HOUSING MARKET OUTLOOK

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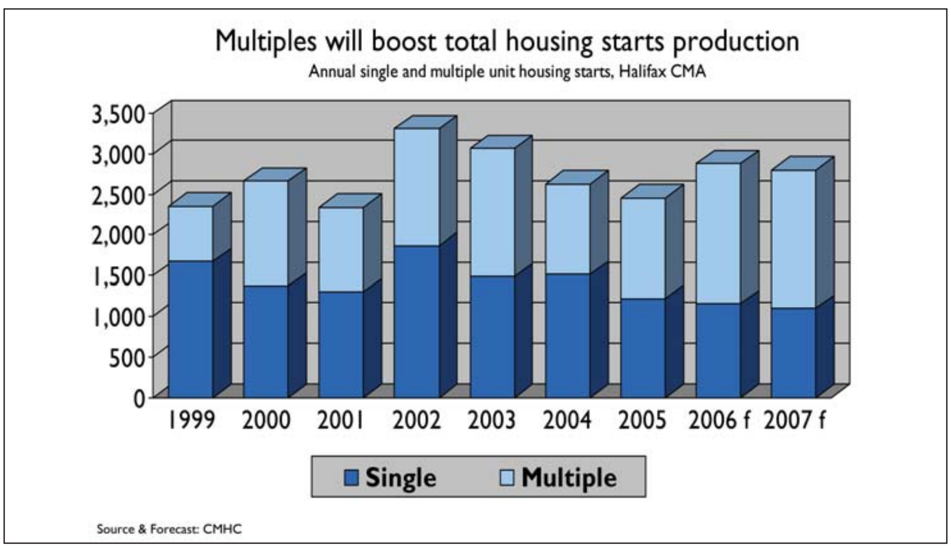
Rising Costs & Falling Demand Challenge the Market Through 2007

NEW HOMES MARKET OUTLOOK

Apartment Projects Boost Residential Construction Activity
Residential construction activity is forecast to increase moderately this year and maintain a vigorous pace in 2007 courtesy of impressive gains in the apartment construction sector. Total housing starts are expected to climb 15 per cent this year to 2,825 and dip only slightly to 2,775 next year. Demographic trends, construction cost pressures and declining homeownership affordability conditions will each contribute to the shift toward a greater share of multiple unit construction activity. Conversely, single-detached homebuilding will continue to languish due to a bulging inventory of existing homes and a thin inventory of serviced building lots. The pace of renovation spending is forecast to decelerate as a host of factors that have been accelerating growth in this sector begin to idle.

Annual multiple unit housing starts are forecast to rise to 60 per cent share of total starts as apartment construction leaps almost 50 per cent above last year's level. Demographic trends are driving this shift, consequently, strong growth in new construction will occur in both rental and condominium apartment segments. The baby boomers' children are maturing and moving out of the family home generating faster growth in households than in the population overall. This phenomenon is propping-up rental demand while also generating demand for carefree condo living from empty nester parents. In addition, homeownership carrying costs are forecast to accelerate faster than income over the next two years which will degrade homeownership affordability and keep more renters in tenancy, at the far end of the forecast horizon. These are the key factors behind the anticipated growth in the apartment construction sector over the next two years.



Rising land, labour and materials costs - and as a result, new home prices - over the next 18 months will continue to support interest in the semi-detached and row/townhouse segments from both developers/builders and potential homebuyers. This 'middle-density' segment of the market has become increasingly popular with consumers and producers as an affordable new home option in desirable new neighbourhoods across Metro. However, potential growth in housing starts in this segment is expected to be suppressed by land supply constraints, resulting in only very modest increases in annual semi and row starts this year and next year.

Directly and indirectly, supply factors are also expected to stifle single-detached housing starts over the next 18 months resulting in the lowest annual production levels in 15 years. The inventory of existing homes priced over

