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From the ground up

Emerging Trends in Real Estate 2012: Development Prospects in Canada

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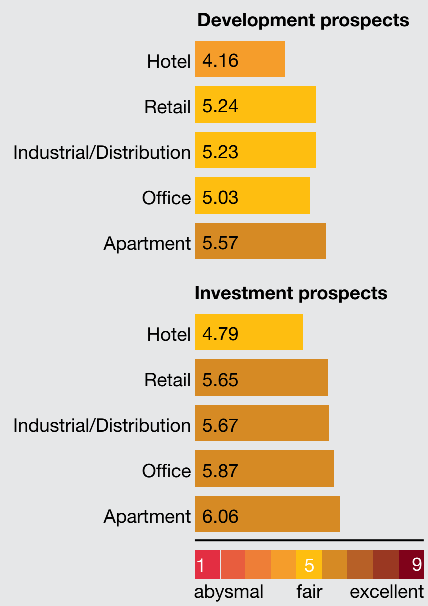
Canadian real estate markets traditionally keep a reasonably tight rein on new supply— lenders tend to underwrite construction financings conservatively, allocating funding to mostly proven developers and high credit investors.

And there is no reason to anticipate different lender behavior in 2012 with government banking regulators maintaining typically vigilant oversight. In fact, *Emerging Trends in Real Estate 2012* interviewees expect commercial development to remain fairly weak during the year, as banks and investors grow more cautious in the wake of global financial distress and its impact on Canada's growth. Relatively moderate hiring for office jobs should slow demand for new office space in major cities. Industrial expansions will continue to be hampered by lackluster exports to the US in the wake of their economic distress and the strong Canadian dollar. The country requires few new suburban shopping centres as population growth concentrates around urban cores and cities are adopting intensification policies to discourage sprawl. Meanwhile, weak hotel performance is deterring new lodging projects.

Most of the nation's development activity for 2012 will continue in condominium construction centered in-and-around downtowns and urbanizing suburban cores. Mixed-use projects with residential and retail elements are gaining traction too. In markets like Toronto and Vancouver where foreign buyers and speculators spur much of the demand, some respondents have indicated concern that developers may be over-extending an excess of high-rise condo projects despite extremely low residential vacancies. Across the country, developers complain about delays in government approvals, increasing bureaucratic roadblocks, and worst of all excessive and increasing development charges. The combination of strict lending and seemingly unnecessary government hurdles may frustrate developers, but unlike real estate markets in much of the US, Canadian property markets benefit from relative balance without the drag of foreclosures, defaults, and problem loans. Keeping control of new supply has not hurt investors.

This report, "From the ground up", is a supplement and companion piece to our Emerging Trends in Real Estate 2012 report. The following pages provide the highlights of development prospects in Canada culled from interviews and surveys among more than 100 leading industry experts—investors, developers, lenders, brokers, and consultants from across the country.

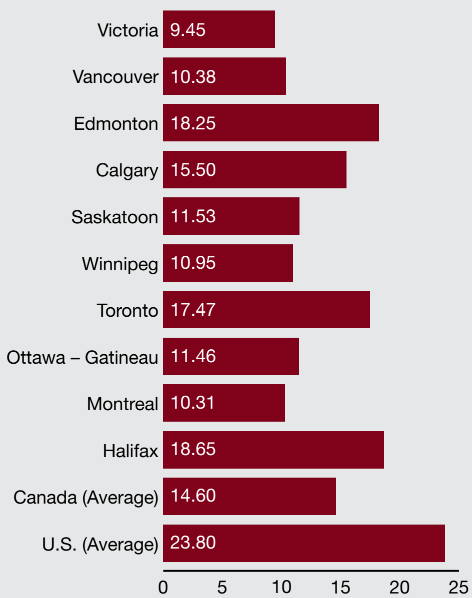
Prospects for major commercial/multi-family property types in 2012



Source: *Emerging Trends in Real Estate 2012* survey.
Note: Based on Canadian responders only.

Limits on commercial projects

Shopping mall area per capita
North America (2010) (SF/capita)



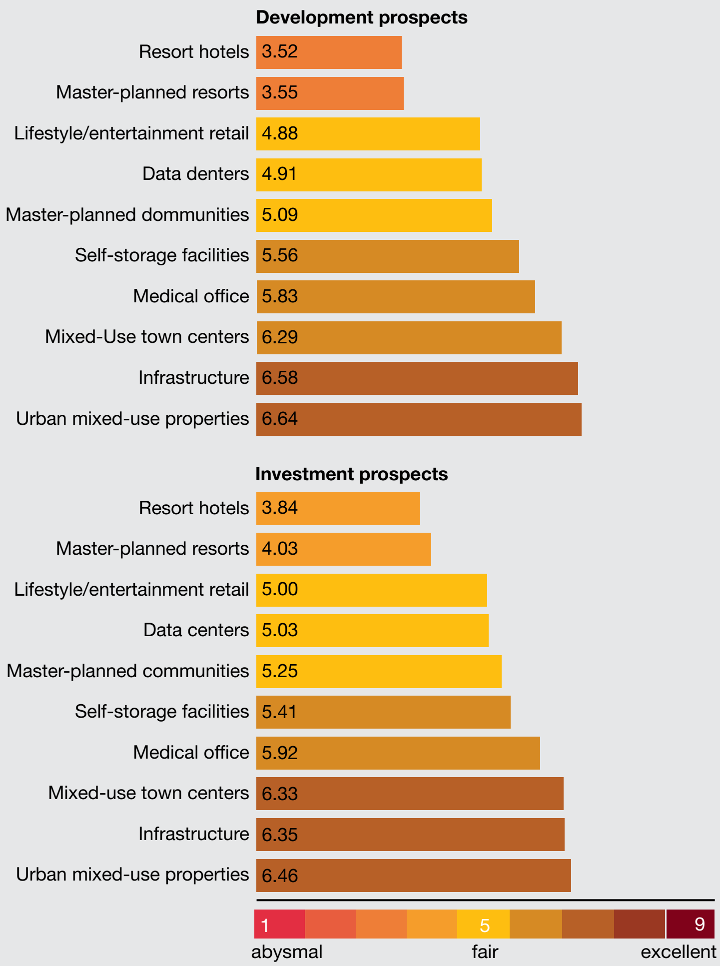
Sources: Colliers International – The Retail Report Canada – Fall 2011 Edition
International Council of Shopping Centers – 2011

