HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

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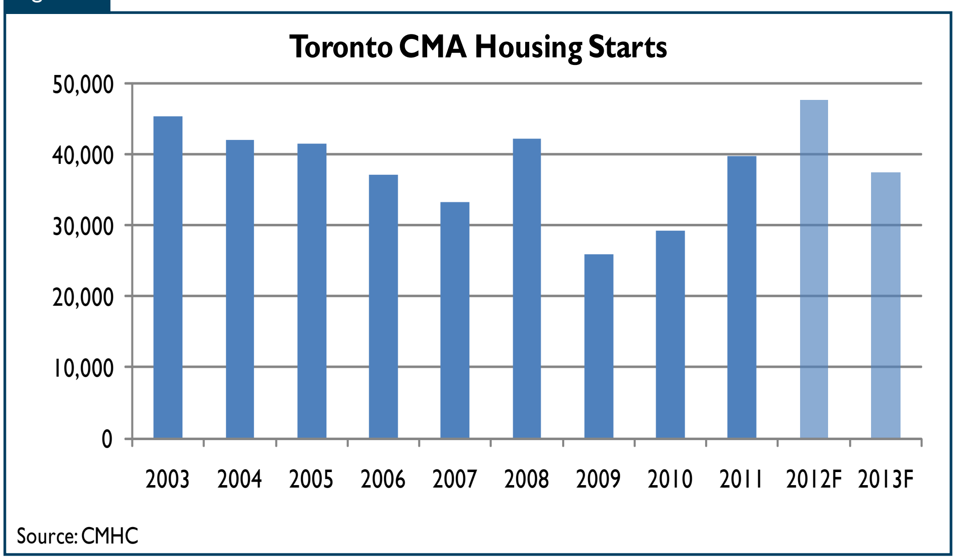
Market at a Glance

- New home construction and resale activity will slow into the first half of next year, setting the stage for an improvement during the second half of 2013.
- New home construction starts will reach 37,600 units in 2013, including 10,100 singles and 27,500 multiples. New home sales will total 31,000 units.
- MLS sales will total 87,000 homes next year at an average price of $498,500.
- Slower employment growth in the coming months will keep the unemployment rate above eight per cent in 2013 and net migration below its 10-year average.

Figure 1



* The forecasts included in this document are based on information available as of October 17, 2012.

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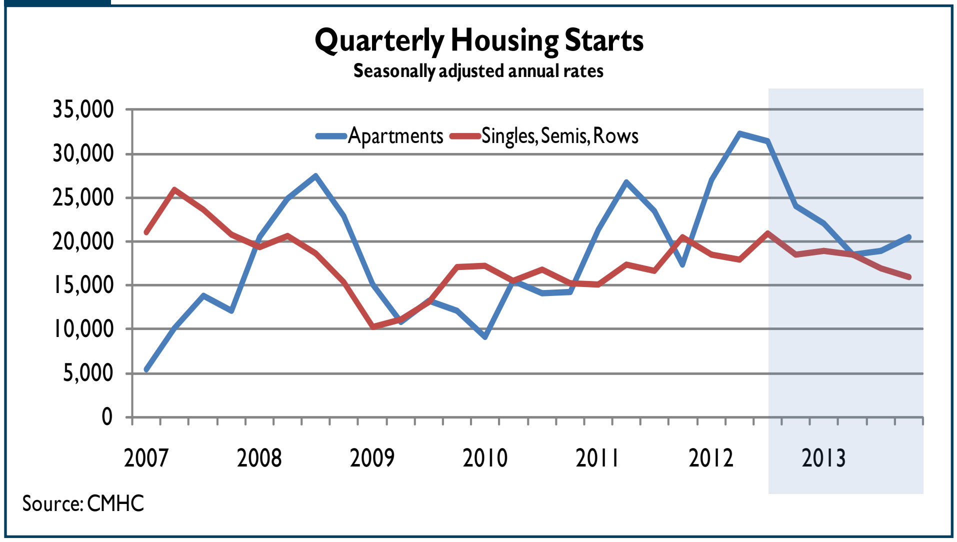


