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ORECAST

New Brunswick

SUMMARY

Canada Mortgage and Housing Corporation

VOLUME 7 EDITION 2

THIRD QUARTER 2004

Residential Construction to Slow Down Slightly in 2005

The blistering pace of residential construction activity experienced in New Brunswick in recent years is expected to taper off in 2004 and 2005. The slowdown in new home construction in 2004 will be due mainly to a significant drop in multiple starts, while a decline in single starts will cause total housing starts to decline slightly in 2005.

27-year high. However, the drop in multiple starts in 2004 will cause a rise in activity in 2005, as many developers decided to postpone some of their projects until next year. Higher levels of multiple starts in 2005 will somewhat offset the drop in single starts. Consequently, total housing starts will remain strong in historical terms, with 3,750 in 2004 and 3,700 units in 2005.

Multiple Starts to Bounce Back in 2005

Multiple starts were weaker than expected in the first half of 2004 due to severe winter conditions and a substantial rise in completions in most regions, which temporarily oversupplied the market. Between January and June 2004, 1,131 multiple units were completed across New Brunswick, compared to only 350 units over the same period in 2003. Construction activity is expected to bounce back in the second half of 2004, but total multiple starts will come short of 2003's

MLS® Sales to Remain on the Rise

In-migration, low mortgage rates and a broadening gap between new home and existing home prices will cause many potential buyers to opt for the resale market again in 2005. The growth in terms of both sales and average sales price will not be as steep as in 2004, but expect Realtors™ in New Brunswick to enjoy another record year in 2005. The resale market will be particularly strong in the southeast region.

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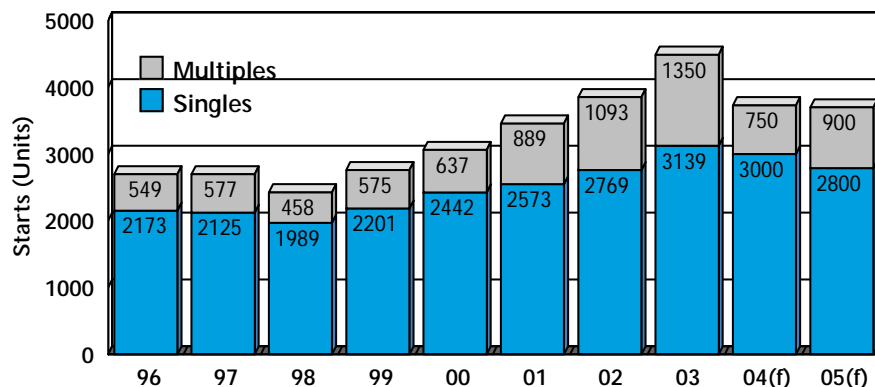
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Total Housing Starts - New Brunswick

