HOUSING MARKET OUTLOOK

Toronto

Canada Mortgage and Housing Corporation

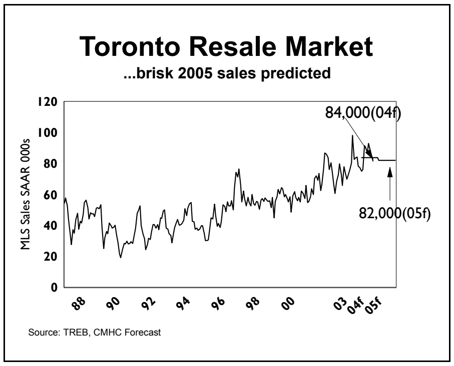
Issue: *Fall 2004*

RESALE MARKET

Sales will remain strong in 2005

Toronto home sales are poised for another strong year in 2005. A solid labour market delivering gains in wages and salaries should partially offset rising mortgage carrying costs associated with increasing interest costs and home prices. Robust sales activity will come on the heels of yet another record in sales this year. As of the third quarter of 2004, resale activity is up just under 10 per cent from this time last year. Despite a shrinking pool of first time buyers in the market, this group of buyers has remained relatively active. Look for the share of first time buying purchases to trend lower and drop off from lofty levels, particularly as the rise in home prices and interest rates price some out of the market. Home sales should rise to a new record of 84,000 units this year before edging lower to a still strong 82,000 units in 2005.

While home sales remain robust, the theme of specific home types and neighbourhoods outperforming will continue to persist. Repeat buyers will lead the market over the next several years. But this will be in an environment of deteriorating affordability (Table 1). Multiple dwelling home types like semis and townhomes should capture a larger share of sales, particularly in suburban communities. More expensive detached housing in core areas faced with increased price pressures, will fall outside of the reach of prospective buyers.



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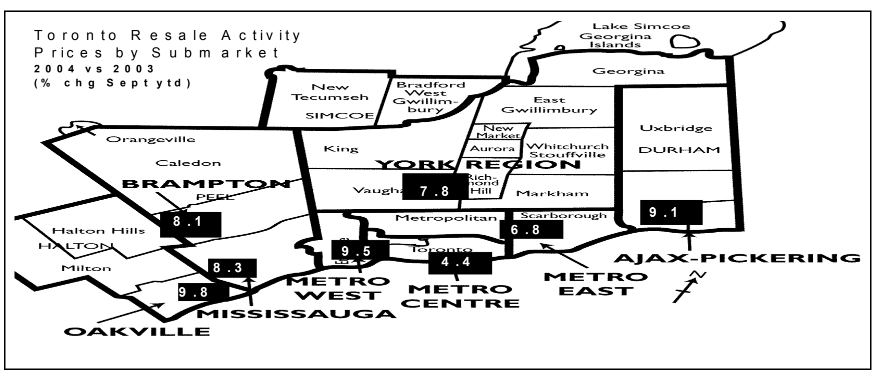

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HOME TO CANADIANS

Canada

Repeat buying to continue adding to pool of listings

New listings will grow and will outpace sales in 2005. Year to date new listings are up nearly 10 per cent from this time last year. New listings are growing slowly this year largely due to continued strength in first time buyer purchases. However, look for the following factors to contribute to a rising supply story. Firstly, the age structure of Toronto`s population is aging, continuing to favor repeat buyer purchases from those aged 45-64. These are the households which accounted for a larger share of housing activity since this price cycle began in 1996. Since then they have accumulated home equity and have captured a larger employment share. Increasing number of households will want to trade-up and will add their home to the listings pool. Secondly, the new home completions trend is pointing up strongly. Existing home owners who take possession of their new homes ahead will be putting their existing home up for sale--adding further to the supply pool. Thus new listings will grow another eight per cent in 2005.

