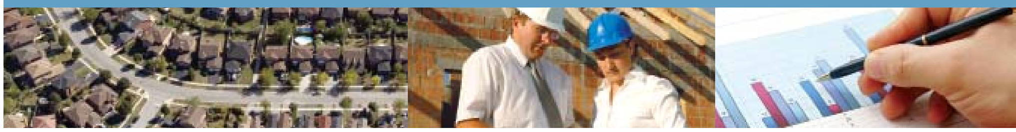
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Greater Toronto Area



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2009

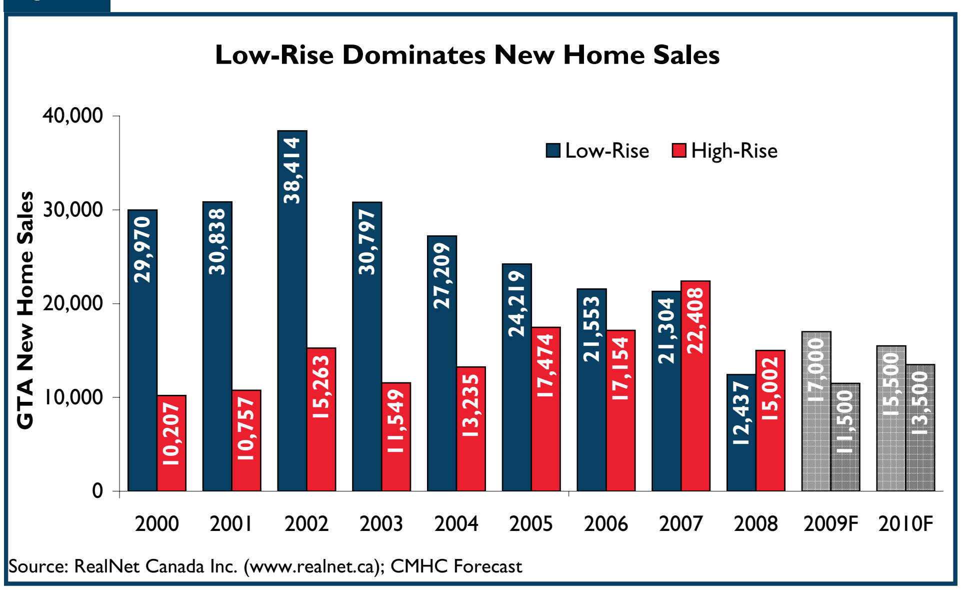
New Home Market

Sales Continue to Rise in 2010

The new home market in the Greater Toronto Area (GTA) will see sales activity rise slightly this year in comparison to 2008. The low-rise housing segment will be credited for the increase in sales in 2009 while the high-rise sector will outperform in terms of sales growth next year. Total new home sales will reach 28,500 units this year and remain steady at 29,000 in 2010 — well below the annual average for the new millennium.

For the first time since 2006, low-rise homes will account for the majority of new home sales in the GTA in 2009 and 2010. New low rise home sales will rise by 37 percent this year to 17,000. Although this level is still well below the high reached in 2002,

Figure 1



Source: RealNet Canada Inc. (www.realnet.ca); CMHC Forecast

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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it represents a complete turnaround from last year when sales dropped by over 40 per cent. Low borrowing costs this year are a clear contributor to the rebound in low-rise sales, as is a lack of supply in the resale market. A rise in new listings in the resale market and a reduction in affordability next year will dampen demand for new single-detached homes in the second half of 2010. Total low-rise home sales will move lower in 2010 to 15,500 units — still above the 2008 level. Strong sales for singles in the first part of next year coupled with stable demand for less-expensive semi-detached and row houses throughout 2010 will provide some support for the low-rise segment.

