HOUSING MARKET OUTLOOK

Toronto

Canada Mortgage and Housing Corporation

Issue: *Fall 2002*

RESALE MARKET

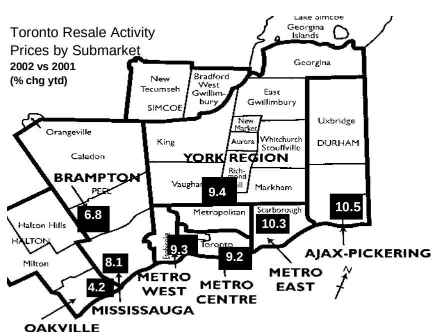
Healthy sales projected for 2003; ease from record 2002 levels.

Moving into 2003, the biggest question on prospective homebuyer's minds is whether the Toronto real estate market will suffer the fate of the stock market? North American stock markets have recently been trading at inflated valuations when compared to earnings potential. When valuations exceed long term potential, corrections usually ensue. The high tech sector is a prime example. Conventional wisdom suggests that the Toronto residential market does not reflect a typical boom bust pattern. Broader market leading indicators like real mortgage rates, real home prices, migration and job growth suggest that sales will remain firm. Indeed, despite early year bidding wars across many Toronto area neighbourhoods, the near overheated market conditions did not lead to a real estate inflation spiral. However, Q3 sales have eased from their record setting pace in early 2002. Lower than expected mortgage rates coupled with strong investment flows from jittery equity markets should help Toronto register another record sales year of 75,000 sales in 2002, up 10.9% from

last year. A near term shrinkage of pent-up demand, lagging impacts of slower job growth and rising borrowing costs through to the end of 2003, points to slower but a still healthy housing pace of 70,000 sales next year.

Mortgage rates keep ownership costs in check

Profit concerns south of our border has dampened job creation and long term US interest rates. While short term Cdn mortgage rates rise more convincingly, long term rates



should edge up moderately. Since most borrowers prefer the security of a long term mortgage, long term rates should partially mitigate the rise in Toronto home prices. However, home ownership costs will begin to drift upward as a North American recovery triggers a rise in long term rates through 2003.

In This Issue

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

With as much as 60% of all buying from first time buyers, this could dampen the pace of sales late next year. Nevertheless, home ownership costs at 36% of household incomes suggests Toronto housing costs are still significantly off the highs of the peak late 80s period--*another good news story for housing demand in 2003.*

Toronto listings to resume upward trend

Since the year 2000, listings have continuously trended upwards. In early 2002, the listings trend flattened. After posting double digit increases last year, listings are down from this time in 2001. However, strong evidence suggests listings will resume its upward trend through next year. Firstly, nominal home prices will eclipse levels of the late 80s. This means that vendors who have been thinking about moving to an upgraded home will now add their homes to the pool of listings. Secondly, despite a first time buyer driven market, some existing home owners who purchased a new home will also commence occupancy in 2003 as a jump in new home completions is anticipated. This should also mean more homes listed for sale next year.

Market imbalances ease moving into 2003

A slowing in the sales pace coupled with a boost in supply conditions across the GTA points to fewer market imbalances in 2003. CMHC actively tracks the sales to new listings ratio (S:NL), which measures the degree to which a market is under supplied. Near overheated conditions fuelled by record low mortgage rates and mild weather in early 2002 led to large imbalances between supply and demand. This pushed S:NL ratios to a decade high of nearly 100%. As of Q3 of this year, the market has eased translating to six sales for every ten new listings on the market (63%). Look for the Toronto resale market to stay near the mid to low end of a seller`s market with the sales to new listings ratio hovering between 60%-65% next year.

Toronto Housing Costs

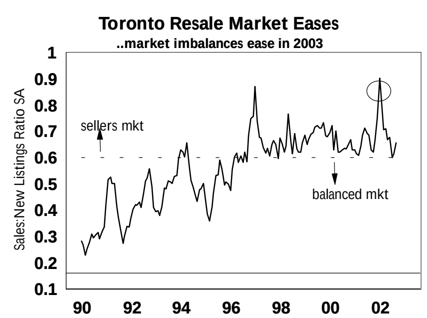
Table 1 homeownership costs to drift higher through 2003

