

HOUSING MARKET OUTLOOK

Halifax CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Housing Demand to Increase in 2012

Nova Scotia is expected to see positive economic growth over the forecast period at rates near or above the current ten-year average of 1.6 per cent. In 2011, expect the provincial economy to grow at a rate of 1.3 per cent followed by an additional 2.0 per cent in 2012.

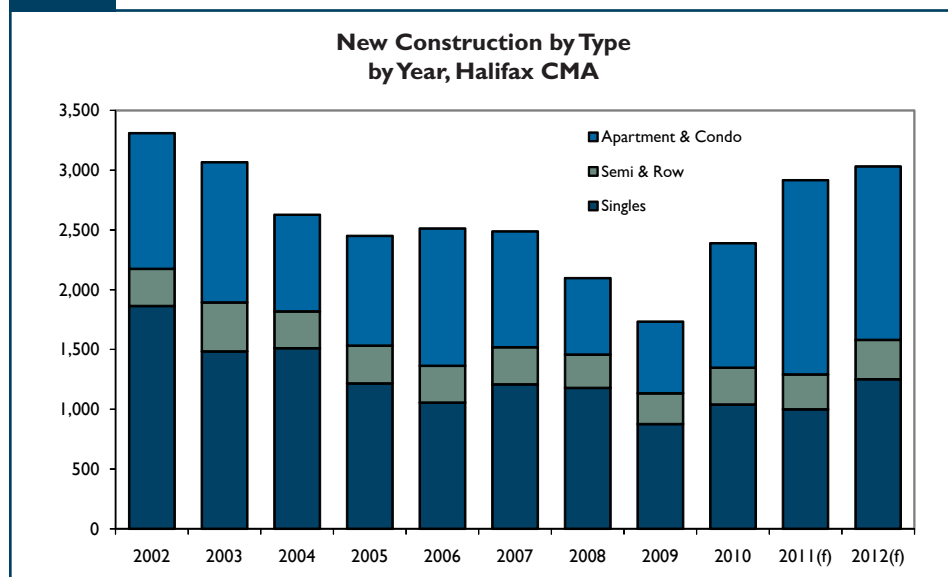
The recent shipbuilding contract

announcement will mean significant growth in the manufacturing sector for Nova Scotia and Halifax in 2012 and beyond. Weakness due to higher energy prices and reduced levels of energy exports over the past year will soon be offset by the start-up of production from Deep Panuke. Notwithstanding, the economy will continue to be impacted by fiscal restraint and recent announcements of layoffs and plant closures. Employment growth will rebound in 2012 as

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Figure 1

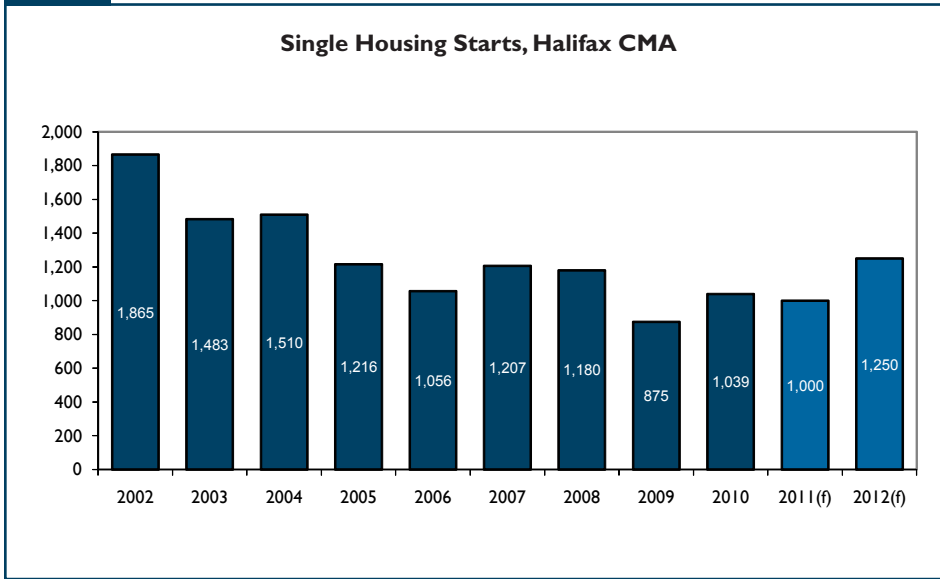


Source and Forecast: CMHC

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Figure 2



Source and Forecast: CMHC

shipbuilding activity begins to ramp up. As a result, retail spending and migration to the province will improve in 2012.

