# FORECAST SUMMARY

Canada Mortgage and Housing Corporation

## Economic Overview

Key economic indicators to date suggest that economic growth in Manitoba and Winnipeg in 2004 will record its best performance in four years. The resurgence in output is being fueled by higher levels of consumer spending, capital investment and exports.

Employment gains in Winnipeg so far this year have been in the goods producing sector, particularly manufacturing. Moving forward, this is expected to continue since with the continued expansion of the U.S. Economy, Manitoba's exports will rise in 2005 thereby maintaining the momentum of provincial economic growth. The growing economy will keep the unemployment rate low. Consequently, employers will be forced to bid up wages in order to retain and attract skilled employees. With average weekly earnings continuing to rise faster than the rate of inflation, consumer confidence and spending will strengthen and contribute to economic growth.

The low unemployment rate and rising wages will act as an inducement for immigrants to choose Manitoba as their place of destination upon entering Canada. Thanks to increased levels of immigration, it appears that overall net migration in Manitoba has turned the corner. The housing market in Winnipeg in particular will benefit from rising levels of immigration as the majority of the new arrivals are expected to settle in that centre. In the Winnipeg CMA in 2003, a gain of 2,367 persons from international migration more than offset a loss of 729 persons through inter-provincial migration. With a anticipated annual net gains in international migration, and a continued decline in losses to inter-provincial migration, overall net migration will continue to supplement population and household growth in 2004 and 2005.

## Mortgage Rate Outlook

On September 8, the Bank of Canada raised its overnight rate, their administered policy interest rate, for the first time since April 2003. The bank raised the overnight rate 25 basis points, arguing strong economic growth is resulting in upward inflationary pressure. With the economy operating close to its capacity over the duration of the year, monetary stimulus will need to be further reduced to avoid additional inflationary pressure. As a result, we expect the Bank of Canada to respond by raising interest rates further, with the increases totaling 50-75 basis points for the year. In 2005, the improving economic environment will mean that the Bank will need to move the overnight rate to higher levels, increasing it by another 100 basis points or more.

The one, three, and five-year posted closed mortgage rates are expected to remain relatively flat to slightly higher for the remainder of 2004, having already followed the rise in bond yields earlier in the year. Next year, these rates will begin to increase by 50-100 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.

## WINNIPEG

FALL 2004

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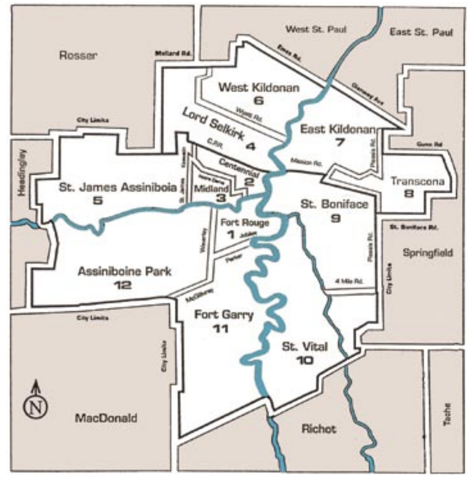
# Resale Market

## Listings begin to bounce back, allowing sales to grow

Gains in sales in the resale market have been severely restricted by a lack of supply over the last few years. Active listings have been steadily declining since the mid 1990's while demand has been climbing, fueled by low mortgage rates, gains in average weekly earnings and household growth. This has led to sellers' market conditions for almost two years now. Recently new listings have started to bounce back, however, almost every home listed sells within days and the number of active listings remains low. Nonetheless, the increase in new listings has allowed sales to register gains over last year.