The development outlook for 2012 sees modest improvement from 2011 across all major property categories. Only the apartment sector claims good prospects due to immigrant flows and population shifts toward urban cores ensuring demand for new space. Given relative balance in their office markets--Toronto, Vancouver and Calgary can sustain modest additions to inventories—"a couple of new buildings" in each city over the next three to five years, but not much more. "We won't see any significant change in the pace of development," says an interviewee. "Our market advantage has been discipline, which limits development opportunity to a constant, but measured stream." Lenders can be expected to keep a lid on any excess. Interviewee outlooks are not as bright for new suburban office space. Companies are increasingly looking to locate operations in or near city centres or in urban nodes along mass transit lines. Office parks or stand-alone suburban office building projects will be scarce unless developers land one-off deals to undertake build-to-suits for corporate clients.

While Canadian *Emerging Trends in Real Estate 2012* interviewees do not talk as much as their US counterparts about the diminishing office space requirements of corporate tenants, they probably should start paying more attention. Businesses are increasingly finding they can cut costs through more efficient use of space and technology—allowing more personnel to work away from the office and eliminating administrative and support staff. The impact could limit the overall need for new projects over time. Countering this trend will be demand for new energy-efficient space.

The "less-is-more" approach to future space needs also applies to industrial and retail markets. Industrial development will focus more on new big box distribution facilities replacing increasingly less attractive lower ceiling warehouse space. Advanced logistics systems will eliminate links in distribution chains, reducing overall need for storage facilities. Respondent sentiments indicate that among the factors curtailing demand will be greater application of direct manufacturer to end user, point-to-point shipping; big box store formats effectively turning into warehouse distribution centres, and container truck systems used for short-term storage instead of renting warehouses. Unlike the US, Canada is not over-stored—retail vacancies stand under 5% nationwide—but property owners should reflect on US chain store trends of integrating bricks-and-mortar merchandizing and internet sales strategies. The result is smaller "store as showroom" formats with less in-store selections and backroom storage space. "You need to be adaptable to current trends"—and that means shrinking space per capita needs, especially in traditional suburban formats.

Prospects for niche and multi-use property types in 2012



Source: *Emerging Trends in Real Estate 2012* survey.
Note: Based on Canadian responders only.

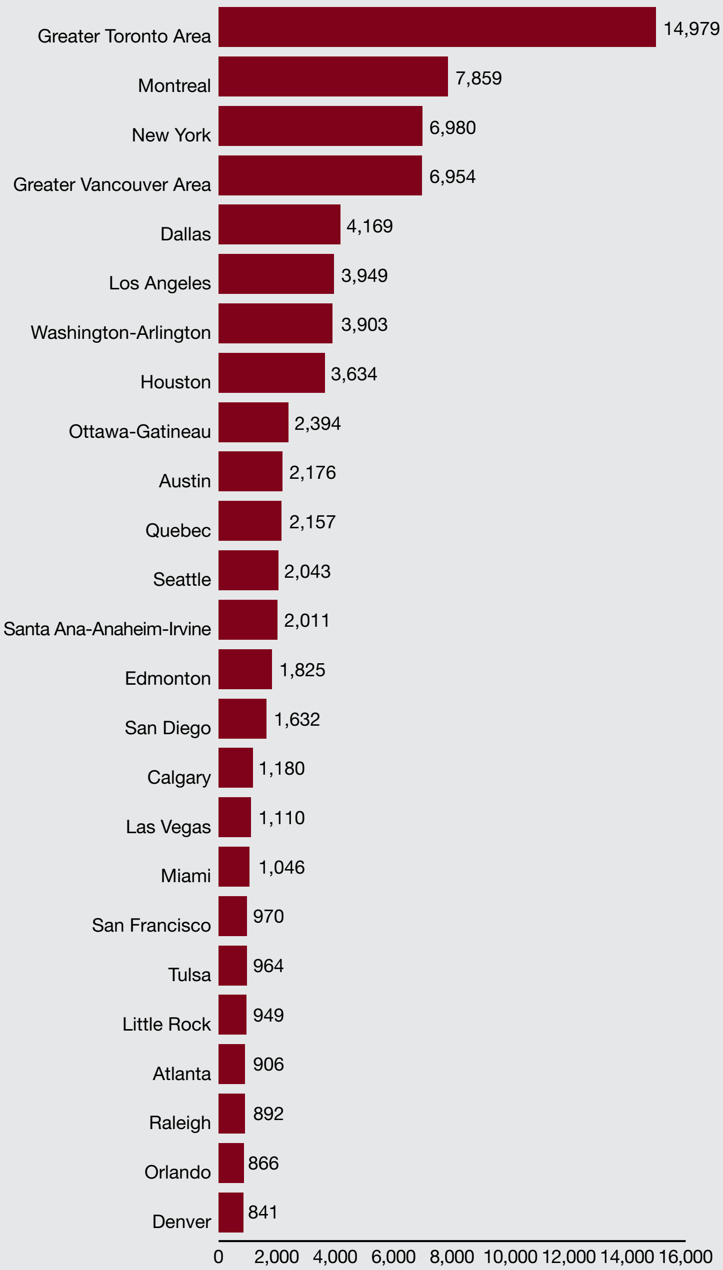
The urbanization boom

Canada is going vertical—from Vancouver to St. John's, high-rise residential construction is dramatically carving new skylines in the nation's cities. Toronto, Vancouver, and Montreal are leading the way at a global record setting pace for condominium projects—and foreign investors are increasingly parking capital in these units as a safe haven. Many condos are being rented by Gen-Y professionals seeking the bright-lights big-city lifestyle. The best sites are close to transit stations, offering residents commuting alternatives to cars on increasingly congested roads. Calgary and Ottawa have also caught on to the condo high-rise bandwagon as construction in these cities is intensifying. Constrained land supply and various local intensification policies are largely responsible, forcing single family home development in-city to potentially uneconomic price points and pushing up infill land costs. "Lot prices have increased 50% over the past three to five years." Developers maximize their profits by increasing heights on projects where possible, both in downtowns and rapidly

