HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

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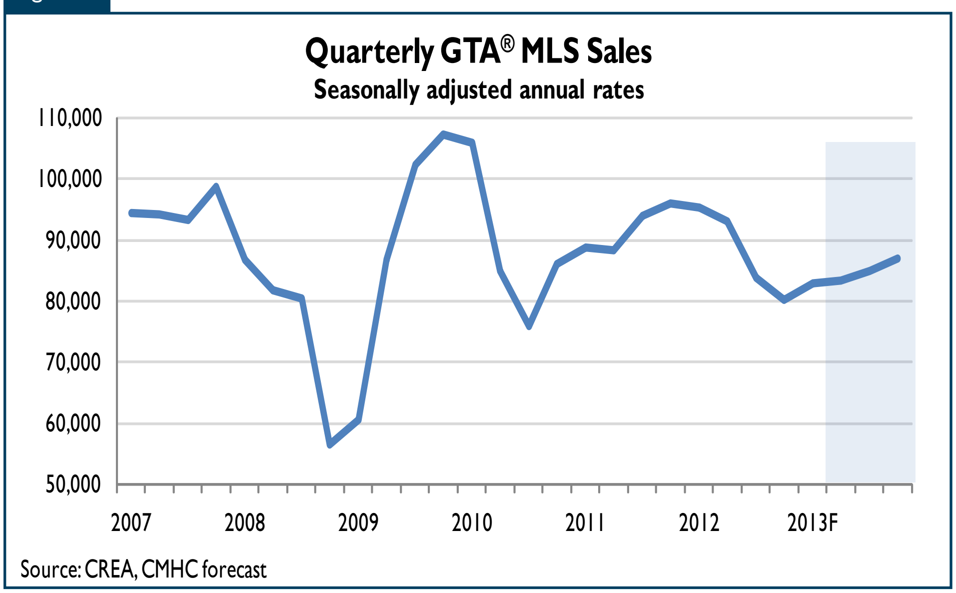
Resale Home Market

Sales remain in line with the past years average

The number of existing home sales in the Greater Toronto Area (GTA) will see limited change in the upcoming months, before regaining some momentum at the end of 2013. Relatively soft employment trends, lower rates of immigration over the past few years and rising ownership costs will dampen sales activity. Nevertheless, this year's anticipated four percent annual decline also reflects a stronger profile of MLS® sales in the first half of 2012. Gradual improvements in employment and household formation will fuel mild sales increases through 2014. The increase in the price gap between new and existing homes, combined with reduced levels of pre-construction inventories should also contribute to sales recovery, which at 89,500 units,

Figure 1



The forecasts included in this document are based on information available as of April 26, 2013.

will align well with the past five year average. After relatively strong price increases in the beginning of 2013, a more modest pace of growth is expected over the forecast horizon. A lack of supply improvement led by existing homeowners unwilling to sell if faced with unmet price expectations, will ensure that price growth remains on an upward trajectory.

Strong price growth, reduced immigration, and limited employment growth between 2011 and early 2012 resulted in reduced first-time buyer demand and lower sales in the second half of 2012. While potential move-up buyers were in a better position, they were still challenged by the volatility of the financial markets, and by a shrinking pool of first-time buyers. The subsequent improvement to employment growth led by full-time jobs in the higher paying service sectors, had a stabilizing effect on MLS® sales at the beginning of 2013. The profile of employment recovery has begun shifting to part-time positions and has focused on older workers. For the remaining part of 2013, with labour and wage gains being front-loaded, there will be limited improvements. Relatively stagnant labour market conditions will limit any significant boost to housing sales in 2013, which are expected to stay around their current levels. However, with the economy moving into a higher gear, the rate of employment growth should accelerate throughout 2014. Most importantly for the housing market, more improvements for young workers will help first-time buyers come back from the sidelines.