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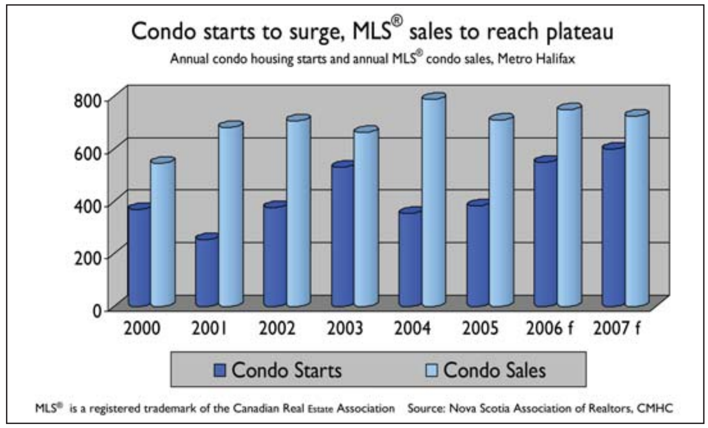
$250,000 is expected to continue to swell, providing potential move-up buyers with more alternatives to increasingly costly new homes. Intensifying this competition is the fact that a substantial proportion of the existing housing stock has been substantially renovated in recent years, eroding a key advantage traditionally offered by a newly built home. Furthermore, the thin inventory of serviced building lots priced under $75,000 that has restrained single-detached homebuilding over the past two years is expected to continue into next year. Fortunately, some relief is in sight with new developments in Dartmouth, Sackville and Spryfield that will reduce building lot price inflation and also provide builders with serviced land options that will allow sub $300,000 turn-key packages. This will be important as homebuyers become increasingly price-sensitive despite maintaining high expectations. As a result, the annual average sale price growth for single-detached homes is forecast to decelerate to 10 per cent this year and 3 per cent next year, ending a 5 year run of annual acceleration in price growth.

The combination of growing buyer price-sensitivity but high expectations, as well as relentless land, labour and material prices is expected to squeeze builders and developers even more over the next two years. Rising energy prices will inflate the production and transportation costs of many building materials while global demand is expected to remain quite firm courtesy of Asian growth and U.S. Gulf Coast reconstruction. In addition, as the pace of local non-residential construction activity accelerates in concert with the siren song of riches to be made in Alberta and B.C., construction trades labour market conditions are forecast to tighten, reducing availability and raising prices.

Spending on residential renovations is also forecast to grow at a slower pace over the next two years. Rising mortgage rates will continue to curb mortgage refinancing activity - which has been a key source of funding for renovations over the past five years. Also, homeowners will have less discretionary income to spend on renovations as a host of homeownership carrying costs rise. They may also be less willing to spend on renovations as weaker homeownership demand and a slower pace of residential real estate appreciation reduces the attractiveness of this pursuit from an investment perspective. Finally, a slower pace of MLS® sales will begin to inhibit renovation demand especially with a growing share of existing buyers acquiring homes that have already undergone significant repairs, replacement, remodelling and revitalization over the past five years.



In summary, residential construction activity is forecast to remain robust through the end of next year with total housing starts climbing to an annual average of approximately 2,800 in each of the next two years after recording 2,451 starts last year. Multiple unit starts will comprise a greater share of total starts over the forecast horizon as single starts slide and apartment construction surges. Builders and developers will be increasingly squeezed by omnipresent production cost increases and demanding, but increasingly price-sensitive consumers. Market responses will more commonly include smaller homes with high quality layouts, features and finishes. Finally, renovation spending is forecast to grow at a slower pace as the financial ability and willingness of owners diminishes and the incidence of structural necessity of projects decreases.

ECONOMIC OUTLOOK

Potential for Further Stellar Growth in the Near Term is Limited

Economic conditions are expected to remain healthy through the end of next year with employment, consumer spending and investment all performing well by historical standards. However, the pace of economic *growth* began to decelerate in the second half of last year and is expected to gradually slow to a crawl through the end of next year, curbing housing demand. Competition for labour as well as high energy prices will present significant challenges for producers and consumers respectively over the next two years and these will be instrumental factors that impede the pace of local employment and economic growth.

After generating almost 7,400 new jobs in 2004, employment growth stalled last year adding only 758. Through the first quarter of 2005, the local economy continued to shed jobs, with total employment retreating below the 200,000 mark for the first time since April 2004. The much slower pace of growth in employment that has occurred in Metro Halifax over the past year can be attributed in part to decreased availability of skilled labour as contraction in the labour force has exceeded shrinkage in employment.

Exceptionally strong demand for labour in Alberta and British Columbia, as well as relatively (by historical standards) healthy employment conditions in Newfoundland & Labrador and other areas of Nova Scotia have been a key factor in the recent labour force contraction in Halifax. Fewer people have been drawn to Halifax from other parts of Atlantic Canada while more Haligonians have been enticed to leave the city for opportunities 'out west'. Consequently, local net migration has weakened substantially over the past 18 months, curtailing growth in housing demand.

Little change is expected in these relative labour market conditions over the next two years as high energy prices continue to fuel economic growth in Alberta and Newfoundland & Labrador while undermining local consumer confidence and spending in Metro Halifax. As a result, annual employment growth is forecast to remain well below one percent this year and again in 2007 with only about 2,500 new jobs expected to be created by the end of next year. Accordingly, annual net migration is forecast to remain below 750 this year and again next year, well below the annual average over the past 10 years of 1,700.