Source: CMHC

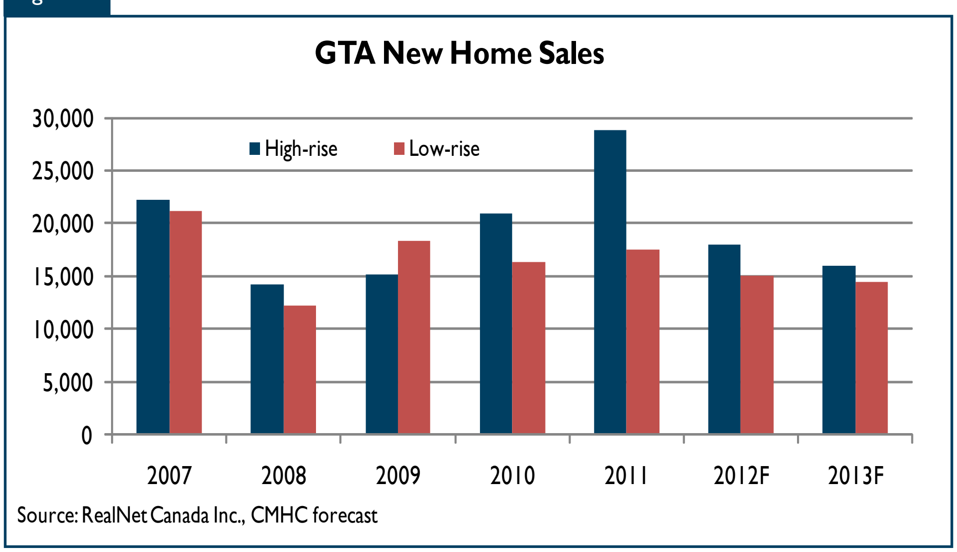
Slower sales will lead to fewer construction starts

New home construction is expected to slow next year but will stay close to the past five-year average and in line with recent rates of household formation. Condo starts will moderate noticeably into the first half of 2013 after reaching new highs earlier this year. Resource constraints and slower pre-construction sales in 2012 will weigh on starts in the coming months. Activity should pick up again during the second half of 2013 once the large volume of projects that opened sales centres in late 2011/ early 2012 have achieved sales levels sufficient to obtain financing and begin construction. Low-rise housing starts (singles, semis and rows) are expected to experience a milder slowdown next year. While demand from repeat buyers will continue to drive sales centre traffic, a declining number of sites, higher prices and increased competition from a better-supplied resale market will prohibit growth for this sector.

The typical five-quarter lag between new condo sales and starts will lead to a slower pace for construction ahead. A peak in sales activity identified during the second quarter of 2011 means starts should begin to moderate in the fourth quarter of 2012. The recent strength in starts will also impact the ability of new projects to begin construction due to increased strains on labour and capital. With lower completions this year (due to relatively low starts in 2010), the number of condos under construction hit a record 47,500 units at the end of the third quarter — almost 50 per cent higher than a year ago.

Although apartment starts will be down considerably from 2012, they will stay at a fairly high level due to a sizable number of new condo project openings this year that will move to the construction phase in 2013. Approximately 18,000 new condos are expected to sell in 2012 – most of which occurred at pre-construction sales centres. The timing of construction for most of these projects will likely occur later in 2013 as a slower sales trend this year has pushed up unsold inventories. According to data supplied by Urbanation Inc., more than half of the units opened during the first six months of 2012 were still unsold by mid-year. Because buyers haven't been as receptive to new openings this year — likely turned off by higher asking prices and a slower outlook for resale appreciation — projects will face longer delays in meeting sales

Figure 3



Source: RealNet Canada Inc., CMHC forecast thresholds for financing (typically 70-80 per cent).

However, demand for new condos should stabilize and begin to reduce unsold inventories, so long as developers continue to respond to changing market conditions by providing the appropriate incentives on existing units, adjusting product mixes where necessary, becoming more strategic in terms of the timing of new openings and more price competitive with the resale market. In the end, the perception of condos as a relatively stable investment and increasing opportunities in the rental market due to low vacancy rates and rising rents will continue to attract buyers and lead to roughly 16,000 sales in 2013.

Low-rise sales are expected remain steady next year at approximately 15,000 homes, which will keep construction starts in 2013 close to 2012 levels. Starts will continue to be supported into the early part of 2013 due to an uptrend in sales activity that occurred in the first half of 2012. However, by the second quarter of next year, the slower sales trend emerging over the past summer will begin to weigh on construction activity. While low inventory continues to impact sales, most of the slowdown heading into 2013 will come from the demand side.