	1990	1996	2000	2002F	2003F
Household income	$49,238	$55,952	$59,432	$62,197	$64,375
Avg 5yr mtg (%)	13.4	7.9	8.4	7.1	7.9
Avg Prices	$255,020	$198,150	$243,255	$275,000	$290,000
Taxes	$3,188	$2,477	$3,041	$3,025	$3,190
Occupancy costs*	$29,060	$16,013	$20,237	$20,569	$22,954
Costs as % income	**59%**	**29%**	**34%**	**33%**	**36%**

Source: Bank of Canada, Stats Canada, TREB, CMHC Forecast

**** Occupancy cost= Carrying costs + taxes***

****based on 25% dp, 25 yr amort.***



Source: TREB, CMHC Seasonal Adustment

More moderate price increases in 2003

Unsustainable tight market conditions led to sharp price increases in early 2002. Since then the price trend has flattened. We anticipate that with fewer market imbalances Toronto home prices will rise more moderately through the end of this year and into next. More homes listed for sale should also mean fewer bidding wars and fewer homes selling above asking price. However, a market hovering near the lower end of a seller`s market suggests that price increases should continue to exceed the rate of inflation. After average resale home prices jump by 9.4% to $275,000 in 2002, look for a more moderate increase of just over 5% to $290,000 next year.

Condos continue to lead

The Toronto condominium market remained the tightest segment in 2002. Growth in condo prices continued to outpace all other dwelling types rising just over 9% year to date. However, low interest rates allowed many first time buyers to buy more home for their money, resulting in stronger demand for single detached homes. With nearly half of GTA sales falling in the single detached category, rising home costs late in 2003 should dampen demand and price increases for detached homes. Similarly, more condo completions could add to the supply of listings dampening price increases for condominiums as well.

Ajax-Pickering,Toronto east submarkets to lead

Modestly priced neighbourhoods to the east should continue to outperform on the home price front. Conventional demand-supply relationships suggest these submarkets remain the tightest and have more upside as they remain closest to their historical average real home price. Alternatively, more balanced conditions coupled with current real home prices closer to historical highs suggest higher priced submarkets like Toronto Central, York Region and Oakville will experience more moderate price increases ahead.

Risks to the forecast

Risks to the 2003 forecast are tilted to the downside. Weaker job growth spilling into Canada coupled with more homes listed for sale could adversely affect home sales and price activity-- pulling year 2003 levels below our forecast.

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

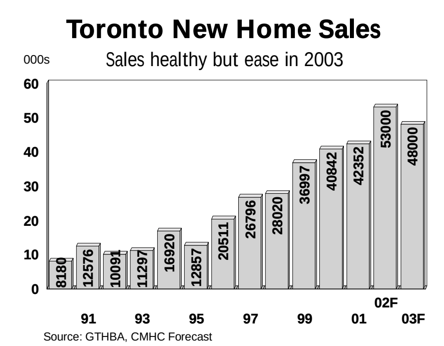
Sales	2002	2001	%chg
Ajax-Pickering	2,257	2,151	4.9
Brampton	4,946	4,102	20.6
Mississauga	7,911	6,854	15.4
Oakville	1,186	1,003	18.2
Toronto Central	8,433	7,405	13.9
Toronto East	7,568	7,052	7.3
Toronto West	5,760	5,033	14.4
York Region	9,269	7,879	17.6
Avg Prices	**2002**	**2001**	**%chg**
Ajax-Pickering	$236,306	$213,802	10.5
Brampton	$230,725	$216,019	6.8
Mississauga	$252,794	$233,700	8.2
Oakville	$282,673	$271,334	4.2
Toronto Central	$382,620	$350,516	9.2
Toronto East	$236,923	$214,865	10.3
Toronto West	$264,500	$242,070	9.3
York Region	$312,422	$285,626	9.4

Source: TREB

NEW HOME MARKET

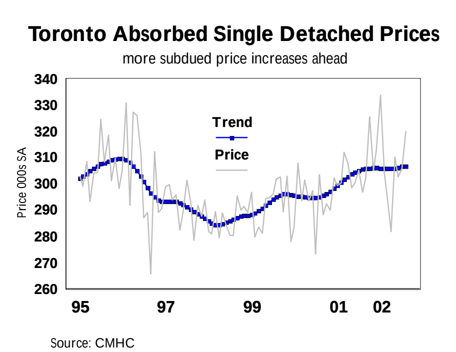
Pace of new home demand eases

The existing Toronto housing market sets the tone for new home sales. Fewer imbalances in the resale market coupled with fewer bidding wars have helped dampen the pace of new home demand through to the end of the third quarter. A slowing local job market may have also contributed to this. Continued strong migration, active resale markets and stable to low long term mortgage rates should keep the fall session active. However, after hitting all time sales records this year, CMHC expects sales to ease but remain healthy into 2003. More accommodating resale market conditions coupled with higher 2003 long term rates will take some steam out of sales. While GTA new home sales rise 25% to 53,000 units this year, look for sales to ease to a still healthy 48,000 units in 2003.