A tougher selling environment for high-rise homes will lead to a sales decline of 23 percent this year to 11,500 units — the lowest level since 2003. More project launches, an improving employment situation for younger workers and a shift towards lower-priced housing types in the second half of next year will boost new high-rise sales in 2010 by 17 percent to 13,500 units. Construction delays and a heightened sense of uncertainty regarding new condominium projects this year has turned buyers away from pre-construction sales offices. At the same time, less project launches have created fewer new options for buyers. Faced with high levels of inventory relative to demand, developers have begun offering generous buyer incentives and reconfiguring remaining units to attract more sales centre traffic. Sales levels have responded and are now much higher than at the beginning of the year. Still, sales are down by over 40 percent in the year-to-date to August and even with further improvement will register an overall decline in 2009. However, current sales momentum will carry into 2010, leading to a much better performance for 2010.

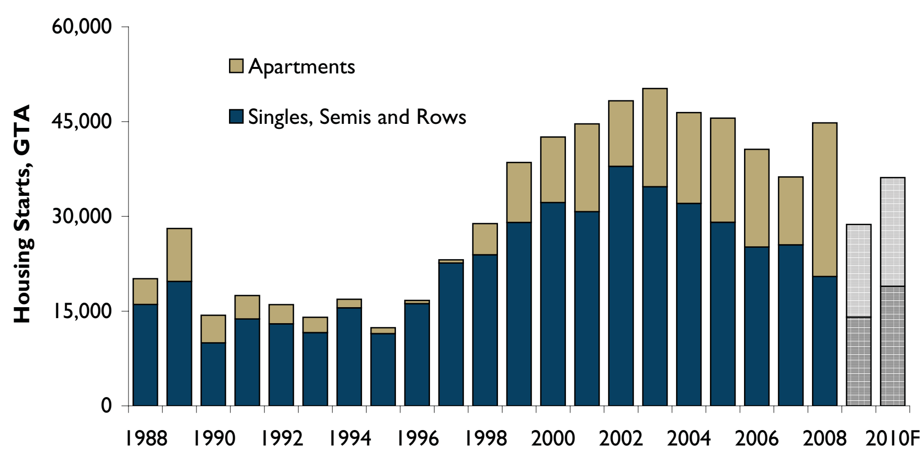
Housing Starts Rebound Next Year

The time lag between new home sales and construction will mean much of the increase in sales activity this year won't impact housing starts in the GTA until next year. Total starts will decline to 28,710 units in 2009. The biggest drop this year will come from the high-rise segment, which will see starts fall by 40 percent to 14,650 units after reaching a 40-year high in 2008. Low-rise starts will also decline this year, mostly as a result of a steep drop-off in single-detached sales in late 2008-early 2009. Housing starts across all dwelling types will rise by 26 percent in 2010 to 36,140 units, and will generally move higher over the next few years to meet the housing requirements of a rising population. By 2013, annual housing starts will reach 39,800 units — a level aligned with annual household formation.

The sales momentum for new homes will carry into 2010, providing a boost to the residential construction sector in the GTA. Low-rise homes will benefit from strong demand in the last half of 2009 and early 2010, which will keep construction levels elevated for most of the year. Some moderation in the last part of next year for the low-rise segment is expected as reductions in affordability for single-detached homes begin to deter buyers. Nonetheless, low-rise homes will lead the increase in construction activity next year with a 35 percent rise in starts. Semi-detached and row homes will see the greatest rise in activity, registering increases of 40 percent and 47 percent, respectively. A strong presence of first-time buyers this year and a slew of new sales sites across the GTA has raised the popularity of these housing forms. Demand for semis and rows is expected to sustain throughout 2010 as buyers continue to look for lower-priced options.

Figure 2

Housing Starts Bounce Back in 2010



Source: CMHC

Much of the decline in high-rise starts this year is attributed to construction delays. There are currently about 10,000 units in preconstruction projects that are at least 70 percent sold. Some will begin construction this year, but the majority will start in 2010. Part of the reason for high-rise construction delays this year stems from tightened credit market conditions emanating from a greater degree of uncertainty regarding the housing market and the economy in general. Another explanation may be rooted in the very high number of high-rise units under construction this year. Very strong sales and starts over the past couple years has pushed up the under construction count to an average of 38,000 units this year — the highest level in history. As financing conditions continue to improve alongside the economic recovery and more units come to completion, builders will have greater resources to start projects in the pipeline. Rising sales in recent months will also help many projects that opened last year meet their preconstruction sales targets to begin construction in 2010. Weighing down high-rise starts next year, however, will be the lower number of project openings this year. All factors considered, high-rise starts will rise by 17 percent in 2010 to 17,200 units – the second highest level this decade.