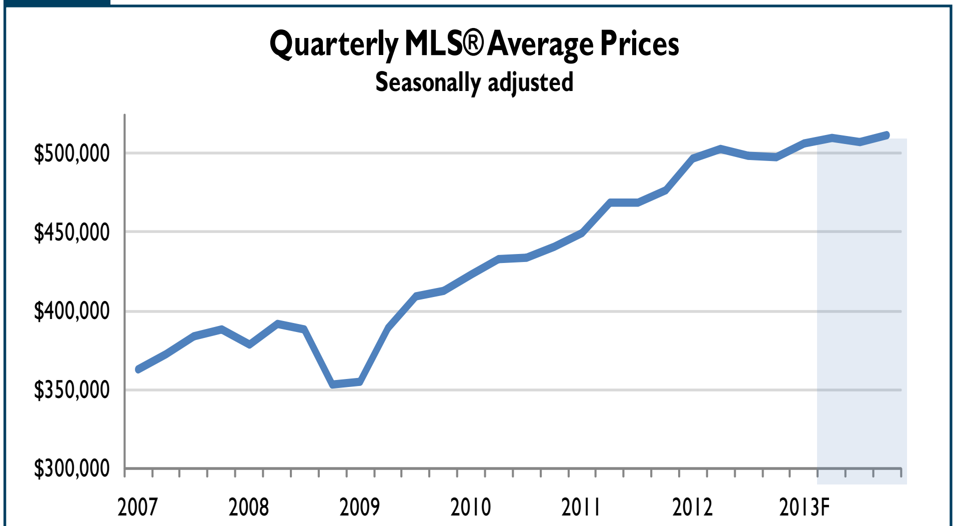
Immigrants, who are the primary source of population growth in the GTA, have always been an important source for housing demand. There is a lag between migration and sales. Typically, immigrants require time before they become homeowners and tend to rent first. Nevertheless, with new Canadians becoming better educated and qualified for mortgages, it takes them less time to establish and buy housing. However, immigration has slowed over the past two years, thus will continue to weigh on ownership demand in 2013. As Ontario regains some relative economic strength, immigration flows will gradually rebound, providing more support for both rental and ownership markets.

While listings are expected to show some mild improvement throughout 2014, a shortage of family sized homes, particularly in the popular 416 area, will remain acute. A limited number of low-density homes will come on the resale market as many existing homeowners decide to wait for better market conditions and refuse to sell if their price expectations are not being met. Furthermore, slowing low-rise home completions, generated by weaker pre-sales and lengthier construction timeframes, will also curtail growth in MLS® listings.

In contrast, a higher number of condominium projects will be reaching completion in 2014. The total length of time, from a project's opening to completion and registration, tends to vary extensively from three to five years, depending on the project's size, complexity and other external factors such as funding and construction resource availability. Next year, condominium completions are forecast to reach a record high level of 22 to 23 thousand units, which will generate an increase in resale supply. This increase, nevertheless, will be mitigated as more condominium owners decide to hold on to their units for the longer term thanks to favourable rental conditions and better selling prospects down the road.

With more potential homebuyers on the sidelines and sales shifting away from more expensive homes, price growth will be limited this year. However, thanks to the relatively strong first and last months of the year, the average selling price in 2013 will still be up by 1.4 per cent. The renewed demand for large family homes in the upper price ranges

Figure 2



Source: CREA, CMHC forecast

in the first half of 2013 is expected to calm down as more potential move-up buyers stay put in their existing homes. Furthermore, while some potential first-time buyers will be delaying their home purchases, others will be looking into more affordable ownership options in terms of property sizes and locations, thus relieving some pressure on the average price. Nonetheless, limited existing home inventories will warrant that any potential downward pressure on prices will be mild and short-lived. Modest but positive price growth is forecast to resume in the later part of 2013 and will extend into 2014.