Freehold sales healthy but weaker in 2003

Freehold demand year to date has to a large part been driven by the more expensive singles market. A delay in mortgage rate hikes has enabled buyers to buy more home for their money vs what they could have done in a rising interest rate environment. In addition, the stock market fallout has benefited the higher end of the market with absorptions over $400K rising consistently over the past few years. While freehold sales will likely break a new record hitting 36,000 units sales in 2002, look for the freehold sales pace to weaken through 2003. More expensive housing is typically most sensitive to rising housing costs. With over 2/3 of freehold sales registered as singles, the freehold sales trend should weaken later next year. CMHC anticipates a drop in freehold sales to a still healthy 32,000 sales, down 11% from 2002.

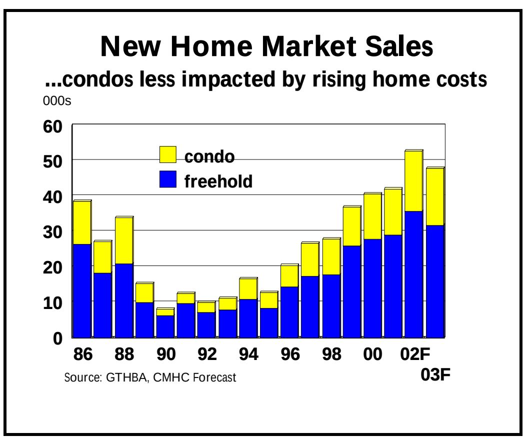


A tighter than normal resale market has shifted demand towards new single home construction. Typically, new detached home prices have followed resale single prices higher with a lag of six months. This suggests that new single prices should rise through to the end of this year. However, look for a more moderate pace in detached home price increases in 2003 as mortgage rates are unable to cushion the impact rising home price levels have on price sensitive first time home buyer demand.

Condo sales will hold up better in 2003

The condo sector continues to be the strongest segment of Toronto`s new housing market. This trend should continue heading into next year for two important reasons. Firstly, rising home costs suggests that condos will play a pivotal role for entry level buyers looking for more affordable product. Secondly, many have suggested that more condominium completions would lead to a flood of condo rental product that could discourage investor sales comprising roughly 30% of all condo sales. While this may discourage some investors from proceeding with an investment purchase, it is more likely that weaker alternative returns in the stock market may have a positive net effect on investor psychology--especially for tangible real estate assets. Indeed, rental demand bolstered by recent record immigration levels should continue supporting Toronto`s rental market.

Absorption rates for active and new condo product flowing onto the market have remained remarkably stable. This has resulted in sales being driven much more so by supply conditions. Tight condo resale market conditions are continuing to send messages to the development community that new product launched later this year and into 2003 should be well received.



Taken together, a slight slowing in sales coupled with more supply should translate into slower price increases for new condominium product. Indeed, new condo price increases will be hard pressed to match increases in newer resale condo product which is immediately available for occupancy. After hitting a record of 17,000 sales this year, CMHC expects an easing in condo sales to a healthy 16,000 units in 2003.

