

HOUSING MARKET OUTLOOK

Halifax CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Continued Growth in Employment to be Supportive of Housing

Provincially, the labour force and employment are expected to rise moderately in 2010, while in Halifax, growth is expected to be more significant. Halifax will continue to

see steady growth in the economy and this will translate into improving conditions in the local housing market.

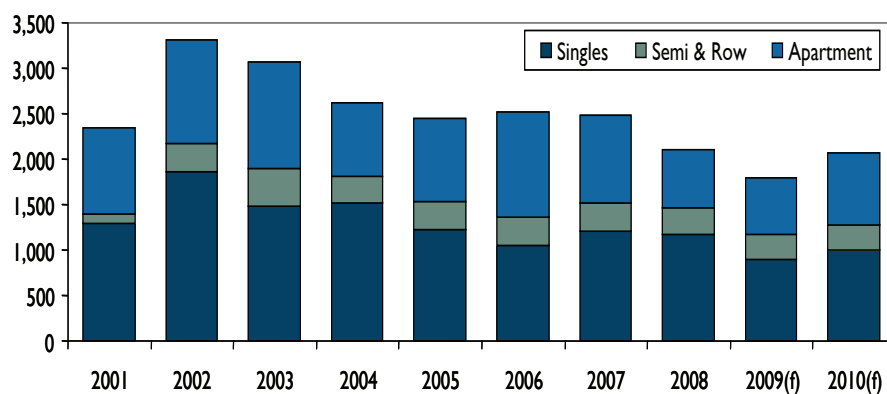
The local economy in Halifax continues to benefit from positive migration patterns. With more people moving to Halifax than moving away, the labour force has been growing. Almost every month of 2009 saw greater numbers of people looking for work in Halifax and by the summer

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Figure 1

Overall Housing Starts to Rebound in 2010
Annual Housing Starts by Type of Structure, Halifax CMA

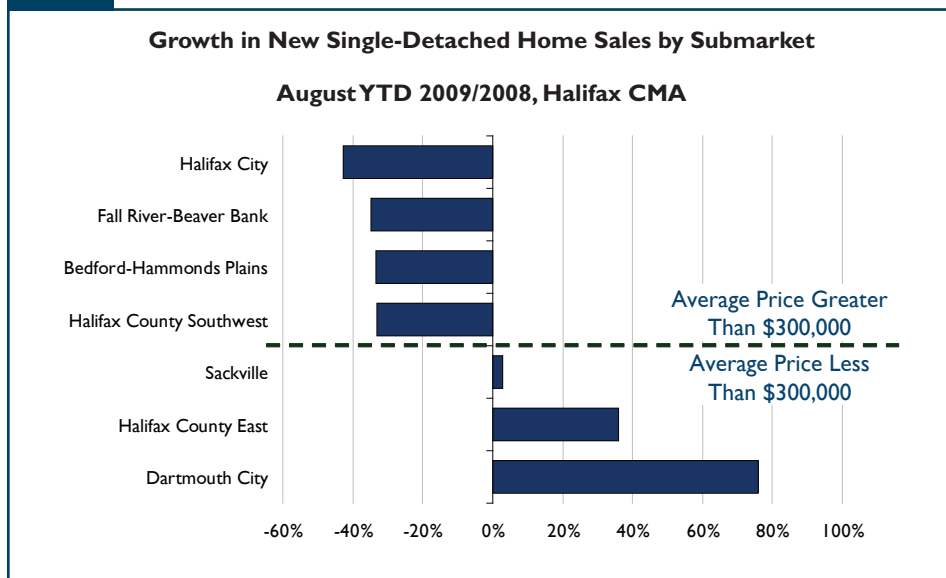


Source: CMHC

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Figure 2



Source: CMHC

months there were more people looking for work than ever before. Fortunately, most of these job seekers found employment which resulted in a record level of employment in Halifax. Employment was up by three to four per cent in 2009 compared to 2008. Employment may ease off of record highs during certain months in the forecast period, however overall employment is expected to continue to show positive growth in 2010.

