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# ORECAST

London

## SUMMARY

Canada Mortgage and Housing Corporation

### New Home Market

#### 2004 Single-detached starts to break 15-year record

Housing starts in London metro topped 3,000 units in 2003, a level not surpassed since 1989. Now we expect to exceed this benchmark in both 2004 and 2005. However, the dynamics driving the solid performance differ. In 2003, it was a surge in rental apartment construction, primarily luxury suites that helped push starts over the 3,000 unit mark. In 2004, historic low mortgage rates, rising employment levels and incomes combined for an expected record-

breaking 2,250 single-detached new homes starts. St. Thomas, the second largest market in London metro is also on pace to erase a 30-years singles starts record.

#### Apartment cranes dot skyline

Apartment construction eased in 2004, but includes London's first new development under the Canada-Ontario Affordable Housing Agreement. The 90-unit high-rise is expected to start before the end of 2004. As well, construction is proceeding on a 80-unit luxury apartment condominium project, the first home owner apartment in 15 years. Rental apartment conversions to condo ownership are occurring and are expected to meet rising

ownership demand from the growing numbers of empty-nesters and seniors.

In 2005, home ownership demand will remain strong but will pull back from this year's record-setting performance as builders' bring inventories in line with lower demand. During the past few

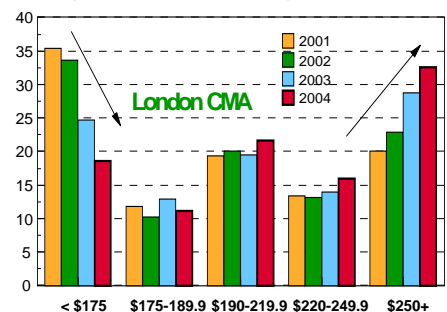
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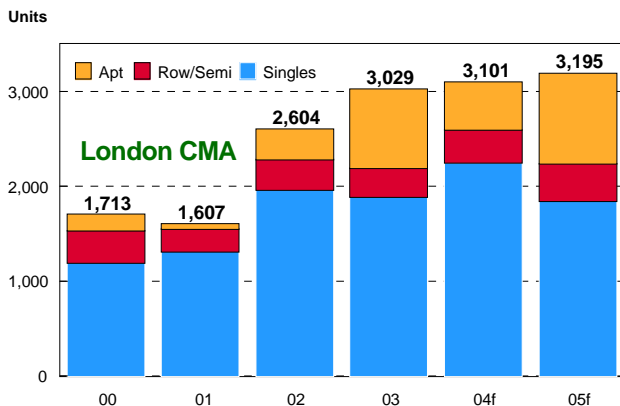
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#### Rising prices/ Demand shifts to higher priced homes

% of single-detached sales by price range



#### Total starts top 3,000 units



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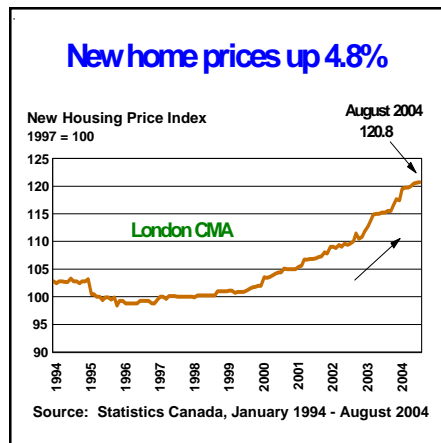
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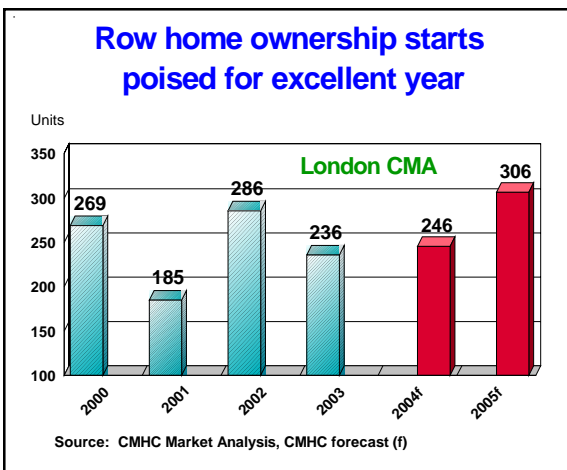
HOME TO CANADIANS  
Canada

single-detached homes selling for less than \$175,000 (net GST) have declined from a 35% share just three years ago to under 20% in 2004. The shift is a function of higher prices and increased demand for larger homes and upgrades. The move to 'more house' has been facilitated by leveraging equity from the sale of an existing home and record low financing options. Broader factors supporting robust new home demand have been employment expansion to new highs, positive net migration, strong consumer sentiment and the opening up of new subdivisions.



