HOUSING MARKET OUTLOOK

Halifax

Canada Mortgage and Housing Corporation

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FALL 2002

Total housing starts expected to fall next year from 10 year high in 2002

On the strength of an impressive increase in construction of ownership dwellings, total housing starts in Metro are currently on track to end this year 22 per cent higher than what was an average new home market performance last year. However, an 18 per cent decline is forecast for 2003 as ownership demand weakens and the currently thin inventory of new homes is replenished.

Single-detached home building at the turning point

The single-detached homes market has benefited from a host of factors this year, including: an early spring that allowed builders to start the season sooner; a prolonged period of very low mortgage rates that has extended the run on home ownership demand; and, seller's resale market conditions which have influenced many buyers to opt for a new home in the face of a very limited choice of existing homes for sale and associated rapid price growth.

Interestingly, a shortage of serviced building lots and construction trades labour over the summer did not deter new homebuyers, although it did result in delays in starting and completing homes. These delays have allowed housing starts activity to remain unexpectedly strong through September as builders continue to work away at the backlog of projects that have accumulated through the summer. As a result of the confluence of these factors, single-detached housing starts have been on a tear in 2002 and are expected to close out the year up 36 per cent from 2001.

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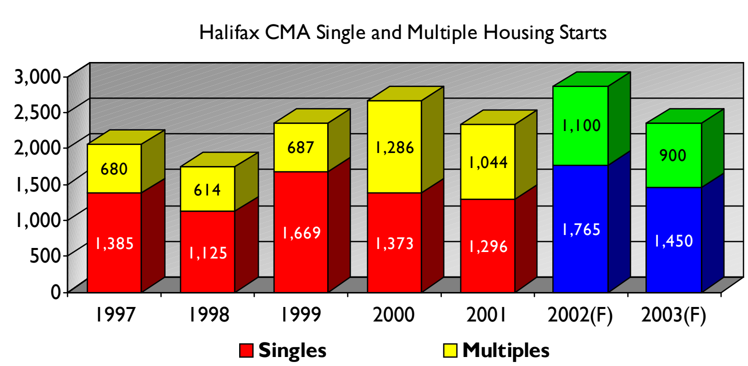
Residential construction forecast to rise this year and fall in 2003



HOME TO CANADIANS
Canada

New Home Market (cont'd)

However, the single-detached housing segment is expected to begin to slowdown in November as builders finally catch up on delayed projects and they gradually replenish inventory. Looking ahead to 2003, rising mortgage rates are forecast to lead to weaker overall home ownership demand and increasing inflation is expected to cause an escalation in construction costs. Consequently, it is anticipated that more potential new homebuyers will fall victim to deteriorating affordability conditions. As a result, new home demand next year will come predominantly from relatively older and more affluent households who are less sensitive to borrowing cost increases. In addition, these buyers will likely face greater location choice with several large, upscale new serviced subdivisions slated to break ground in Bedford and Timberlea in 2003-2004.

Multiple starts to drop back below 1,000 units in 2003

Multiple unit housing starts are projected to end the year above 1,000 units for the third consecutive year in 2002, before retreating back below 1,000 units in 2003. With low mortgage rates enticing more first-time buyers into ownership this year, developers have significantly increased middle density product offerings such as semi-detached units and townhouses. These units have typically been targeted at less affluent households who want to live close to the urban core but cannot afford a new single-detached home and do not want to live in an apartment. Conversely, apartment construction has been weaker as the market continues to absorb the substantial number of new rental and condominium units that have been introduced over the past two years.