In the goods sector, the manufacturing industry will continue to grapple with an elevated Canadian dollar while the natural resource and utilities industries will struggle with structural adjustments. Construction will continue to be the shining star of the goods sector through the end of next year. Residential activity is forecast to remain quite healthy while non-residential activity is forecast to accelerate as school construction projects and highway twinning 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, tight labour market conditions and modest tax cuts will generate growth in household disposable income but this will be more than offset by the combination of high gasoline prices, higher heating and utilities expenses and rising debt carrying costs. This is expected to dampen consumer confidence and gradually bring to an end the spectacular run in local consumer spending growth that has occurred over the past seven years. Meanwhile, the forces that brought about the lacklustre 2005 tourism season remain entrenched and appear poised to induce a repeat performance this year. Growth in seaport traffic, particularly container shipping, will boost the transportation sector overall although the outlook for the road and air segments is somewhat less certain in the context of high fuel prices.

As the regional centre for the federal government, health care, post-secondary education and the east coast navy, the fiscal health of the federal and provincial governments has a tremendous influence on the local economy. With both the federal and provincial governments posting surpluses in recent years and with the potential for related public sector investment opportunities, the outlook for this critical component of the Metro Halifax economy is quite positive.

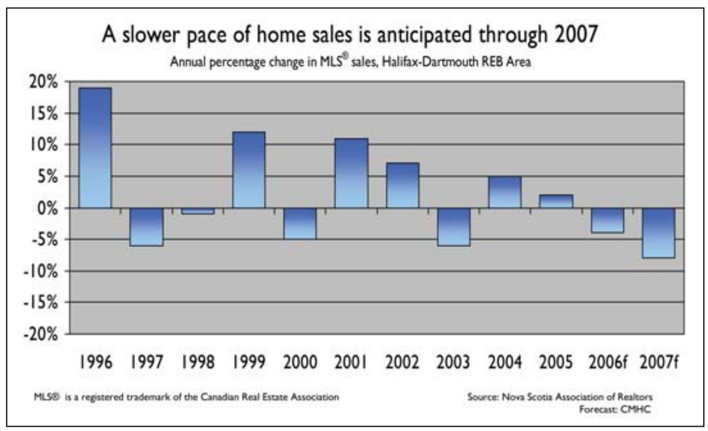
In summary, the Metro Halifax economy is expected to remain generally healthy over the next two years but growth will be subdued by high energy prices and the indirect impact of these prices on household budgets and labour availability. Nevertheless, positive government balance sheets will provide some valuable stability to the local economy as other local industry sectors struggle to adjust to a host of challenges associated with elevated exchange rates and energy prices.

RESALE MARKET OUTLOOK

Expect the Normal Cyclical Decline to Resume

The pace of MLS® sales is forecast to decline moderately and price growth is expected to steadily decelerate through the end of next year as homeownership demand weakens from record high levels. Nevertheless, resale market conditions in general are expected to remain quite healthy by historical standards. Balanced market conditions will prevail for most of the forecast period but buyer's market conditions are expected to materialize late next year for the market overall and as early as this fall in the $300,000 and higher price segment where inventory is mushrooming. At the other end of the price spectrum, rising home ownership costs will degrade homeownership affordability, gradually deterring more potential first-time buyers. In addition, as the expectations of buyers and sellers diverge, Realtors® will be increasingly challenged to close deals.

Many of the conditions that have stimulated the exceptional strength of homeownership demand over the past five years have now begun to weaken slightly and will suppress existing home sales through the end of next year. Employment growth stalled late last year after an impressive three year run and is expected to remain below one percent annually this year and again in 2007. While virtually no growth in labour force will keep unemployment at 30 year lows and thus apply upward pressure on income, this will be countered by rising inflation leaving households no better off. Consumer confidence has been shaken somewhat by explosive growth and volatility in energy prices, and households are expected to approach home purchases with more caution over the next 18 months. Finally, while long-term mortgage rates remain very low, they have begun to rise slightly after a prolonged period of near record low levels. The magnitude of the impact of even modest increases in mortgage rates will be amplified by the tremendous 75 per cent growth in house prices over the past eight years. This will also undermine homeownership demand over the forecast horizon as buyers demonstrate increasing price-sensitivity. As a result, MLS® sales are forecast to fall 5 per cent this year to 6,200 before sliding 8 per cent next year to 5,700.