Market imbalances subside in 2005

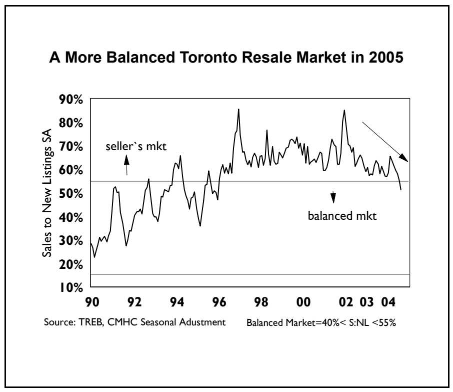
A gradual slowing in sales combined with a jump in new listings point to a more balanced Toronto market in 2005. With the share of first time buyers on a downtrend, homes will stay on the market longer. The sales to new listings ratio measures the degree to which a market is undersupplied. The sales to new listings ratio has moved into a balanced market range. As of September of this year, this ratio stood at 51 per cent, down from 57 and 66 per cent in September 2003 and 2002 respectively. Look for few if any bidding wars and multiple offers only in the most desirable Toronto neighbourhoods. In this environment, vendors should avoid overpricing their homes. Likewise, buyers should avoid costly bidding wars.

Toronto Housing Costs

Table 1 homeownership costs to drift higher in 2005

	1990	1996	2003	2004f	2005f
Household income	$49,238	$55,952	$66,300	$67,600	$69,290
Avg 5yr mtg (%)	13.4	7.9	6.4	6.3	7.0
Avg Prices	$255,020	$198,150	$293,330	$314,000	$330,000
Taxes	$3,188	$2,477	$2,933	$3,140	$3,300
Occupancy costs*	$29,060	$16,013	$20,500	$21,740	$24,000
Costs as % income	**59%**	**29%**	**31%**	**32%**	**35%**

Source: Bank of Canada, Stats Canada, TREB, CMHC Forecast
**** Occupancy cost= Carrying costs + property taxes***
****based on 25% dp, 25 yr amort., median income CPI adjusted, avg resale home price***



Slower but continued 2005 price increases

The downward trending sales to new listings ratio suggests price increases should slow moving forward**.** The market will likely continue to hover near the cusp between a balanced and seller`s market, pointing to price increases slightly higher than the rate of general inflation. Rising interest rates should temper demand for more expensive housing as more buyers seek value. After average resale home prices increase by seven per cent to $314,000, price growth should slow to five per cent or $330,000 in 2005.

Semis and Townhomes should outperform.

Home sales and price growth will be stronger for semis and townhomes in 2005, particularly in “905” communities. As of the second quarter of 2004, the tightest segment of the resale market are homes in the semi-detached and townhome category. Relative to single detached housing, these homes also tend to be more affordable and represent a more manageable trade-up option in a higher interest rate environment. In addition, while land available for residential development is coming under pressure for all home types, semi detached serviced lots are in tighter supply. This suggests that some of this price pressure could trickle into the existing home market.

Condo price pressures will continue to subside

Price pressures in the GTA condo apartment market will continue to subside through the next 12 to 24 months. Up to this point, low interest rates kept first time buyers active helping offset supply pressures. Year to date condo apartment prices are up just shy of three per cent from 2003.

On the demand side, with vacancy rates set to hit an all time high of 4.5 per cent this year, the pool of first time buyers is shrinking, particularly demand for units with small square footage. Upward trending vacancies will limit rent increases and growth in cash flow, discouraging meaningful investor purchases. Unlike demand, supply pressures should mount through next year. More trade-up activity, more completions and some investor selling will add to existing inventories. These factors together suggest that price increases will be below the rate of inflation in 2005. Mild price declines are expected only in selected areas in the city core.

Table 2 Toronto MLS Sales & Prices: Major Sub Markets (Sept YTD)

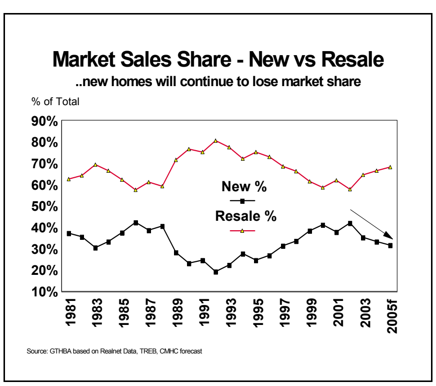
Sales	2004	2003	%chg
Ajax-Pickering	2,759	2,688	2.6%
Brampton	6,849	6,079	12.7%
Mississauga	9,685	8,955	8.2%
Oakville	3,645	3,104	17.4%
Toronto Central	11,283	10,030	12.5%
Toronto East	8,979	8,911	0.8%
Toronto West	6,703	6,438	4.1%
York Region	11,886	10,584	12.3%
Avg Prices	**2004**	**2003**	**%chg**
Ajax-Pickering	$273,102	$250,275	9.1%
Brampton	$272,369	$252,026	8.1%
Mississauga	$293,463	$271,052	8.3%
Oakville	$367,651	$334,989	9.8%
Toronto Central	$408,645	$391,580	4.4%
Toronto East	$274,855	$257,322	6.8%
Toronto West	$308,934	$282,242	9.5%
York Region	$361,881	$335,834	7.8%