Halifax is expected to continue to be the main driver of growth in the province as the city benefits from a diverse employment base and a number of large projects and contracts. While economic growth and employment will finish 2011 with some relative weakness, expect to see higher levels of growth in 2012 in response to the large investment being made in the local market by the federal government. Employment is expected to see little change in 2011, but will grow by approximately two per cent in 2012.

After eight months of the year, total employment in Halifax recorded little change compared to last year. The trend towards more part-time positions continued in 2011. At near historic highs, the average number of part-time employees is more than six per cent higher than it was in 2009. Full-time employment increased in the summer months of 2011, but the year-to-date average remained slightly below the average level recorded in August 2010. Despite some monthly and seasonal

fluctuations, the average number of full-time employees in Halifax remains virtually unchanged from the levels set in 2009. This employment trend suggests lingering uncertainty in the local economy on the part of employers. With a return to higher levels of economic growth and increased employment, it is expected that this trend will begin to reverse in 2012.

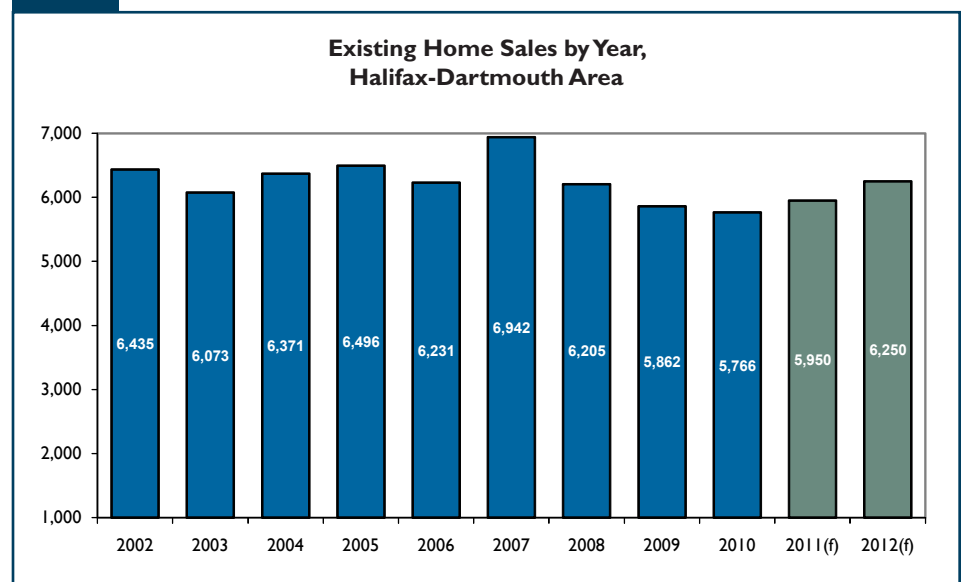
After experiencing significant gains in

the past three years, real wage growth in Halifax turned slightly negative in 2011. While average weekly earnings have increased by 2.0 per cent, the consumer price index (a measure of inflation) has increased at a faster rate of 3.6 per cent. The impact of these changes was a 1.6 percentage point drop in real wage growth in the summer of 2011. While inflation may persist, due to high commodity prices and other rising costs, the anticipated demand for labour will likely offset this impact through increased wage growth.

Stronger economic and employment growth in Halifax will result in increased demand for housing over the forecast period. Low interest rates and stronger migration levels will also contribute positively to the demand for housing in the city.

For the first time in three years, Nova Scotia has been experiencing negative net-migration. The fourth quarter of 2010 and the first quarter of 2011 recorded a net-migration loss of nearly 1,000 individuals. The loss can be attributed to inter-provincial

Figure 3



Source: Nova Scotia Association of REALTORS® & CREA
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 Forecast: CMHC

migration or, in other words, people moving to other parts of the country. As economic growth increased at a faster rate in some other parts of the country, Nova Scotians have been attracted to these areas in search of employment. With the recent announcements and the prospect of increasing employment, expect Nova Scotia and Halifax to benefit from migrants returning home or being confident in staying home in the first place. As a result, expect positive net migration to contribute to increased demand for housing over the forecast period.