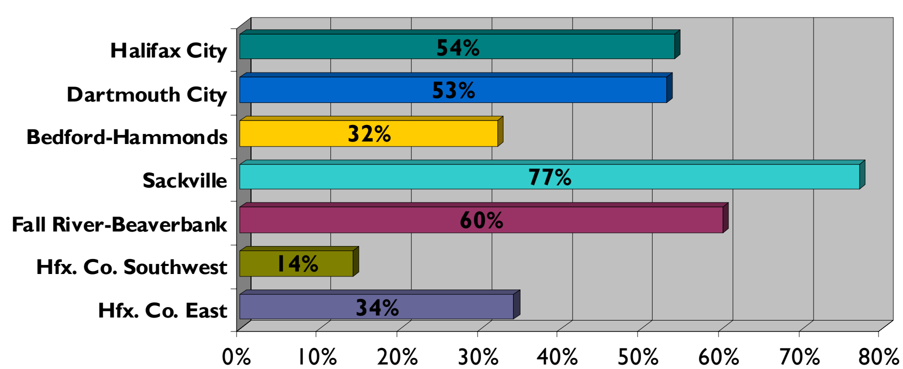
The outlook for 2003 is for a more subdued level of rental starts and further growth in the new condominium market, particularly in downtown Halifax and Dartmouth. Developers and consumers alike are demonstrating a growing interest in condos and the location and features of new projects are diversifying. Furthermore, condos have generally appreciated very well in Metro in recent years and the combination of excellent appreciation and expanding choice is enticing more households to consider this type of dwelling. While semi-detached, row and townhouse starts are forecast to dip slightly next year, construction of these unit types will simply be returning to a more typical activity level as home ownership demand conditions worsen.

House price gains forecast to continue in 2003

Average new house price is expected to continue to grow this year and next, increasing to $185,000 in 2002 and to just below $190,000 in 2003. While land and trades labour costs have driven up construction costs this year in a period of very high demand, it is anticipated that building materials and labour costs will be the key drivers next year, even as demand for new homes weakens. Of particular concern in this regard are expected increases in energy prices- which are a key component of material manufacturing and transportation and equipment operation, as well as a forecasted surge in renovation activity which will occupy all available trades and keep materials moving from supply shelves throughout 2003. However, the combination of rising costs and shrinking household size is expected to lead to a longer term trend toward smaller homes, and this will exert modest downward pressure on average price over the forecast horizon.

Sackville leads submarkets in single starts growth so far this year

% change, single detached starts, Halifax CMA



January through September

Economic Overview

Tepid local economic growth expected in 2003

After a turbulent year in 2001, the local economy has been much more subdued this year and this 'steady state' of activity is expected to continue well into 2003. The transportation sector, the IT service sector and tourism continue to suffer mild adverse effects of the prolonged downturn in the United States economy. Halifax International Airport Authority, and Minacs Worldwide have laid off workers and tourism receipts through the first seven months of this year were down one per cent compared with last year.

However, the trade and manufacturing sectors have been surprisingly strong. Extended work at Halifax Shipyards on the Eirik Raude drilling rig and a new military contract for IMP Aerospace has complemented an exceptionally robust year of retail, auto and housing sales. The impressive run of local consumer spending has been stimulated by a combination of an extended period of low interest rates and recent contract pay increases for nurses, professors and university support staff, and provincial government employees.

Looking ahead, as interest rates resume an upward march over the next 15 to 18 months expect the trade sector to slow considerably as borrowing costs increase and households retreat from their spending spree. Furthermore, with no sign of an imminent recovery in domestic demand in the U.S., tourism, transportation and manufacturing will likely endure another lacklustre year next year. However, the non-residential construction sector is expected to rebound from a subdued level of activity in 2002 with construction activity at the airport, Oland Brewery, Mount Saint Vincent University, highway 101 and 103 twinning and the long awaited beginning of the Halifax harbour cleanup project. As a result, employment growth and net migration to Metro are forecast to improve modestly next year.

Employment to resume weak growth in 2003

On the heels of a negligible 0.2 per cent increase in Metro employment in 2001, 2002 is on track for another subpar performance with only 0.3 per cent growth expected. While the labour force has also experienced weak growth of a combined 2.3 per cent over the past two years, this has been sufficient to cause an increase in the unemployment rate from 6.0 per cent in 2000 to 7.8 per cent this year.

Furthermore, while weak overall employment growth in 2001 masked a 5 per cent increase in full time job growth and a 14 per cent decline in part time jobs, the reverse is the case this year as full time employment is expected to close out the year down 0.4 per cent and part time employment up 3.2 per cent. Expect a weak but discernible revival in overall employment growth next year and a solid improvement in full time job growth in the second half of the year as the U.S. economy gets back on track.

