HOUSING MARKET OUTLOOK

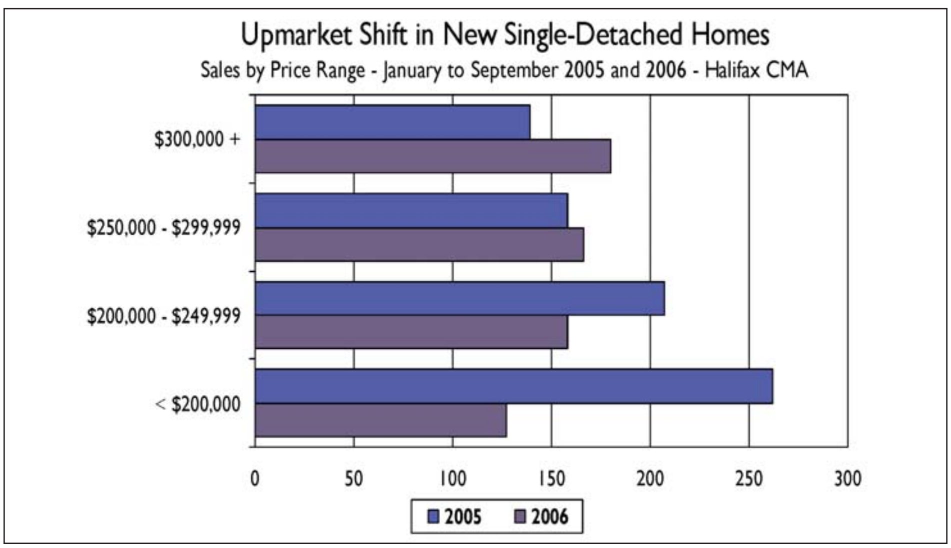
Halifax - Date Released: Fall 2006

Rising costs will influence producer and consumer behaviour more extensively

New Homes Market Outlook

Little has changed in terms of the current outlook for the Metro Halifax housing market from the CMHC outlooks published in the winter and spring of this year. Our local market continues to demonstrate many classic signs of being just past the peak in a mature phase of the current residential real estate cycle. High and rising costs are a universal concern for developers, builders, Realtors® and housing consumers alike. In response to cost pressures, industry consolidation is becoming more frequent, neighbourhood gentrification is accelerating, the scale of new multi-residential developments is increasing, potential buyers are more aggressively demonstrating value-seeking behaviour, and interest in energy-efficiency is omnipresent. In addition, first-time homebuyer activity is slowing and move-up buyers comprise a greater share of the shrinking home purchase market. These trends and characteristics are expected to remain at the forefront of the Metro Halifax housing market over the next 15 months influencing a steady but incremental slowing in the pace of construction, sales and price growth.

Through the first nine months of this year, total housing starts in metropolitan Halifax (1,861) are on par with the solid pace set through the same period last year (1,864). The relative stability of year-to-date total housing starts masks significant divergent trends in the single-detached and multi-unit segments. Again this year, single-detached starts are failing to keep pace with the previous year. In fact, through the first three quarters, single starts are 15 per cent lower than the already tepid production level set through the first three quarters of last year. Conversely, there have been 15 per cent more multiple unit housing starts in the first three quarters of this year than there were through the same period last year.



While economic and demographic conditions remain quite supportive of the housing market, the recent easing in the pace of market activity is evident to those in the industry. There were 150 fewer housing starts in the third quarter of this year (622) than in the third quarter of last year (772). Of particular note, after setting a blistering pace in the first half of this year, multi-unit residential starts in the third quarter were 21 per cent behind the pace set in the third quarter last year. New rental projects continue to enjoy fairly

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rapid lease-up and new semi-detached and townhouse units in the $200,000 to $250,000 price range are selling quickly. However, new condo sales are lagging behind last year's pace as a steadily expanding inventory of new condos has tilted the market in favour of potential buyers. Continued growth in new condo inventory will exceed sales, tilting the market in favour of buyers and resulting in extended absorption periods for new projects and tamer price growth.