Resale Market

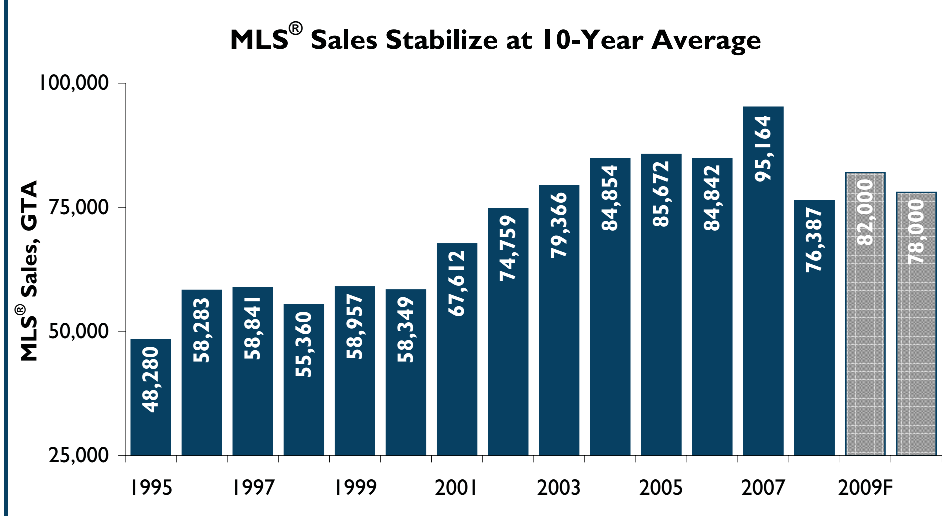
Existing Home Sales Remain Strong

While the overall economy will register its worst performance since 1991 this year, remarkably sales in the Toronto resale market will exceed last year's level. The 82,000 homes sold this year will be up seven percent from 2008 and well above the average for this decade. Next year, sales will moderate slightly to 78,000 units and become aligned with the historical ten-year average. Strong demand mixed with lower listings this year will elevate growth in average prices to 3.3 per cent. While the market will experience more balanced conditions next year, the average price for 2010 will grow by five per cent compared to the 2009 average.

The strength in resale activity this year is reflection of the aggressive interest rate cuts initiated by the Bank of Canada to stimulate growth in the economy. This policy response worked better than anticipated in the Toronto housing market. Record low borrowing costs and price discounts accumulated during the winter months lured droves of buyers into the market. Pent-up demand from first-time buyers priced out of the market in 2008 and future demand from move-up buyers capitalizing on the improved level of affordability brought sales levels to new highs this summer. Incomes continued to rise this year while the mortgage payment on an average-priced home in the GTA fell to $2,166—down from $2,407 in 2008[1]. However, as the stimulative increase in demand becomes satisfied and market conditions begin to reflect underlying economic fundamentals, sales will slow. Affordability will moderate slightly next year, but will remain in check due to slow price growth and incremental interest rate increases. The average mortgage payment will rise to $2,318, still below 2008 and 2007 levels. This will provide some support for sales while income growth slows and employment challenges persist next year.

Sales for single-detached homes will increase the most this year and capture more than half of all sales in the GTA. A longstanding trend

Figure 3



Source: CREA; CMHC Forecast

[1] Calculation based on average selling prices in the GTA, chartered bank posted five-year mortgage rates, 10 percent down payment and a 25-year amortization.

Figure 4

Source: CREA; CMHC Forecast

that has seen single-detached homes represent a declining share of resale purchases has stopped in 2009 as improved affordability is allowing households to expand their options in the resale market. There are also economic and demographic forces mentioned in the Local Economy section that favour move-up buyers. As a result, higher-end locations such as Central Toronto, York Region and Halton Region will experience the greatest rise in demand this year. The trend favouring activity for single-detached homes is expected to begin slowing in the second half of next year and reverting back towards multi-family dwellings as affordability erodes.