Source: TREB, CREA

NEW HOME MARKET

New home sales will trend lower in 2005

Higher new home prices, land constraints, new home completions and more choice in the resale market will all weigh on the new home market in 2005. New home sales should ease from peak levels in recent years and trend closer to historical averages witnessed over the period since 1996. The new home market`s share of all sales will trend lower dropping from its high of 42 per cent in 2002, to just over 30 per cent in 2005. This will mean new home sales will ease this year and reach 42,000 units. Look for new home sales to fall further next year, reaching 38,000 unit sales.

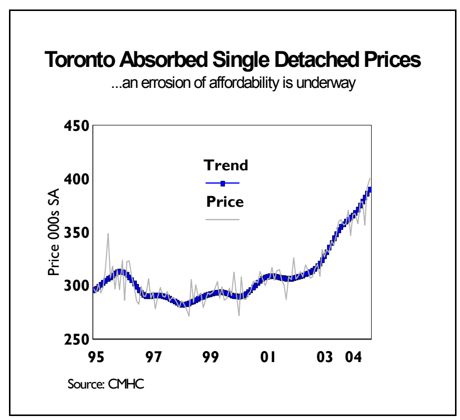


Low rise market will fare better on the price front

Looking ahead, both demand and supply factors suggest that housing investments in ground oriented home types should realize stronger price appreciation vs the high rise market. Stronger repeat buying will translate into tight resale market conditions specifically for townhomes and semis. In addition, fewer serviced lots available for development continue to push up lot prices which inevitably feed through to low rise home prices. Single detached home prices are up nearly seven per cent year to date with double digit growth witnessed in Brampton and Mississauga neighbourhoods. Supply pressures for high rise serviced lots are not as extreme.

Singles will lose market share in 2005

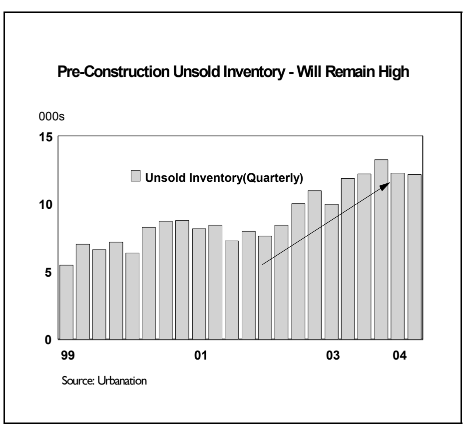
Low rise housing, led by singles has weighed on home sales this year. Much of the same can be expected through 2005. Prospective homebuyers looking for value will likely substitute out of more expensive detached housing into other dwelling types. Townhomes, and to a lesser extent semi- detached homes, represent an affordable alternative with the required household income to finance a home significantly lower and below current average household incomes in Toronto.



Consequently, in a higher interest rate environment driven by buyers looking for value, more compact forms of housing will gain popularity in the marketplace.

High rise apartment sales expected to slow

High rise sales remained resilient in 2004 but are expected to ease further through next year. On the supply side, the stock of condo apartment units built after 1996 as a share of the existing universe continues to grow, particularly in the City of Toronto. This combined with upward trending resale apartment listings suggests not only increased choice but more new supply to choose from on the existing market. Secondly, on the demand side, the share of first time buyers continues to fall. As of the fall of 2004, builders continue to deliver product onto the market with small square footage, at a time when this pool of buyers is shrinking. Moreover, investor demand for new condominiums geared for rental accommodation has eased since 2002 and isn't expected to pick-up meaningfully until at least 2006. Rising vacancies, flat to weaker rents and other assets yielding competitive returns should keep demand from this group muted. Consequently, after reaching 13,000 high rise sales in 2004, look for 11,000 high rise sales in 2005.