Single-detached homebuilding continued to decline at an even rate in the most recent quarter. The pace of single-detached home absorption has slowed in tandem with a decline in speculative construction activity. As a result, unsold inventory of new homes remains balanced overall, but the inventory of new homes priced between $300,000 and $400,000 continues to swell as they experience stiff competition from a growing inventory of extensively renovated existing homes. Such existing homes often appeal to potential buyers when they are in established neighbourhoods with mature trees and little or no construction noise and traffic.

As the high-end of the new home market has softened, cost pressures have left builders with little choice than to shift their focus upmarket. As a result, growth in average sale price for single-detached houses continues at an impressive pace of 11 per cent so far this year. While rising costs have contributed to average price growth, it is mostly a change in the mix of homes that have been sold that has caused the increase as luxury home sales are grabbing a larger share of a shrinking overall new home market. Upscale new single-detached homebuilding will continue to generate 14 per cent annual average price growth by the end of this year as average single-detached house price just surpasses the $300,000 mark. Next year, average price growth is forecast to decelerate to a still very sturdy nine per cent. Rising development and construction costs will become more influential factors in price growth in 2007 than was the case this year.

Total housing starts are forecast to hover near 2,500 on an annual basis this year and again in 2007. Actual annual total starts results for 2006 and 2007 will be heavily influenced by the specific timing of the pouring of footings on several large apartment structures that are anticipated to occur over the next three months. The timing of these projects could influence annual total starts figures by up to 150 units on either side of 2,500.

Single-detached housing starts are expected to close out 2006 down 12% from last year at only 1,075. Next year, only 1,000 single starts are forecast to break ground; the fewest number since 1991. While the selection of serviced building lots is expected to increase, prices are as well. In addition, growth in inventory of extensively renovated existing homes will challenge new home builders even more next year than was true this year.

Multiple unit housing starts are expected to end this year at 1,550 units courtesy of a 33 per cent jump in apartment construction. This leap will be propelled to some extent by a higher level of condo construction but more directly by a very strong rebound in rental construction. Next year, multiple unit starts are forecast to remain elevated at 1,450 units, with the pace of rental and condo apartment construction easing from 2006. This will remain well above 2005's production rate as developers adhere more stringently to pre-sale standards and experience less exuberant, but still adequate, rental absorption rates. Semi-detached and townhouse units priced under $250,000 are expected to remain popular with buyers (and therefore builders) through the end of next year and this will result in semi and row unit starts matching 2005's pace both in 2006 and 2007.

As more baby boomers become empty nesters, growth in household formation continues at a brisk pace with demand for apartment dwellings expanding as the number of one and two person households accelerates. A slower pace of net migration due to the relative attractiveness of the labour markets of Western Canada has only moderately tempered household growth. The Metro Halifax labour market is showing signs of approaching full employment as the unemployment rate flirts with record lows and the total number of people employed hovers near record highs. Consequently, employment income growth continues to exceed the tepid rate of inflation, leaving consumers confident in spending.

Economic Outlook

Economic Growth to Slow in Metro Halifax

The economy in Metro Halifax is expected to remain healthy over the next two years despite decelerating growth. Employment growth will slow while unemployment rates hover near record low levels. The resulting pressure on wages will stimulate inflation while personal budgets will be squeezed even more. Demand for housing will be affected as potential homebuyers will be forced to more closely examine their financial situations.

Growth in the labour force has slowed in the past 18 months and further growth will also be subdued due to reduced net migration. Halifax has not been immune to the labour drain created in Western Canada. Net migration is forecast to remain below 750 per year, well below the annual average over the past 10 years of 1,700.

Overall employment is expected to grow by a meagre 0.6 per cent in 2006 and 0.9 per cent in 2007 bringing the total number of workers to 205,800. There would be room for further employment growth if there was a more abundant supply of skilled labour.

The unemployment rate has been holding steady below 6 per cent for most of 2005 and for all of 2006. Sitting at an average of 5.4 per cent through September, the rate is expected to average around 4.7 per cent in 2007. This number is approaching full employment and sets the stage for upward pressure on both wages and inflation in general.

Residential construction activity is forecast to remain quite healthy while non-residential activity is forecast to accelerate as school construction projects are complemented by the $45 million Maritime Helicopter Training Centre project, a new facility for Research in Motion's technical support centre, the $270 million Dartmouth Crossing retail park, and the $333 million Halifax Harbour Solutions project.

