St. John’s Area Housing Market & Economy: Key Drivers of Demand, Current Conditions & Outlook

Chris Janes, MBA - Senior Analyst, Economics
Key Drivers of Local Housing Market
How did they do in 2018?

- Working age population +0.7%
- Employment +0.3%
- Average weekly earnings +2.8%
Positive working age population growth

Population, St. John’s Area, Both Sexes, Age 15+ (000’s)

+0.7% or approx. 1,300 people to 185,400
Avg. weekly earnings +2.8% to $1,004 vs $976

Average Weekly Earnings, All Industries, St. John’s Area

- $1,032 peak March 2014
- Recent low March 2016
- $1,000+ since March 2018
St. John’s area employment improving

Total Employment, age 15-64 years, St. John’s Area (000’s)

- 110,400 YTD avg.
- +0.3% or 200 jobs
- Approx. 10,000 jobs lost 2014 to 2017
Key economic drivers impacted by oil prices

Post 2009 to 2014
Local economy outperformed
Housing market outperformed

Mid-2014 to Recently
Local economy stumbled
Housing market stumbled
Oil under pressure again after Jan 2016 rebound
Oil sector has transformed economy since 1997

Production (billion barrels) 1.7+
Value of Output (billion $ CDN) $120+
Cumulative Royalties (billion $ CDN) $20+
Sector Investment (billion $ CDN) $50+

Newfoundland and Labrador Offshore Area
Production Forecast

- Hebron
- South White Rose
- North Amethyst
- White Rose
- Terra Nova
- Hibernia

Annual Production (million bbls)
Past, current & future projects generate wealth in NL:

- 4 major producing oil fields: Hibernia, Terra Nova, White Rose & Hebron
- Long Harbour; Muskrat Falls; Voisey’s Bay underground expansion
- White Rose West (GBS) - $5B+ project; first oil 2022
- Equinor’s Bay du Nord – $6.8B project; first oil 2025 if sanctioned in 2020
- $2.5+ billion in offshore exploration land lease bids since 2014
- Recent “Raleigh” oil prospect (300sqkms - double Hibernia)
- Total offshore area of 1.8 million sqkms remains largely untapped

Economic & fiscal challenges remain in play:

- Notable employment losses in 2017 (-6,200 jobs) in St. John’s region
- Economy hasn’t grown - negative GDP growth – positive in 2019
- Since 2012, NL govt. oil royalties down from approx. 40% revenue to 10%
  - Net debt per capita $28K vs $10k in 2014; Debt/GDP of 45%
  - Un Sustainable fiscal model – highest revenues/expenditures per capita in Canada
Housing Market - New Home Market
What are the new home market conditions?

“Still bit of a slippery slope.”

- Total housing starts down over 70% from 2012 peak of 2,153
  - -17% in 2018 to 632
    - Singles -12% (409); Multiples -25% (223)

- Single-detached house price lower
  - -3% in 2018 to $394,678 vs $407,745

- New homes are smaller/cheaper
  - More semi-detached & row houses driven by affordability needs
Total housing starts down over 70% from 2012 peak
Single starts down considerably since 2013

Annual Single-Detached Starts, St. John’s Area

2009: 1,382
2010: 1,479
2011: 1,304
2012: 1,292
2013: 1,243
2014: 907
2015: 729
2016: 625
2017: 464
2018: 409
Multiple starts down considerably since 2012

Annual Multiple Starts, St. John’s Area

- 2009: 318
- 2010: 337
- 2011: 619
- 2012: 861
- 2013: 491
- 2014: 323
- 2015: 256
- 2016: 208
- 2017: 299
- 2018: 223
St. John’s avg. single-detached price -9% from peak
New home market outlook...

