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FORECAST

SUMMARY

Canada Mortgage and Housing Corporation

Single-family starts maintain brisk pace

Single starts level out at 500 units in 2005

In 2004, home buyers in Regina have been absorbing new single family units at a rate in excess of 40 units monthly, an absorption rate not seen since 1993. In order to meet this level of demand, builders and developers have responded by pushing housing starts to the limits allowed by land and skilled labour supply. Through the first nine months of 2004, single-family starts are about 22 per cent ahead of the pace set last year and will finish the year at 600 units. This will be the best performance on record since 1988.

At the time of writing, the supply of units under construction and completed and unoccupied has exceeded 300 units, a historically high level of supply. At the current rate of absorption, the supply of units is sufficient to last about seven to eight months. This balanced market is expected to continue into 2005. The market is operating so as to favour neither buyers nor sellers.

In 2005, a potential shortage of land available for single-family construction may hinder the ability of builders to maintain production levels. On the demand front, the combination of higher mortgage payments, and increased competition from the rental side may cause some potential first-time buyers to postpone

homeownership. However, employment gains and rising in-migration will put a limit on the decline in single-family construction. The CMHC forecast calls for single-family starts to decline from 600 units in 2004 to 500 units in 2005. Despite the dip, 2005 will represent the fourth year in a row that single-family starts will be at or above 500 units.

New single-family housing prices escalate

After increasing by eight per cent in 2003, the average new house price of a single-family home will climb by five per cent in 2004. Two key factors are behind the price hikes. Firstly, the residential construction industry has been subjected to rising costs for land development, labour inputs and building material costs, inevitable resulting in higher prices for consumers. Secondly, the gain in market share of higher priced homes has pushed up the average price. The largest share of the new home market is captured by homes priced in the \$150,000 to \$174,000 range and \$175,000 to \$199,000 with a 23 and 24 per cent share respectively. Of note is the increasing share captured by homes with prices of \$225,000 to \$249,000. The share of the market captured by these homes has increased from four per

REGINA FALL 2004

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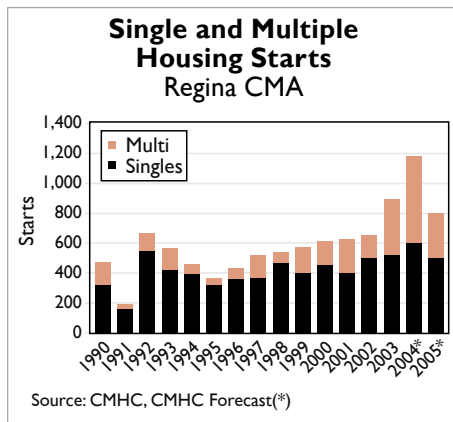
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cent at the end of 2003 to 11 per cent at the time of writing this report. Homes priced in excess of \$250,000 have also seen an increase in the market share.

These cost escalating factors will continue into the forecast year and, raise the average selling price of a new single-family home to \$203,000. Demands from move-up buyers for more expensive amenities and features will further contribute to the expansion of the average price.



Multiple building slows after two years

After two years of brisk construction for condominium and life-lease housing units in 2003 and 2004, Regina's multiple construction will take a breather in 2005. Multiple activity jumped to 368 units in 2003 from 147 units in 2002. In 2004, we expect multiple building to soar to 580 units by the end of the year and slide to 300 units in 2005. The 2004 estimated multi starts will be the highest level of multiple construction since 1983. Although the 300 unit forecast for 2005 is lower than our estimate for 2004 activity, it is more than double the ten year average of 147.

Apartment and row condominium suites have dominated starts in 2004 and, at the time of writing this report, the supply of units under construction and completed and unoccupied is historically high. Notwithstanding the large number of units in inventory, the rate of absorption has also reached a high rate of more than 30 units per month resulting in an inventory sufficient to last about 10 months at current rates of absorption.

As the bulk of units in inventory are under construction rather than completed and unoccupied, we expect absorption to slow in the coming months pending completion of these units. Units will be absorbed quickly upon completion and the market will return to a more balanced state.