In the service sector, tightening labour market conditions and modest tax cuts will generate growth in disposable income but this will be more than offset by rising homeowner expenses. Mortgage rates are expected to climb almost a full percentage point during the two-year period from 2006 to 2007. With the recent growth in new and existing home prices, increased borrowing costs will not go unnoticed and will play a role in purchasing decisions. Taking into consideration other rising household expenses such a heating fuel, electricity, utilities and property taxes, consumer confidence is expected to dip and spending will moderate.

The Metro Halifax economy is expected to remain generally healthy over the next two years but growth will be restrained by high energy prices and the indirect impact of these prices on household budgets and labour availability. Nevertheless, positive government balance sheets and growth in commercial construction will provide valuable stability to the local economy as other areas are forced to deal with the challenges of high exchange rates and energy prices.

Resale Market Outlook

A Balanced Market Shifting Toward a Buyers'

Sales volume and average sale prices in the existing home market in Metro Halifax have been at record levels in recent years. Sales have exceeded 6,000 since 2001 and reached a peak in 2005 at almost 6,500 sales. This year the pace of sales is expected to decline by four per cent and a further seven per cent in 2007. This slowed pace will put sales volume at a pre-2001 level.

The average selling price of existing homes has grown at a fervent pace in recent years. Every year on record (starting in 1980) has seen a new high for average sales price in Halifax. But the pace of growth in the past five years has averaged a staggering nine per cent while in the prior nine years the average price growth was only three per cent. Prices are expected to grow eight per cent in 2006 - surpassing $200,000 for the first time. Growth in 2007 is expected to slow to only three per cent.

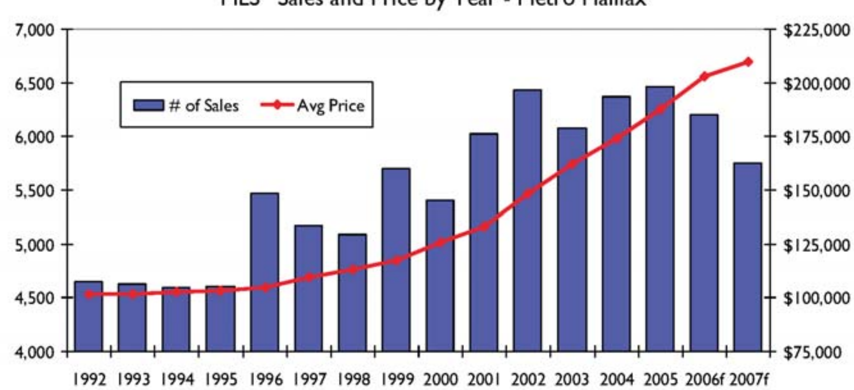
Various economic factors have contributed to the elevated level of sales from 2002 to 2005 and many of these factors have begun to shift. Interest rates began to trend downward in 2000, contributing to easier access for first-time home buyers and for those interested in moving-up to higher-end homes. Rates are now beginning to creep upwards and will reduce some of the demand in the market and the ability to enter the market. Given the rapid growth in record price levels, any change in the interest rate, no matter how small, will cause buyers to think twice before signing up for large mortgages.

The same can be said for rising property tax assessments. Just as prices have grown more than 50 per cent since 2001, property tax bills have climbed commensurately.

Employment and labour figures have steadily improved in recent years, but have begun to level off in 2006. However, with unemployment rates hovering around the five per cent mark, there will be upward pressure on wages and subsequent pressure on

Resale Market Annual Sales and Average Price

MLS® Sales and Price by Year - Metro Halifax



Source: Nova Scotia Association of Realtors
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inflation. This in turn will begin to affect consumer confidence and will lead to more caution when it comes to large purchases and home-buying.

Potential home buyers are facing even more additional cost burdens from increasing electricity costs, municipal water bills and growing fuel costs. After a period of stability in the price of crude oil in the mid-90s, prices have now doubled in the past few years and the costs of home-heating oil and gasoline for vehicles have risen accordingly.

All told, these additional financial burdens will exacerbate already tight personal budgets and will push homeownership affordability further away and deter first-time home buyers. Not only will these trends result in reduced sales volumes, they also will contribute to a deceleration in price growth as market conditions continue to weaken.

