HOUSING MARKET OUTLOOK

Halifax

Canada Mortgage and Housing Corporation

VOLUME 4 EDITION 2
FALL 2003

Residential Construction Pace to Ease but Remain Strong

The new home market in Metro Halifax is poised to turn in another fine performance in 2003 and again in 2004 although residential construction activity will continue to slow from the torrid pace set last year. Total housing starts are forecast to decline 15 per cent from 3,310 last year to 2,800 this year and hold steady at 2,800 in 2004. However, scratching the surface of what appears to be a humdrum housing starts forecast will reveal several striking developments in the local residential construction market. First and foremost, a clear shift in market share of total starts is currently underway from a preponderance of single-detached units to multiple-unit starts. Last year, single starts comprised 56 per cent of total starts in Metro. This share is expected to decline to 53 per cent this year to only 44 per in 2004.

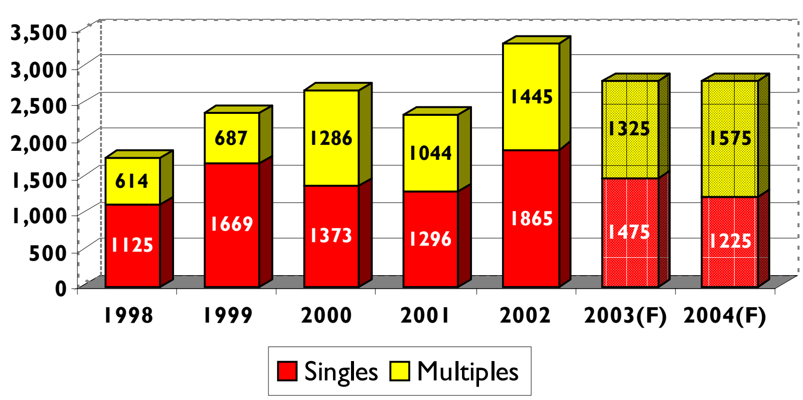
Single starts on the decline

As the resale market continues to soften through the end of next year, expect single starts to fall considerably. In 2002 and the first half of 2003, a very thin inventory of existing homes for sale encouraged many prospective buyers to turn to the new construction market for a home. The low inventory of new homes for sale was quickly exhausted and builders scrambled to meet this surge in demand. However, the inventories of both existing and new homes for sale are rebounding strongly while aggregate home ownership demand is weakening. Consequently, single starts are forecast to post successive declines of 21 per cent and 17 per cent in 2003 and 2004, respectively.

This decline in single starts will occur despite the fact that the low

Multiples To Bolster Total Housing Starts

single and multiple housing starts, Halifax CMA



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borrowing cost environment and buoyant consumer confidence, which caused the acceleration in single starts last year, is expected to persist throughout 2003 and well into 2004. Indeed, the decline will occur in large part *due to* the fact that homebuying conditions were so exceptional over the past 18 months. How is this possible? Many buyers accelerated their purchase plans last year in the belief that "it can't get any better than this" leaving what is expected to be a considerable void in aggregate homeownership demand in Metro in 2003 and 2004. This decline will be particularly acute in the move-up buyer segment which has been the strength of the single family home building market over the past 12 months.

Widespread strength in multiple starts to continue

Several factors will converge to support continued strength across all structure types in the multiple-unit housing starts segment. First, there has been fast growth in small households (one and two persons) in Metro in recent years, a trend that is expected to continue over the forecast period and well beyond as some empty nesters 'move down' as their children move out to form their own households. Consequently, demand for relatively small and easy-to-maintain dwellings—particularly apartments—is expected to increase accordingly. This trend will continue to stimulate impressive levels of new condominium construction in 2003-2004 and will also affect a rebound in rental unit construction in 2004 as rental market conditions tighten considerably in 2003.