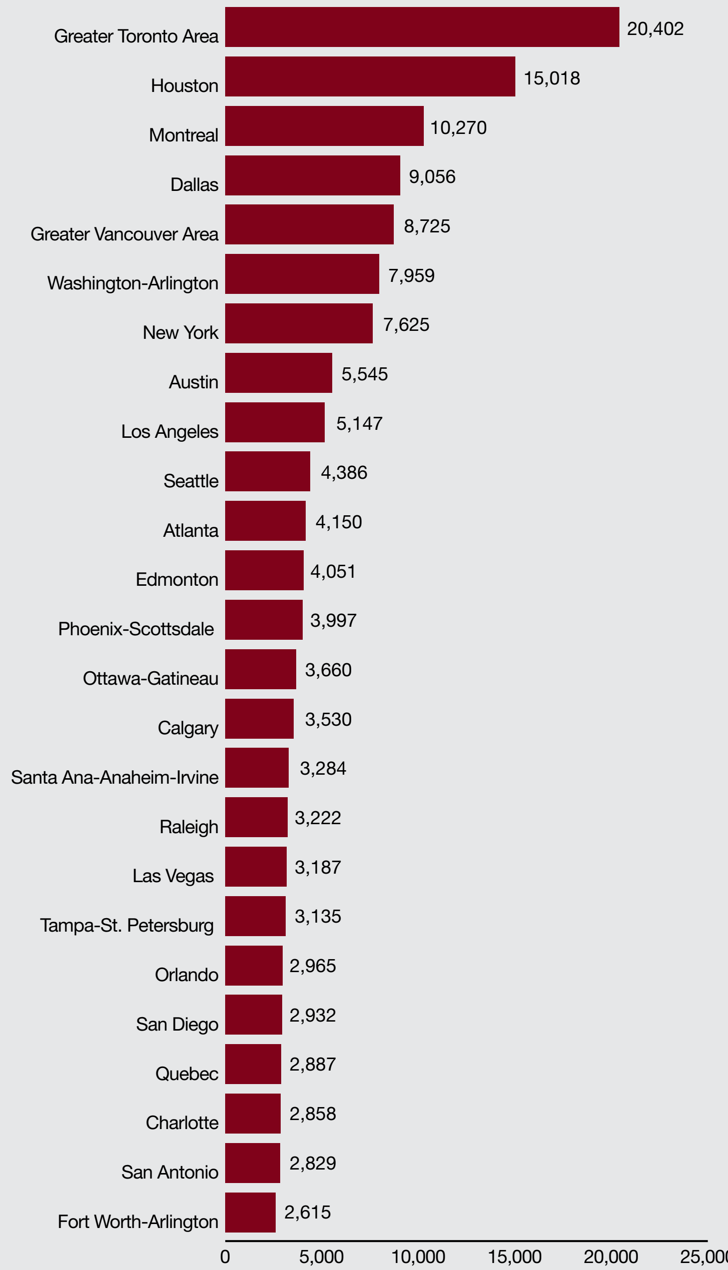
Prospects for commercial/multi-family investment and development

Source: *Emerging Trends in Real Estate 2012* survey.
Note: Based on Canadian responders only.

North American multi-family permits/starts – H1 2011
By metropolitan area January to June 2011



North American new home permits/starts – H1 2011
By metropolitan area January to June 2011



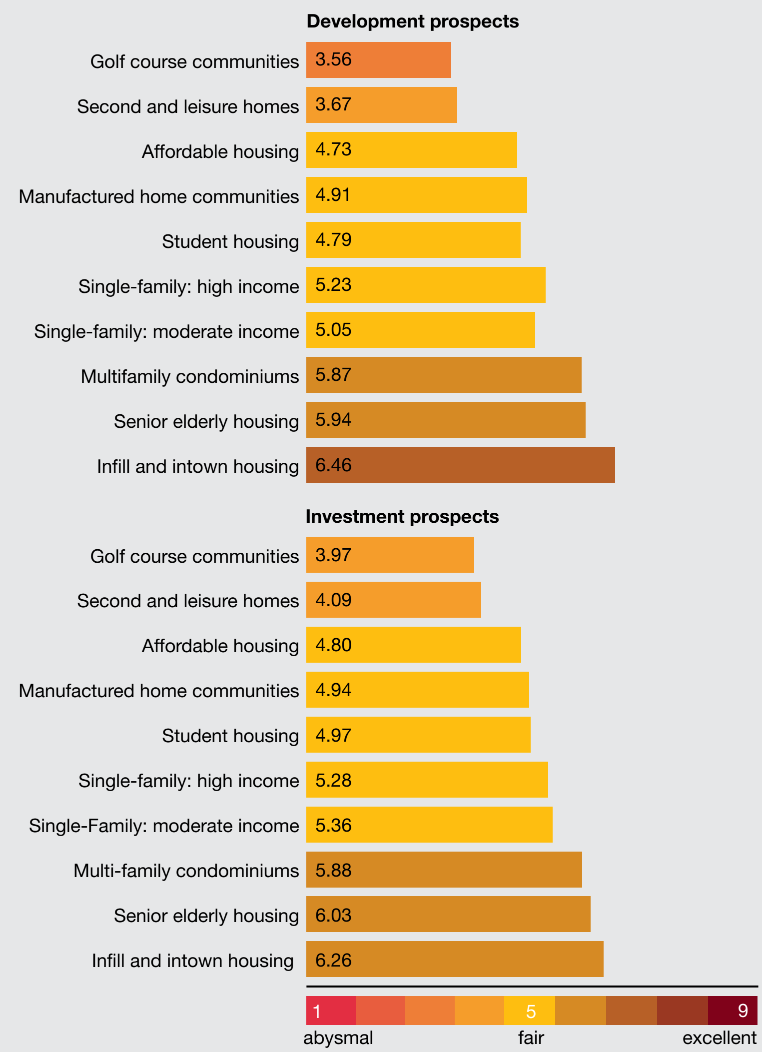
Source: RealNet Canada Inc., Hanley Wood, CMHC urbanizing suburban nodes. “It’s pretty scary when planners push density at developers, who start building 60-storey condo towers (in Toronto) and get 20–25% margins. They’ll just keep building until it’s just a matter of time [before] too many get built.”

