

Housing market conditions were robust in 2008. Housing starts increased to a level not seen since the early 1990s. Residential sales activity and prices reached record levels. Other capacity indicators like rental vacancy rates are at, or remain near, historical lows. Increased housing demand stemmed from strong economic performance, low interest rates, optimism about future major projects, and household formation.

Housing Starts

During 2008, housing starts totalled 3,261 units, up 23.1% compared to 2007. This was in contrast to activity in the Maritimes and Canada, where starts declined by 7.9% and 7.6%, respectively.

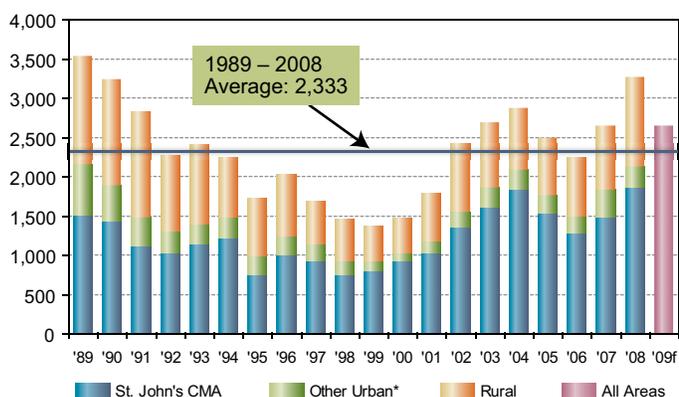
While urban areas account for approximately two-thirds of housing starts in the province, both urban and rural areas recorded significant gains in 2008. Urban housing starts were up 22.1% to 2,229 units and rural starts were up 25.2% to 1,032 units. Total housing starts are expected to fall to 2,648 units in 2009 as the



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Housing Starts

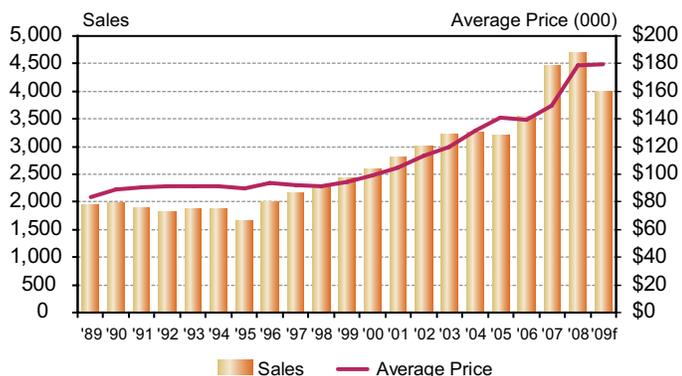


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* Includes Census Agglomerations: Carbonear (to 1991), Bay Roberts, Corner Brook, Gander (to 2007), Grand Falls-Windsor, Labrador City (to 2007)

Source: Canada Mortgage and Housing Corporation; Department of Finance

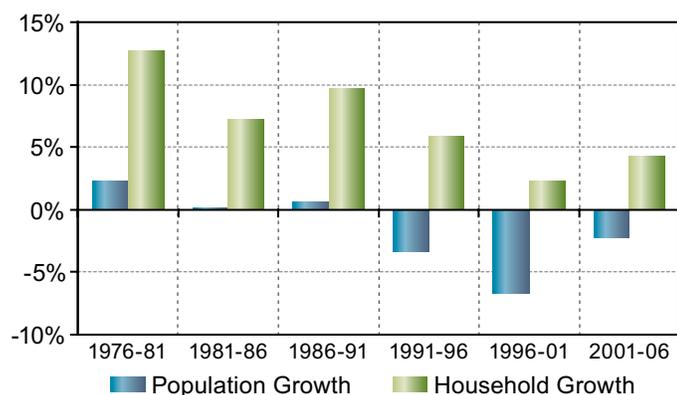
MLS® Sales and Average Price



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Source: Canadian Real Estate Association

Population and Household Growth



Source: Demography Division and Census, Statistics Canada

global recession and slumping housing market in the rest of Canada weakens local consumer confidence. Since 1989, housing starts have averaged 2,333 units per year. Therefore, even with the decline expected this year, housing starts will be at relatively high levels for the local industry.

Residential Sales and Prices

Residential sales activity and prices increased to record levels last year. The number of residential properties sold in the province through the Canadian Real Estate Association's (CREA) Multiple Listing Service® (MLS®) during 2008 was 4,695, an increase of 5.0% from 4,471 in 2007². This performance was in contrast to the national residential market. MLS® sales decreased by 17.1% in Canada and 8.9% in the Maritime provinces during 2008. According to CREA, the number of MLS® sales in the province is expected to decline by 14.8% in 2009 to 4,000.

Strong demand for housing, especially during the summer months, created a buying frenzy in 2008. The average number of active MLS® listings in the province (a measure of housing availability/supply) declined by 38.3% to 1,495 from 2,423 in 2007. Homes were being purchased as soon as they hit the market and sellers were receiving multiple offers — sometimes well above the asking price. As a result of increased demand, housing prices increased. During 2008, the average MLS® residential price was \$178,477, an increase of 19.6% compared to 2007. The fourth quarter average MLS® residential price surged 27.2% over the fourth quarter in 2007, representing the only growth market in Canada.

Increased housing demand in recent years is the result of employment and income growth; household formation; low mortgage rates; and a positive business

² Approximately 80% of MLS® sales are located on the Avalon Peninsula. As well, MLS® sales do not include exclusive or private sales.

environment, facilitated in part by continued optimism surrounding a number of future major projects. In addition to these factors, industry indicated that demand for residential units was also being fuelled by expatriates living in other provinces and from residents who commute to other provinces for work purchasing property for personal use and/or investment purposes.

Rental Market

Rental vacancy rates are at or near historical lows throughout Newfoundland and Labrador. Vacancy rates in urban areas have decreased from a high of 15.4% in 1997 to just 1.1% in 2008. During 2008, vacancy rates were lowest in the St. John's CMA (0.8%) and Corner Brook CA (0.9%), followed by Grand Falls-Windsor CA (1.9%), Gander (2.6%), and Bay Roberts CA (4.0%). Although vacancy rates are low, rental prices remain the lowest in Atlantic Canada. In 2008, the average rent for a 2-bedroom apartment in Newfoundland and Labrador was \$596 compared to \$635 in New Brunswick, \$660 in Prince Edward Island, and \$795 in Nova Scotia. It is expected that improved labour markets, positive net-migration, higher housing prices, and a lack of new rental construction will keep vacancy rates low and place upward pressure on rental prices.

Household Formation

The positive rate of household growth has been a factor contributing to housing demand over the past number of years. Declining births and an aging population have caused the average household size to decrease. As a result, the number of households in Newfoundland and Labrador is growing at a much faster rate than the population. For example, since 1991 the population of the province has decreased by 12.0% but the number of households has increased by 13.0%. The impact of this has contributed to the tightening of both the rental and resale markets as well as the robust pace of construction in the new home market.

Outlook 2009

Housing starts are expected to decline in 2009 but the level of activity is expected to remain relatively high.

Residential sales are expected to slow, following record sales in 2008.

Interest rates are expected to remain relatively low.

Household formation is expected to remain positive.

Vacancy rates are expected to remain near historical lows.