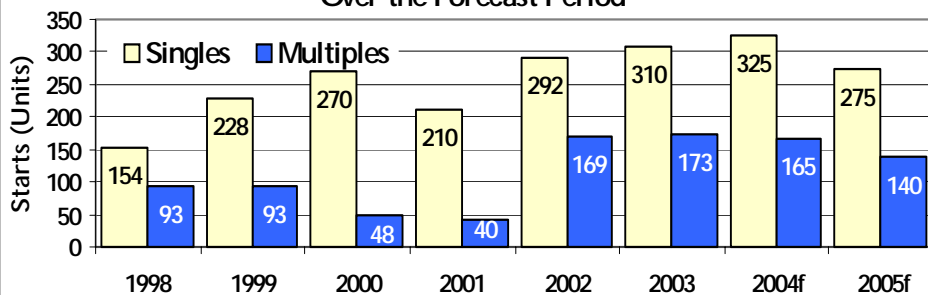
- 1 Migration and Low Interest Rates Buoy the Housing Market
- 2 New Home Prices Expected to Rise in 2004 and 2005
- 2 Vacancy Rate to Increase Slightly in 2004
- 3 Sales to Remain Strong in the Charlottetown Area
- 4 Forecast Summary

#### Graphics

- 1 Both Single and Multiple Construction to Remain Strong Over the Forecast Period
- 2 Average New Home Price Expected to Increase in 2004 and 2005
- 2 Average Rents to Increase over Forecast Period
- 2 Vacancy Rate is Expected to Increase Due to Strong Multi-Unit Construction
- 3 Average MLS® Sales Price is Expected to Increase Over the Next Two Years

*MLS® is a registered certification mark of the Canadian Real Estate Association*

**Both Single and Multiple Construction to Remain Strong Over the Forecast Period**



Source: CMHC f: CMHC Forecast



HOME TO CANADIANS  
Canada

## New Home Prices Expected to Rise in 2004 and 2005

Over the last eight years, the price of building a new home, including the purchase of a lot, as measured by the New Housing Price Index (NHPI) has been outpaced by the Consumer Price Index (CPI) in Charlottetown. This means that overall, when compared to other goods and services, the cost of a new home in Charlottetown is relatively less expensive today than eight years ago.

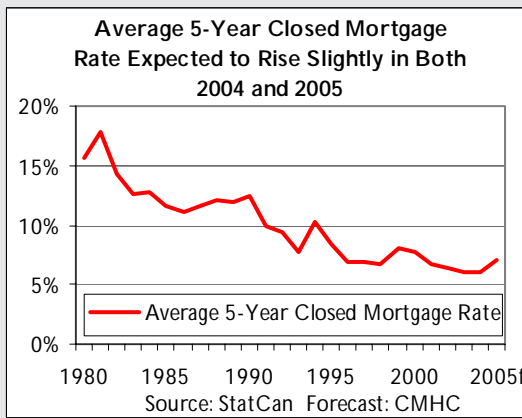
However, there has been some dramatic increases in the average price of a new home built in the Charlottetown area. Although the increased cost of land, labour and materials can not be ignored, these factors alone are not enough to explain the increased prices reported in the Capital Region. However, when featuring in the style of home people are choosing to build, the increase can be explained. With people now choosing to build larger and more elaborate homes, an increase in the average price is unavoidable. Over the past five years, the average new home price has increased from \$103,435 in 2000, to \$175,453 (Jan-Sept) in 2004. This represents an increase of 70 per cent. The trend of people building more expensive homes and increased construction costs is expected to continue, and as a result, the average new home price should exceed \$190,000 in 2005.

## Mortgage Rates to Rise But Remain Low in Historical Terms

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.