Furthermore, although mortgage rates have remained at historically low levels for an extended period of time and are forecast to remain very low well into next year, house prices have been rising at a rapid rate over the past three years, driving up monthly home ownership carrying costs. As a result, more prospective buyers are finding the costs associated with owning a new single-detached home in preferred areas of Metro to be increasingly unaffordable. Builders have responded by expanding their offerings of semi-detached, row and townhouse dwellings to provide a more financially feasible home ownership option for those who want to live close to the urban centre but who cannot afford a single-detached home. This response has only been encouraged by strong growth in construction costs, particularly labour and land/ development-related costs. With mortgage rates forecast to resume their upward march by mid-2004, and with property tax and insurance costs likely to rise steadily over the next two years, ownership carrying costs are expected to outpace household income growth resulting in buyers becoming increasingly price sensitive. Consequently, the resurgent middle-density segment of the local residential construction market is forecast to remain robust in 2003 and 2004 despite a tempered new home construction market overall.

No relief in sight for construction costs

Despite the fact that total starts are forecast to decline from last year's peak, new house prices are expected to increase significantly once again in 2003 and more modestly in 2004. Growth in construction labour costs has continued unabated this year with a surge in renovation activity and more large executive homes under construction keeping trades just as busy as they were last year even though fewer homes are under construction. With renovation spending expected to increase again in 2004, builders are not expected to experience any relief in labour costs in 2004. On the bright side, it will likely be at least a year before early indications of a recovery in the U.S. economy translate into a firming-up in residential construction south of the border and related increases in building materials costs. However, the volatility that has plagued the lumber market in 2003 is likely to persist until the current softwood lumber trade dispute is settled. Consequently, new house price growth is forecast to climb nine per cent this year and an additional six per cent in 2004.

Economic Overview

Growth prospects uncertain
As expected, growth in the Metro economy has been tepid so far in 2003 and the prospects for significant improvement next year are uncertain. While the tourism, trade and non-residential construction sectors are expected to rebound in 2004, the outlook for the offshore energy sector is far less bright than it was a year ago and consumers are expected to take a breather after an extended spending spree. In addition, the provincial government's fiscal outlook for 2003-2004 has also become less optimistic. Consequently, the local economy is expected to endure another year of tepid and uneven growth much as has been the case this year.

Consumer spending has done much of the heavy lifting in the local economy this year spurred on by the low-cost borrowing environment that has endured much longer than anticipated. However, with consumers becoming increasingly tapped-out and with borrowing costs forecast to rise next year, consumers are expected to take a breather in 2004.

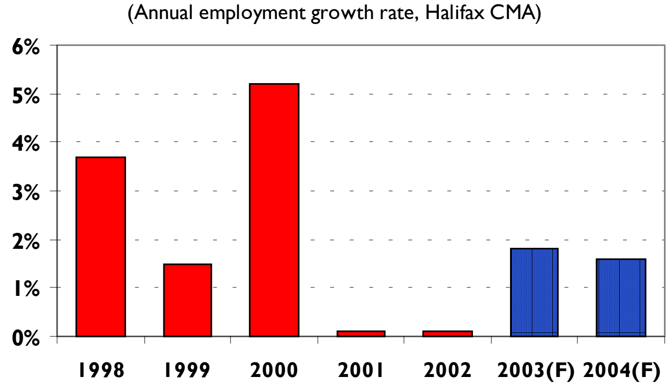
Cruise ship visit growth aside, the tourism sector has endured a difficult year in 2003 with SARS, BSE, an appreciating Canadian dollar and a sluggish U.S. economy conspiring to dampen prospects. However, as concerns abroad about SARS and BSE dissipate and with clear evidence finally emerging to support a genuine recovery in the U.S. economy, prospects are brighter for the tourism sector in 2004. The trade sector has also been impacted by the relative strength of the loonie, but is also expected to rebound next year as firms adjust to the effects of an appreciated currency and with general and widespread improvement in the U.S. economy.

The non-residential construction sector is expected to continue to rebound impressively through the rest of this year and through 2004 on the strength of public sector and related investment. Residence construction has begun on Dalhousie campus; Mount Saint Vincent University campus expansions continue; significant work has now begun on the twinning is Highway 103 between exits 3 and 5; the Halifax Harbour Clean-up project appears to be back on track after some contractual issues; and, a long-term public school construction and renovation program is expected to accelerate in 2004.