Pre- construction unsold Inventories to remain high

Builder sales incentives, tighter resale markets since last fall and generally fewer project launches have helped unsold inventories inch lower. Look for unsold inventories to remain at high levels as absorption rates slow through 2005. This points to slower if any new condo apartment price increases, in line with slowing price growth in the resale apartment market.

RESIDENTIAL STARTS

Starts should continue easing in 2005

Toronto area housing starts have plateaued and will trend lower in 2005. A more balanced resale market, sharper new home prices, slower growth in population/migration and rising rental apartment vacancies point to a slower pace in residential construction. As of the third quarter, housing starts were running five per cent below levels registered this time in 2003. Multiple housing starts will weigh on a still strong singles market this year pulling starts lower to 43,000 units. Detached housing will weigh on total starts next year with construction dropping to 39,500 units--closer to demographic requirements.

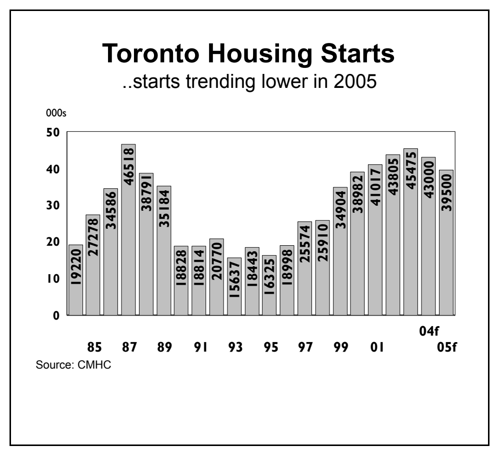
Detached starts slow in 2005; multiples hold up better

Upward trending single detached prices, developmental constraints and land shortages point to slower detached starts next year. Rising interest rates will shift demand into more affordable multiple type product.

Housing consumers have become resistant to increasing housing costs, particularly as interest rates continue to rise. Hence, in an environment of rising construction and development costs, builders will need to be very selective in what projects make economic sense and are delivered into the marketplace.

Condo starts to level out in 2005

Slowing new condominium sales combined with rising apartment vacancies point to a plateauing in condo apartment ownership and rental starts in 2005. Rising rental vacancies have caused rents to ease, making rental apartment investments less attractive. Moreover, the number of condo apartments sold but not yet built have been drifting lower over the past year as more projects have broken ground. This has translated into a smaller backlog of projects that await the beginning of construction.



Economic Overview

Employment

Cdn GDP growth to shift from consumer based to business based strength

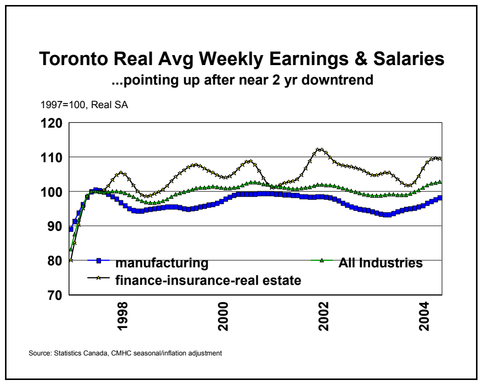
Stronger US economic growth through this year and into 2005 should help Canadian economic growth continue at a healthy clip. Indeed, the Canadian economy outpaced growth in the US by nearly two percentage points in the second quarter of 2004, registering real growth of 4.3 per cent. Canada being a net exporter of commodities benefited from stronger global prices. However, this higher than expected growth should slow closer to a still healthy 3.5 per cent by 2005 as higher interest rates and a still higher Cdn dollar bite into consumer spending and export volumes respectively. Business investment however, buoyed by a strong dollar and improved profit margins, should pick up some slack as spending on machinery and equipment continues.

Toronto job growth will pick-up in line with stronger GDP growth

After registering real economic growth of nil last year, the Toronto economy is expected to post strong growth averaging 4.5 per cent in 2004 and 2005. One time shocks to the economy from SARS, the beef scare and the threat of a high dollar have largely dissipated. Indeed, while continued increases in our loonie will cause pressure on exporters to mount, most up to this point have coped as indicated by rising production and order levels. Consequently, look for job growth to continue trending higher rising to 2.5 per cent and 2.8 per cent this year and next respectively.