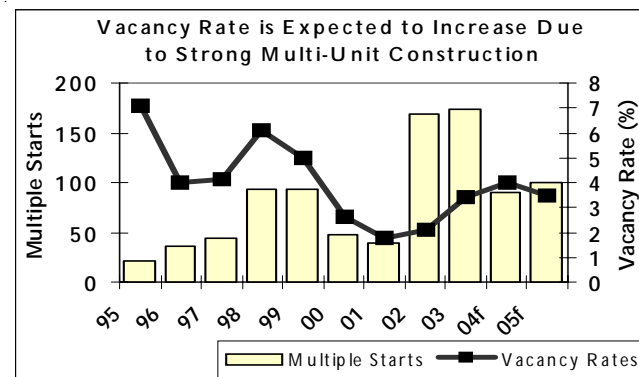
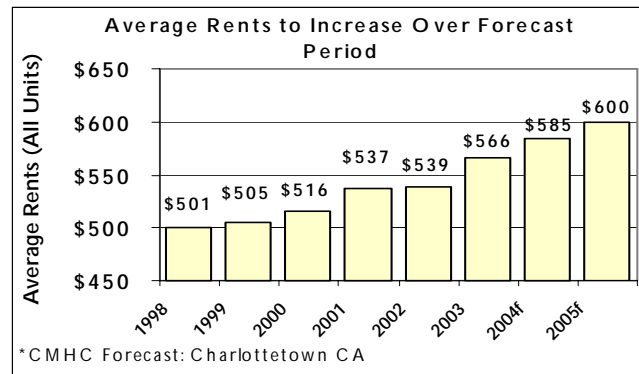
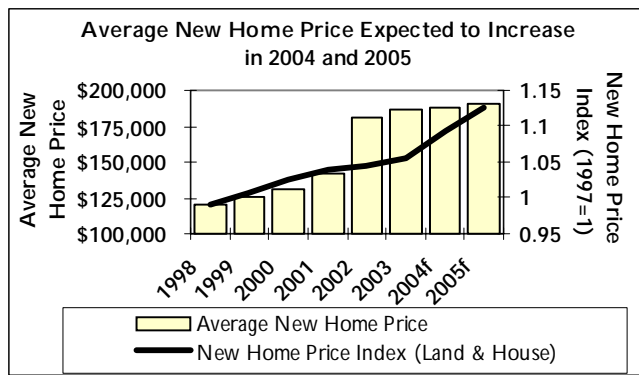


## Vacancy Rate to Increase Slightly in 2004

Demand for rental units in Charlottetown is expected to remain strong in both 2004 and 2005. Despite strong demand, the vacancy rate for the Capital Region is expected to inch up to 4.5 per cent in 2004, before declining in 2005.

During the past three years, many developers have taken advantage of the current record low interest rates to build new multiple unit projects. As a result, there has been about 320 new high-end rental units added to the local rental market since 2002. It is expected that an additional 140 units will be added to Charlottetown's multiple stock in 2005.

Due to high levels of construction activity at the high-end of the rental

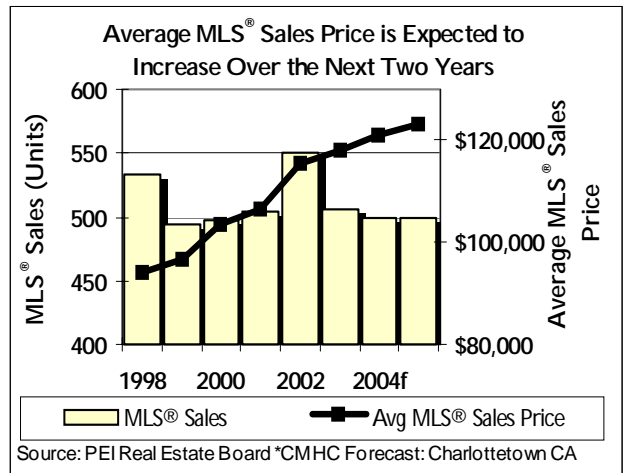


market, results from CMHC's annual Rental Market Survey conducted in October are expected to show rental rates rising to \$585 this year and further to \$600 in 2005.

## Sales to Remain Strong in the Charlottetown Area

MLS® sales are expected to remain flat at 500 units in both 2004 and 2005, due mainly to a shortage of listings in the under \$120,000 price range.

The average sales price is expected to rise by a modest 2.0 per cent in 2004, after a sustainable jump of 8.7 per cent in 2003. This increase will occur due to a shortage of listing in the under \$120,000 price range, as well as the low interest rates which allows buyers to choose larger more expensive homes.



## CMHC's Single Family Home Benchmark Appraisals

### Gauging Real Price Growth in Charlottetown

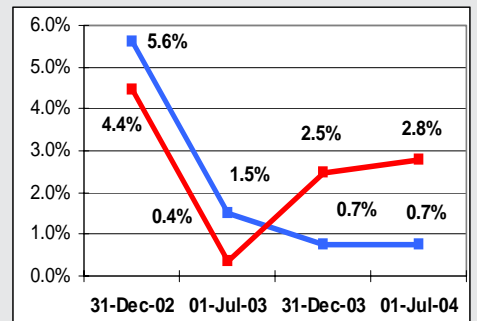
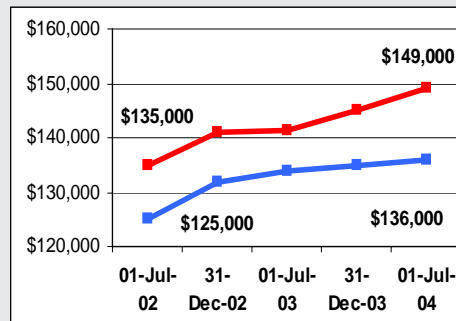
When calculating the actual increase in house prices, using the average sales price from the MLS® system can be misleading. For example, if there are a larger number of expensive homes sold in a given quarter, the average sales price can be artificially increased. The final result of this is that the value of homes in the entire area has not increased, just the type and location of homes sold has changed. In an effort to provide the most comprehensive housing data available, CMHC now conducts a Benchmark Appraisal on a semiannual basis in both Charlottetown and Summerside. The

goal of this exercise is determine the actual increase in home prices over time.