Weak employment growth to continue
On the heels of two years of virtually no job gains in Metro in 2001 and 2002, employment growth is on track to end 2003 at 1.9 per cent, not stellar growth by any stretch, but a significant improvement nonetheless. Unfortunately, so far this year all of this growth has been in part-time employment, with slight losses in full-time employment. While employment growth is forecast to continue at a modest rate of 1.6 per cent in 2004, the unemployment rate is expected to slip back below the 7 per cent mark as job gains exceed growth in the labour force. The outlook for employment growth next year would be slightly brighter if not for the uncertainty of the roughly 1,000 jobs at Maritime Life head office due to the impending acquisition of Maritime Life by Manulife Financial.

Mortgage rates to rise but remain low
Rapidly decelerating inflation and the lingering economic impacts of SARS, BSE, the Ontario blackout and the forest fires in B.C. and Alberta will keep Canadian interest and mortgage rates low in the near future. Short-term Canadian interest rates are forecast to remain low over the next few months prior to rising 25 to 75 basis points in 2004. Long-term yields are forecast to continue their upward trend later this year and rise by 25 to 50 basis points both this year and in 2004.

Employment Growth to Rebound But Remain Weak
(Annual employment growth rate, Halifax CMA)



Source: Statistics Canada
Forecast: CMHC

Rental Market Outlook

Demand is growing for more modest apartments

While the results of the 2003 survey are obviously unknown at this time, developments on both the supply and demand side of the rental market in Metro this year have enlightened the forecast for 2003 and 2004. As expected, the influx of the "double cohort" of graduating classes in Ontario has generated an increase in student rental demand in Halifax. While universities have not yet reported enrolment numbers to reveal the extent of the additional freshmen classes, the sense is that there are more students on campuses around Metro this year. This can be expected to continue over the next three to five years as this year's freshman class gradually moves toward graduation and possibly graduate studies.

Over the past three years, growth in the offshore energy industry has stimulated demand for high-end rental units on the Peninsula as workers come to Halifax on a temporary basis to work on exploration and development projects. Unfortunately, news from the offshore over the past year has been disappointing and this has now begun to impact this niche in the rental market. Landlords are reporting a softening of demand in this segment. As drilling and current development activity wind down, the outlook for rental demand from this side of the industry is pessimistic.

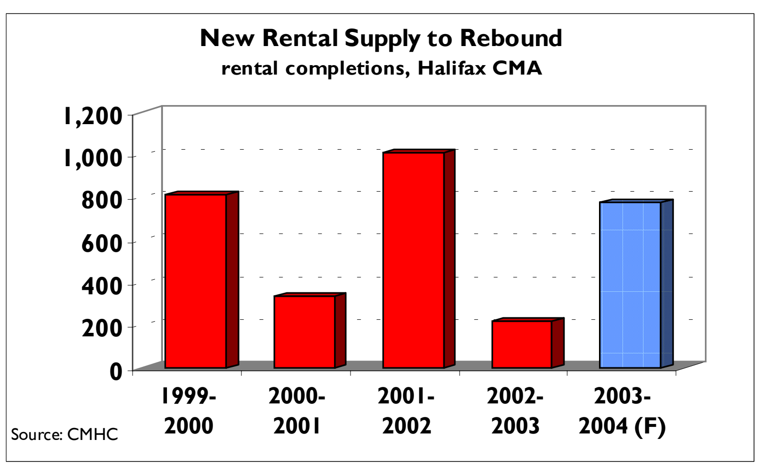
On shore, the impressive appreciation of condominiums in recent years continues to encourage more of those households looking for the apartment lifestyle to buy a condo rather than rent a comparable apartment. This decision is made easier with what has been the relatively unattractive alternative of investing in volatile stock markets (see What's It Worth Today, p.6). While rising mortgage carrying costs in the second half of next year are expected to dampen condo demand—and home ownership demand in general—to some extent, ownership apartment demand is expected to remain healthy, encouraged by an expanding choice of options for potential buyers.

