HOUSING MARKET OUTLOOK

Toronto

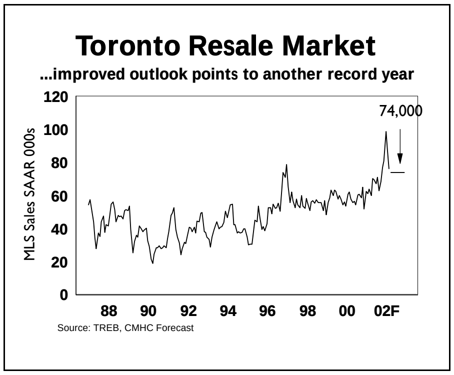
Canada Mortgage and Housing Corporation

Issue: *Spring 2002*

RESALE MARKET

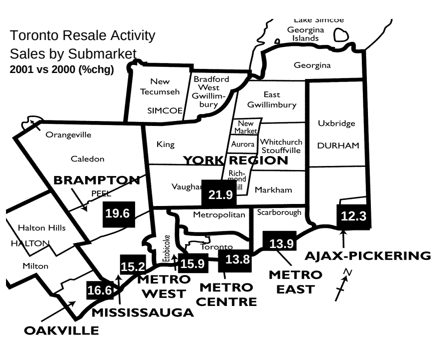
Resales on pace for record in 2002

Despite economic uncertainty surrounding the horrific events of 9-11, the Toronto housing market remained resilient in Q4 of last year and year to date 2002. Toronto resale markets set the tone. For a record seventh consecutive quarter, resale activity in Q1 continued to climb, eclipsing 84,000 sales on a seasonally adjusted annualized basis. Continued low mortgage rates, mild weather and better than expected local job conditions contributed to this. In addition, volatile equity markets encouraged an alternative avenue for personal capital with real estate taking front stage. CMHC believes that a recovering labour market along with relatively low mortgage rates ensures continued strength through the critical spring and summer months. However, as economic momentum builds, rates will gradually edge upward taking some steam out of the market later this year. Toronto should eclipse last year`s record sales levels hitting 74,000 existing home sales in 2002, up 9.4% from 2001.



Homeownership costs on the rise

Estimated homeownership costs as a share of income are still off the highs witnessed during the peak of the last cycle (1990) despite the recent price run-up. Then unlike now, well over half of household income was being absorbed by housing costs. Recent increases in Toronto housing prices to a large extent have been mitigated by declining borrowing rates, keeping housing costs at historically low levels. However, as the local economy continues to accelerate, interest rates will no longer act as a cushion-- impacting first time home buyer demand later in 2002.



In This Issue

CMHC Toronto Market Analysis

Ted Tsiakopoulos
Tel: (416) 218-3407
ttsiakop@cmhc-schl.gc.ca

Robert Genier
Tel: (416) 218 -3390
rgenier@cmhc-schl.gc.ca

Toronto listings to resume upward trend

Listings lagged the unseasonably strong housing demand witnessed during Q4(01) and Q1(02). Given that vendors typically list homes for sale closer to spring/summer months, the market tightened noticeably. However, while listings year to date have not kept up with the pace witnessed this time last year, evidence suggests this should change shortly. Many vendors who bought in the mid 90s are now sitting on comfortable equity gains. Some will feel the need to move-up to a larger home. Alternatively, many buyers who purchased at the peak of the last cycle have recently seen rising prices restore equity, suggesting their homes could also add to the pool of listings.

Healthier seller' s market projected for rest of 2002

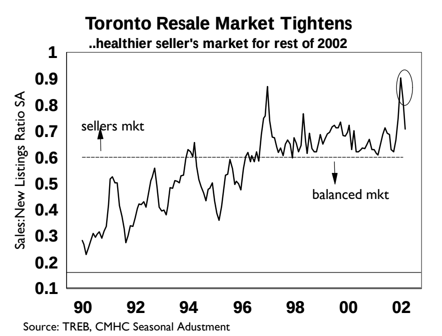
While the degree of tightness in the Toronto market should begin to ease, leading economic indicators point to vendors continuing to command bargaining strength. CMHC actively tracks the sales to new listings ratio (S:NL), which measures the degree to which a market is under supplied. The boundary between a seller`s and balanced market is at 60%; meaning if more than 6 out of 10 new homes listed are sold--a seller`s market prevails. In January 2002, this ratio stood at 90% seasonally adjusted. Normal weather temperatures along with more product on the market helped bring Toronto`s resale market into more balance with the ratio dropping to 70% in March. CMHC believes that rising home ownership costs coupled with more listings points to a healthier seller' s market through 2002 with a S:NL ratio hovering near 65%.