Concerned if foreign speculators will maintain their purchasing appetites, some interviewees anticipate banks becoming more tentative about lending on projects. “The activity is unsustainable.” US and European consumer pullbacks could slow down Pacific Rim manufacturing, negatively impacting employment and wealth. In addition, condo pricing may be reaching unaffordable levels. Pure rental apartment developers, meanwhile, cannot price their product against the condo competition, so many are joining in on condo construction. In addition, traditional low-rise developers particularly in Ontario have had to go to high-rise in order to continue developing real estate in the GTA. Nevertheless, many developer interviewees claim the condo wave can continue, supported by lack of supply for single family homes, urbanization trends, a large number of immigrant renters, and low residential vacancy rates. Indeed, more people are gravitating to city lifestyles, not only young adults building careers before they start families, but also their baby boomer parents who are looking for greater in-town conveniences; shorter commutes; and smaller, easier to take care of living units to satisfy empty nest pursuits.

Infill condo construction has left many new residential neighborhoods under-stored—supermarkets, pharmacies, convenience stores, hardware stores and big box concepts have been left out of some planning. Now developers are starting to work together in tight markets to build synergistic residential, retail, and in some cases office projects to combine uses at constrained sites. “They look at new forms and concepts to lower costs,” hoping to create more attractive projects with convenient amenities. Toronto, in particular, incorporates more streetscape retail into residential buildings.

Planners and developers may be realizing too late that new condo construction may not be conducive to raising families. Units are tailored more to singles and couples than to parents with children; and high rise neighborhoods lack recreational amenities, including playgrounds, parks, schools and libraries. “What happens when the demographic bubble of twenty-somethings decide to have kids? Will they want to stay

Prospects for residential property types in 2012



Source: *Emerging Trends in Real Estate 2012* survey.
Note: Based on Canadian responders only.

in kid unfriendly city environs? Toronto tries to address shortcomings: "You'll see a greater push from government to build larger units with more bedrooms—some developers design flexible layouts where one and two bedroom models can be converted to more bedrooms."

But where will young families be able to find a reasonably priced home to meet lifestyle expectations? Interviewees wonder if they will be able to afford traditional suburban homes even if they find apartment lifestyles too cramped. Development charges, lack of single family land supply, and intensification policies deter low-rise and detached family development in inner ring suburbs—prices for existing houses in more convenient locations skyrocket, especially in Greater Toronto and Vancouver. Even if housing is more affordable in outer suburbs, higher commuting-related costs can offset savings and deprive parents of family time.

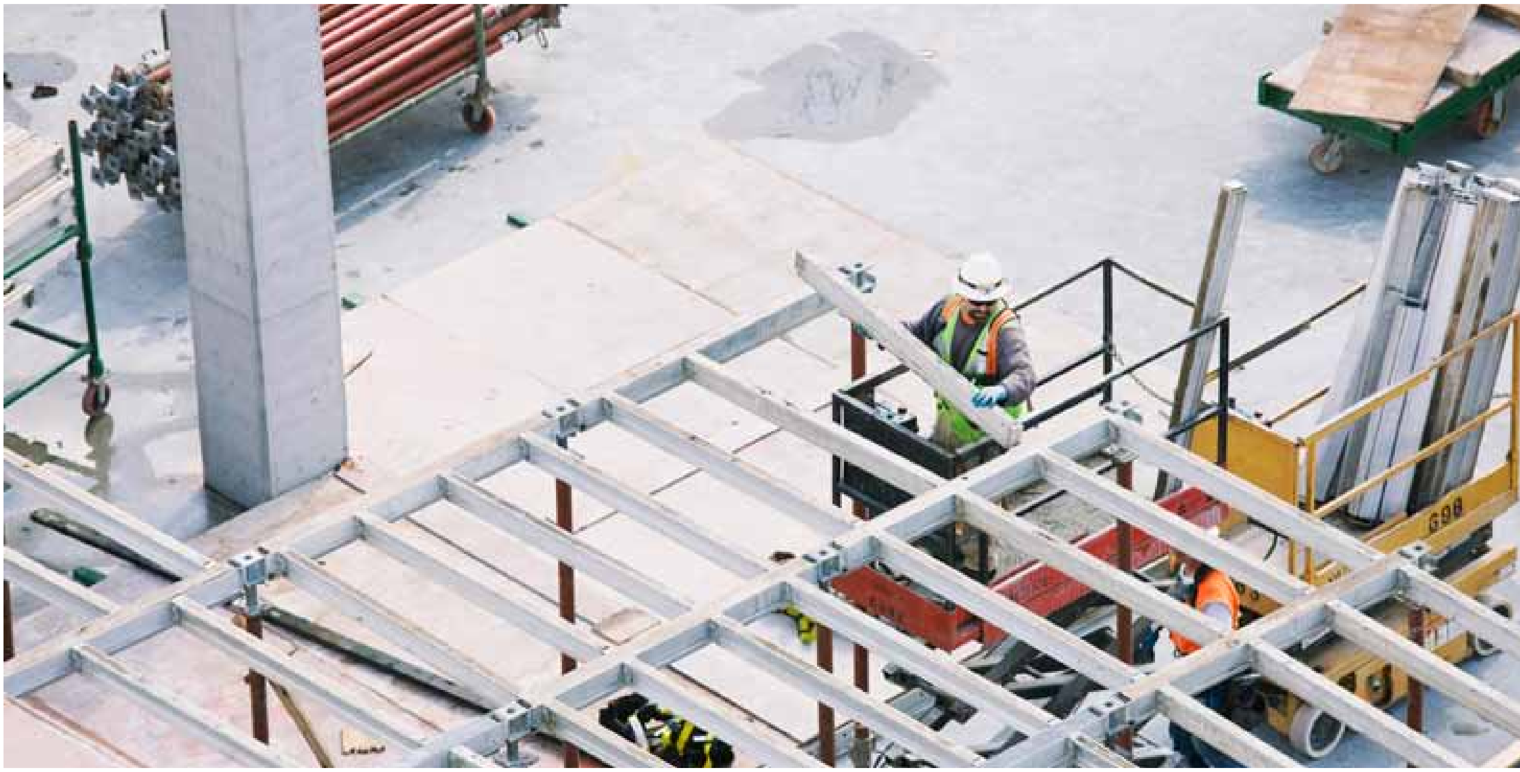
Transportation infrastructure, or lack of it, turns into a more pressing concern in crowded urban cores. While people move into more pedestrian friendly environments and look for freedom from car dependency, many new high-rise residential neighborhoods lack convenience to mass transit grids—particularly the critical subway systems in Toronto and Montreal. Budget-strained local governments grapple with how to fund costly expansions to systems, looking at light rail and bus rapid transit corridor options. Ageing roads will also require major upgrades at steep expenditures. Successful intensification policies ultimately will require ample hub and spoke mass transit to move people in, out and around cores, and to connect to surrounding urbanizing nodes.