Mortgage Rates

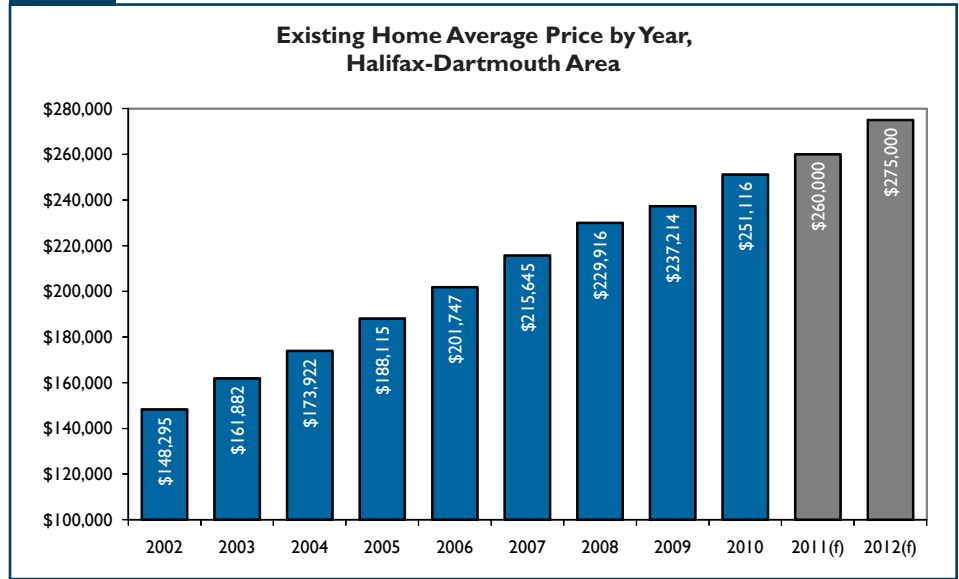
Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Apartment Construction to Remain Elevated in 2012

The new home construction market in Halifax has seen the emergence of two

Figure 4



Source: Nova Scotia Association of REALTORS® & CREA
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 Forecast: CMHC

diverging trends in 2011. On the one hand, multiple starts, driven by apartment construction, are up sharply, while on the other hand, new single-detached construction is down.

New single-detached housing starts rebounded by 19 per cent in 2010, but will decline by approximately four per cent in 2011 before increasing by as much as 25 per cent in 2012. Increased demand, resulting from the economic and demographic factors discussed above, will contribute to higher levels of new singles construction in 2012. The current level of singles activity is 31 per cent below the ten-year average for the first nine months of the year but is expected to finish the year at only 21 per cent below the average. Expect single starts to reach 1,000 in 2011 and 1,250 in 2012.

The average selling price of a new single-detached home has grown by more than ten per cent in 2011, reaching nearly \$400,000 as of August. A key factor in the price growth was the mix of homes being sold. Sales of new homes priced below \$350,000 were down over 35 per cent after eight months of the year,

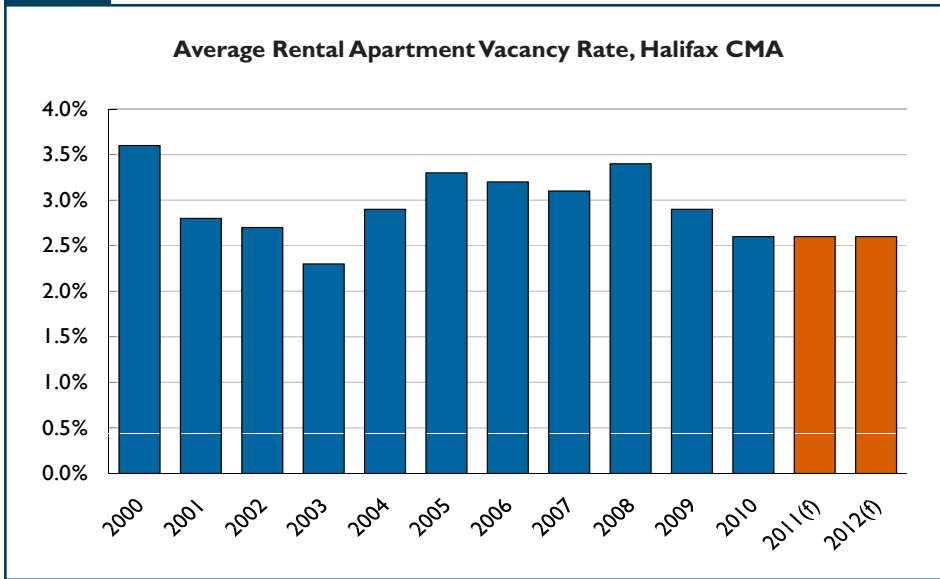
while sales of new homes priced above \$350,000 were up nearly 14 per cent.