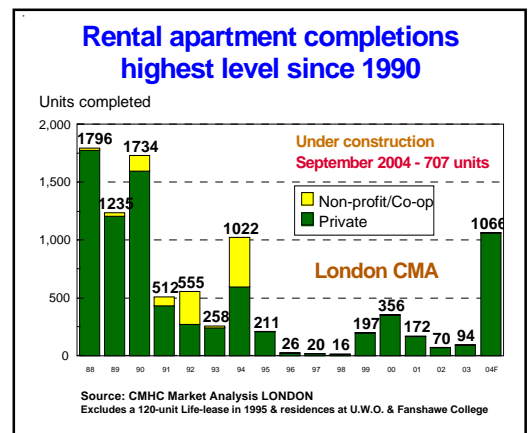
### Demographics support multiple housing ownership

The oldest baby boomers will turn 60 years of age in 2006, kicking off a surge in households who have been and will be looking for alternate lifestyle living arrangements ranging from adult communities of row housing, cluster singles and independent apartments, condo apartment ownership and rental



apartments and bungalow style row housing. Row home ownership starts are expected to match the ten-year average of about 250 units in 2004 and top 300 units in 2005 as site servicing for new developments is completed. During the past two years more than 80% of condo sales have been above \$180,000. The \$200-\$260 price point will remain dominant for both row and the 100+ unit cluster singles market. There are also a few \$140-\$170 row developments now active that should have appeal beyond empty nesters.

More rental apartment units will be completed in 2004 than the total for the previous 8 years. Except one student oriented high-rise, the target market for the other five projects has been seniors and professionals with incomes to pay \$1,200 and up for a two-bedroom suite. This market will be targeted again in 2005 but we will also see two Canada-Ontario Affordable apartment projects under construction and an existing apartment site redeveloped with a high-rise expected to feature mid-range rents. In addition to rental conversions there is a market opportunity to develop a mid-upper price condo apartment, perhaps as part of a continuum of retirement housing options.

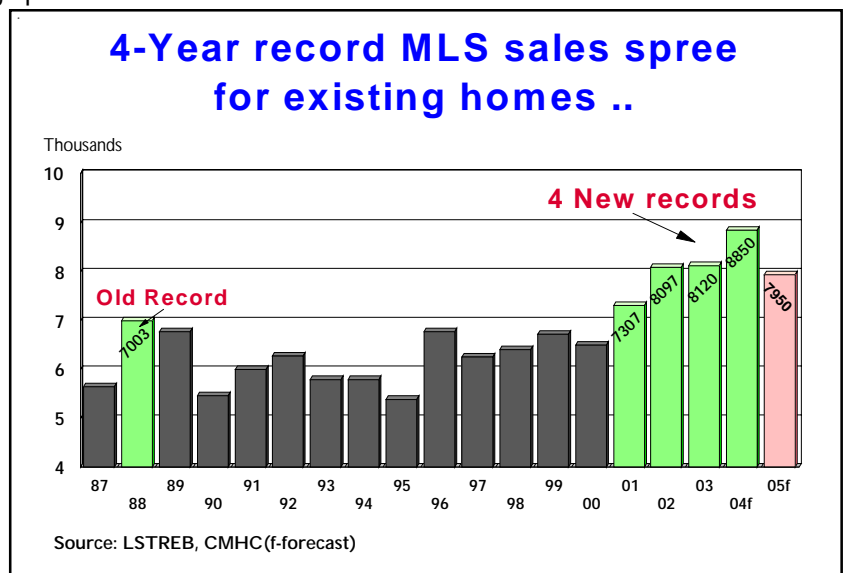


## Resale Market

### Sales and prices solid through 2005

Historic low financing and a sustained upturn in employment has propelled existing home sales in 2004 to its 4th consecutive record. MLS sales are expected to rise 9 per cent to 8,850 units. The average sales price will increase more than \$14,000 or 9 per cent to \$166,900 producing a record sales volume near \$1.5 billion. For the 3rd consecutive year the ratio of sales (demand) to new listings (supply) will exceed 65%, confirming a sellers' market.