Mortgage rates to rise but remain low

The outlook for mortgage rates in 2003 reflects anticipated continuation of economic growth in Canada and related concern about inflation, as well as an expected economic recovery in the United States around mid year 2003. Consequently, the one year mortgage rate is forecast to be in the 5.41 to 7.25 per cent range, the three year mortgage rate is forecast to be in the 6.40 to 8.11 per cent range and the five year mortgage rate is forecast to be in the 7.10 to 8.52 per cent range in 2003.

U.S. Economy: the key risk to the forecast

In both Canada and the U.S., consumers have been the major driver of economic activity this year, predominantly through housing and auto sales. However, sales of big ticket items have been on a prolonged run of exceptional performance begging the question; when the trade sector inevitably cools off, what sector(s) will support continued economic growth?

Corporate profits were poor in 2001 and dismal stock market performance has encouraged a flight of equity from capital markets. Consequently, there is a concern that the production side of the North American economy may not be sufficiently healthy to carry a downturn in consumption. This could lead to a period of continued weakness in the U.S. economy and a stagnation in the Canadian economy. Given the very close relationship between the U.S. and Canadian economies, such a scenario is considered to be the key risk to the local economic and housing market forecast.

Rental Market

Rental market forecast to stabilize in 2003

When the results from CMHC's annual *Rental Market* Survey are released on November 26th, data are expected to show a slight increase in the vacancy rate from 2.8 to 3.2 per cent. An extended period of very low mortgage rates has enticed more first-time buyers to move from tenancy to home ownership over the past 12 months, while weak local employment growth has discouraged young Atlantic Canadians from migrating to Metro. Furthermore, low mortgage rates have also encouraged some households looking for an apartment lifestyle to choose the equity benefits of a condominium purchase over renting a unit.

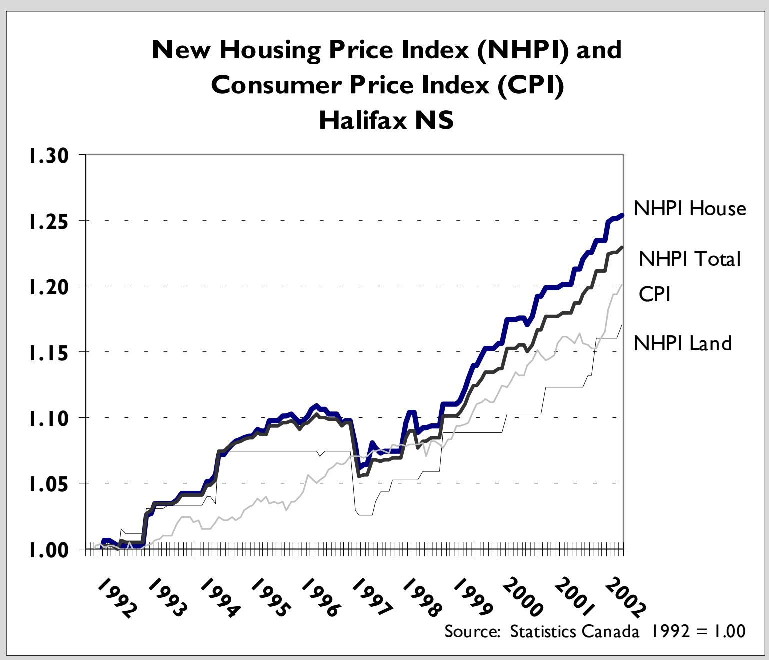
On the supply side, over 1,000 new apartments have been added to the rental stock between July 1st 2001 and June 30th 2002 compared with only 336 between July 1st 2000 and June 30th 2001. This combination of weaker rental demand and a significant increase in the supply of new apartments explains the anticipated modest rise in rental vacancy rate. After rising 4 per cent between 2000 and 2001, average rent is expected to grow by a more modest 3 per cent this year from $630 per month to approximately $650 per month.