CMHC tracks the sales-to-active listings ratio to evaluate the balance between demand and supply. Due to higher numbers of homes coming on the market, the sales-to-active listings ratio has begun to trend downward after peaking in April at an unprecedented 142 per cent. This meant that at the prevailing level of sales, the entire supply of listings would be exhausted in less than 25 days. Despite the rebound in listings, the existing pace of demand can absorb the supply of listings in less than two months. As a result, Winnipeg remains one of the tightest resale markets in the country and despite recent trends, still has a long way to go before returning to balanced conditions. The rebounding of new listings has been fueled in part by the number of new homes approaching completion, as new home buyers who had been waiting for possession are now listing their existing homes. As well, there is an increased willingness of existing homeowners to sell their homes to take advantage of sellers' conditions. However, at the current pace of demand, listings would have to double for the market to regain equilibrium. While higher mortgage rates may dampen demand in the home-ownership markets, the effect will be negligible as household growth will continue to be a major factor driving demand. The number of new homes added to the housing stock has barely kept pace with the number of new households in the Winnipeg CMA. This does not allow for a lot of extra room in any of the housing markets, therefore conditions will remain tight in the resale market for the forecast period. Sellers' market conditions will continue as we move forward into 2005, but with a continued recovery in new listings, sales will continue to grow.




## Another year of double digit price growth

The prevailing sellers' conditions in the Winnipeg resale market will lead to another year of double digit price increases. With sales outpacing listings, , Winnipeg has seen another period of homes selling within days

Table 1

**Residential Resale Market Information***

Winnipeg CMA by Area — January - June (% Change from 2003/2004)

| | Sales | | | Average Price | | |
|---|---|---|---|---|---|---|
| **CMHC's Survey Zones:** | **2004** | **2003** | **% change** | **2004** | **2003** | **% change** |
| Zone 1: Fort Rouge | 315 | 273 | 15.4% | 119,928 | 102,088 | 17.5% |
| Zone 2: Centennial | 139 | 129 | 7.8% | 57,179 | 47,911 | 19.3% |
| Zone 3: Midland | 358 | 312 | 14.7% | 75,104 | 64,029 | 17.3% |
| Zone 4: Lord Selkirk | 479 | 429 | 11.7% | 68,895 | 56,200 | 22.6% |
| Inner-city Area | 1291 | 1143 | 12.9% | 81,807 | 68,361 | 19.7% |
| Zone 5: St. James-Assiniboia | 464 | 465 | -0.2% | 111,981 | 101,155 | 10.7% |
| Zone 6: West Kildonan | 387 | 316 | 22.5% | 116,946 | 101,447 | 15.3% |
| Zone 7: East Kildonan | 528 | 554 | -4.7% | 104,981 | 91,894 | 14.2% |
| Zone 8: Transcona | 268 | 212 | 26.4% | 111,540 | 91,035 | 22.5% |
| Zone 9: St. Boniface | 358 | 410 | -12.7% | 153,804 | 135,307 | 13.7% |
| Zone 10: St. Vital | 470 | 455 | 3.3% | 132,567 | 120,713 | 9.8% |
| Zone 11: Fort Garry | 442 | 416 | 6.3% | 162,576 | 143,460 | 13.3% |
| Zone 12: Assiniboine Park | 531 | 580 | -8.4% | 179,769 | 155,823 | 15.4% |
| Suburban Area | 3448 | 3408 | 1.2% | 135,506 | 120,235 | 12.7% |
| Surrounding Rural Municipalities | 309 | 244 | 26.6% | 157,441 | 141,669 | 11.1% |
| Winnipeg CMA | 5048 | 4795 | 5.3% | 123,115 | 108,960 | 13.0% |

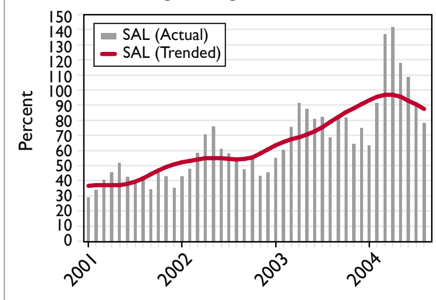
Source: WREB, CMHC

*Includes single-family and condominium sales and entertaining multiple offers. On average, 40 per cent of homes sell at or above their listed price with the average offer being five per cent greater than list. The average price is also being influenced by sales increases in the upper price ranges. At the mid-point of 2004, sales of homes over $210,000 were up 64 per cent over 2003 with market share increasing from six per cent to nine per cent. As a result, the average resale price for 2004 is expected to be $123,000, an increase of 12 per cent over 2003. Going into 2005 an increase in new listings will help to dampen price growth and rising mortgage rates will curb demand in the upper price ranges. However given the continuation of sellers' market conditions, price growth will be above the rate of inflation with a forecast increase of eight per cent in 2005 bringing the average price to $133,000.