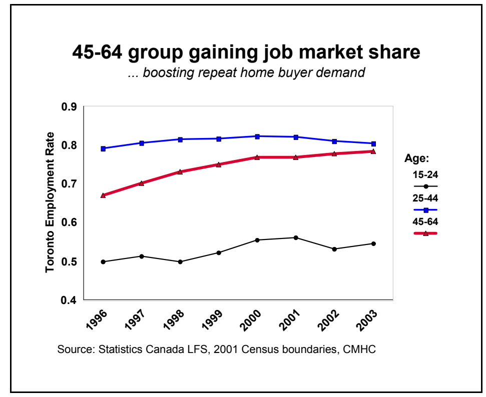
Toronto wage settlements are up

With well over 100,000 jobs created over the past 12 months, demand for labour has translated into meaningful wage gains. Much of the same is expected into 2005. This wage strength, as per inflation adjusted average weekly earnings and salaries data, is broadly based in some major sectors across the GTA. This combined with improved performance in investment returns suggests household incomes will continue to increase.



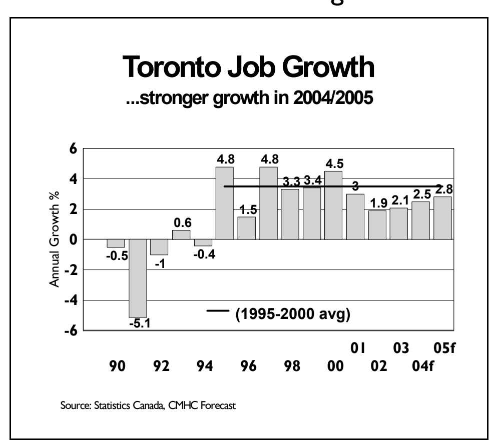
Employment market share stronger for 45-64 age group

While demographic trends are supporting housing demand for those aged 45-64, economic trends are also supportive of this group. Employment prospects have and should continue to support demand prospects for this age cohort. Indeed, the aging baby boom generation is capturing a larger share of jobs in the marketplace, with a strong uptrend in the employment per capita ratio witnessed over the past few years. Alternatively, the market share of employment opportunities for first time buyers aged 25-44 and the young renter group has begun to lose steam. This suggests that housing market participation will be muted ahead vs the latter group`s experience of the recent past.



Service sector to lead growth in 2004

While the goods producing sector has turned the corner, further job increases could be tempered by a continued surge in the Cdn dollar and or a slower pace in US growth. Alternatively, the service producing sector led by health care and financial services should lead growth well into 2005. Ottawa`s commitment to health care funding combined with improved stock market sentiment respectively, are leading indicators of continued strength in these sectors. Meanwhile, in the accommodation sector, *Toronto Tourism* projects hotel occupancy will increase to just under 62% from 57% in 2003. While tourism will gain a boost this is still lower than averages of about 65% in this sector prior to SARS and 9-11. Finally look for a slower pace in housing in 2005 to temper growth in real estate and residential construction related hiring.



Mortgage Rate Outlook

Canadian Q2 growth a concern for Bank of Canada

As was mentioned, Cdn economic growth in the second quarter was running above potential. This combined with higher capacity utilization numbers, as reported by Statistics Canada, suggests excess capacity is being run down in the Canadian economy. In addition, productivity growth while stabilizing is still at relatively low historical levels. Inflation indicators like the Consumer Price Index bottomed out in Canada early this year with the expectation of core rates of inflation pushing above 2 per cent by late 2005.

Interest rates are on the rise

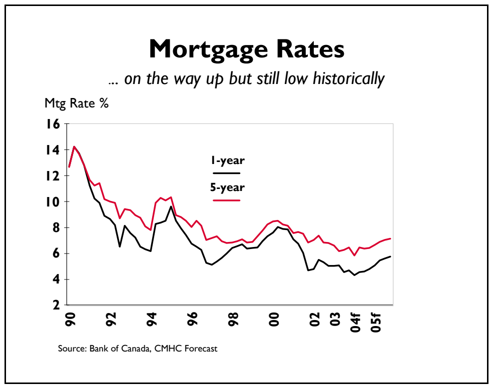
An increasing pace of inflation between now and the end of 2005 suggests tighter monetary policy to combat inflation. The Bank of Canada is widely expected to increase the overnight rate by another 25 to 50 basis points between now and the end of 2004. Look for short term rates to increase by another 50-100 basis points through 2005. This will help bring interest rates net of inflation better in line with real economic growth

Mortgage rates to trend higher

Chartered banks have already nudged mortgage rates higher with posted short term and long term rates up by 50 basis points since early this year. Look for mortgage rates to rise by another 50-100 points in 2005 with the one, three and five year rates in the 4.75-6.00, 5.75-6.75 and 6.25-7.50 per cent range respectively.