Looking ahead to 2003, the Metro rental market is forecast to stabilize at approximately a 3.2 per cent vacancy rate and an average rent increase on par with the local rate of inflation. As of the end of September, there are currently 672 apartments under construction with a forecast of an additional 650 rental starts through the end of 2003; a sufficient supply to satisfy more than 15 months of demand at current absorption rates. On the demand side, rising mortgage rates concurrent with rapidly rising house prices are expected to lead to a significant deterioration in home ownership affordability conditions next year, leaving more potential first-time home buyers on the sidelines. In addition, an improving local labour market is expected to stimulate increased net migration to Metro, and the 'double cohort' of high school graduate classes in Ontario will result in a noticeable increase in the number of students looking for accommodations in Halifax next year.

New home construction prices outpace inflation…

Over the past decade, the price of building a new home including the purchase of a lot as measured by the New Housing Price Index (NHPI) has outpaced the Consumer Price Index (CPI) in Halifax. The NHPI measures changes over time in the contractors' selling prices of new residential houses and provides results individually for the structure (house), land and a combined total cost.

From 1992 to present, the total NHPI for both house and land in Halifax increased 23.8 per cent while the local CPI climbed only 20.9 per cent. When the NHPI is examined for land and house separately, land prices were up only 17.4 per cent while structure costs (house only) climbed 26.1 per cent. Overall, when compared to the costs of other goods and services, the cost of purchasing a new home in Halifax is relatively more expensive today than 10 years ago.

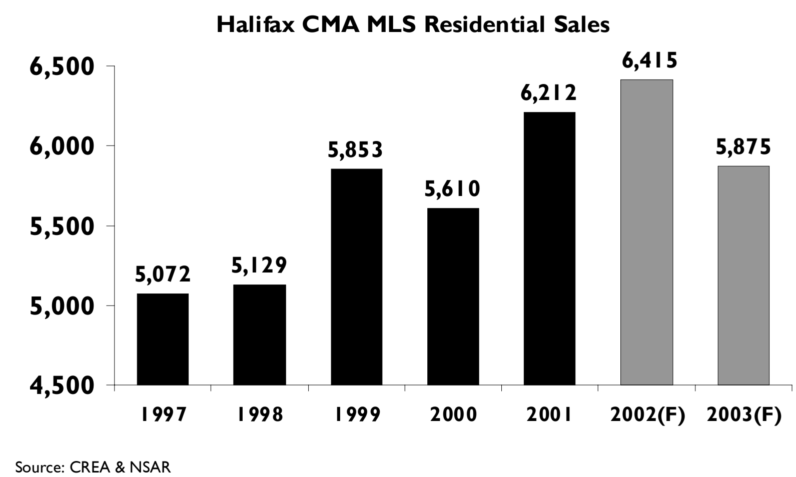


Resale Market

Descending from the peak?

Real estate activity in the Halifax area continued at its record pace over the first three quarters of the year. On a year-to-date basis (January to September) new and existing home sales were up 9.6 per cent over last year. With almost 5,400 sales in Halifax so far this year, residential MLS[1] sales activity is expected to peak at a record level of 6,415 transactions.

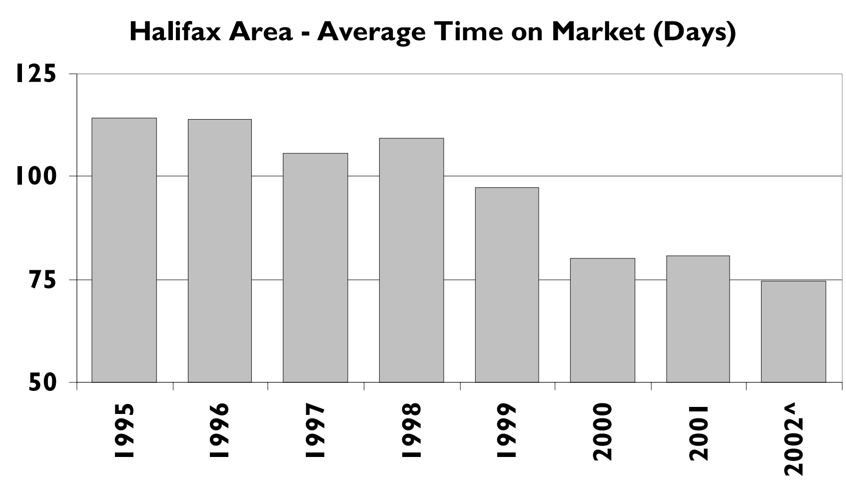
MLS sales expected to decline in 2003 after two years of 6,000+ sales