## Gains in earnings offset higher costs

Rising prices have continued to affect affordability in Winnipeg over the last year, but homebuyers have not been hit with the multiplying effect of increased mortgage rates. While average price has increased 12 percent, thanks to a slightly lower mortgage rate carrying costs have only increased 11 per cent. At the same time, average weekly earnings in Winnipeg have increased by over six per cent so far this year, which helps to dampen the effect of rising prices and stem the erosion of affordability. Going into 2005, forecasted price increases will be compounded by higher mortgage rates, as a result continued gains in average weekly earnings will be needed to maintain affordability.

**Sales-to-Active Listings Ratio**
Beginning to Ease




Source: CMHC, Winnipeg Real Estate Board

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# New Home Market

## Single-family starts to level off

Demand for new single-family homes continues to propel starts to higher levels. Single-family starts in Winnipeg are on pace to surpass last year's results by almost 10 per cent and finish 2004 with 1,800 units making it the best year since 1990. This will mark a plateau for single-family starts as activity next year is expected to level off. Demand for new homes will remain strong as move-up buyers will seek to profit from the recent gains in equity of their existing homes and purchase a new home, Demand will also be supported by increased net-migration and household formation, and gains in average weekly earnings. However a number of factors will keep single-family construction below the 2004 level. Demand will be softened in the face of the increasing cost of purchasing a new home brought on by rising mortgage rates and rising prices for both construction and land. A recovery of listings in the resale market will also provide additional competition for the new-home market. As a result, single-family starts are expected to fall off by one hundred units in 2005 to total 1,700. While this represents a decline of 5.6 per cent decline from 2004 activity, next year's housing starts will be almost 500 units higher than the previous 10-year average and the second highest total since 1981.

## Price gains to continue

The average price of a new single-family home in Winnipeg increased by nine per cent in 2003 and is forecast to increase another seven per cent in 2004. Contributing to higher prices are the increasing market share of homes in the higher price ranges and increasing labour and materials costs. However, one factor adding to the cost of a new home that will become more prominent in Winnipeg as we move forward into 2005 is lot price. Most new home construction within the City of Winnipeg, approximately 73 per cent, occurs in the southern half of the city. While these starts had been evenly split between the south east and the south west quadrants of the city, the south west has begun to lose share to the south east due to a lack of available lots. This lot scarcity will become more acute in 2005 as major developments in Fort Garry reach capacity, infill lots are available but a recent inventory undertaken by the City shows that there is limited supply to meet continued strong demand. Until a large number of lots are brought into the market, which may not occur until 2006, the lack of supply of choice lots will push up prices especially in the southern part of the city where demand is greater. This is already evidenced in the land component of the New House Price Index for Winnipeg which saw a year-over-year jump of over eight per cent in July, the third largest increase in the country. In the face of these rising prices, compounded by expected increases in mortgage rates, the cost of building a new home will be out of reach for some potential buyers. By the end of 2004 new home prices will have risen by seven per cent to $232,000. In 2005, rising carrying costs may dampen demand for homes at the upper end of the spectrum, limiting the rise in average price to eight per cent to $250,000.