Row and apartment multiple market active

Absorptions of row and apartment condominiums have been equally active in 2004 and this should continue into 2005. Apartments priced in the \$120,000 to \$139,999 have dominated the apartment condominium market with about 53 per cent of the market although there have been a significant number of sales of units priced in excess of \$140,000. On the row housing side, units priced in the \$100,000 to \$119,999 have dominated this sub market with 50 per cent of the absorptions. As the current inventory of row and apartment units is absorbed, we expect prices to increase reflecting the higher land, material and labour costs of newly built housing.

Resale Market Outlook

Resale market robust but balanced in 2005

After hesitating in 2003, estimated resales will rise by six per cent in 2004 to 2,800 and increase by a more modest four per cent in the following year to 2,900 units. New listings and employment growth have supported increased activity in 2004. Listings activity is up due to empty-nesters and seniors moving to condominium units as they become available.

Employment growth, renters turning to homeownership and in-migration will help sustain demand for existing housing but we are forecasting a moderation in sales gains in 2005 due to increased mortgage rates and rising prices.

Considering modest economic growth, steady demand, a scarcity of good quality listings and modest real increases in price, CMHC is forecasting balanced markets to prevail for the balance of 2004 and 2005.

Average price advances

Homes selling in the range of \$120,000 to \$139,999 have gained market share from 11 per cent at the end of 2003 to 15 per cent at mid-2004. Homes selling in excess of \$140,000 have also made slight gains in market share

while homes selling in the \$80,000 to \$89,999 price range have lost share.

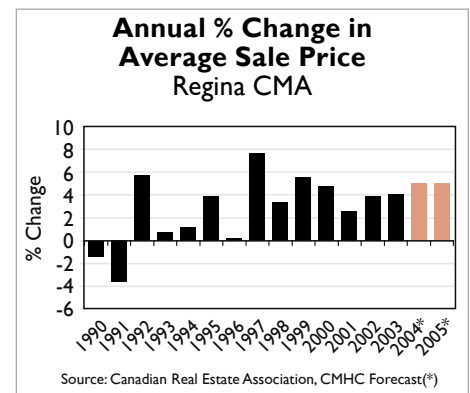
Estimated average resale price will increase five per cent in 2004 and a similar amount in 2005. Average price is increasing due to both a higher proportion of more expensive homes being sold and the bidding up in price of scarce, good quality resale listings.

Cost of homeownership rising

Home ownership costs will head upward in 2005 in the face of rising mortgage rates and higher house prices. Over the last six years, low mortgage rates have helped offset rising prices in both the new and existing home markets. In 2005, however, mortgage rates will post their highest gain since 1999. Combined with further average price increases for new and existing homes, some buyers may be priced out of the market, in turn tempering ownership demand.

CMHC estimates that the income required to service the debt on an existing home purchased at the 2005 average selling price will increase over seven per cent compared to current estimated ownership costs.

Forecast increases in the mortgage interest rate and average cost of a resale home will both contribute to the increase in the income required to purchase a home.



For more information, contact:

Paul Caton

Senior Market Analyst

Telephone: Saskatoon (306) 975-4897

Regina (306) 780-5889

Toll Free: 1-877-722-2642

Fax: (306) 975-6066

E-mail: pcaton@cmhc-schl.gc.ca

Economic Outlook

Employment growth expected in 2004 and 2005

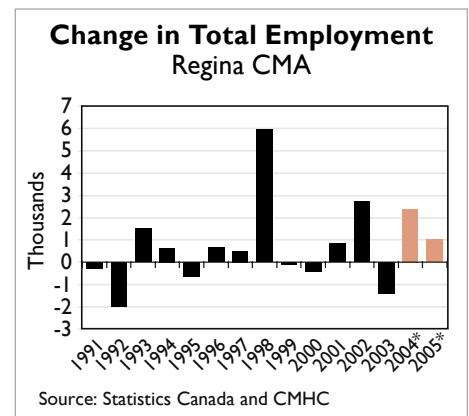
On the heels of a strong performance by the Service sector in 2004, job growth in the Regina CMA will outpace the rest of the province. Growth has been underpinned by the Retail Trade and Educational Services sectors. Overall, a net gain of about 2,400 jobs is anticipated as an increase of 4,000 jobs in the Service sector counters a decline of about 1,000 jobs in the Goods producing sector. This represents the best growth in the CMA since 1998 and only the third time since 1994 that overall employment growth in Regina will outperform Saskatoon.