Mortgage rates still low by historical standards

Despite trending higher, mortgage rates will still remain affordable on a historical basis. Indeed interest rates may not rise by the amount in our base case scenario if energy prices weigh on consumer spending, the Canadian dollar chokes the export market and or the US expansion is derailed. Alternatively, rates may rise faster than expected if excess capacity or the output gap is smaller than what was anticipated and inflation surprises to the upside.



2004 GTA Condo Survey Report

During the month of June 2004, Canada Mortgage and Housing Corporation (CMHC) conducted its annual survey of residential condominiums in the Greater Toronto Area. Only condominium apartment projects were surveyed. This study serves as a complement to CMHC's annual survey of privately initiated rental accommodation in the Rental Market Survey (RMS).

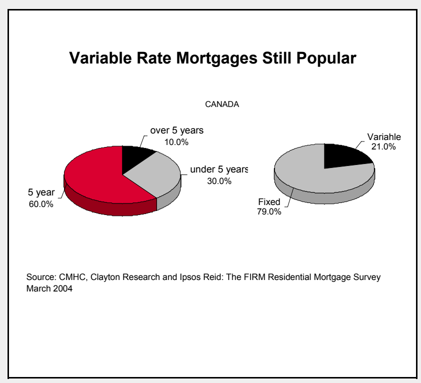
The main objective of the condominium survey is to identify the extent to which condominiums are being offered for rent, and find the subsequent rental vacancy rate. The data was collected for all regions within the GTA, including Toronto, York Region, Peel Region, Halton Region and Durham.

To order your report please call:
1-800-493-0059

Mortgage Term Selection

Variable rate mortgages have become increasingly popular in recent years.
Events surrounding Sept. 11th and other shocks to the Canadian economy have pulled interest rates lower. This has encouraged new and existing mortgage holders into the variable rate mortgage product. Indeed, statistics from the Financial Industry Research Monitor Survey (FIRM) indicate that 21% of existing mortgage holders held a variable rate product in March 2004, up from 16% one year ago and 13% in March of 2002. Fixed term mortgages were very sensitive to prospects of stronger growth early this year. Variable rate mortgages meanwhile remained relatively stable as central banks in Canada and the US maintained a neutral bias on interest rates given softer incoming inflation data.

Looking ahead, tighter monetary policy through this year and next will temper enthusiasm for variable rate mortgages. Despite increasing interest in the variable rate product recently, fixed terms are still most popular. The term structure has also remained relatively stable with most (60%) still preferring a 5yr term .



Demographic & Migration Outlook

Immigration flows to show steady improvement

As was widely expected, immigration flows into the Toronto area have edged higher since the third quarter of 2003. The after effects of SARS and geopolitical tensions globally have eased encouraging travel again. Immigration Canada`s pass mark for entrance into Canada has also been relaxed and has contributed to a six per cent increase in immigration for September year to date from this time last year. Looking ahead, immigration and therefore population growth should slow but strong immigration levels from the recent past is expected to continue feeding through to housing demand in 2005.

Migration from other provinces and other Ont. centres to slow

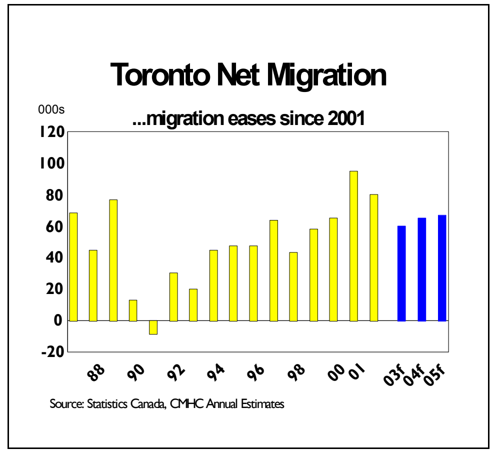
Toronto`s traditional source of inter-provincial migrants have come from cities such as Montreal and big western Canadian urban centres. With economic growth accelerating in most of these regions, look for fewer migrants from other parts of the country to settle in the Toronto area. Indeed, for the first time since this cycle began in 1996 net inter-provincial migration last year was negative and is poised to deteriorate further in 2004 and 2005.