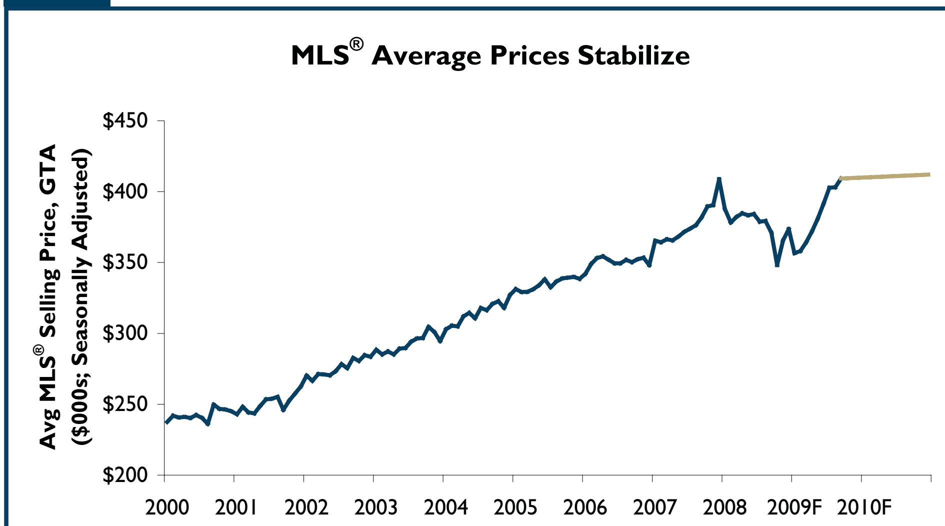
Balanced Market Conditions Next Year

While sales levels have rebounded this year in the resale market, new listings have moved in the opposite direction. This is a reflection of the strong presence of first-time buyers in the market this year. Aside from the improved affordability conditions, the expansion of the Home Buyer's Plan and the introduction of the First Time Home Buyers' Tax Credit have provided added incentives for first-time buyers this year. For existing homeowners, the newly introduced Home Renovation Tax Credit provides an incentive for households to stay put and invest in their existing home. Furthermore, a sense of uncertainty remains amongst sellers who will wait for the market to show signs of stability before putting their home on the market. New listings will decline by 17 per cent this year to 135,000, resulting in a sales-to-new listings ratio just above 60 per cent. This will categorize 2009 as a seller's market — characterized by a rise in multiple offer scenarios and shorter days on market averages. More supply is expected to come on the market next year as confidence amongst sellers improves and prices move higher. New listings are forecasted to rise to 150,000 units in 2010, which combined with a lower level of sales next year will result in a sales-to-new-listings ratio of 52 per cent. This will bring the market into balanced territory next year and ease price pressures.

Average Prices Move Higher

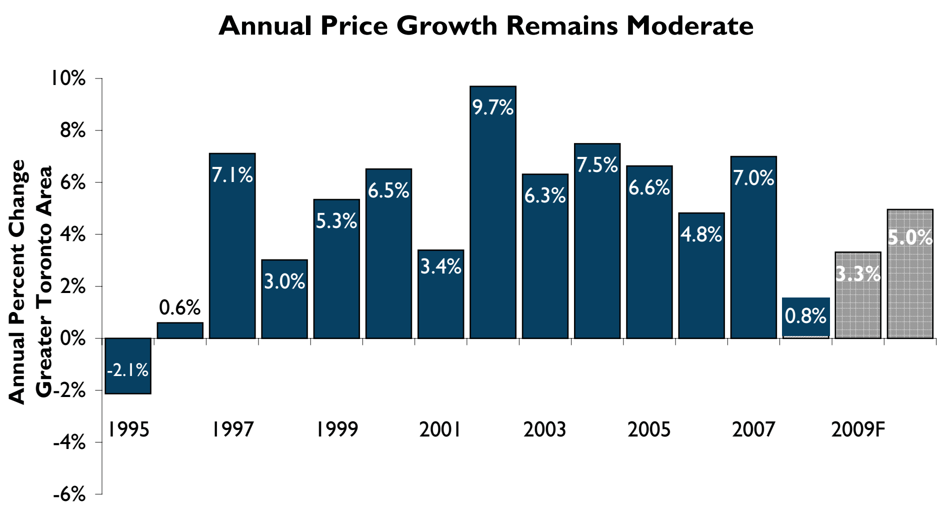
Tight market conditions and a compositional shift in sales towards single-detached homes will push up average selling prices by more than three percent this year to $392,540. Current selling prices, however, are already above the 2009 average after strong appreciation in the summer months lifted prices back above $400,000 to their peak level reached at the end of 2007. Price growth will slow as the market returns to a balanced position with the average selling price for 2010 rising about two per cent from its current level to $412,000. In

