



Real Estate

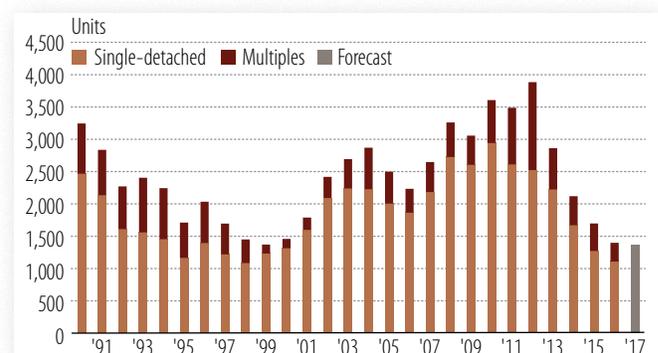
The real estate market in Newfoundland and Labrador was subdued in 2016 with housing starts, residential sales, and housing prices all recording declines. Vacancy rates rose in the residential and commercial rental markets, although rental rates continued to rise.

Housing Starts

There were 1,398 housing starts in the province in 2016, a decrease of 17.6% compared to 2015. Single-detached housing starts, which typically account for the vast majority of total starts, fell to 1,108 units in 2016, a 12.8% decrease compared to 2015 (see chart). Multiple starts (which include denser housing types such as row houses, semi-detached homes, apartments and condominiums) fell to 290 units, down 31.9% compared to 2015. The downward trend in housing starts reflects a number of factors including a build-up of housing stock in previous years, slow population growth,

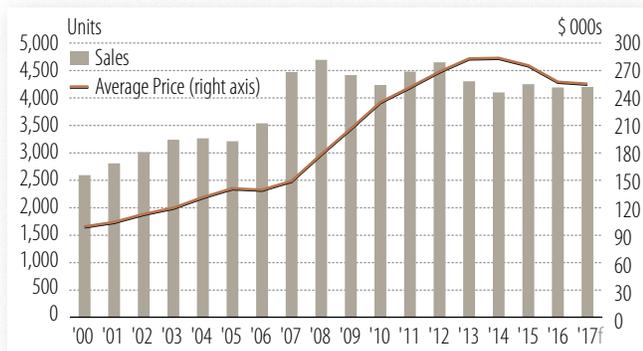
softening labour market conditions, and weakening consumer confidence. As well, the housing market was dampened late in the year by the introduction of new mortgage regulations by the federal government in the fall of 2016. The new regulations are designed to ensure that homebuyers are able to afford their mortgage payments if interest rates rise. As such, homebuyers may have to delay their purchase in order to save for a larger down payment or, alternatively, buy a lower priced home.

Housing Starts



Source: Canada Mortgage and Housing Corporation; Department of Finance

Residential MLS® Sales and Average Price



f: forecast

Source: Canadian Real Estate Association

There were 1,000 housing starts in urban areas of the province in 2016, a 16.8% decrease compared to the previous year. In the St. John's Census Metropolitan Area (CMA), the largest market in the province, housing starts declined 15.4% to 833 units, with both single and multiple starts falling substantially. Rural housing starts were down 19.6% to 398 units, compared to 495 units in 2015.

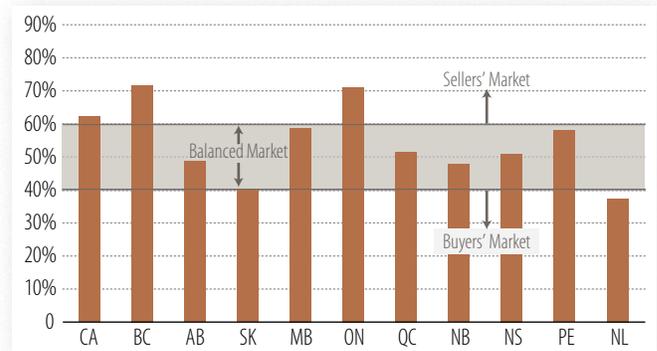
Residential Sales and Prices

The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service (MLS®) fell by 1.4% to 4,192 units in 2016 (see chart). In 2016, the average MLS® residential price in the province was \$257,589, a decrease of 6.5% compared to 2015, and 9.2% lower than the peak price recorded in 2014.

In the St. John's CMA, the average MLS® residential price was \$307,322 in 2016, a decrease of 5.2% compared to 2015. The number of residential sales in St. John's decreased 7.2% to 2,451 units in 2016, compared to 2,640 units in 2015.