## Multi-family sector remains vibrant

Multiple-family construction in the Winnipeg CMA was slow to register starts at the beginning of 2004, due mainly to the large number of projects started late in the previous year. As these ventures were completed new projects began to emerge and by mid-summer multiple-family starts were back on track to register a forecasted 650 units by year-end. The large number of units completed this year has not added to the inventory of complete and unoccupied units as almost all units are absorbed as soon as they are available. This is evidence of robust demand for multi-family housing which is expected to carry-over into 2005. Demand is coming from several fronts including a tight rental market where the success of recent rental projects is sparking interest in the development of more rental housing. Demand from the senior's market is the driving force behind several projects for both rental and condominium tenure as empty-nesters are taking advantage of price gains in the resale market and making the move to apartment living. The tri-partite Affordable Housing Initiative will also be a factor that will stimulate the construction of affordable rental units. With this combination of factors, multiple-family housing starts are expected to remain strong in 2005 with a forecast of 750 units.

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# Rental Market

## Tight conditions will prevail

Despite the addition of new units, tight conditions in the Winnipeg rental market are expected to prevail during the forecast period. While there are indicators that will point to an increase in vacancy rates, such as new rental stock and a rebound in the number resale homes available to renters, these factors will be offset by increasing demand for rental accommodation. This demand is being driven by positive net migration, particularly among international migrants who tend to first seek rental accommodation when they arrive. As well, some empty-nesters are taking advantage of price gains in the resale market, selling their homes and choosing to rent. Rising resale prices are also beginning to price some renters out the homeownership market. Therefore, the vacancy rate is expected to remain under two per cent over the forecast period rising from the current 1.3 per cent to 1.5 per cent in 2004 and 1.7 per cent in 2005.

The Manitoba rent control guideline is set at 1.5 per cent for both 2004 and 2005. Given that the vacancy rate is expected to remain low during this period, landlords will likely increase rents to the full extent allowed. Also, with the addition of new units, which are exempt from rent control and in the higher rent categories, average rents are forecast to rise at a rate above this guideline. An increase of two per cent is forecast for 2004 bringing the average rent for a two-bedroom apartment to $658 while an increase of 2.5 is expected in 2005 for an average two-bedroom rent of $674.

**CMHC FORECAST SUMMARY**
Winnipeg Census Metropolitan Area
October 2004

| | 2002 | 2003 | %Chg | 2004* | %Chg | 2005* | %Chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® (1) new listings (monthly average) | 1,327 | 1,002 | -24.5% | 900 | -10.2% | 1,000 | 11.1% |
| Total MLS® Sales | 8,873 | 9,151 | 3.1% | 9,800 | 7.1% | 10,500 | 7.1% |
| Average MLS® Price | $99,164 | $110,256 | 11.2% | $123,000 | 11.6% | $133,000 | 8.1% |
| **New Home Market** | | | | | | | |
| Starts | | | | | | | |
| Total | 1,821 | 2,430 | 33.4% | 2,450 | 0.8% | 2,450 | 0.0% |
| Single-family | 1,528 | 1,641 | 7.4% | 1,800 | 9.7% | 1,700 | -5.6% |
| Multiple-family | 293 | 789 | 169.3% | 650 | -17.6% | 750 | 15.4% |
| Average New House Price | | | | | | | |
| Single-family | $198,382 | $216,458 | 9.1% | $232,000 | 7.2% | $250,000 | 7.8% |
| **Rental Market** | | | | | | | |
| Vacancy rate (October Percent) | 1.2% | 1.3% | | 1.5% | | 1.7% | |
| 2-bedroom Rent (yr/yr % chg) | 2.8% | 3.7% | | 2.0% | | 2.5% | |
| **Economic Overview** | | | | | | | |
| Mortgage rate (3 year term) | 6.28 | 5.79 | | 5.67 | | 6.53 | |
| Mortgage rate (5 year term) | 7.02 | 6.39 | | 6.33 | | 7.12 | |
| Employed | 362,000 | 362,000 | 0.0% | 365,000 | 0.8% | 369,000 | 1.1% |
| Employment growth (# jobs) | 4,800 | 0 | | 3,000 | | 4,000 | |
| Net-migration (Census Year (2)) | 706 | 2,698 | 282.2% | 3,000 | 11.2% | 3,500 | 16.7% |

* CMHC Forecast
Source: CMHC, Statistics Canada, Winnipeg Real Estate Board, Canadian Real Estate Association
1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.



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