Figure 5



Source: CREA, CMHC Forecast

Figure 6



Source: CREA, CMHC Forecast

comparison to the average for 2009 as a whole, prices will grow by five per cent next year, which in line with the annual average for the decade.

Local Economy

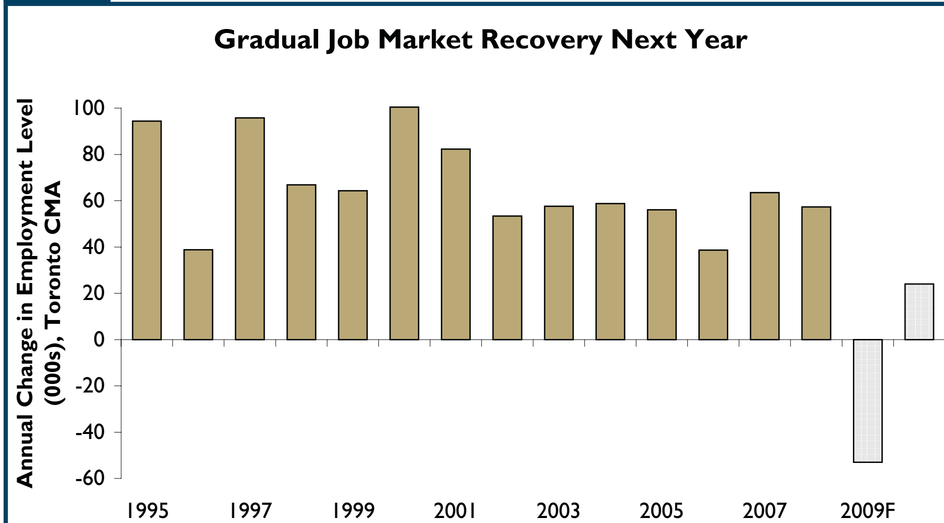
Gradual Job Market Recovery Next Year

The Toronto labour market will shed over 50,000 jobs this year before staging a modest comeback in 2010. The level of employment is expected to rise by 0.8 per cent next year — equal to an addition of approximately 25,000 jobs. The unemployment rate will end the year at a 15-year high of 9.7 per cent. More jobs next year will ease the rate down to 9.4 per cent in 2010. A considerable amount of slack in the labour market will cause earnings growth to slow to 1.2 per cent this year and just a 0.5 per cent increase in wages next year.

Employment losses this year in Toronto will mainly come from the goods-producing sector. As inventories become drawn down and sales pick up next year with an improving economy, manufacturing plants will begin to call back laid off workers. Construction sector employment prospects for next year look bright as more housing projects begin construction

Job gains in the services-producing sector will lighten the blow caused by the employment losses in the goods-producing sector. The Finance, Insurance and Real Estate category will provide the biggest support for the Toronto labour market this year.