The loss of jobs in the Goods sector has dampened income gains as jobs in this sector tend to pay higher wages than the overall Service sector. Through the first eight months of the year, average weekly earnings have increased from \$657 in 2003 to \$671 in 2004. This represents an increase of 2.1 per cent, slightly ahead of the overall inflation rate of 1.9 per cent. Once inflation is taken into account, purchasing power of consumers to date has increased by a marginal 0.2 per cent. Weak gains in real income may not bode well for future household formation and housing demand.

However, gains in real income are anticipated to rebound next year. In 2005, CMHC is forecasting an additional 1,000 jobs for the Regina CMA. The majority of these jobs will be in the Goods producing sector. The outlook for employment in the Mining, Oil and Natural Gas sectors is optimistic due to improved world markets for uranium and potash and rising oil and natural gas prices. Manufacturing exports will also benefit from continued growth of the world economy.

Mortgage rates on the rise

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.

Rental Market Outlook

Average vacancy rate to rise but rent increases will persist

Although our rental market survey will not be published until the end of the year, our forecast calls for an average vacancy rate of four per cent in 2004. Continued movement of renters to homeownership and newly completed student housing at the University of Regina will contribute to higher vacancies. Anecdotal information obtained from the industry informs us that new, modest-priced row housing units are

being purchased by small investors and placed on the rental market, thus further contributing to an increasing supply of rental units.

Notwithstanding an increase in the average vacancy rate in 2004, rents will increase in excess of inflation as landlords attempt to address cost increases. In 2005, average rent increases will be constrained to some extent by the competitive rental market.

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CMHC FORECAST SUMMARY

Regina Metropolitan Area

October 2004

	2002	2003	%Chg	2004*	%Chg	2005*	%Chg
Resale Market							
MLS® ⁽¹⁾ new listings (monthly average)	339	300	-11.5%	350	16.7%	375	7.1%
Total MLS® Sales	2,817	2,632	-6.6%	2,800	6.4%	2,900	3.6%
Average MLS® Price	100,396	104,354	3.9%	\$110,000	5.4%	\$115,500	5.0%
New Home Market							
Starts							
Total	651	889	36.6%	1,180	32.7%	800	-32.2%
Single-family	504	521	3.4%	600	15.2%	500	-16.7%
Multiple-family	147	368	150.3%	580	57.6%	300	-48.3%
Average New House Price							
Single-family	\$169,863	\$184,099	8.4%	\$193,000	4.8%	\$203,000	5.2%
Rental Market							
Vacancy rate (October Percent)	1.9	2.1		4.0		3.5	
2-bedroom Rent (yr/yr % chg)	2.2	1.5		3.0		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	108,000	106,600	-1.3%	109,000	2.3%	110,000	0.9%
Employment growth (# jobs)	2,800	-1,400		2,400		1,000	
Net-migration (Census Year ⁽²⁾)	-500	0		0		0	

* CMHC Forecast

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan

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

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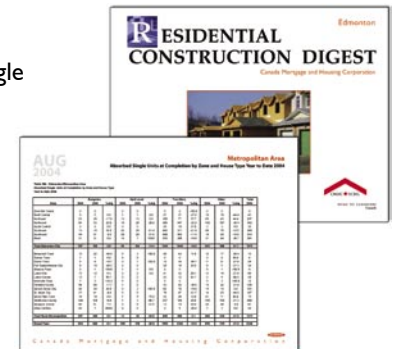
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