Employment is being bolstered by the construction industry and the public sector. Large construction projects and large military contracts have contributed to strength in these industries. The largest employment sector in Halifax is the services sector which has seen slow but steady growth of approximately three per cent so far in 2009. The opening of some new or trendy retail stores has contributed to the growth in this sector. Areas experiencing weakness are the finance, trade and primary goods sectors which are struggling due to global economic issues and reduced demand for exports.

Wages are also expected to continue to move upwards. As of August 2009, seasonally adjusted average weekly earnings have risen by over six per cent compared to the 2008 average. Average earnings now exceed \$39,000 per year compared to just under \$37,000 in 2008.

Record employment levels and wages will be supportive of housing activity

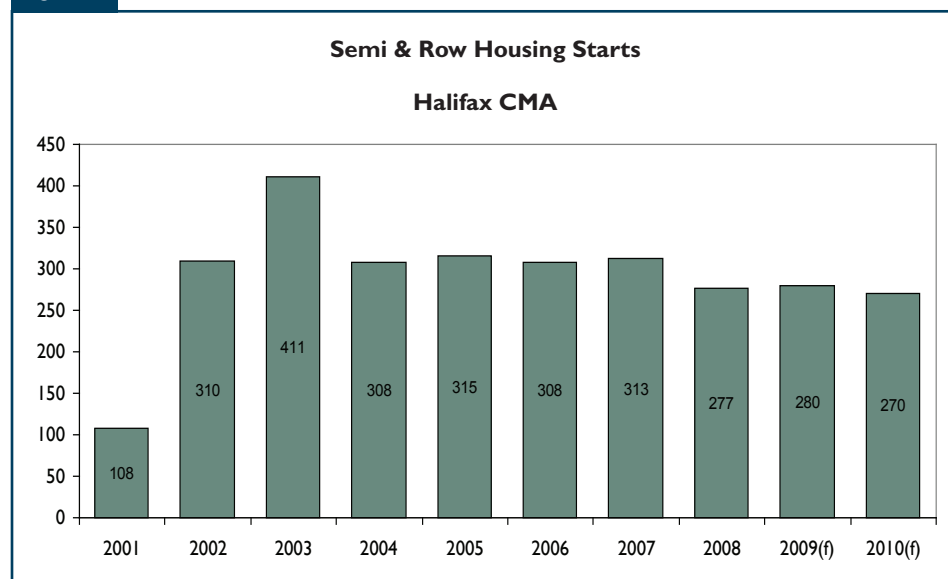
in Halifax for the remainder of 2009 and 2010. Continued in-migration and near historic low interest rates will also contribute to increased housing demand in the Halifax Regional Municipality (HRM). In the near-term, some lingering effects of the weakened economy will keep demand subdued. In the medium-term, however, expect to see demand and activity begin to increase again in 2010.

Mortgage Rates

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage

Figure 3



Source: CMHC

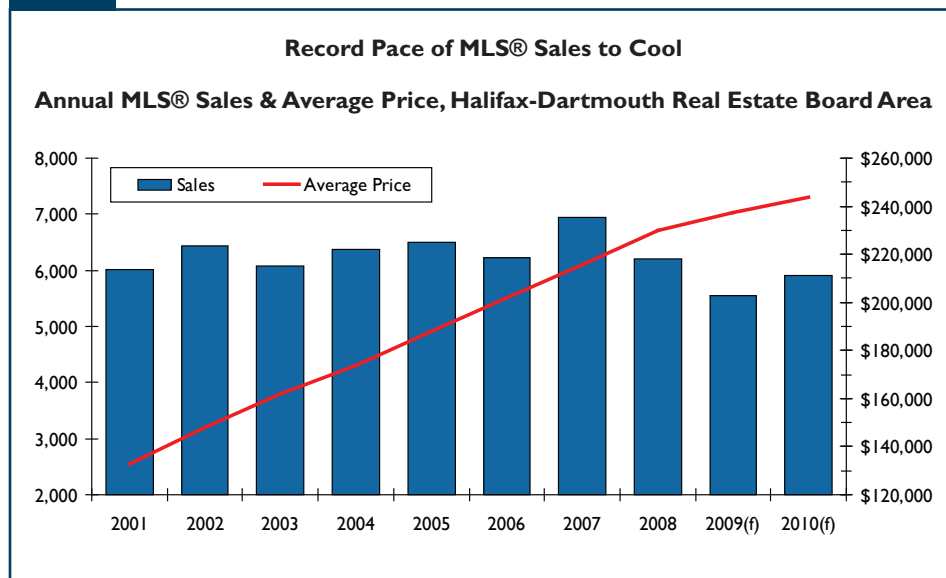
rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