The results of this benchmark, which is in its third year, have shown that there has been actual price growth occurring in homes in the Charlottetown area. While

the average MLS® sales price of homes in the Charlottetown area has increased by 8 per cent from last year, the real appreciation of homes has been slightly less with 5.3 and 1.4 per cent for 2-storey and bungalows respectively.

## Price Growth in Charlottetown Remained Positive in 2004



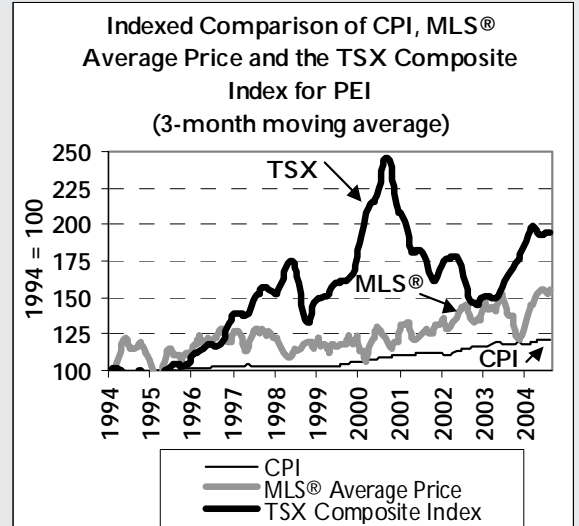
— 2-Storey — Bungalow

## A comparison of residential real estate, the TSX, and the general cost of living on PEI

While individual investment advice is a personal decision and no investment is immune from risk, it is interesting to look at how local housing markets have compared to Canada's key stock index over the past ten years especially when compared to the local cost of living.

Over the past ten years, the average MLS® resale price on PEI climbed 40 per cent from just under \$69,000 in 1994 to around \$106,000 today. This falls short of the 86 per cent gain on the TSX Composite Index over the same time frame. Although the TSX has

outperformed the local housing market over the last ten years, the extreme degree of volatility in the stock market far exceeds the fluctuations in the area's residential real estate market. In addition to the favourable tax treatment afforded to primary residences, a home is also a place to live, which is a fairly important consideration in any financial plan. Finally, when measured against the region's general cost of living, overall gains in both stocks and residential real estate have exceeded inflation as measured by the Consumer Price Index (CPI).



Sources: Canadian Real Estate Association  
Statistics Canada: Consumer Price Index  
TSX Group Inc.

MLS® is a registered trademark of the Canadian Real Estate Association.

# FORECAST SUMMARY

## Greater Charlottetown Area

	2000	2001	2002	2003	2004*	2005	% chg
<b>NEW HOME MARKET</b>							
<b>Starts</b>							
Total	318	300	461	483	390	415	-19.3%
Single-family	270	250	292	310	290	275	-6.5%
Multiple/Rental	48	50	169	173	100	140	-42.2%
Average New House Price	\$131,384	\$141,904	\$142,897	\$185,996	\$187,856		1.0%
Complete and Unoccupied (Dec)	8	6	8	19	12	16	
<b>RESALE MARKET</b>							
MLS® Active Listings (June peak)	224	240	196	N/A	N/A	N/A	##
MLS® Sales	497	505	551	506	525	500	3.8%
Average Sales Price	\$103,435	\$106,335	\$115,603	\$118,188	\$125,000	\$128,000	5.8%
<b>RENTAL MARKET</b>							
Vacancy Rate (October)	2.60%	1.80%	2.25%	3.40%	4.50%	3.50%	
Average Rents (All units)	516	537	539	\$566	\$585	600	3.4%
Rental Rate (annual % change) 2-bed. unit	0.60%	0.78%	1.0%	5.01%	3.36%	2.56%	
<b>ECONOMIC OVERVIEW</b>							
Mortgage Rate (3 yr. term)	8.17%	6.88%	6.47%	5.82%	5.67%	6.53%	
Mortgage Rate (5 yr. term)	8.35%	7.41%	7.23%	6.39%	6.33%	7.12%	
Employed	18,600	19,100	19,500	19,855	19,988	20,000	0.7%

\* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

**Housing Now** is published 4 times a year for the Prince Edward Island market. **Forecast Summary** is included in the first and third quarter editions. Annual subscriptions to the **Housing Now** for Prince Edward Island 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. 2088*

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

© 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.