Toronto Housing Costs

Table 1 homeownership costs to drift higher through 2002

	1990	1996	2000	2001	2002F
Household income	$54,219	$56,829	$61,375	$63,216	$65,112
Avg 5yr mtg (%)	13.35	7.93	8.35	7.4	7.5
Avg Prices	$255,020	$198,150	$243,255	$251,507	$265,000
Taxes	$3,188	$2,477	$3,041	$3,144	$3,313
Occupancy costs*	$29,060	$16,013	$20,237	$19,229	$20,749
Costs as % income	**54%**	**28%**	**33%**	**30%**	**32%**

Source: Bank of Canada, Stats Canada, TREB, CMHC Forecast
**** Occupancy cost= Carrying costs + taxes***
****based on 25% dp, 25 yr amort.***



Price growth should slow but still more than double rate of inflation in 2002

As demand continued to outstrip supply during the out of season housing period, more bidding wars have been reported. It was not uncommon to witness six to ten offers on properties across many Toronto area neighbourhoods. With few comparable sales in respective neighbourhoods, this resulted in final sale prices greatly exceeding asking price in such neighbourhoods as Bloor West Village and Toronto East. Year to date prices reflect this as an average single family home price in Q1 2002 is up just shy of 10% from this time last year. More product on the market coupled with slowing sales suggests the pace of growth in Toronto area resale prices shall subside through the end of 2002. Nonetheless, CMHC forecasts the average Toronto single family home price shall rise to $265,000, up 5.4% from 2001.

Toronto East, Mississauga sub markets remain tightest

Typically when housing prices accelerate, modestly priced residential areas become most appealing. Neighbourhoods in Toronto East and Missssissauga are a good example of this as they remain the most active/tightest year to date. Alternatively, after a bout of rising prices early this year, demand in higher priced neighbourhoods in York Region and Toronto Central have and shall continue to ease much quicker through 2002.

Risks to the forecast

As was the case in our fall 2001 edition of the *Toronto Housing Market Outlook*, risks to the 2002 forecast are tilted to the upside. Stronger local job creation adding to the pool of buyers coupled with slower growth in listings suggests sales and prices could grow to a level stronger than our forecast.

NEW HOME MARKET

Buyers flock to new home market as bidding wars heat up

The existing Toronto housing market sets the tone for new home demand. Following in the footsteps of resale homes, new home sales eclipsed late 80s sales levels reaching 60,000 sales in Q1 on a seasonally adjusted annualized basis. Buyers attempting to avoid the grind of bidding wars for existing homes flocked to the new home market in record numbers. Although the pace of new home demand should subside, strong migration, tight resale markets and a turning job market point to another record year in 2002. New home sales will reach 48,000 sales, up a strong 13.6% from last year.

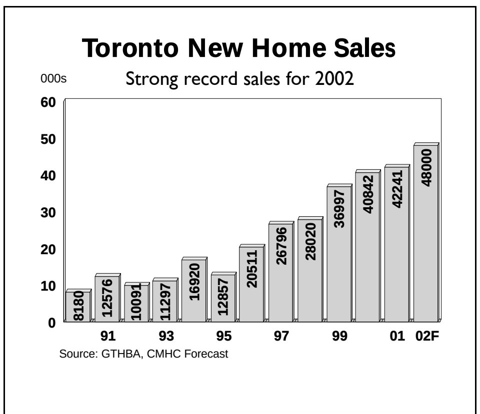


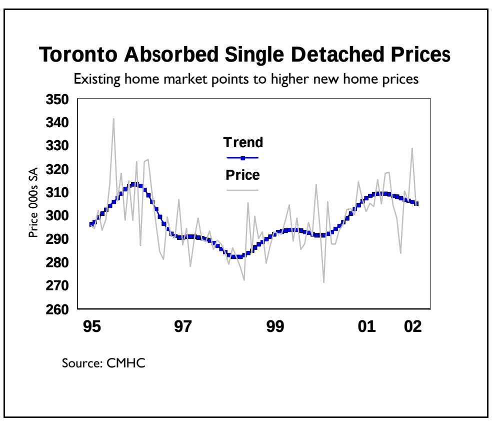
Table 2 Toronto MLS Sales & Prices: Major Sub Markets (Yr-Yr)