Source: CREA & NSAR

The torrid pace of the resale housing market has been fuelled by a variety of factors this year including a declining stock market that is making real estate an attractive investment option and historically low mortgage rates that aid affordability thresholds for many first-time homebuyers. Consequently, many tenant households have become homeowners this year, spurring strong existing home sales growth in neighbourhoods such as Dartmouth and Sackville where more of the housing stock is within reach of a typical first-time homebuyer's financial means. However, as the year has progressed, resale activity in more typical 'move-up' markets such as Fall-River and Bedford-Hammonds Plains has increased as those homeowners who sold their homes to the aforementioned first-time buyers have begun shopping for their new homes as well.

Strong demand combined with a tight supply of active listings has led to significant upward momentum in prices over the past year. The year-to-date average selling price of both new and existing homes and condos climbed 11.5 per cent over the first three quarters of this year to $147,892.The average MLS price in Metro is now 35 per cent higher than it was five years ago and the exceptionally strong price growth experienced since 1999 is causing concern in some quarters about overvaluation in the local market. However, price growth was virtually non-existent in the first half of the 1990's during the prolonged economic recession at that time. Our analysis indicates that the recent acceleration in prices reflects the Metro housing market 'catching up' to its true value.Therefore, we are not anticipating a nominal decline in existing home average price. Nevertheless, the outlook for the end of the year is for prices to cool slightly



Source: CREA and NSAR
^ Year-to-Date (January to September)

[1] *MLS is a registered trademark of the Canadian Real Estate Association*

as the typically slower fall season provides some price relief and as home ownership demand begins to weaken.

Even though prices were on the upswing, the time it took to sell a home (both new and existing) through MLS in the first nine months of the year declined almost 5 per cent to an average of 75 days. So far in 2002 it took about an average of 58 days to sell an existing resale home, and time on market is forecast to rise slightly during the closeout of the year as sales slow with the arrival of colder weather. While seller's market conditions generally prevailed throughout the past two years, there will be a shift back towards more balanced market conditions next year, but sellers will remain in the driver's seat through to the end of this year.

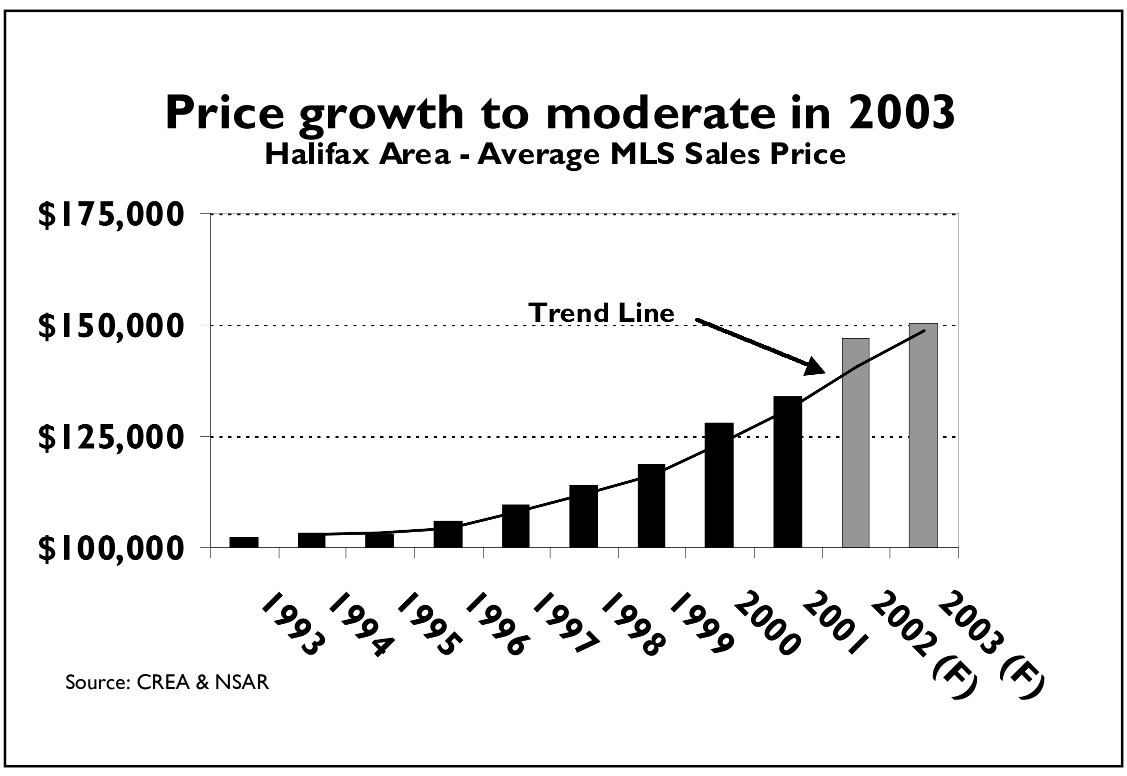
Declining market times have gone hand-in-hand with the steady fall in the number of active residential MLS listings in Halifax over the past five years. The number of active listings continued to decline throughout the summer from June's 2,274 listings. On a year-over-year basis active listings are down 11.4 per cent, and the trend is expected to continue through to the end of the year. The declining inventory of homes available for sale has pushed many resale homebuyers to consider the new home market while others turned to the renovation market to upgrade or redecorate their existing homes.