New Home Market

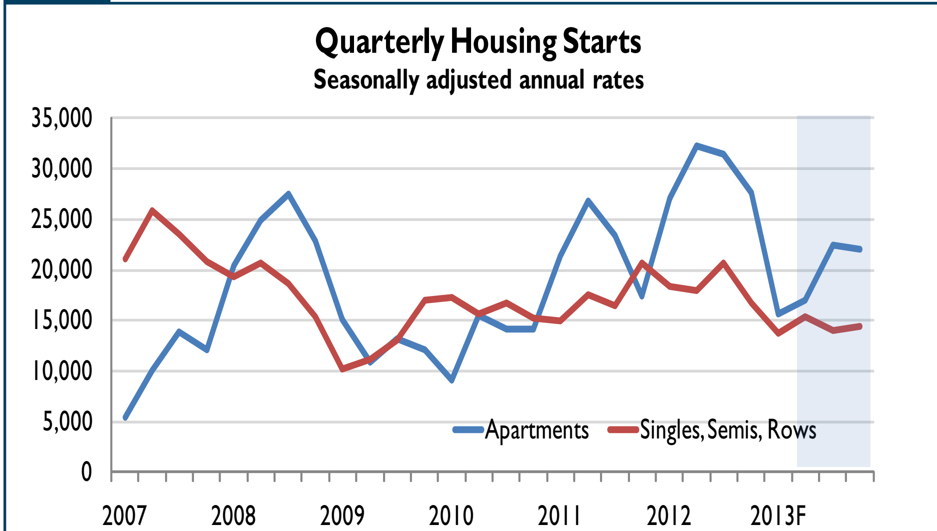
Fewer housing starts in 2013

Total housing starts in the GTA are forecast to decline to the mid-30 thousand range in 2013 on weaker pre-construction sales. Condominium apartment starts, which opened this year on a soft note, are expected to gain momentum in the latter part of the year and hold steady in 2014. Low-density homes (singles, semis, and rows) are projected to pull total housing starts up by four per cent in 2014. Stronger repeat buyer demand, supported by improving growth in the economy and selling opportunities for existing homeowners, will boost sales traffic for new low-rise homes. While high-rise starts will still account for the bulk of total residential construction, their share will edge lower to 58 and 53 per cent in 2013 and 2014 respectively.

Slower demand for condo apartments

Between 16 and 17 thousand new condominium units are forecast to sell in 2013. Pre-construction condo apartment sales, which have been gathering pace since 2010, experienced a sharp downturn in the middle of 2012. During the early part of 2013 pre-sales dropped to roughly half the level seen at the beginning of 2012 - the lowest level since the past recession and about 20 per cent below the ten year average. While a strong rebound is not foreseen, condo sales are still expected to bounce back to more reasonable levels.

Figure 3



Source: CMHC

Developers are projected to continue adapting to the new market reality, by delaying some new project openings and by more carefully choosing launch prices, unit mix, amenities, and locations. Existing sites are also going to benefit from more generous incentive packages. Over the next months sales are expected to hold steady at the current level, before recording gradual improvements in the second half of the year, which will be followed by further upward adjustments through 2014.

While some recovery is expected, newly launched projects will be challenged this year. According to Urbanation, over the past year demand has slowed more for condo apartments at project launches, compared to existing projects, which tend to attract a higher share of end-buyers. Condo buyers, who purchase units with the intention of renting or reselling them later, are becoming more profit margin constrained and in a deficit position with a minimum 20 per cent down payment required. Thus, buyers have been adopting a more cautious approach. Furthermore, a growing possibility of new projects facing delays or cancellations have shifted demand to the ones which have already sold a higher share of their units and projects under construction or nearing this stage. Stronger developers' efforts and improved demand conditions should eventually reduce inventory levels. Furthermore, tightening in lending conditions may translate into a higher number of projects being cancelled or delayed, thus will also put downward pressure on pre-construction supply.

Condo starts will remain elevated

Following a record set last year, high-rise starts are forecast to drop by 35 per cent to average around 19 thousand units in 2013, which will still be the third highest level ever. Condo starts will decrease on weaker demand for new units and higher volume of projects already under construction. Apartment starts will remain elevated in 2014.