Sales	2001	2000	%chg
Ajax-Pickering	3,044	2,710	12.3
Brampton	5,878	4,915	19.6
Mississauga	9,780	8,488	15.2
Oakville	1,453	1,246	16.6
Toronto Central	10,658	9,369	13.8
Toronto East	10,142	8,901	13.9
Toronto West	7,465	6,442	15.9
York Region	11,546	9,473	21.9
Avg Prices	**2001**	**2000**	**%chg**
Ajax-Pickering	$214,891	$206,333	4.1
Brampton	$215,387	$206,194	4.5
Mississauga	$233,152	$225,019	3.6
Oakville	$270,664	$250,634	8.0
Toronto Central	$348,857	$351,430	-0.7
Toronto East	$217,668	$204,902	6.2
Toronto West	$241,763	$229,555	5.3
York Region	$287,917	$279,010	3.2

Source: TREB

Freehold demand healthy

Following the events of 9-11, freehold demand barely lost a beat. Demand for more expensive single detached housing remains very strong year to date, pointing to a healthy Toronto new home market for much of this year. However, single detached home prices have not kept pace with increases in prices for existing single detached homes. Year to date new single prices are up 4% from this time last year. This compares to a price increase of just shy of 10% for resale singles year to date. Resale home price increases should begin to trickle into the new home market causing first time home buyer demand for new singles to subside. Alternatively, demand for more affordable semi detached freehold product should remain more appealing for the remaining part of this year. Nonetheless freehold sales should remain active reaching 32,000 sales, up a strong 9.6% in 2002.



Toronto condo sales have more upside

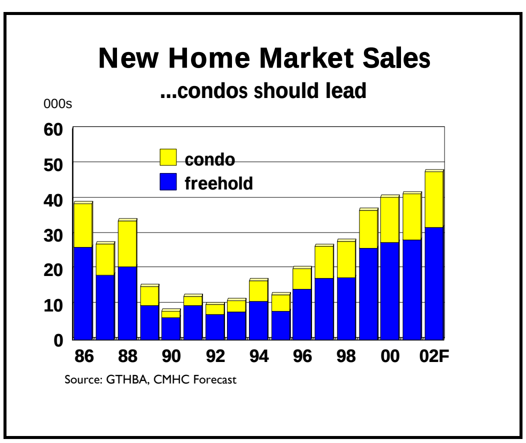
Toronto condominium sales continue to remain brisk. As of Q1 2002, sales are running over an estimated 17,000 units on a seasonally adjusted annualized basis, up a whopping 46% from this time last year. More moderate temperatures coupled with rock bottom rates encouraged traffic across most sales offices. While demand should trend along more normal levels over the remaining quarters, condo dwellings should continue to act as a price competitive alternative to rental for many first time buyers. CMHC expects condo sales to eclipse last year`s record rising to 16,000 sales, up a strong 22.9% from 2001.

416 condo supply shrinks; opportunities in 905?

The number of active condo apartment projects across the Toronto area remained remarkably stable in the face of rising demand for most of 2001. Heading into 2002, it suggests that unsold supply continues to shrink, especially in 416 core areas. Nearly 70% of active projects are over 70% sold out. Our contacts have suggested that many prime locations in mid to downtown Toronto are tapped out. Despite traditionally higher development charges and larger/younger family households in 905 areas, these areas could be home to the next wave of condo development. Employment opportunities moving away from the core offers future support for this trend.