New supply of apartments has dipped but will rebound in 2004

The result of developers' focus on condos has been a sharp decline in new rental units being introduced to the market over the past year. In the July 1st to June 30th period (rental units must be completed before July 1st to be included in the October Rental Market Survey) of 1999-2000, 2000-2001 and 2001-2002, an average of 725 new rental units were completed in each 12-month period. Between July 1st 2002 and June 30th 2003 only 222 new rental apartments hit the market. This very small supply increase is expected to exert significant downward influence on the vacancy rate this year. However, with 775 new rental units expected to be completed in the July 1st 2003 to June 30th 2004 period, the same cannot be said for 2004 as new supply growth returns to a more typical rate and trails forecast demand only slightly.

Expect further tightening

In summary, demand is expected to increase modestly in 2003 and more substantially in 2004 as ownership affordability conditions deteriorate somewhat and moderate employment growth continues, drawing more residents to Metro and stimulating household formation. However, new supply will trail demand by a large margin this year and to a much lesser extent next year, resulting in significant tightening in the Metro Halifax rental market. The vacancy rate is forecast to decline to 2.0 per cent this year from 2.7 per cent last year and an additional but very slight decline to 1.9 per cent is expected in 2004. Due to this significant tightening of market conditions, average rent is forecast to climb almost 6 per cent again this year to $695 per month and another 4 per cent to $725 per month in 2004 as undersupply conditions persist with strengthening demand but a rebound in new supply.



N.B. At the time of writing, the decision was made to delay by one week the enumeration of the annual CMHC Rental Market Survey in Halifax out of respect for rental property owners, managers and tenants as they deal with the aftermath of Hurricane Juan.

Resale Market Outlook

N.B. The Nova Scotia Association of Realtors switched electronic MLS® systems from RExplorer to Celerity on July 22nd 2003 and precise sales, listings, and price data for July, August and September for the Metro Halifax area are not yet available. Consequently, CMHC is using CREA estimates to analyse market conditions and forecast activity for 2003 and 2004.

Activity to slow through 2004

As expected, the Metro Halifax resale market performance in 2003 is shaping up to be much less impressive than was the case in 2002. Last year a record number of homes were sold through MLS® at a record high annual average price as buyers scrambled to take advantage of 40-year lows in mortgage rates in an environment of rapidly rising prices. However, underlying weakness in local economic fundamentals in recent years and the 'vacuum' effect of the prolonged period of historically low mortgage rates are now conspiring to cause a significant slowdown in the Metro resale market that is expected to continue throughout 2004.

Little change in forecast

Since these conditions were identified and factored into our forecasts for over a year now, there has been little change in the resale market forecast for 2003 and 2004 from the Spring 2003 edition of Housing Market Outlook—Halifax. MLS® sales are expected to fall approximately 9 per cent to 6,100 this year (below the 2001 level) and another 5 per cent to 5,800 in 2004. Average MLS® sale price growth is forecast to decelerate to just under 6 per cent this year—ending the year at $157,500 and is expected to grow a meagre one per cent in 2004, remaining just below the $160,000 mark. The main factor influencing this flattening of price growth next year is the unexpectedly sharp turnaround in active listings. Active listings reached almost 2,500 at the normal annual peak in June this year and the inventory of homes listed through MLS® continues to grow steadily through next year.