RESIDENTIAL STARTS

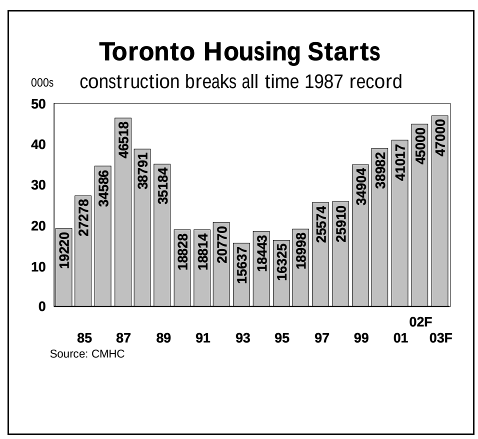
Starts to eclipse 1987 record in 2003

Tight resale markets, strong migration and low standing inventory has benefited the Toronto new home construction market. As of the third quarter, housing starts were running at 45,000 units on a seasonally adjusted basis, up a solid 18% from this time last year. Similarly, housing starts are up 9% year to date from this time in 2001. Despite existing home markets showing more balance later this year and into 2003, housing starts are still expected to rise, albeit at a slower rate. This is due to the lag factor. Typical lags between a new home sale and a start which normally ranged between 6-9 months have been stretched to 9-12 months. This has occurred due to a more robust market. It has also resulted in more units under construction which have kept builders busy and have prevented projects starting in a timely manner. Some of these projects will get pushed into the first half of 2003 ensuring a busy period for local builders. However, more accommodating existing home markets later this year and into next will mean a softer pace in construction activity later next year. Housing starts should grow by 10% to 45,000 units this year. Look for housing starts to eclipse its 1987 record --hitting 47,000 starts up a smaller 4.4% in 2003.

Singles lead in 2002; multiples turn up in 2003

Strong income growth coupled with low interest rates has more expensive housing back in favour. As of the third quarter of 2002, singles were up a whopping 39% from this time last year. However, the more expensive singles market is usually most sensitive to easing resale market conditions and rising home costs. Consequently, the singles market should weigh on housing starts later next year as higher mortgage costs add to the cost of rising prices. Singles should ease to 22,000 units next year after rising by a whopping 37% to 23,000 units in 2002.

Alternatively, the multiples market will likely lag the strong pace of single starts in 2002. Condo apartments have pulled multiples lower this year. With over 18,000 apartment units under construction, many projects at 80% sales have yet to begin construction. Some of these projects should commence construction early next year. In addition, rising home costs will increasingly encourage people to opt for more affordable multiple type housing. Thus after dropping by 9% to 22,000 units, look for multiples to lead housing starts next year rising 13.6% to 25,000 units.



Economic Overview

Employment

Canadian job market to post stellar performance

Canada`s economy and job market has been firing on all cylinders following the events of 9-11. Real Canadian GDP at 4.3% was running above the US pace in Q2.
A smaller exposure to high tech industries and more to resources coupled with larger pent-up demand in housing, has helped Canada`s job market outpace US job prospects year to date. US corporate profitability has also lagged. With a greater responsibility to corporate shareholders, US companies have and shall continue to cut costs in hopes of restoring profit margins. This should translate into a slower pace of job creation through the end of this year. An improved earnings environment and the need to replenish inventories should spell a stronger pickup in US job growth in 2003. A stimulative Cdn$ will help mitigate slowing US demand through the last quarter of this year. However, improved corporate earnings will continue to inject much needed spending in machinery and equipment, helping fuel Canadian GDP/job growth through 2003.

Decline in Toronto help wanted ads subside

Local business confidence was booming early this year. This was reflected in robust labour demand with job growth running at strong levels. However, declining help wanted ads continued to weigh on hiring in Q2 and Q3, resulting in slower year over year job growth. Indications to date from a regional and national perspective suggests that actual Toronto employment levels may have been stronger than what was reported. Indeed the decline in Toronto help wanted ads has subsided, suggesting that the pace of hiring is set to resume in the year ahead.

Labour supply to continue trending up

Confidence among Toronto job seekers remains strong. Roughly 73% of the Toronto population participated in the job market during the peak employment years of the late 80s. This compares to 69% in 2002 year to date. What this suggests is that job seekers remain optimistic about the prospects of job growth ahead. It also suggests that the pool of available labour supply has yet to be exhausted --keeping wages in check. Slowing job prospects recently coupled with a continued uptick in labour market participation, points to a jobless rate that should continue to edge upward. However, the pace of hiring in 2003 is expected to outstrip growth in the labor force. helping stabilize theToronto unemployment rate.

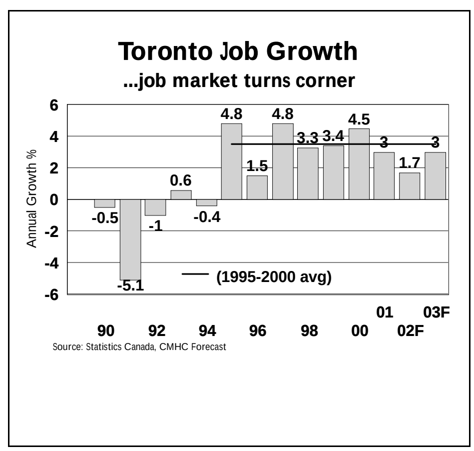
Full time jobs key to housing demand

Housing decisions are also impacted by job security. Not surprisingly, housing demand is most sensitive to full time employment levels. Most job shedding that has occurred year to date has been in the part time sector. Full time employment levels remain quite healthy especially for prime home purchasers between the ages of *25-44--a good news story for housing demand in 2003!*

