

HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA



CANADA MORTGAGE AND HOUSING CORPORATION

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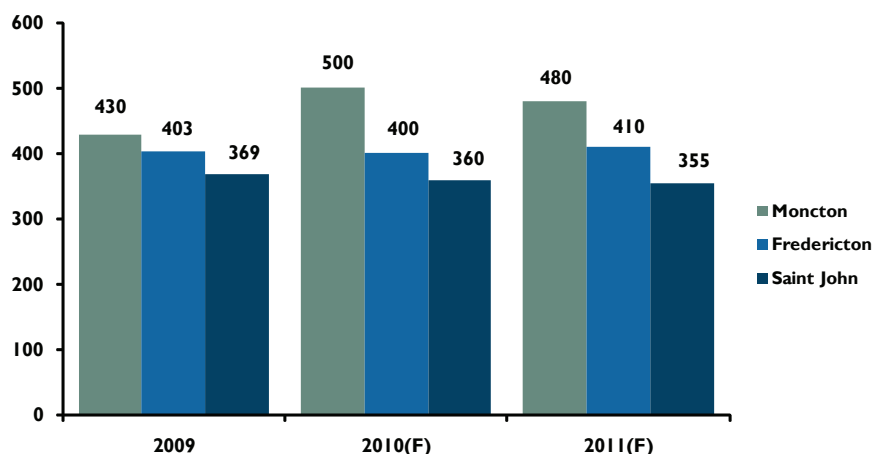
Employment Prospects Limit Housing Demand

Economic growth in New Brunswick has been muted throughout 2010 as traditional economic drivers continue to feel the impact of lingering economic uncertainty. Last year, growth in New Brunswick's resource-based economy was

constrained by a downturn in global demand for commodities. In 2010, that demand remains weak. Traditionally, the forestry sector has been a mainstay in New Brunswick's economy as significant quantities of lumber and other forestry products are shipped to the United States, the province's largest trading partner. Continued weakness in the United States' housing market, however, has led to historically low lumber prices.

Figure 1

Single Starts - Moncton, Fredericton and Saint John



Source : CMHC

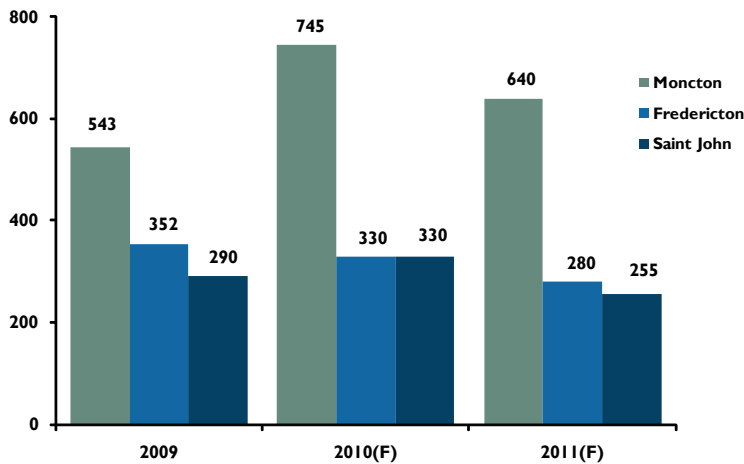
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Figure 2

Multiple Starts - Moncton, Fredericton and Saint John

Source : CMHC

The resulting decline in exports continues to have a negative impact on the province's manufacturing and transportation sectors, a situation that is expected to persist in 2011.

The energy sector was the dominant economic driver in the Saint John area during most of the past decade. It remains one of the province's bright prospects for future economic expansion, with a variety of large scale projects being considered, including renewable energy sources. These projects, however, remain mostly in the planning stages. As such, their impact on economic growth in the province will be limited in the near term. The return of sustained economic expansion in the province is partially dependent on private sector investment as well as on increased public sector capital spending. Infrastructure projects at both the provincial and municipal level, will contribute towards positive economic growth.

After reaching record levels in 2009, employment in two of New Brunswick's three large urban centres declined in 2010. In both Moncton and Saint John, fewer full time jobs in the service, transportation and light manufacturing sectors led to lower overall employment levels. Conversely, employment levels in Fredericton, the provincial capital, maintained an

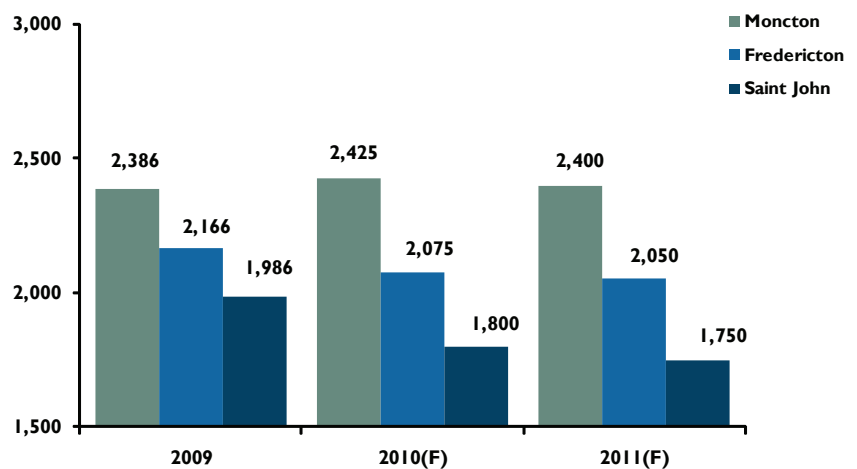
upward trend in 2010 as the large public sector workforce, combined with a stable service and retail sector, continued to bolster in-migration.