Condo prices should lead

The Toronto condo resale market remains "red hot" suggesting higher new condo prices will follow for much of 2002. The Toronto area sales to unsold inventory ratio for new condo apartments, currently well above 30%, points to continued price growth ahead. A flattening in high rise construction costs over the past few quarters has helped stabilize growth in prices. However, condo prices should outpace growth in price of other dwelling types rising by 10%, with stronger increases near the core.



RESIDENTIAL STARTS

Builders kept busy with all time record starts in 2002

Toronto area housing construction remains robust with builders finding it difficult to keep up with growing demand. To put the current strength of the market into perspective, Q1 housing starts were running just shy of 49,000 units on a seasonally adjusted annualized basis. This is up a strong 18% from one year ago. Tighter than average resale markets, reasonable new home price growth, strong migration and a stronger job market point to a healthy construction market for much of this year. Toronto housing starts, driven mostly by the multiples market, should reach an all time record of 47,000 units, up a strong 15.1% from 2001.

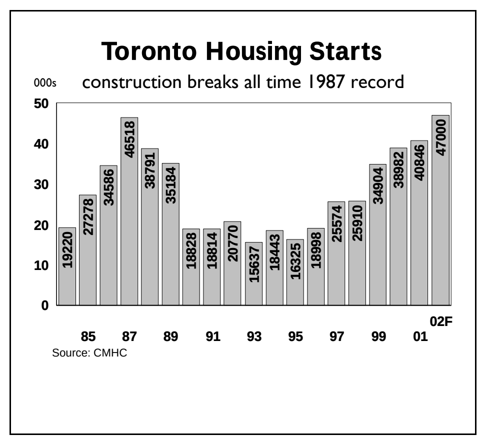
Units under construction pose a challenge *to builders* in 2002

Housing projects under construction are up over 12% from this time last year. However, for some dwelling types such as condominiums, the increase is more pronounced. Some have suggested that with scarce labour trades (ie. bricklayers) and growing demand, builders would not be able to commence new work in a timely manner. Evidence to date suggests otherwise. Starts continue to remain strong while completions are occurring at a faster rate than last year this time. Moreover, slower commercial activity may increase the pool of available labour in the residential sector alleviating some pressures through the end of 2002. Labor and material costs are also well behaved posing little threat to the construction of new units in the market. To date and for the rest of 2002, the most serious challenge builders should face is meeting completion dates. Evidence to date has occupancy dates pushed out for both low and high rise housing.

Multiples to outpace single starts

As the price of housing continues to rise across the Toronto area, the more price competitive multiples market should outperform. The supply of completed and unoccupied condo units remains low relative to the oversupplied conditions of the late 80s. Condos will therefore be the strongest segment of the multiples market as many condo units sold most recently reach the construction phase through the end of 2002.

Surprisingly, the more expensive singles market has also kept pace since the fall, confirming the depth of current market demand. CMHC forecasts the multiples market to grow at a faster pace in 2002 reaching 28,000 starts, up 16.4% from last year. Single starts activity should also be stronger than originally thought, rising by over 13% to 19,000 units.



Private rental construction on the rise

Historically low vacancies, higher rent increases along with proposed changes to the tax treatment of rental income suggests that the market environment for private rental remains favorable. After private rental construction increased noticeably in 2001, more moderate increases are anticipated for 2002.

Economic Overview

Employment

Canadian/Ontario labour markets recover; strength lies ahead

Revised GDP numbers in Q4 2001 has helped avert a more severe downturn. Following 9-11, both the US and Cdn economies performed better than expected in the final three months of last year, due in most part to consumer interest rate sensitive sectors. Nevertheless, US employers continued shedding workers in hopes of restoring profit margins, driving employment growth into negative territory for much of the year. However, Canada faired much better as employers refrained from parting with long term labour, keeping job growth flat on the year. Preliminary evidence for Q1 2002 suggests the worst is over. Strong consumer spending and the need to rebuild inventories has helped kickstart Canadian job creation at its strongest pace since 1987. A stimulative dollar along with over ¾ of Ontario auto exports destined for the US, suggests Ontario/Cdn job creation will kick into high gear as the year progresses.