Prices will continue to see upward pressure as land, development and labour costs continue to rise and as consumer preferences continue to change in terms of location, home style, amenities and materials. With the added expectation of increased demand, new single-detached home price growth is expected to remain near ten per cent with an average price of approximately \$395,000 in 2011 and approximately \$410,000 in 2012.

Despite reduced levels of construction in 2011, new semi-detached and row houses continue to be a popular alternative to other forms of new construction. After declining in 2011 to 290 units, expect semi and row units to climb to approximately 330 units in 2012.

Apartment construction has been the driving force behind the growth in residential construction in Halifax during the past two years. New apartment starts climbed sharply in 2010, increasing by 74 per cent to 1,043 units from 599 in 2009. After nine months of the year,

Figure 5



Source and Forecast: CMHC

apartment starts are up another 51 per cent in 2011 and already exceed the highest annual level seen in 20 years. By the end of the year, apartment starts will reach approximately 1,625 units and moderate only slightly to 1,450 units in 2012. The majority of these new apartments are expected to be rental units.

Steady demand for rental units is being driven by new migrants, immigrants and baby-boomers. Some of the recent weakness in demand for new and existing homes, due to weak employment and overall economic growth, has also benefited the rental market as potential buyers delay purchases and stay in rental accommodations. Going forward, expect demand for all housing types to rise.

Existing Home Sales to Advance in 2012

Existing home sales in Halifax have seen little change in the past two years. Sales declined just 1.6 per cent in 2010 to 5,766 units and are expected to show modest growth in 2011 of 3.2 per cent to 5,950 units. Economic growth will generate additional demand for existing

homes and contribute to another five per cent growth in 2012 to 6,250 units.

During the economic downturn, Halifax benefited from relatively stable levels of economic growth and overall employment. Since that time, however, there has been little change or incremental growth in these economic factors and the result has been a sustained level of weaker demand for housing. Now with the recent announcement of the shipbuilding contract, Halifax can expect to see a return to more positive economic growth and increased housing demand.

While sales have moderated, average existing home prices have continued to climb. As of September 2011, the average existing home price exceeded \$260,000 in the city, representing growth of approximately four per cent. This is in addition to price growth of approximately three per cent in 2009 and six per cent in 2010. In fact, annual price growth has averaged 7.2 per cent since 2001 resulting in prices nearly doubling over the past ten years.

The recent rate of growth is expected to continue over the forecast period

with price growth reaching 3.5 per cent in 2011 and nearly six per cent in 2012. Average prices are expected to be \$260,000 and \$275,000 in 2011 and 2012, respectively.

Similar to the new homes market, changing consumer preferences continue to impact the average price in the Halifax market. For example, in recent years, price growth has been accentuated by a preference for larger two-storey homes in Halifax. With two-storey homes averaging over \$300,000, additional sales in this price range will result in upward pressure on the overall average price.

As of August 2011, homes selling for \$250,000 or more (i.e., above average) saw sales growth of four per cent, while homes selling for less than \$250,000 saw sales decline eight per cent. Again, the preference for above-average priced homes is an important contributor to the overall increase in average price.

Average prices climbed in 2011 despite an increase in new listings. New listings are expected to increase 3.3 per cent by the end of the year and will exert some downward pressure on the level of price growth in both 2011 and 2012. New listings are also expected to increase in 2012 due to the impact of stronger sales.

Vacancy Rate to Remain Stable in 2012

The apartment vacancy rate in Halifax declined last year for the second consecutive year. The decline was due primarily to steady demand for units and reduced levels of new supply. This year, similar factors are expected to keep the rate relatively low.

A higher level of new units was expected to enter the market in 2011 and exert upward pressure on the overall vacancy rate. However, with projects becoming larger in size and scope, it is impacting the length of time it takes to complete

construction. As of August, there were only 166 rental units completed and absorbed in 2011. This is in contrast to the 1,777 units that were still under construction in August. Had more of the units under construction been completed, the vacancy rate would have been expected to increase, but given the low level of new units that became available to rent, the vacancy rate is expected to remain unchanged compared to 2010 at 2.6 per cent. As more units are completed and become available in 2012, there will be some upward pressure on the vacancy rate. However, this will be offset by increased levels of demand for housing of all types and will keep the vacancy rate unchanged at 2.6 per cent.