Provincially, employment levels are expected to decline in both 2010 and 2011. Although the impact is expected to be moderate, reduced employment levels will be felt in the housing market next year. Provincial housing starts are expected to reach 3,750 units in 2010, followed by a decline ranging between five and eight per cent in 2011.

Mortgage Rates

On September 8, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

Figure 3

MLS® Sales - Moncton, Fredericton and Saint John

Source : Canadian Real Estate Association (CREA), CMHC Forecast
MLS® is a registered trademark of the Canadian Real Estate Association

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Residential Construction to Decline in 2011

After the first three quarters of the year, housing starts have rebounded in Greater Moncton, New Brunswick's largest housing market. This was not unexpected. Last year, total starts in Greater Moncton were at their lowest level since 2001. The rental market has been the highlight of 2010 as apartment starts have more than tripled through the first nine months of the year. This increase will subsequently lead to a higher vacancy rate. As a result, expect apartment starts to decline in 2011.

Semi-detached starts, which have accounted for approximately 30 per cent of total housing starts in the Moncton CMA during the last five years, have also rebounded in 2010. Following a decade of robust growth, the supply of new, unabsorbed units peaked in 2009, leading to the first decline in semi-detached starts since

2001. As the number of available units declined early in the year, production of semi-detached units increased in 2010 to meet demand. In recent years, a growing number of first time home buyers have opted for semi-detached homes, bolstering demand for these units. Semi-detached starts are expected to remain stable in both 2010 and 2011. However, with fewer apartment starts in 2011, expect a moderate decline in multiple starts next year. A similar trend is expected in the single-detached home market: look for single starts to climb to 500 units in 2010, followed by a modest decline to 480 units in 2011.

In Saint John, a surge in apartment starts during the summer months has allowed total housing starts to keep pace with last year's performance during the first three quarters of the year. In general terms, the new home market in Saint John was buoyed by several years of higher than normal activity in the local energy sector. Housing starts peaked in 2008, with the highest number of total starts in over two decades. Current economic conditions, however, have muted expansion of the local energy sector and restricted in-migration relative to the province's other two large urban areas. As a result, housing demand, particularly rental unit demand, is not expected to rise over the forecast period. Following a strong performance in 2010, expect a decline in multiple starts for 2011. Single starts are expected to decline to 360 units in 2010, followed by a decline ranging between one and three per cent in 2011.

The construction of multiple unit dwellings was also a highlight in New Brunswick's capital region this year. As of the end of the third quarter, total starts in Fredericton were slightly higher than last year's level due to a

surge in apartment starts. Increased development in this particular market segment stems from robust demand. The vacancy rate in Fredericton declined to 2.3 per cent last fall - the lowest level since 2003. Increased construction activity last year and again this year will result in an expansion of the local rental universe and give rise to a higher vacancy rate in 2010. Consequently, multiple starts, which consist mostly of apartment units in Fredericton, are expected to decline in 2011. In contrast, single starts are expected to remain stable with approximately 400 units in both 2010 and 2011.

Fewer Sales Expected in Large Urban Centres

In Fredericton, fewer MLS® sales have been recorded during the first three quarters of this year. Over the forecast period, sales are expected to decline between three and five per cent by the end of 2010. The downward trend is expected to continue in 2011, albeit with a small annual decline anticipated. Despite reduced sales, year-to-date price growth, at 4.6 per cent, is highest in Fredericton as compared to the other large urban centres. For 2010 and 2011, expect the average MLS® sale price to reach \$166,500 and \$174,000, respectively.

For the first three quarters of 2010, Greater Moncton posted the highest volume of MLS® sales in the province. It was also the only large urban centre with a year-over-year increase in MLS® sales. Nevertheless, MLS® sales in Greater Moncton were weak during the summer months. As a result, the increase in MLS® sales at the end of 2010 is expected to be less than two per cent. In 2011, MLS® sales are not expected to reach this year's level. Even though more homes have

been sold in Greater Moncton, price growth has been minimal as ample listings provide a wide variety of choice to potential home buyers. For 2010 and 2011, expect the average MLS® sale price to reach \$155,500 and \$163,000, respectively.

Since the start of the year, demand for existing homes has progressively weakened in Saint John. MLS® sales during the third quarter were down considerably from last year's level. This trend is expected to continue to the end of the year. MLS® sales are expected to reach 1,800 units in 2010, with a further decline to 1,750 in 2011. In terms of average resale price, Saint John has consistently posted the highest average resale price in New Brunswick in recent years. Although sales growth will be slow in both 2010 and 2011, the average MLS® sale price is expected to remain the highest in the province, rising to \$174,500 by the end of this year, with a subsequent increase to \$179,000 in 2011.