Drop in Toronto help wanted ads subside

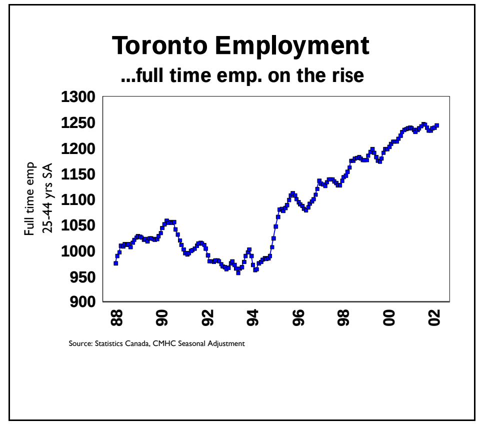
Growth in local housing demand is partially a function of job growth. What is clear is that the Toronto labour market has turned the corner. Following sluggish job growth in the last half of 2001, Toronto employers have created over 30,000 jobs in Q1 2002 alone, far outpacing job losses in the 9-11 aftermath. If this pace is sustained, Toronto job growth should easily eclipse 4% employment growth, higher than the annual average of 3.6% registered from 1995-2000. Help wanted ads may also be pointing to improved labour market conditions. After employers in the manufacturing and high tech sectors refrained from adding new employees to the payrolls for 13 consecutive months, the tide now appears to be shifting, as the index flattens and points up.

Job Seekers remain optimistic; Jobless rate plateaus

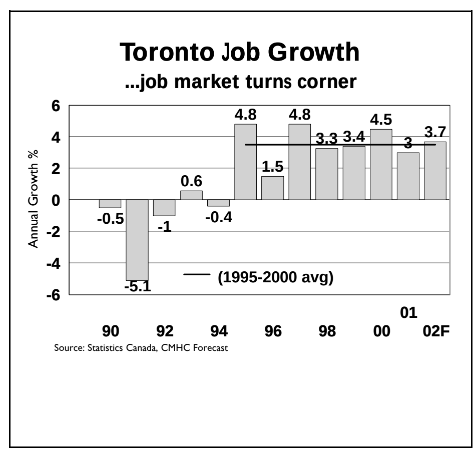
Headlines of stronger than expected job growth in Q1 of 2002, suggests reason for optimism among potential job seekers. Toronto labour market participation continues to climb as word of a rebound in hiring encourages a jump into the labour force. However, as job growth continues to exceed the growth in the labor force, the rise in the jobless rate is expected to subside. After rising sharply through 2001, the local unemployment rate is expected to nudge just slightly higher from 6.2% to 6.5% in 2002.

Full time employment climbs; Toronto manufacturing sector recovers

Housing demand is most sensitive to changes in full time employment as opposed to part time job levels. Toronto full time job growth remained at a standstill for much of last year. Local employers were most comfortable adding part time labour in light of mounting economic uncertainty. However, preliminary evidence to date suggests this uncertainty is fading quickly. Full time employment especially among



the prime home buying public aged 25-44 is running at a good clip suggesting positive spin-offs to housing demand. In an attempt to beef up goods producing inventories, Toronto manufacturers have responded, erasing much of the manufacturing job losses witnessed in 2001. This is important as many of these jobs are high-paying, a good news story for housing demand. CMHC anticipates healthy Toronto job growth for the remainder of 2002. Look for a net increase of 95,000 jobs in the Toronto area and job growth to rise to 3.7% in 2002 from 3% last year.



Mortgage Rate Outlook

Canadian/US economies avoid recession; rates have bottomed

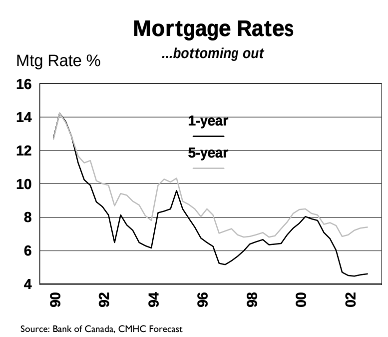
Economic reports indicating much stronger growth in Q4 real GDP silenced many in the "gloom and doom" camp early in 2002. Growth in real Q4 GDP in the range of 1.5%-2% in both Canada and the US triggered renewed talks of the strength of the recovery rather than the depth of the downturn. The strength of the recovery has implications for both current and future interest/mortgage rates. As the economic recovery picks up steam, it is anticipated that some of the easing over the past 12 months will be taken back by both central banks throughout 2002. To date, stronger job and consumer price growth suggests Canada may lead the next tightening cycle.