Exceptional residential real estate appreciation over the past seven years is now generating an aftershock of higher property taxes. Coupled with elevated home heating costs, rising electricity and water bills, and soaring gasoline prices, potential homebuyers are expected to be considerably more cautious in their decision-making than in recent years as they become increasingly attenuated to their household budget bottom line. Furthermore, as the inventory of homes for sale continues to expand (albeit at a slower pace than last year) concurrent with fading demand, potential buyers will progressively find themselves in the driver's seat in purchase negotiations. These factors are a recipe for a gradual deceleration in the rate of annual price growth which is forecast to slow to 4 per cent this year and only one per cent in 2007 when annual MLS® average sale price approaches the $200,000 threshold.

Expanding inventory and softening demand are expected to continue to relieve market pressure resulting in a steady drift in overall resale market conditions from the current edge of seller's/balanced condition to the edge of balanced/buyer's condition by late next year. At the high end of the market, scattered oversupply conditions have already begun to materialize, resulting in longer time to sell as well as greater incidence of list price reductions. These conditions are expected to intensify over the next 18 months with buyer's market conditions expected to materialize in this price segment by the end of this summer.

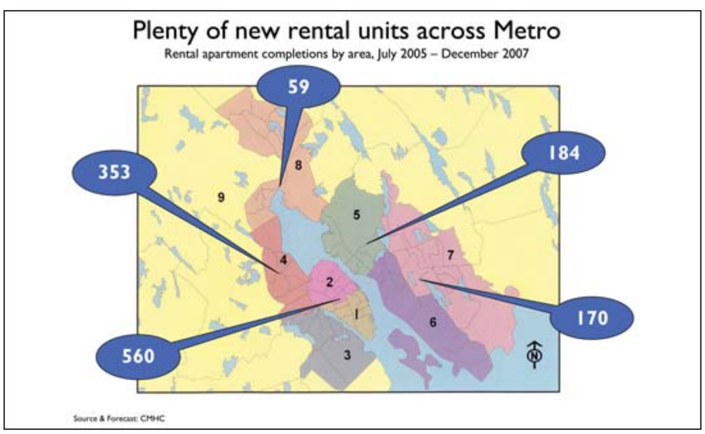
Finally, despite generally healthy homeownership demand and greater choice for potential buyers over the next 18 months, Realtors® are expected to find it more difficult to put deals together as buyer and seller expectations diverge. As described above, market conditions are forecast to shift increasingly in favour of buyers and they are also expected to become more price-sensitive. Simultaneously, sellers who have already committed to another home purchase may feel pressure to maximize equity gains on their sale to minimize expenses on their new home purchase. Those who have invested significantly in renovations in recent years (and many have) will also be driven to generate a return on this investment. Consequently, Realtors® can expect to find that difficult deals will become more common as it takes more effort and negotiating skill to satisfy their clients' expectations on both ends of the transaction.

In summary, the pace of MLS® sales and the rate of price growth are both expected to slow over the next 18 months as homeownership demand gradually weakens, supply expands and potential homebuyers become more cautious and price sensitive. A growing inventory of homes for sale will provide more choice for potential buyers, especially among properties priced over $300,000. However, Realtors® are expected to find it more challenging to bring deals together as market conditions continue to shift in favour of buyers but with sellers insisting on maximizing their equity gains.

RENTAL MARKET OUTLOOK

Landlords to Muddle Through High Costs and Low Demand

Rental market conditions are expected to continue to ease this year before a tightening phase begins in the latter half of next year. Growth in rental supply will exceed growth in demand this year but this condition is expected to reverse itself in the second half of next year as demand begins to gather strength. Rental property owners will endure a multitude of rising operating costs over the next two years which they will find difficult to pass through to their tenants in the context of market conditions that tend to favour renters. Nevertheless, it is expected that landlords will transfer the majority of these cost increases through to their tenants, generating real growth in annual average rents this year and again in 2007.



While mortgage rates are forecast to rise slightly before stabilizing later this year and through next year, they will remain very low by historical standards. As a result, a steady flow of households will continue to be lured out of tenancy and into homeownership over the next twelve months before rising house prices and property tax bills conspire to degrade homeownership affordability conditions and stem this flow of first time buyers in the second half of 2007. Also, employment conditions for those under 30 years of age are not expected to improve much over the next 12 months, constraining a critical source of entry-level rental demand as fewer local youth form their own households and net migration shrinks. In short, there is little to suggest that those factors that have led to sagging demand for rental apartments over the past 18 months will turn around significantly before the second half of next year. However, a recovery in rental demand is expected to begin next year as deteriorating homeownership affordability conditions deter potential first-time homebuyers and improving youth employment conditions stimulate an increase in youth household formation and net migration.