Figure 7



Source: Statistics Canada, CMHC

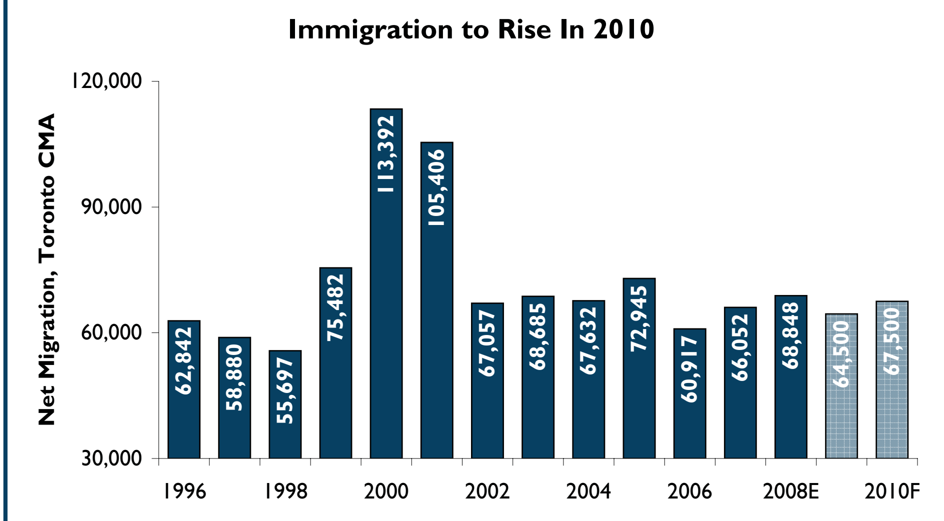
A strong rebound in the housing and financial markets has increased the need for more employees working in these industries. Employment in the service sector will receive further support next year from stabilization in goods production.

The labour force remained resilient this year due to increases in the working age population and steady in-migration. A slowdown in labour force growth, however, generally lags employment losses as it takes time for the out-of-work population to adjust their expectations about gaining employment. As a result, some discouraged job seekers will halt their search, putting downward pressure on labour force growth. The combination of slower labour force growth and moderate employment increases next year will alleviate some pressure from the unemployment rate.

The Working Population is Aging

The employment declines this year have focused on younger workers.

Figure 8



Source: Statistics Canada, CMHC

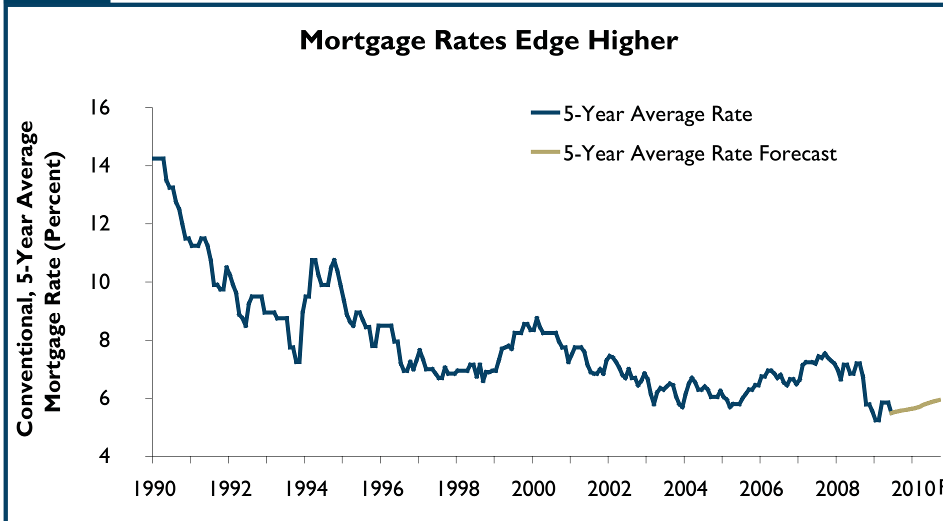
The level of employment among the under 45 age group is currently at its lowest point in 10 years. Since the average age of a first-time home buyer is approximately 35, weak employment within the 25 to 44 age group will undoubtedly impact the overall demand for housing purchases in Toronto next year. Furthermore, employment losses among young adults in the 15 to 24 age group may force more youth to remain in, or return to, their parental homes. This development will mostly impact the demand for rental housing.

The employed population aged 45 to 64, on the other hand, has never been higher. Stable employment amongst the baby boom generation has lead to the largest working population within this age group in history. Since households between 45 and 64 are typically in their highest income earning years and drive demand for move-up buying, single-detached homes and relatively expensive neighbourhoods are expected to perform the best this year and next.