On the demand side, inventory rebuilding and government spending will support economic activity (GDP) for a good part of this year. Although consumer expenditures may subside from the torrid pace witnessed over the past few quarters, due in most part to auto price incentives, consumer sentiment should keep spending healthy. Exports will accelerate as foreign production and demand pick up, especially in the United States. However, business spending on machinery and equipment will take time to gather strength due to excess capacity in some sectors and narrowing corporate profits.

The Fed, BoC move from easing to neutral bias; tightening bias may not be too far off

As the job market shows steady improvement throughout 2002, inflation containment will become the next target via monetary policy. The inflation rate in Canada however should remain subdued for the first half of 2002 while edging above its target rate of 2% later this year. The base case scenario calls for current inflation expectations to remain stable while long term inflationary expectations gain strength. This scenario may change due to unforeseen shocks to commodity markets and to a stronger than expected pickup in domestic demand. While open and variable rate mortgages generally track lender`s prime rate, fixed rate mortgages move in tandem with the bond market. As the prime rate, money market and short term bond yields are expected to remain stable for much of 2002, so will short term mortgage rates. However, as the economy strengthens and financial markets foresee some monetary tightening, long term interest and mortgage rates will increase.

The outlook for short term mortgage rates in 2002 remains favorable with the one-year mortgage rate in the 4.00-5.00 per cent range. The three and five year rate mortgage rates will remain in the 6.00-7.00 and 7.00-8.00 per cent ranges, respectively.



Homebuying Step by Step

For most Canadians, purchasing a home is a major decision, since it often represents the largest expenditure of their life. As Realtors, you understand this and that's why you walk your clients through the entire process.

CMHC's practical guide: *Homebuying Step by Step*, is currently used by Realtors as it supports their work. This free publication is packed with useful information, tips, illustrations, charts, and worksheets.

From the moment your clients decide to buy a home to the moment the movers carry the first box, this guide can help. You or your clients are at a click of a button from that product - on the CMHC website:

http://www.cmhc-schl.gc.ca/publications/en/online.html

Migration

Immigration continues strong in 2001; momentum eases in 2002

Long term housing demand is driven by people. Migration has and should continue to explain the lion`s share of Toronto population growth. Net immigration into Toronto is driving migration trends and is feeding into current and future housing demand. Canadian immigration has increased substantially since 1998 and 2001 numbers have indicated that immigration has surpassed the 225,000 planned range by a healthy margin. Preliminary 2001 data for Toronto showed net immigration levels up a healthy 10% from year 2000 levels. Foreign ties to Toronto`s ethnic and cultural diversity was evident with Toronto capturing over 35% of all immigration in 2001. Increased security and tougher entrance qualifications suggests that this momentum should ease slightly in 2002.

Uptick in Toronto Resale Prices Sustainable.....this time

Housing demand is also driven by net intra-provincial migration to/from Toronto vs the rest of Ontario. The late 80s revealed huge price differences between an average single family home in Toronto vs a home in the rest of Ontario, reaching a peak of $145,000. Very few people were able to meet their housing needs in the expensive Toronto market, encouraging many to migrate to other Ontario centers like Oshawa, Barrie and Hamilton. With few alternatives available on the new home front, huge migration outflows ensued resulting in a correction in Toronto housing prices during the early 90s.

Double digit average price increases are a thing of the past with Toronto home prices, most recently, rising at par with real estate across the rest of Ontario. However, while Toronto prices are growing at a sustainable pace and a “buy to own” philosophy prevailing, migration outflows nonetheless will begin to deteriorate slightly throughout 2002.

Aggregating flows between the rest of the world, between provinces and other Ontario urban centres gives us a total net migration snapshot for Toronto. Net Migration to Toronto should remain strong hitting 65,000 in 2000 and 75,000 in 2001 from 58,000 in 1999. However, weakening immigration and intra provincial migration flows along with slower migration from the rest of Canada will cause Toronto net migration levels to ease slightly to 70,000 in 2002.