New Home Construction to Rebound in 2010

New home construction in Halifax will rebound by 16 per cent in 2010. This level of activity follows a decline of 16 per cent in 2008 and an expected decrease this year of 15 per cent. Expect single-detached starts to decline 24 per cent this year before rising 11 per cent in 2010. In the multi-residential segment, expect starts to decline three per cent this year and rebound 20 per cent in 2010.

This year began with considerable weakness in housing starts in Halifax. Total starts saw declines as great as 66 per cent and 54 per cent in March and April, respectively. Since that

Figure 4



Source: Nova Scotia Association of REALTORS®, CMHC Forecast
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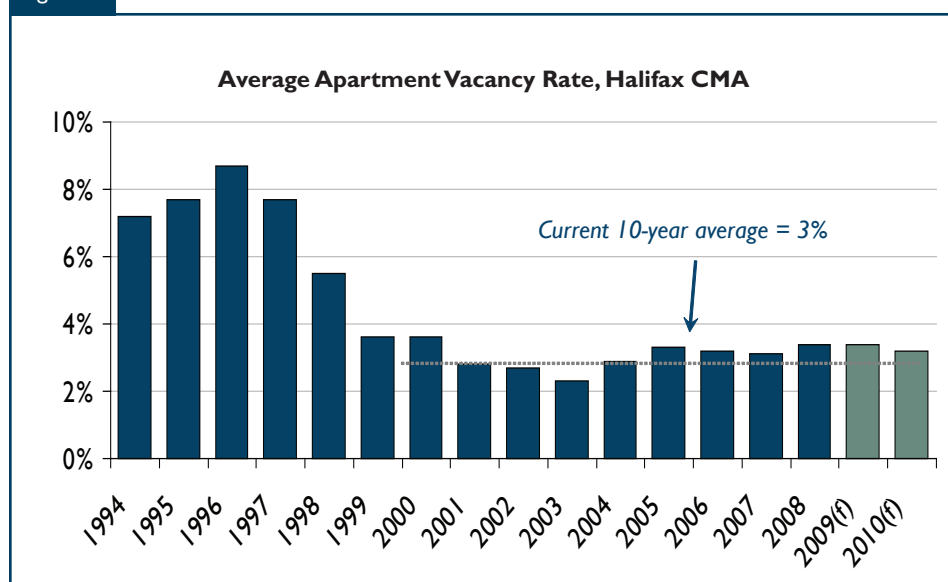
time, activity has leveled off and began to show signs of improvement. The months of August and September saw significant growth compared to the same period last year.

Single starts recorded the greatest declines in the first couple months of the year and since then have gradually begun to improve. While

the weakened economy contributed to weakness in the demand for housing, the downward trend for single-detached housing did not begin with the economic downturn. Single starts have been trending consistently downward since the peak of construction activity in 2002. The anticipated 900 starts in 2009 and 1,000 starts in 2010 are the lowest levels since 1991; however they are not sharply below the most recent low of 1,056 single starts recorded in 2006.