Ever rising development costs

Developers in Toronto, Vancouver, and Calgary complain about staff cutbacks at planning agencies, long government approval processes, and skyrocketing fees and surcharges. "The whole development process has become very expensive, creating significant barriers to entry. Fees are always going up and never coming down." Development charges can be "a nightmare—amounting to 10% of construction costs in some cities like Ottawa. In Toronto, developers not only cope with development charges amounting to upwards of $60,000 per unit (in some areas), but they also must factor in assessments for parkland of 5–10% of appraised values, and even higher in some suburbs". Respondents indicate that Calgary recently has doubled assessments—implementing densification policy to discourage some of the nation's most extensive sprawl and Edmonton has increased fees to cover growing infrastructure expenditures. In addition, tough building codes (more stringent than in the US) are pushing up costs. Some developers complain they have trouble passing these charges on to buyers and must absorb them, reducing their profit margins; but many include them in sales prices further increasing already high prices.

Besides government related expenditures, escalating land costs (especially in precious infill locations), ramp up development prices. Developers and owners who have land banked project sites gain a distinct advantage over builders who have not. "Owning land is gold." Some interviewees observe builders who inventory land will do exceptionally well in the coming years while those who don't could become increasingly marginalized or forced to exit. Hard construction costs are also increasing—especially in cities like Toronto and Montreal where high levels of condo building and infrastructure improvements create manpower shortages and lead to higher material prices. "The trades and suppliers are pushing up costs." But if the economies of China and India cool down, material costs would likely level off or even decline.

Developers also express increasing concern about when interest rates may rise from comfortably low levels. Any significant upward movement in rates would increase construction finance costs as well as limit the ability of young families and other borrowers to purchase homes. *Canadian Emerging Trends in Real Estate 2012* survey respondents expect interest rates to increase over the next five years from current low levels, the result of government bankers around the world continuing to manoeuvre in the face of the dismal global economy.



The green wave

While a minority of interviewees continue to discount the viability of sustainable development "as smoke and mirrors", a growing majority characterize green strategies as "a big thing" which meets growing market demand, especially in the office sector. "Not only do large corporate tenants want it from a good corporate citizenship standpoint," they seek "greater operating efficiencies" and many of their employees, especially highly sought after Gen Y talent, "insist on it." "Developers begin to realize most green initiatives can pay for themselves" and are "a must to attract major tenants." The reduction in energy costs can be "small" or "immaterial," but more tenants will start to demand efficient systems, "so it's better to get out front." For new office, "LEED silver is a minimum," "most new construction is gold," "it's a huge change in the sector."

If developers don't accept green, they still may have no choice--more local governments, especially in major markets, can be expected to enact building codes, mandating sustainable systems. "The green environmental agenda is here to stay, municipalities will embed it in everything—we'll see requirements for more solar panels, geothermal systems, and efficient ventilation systems." But some interviewees warn: "These municipal requirements must make economic sense or it could mute development activity." Environmental regulations in Ontario "become an issue and start to impede business" (i.e. increase builder costs) "to pay for tenant savings." And inconsistent regulations among municipalities complicate developer planning.

For now, less sophisticated office tenants in smaller markets are less likely to demand green. Also, apartment renters and homebuyers like green amenities, but show no inclination to pay a premium for sustainable systems without tax incentives. That could change if they become convinced about meaningfully lower utility bills. The further away from core markets, the less likely local governments are to provide any subsidies. So far retail and industrial developers sidestep the green wave, although big flat roofs of shopping centres and warehouses look ripe for solar panelling—"at this point it's not economic."

Short takes: property development in major markets

Toronto

Condominium development "has been nothing less than stunning in the GTA." Projects in strong locations will succeed, but a bursting pipeline with over 130 new projects, mostly high-rise, could lead to oversupply if speculators fail to close on future deliverables as a result of factors such as rising interest rates and global economic shocks. Given the decreasing supply of developable land south of the greenbelt, high-rise condominiums are now more than 50% of new housing development in Toronto. Commercial developers are getting into the act, adding condos into office and hotel projects to take advantage of the brimming market. Homebuilders struggle with rising land costs and intensification policies which deter subdivision construction, and increase house prices to beyond affordability limits. The Conference Board of Canada concurs with interviewees' perception of a strong housing market, projecting an over 70% increase in housing starts from 2010 to 2015.