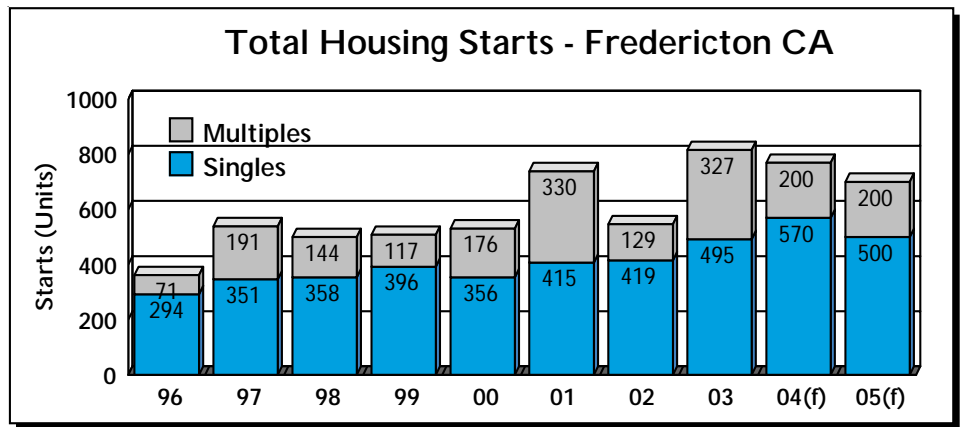


HOME TO CANADIANS
Canada

Fredericton

Weak Employment Growth to Slow Housing Demand

Employment dropped by more than 500 jobs over the first eight months of 2004 when compared to the record high levels in 2003. The drop would have been even more significant without the addition of nearly 300 part-time positions over the same period. Furthermore, the recent mill closure will not help to fuel employment growth and consumer confidence in the Greater Fredericton area. Fewer jobs, mainly full-time positions, could also have a negative impact on net migration. Over the past few years, the creation of new full-time positions convinced many New Brunswickers in northern regions of the province to relocate to the capital region for better job opportunities. Consequently, the recent drop in full-time positions could have a negative impact on net migration. Weak employment growth, softer in-migration, as well as rising new home prices and mortgage rates, are all key factors that will contribute to a slowdown in residential construction in 2005. The decline in total starts in 2005 will be mainly due to weaker single-starts levels. Single starts in Fredericton are expected to drop from a high of 570 units in 2004 to 500 units in 2005.



Resale Market to Remain Strong

An ample supply of existing homes available on the resale market is another factor that will cause single starts to decline and MLS® sales to reach another record high in 2004 and 2005. At the end of August, year-to-date MLS® sales had already reached 1,456 units, exceeding last year's record for the January–August period by more than 21 per cent. Despite the substantial rise in sales, active listings as at the end of August were nearly 7 per cent ahead of last year's levels. Furthermore, the broadening gap between new and existing homes prices is also causing many potential homebuyers to opt for the resale market. When comparing the price of a new versus existing home there is currently a difference of \$53,000 between the two. (2004 forecast: MLS® sales price \$120,000, new home price

\$180,000). A significant rise in building material costs, softwood in particular, combined with rising land costs, are the key factors that are contributing to the rise in new home prices.

Multiple Starts to Remain Strong in Historical Terms

Since 1990, more than 1,700 new rental units have been started in the Fredericton area, 724 of them (or 43 per cent) since 2000. Despite the surge in new rental units over the past four years, the vacancy rate has remained under 1.7 per cent over that period, reflecting solid demand for rental properties. Furthermore, fewer households will be able to make the jump to the homeownership market over the next few years. As a result, rental demand will remain strong. Expect multiple starts to reach 200 units in both 2004 and 2005.

FORECAST SUMMARY Fredericton CA

	2000	2001	2002	2003	2004*	2005*	% Change
NEW HOME MARKET							
Total Starts	532	745	548	822	770	790	2.6%
Single-detached	293	344	327	405	450	390	-13.3%
Manufactured Homes **	63	71	92	90	120	100	-16.7%
Multiples	176	330	129	327	200	300	50.0%
Avg. New Home Price	\$119,000	\$138,200	\$156,600	\$165,000	\$173,000	\$180,000	4.0%
Vacancy Rate	1.3%	1.5%	0.9%	1.6%	2.0%	2.5%	
RESALE MARKET							
MLS® Sales	1287	1384	1474	1655	1900	1950	2.6%
Average Sales Price	\$99,507	\$105,818	\$105,245	\$115,229	\$120,000	\$125,000	4.2%