Not surprisingly, in the current economic environment there has been a shift in consumer preferences. As of August, single starts in the four submarkets with average prices above \$300,000 have seen significant declines. These areas saw declines of 36 per cent, while the three submarkets with average prices below \$300,000 saw an increase of over 50 per cent. This also resulted in average new single-detached home prices declining by approximately two per cent as of August. While this rate of change is not expected to

Figure 5



Source: CMHC

continue, the general trend towards less expensive homes is likely to persist. Furthering this trend is the continued popularity of semi-detached and town houses. Declines in this segment of the market have been far less pronounced than for singles and are expected to rebound at a slightly faster pace.

As the global economy begins to show more signs of growth and confidence returns to the marketplace, the demand for housing will increase. Combine this with record employment, strong wage growth and low interest rates and the pace of new construction in Halifax will pick up.

The bulk of the weakness in housing starts in 2008 was due to the multi-residential segment. Investors in this segment considered the economic environment and made decisions to delay projects. The result was a decline of over 28 per cent in 2008. The impact of those delays has persisted in 2009 as starts fell a further 22 per cent as of August. With some apartment projects starting in the third quarter and others poised to start in the fourth quarter, it is expected that the decline will moderate to approximately three per cent as investors begin to test the waters. The “wait-and-see” approach has been replaced with a “proceed with caution” approach.

As projects move ahead in 2009 and 2010, the demand for labour will begin to increase. There is a notable number of projects in the queue in the HRM and competition for labour will intensify as developers/builders seek to begin construction.

Existing Home Sales to Increase in 2010

Existing home sales will remain weak in 2009 before rebounding in 2010. MLS® sales are expected to decline by approximately 11 per cent in 2009 before climbing by over six per cent in 2010. Average home prices will continue to rise reaching approximately \$237,500 in 2009 and will increase to \$243,500 in 2010.

Economic weakness in the latter part of 2008 and in 2009 has resulted in reduced sales activity in the existing homes market. MLS® sales fell nearly 11 per cent in 2008 and a further 13 per cent through the first eight months of 2009. The declines, however, have not been even throughout the year. In the fourth quarter of 2008 and in the first quarter of 2009, existing home sales were down by over 26 per cent compared to the same periods in the previous years. Since this time, the declines have become much less pronounced and the rate of decline has slowed to 13 per cent on a year-to-date basis (as of August).

Potential home buyers have been exercising caution and have delayed decisions to buy or move. As a result, additional risk has been avoided. It is expected, however, that consumers will begin to take advantage of the current buyers' market conditions and as a result sales should begin to creep back up in the latter part of 2009 and into 2010.

The number of homes that were listed for sale as of August 2009 is just off the pace that was set in 2008. Active are actually five per cent higher than last year and is indicative of a lower level of sales activity. Expect new listings to remain substantially

unchanged as homeowners continue to test the market for buyers.

Existing home sales will remain well below the record levels set in 2007 when sales reached nearly 7,000 in the HRM. Sales are not expected to exceed 6,000 in 2009 or 2010. The weaker levels of demand will result in slower price growth than has been seen in recent years. From 1999 to 2008 the average price of an existing home increased seven per cent per year. In the forecast period, expect relatively weaker levels of demand to result in price growth of approximately 3.3 per cent in 2009 and 2.5 per cent in 2010.

Recent market forces have combined to create an existing homes market that is more favorable to buyers than sellers. The market is more favorable to buyers when sales are down, listings are up and price growth is slower. Furthermore, current economic trends are beneficial to buyers as well; employment and wages are at or near record highs, net-migration remains positive and interest rates remain very low.

Vacancy Rates to Decline in 2010

Vacancy rates increased in 2008 and 2009 due to increased supply. This trend is expected to continue through the end of 2009, but in 2010 expect to see vacancy rates decrease. The vacancy rate is expected to remain unchanged in the fall of 2009 at 3.4 per cent due to offsetting supply and demand factors. In 2010, lower levels of new apartments will result in the vacancy rate declining to approximately 3.2 per cent. Average rents are expected to continue on their slow and steady pace of growth

increasing approximately two per cent in both 2009 and 2010 to \$850 and \$865 per month, respectively, for a two-bedroom apartment.