Over the next 18 months, growth in supply of rental apartments is forecast to continue to rebound impressively from last year's cyclical nadir as rental property developers anticipate a revival in rental demand later next year. Rental housing starts are forecast to jump from 529 last year to 825 this year and remain at 800 next year. This acceleration in rental construction will add more than 950 new apartments to the local rental stock by the end of 2007- in addition to the 407 that were completed and brought to the market in the second half of last year. While rental construction on the Halifax Mainland will maintain the steady pace exhibited in recent years, activity on the Peninsula will ease somewhat and rental apartment construction in Dartmouth will continue to accelerate. This will occur due to the relative market conditions and trends in these areas of the city, relative land and development costs, and the anticipation of strong growth in rental demand in Dartmouth. In the case of the latter, Dartmouth Crossing is expected to create a substantial number of new retail jobs that will be attractive to young renters. In addition, relatively low rents and improving transit links with downtown Halifax may encourage more renters to consider Dartmouth as an alternative to the Halifax Peninsula or Clayton Park.

Rising development and construction costs are expected to manifest themselves in larger projects as rental property developers employ economies of scale in an attempt to manage a multitude of escalating costs. Only five years ago a 60 unit apartment structure was considered a large project by local standards while today a comparable measure would likely be 100 units. More rental developers are also expected to attempt to control costs by building slightly smaller apartments. Rental units built in Metro Halifax in recent years have been very generous in terms of square footage and developers may perceive the potential to shrink the size of these units slightly to help keep rents down in new buildings. Also, a shift toward a larger share of one bedroom units in new rental projects is anticipated since extensive rental and condo development over the past five years is considered by some to have saturated the two bedroom unit segment.

Rising property tax assessments, heating costs, electricity rates, and water bills are all expected to impact rental property owners through the end of next year. In addition, landlords may incur higher expenses for items such as advertising and possibly even incentives to attract tenants in a softening market. Despite unsupportive market conditions, rental property owners are expected to pass most of these cost increases through to their tenants, resulting in annual average rent increases of three to four per cent this year and again in 2007.

In summary, the rental vacancy rate is forecast to continue to creep upward rising to 3.6 per cent this year before retracting to 3.2 per cent in 2007 as deteriorating home ownership affordability conditions and improving youth household formation revive rental demand. Despite further easing in rental market conditions this year and prevailing balanced market conditions next year, annual growth in average rent is forecast to hover in the three to four per cent range as rental property owners pass through to their tenants rising operating costs.

FORECAST SUMMARY

Metro Halifax- April 2006

	2004	2005	2006 F	% change	2007 F	% change
RESALE MARKET						
MLS® Active Listings (June peak)	2,338	3,984	4,300	7.9%	4,650	8.1%
Residential MLS® Sales	6,415	6,541	6,200	-5.2%	5,700	-8.1%
Residential MLS® Average Price	$ 173,747	$ 187,802	$ 195,500	4.1%	$ 198,000	1.3%
NEW HOME MARKET						
Total Starts	2,627	2,451	2,825	15.3%	2,775	-1.8%
Single-detached	1,510	1,216	1,150	-5.4%	1,100	-4.3%
Multiple Unit	1,117	1,235	1,675	35.6%	1,675	0.0%
Semi-detached	142	146	150	2.7%	150	0.0%
Row	166	169	175	3.6%	200	14.3%
Apartment	809	920	1,350	46.7%	1,325	-1.9%
Condominium (all structure types)	401	383	550	43.6%	600	9.1%
Average New House Price (Single-detached)	$ 233,914	$ 263,663	$ 290,000	10.0%	$ 300,000	3.4%
RENTAL MARKET						
Vacancy Rate	2.9%	3.3%	3.6%		3.2%	
Average Rent-	$705	$709	$735	3.7%	$770	4.8%
Rental Housing Starts	471	529	825	56.0%	800	-3.0%
ECONOMIC OVERVIEW						
Mortgage Rate- 3 year term	5.65%	5.59%	6.22%		6.31%	
Mortgage Rate- 5 year term	6.23%	5.99%	6.61%		6.78%	
Employment	201,933	202,692	204,200		205,200	
Employment growth	3.9%	0.4%	0.7%		0.5%	
Unemployment rate	6.1%	5.8%	5.4%		5.5%	

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Source: CMHC

Statistics Canada: Labour Force Survey

Canadian Real Estate Association

Nova Scotia Association of Realtors

Bank of Canada

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