- Housing starts activity will be driven by demand factors
  - More affordable homes targeted at millennials & first-time buyers
  - Shift to lower-priced existing homes will impact housing starts activity

- Single-detached starts activity inline with fundamentals
  - Population, income & employment will remain key demand drivers

- Multiples driven by affordability & mortgage qualification
  - Lower-priced homes = higher demand for row, duplex & apartments

- Flat average prices due to lower-priced homes & economy
Housing Market - MLS® Residential Market
What are the MLS® market conditions?

“Market is hanging in there.”

- Average price relatively stable
  - -2.7% in 2018 to $295,580

- Sales & inventory mixed
  - Sales -5% in 2018 to 2,046
  - Listings +9.5% to 2,072 avg.
  - Sales-to-listings ratio of 8.2%

- 2018 was likely market bottom with uncertainty fading & support & some optimism slowly emerging
Avg. price below $300K for first time since 2011

Average MLS® house price, St. John’s Area

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
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<tbody>
<tr>
<td>2009</td>
<td>$229,200</td>
</tr>
<tr>
<td>2010</td>
<td>$262,127</td>
</tr>
<tr>
<td>2011</td>
<td>$286,035</td>
</tr>
<tr>
<td>2012</td>
<td>$304,983</td>
</tr>
<tr>
<td>2013</td>
<td>$319,505</td>
</tr>
<tr>
<td>2014</td>
<td>$324,941</td>
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<td>2015</td>
<td>$311,908</td>
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<tr>
<td>2016</td>
<td>$307,323</td>
</tr>
<tr>
<td>2017</td>
<td>$303,713</td>
</tr>
<tr>
<td>2018</td>
<td>$295,580</td>
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MLS® Sales declining since 2012

MLS® Sales, St. John’s Area

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>3,314</td>
</tr>
<tr>
<td>2010</td>
<td>3,068</td>
</tr>
<tr>
<td>2011</td>
<td>3,188</td>
</tr>
<tr>
<td>2012</td>
<td>3,204</td>
</tr>
<tr>
<td>2013</td>
<td>3,104</td>
</tr>
<tr>
<td>2014</td>
<td>2,803</td>
</tr>
<tr>
<td>2015</td>
<td>2,856</td>
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<tr>
<td>2016</td>
<td>2,600</td>
</tr>
<tr>
<td>2017</td>
<td>2,157</td>
</tr>
<tr>
<td>2018</td>
<td>2,046</td>
</tr>
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St. John’s has lowest home price to income ratio

Home Price to Income Ratio
Inflation-Adjusted MLS® Average House Prices / Inflation-Adjusted Personal Disposable Income

Data for 2018 Q2: Sources: CREA, CBOC, calculations by CMHC.
MLS® residential market outlook...

- Sales will be flat-to-higher in line with improving economy
  - Homeowners remain in homes unless forced to sell = less sales activity
  - Renovation growth (+100% since 2012) = higher quality resale homes

- After recent “correction”/decline prices to remain stable
  - Mixed key driver growth = flat demand = Lack of price growth stimulus

- "Buyers” market classification will continue
  - Ample supply of listings/inventory paired with fewer sales favours buyers

- Higher mortgage rates & qualification rules pressure buyers
Housing Market - Rental Market
<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,926</td>
<td>Total rental apartment universe</td>
</tr>
<tr>
<td>6.3%</td>
<td>Overall vacancy rate</td>
</tr>
<tr>
<td>$961</td>
<td>Average 2 bedroom rent</td>
</tr>
<tr>
<td>1.5%</td>
<td>Change in average rent</td>
</tr>
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</table>
St. John’s historical total vacancy rate
St. John’s historical average total rent

The graph shows the average rent over time from 1990 to 2018. The rent has generally increased over the years, with some fluctuations. The highest recorded rent around 2018.
Rental market outlook...

- Rents will be flat-to-higher in line with improving economy
- After recent jump, vacancy rates will continue to decline
- Ageing population supports new condo-quality apartments
  - No condo fees/taxes; Building amenities & underground parking imp.
- Affordability & increased difficulty for younger households to transition to homeownership will support demand for rental
Thank you!
Contact information

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