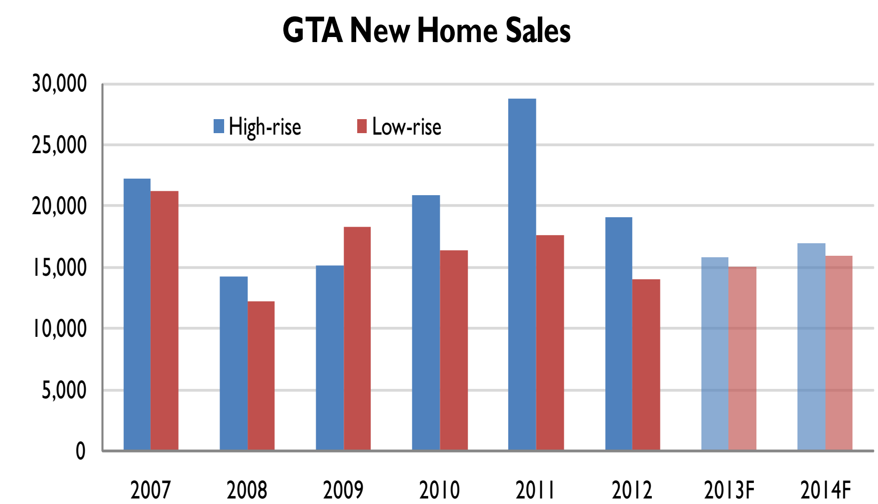
Pre-construction condo sales gained strength since 2010 peaking in the second quarter of 2011, and then remaining strong until mid 2012. A record high number of units sold during that period have translated into a build-up of apartment inventory under construction, which has reached more than 50 thousand units at the beginning of 2013. However, not all units sold during this period have already begun construction. The typical lag between a project's launch and the start of construction, which tends to be impacted by factors such as the developer's ability to meet the required pre-sale thresholds for construction financing, availability of credit and construction resources, has recently widened to average around 24 months. The fact that at the beginning of 2013, pre-construction projects in the GTA were on average 60 per cent sold , according to Urbanation, suggest that high-rise starts are going to improve later at some point in 2013 and will remain elevated through 2014.

Subdued low-rise construction

Low-rise (singles, semis, and rows) home starts, at 14 thousand units in 2013, will drop by almost 25 per cent from a year ago. Nearing recessionary levels, construction volumes will be well below the ten-year average. Demand for low-density homes dipped in the early part of 2013. The increased price gap between new and existing alternatives, limited inventories of new homes, in tandem with more balanced resale market conditions will sideline more potential new home buyers. A modest uptrend, which will extend into 2014, is expected as these factors start to temper.

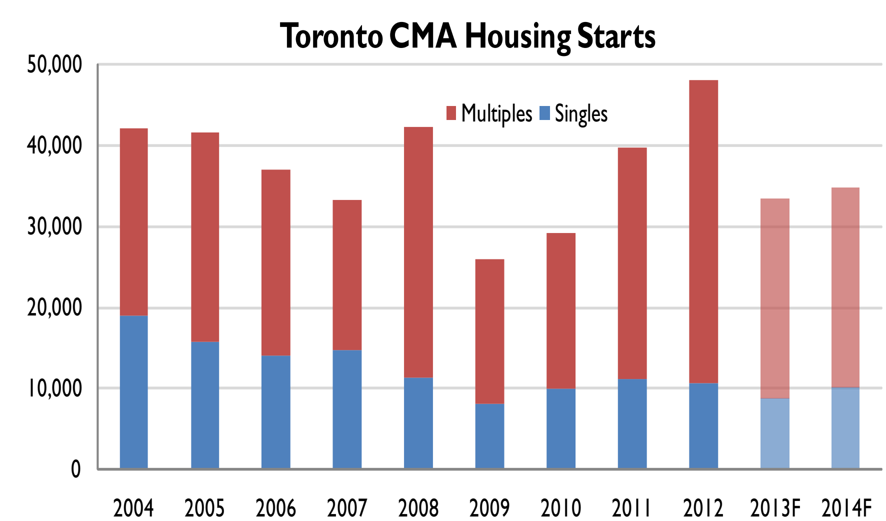
Furthermore, weaker demand conditions are expected to encourage the developer community to respond by releasing more diverse products in terms of home types, sizes, locations, and prices in order to reach the largest possible number of potential purchasers. In fact, in the first quarter of 2013, developers have already increased the pace of new project openings primarily in Brampton, Vaughan, and Markham after holding