A strong spring market combined with quickly rising building material and land costs accelerated price growth for new homes this year. Average new single detached prices have moved up to $670,000 in the GTA, which is beginning to turn some buyers away. The most expensive forms of housing typically experience a more pronounced decline as the market initially begins to slow. Buyers become wary of paying high prices as the potential for prices to come down appears more realistic. The new market also has to compete with resale alternatives, which have become more available as listings have trended higher. The changing market landscape is expected to encourage developers to ramp up marketing, offer incentives and price discounts where possible and focus on higher-growth markets in need of supply, such as the Halton Region. These efforts should help to stabilize new homes sales alongside the rest of the market in the coming months and set the stage for an improvement in the second half of 2013.

Resale Market

Activity expected to improve later in 2013

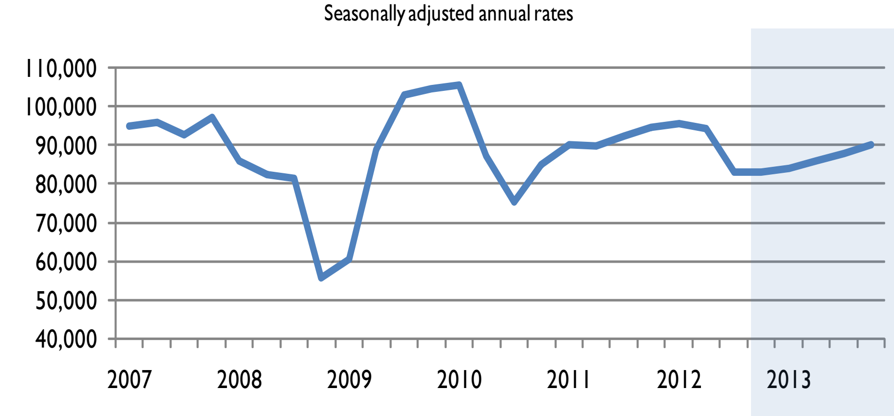
Market conditions in the Greater Toronto Area (GTA) existing home market are expected to moderate over the next six to nine months before regaining some momentum in the second half of 2013. Sales have recently begun to adjust down in response to tighter mortgage qualifying criteria, higher prices, previous weakness in employment and reduced immigration. Prices are expected to experience a very mild downward adjustment into the first part of 2013 as market conditions become more balanced. However, improvements to ownership affordability will accrue with slower price growth and recent employment and income gains. This will help to ensure the slowdown for sales and prices is temporary and growth resumes later next year — albeit at a slower pace than in 2011 and the first half of 2012.

MLS® sales in the second half of 2012 will decline by approximately 15 per cent compared to levels in the first half of the year, largely due to the lagged effect of past economic and market-related developments. A slower profile for economic growth and increased uncertainty reflected in financial market conditions caused the GTA labour market to lose jobs throughout the second half of 2011.