The sales-to-new listings ratio, which is the ratio between the number of homes sold and the number of new listings entering the market, is commonly used as an indicator of housing market conditions. A housing market is considered balanced when the ratio is between 40% and 60%. A

Home Sales-to-New Listing Ratios 2016



Source: Canadian Real Estate Association; Department of Finance

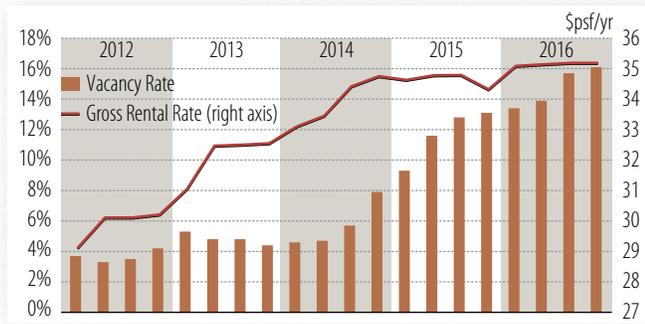
ratio below 40% indicates a buyers' market, while a ratio above 60% indicates a sellers' market. In Newfoundland and Labrador, the sales-to-new listings ratio has fallen from a peak of 62.4% in 2008 to 37.4% in 2016, indicating a shift from a sellers' market to a buyers' market. Among the provinces, Newfoundland and Labrador had the lowest sales-to-new listings ratio in 2016 (see chart). Saskatchewan, at 39.9%, was the only other province with a ratio indicating a buyers' market. British Columbia (71.7%) and Ontario (71.2%) were solidly in the sellers' market range, while the rest of the provinces had a ratio indicating balanced market conditions. The Canadian sales-to-new listings ratio, driven largely by the British Columbia and Ontario markets, climbed into sellers' market territory in 2016 and stood at 62.3%.

Rental Market

According to the Canada Mortgage and Housing Corporation's most recent Rental Market Survey in October 2016, the overall residential vacancy rate in Newfoundland and Labrador was 6.5%, an increase of 2.4 percentage points (ppt) compared to October 2015.² The vacancy rate was 7.9% in the St. John's CMA in October 2016, compared to the 4.7% observed in October 2015. The upward

² The Rental Market Survey is conducted in urban areas with populations of at least 10,000 and targets the primary rental market, which only includes rental units in privately initiated apartment structures with at least three rental units.

Office Vacancy and Rental Rates, St. John's



psf: per square foot
Source: Cushman & Wakefield Atlantic

trend in the vacancy rate in St. John's can partially be attributed to the recent increase in the supply of new apartments. Of the 3,815 apartment units currently available in the primary rental market in St. John's, 943 of those have been added since the second half of 2012. In addition, it is possible that in recent years an increasing share of the demand for rental accommodation has shifted to the secondary rental market, which includes two-apartment detached homes and rental condominiums, causing upward pressure on the vacancy rate in the primary rental market. In other urban areas of the province, the residential vacancy rate was 2.5% in Corner Brook in 2016 (down 0.4 ppt from October 2015), 4.1% in Gander (up 1.4 ppt), and 2.9% in Grand Falls-Windsor (up 0.3 ppt).

The average monthly rent for a two-bedroom apartment in the province in October 2016 was \$865, up from \$834 in October 2015. By comparison, the average rent for a two-bedroom apartment was higher in Nova Scotia (\$1,008), but lower in Prince Edward Island (\$852) and New Brunswick (\$763).

Commercial

Economic growth in recent years has led to a significant expansion in the demand for commercial office space. In particular, demand for office space from oil companies and firms that support oil companies led to a surge in both new construction

and renovation of existing office space. As such, there is now an abundant supply of new office space. Tenants have more options and can be more demanding when negotiating a lease, while landlords may have to offer inducements to compete for tenants. As a result, the absorption of vacant office space into the market has slowed, leading to a rise in the vacancy rate in the St. John's CMA.

Office vacancy rates in St. John's have been trending upwards since late 2014 and reached 16.1% in the fourth quarter of 2016 (see chart). Overall, the vacancy rate averaged 14.8% in 2016, an increase of 3.1 ppt compared to 2015. Nevertheless, the average gross rental rate for office space grew 1.5% to \$35.15 per square foot per year (psf/yr) in 2016, compared to an average of \$34.63 in 2015. Despite the increase in the overall vacancy rate, the average rental rate remains high as an increasing share of office space is in new "Class A" buildings which have higher rents than older buildings.

2017 OUTLOOK

- The residential real estate market is expected to remain subdued in 2017, with fewer housing starts than in recent years and sales activity about the same as 2016.
- Housing starts and residential resale activity may be dampened by new mortgage regulations introduced by the federal government in the fall of 2016.
- Housing starts in 2017 are forecast at 1,350 units, a 3.4% decrease compared to 2016.
- The Canadian Real Estate Association forecasts residential sales in the province to rise 0.2% to 4,200 units and the average resale price to fall 0.8% to \$255,400.
- Growth in commercial real estate is expected to be dampened by the current oversupply that exists in the local market and restrained activity in the mining and oil and gas sectors.