The existing home inventory will remain historically high in 2006 and 2007. A growing inventory of higher-end homes will put pressure on the prices as buyers will begin to gain more power in the negotiations. Demand for higher-end homes certainly has been increasing in recent years and is likely to continue to be high but the inventory is expected to more than meet the demand. Sufficient supply will result in slowing price growth.

With inventory growth slower than anticipated and a shift towards more higher-end home sales, price growth has not slowed as expected in 2006. It is now forecasted to remain at recent levels of growth (around eight per cent) but price growth will slow in 2007 (to around three per cent).

One area where inventory may not meet demand is in the entry level market. Already, homes under $150,000 sell in a much shorter time frame than more expensive homes and the demand for more affordable homes will continue. This will perpetuate the current difficulty of finding affordable entry level homeownership.

As the necessity for more financial vigilance from prospective buyers increases, real estate transactions and negotiations will become more tense. Real estate agents will be required to bring all their resources to the table in order to help bridge the gap between prospective buyers and demanding sellers. Expectations on both sides will be as far apart as ever as the market begins shifting from balanced to buyers in the coming 12 to 18 months.

Increasing numbers of homeowners are turning to home renovation rather than the "move up" market. Even when homeowners are ready to list their homes, often they have been extensively renovated and offer stiff competition to the new home market.

The sale of existing homes will slow in the next 12 to 18 months as potential home buyers are forced to weigh hefty financial burdens in their decision-making process. This, coupled with high levels of housing inventory, will cause the market to shift from balanced conditions to an environment favouring buyers. Prices also will be affected by the shifting market conditions. Recent patterns of high price growth will be replaced by more moderate growth.

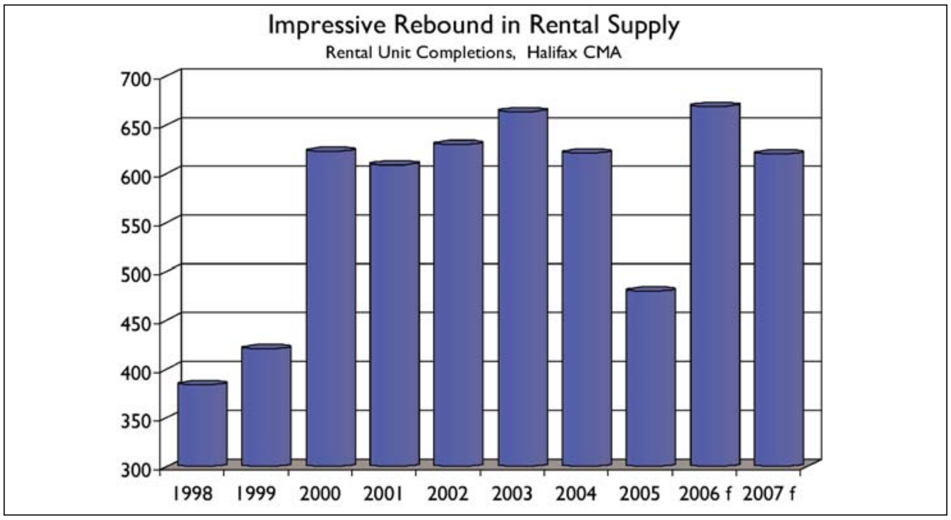
Rental Market Outlook

Management Vital in Rising Cost and Balanced Rental Market Environment

Rental market conditions are expected to remain quite resilient through the end of next year. The vacancy rate is forecast to edge upward only slightly as growth in supply exceeds growth in demand. However, rising capital and operating costs will manifest themselves in moderate rent increases. Expect the 2005 rental vacancy rate to increase very slightly to 3.5 per cent this year and edge up to 3.7 per cent next year. Average rent is forecast to rise almost four per cent this year to $735 per month and nearly five per cent next year to $770.