* Forecast ** Single sections in land leased communities

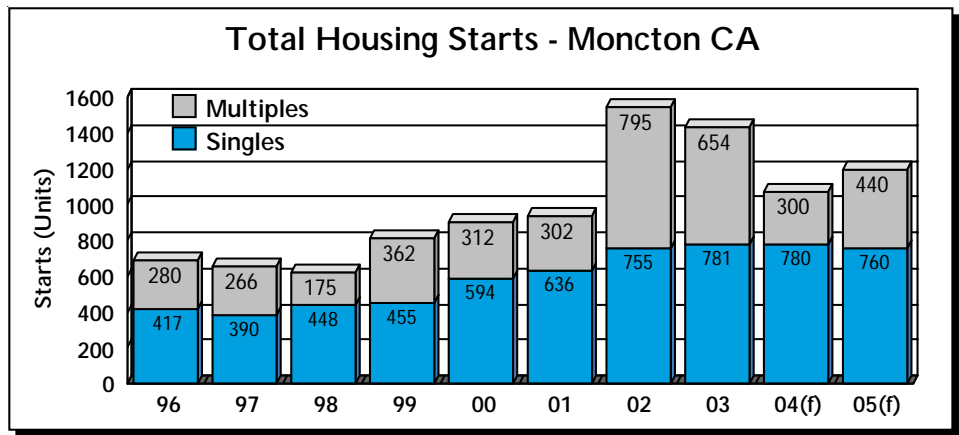
Moncton

Employment to Bounce Back Over the Forecast Period

Employment growth last year in Greater Moncton did not match the torrid pace set in 2002. In fact, employment increased by fewer than 900 jobs in 2003 compared to more than 3,600 jobs in 2002. However, many companies indicated that they would resume hiring in 2004. This was evident in the first three quarters of 2004, as employment exceeded last year's levels by more than 3,300. However, employers are facing a significant shortage of skilled workers in many sectors. As a result, most employers will have to continue to recruit from outside the region to find qualified employees. Strong employment growth combined with a shortage of skilled workers in many sectors will continue to fuel in-migration and housing demand in 2004 and 2005.

Multiple Starts to Bounce Back in 2005

Multiple starts will decline significantly in Greater Moncton in 2004. In the first half of 2004, many builders focused mainly on completing projects that had started in the latter part of 2003. At the end of June, multiple starts had already dropped by more than 53 per cent. Construction activity was expected to pick up in the second half of 2004, but will not come



close to last year's levels—the highest multiple-starts levels since 1976.

The substantial increase in the number of new apartments available on the market has caused a rise in vacancies. As a result, many developers have postponed several of their projects until later in 2005, when most of the newer rental stock will be absorbed. A temporarily oversupplied rental market will cause the vacancy rate to rise to between 3.5 and 4 per cent in October 2004. However, the rising vacancies are due to a significant rise in the number of new apartments available on the market, as opposed to a weakening demand. Employment growth and in-migration will remain strong in Greater Moncton over the forecast period. As a result, once most of the newer rental units are absorbed, the vacancy rate will decline again to about three per cent by October 2005.

Resale Market to remain "hot" in 2005

It is fair to assume that mortgage rates can only go up from here. Notwithstanding, no significant rise is expected in the short term. Furthermore, mortgages will remain low in historical terms despite the expected minor increases over the forecast period. As a result, potential homebuyers will continue to take advantage of low borrowing costs and an ample supply of listings to purchase a house. At the end of August, active listings had increased by nearly 22 per cent, despite year-to-date sales levels that had already exceeded last year's record by nearly 18 per cent. The combination of strong demand and a broad supply of listings will help Realtors™ reach another record year in 2005, in terms of both MLS® sales and average sales price.

FORECAST SUMMARY Moncton CA

	2000	2001	2002	2003	2004*	2005*	% Change
NEW HOME MARKET							
Total Starts	906	938	1550	1435	1080	1270	17.6%
Single-detached	471	510	614	647	650	600	-7.7%
Manufactured Homes **	123	126	141	134	130	150	15.4%
Multiples	312	302	795	654	300	520	73.3%
Avg. New Home Price	\$112,000	\$138,650	\$144,000	\$150,200	\$163,000	\$170,000	4.3%
Vacancy Rate	1.7%	1.6%	2.3%	2.9%	3.5%	3.0%	
RESALE MARKET							
MLS® Sales	1491	1666	1763	1861	2100	2200	4.8%
Average Sales Price	\$89,065	\$92,428	\$99,942	\$104,577	\$113,000	\$118,000	4.4%