Figure 4

Quarterly GTA® MLS Sales

Seasonally adjusted annual rates



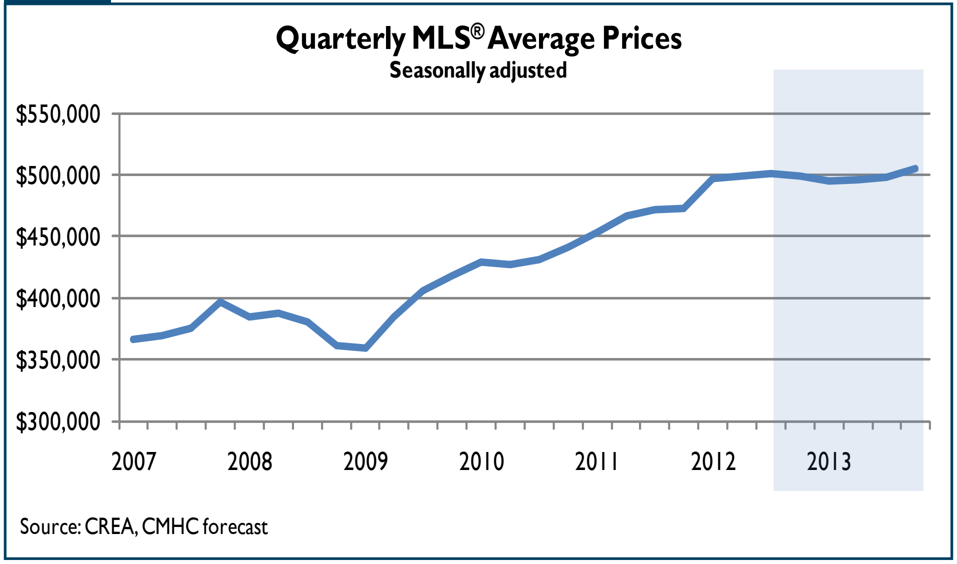
Source: CREA, CMHC forecast

The typical nine-to-twelve month delayed impact on housing sales began to materialize noticeably by the third quarter of this year, as the job losses were centred on full-time positions for younger workers in higher-paying sectors.

The slowdown to employment last year will continue to weigh on housing sales through to at least the first quarter of 2013, as will the reduction in first-time buying activity following a decline in ownership affordability accumulated in early 2012. Strong competition for listings caused average selling prices to rise by six per cent during the first half of the year (seasonally-adjusted). This was followed by tightened mortgage insurance policy guidelines, which will ensure stability in housing and mortgage markets over the longer term, but act as a headwind in the near-term. Higher home prices combined with new mortgage rules resulted in a 15 per cent rise in the mortgage payment required to buy the average-priced home compared to the beginning of the year — even though fixed mortgage rates moved lower during that time. While some will substitute into less expensive homes, the result will be a greater number of buyers delaying their entry into the ownership market.

By the second half of 2013, first-time buying and existing home sales should begin to improve. The slowdown to sales over the next few quarters will be accompanied by a higher level of new listings compared to the past few years, creating much more balanced market conditions. This will moderate selling prices at a time that follows a noticeable improvement in labour market conditions. Employment levels recovered quickly during the second and third quarters of 2012, with momentum that has brought the working population in Toronto to a new high. The high quality of positions added has elevated income growth, which will improve affordability in conjunction with slower price growth and help to bring more buyers into the market. However, the boost to sales will be restrained by muted employment gains going forward and relatively low levels of migration (see Local Economy section).

Figure 5



Average selling prices in the GTA will see little growth over the next year but will continue to be supported by supply levels that remain in check. Although existing homeowners will be most active in the market, less first-time buying demand will impact their ability to sell, which will help to slow growth in new listings and limit any downward adjustments to selling prices. The same should be true for the condo market as supply from newly registered projects should see little, if any, growth next year. Completions in 2012 and 2013 will be low by recent standards (12-14K compared to almost 18K in 2011) and the share of units that become listed for sale after registration is not likely to rise. A growing share of new units are being listed for rent – a trend that should continue into next year as market conditions for condo rentals remain stronger than condo ownership. Most of the units that will be completed were pre-purchased several years ago at lower prices, meaning carrying costs will largely be covered by rent levels.

Local Economy

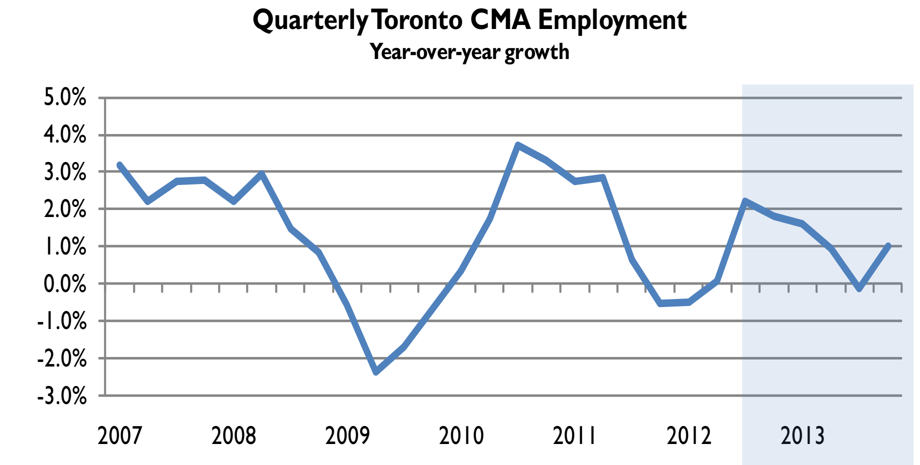
A slower housing market impacts job growth

Employment levels in Toronto are expected to show modest gains next year, keeping the rate of unemployment above eight per cent for the fifth consecutive year. A general slowdown in the growth of consumer spending — largely impacted by housing market activity — will lead to less hiring in the service sector. Weaker job market conditions in relation to other parts of the country and province will continue to weigh on population growth in Toronto. After reaching a decade low of 56,000 in 2012, net migration will rise to 58,500 (still below the 10-year average of 65,000).