Weak fundamentals now taking effect

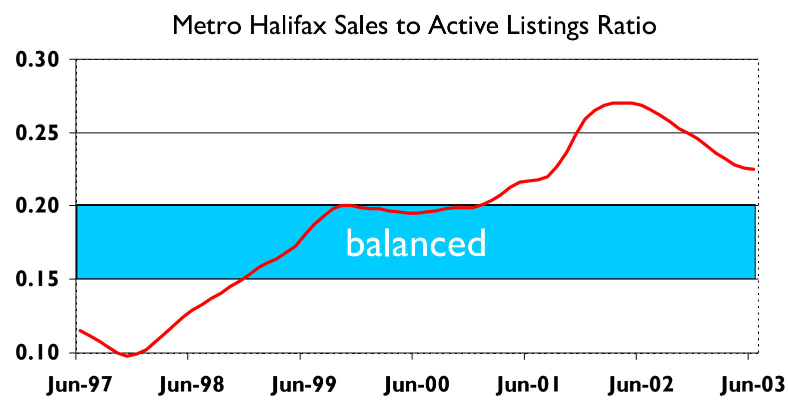
At the annual CMHC Housing Outlook Conference in Halifax in early February this year, we predicted that resale market activity was poised for a decline in 2003-2004. First we noted that most of the pent-up demand that remained from the late 1990s was satisfied in 1999, 2001 and 2002 when successive annual MLS® sales records were set. Then we revealed the underlying weakness in recent years in those economic variables that strongly influence resale market activity, specifically, the fact that local economic growth has been decelerating since 1998, employment growth has stalled in recent years- with full-time job losses in 2002, and that disposable income has failed to keep up with inflation over the past two years.

The absence of these necessary market stimuli is now affecting resale activity despite the fact that mortgage rates have remained at exceptionally low levels for a much longer period of time than expected. In fact, the decline in sales can also be attributed in part to this extended period of historically low mortgage rates as many buyers viewed the market conditions in 2002 as a "can't get any better than this" scenario causing them to accelerate their home purchase plans accordingly. As a result, a significant amount of demand was brought forward into 2002 that would have otherwise been realized in 2003-2004, and this is expected to have a significant dampening impact on aggregate demand for housing over the next 18 months.

Pressure will continue to be released

After an extended period of sellers' market conditions, pressure in the Metro resale market has been easing with falling sales, rising listings and slower price growth over the past six months. A significant amount of pressure has already gradually been released and the market is expected to revert to balanced condition late this year before turning in favour of buyers in the second half of 2004-territory last seen approximately five years ago.

Resale market reverting to balanced condition



Source: NSAR,CREA, and CMHC

HALIFAX-DARTMOUTH MLS® RESIDENTIAL ACTIVITY

	September			Year-To-Date		
INDICATOR	**2002**	**2003**	**Per Cent Change**	**2002**	**2003**	**Per Cent Change**
New Listings	702	731	4.1%	7,504	7,382	-1.6%
Unit Sales	481	435	-9.6%	5,366	4,933	-8.1%
Average Price	$147,918	$158,634	7.2%	$147,892	$160,472	8.5%

Source: Canadian Real Estate Association (CREA)

Note: The Nova Scotia Association of Realtors adopted new MLS® software in July 2003, and as a result, the MLS® activity reported in this table contains data for both resale (existing) homes and new homes.

This month's Halifax-Dartmouth numbers are based on market share estimates issued by CREA.

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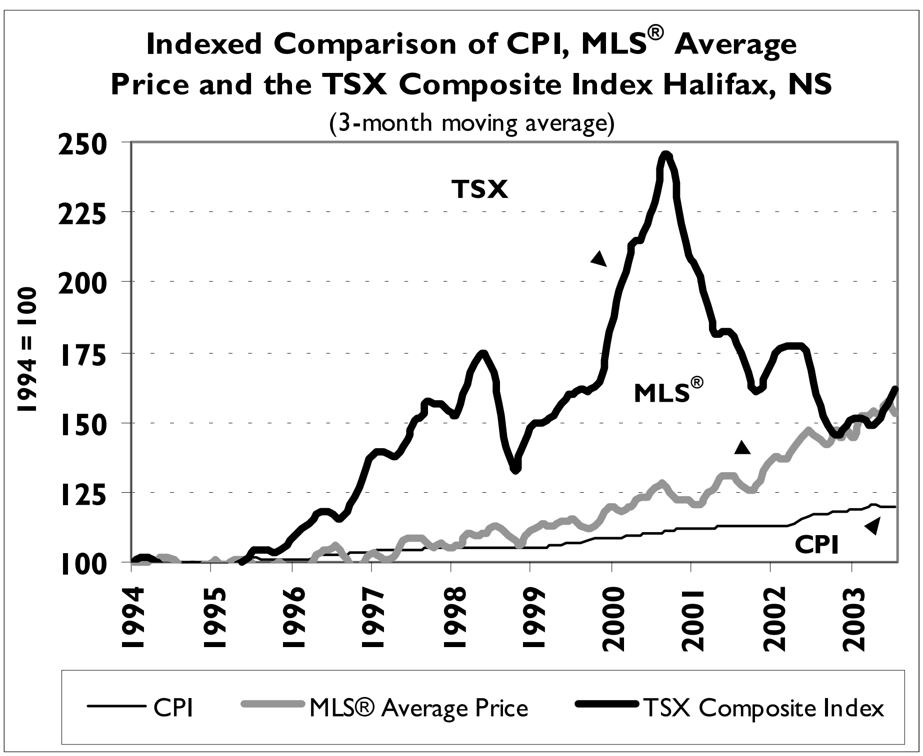
Feature: What's it worth today?