Manufacturing, education & housing related sectors will lead in 2003

Toronto`s well diversified economy should continue to weather the storm from increased consolidation in the high tech sector. After peaking in mid 2001, jobs in the high tech computer and peripheral

equipment manufacturing sector have plummeted. However, job growth in other high paying manufacturing areas have rebounded which is key for housing demand. Industries which complement the housing sector like electrical appliance manufacturing and furniture will continue to do well as will the education sector which faces demographic shifts. Slower growth in residential construction job opportunities will be offset by increased industrial/commercial activity through the tail end of 2003. Finally, declining revenue in brokerage/finance areas will weigh on job creation while an active real estate market should add a boost to employment. While Toronto job growth is unlikely to match performance at the peak of the dotcom years, job growth should rise to 3% from 1.7% this year.



Mortgage Rate Outlook

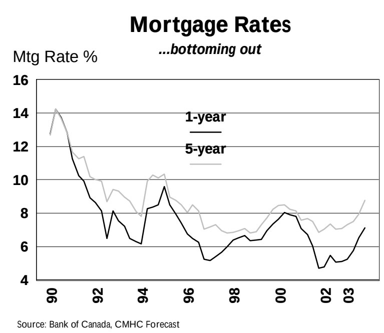
Canadian economy holds its own

Despite unfavourable recent developments (ie. 9-11, corporate scandals), the Canadian economy continues to chug along. Year to date Canadian GDP growth has exceeded growth in all other G7 countries in 2002. Housing consumption coupled with business investment in machinery and equipment should remain supportive for aggregate demand in the year ahead. The output gap measured by the difference between potential and actual output has been narrowing in Canada much more so than in the US. Core Canadian inflation rates have also inched above the bank`s target rate. Consequently, the stark contrast in growth paths between the US and Canadian economies has and should continue to lead to a tightening bias in Canada. However, the possibility of a lagged Canadian response to US economic weakness has kept the Bank of Canada on the sidelines in its September meeting after consecutive rate increases since the spring. Look for the overnight rate to resume its upward direction through 2003 so as to contain inflation.

Long term bond markets should weaken through 2003

While the US recovery has stalled, so have earnings expectations. Long term inflation expectations have also subsided. This has strengthened long term bond markets and has triggered a drop in yields. Much of this activity has also spilled over into Canada`s bond markets. What it means is that long term lenders who take their cue from the bond market have passed cheaper lending rates onto borrowers. Indeed, the five year (closed) mortgage rate at 6.65% in September is at its lowest level this year. However, as the economic recovery takes hold south of our borders look for improved earnings and inflation expectations to weaken long term bond markets and push long term mortgage rates up through 2003.

Despite an upward push in mortgage rates, our base case scenario still reflects a favourable rate environment with the one, three and five year rates ranging between 5.00-7.00, 6.00-8.00 and 7.00-9.00 percent respectively.



Stock Market Meltdown: Potential Impacts on Housing Markets

The high tech meltdown that began nearly two years ago was recently followed up by accounting irregularities in the US. Corporate scandals weighed heavily on the US investor, resulting in spillover effects into Canadian financial markets. Negative investor psychology led to a sharp selloff in North American stock markets with the Dow Jones and TSX shedding a cumulative 34% and 45% respectively from their highs a few years back. With nearly 50% of Canadian households having direct/indirect exposure to the stock market, a logical question is what impact could this have on Canada`s housing markets? Focusing on some key transmission mechanisms within which the stock market could impact housing markets may shed some light on this.

...cont'd

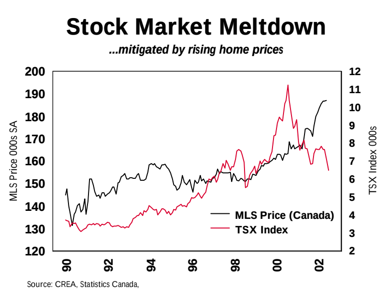
Bond markets are one medium within which stock markets may impact housing demand. Major lenders take their cue from Canadian bond markets when extending long term loans to housing consumers. In the aftermath of faulty corporate accounting, many domestic and foreign investors lost confidence in corporate earnings--diverting personal capital into the safety of bond markets. Demand for Canadian bonds pushed bond prices up and yields lower. Major lenders are thus faced with cheaper financing terms which can now be passed on to consumers for purposes of home purchases, refinancings and renovations. A flattening in the yield curve suggests good things ahead for the housing consumer who typically prefers the certainty of a longer term closed mortgage.