It is expected that another few hundred rental apartment units will start construction before the end of 2011 and as many as 1,200 more are forecast to start in 2012. While the construction periods vary from 12 to 24 months, these projects will eventually complete construction and become available to rent.

A low level of new supply in 2011 is not the only factor impacting the vacancy rate. With recent weakness in economic growth and with employment growth being primarily in part-time positions, some of the demand for first-time homeownership shifted towards rental. Rising home prices and negative real wage growth are key factors in shifting some of the demand from homeownership to rental.

In addition to having fewer first-time home buyers, overall rental demand is being bolstered by continued in-migration to Halifax. New migrants tend to initially seek rental accommodations upon first arriving in a new location. Since 2005, there have been over 14,300 new migrants to Halifax. Of that figure, 43 per cent or 6,100 were between 18 and 24 years of age. This young age group

has the highest propensity to rent of any age group. With the rate of migration growth expected to increase, the number of people moving to Halifax will remain steady and continue to create demand for rental units.

Average rents in Halifax are expected to continue to rise. Rents will climb due to rising costs of construction and maintenance but also in response to strong demand and the introduction of new units to the local market. Over the past few years, average rents have increased at an annual rate of between two and three per cent (based on units common to the survey sample each year). The rate of growth is expected to be slightly higher in 2011 and 2012 as average rents rise between three and four per cent per year.

Despite the slow but steady rent increases, the Halifax rental market remains relatively affordable. Average rents have been rising more slowly than home prices and average income levels. The result has been that the rental market in Halifax continues to offer value to renters, providing continued support to rental demand.

Forecast Summary Halifax CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS [®] Sales	6,205	5,862	5,766	5,950	3.2	6,250	5.0
MLS [®] New Listings	10,710	10,516	10,160	10,500	3.3	10,800	2.9
MLS [®] Average Price (\$)	229,916	237,214	251,116	260,000	3.5	275,000	5.8
New Home Market							
Starts:							
Single-Detached	1,180	875	1,039	1,000	-3.8	1,250	25.0
Multiples	916	858	1,351	1,915	41.7	1,780	-7.0
Semi-Detached	108	118	156	160	2.6	150	-6.3
Row/Townhouse	169	141	152	130	-14.5	180	38.5
Apartments	639	599	1,043	1,625	55.8	1,450	-10.8
Starts - Total	2,096	1,733	2,390	2,915	22.0	3,030	3.9
Average Price (\$):							
Single-Detached	329,765	335,070	352,783	395,000	12.0	410,000	3.8
Median Price (\$):							
Single-Detached	299,900	311,400	328,078	360,000	9.7	375,000	4.2
New Housing Price Index (% chg.)	8.0	1.1	0.9	1.5	-	3.0	-
Rental Market							
October Vacancy Rate (%)	3.4	2.9	2.6	2.6	0.0	2.6	0.0
Two-bedroom Average Rent (October) (\$)	833	877	891	920	-	955	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	211,900	219,200	221,100	226,000	2.2	230,000	1.8
Employment Growth (%)	0.6	3.4	0.9	2.2	-	1.8	-
Unemployment rate (%)	5.2	6.4	6.3	6.3	-	6.0	-
Net Migration	3,292	3,658	4,338	4,500	3.7	4,700	4.4

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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

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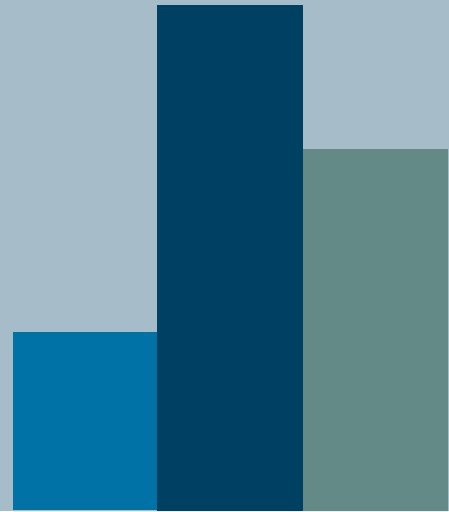
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