A comparison of residential real estate, stocks, and the general cost of living in Halifax

It is hard to ignore the daily cacophony of advice streaming from financial planners and investment specialists in the business section of the newspaper and on television with respect to where to park your money for a rainy day. Often there are conflicting opinions about stocks versus residential real estate as the key to financial freedom. While individual investment advice is a personal decision and no investment is immune from risk, it is interesting to look at how local housing markets have compared to Canada's key stock index over the past ten years especially when compared to the local cost of living.

Over the past ten years the average MLS® resale price in Halifax climbed 53 per cent from just over $103,000 in 1994 to around $158,000 today. This compares with a 62 per cent gain on the TSX Composite Index over the same time frame. Although the TSX has outperformed the local housing market over the last ten years, the degree of volatility in the stock market far exceeds the relatively steady gains in the area's residential real estate market. In addition to the favourable tax treatment afforded to primary residences, a home is also a place to live, which is an important consideration in any financial plan.

Finally, when measured against the region's general cost of living, overall gains in both stocks and residential real estate have exceeded inflation as measured by the Consumer Price Index (CPI). In other words, regardless of where you parked your money ten years ago, it would have posted a positive real rate of return by today. However, some investment choices may have resulted in sleepless nights instead of a place to sleep.



Sources:

Canadian Real Estate Association
Statistics Canada: Consumer Price Index
TSX Group Inc.

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Hurricane Juan: Impact of the Storm of the Century

How the devastation and recovery from the hurricane will impact the local housing market...

At the time of writing, Metro Halifax is in the midst of recovering from the wrath of Hurricane Juan. What impact will Juan have on the local housing market? At this point it is virtually impossible to *quantify* the anticipated impact, however, the industry will certainly be affected in numerous ways.

Rental Market

Over the next 3 to 4 months, the rental market is expected to experience a temporary tightening. Homeowners and tenants who have been displaced from their dwellings due to property damage will join power crews, clean-up workers and insurance claim adjusters and others from out of town in search of temporary accommodations. It is unlikely that local hotels can satisfy all of this demand and a small portion will spill over into the rental market through the end of this year. No significant long- term impacts are anticipated as damaged rental structures are repaired and return to the market.

Resale Market

The annual homebuying season was already winding down as Juan struck and the aftermath of the storm will likely accelerate this eventuality. Many homeowners (potential buyers and sellers alike) will have varying degrees of clean-up to complete that may interfere with their plans to list or view property. Furthermore, with no imminent upward movement in mortgage rates, potential buyers will feel no related pressure to purchase this fall and may choose to wait until the spring when the effects of the storm have passed.

Realtors, property lawyers and home inspectors can expect to be very busy over the next three to six months. Listed properties, those with pending sale agreements, or those with approaching closing dates that have suffered damage may require reassessment, re-valuation, repair, detailed closing inspections and/or potential renegotiation of contracts where warranted. This is expected to have a drag effect on the timeliness of transactions and will likely delay some sales and listings into next year.