The Conference Board of Canada's Help Wanted Index for Toronto, which measures growth in online advertised job postings and can be an effective leading indicator for job growth, has started to trend lower in recent months. It appears service-sector businesses are becoming hesitant to hire as not only fewer homes trade hands, but a general slowdown in spending emerges. The most recent readings on retail sales in Toronto were at their lowest in almost two years.

As the housing market slows, it impacts spending on a range of items associated with moving into a new home. It can also have a broader affect on consumption as weaker price growth influences homeowner perceptions of wealth. So in addition to slowing growth in employment within the real estate, financial and professional services sectors, slower housing market activity over the next several months will also lead to less hiring in the retail trade sector, which is one of the largest sources of jobs for the Toronto economy. By the same token, however, improving housing market conditions later in 2013 will help brighten the prospects for the local labour market down the road.

Figure 6



Source: Statistics Canada, CMHC forecast

Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Toronto CMA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	89,255	88,214	91,760	89,000	-3.0	87,000	-2.2
MLS® New Listings	136,096	154,167	148,048	157,500	6.4	159,000	1.0
MLS® Average Price ($)	396,154	432,264	466,352	500,000	7.2	498,500	-0.3
New Home Market							
Starts:							
Single-Detached	8,130	9,936	11,247	10,500	-6.6	10,100	-3.8
Multiples	17,819	19,259	28,498	37,100	30.2	27,450	-26.0
Semi-Detached	2,032	1,654	2,010	2,200	9.5	1,900	-13.6
Row/Townhouse	2,918	4,365	4,231	6,000	41.8	5,400	-10.0
Apartments	12,869	13,240	22,257	26,300	18.2	19,500	-25.9
Starts - Total	25,949	29,195	39,745	47,600	19.8	37,550	-21.1
Average Price ($):							
Single-Detached	582,123	606,617	658,063	667,000	1.4	675,000	1.2
Median Price ($):							
Single-Detached	496,945	517,900	557,990	576,000	3.2	589,000	2.3
New Housing Price Index (1997=100) (Toronto-Oshawa)	-0.1	2.6	4.7	4.8		2.0	
Rental Market							
October Vacancy Rate (%)	3.1	2.1	1.4	1.0	-0.4	1.3	0.3
Two-bedroom Average Rent (October) ($)	1,096	1,123	1,149	1,185	-	1,215	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	2,853,100	2,919,400	2,960,000	2,980,000	0.7	3,013,000	1.1
Employment Growth (%)	-1.4	2.3	1.4	0.7	-	1.1	-
Unemployment rate (%)	9.4	9.1	8.3	8.6	-	8.4	-
Net Migration	64,987	68,094	60,530	55,800	-7.8	58,500	4.8

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 Fall 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	9,328	9,479	9,604	10,300	7.2	9,550	-7.3
MLS® New Listings	15,113	16,492	15,767	16,000	1.5	16,150	0.9
MLS® Average Price ($)	278,505	299,983	314,450	330,500	5.1	335,500	1.5
New Home Market							
Starts:							
Single-Detached	836	1,540	1,384	1,230	-11.1	1,235	0.4
Multiples	144	348	475	642	35.2	432	-32.7
Starts - Total	980	1,888	1,859	1,872	0.7	1,667	-11.0
Rental Market							
October Vacancy Rate (%)	4.2	3.0	1.8	1.7	-0.1	1.7	0.0
Two-bedroom Average Rent (October) ($)	900	903	941	970	-	990	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	178,100	188,200	193,500	194,200	0.4	197,200	1.5
Employment Growth (%)	-3.3	5.7	2.8	0.4	-	1.5	-
Unemployment rate (%)	9.0	10.0	8.1	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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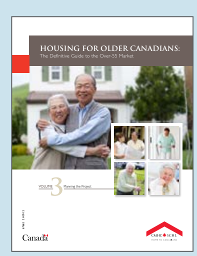

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