Growth in rental supply so far this year has been much smaller than anticipated as several large new projects have taken longer than expected to complete construction. In addition, condo conversion projects and renovation of older buildings have also restrained expansion in the rental stock. However, by the end of this year several large new projects will begin leasing resulting in a hefty 670 new apartments being added to the Metro Halifax rental market. New rental projects continue to enjoy quick absorption, with the exception of luxury units over $1,500 per month on the Halifax Peninsula- a niche in which slower absorption rates are the norm. Across Metro, older and smaller rental properties continue to donate renters to new buildings, resulting in many property managers reporting sustained high turnover rates.

On the demand side, the promise of Western Canada's labour market riches has eroded Halifax's net migration gains. However, as the first baby boomers turn 60, landlords are enjoying expanding interest in the rental lifestyle from more mature households. Simultaneously, rising monthly mortgage carrying costs have dampened first time homebuyer activity which has kept more households in tenancy. Furthermore real disposable income growth has encouraged local consumers to spend confidently which has created more job opportunities for youth over the past year. In sum, while aggregate rental demand growth has been tepid this year, it has been a bit stronger than expected. As a result of higher than expected demand



growth and lower than expected supply gains, only a very modest increase in rental vacancy rate this year is expected when CMHC Rental Market Survey results are revealed later this year.

With 775 new rental units breaking ground this year, rental supply growth is expected to remain vigorous in 2007 with another 620 units hitting the market. Rental construction is expected to be more evenly distributed across Metro next year than in recent years. Strong market conditions for new buildings in Mainland North will sustain activity there while retail development and an aging population will contribute to accelerating rental demand in the former City of Lakes. New projects on the Halifax Peninsula in 2007 are expected to be more modest and generally smaller in scale than much of what has been built in recent years. Nevertheless, with landlords facing a host of rising capital and operating costs through the end of next year, they can be expected to continue to expand the size and scale of new rental projects in an attempt to manage expenses.

Higher rental turnover rates generate higher repair/maintenance and advertising costs and these will be added to a growing list of rising expenses including property taxes, heat, utilities, and new construction cost overruns. Despite the absence of ideal market conditions, it is anticipated that average rent will rise almost four per cent in 2007 as rental property owners pass-through the lion's share of higher costs to their tenants.

As homeownership affordability conditions continue to deteriorate and an aging population generates demand for no-hassle apartment living, rental demand is expected to be sufficiently healthy to keep the local market balanced. However, supply expansion will continue unabated, nudging the vacancy rate up slightly next year to 3.7 per cent next year.

FORECAST SUMMARY

Metro Halifax- October 2006

	2004	2005	2006 F	% change	2007 F	% change
RESALE MARKET						
MLS® Active Listings (June peak)	2,338	3,984	3,755	-5.7%	3,975	5.9%
Residential MLS® Sales	6,376	6,496	6,200	-4.6%	5,750	-7.3%
Residential MLS® Average Price	$ 174,057	$ 188,090	$ 203,000	7.9%	$ 210,000	3.4%
NEW HOME MARKET						
Total Starts	2,627	2,451	2,625	7.1%	2,450	-6.7%
Single-detached	1,510	1,216	1,075	-11.6%	1,000	-7.0%
Multiple Unit	1,117	1,235	1,550	25.5%	1,450	-6.5%
Semi-detached	142	146	150	2.7%	150	0.0%
Row	166	169	175	3.6%	175	0.0%
Apartment	809	920	1,225	33.2%	1,125	-8.2%
Condominium (all structure types)	401	383	500	30.5%	500	0.0%
Average New House Price (Single-detached)	$ 233,914	$ 263,663	$ 301,000	14.2%	$ 328,000	9.0%
RENTAL MARKET						
Vacancy Rate	2.9%	3.3%	3.5%		3.7%	
Average Rent-	$705	$709	$735	3.7%	$770	4.8%
Rental Housing Starts	471	529	775	46.5%	675	-12.9%
ECONOMIC OVERVIEW						
Mortgage Rate- 3 year term	5.65%	5.59%	6.46%		6.57%	
Mortgage Rate- 5 year term	6.23%	5.99%	6.77%		6.92%	
Employment	201,933	202,692	203,900		205,800	
Employment growth	3.9%	0.4%	0.6%		0.9%	
Unemployment rate	6.0%	5.8%	5.2%		4.7%	

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Source: CMHC
Statistics Canada: Labour Force Survey
Nova Scotia Association of Realtors
Bank of Canada

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