Migration between Toronto and other Ontario centres *(intra)* is likewise set to deteriorate. With an upswing in interest rates projected over the next several years combined with rising detached home prices in Toronto, the dream of single detached home ownership will only be possible for the average buyer looking outside Toronto.

Taken together, while growth in immigration will slow from the recent past, it will still be sufficient to offset weakness in intra and inter provincial migration. After hitting a trough of 60,000 net migrants in 2003, look for net migration to average 65,000 net migrants in 2004 and 2005 respectively.

Spotlight on 2001 Toronto Headship Rates

While population growth is one driver of household formation, so too are headship rates. A headship rate is the number of households divided by the population for respective age cohorts or the propensity to form a household by age. Not unexpectedly, headship rates are lower for younger groups and highest for groups in the prime working ages. Economic and affordability considerations are most important drivers of headship rates and ultimately household formation. Despite a general improvement in employment conditions and homeownership affordability, 2001 headship rates were at or slightly below levels in 1996 across most age categories, particularly among the young. Changing make-up of Toronto`s immigrant population combined with slower youth job growth encouraged more young adults to stay home longer, weighing on household formation. In addition, the post 2001 boom in home sales and starts aren`t yet reflected in the numbers suggesting a slight improvement in headship rates is to be expected between 2001-2006.



FORECAST SUMMARY

Toronto Fall 2004

RESALE MARKET	2000	2001	2002	2003	2004f	2005f	Chg.%
MLS(1) Sales	58,349	67,612	74,759	78,898	84,000	82,000	-2.4
MLS Price	$243,249	$251,508	$275,371	$293,067	$314,000	$330,000	5.1
New Listings	89,767	102,442	109,939	129,340	148,308	160,175	8.0
Sales to New Listings %	65%	66%	68%	61%	58%	52%	-
NEW HOME MARKET							
Freehold Sales /(Low Rise)*	27,964	29,201	38,758	30,957*	29,000	27,000	-6.9
Condo Sales /(High Rise)**	12,878	13,061	15,931	12,325**	13,000	11,000	-15.4
Total Sales	40,842	41,362	54,689	43,282	42,000	38,000	-9.5
HOUSING STARTS							
Total	38,982	41,017	43,805	45,475	43,000	39,500	-8.1
Single Family Detached	17,119	16,844	22,115	19,626	20,500	18,000	-12.2
Semi/Row	11,607	10,479	11,097	10,535	10,000	9,000	-10.0
Apartment	9,981	12,738	9,081	13,291	11,800	12,000	1.7
Private Rental Starts	275	956	1,512	2,179	700	500	-28.6
RENTAL MARKET							
Vacancy Rate	0.6%	0.9%	2.5%	3.8%	4.5%	-	-
Average Rent (2-bed)	$979	$1,027	$1,047	$1,040	$1,019	-	-
							-
ECONOMIC OVERVIEW							-
Mortgage Rate-3 year	8.2%	6.9%	6.3%	5.8%	5.7%	6.5%	-
Mortgage Rate-5 year	8.3%	7.4%	7.0%	6.4%	6.3%	7.0%	-
Employment Growth (%)	4.5%	3.0%	1.9%	2.1%	2.5%	2.8%	-
Unemployment Rate	5.5%	6.3%	7.4%	7.7%	7.5%	6.9%	-
Net Migration (2)	65,000	95,000	85,000	60,000	65,000	67,000	-

Source: Toronto Real Estate Board, Statistics Canada , GTHBA based on Realnet Data, CMHC

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association
(2) Source-Net Migration=CMHC Annual Estimates, Statistics Canada
F=CMHC Forecast

(Low Rise)*= Realnet Data switches to low rise definition in 2003=singles, semis, townhomes(both freehold and condo)
(High Rise)**= Realnet Data switches to high rise definition in 2003=condo apartments exclusively