Quotes from *Emerging Trends in Real Estate 2012* interviewees

"There's been too much blind optimism, how long can international investors keep buying?"

"Infill areas lack enough retail development to serve reverse migration patterns"

"Near-term office development will be limited to a couple of new buildings."

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	219,134	213,316	221,674	227,891	234,553	244,223	253,022	260,691
percentage change	-0.2	-2.7	3.9	2.8	2.9	4.1	3.6	3.0
Total employment (000s)	2,893	2,852	2,919	2,977	3,049	3,146	3,204	3,250
percentage change	2.0	-1.4	2.3	2.0	2.4	3.2	1.8	1.4
Unemployment rate	6.9	9.5	9.0	8.1	7.3	6.6	6.3	6.2
Personal income per capita	39,146	38,139	39,447	40,560	41,624	43,209	44,469	45,644
percentage change	1.1	-2.6	3.4	2.8	2.6	3.8	3.0	2.6
Population (000s)	5,536	5,634	5,741	5,846	5,952	6,065	6,182	6,301
percentage change	1.8	1.8	1.9	1.8	1.8	1.9	1.9	1.9
Total housing starts	42,212	25,949	29,195	41,460	42,713	46,340	48,472	49,964
Retail sales ($ millions)	61,041	59,103	62,875	65,910	68,930	72,534	76,072	79,405
percentage change	5.0	-3.2	6.4	4.8	4.6	5.2	4.9	4.4
CPI (2002=1.0)	1.131	1.136	1.165	1.201	1.229	1.253	1.278	1.304
percentage change	2.4	0.5	2.5	3.1	2.3	2.0	2.0	2.1

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

Vancouver

Asian capital pours into this Pacific gateway, parking money in condo projects as well as single family homes in desirable locations—interviewees increasingly wonder how long construction activity can be sustained and whether prices can continue to inflate.

Three new office buildings move forward—tight vacancies and growing demand suggest the new space will be comfortably absorbed. Geographic barriers-to-entry—mountains, ocean, and bays—restrict new development opportunities and help sustain real estate values and low vacancies. Commercial developers and homebuilders struggle with rising land prices and development charges—downtown and infill areas border on unaffordable for increasing numbers of potential buyers, and the spillover effect hikes land values in surrounding suburbs.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	**80,875**	**79,854**	**82,964**	**85,276**	**87,944**	**90,974**	**93,987**	**96,954**
percentage change	*0.3*	*-1.3*	*3.9*	*2.8*	*3.1*	*3.4*	*3.3*	*3.2*
Total employment (000s)	**1,207**	**1,204**	**1,219**	**1,240**	**1,258**	**1,291**	**1,317**	**1,338**
percentage change	*1.5*	*-0.3*	*1.3*	*1.7*	*1.4*	*2.7*	*2.0*	*1.6*
Unemployment rate	**4.4**	**7.2**	**7.5**	**7.4**	**6.4**	**5.6**	**5.1**	**4.8**
Personal income per capita	**37,508**	**36,358**	**36,858**	**37,741**	**38,650**	**39,949**	**41,220**	**42,465**
percentage change	*2.0*	*-3.1*	*1.4*	*2.4*	*2.4*	*3.4*	*3.2*	*3.0*
Population (000s)	**2,279**	**2,337**	**2,391**	**2,434**	**2,474**	**2,518**	**2,559**	**2,600**
percentage change	*2.1*	*2.5*	*2.3*	*1.8*	*1.7*	*1.8*	*1.7*	*1.6*
Total housing starts	**19,591**	**8,339**	**15,217**	**16,706**	**16,681**	**17,411**	**18,020**	**18,140**
Retail sales ($ millions)	**26,168**	**25,507**	**26,676**	**27,417**	**28,703**	**30,031**	**31,413**	**32,818**
	1.8	*-2.5*	*4.6*	*2.8*	*4.7*	*4.6*	*4.6*	*4.5*
CPI (2002=1.0)	**1.128**	**1.129**	**1.149**	**1.176**	**1.199**	**1.223**	**1.247**	**1.272**
percentage change	*2.3*	*0.1*	*1.7*	*2.4*	*2.0*	*2.0*	*2.0*	*2.0*

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

Montreal

Condominium construction reigns supreme—projects blossom on Montreal island and in-and around the first suburban ring. Interviewees expect any new downtown commercial construction to involve mixed use concepts—"no more tall office buildings, but instead retail-office-hotel variations on lower floors, and condo units on higher floors."

The Conference Board of Canada reflects relatively flat trends for population growth and housing starts.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	**123,777**	**123,356**	**126,579**	**128,975**	**132,003**	**135,433**	**138,687**	**142,180**
percentage change	*1.4*	*-0.3*	*2.6*	*1.9*	*2.3*	*2.6*	*2.4*	*2.5*
Total employment (000s)	**1,917**	**1,904**	**1,954**	**1,979**	**2,014**	**2,036**	**2,059**	**2,080**
percentage change	*0.5*	*-0.6*	*2.6*	*1.3*	*1.8*	*1.1*	*1.1*	*1.0*
Unemployment rate	**7.4**	**9.2**	**8.7**	**8.0**	**7.9**	**7.7**	**7.2**	**6.8**
Personal income per capita	**35,059**	**34,927**	**35,881**	**36,895**	**38,105**	**39,231**	**40,332**	**41,497**
percentage change	*3.1*	*-0.4*	*2.7*	*2.8*	*3.3*	*3.0*	*2.8*	*2.9*
Population (000s)	**3,765**	**3,819**	**3,859**	**3,901**	**3,946**	**3,989**	**4,034**	**4,077**
percentage change	*1.1*	*1.4*	*1.1*	*1.1*	*1.2*	*1.1*	*1.1*	*1.1*
Total housing starts	**21,927**	**19,251**	**22,001**	**20,583**	**17,399**	**18,053**	**19,437**	**20,791**
Retail sales ($ millions)	**41,892**	**41,861**	**44,521**	**45,219**	**47,301**	**49,042**	**50,902**	**52,897**
percentage change	*3.2*	*-0.1*	*6.4*	*1.6*	*4.6*	*3.7*	*3.8*	*3.9*
CPI (2002=1.0)	**1.126**	**1.135**	**1.148**	**1.182**	**1.214**	**1.238**	**1.263**	**1.289**
percentage change	*2.1*	*0.8*	*1.2*	*3.0*	*2.7*	*2.0*	*2.0*	*2.1*