In Fredericton, a surge in apartment starts in 2009 has been followed by another strong year in 2010, resulting in a rapid expansion of the local rental universe. Therefore, expect the local vacancy rate to be between 3.0 and 3.5 per cent in 2010, with a further increase anticipated in 2011.

In each of New Brunswick's three major urban areas, expect the average rent for a two-bedroom unit to increase by between two and three per cent in both 2010 and 2011.

Vacancy Rates to Decline in Some Provincial Centres

In relative terms, apartment starts in Greater Moncton were low in 2009. Although starts have rebounded in 2010, most of these units will not be available until next year. As a result, the local vacancy rate will decline in 2010, ranging between 2.8 and 3.3 per cent. Increased construction activity this year will result in a higher vacancy rate in 2011.

Upward pressure on the vacancy rate should increase in Saint John, due to negligible in-migration. Expect the vacancy rate to range between 3.5 and 4.0 per cent in 2010 with a subsequent increase in 2011.

Forecast Summary Saint John CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	2,253	2,166	1,986	1,800	-9.4	1,750	-2.8
MLS® New Listings	3,391	3,621	4,289	4,100	-4.4	3,750	-8.5
MLS® Average Price (\$)	140,544	158,117	171,027	174,500	2.0	179,000	2.6
New Home Market							
Starts:							
Single-Detached	412	488	369	360	-2.4	355	-1.4
Multiples	275	344	290	330	13.8	255	-22.7
Starts - Total	687	832	659	690	4.7	610	-11.6
Average Price (\$):							
Single-Detached	231,880	247,921	282,652	275,000	-2.7	290,000	5.5
Median Price (\$):							
Single-Detached	225,000	244,900	251,000	250,000	-0.4	257,500	3.0
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	0.9	2.5	3.3	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	5.2	3.1	3.6	3.8	0.2	4.0	0.2
Two-bedroom Average Rent (October) (\$)	570	618	644	665	-	685	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	66,000	65,000	67,300	67,000	-0.4	65,750	-1.9
Employment Growth (%)	6.6	-1.5	3.5	-0.4	-	-1.9	-
Unemployment rate (%)	4.9	6.2	5.7	6.0	-	5.8	-
Net Migration (N.B.)	153	379	638	2,000	**	2,075	3.8

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Moncton CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	2,849	2,663	2,386	2,425	1.6	2,400	-1.0
MLS® New Listings	4,464	4,590	4,195	4,200	0.1	4,000	-4.8
MLS® Average Price (\$)	140,032	143,173	150,135	155,500	3.6	163,000	4.8
New Home Market							
Starts:							
Single-Detached	655	566	430	500	16.3	480	-4.0
Multiples	770	793	543	745	37.2	640	-14.1
Starts - Total	1,425	1,359	973	1,245	28.0	1,120	-10.0
Average Price (\$):							
Single-Detached	208,653	217,173	282,652	222,500	-21.3	230,000	3.4
Median Price (\$):							
Single-Detached	199,900	199,900	209,900	205,000	-2.3	210,000	2.4
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	0.9	2.5	3.3	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	4.3	2.4	3.8	3.0	-0.8	3.5	0.5
Two-bedroom Average Rent (October) (\$)	643	656	675	695	-	720	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	69,500	72,900	73,200	73,900	1.0	73,500	-0.5
Employment Growth (%)	0.4	4.9	0.4	1.0	-	-0.5	-
Unemployment rate (%)	4.8	5.3	6.2	6.2	-	6.0	-
Net Migration (N.B.)	-2,837	665	1,134	2,000	76.4	2,075	3.8

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NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Fredericton CA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	2,448	2,160	2,166	2,075	-4.2	2,050	-1.2
MLS® New Listings	4,547	4,751	4,406	4,400	-0.1	4,250	-3.4
MLS® Average Price (\$)	141,117	152,268	159,219	166,500	4.6	174,000	4.5
New Home Market							
Starts:							
Single-Detached	432	475	403	400	-0.7	410	2.5
Multiples	204	223	352	330	-6.3	280	-15.2
Starts - Total	636	698	755	730	-3.3	690	-5.5
Average Price (\$):							
Single-Detached	207,781	225,002	245,269	250,000	1.9	265,000	6.0
Median Price (\$):							
Single-Detached	199,000	219,000	239,000	239,000	0.0	245,000	2.5
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	0.9	2.5	3.3	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	6.5	4.3	2.3	3.2	0.9	3.8	0.6
Two-bedroom Average Rent (October) (\$)	701	697	719	740	-	760	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	49,850	49,500	51,800	51,250	-1.1	51,000	-0.5
Employment Growth (%)	6.8	-0.7	4.6	-1.1	-	-0.5	-
Unemployment rate (%)	4.8	4.6	5.5	6.1	-	6.0	-
Net Migration (N.B.)	-2,837	665	1,134	2,000	76.4	2,075	3.8

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