* Forecast ** Single sections in land leased communities

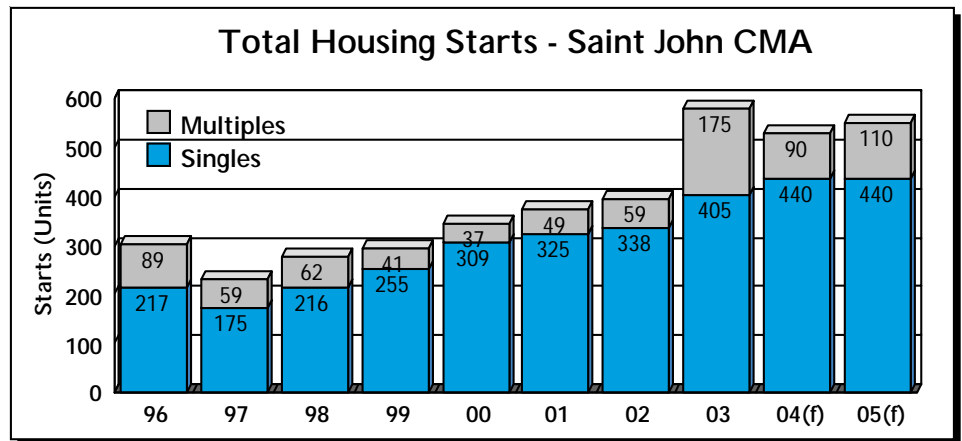
Saint John

Weak Employment Growth Expected in the Short Term

Employment dropped by more than 2,000 last year. Following the most significant decline in many years, year-to-date employment figures showed an additional loss of more than 500 jobs by the end of August. This decline occurred across many sectors and is not limited to any age group. However, two major projects that remain under active consideration, refurbishment of Point Lepreau and the construction of a LNG terminal, could generate tremendous economic growth in Saint John. In the meantime, a sustained slowdown in employment will continue to fuel out-migration and will make it challenging for residential construction to maintain its upward trend.

Notwithstanding, housing starts are expected to remain strong in historical terms in 2004 and 2005.

Changing demographics, low borrowing costs and pent-up demand will continue to



support residential activity over the forecast period. Despite a 2.4 per cent decline in the overall population between 1996 and 2001, the population in the 55-64 age group has increased by more than 14 per cent. Many of these people are empty-nesters living in a larger home that no longer meets their needs. As a result, some will choose to sell their property and move into a smaller, lower-maintenance housing unit.

Expect single starts in 2004 to increase for the seventh consecutive year to 440 units.

No growth is expected, however, in 2005, due mainly to weak employment growth,

rising mortgage rates and new home prices. Multiple starts in 2005 may exceed the 2004 levels, but will remain weak in historical terms. Rising home prices and mortgage rates will cause fewer households to be able to afford a single-detached home. As a result, expect rental demand to rise slightly over the forecast period. An increasing demand combined with relatively weak supply will cause the vacancy rate to drop to 4.8 per cent in late 2004 and 4.5 per cent in late 2005.

FORECAST SUMMARY Saint John CMA

	2000	2001	2002	2003	2004*	2005*	% Change
NEW HOME MARKET							
Total Starts	346	374	397	580	530	550	3.8%
Single-detached	309	322	330	395	430	430	0.0%
Manufactured Homes **	0	3	8	10	10	10	0.0%
Multiples	37	49	59	175	90	110	22.2%
Avg. New Home Price	\$146,000	\$148,000	\$171,400	\$177,800	\$180,000	\$185,000	2.8%
Vacancy Rate	3.4%	5.6%	6.3%	5.2%	4.8%	4.5%	
RESALE MARKET							
MLS® Sales	1484	1510	1505	1636	1650	1675	1.5%
Average Sales Price	\$93,697	\$97,348	\$103,544	\$106,475	\$115,000	\$119,000	3.5%

* Forecast

** Single sections in land leased communities

Housing Now is published 4 times a year for the New Brunswick market. **Forecast Summary** is included in the first and third quarter editions. Annual subscriptions to *Housing Now* for New Brunswick are \$55.00 plus applicable taxes. This publication is also available in French. For more information, or to subscribe, contact Michèle Clark at the Atlantic Business Centre at (902) 426-4708. *Order no. 2086*

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