Migration to Rise Next Year

The GTA will experience a dip in net migration this year as economic uncertainty has reduced the number of international immigrants. A stabilization in economic activity and more employment opportunities next year will elevate immigration and lift net migration numbers by five percent. Fewer households will move outside the GTA to other parts of the province as job growth in the area will perform better and improved housing affordability conditions will allow the GTA to retain more residents. The GTA and Ontario as a whole will, however, continue to see an outflow of residents to other parts of the country. The Western provinces are expected to emerge strongest from the current economic slowdown, attracting workers from other parts of the country.

Figure 9



Source: Bank of Canada, CMHC Forecast

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary Greater Toronto Area Fall 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	84,842	95,164	76,387	82,000	7.3	78,000	-4.9
MLS® New Listings	158,097	155,093	163,169	135,000	-17.3	150,000	11.1
MLS® Average Price ($)	352,388	377,029	379,943	392,500	3.3	412,000	5.0
New Home Market							
Starts – Total (Greater Toronto Area)	**40,611**	**36,230**	**44,810**	**28,710**	**-35.9**	**36,140**	**25.9**
Single-Detached	16,290	16,639	12,757	8,100	-36.5	10,350	27.8
Multiples	24,321	19,591	32,053	20,610	-36	25,790	25.1
Semi-Detached	2,996	2,920	2,450	2,560	4.5	3,590	40.2
Row/Townhouse	5,872	5,926	5,260	3,400	-35.4	5,000	47.1
Apartments	15,453	10,745	24,343	14,650	-39.8	17,200	17.4
Starts - Total (Toronto CMA)	37,080	33,293	42,212	27,400	-35.1	34,200	24.8
Starts - Total (Oshawa CMA)	2,995	2,389	1,987	805	-59.5	1,280	59.0
New Home Average Price ($):							
Single-Detached	453,189	496,062	523,564	552,500	5.5	576,000	4.3
New Home Median Price ($):							
Single-Detached	396,000	429,900	461,900	485,000	5.0	502,000	3.5
New Housing Price Index (1997=100) (Toronto-Oshawa)	3.8	2.7	3.5	-0.8		0.7	
Rental Market							
October Vacancy Rate (%)	3.2	3.2	2.0	2.0	0.0	1.7	-0.3
Two-bedroom Average Rent (October) ($)	1,067	1,061	1,095	1,120	-	1,140	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.30	6.90	6.70	4.20	-2.50	4.50	0.30
Mortgage Rate (5 year) (%)	6.70	7.10	7.10	5.70	-1.40	6.20	0.50
Annual Employment Level	2,802,025	2,865,525	2,922,850	2,870,000	-1.8	2,894,000	0.8
Employment Growth (%)	1.4	2.3	2.0	-1.8		0.8	
Unemployment rate (%)	6.6	6.8	6.9	9.7	2.9	9.4	-0.3
Net Migration (1)	60,917	66,052	68,848	64,500	-6.3	67,500	4.7%

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

Forecast Summary Oshawa CMA Fall 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	9,354	10,223	8,974	8,700	-3.1	8,100	-6.9
MLS® New Listings	181,194	17,444	18,570	13,400	-27.8	14,500	8.2
MLS® Average Price ($)	258,362	269,971	273,984	279,000	1.8	292,500	4.8
New Home Market							
Starts:							
Single-Detached	2,109	1,747	1,500	680	-54.7	890	30.9
Multiples	886	642	487	125	-74.3	390	**
Starts - Total	2,995	2,389	1,987	805	-59.5	1,280	59.0
Rental Market							
October Vacancy Rate (%)	4.1	3.7	4.2	3.7	-0.5	3.3	-0.4
Two-bedroom Average Rent (October) ($)	861	877	889	905	-	920	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.30	6.90	6.70	4.20	-2.50	4.50	0.30
Mortgage Rate (5 year) (%)	6.70	7.10	7.10	5.70	-1.40	6.20	0.50
Annual Employment Level	177,325	181,500	186,050	179,900	-3.3	180,200	0.2
Employment Growth (%)	0.7	2.4	2.5	-3.3		0.2	
Unemployment rate (%)	6.5	6.2	7.2	9.3	-	9.4	-

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Toronto Real Estate Board, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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