With exceptionally strong MLS sales volume levels since 1999 and price increases outpacing inflation, one has to ask how long this trend can continue without significant in-migration, employment, and/or economic growth in the region. The historically low mortgage rate climate experienced this year accelerated many purchase decisions borrowing from future demand, and as a result weaker housing demand is expected over the forecast horizon.

Looking ahead…

Looking ahead to 2003, higher short-term and long-term mortgage rates combined with weakening demand will result in a general cooling off of Halifax's red-hot real estate market. Residential MLS sales activity is forecast to decline 8.4 per cent from 2002's record performance to 5,875 transactions, as home ownership affordability conditions deteriorate and as the extent to which the past year's historically low mortgage rates have brought demand forward are revealed.

Accordingly, price growth is expected to moderate to more sustainable levels with average price forecast to rise 2.1 per cent next year to an average selling price of $150,250. The slowdown in sales in conjunction with rising prices will also increase the inventory of homes available for sale lifting active listings almost 10 per cent to 2,500 units. While there has been some speculation of a housing bubble in the media after a half-decade of impressive local housing market performance, the general outlook for the Metro Halifax resale market can be characterized as more of a levelling-off than a steep decline.

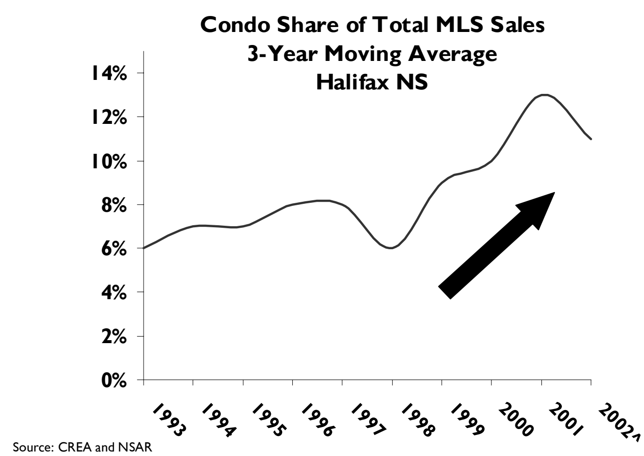


Feature Article

Haligonians showing an increasing preference for the condominium lifestyle…

Condominium starts and market share have been on the upswing over the past few years and so have prices.