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

Calgary

This hot growth city bounces back quickly from an office overbuilding binge, but the development focus turns to in-town mid- and high-rise residential buildings as anti-sprawl policies kick in. If energy prices stay high, commercial projects again will shift into high gear, but this market can change quickly when world oil markets ebb.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	**63,690**	**60,891**	**62,725**	**64,490**	**66,759**	**69,476**	**72,305**	**75,219**
percentage change	*1.4*	*-4.4*	*3.0*	*2.8*	*3.5*	*4.1*	*4.1*	*4.0*
Total employment (000s)	**718**	**713**	**705**	**726**	**749**	**769**	**785**	**800**
percentage change	*4.1*	*-0.7*	*-1.2*	*3.0*	*3.2*	*2.6*	*2.2*	*1.9*
Unemployment rate	**3.5**	**6.7**	**6.8**	**5.8**	**5.3**	**4.7**	**4.1**	**3.8**
Personal income per capita	**55,061**	**53,430**	**54,862**	**56,778**	**58,886**	**60,843**	**62,687**	**64,535**
percentage change	*3.2*	*-3.0*	*2.7*	*3.5*	*3.7*	*3.3*	*3.0*	*2.9*
Population (000s)	**1,187**	**1,220**	**1,243**	**1,265**	**1,291**	**1,317**	**1,343**	**1,369**
percentage change	*2.8*	*2.8*	*1.8*	*1.8*	*2.1*	*2.0*	*1.9*	*1.9*
Total housing starts	**11,438**	**6,318**	**9,262**	**7,982**	**9,729**	**10,384**	**10,650**	**10,571**
Retail sales ($ millions)	**22,348**	**20,590**	**21,776**	**22,964**	**24,235**	**25,505**	**26,883**	**28,339**
	-1.3	*-7.9*	*5.8*	*5.5*	*5.5*	*5.2*	*5.4*	*5.4*
CPI (2002=1.0)	**1.218**	**1.217**	**1.227**	**1.255**	**1.283**	**1.309**	**1.335**	**1.361**
percentage change	*3.2*	*-0.1*	*0.8*	*2.3*	*2.2*	*2.0*	*2.0*	*2.0*

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

Edmonton

Building activity is more muted and slower to absorb than in Calgary, but area homebuilders do well—oil sands employment and high wages fuel purchasing and attract jobs seekers who need residences. The Conference Board of Canada projects housing starts to remain flat for the next five years.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	**51,960**	**49,808**	**52,075**	**53,891**	**55,724**	**57,940**	**60,166**	**62,438**
percentage change	*2.8*	*-4.1*	*4.6*	*3.5*	*3.4*	*4.0*	*3.8*	*3.8*
Total employment (000s)	**643**	**638**	**633**	**662**	**677**	**693**	**708**	**724**
percentage change	*4.3*	*-0.8*	*-0.7*	*4.6*	*2.2*	*2.4*	*2.2*	*2.1*
Unemployment rate	**3.8**	**6.7**	**6.7**	**5.6**	**5.4**	**5.0**	**4.5**	**4.3**
Personal income per capita	**46,746**	**45,782**	**47,317**	**49,596**	**51,149**	**52,946**	**54,692**	**56,557**
percentage change	*7.1*	*-2.1*	*3.4*	*4.8*	*3.1*	*3.5*	*3.3*	*3.4*
Population (000s)	**1,128**	**1,156**	**1,176**	**1,194**	**1,215**	**1,236**	**1,256**	**1,276**
percentage change	*2.2*	*2.6*	*1.7*	*1.5*	*1.7*	*1.7*	*1.6*	*1.6*
Total housing starts	**6,615**	**6,317**	**9,959**	**8,880**	**8,480**	**8,918**	**9,054**	**8,895**
Retail sales ($ millions)	**20,332**	**18,867**	**20,063**	**21,274**	**22,567**	**23,873**	**25,153**	**26,496**
percentage change	*1.8*	*-7.2*	*6.3*	*6.0*	*6.1*	*5.8*	*5.4*	*5.3*
CPI (2002=1.0)	**1.214**	**1.216**	**1.229**	**1.261**	**1.290**	**1.316**	**1.342**	**1.368**
percentage change	*3.4*	*0.2*	*1.0*	*2.6*	*2.3*	*2.0*	*2.0*	*2.0*