Figure 4



Source: RealNet Canada Inc., CMHC forecast

Figure 5



Source: CMHC

back for an extended period of time. Brampton, which remains one of the most affordable submarkets in the GTA, now accounts for one quarter of all pre-construction low-rise supply —the highest share ever. Over the next years more homes will be started in the area. Despite relatively affordable prices in Durham region, the area is not expected to see any significant growth in the near future as the local supply remains tight. Likewise, the fastest growing Halton region, particularly Oakville and Milton remain inventory constrained.

Local Economy

Job growth will pick up in 2014

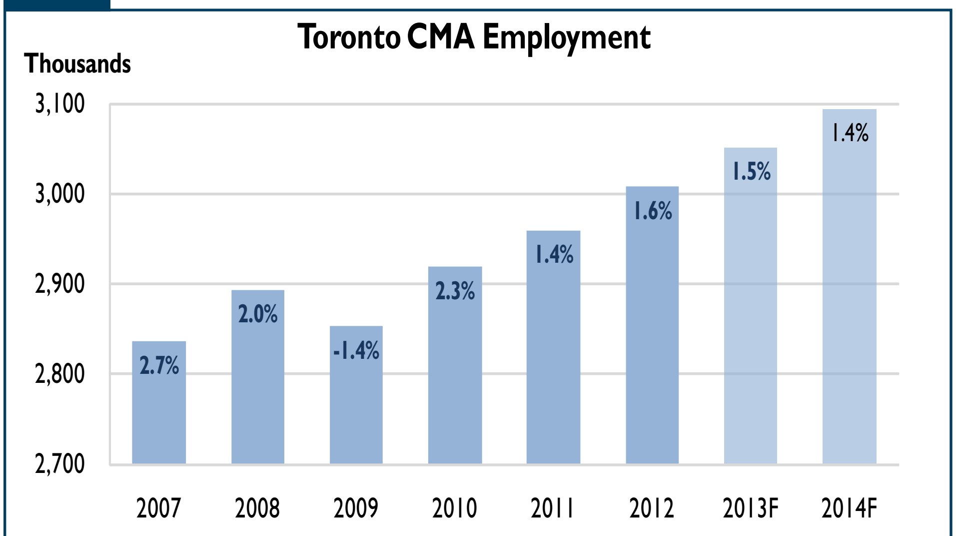
Following three quarters of accelerated employment and wage gains in Toronto, there will be steady but tepid improvements in the labour market conditions until early 2014. The pace of hiring is expected to strengthen in 2014 nevertheless it will remain modest compared to historical norms. The rate of unemployment is projected to gradually slide down to the low eight per cent range. With Toronto labour market lagging other parts of Ontario, the unemployment rate will be around one per cent above the provincial average.

In the second half of 2012, the Toronto labour market recorded strong gains, which appeared to be above the broader economic fundamentals. In the fourth quarter of 2012, the Ontario Gross Domestic Product (GDP) increased modestly at an annual rate of 0.2 per cent, after rising 0.3 per cent in the previous quarter. Exports were the primary drag, while household consumption expenditure and some gains in business investment were the main supports.

In the beginning of 2013, the level of household credit in Ontario was growing at its slowest pace since the beginning of this millennium. The credit card delinquency and loss rates, as well as consumer bankruptcies fell to pre-recession levels. There is no doubt that these trends should be viewed as positive. Nevertheless, they are indicative that consumers are taking a bit of a breather and therefore are forecast to limit their spending in the short term. Furthermore, thanks to continuous deficit reduction efforts this year and next, government expenditures are also expected to grow at a moderate pace. The slower spending trends will weigh on hiring in the service industries such as public administration, retail trade, finance, insurance, and professional services.