New Construction

The residential construction industry was already operating at full capacity with persistent construction trades shortages impeding timely progress on projects. Many trades - especially electricians, roofers, framers and window/door installers have now turned their attention to property owners who need immediate repairs. This is expected to result in widespread and significant delays in completing those homes that were under construction at the end of September. Although builders and trades will likely ramp-up efforts to meet contractual obligations, shorter daylight hours will make this already difficult task nearly impossible. In addition, some builders are reporting that homes that were under construction were damaged, particularly

those that had not reached the roof-tight stage. Builders will have to struggle to get these homes to the roof-tight stage as winter approaches and related delays are expected. These delays in completing homes under construction for specific clients will likely have a modest ripple effect through the resale and rental markets as closing and moving dates are pushed-back and households scramble to make alternative arrangements.

On a positive note, Hurricane Juan is expected to have only a minimal impact on housing starts. Pending starts on heavily treed building lots may be delayed slightly due to unavailability of personnel to clear trees in preparation for excavation, however, very few of those properties damaged by the storm will require excavation or concrete work so the availability of these resources is not expected to delay the pouring of footings and foundations.

Renovation

Expect to see a significant increase in hurricane-related renovation activity through the end of next year. Properties and homes damaged by the storm will require varying degrees of repair most of which can be considered non-discretionary. This significant spike in renovation demand is occurring at a time when the local renovation market is already exceptionally busy, placing additional pressure on a segment of the residential construction industry that is at full capacity. This will inevitably result in labour and material shortages and related price growth well into next year.

Some homeowners who had been considering remodelling projects such as finishing basements or replacing kitchen cabinets may delay or even cancel (depending in large part on insurance coverage) these 'nice to do' projects if their homes were damaged by the storm and now require 'need to do' repairs such as window replacement or a new roof. Furthermore, catastrophic natural disasters often encourage homeowners to reconsider deferred preventative maintenance and equipment replacement projects that might increase the safety of their families and their property in the event of a future 'significant weather event.' Consequently, building supplies dealers can also expect an increase in spending from "do-it-yourselfers" who believe an ounce of prevention is worth a pound of cure.

Finally, given the extensive damage to trees, decks, patios and gardens around Metro, landscapers and nurseries can expect to experience a surge in demand for their products and services. While this will begin this fall, it will be particularly acute next spring and summer when agreeable weather permits owners to fully rehabilitate their property and when nurseries will have a much better selection of products available.

FORECAST SUMMARY

Metropolitan Halifax- October 2003

	2001	2002	2003 F	% change	2004 F
RESALE MARKET					
MLS® Active Listings (June peak)	2440	2274	2460	8.2%	2750
Residential MLS® Sales	6212	6687	6100	-8.8%	5800
Residential MLS® Average Price	$ 134,106	$ 148,737	$ 157,500	5.9%	$ 159,000
NEW HOME MARKET					
Total Starts	2340	3310	2800	-15.4%	2800
Single-detached	1296	1865	1475	-20.9%	1225
Multiple Unit	1044	1445	1325	-8.3%	1575
Semi-detached	96	184	250	35.9%	200
Row	12	126	150	19.0%	125
Apartment	936	1135	925	-18.5%	1250
Average New House Price (Single-detached)	$ 179,851	$ 194,547	$ 212,000	9.0%	$ 225,000
RENTAL MARKET					
Vacancy Rate	2.8%	2.7%	2.0%		1.9%
Average Rent	$628	$658	$695	5.6%	$725
Rental Housing Starts	680	785	565	-28.0%	700
ECONOMIC OVERVIEW					
Mortgage Rate- 3 year term	6.88%	6.28%	5.76%		6.01%
Mortgage Rate- 5 year term	7.40%	7.02%	6.42%		6.83%
Employed	183,733	183,983	187,500		190,500
Employment growth	0.1%	0.1%	1.8%		1.6%
Unemployment rate	6.8%	7.4%	7.2%		6.8%

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Source: CMHC

Statistics Canada: Labour Force Survey

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

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