The outlook for 2005 is for a more balanced market with sales pulling back at least 10 per cent from this year's

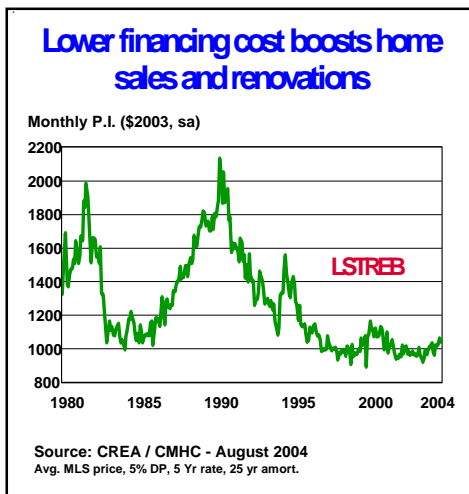


\*Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.

peak. Following a 6-year decline in listings, new listing have been on a slow but steady upward trend since 2003: Q2. The 12% supply response in 2004 was the result of strong market conditions that prompted more sellers to put their property on the market.

### Balanced market in 2005

More balanced market conditions are expected to prevail in 2005, with a S/L ratio of 55% consistent with price growth of 3 per cent. Affordability will still be good in 2005 as price increases moderate and mortgage rates advance 50-100 basis points.



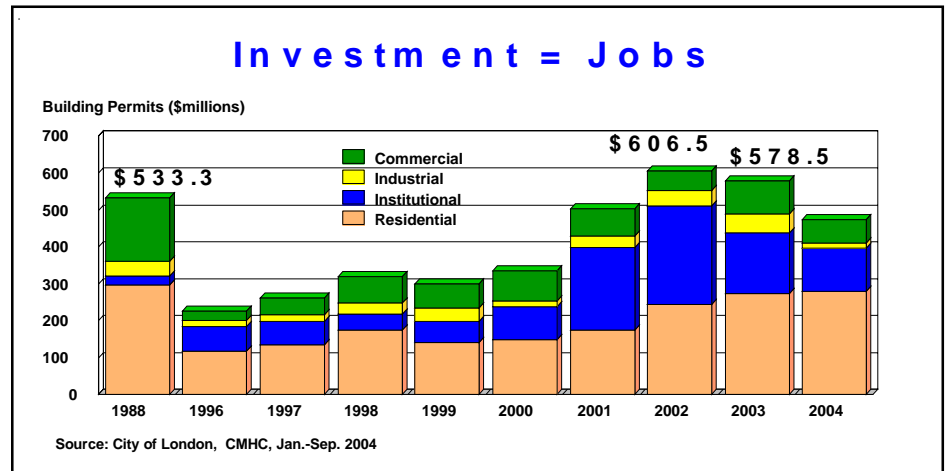
### Mortgage rates rise slowly in 2005 from historic low

Mortgage rates will remain low by historical standards. One, three and five year posted closed rates are expected to remain relatively flat to slightly higher in the final months of 2004, having already followed the move up in bond yields this spring. In 2005, posted rates for 1, 3 and 5 year terms are expected to begin a slow rise, increasing 50-100 basis points to 4.75-6.00, 5.75-6.75, and 6.25-7.50 per cent range, respectively. On balance mortgage rates, discounts and financing options remain very positive factors facilitating demand for housing in 2005-06.

## Economic Trends

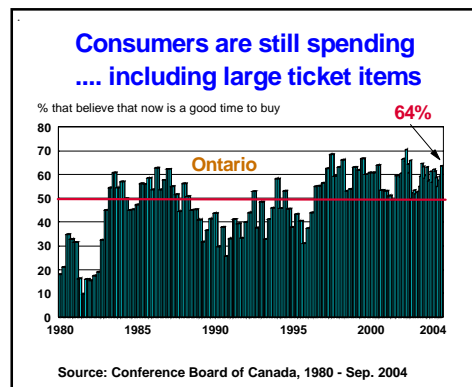
### Investment produces jobs

The London and area economy has received positive direct and indirect employment spin-offs from the upturn in residential and non-residential investment since 2001. Employment sits 6,600 persons higher than the previous peak reached at the end of the 1st quarter of 2000.