The Canadian Federation of Independent Business (CFIB), which surveys the level of confidence and performance expectations of small businesses, reported on some decline in business optimism this spring. The increased uncertainty is expected to temper hiring in the near term, particularly in retail sector given more cautious consumer attitudes. It is anticipated though, that the business and export sectors will drive economic growth in 2014. After years of cautious approach, private sector investment in non-residential structures, machinery, and equipment is going to see some rebound. Furthermore, with private sector demand in the U.S. expected to accelerate, it should generate stronger support for the auto industry, including local production in the GTA, which will be partly offset by a declining share of North American production. Improved business trends will build a stronger foundation for the employment growth in late 2014-early 2015.

Figure 6



Source: Statistics Canada, CMHC forecast

Mortgage Rate Outlook

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Forecast Summary
Toronto CMA
Spring 2013

	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	9,936	11,247	10,699	8,800	-17.7	10,100	14.8
Multiples	19,259	28,498	37,406	24,600	-34.2	24,700	0.4
Semi-Detached	1,654	2,010	2,253	1,500	-33.4	1,700	13.3
Row/Townhouse	4,365	4,231	5,536	3,800	-31.4	4,500	18.4
Apartments	13,240	22,257	29,617	19,300	-34.8	18,500	-4.1
Starts - Total	29,195	39,745	48,105	33,400	-30.6	34,800	4.2
Average Price ($):							
Single-Detached	606,617	658,063	672,318	702,000	4.4	710,000	1.1
Median Price ($):							
Single-Detached	517,900	557,990	577,900	602,000	4.2	609,000	1.2
New Housing Price Index (1997=100) (Toronto-Oshawa)	2.6	4.7	5.1	2.4		2.0	
Resale Market							
MLS® Sales	88,214	91,760	88,157	84,500	-4.1	89,500	5.9
MLS® New Listings	154,167	148,048	158,982	159,500	0.3	162,000	1.6
MLS® Average Price ($)	432,264	466,352	498,973	505,900	1.4	514,000	1.6
Rental Market							
October Vacancy Rate (%)	2.1	1.4	1.7	1.5	-0.2	1.7	0.2
Two-bedroom Average Rent (October) ($)	1,123	1,149	1,183	1,215	-	1,238	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	2,919,400	2,960,000	3,008,200	3,052,000	1.5	3,095,000	1.4
Employment Growth (%)	2.3	1.4	1.6	1.5	-	1.4	-
Unemployment rate (%)	9.1	8.3	8.6	8.4	-	8.2	-
Net Migration	68,492	65,776	66,019	67,500	2.2	69,000	2.2

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

Forecast Summary
Oshawa CMA
Spring 2013

	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,540	1,384	1,155	1,020	-11.7	1,100	7.8
Multiples	348	475	648	405	-37.5	410	1.2
Starts - Total	1,888	1,859	1,803	1,425	-21.0	1,510	6.0
Average Price ($):							
Single-Detached	378,405	375,970	407,418	430,000	5.5	438,000	1.9
Median Price ($):							
Single-Detached	354,295	349,990	377,990	400,000	5.8	408,000	2.0
Resale Market							
MLS® Sales	9,479	9,604	10,288	9,500	-7.7	9,880	4.0
MLS® New Listings	16,492	15,767	15,349	15,300	-0.3	15,800	3.3
MLS® Average Price ($)	299,983	314,450	333,202	344,000	3.2	350,000	1.7
Rental Market							
October Vacancy Rate (%)	3.0	1.8	2.1	2.0	-0.1	2.2	0.2
Two-bedroom Average Rent (October) ($)	903	941	939	953	-	965	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	188,200	193,500	193,600	197,300	1.9	200,500	1.6
Employment Growth (%)	5.7	2.8	0.1	1.9	-	1.6	-
Unemployment rate (%)	10.0	8.1	8.7	8.6	-	8.4	-

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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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