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

Saskatoon

Homebuilders prosper here too. Capital flows into profitable commodity businesses, promising considerable growth potential from regional jobs growth. Although not reflected in the forecasted housing starts noted in the chart below, some of our respondents have identified Saskatoon and other areas of Saskatchewan as having very favourable real estate development prospects as the province's considerable natural resources, including oil and potash, are developed.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	**9,914**	**9,649**	**10,151**	**10,550**	**10,984**	**11,486**	**11,915**	**12,339**
percentage change	*5.7*	*-2.7*	*5.2*	*3.9*	*4.1*	*4.6*	*3.7*	*3.6*
Total employment (000s)	**142**	**147**	**146**	**147**	**152**	**157**	**161**	**165**
percentage change	*1.8*	*3.5*	*-0.8*	*0.6*	*3.9*	*3.0*	*2.4*	*2.6*
Unemployment rate	**4.0**	**4.6**	**5.4**	**5.4**	**4.7**	**4.6**	**4.4**	**4.4**
Personal income per capita	**37,793**	**38,025**	**39,131**	**39,523**	**40,944**	**42,352**	**43,748**	**45,301**
percentage change	*5.3*	*0.6*	*2.9*	*1.0*	*3.6*	*3.4*	*3.3*	*3.6*
Population (000s)	**251**	**258**	**265**	**271**	**276**	**281**	**287**	**292**
percentage change	*2.5*	*2.8*	*2.8*	*2.2*	*1.8*	*1.9*	*1.9*	*1.8*
Total housing starts	**2,319**	**1,428**	**2,381**	**2,858**	**2,452**	**2,404**	**2,083**	**1,917**
Retail sales ($ millions)	**4,917**	**5,050**	**5,336**	**5,614**	**5,857**	**6,148**	**6,464**	**6,798**
percentage change	*4.9*	*2.7*	*5.6*	*5.2*	*4.3*	*5.0*	*5.2*	*5.2*
CPI (2002=1.0)	**1.171**	**1.182**	**1.196**	**1.227**	**1.250**	**1.275**	**1.300**	**1.327**
percentage change	*3.9*	*0.9*	*1.2*	*2.5*	*1.9*	*2.0*	*2.0*	*2.0*

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

Halifax

Most development occurs in the suburbs where building is less restricted. "Condos and apartments go up mostly on the periphery." A majority of downtown development sites are government owned, and the city has failed to embrace a next generation development strategy—in fact the last significant downtown office project dates from 20 years ago. "Rents are not high enough to generate construction, little is expected to happen." The Conference Board projections appear to agree with interviewee sentiments.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	12,774	12,939	13,362	13,750	14,113	14,489	14,869	15,127
percentage change	2.5	1.3	3.3	2.9	2.6	2.7	2.6	1.7
Total employment (000s)	212	219	221	222	228	230	233	236
percentage change	0.6	3.4	0.9	0.6	2.3	1.2	1.3	1.0
Unemployment rate	5.1	6.4	6.4	6.4	5.9	5.7	5.5	5.4
Personal income per capita	36,000	36,469	37,921	38,742	40,218	41,507	42,935	44,280
percentage change	3.1	1.3	4.0	2.2	3.8	3.2	3.4	3.1
Population (000s)	393	398	403	407	411	415	419	422
percentage change	1.2	1.2	1.4	1.0	0.9	1.0	0.9	0.8
Total housing starts	2,096	1,733	2,390	2,488	2,037	2,038	2,043	2,050
Retail sales ($ millions)	5,802	5,858	6,204	6,401	6.693	6,951	7,227	7,454
percentage change	4.4	1.0	5.9	3.2	4.5	3.9	4.0	3.1
CPI (2002=1.0)	1.152	1.153	1.176	1.217	1.241	1.265	1.291	1.317
percentage change	2.8	0.1	2.0	3.5	1.9	2.0	2.0	2.0

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

St. John's

The offshore energy boom creates demand for new product across all property categories, including hotels. A revved up jobs engine boosts residential construction, including condominiums and apartments. The area needs more office for managers overseeing the ramp up in ocean drilling and exploration. Construction costs will be "extremely high"--geographic barriers limit sites and labour shortages will escalate rates for hiring building trades. The Conference Board projections indicate that housing starts will decline in near term possibly as a result of labour shortage.

Economic indicators	2008	2009	2010	2011f	2012f	2013f	2014f	2015f
Real GDP at basic prices (2002 $ millions)	7,928	7,472	7,958	8,346	8,425	8,561	8,747	8,968
percentage change	4.8	-5.8	6.5	4.9	0.9	1.6	2.2	2.5
Total employment (000s)	99	99	101	105	107	109	110	111
percentage change	3.7	0.0	2.3	3.8	1.6	2.0	1.0	1.1
Unemployment rate	7.9	8.3	7.6	6.3	6.2	6.1	6.1	6.0
Personal income per capita	34,751	35,314	36,761	38,297	39,530	41,095	42,502	43,963
percentage change	-2.3	1.6	4.1	4.2	3.2	4.0	3.4	3.4
Population (000s)	187	190	192	195	197	198	200	202
percentage change	1.3	1.4	1.3	1.2	1.0	1.0	0.9	0.9
Total housing starts	1,863	1,703	1,816	1,740	1,484	1,389	1,491	1,546
Retail sales ($ millions)	3,202	3,198	3,371	3,574	3,695	3,818	3,942	4,082
	7.2	-0.1	5.4	6.0	3.4	3.4	3.2	3.5
CPI (2002=1.0)	1.140	1.147	1.174	1.207	1.231	1.253	1.276	1.299
percentage change	3.0	0.7	2.3	2.8	2.0	1.9	1.8	1.8

f=forecast
Sources: Statistics Canada; CMHC Housing Time Series Database, The Conference Board of Canada.

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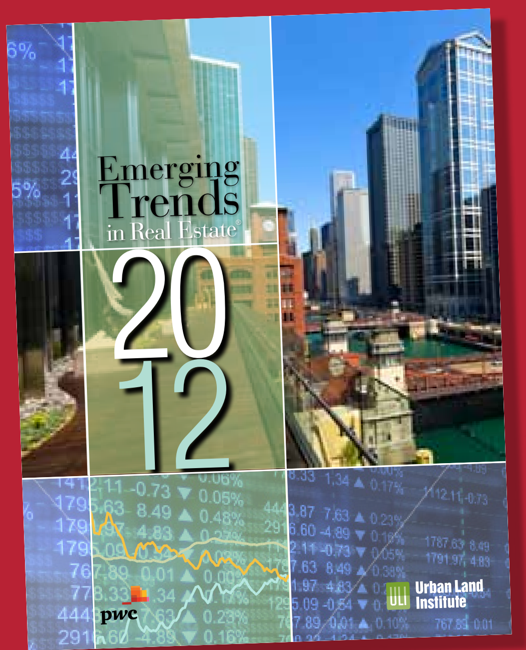

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