2001 Rental Market Survey

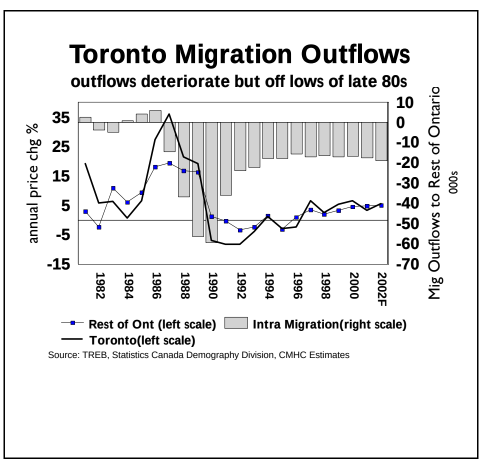
Get a picture of average rents, vacancy rates and universe size by bedroom type by zone across the Toronto area

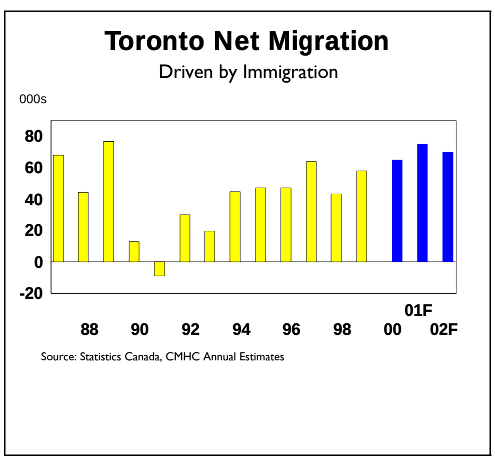
To order your copy or obtain more information please call Norma Trivino@ 1-800-493-0059

2001 GTA Land Survey

Get a picture of the number of development applications and land supply across municipalities in the GTA

To order or for more info call:
1-800-493-0059





FORECAST SUMMARY

Toronto CMA Spring 2002

RESALE MARKET	1997	1998	1999	2000	2001	2002F	Chg.%
MLS(1) Sales	58,014	55,344	58,957	58,349	67,612	74,000	9.4
MLS Price	$211,306	$216,814	$228,307	$243,249	$251,508	$265,000	5.4
Sales to New List Ratio	67%	65%	70%	65%	66%	65%	
NEW HOME MARKET							
Freehold Sales	17,543	17,954	26,157	28,248	28,688	32,000	11.5
Condo Sales	9,253	10,066	10,840	12,814	13,022	16,000	22.9
Total Sales	26,796	28,020	36,997	41,062	41,710	48,000	15.1
HOUSING STARTS							
Total	25,574	25,910	34,904	38,982	40,846	47,000	15.1
Single Family Detached	14,203	12,696	15,535	17,119	16,793	19,000	13.1
Semi/Row	8,179	8,576	10,646	11,607	10,555	11,500	9.0
Apartment	2,940	4,463	8,270	9,981	13,498	15,300	13.4
Private Rental Starts	252	175	453	275	956	1,200	25.5
RENTAL MARKET							
Vacancy Rate	0.8%	0.8%	0.9%	0.6%	0.9%	1.1%	-
Average Rent (2-bed)	$821	$881	$916	$979	$1,027	$1,099	-
							-
ECONOMIC OVERVIEW							-
Mortgage Rate-3 year	6.56%	6.77%	7.38%	8.17%	6.88%	6.90%	-
Mortgage Rate-5 year	7.07%	6.93%	7.56%	8.35%	7.40%	7.50%	-
Employment Growth (%)	4.8%	3.3%	3.4%	4.5%	3.0%	3.7%	-
Unemployment Rate	8.0%	7.0%	6.1%	5.5%	6.2%	6.5%	-
Net Migration (2)	64,000	43,000	58,000	65,000	75,000	70,000	-

Source: Toronto Real Estate Board, Statistics Canada, 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

The Toronto CMA Housing Market Outlook is CMHC`s local forecast for new home and resale markets. Issues are released in the Spring and Fall of each year. To become a subscriber for only $40.00 annually (single- $25.00) (+GST) or for more information please call 1-800-493-0059.