Throughout 2007 and 2008 there was an average of 1,600 apartment-style units under construction in the HRM. For 2008, this rapid pace of construction resulted in the highest number of annual apartment completions in over 15 years. As of August, the number of completions in 2009 was matching that of 2008. The impact of these completions was higher vacancy rates in both the fall of 2008 and the spring of 2009. The increase in supply will continue to impact the vacancy rate in the fall of 2009 as rates remain unchanged due to offsetting steady demand.

In the final months of 2008 and through the first half of 2009, the pace of new construction slowed. As of August 2009, there was an average of just over 1,000 apartment-style units under construction. This decrease in construction will impact the supply of new apartments in 2010 and result in some downward pressure on vacancy rates.

Offsetting the recent increase in supply has been sustained demand for rental units. The recent trend towards positive net-migration in the province and demographic shifts resulting in higher numbers of smaller households will continue to impact the demand for rental units.

The economic weakness seen in 2009 has also impacted rental demand. In recent months, potential home buyers have been more likely to delay their decision to purchase a new or existing home. For those currently in the rental market, this means staying where they are and consequently this bolsters the demand for rental units.

Furthermore, the rising costs of new and existing homes make rental units an attractive alternative. This is particularly true given that the Halifax rental market continues to be one of few centres across the country to see improving affordability. This simply means that average rents have been rising more slowly than average income levels. The result has been that the rental market in Halifax continues to offer value to renters and that demand for rental units has remained and will remain stable. The Halifax rental market, with its relative affordability, will continue to offer significant competition for the condominium market and for other forms of entry level housing.

In spite of the continuously rising costs of labour, materials and development, the increase in supply will result in higher levels of competition for tenants. This in turn will keep average rent increases in the two per cent range over the next two years.

Forecast Summary Halifax CMA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS [®] Sales	6,239	6,945	6,205	5,550	-10.6	5,900	6.3
MLS [®] New Listings	10,701	10,247	10,710	10,500	-2.0	10,800	2.9
MLS [®] Average Price (\$)	201,830	215,668	229,916	237,500	3.3	243,500	2.5
New Home Market							
Starts:							
Single-Detached	1,056	1,207	1,180	900	-23.7	1,000	11.1
Multiples	1,455	1,282	916	890	-2.8	1,070	20.2
Semi-Detached	154	166	108	100	-7.4	100	0.0
Row/Townhouse	154	147	169	180	6.5	170	-5.6
Apartments	1,147	969	639	610	-4.5	800	31.1
Starts - Total	2,511	2,489	2,096	1,790	-14.6	2,070	15.6
Average Price (\$):							
Single-Detached	292,665	332,821	329,765	335,000	1.6	342,500	2.2
Median Price (\$):							
Single-Detached	267,000	305,000	299,900	300,000	0.0	310,000	3.3
New Housing Price Index (% chg.)	4.3	5.8	7.9	1.8	-	1.6	-
Rental Market							
October Vacancy Rate (%)	3.2	3.1	3.4	3.4	0.0	3.2	-0.2
Two-bedroom Average Rent (October) (\$)	799	815	833	850	-	865	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-2.67	3.83	-0.20
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-1.51	5.75	0.20
Annual Employment Level	204,800	208,400	209,400	215,000	2.7	217,500	1.2
Employment Growth (%)	1.1	1.8	0.5	2.7	2.2	1.2	-1.5
Unemployment rate (%)	5.1	5.3	5.2	5.9	-	5.7	-
Net Migration ⁽¹⁾	2,295	4,999	1,800	1,800	0.0	2,200	22.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS®, Statistics Canada (CANSIM)

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

(1) 2008 migration data is forecasted

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