Condo's share of the Halifax real estate marketing growing…



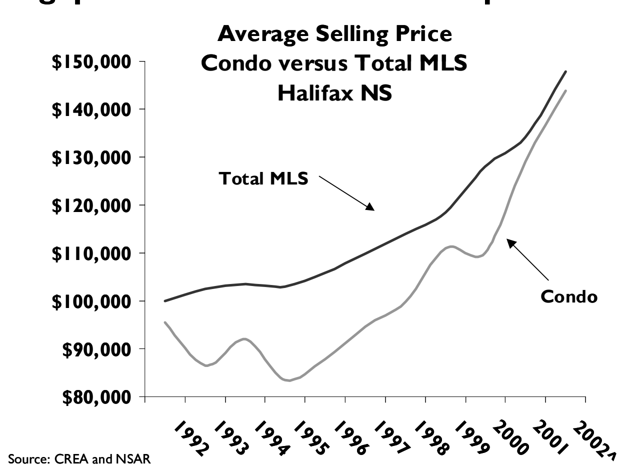
Source: CREA and NSAR
^ Year-to-Date (January to September)

As the population in Halifax ages there is a growing preference for the low maintenance lifestyle of condominium living. In conjunction, first-time buyers are also spurring condo sales as historically low mortgage rates often make a modestly priced condo an attractive alternative to renting.

Since 2000, the development of new condos has flourished in the region compared to the anaemic condo market witnessed throughout the nineties. In fact, more condos have been built in each of 2000 (371 units), 2001 (256 units), and so far this year (133 units to-date) than in all of the last decade (only 125 total units from 1990 to 1999). The growing importance of condominium development to the local housing industry is evident over the past three years with condo construction accounting for about 10 per cent of all housing construction activity in the region.

In addition to developers and builders, a burgeoning condo market has also kept realtors busy. Since 1992 the market share of condo sales through MLS has grown from just under 6 per cent to over 10 per cent of total sales activity so far in 2002. In other words, one out of every ten real estate transactions in Halifax this year has involved a condominium.

The gap between condo and MLS prices narrows…



Source: CREA and NSAR
^ Year-to-Date (January to September)

As market demand has shifted toward condominium ownership, prices have responded accordingly. Over the past 10 years, the average MLS selling price of condominiums has outpaced overall average MLS price growth by almost 3 per cent, significantly narrowing the gap between condo and overall MLS selling prices. The average selling price of a condo in Halifax so far this year is up almost 12 per cent, far outpacing the local rate of inflation (4.3 per cent) and total average MLS price growth (10.3 per cent). In fact, in three out of the past four years, condo prices have posted double digit price increases.

In light of both the changing demographic and psychographic profile of Haligonians, the outlook for Halifax's condo market looks bright. Like many other large housing markets in Canada, Halifax has not been immune from the "condo contagion".

FORECAST SUMMARY					
Metropolitan Halifax- October 2002					
	2000	**2001**	**2002 F**	**% change**	**2003 F**
RESALE MARKET					
MLS[tm] Active Listings (June peak)	2636	2440	2274	-6.8%	2500
Residential MLS[tm] Sales	5610	6212	6375	2.6%	5875
Residential MLS[tm] Average Price	$ 128,003	$ 134,106	$ 147,125	9.7%	$ 150,250
NEW HOME MARKET					
Total Starts	2661	2340	2865	22.4%	2350
Single-detached	1373	1296	1765	36.2%	1450
Multiple Unit	1288	1044	1100	5.4%	900
Semi-detached	108	96	175	82.3%	125
Row	17	12	75	525.0%	50
Apartment	1163	936	850	-9.2%	725
Average New House Price (Single-detached)	$ 171,045	$ 179,851	$ 185,000	2.9%	$ 188,000
RENTAL MARKET					
Vacancy Rate	3.6%	2.8%	3.2%		3.2%
Average Rent-	$606	$630	$650	3.2%	$675
Rental Housing Starts	794	680	725	6.6%	525
ECONOMIC OVERVIEW					
Mortgage Rate- 3 year term	8.17%	6.88%	6.36%		7.22%
Mortgage Rate- 5 year term	8.35%	7.41%	7.07%		7.75%
Employed	183,458	183,733	184,250		186,200
Employment growth	5.2%	0.2%	0.3%		1.1%
Unemployment rate	6.0%	6.9%	7.8%		8.0%

MLS[tm] is a registered trade mark of the Canadian Real Estate Association

Housing Market Outlook is is published twice a year for the Halifax market. Annual subscriptions to **Housing Market Outlook** is $ 40 plus applicable taxes. For more information, or to subscribe, contact Sandra Slaunwhite at the Atlantic Business Centre at (902) 426-4708. Order no. *7365E*

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