'Institutional' spending on major infrastructure projects in London's downtown (e.g. JLC Arena/Entertainment, Central Library) as well as in Education/Research (e.g. University of Western, Fanshawe College) and Health Care (e.g. London Health Sciences Centre) dominated spending plans in 2001-02 with some projects still under construction. In 2003 there was a shift to more investment in the Commercial-retail segment with the advent of Big Box developments in the City's Northwest. There was also a pick up in Industrial investment led

by auto parts plants. They are expected to generated more than 1,200 jobs in the London-St.Thomas region. Some of these parts suppliers located in London to serve the nearby CAMI plant where employment was given a boost with the successful product launch of the Chevrolet Equinox sport utility this spring. As well, Sterling truck in St.Thomas has added a third shift and 400+ jobs with prospects for employment expansion. The increasing importance of the auto sector to the London metro economy should place it in a position to benefit from the Ontario government's plans to provide \$500-million to attract automotive sector investments. This could include the Ford St. Thomas assembly plant.



Construction and permanent jobs bolster local consumer confidence which has been positive for both rental and home ownership demand.

# FORECAST SUMMARY

London and area forecast completed October 25, 2004

|   |           |           |           |           |       | Percentage change (%) |  |
|---|-----------|-----------|-----------|-----------|-------|-----------------------|--|
| RESALE MARKET                                   | 2002      | 2003      | 2004(f)   | 2005(f)   | 2004  | 2005                  |  |
| <b>London &amp; St.Thomas Real Estate Board</b> |           |           |           |           |       |                       |  |
| MLS <sup>1</sup> Sales                          | 8,097     | 8,120     | 8,850     | 7,950     | 9.0%  | -10.2%                |  |
| MLS Average Price                               | \$142,106 | \$152,586 | \$166,900 | \$171,900 | 9.4%  | 3.0%                  |  |
| MLS New Listings                                | 12,283    | 12,181    | 13,500    | 14,400    | 11.6% | 6.7%                  |  |
| Sales-to-Listings Ratio                         | 66%       | 67%       | 66%       | 55%       |       |                       |  |
| <b>NEW HOME MARKET</b>                          |           |           |           |           |       |                       |  |
| <b>London CMA (census metropolitan area)</b>    |           |           |           |           |       |                       |  |
| <b>Starts</b>                                   |           |           |           |           |       |                       |  |
| 1. Single-detached                              | 1,969     | 1,893     | 2,250     | 1,850     | 19%   | -18%                  |  |
| 2. Multi-family                                 | 635       | 1,134     | 851       | 1,345     | -25%  | 58%                   |  |
| 3. Total Starts [1+2]                           | 2,604     | 3,027     | 3,121     | 3,195     | 2%    | 3%                    |  |
| Multi-family by Type                            |           |           |           |           |       |                       |  |
| Semi-detached                                   | 22        | 22        | 24        | 24        | 9%    | 0%                    |  |
| Row housing - Rental/Owner                      | 9/286     | 39/236    | 80/246    | 60/306    | 26%   | 0%                    |  |
| Apartment - Rental/Owner                        | 318/0     | 837/0     | 421/80    | 865/90    | -40%  | 90%                   |  |
| <b>Average Price* (Single-detached homes)</b>   |           |           |           |           |       |                       |  |
| Bungalow/Ranch                                  | \$198,643 | \$213,526 | \$234,626 |           | 9.9%  |                       |  |
| Two-storey                                      | \$225,887 | \$241,709 | \$248,102 |           | 2.6%  |                       |  |
| All single-detached units                       | \$212,835 | \$231,237 | \$241,171 |           | 4.3%  |                       |  |
| * 2004 data for Jan.-Sep. period                |           |           |           |           |       |                       |  |
| <b>New Housing Price Index(1997=100)</b>        | 109.8     | 115.0     | 120.3     | 124.5     | 4.6%  | 3.5%                  |  |
| <b>RENTAL MARKET</b>                            |           |           |           |           |       |                       |  |
| Apartment Vacancy Rate                          | 2.0%      | 2.1%      | 3.2%      | 3.6%      |       |                       |  |
| Average Rent (2 bedroom)                        | \$705     | \$736     | \$760     | \$777     | 3.3%  | 2.2%                  |  |
| <b>ECONOMIC OVERVIEW</b>                        |           |           |           |           |       |                       |  |
| 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)                                | 214.5     | 220.0     | 229.0     | 233.4     | 4.0%  | 1.9%                  |  |
| Employment Growth (000's)                       | -1.5      | 5.5       | 9.0       | 4.4       |       |                       |  |
| Unemployment Rate (%) London /Ontario           | 7.0 /7.1  | 7.0 /7.0  | 6.0 /6.9  | 5.9/6.7   |       |                       |  |

*f = CMHC forecast. Consensus mortgage rate forecast October, 2004.*

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

**Forecast Summary** is CMHC's outlook for new residential construction and sales of existing homes. The housing market outlook is released May 4 and October 28.

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