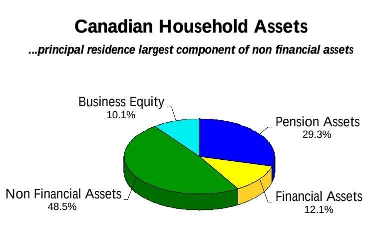
Some segments of Canada`s housing markets are also impacted by investor capital. Canada`s condo markets which offer alternative rental investment returns represent one key segment. With a surge in housing demand across major markets in Canada, markets tightened with real estate prices escalating especially for condominium units. Attractive capital gains along with income returns from condominium rentals have more than outpaced returns available on financial assets recently. Real estate returns have also benefited from tight rental markets in some major Canadian centres.

The consumer balance sheet is most commonly cited as the mechanism within which shocks to one's wealth impacts consumer confidence and spending. Recent evidence from the US has indicated that declining household net worth, brought on by falling stock markets, has resulted in a sharp rise in US savings rates

..cont'd from pg 6

Will the same hold true for Canada? While the high tech sector has gained popularity in Canada in recent years, relative to the US it still commands a smaller share of Canadian GDP. Furthermore, a recent Statistics Canada release on the net worth of Canadians has indicated that one`s principal residence is still the largest asset Canadians own. This would imply that pressure on net worth inflicted by declining stock markets**,** to a large extent, would be mitigated by the rise in Canadian home prices witnessed year to date and expected in the near term. Though unlikely, there is still a risk that consumer and business confidence could turn meaningfully lower, bringing housing demand and job creation to a halt.





Migration

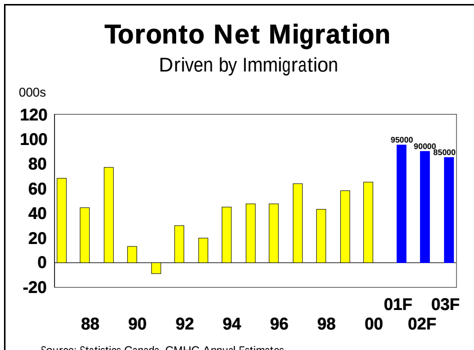
Immigration levels on record pace

Housing demand is a function of people. Over ¾ of all population growth across the Toronto area will be driven by immigration in the years to come. Toronto`s ethnically diverse population will continue to attract migrants from all parts of the world. In 2001 alone Toronto welcomed over 125,000 immigrants--a whopping 50% of all immigration into Canada last year. Despite nearly ¾ of all immigrants renting during their first few years here, within ten years ownership rates approach nonimmigrant rates. This is a good news story for Toronto housing demand as it ensures a stream of buying over future years. While immigration levels are expected to ease this year and next from record levels in 2001, immigration levels will still be second best on record.

Migration to rest of Ontario and flows from rest of Canada will act as a drag

Ontario inter-city migration flows are driven by home prices. While the growth in Toronto home prices have mirrored increases across the rest of the province, an expensive Toronto market should begin to entice more buyers out of the GTA to meet their housing needs. Buyers in search of space who don`t mind longer commute times may fall into this category. Similarly, stronger job creation in Quebec and resource rich western Canada may curb the inflow of migrants from other provinces in the year ahead.

Aggregating flows between the rest of the world, between provinces and other Ontario urban centres gives us a total net migration snapshot for Toronto. A much stronger increase in immigration levels than what was originally projected will push net migration to historical records in 2001 reaching 95,000 net migrants. Weakening net inter-city and interprovincial flows will pull net migration estimates to a still healthy 85,000-90,000 migrants between 2002-2003.



FORECAST SUMMARY

Toronto CMA Fall 2002

RESALE MARKET	1998	1999	2000	2001	2002F	2003F	Chg.%
MLS(1) Sales	55,344	58,957	58,349	67,612	75,000	70,000	-6.6
MLS Price	$216,814	$228,307	$243,249	$251,508	$275,000	$290,000	5.5
Sales to New List Ratio	65%	70%	65%	66%	70%	65%	
NEW HOME MARKET							
Freehold Sales	17,954	26,157	27,964	29,205	36,000	32,000	-11.1
Condo Sales	10,066	10,840	12,878	13,103	17,000	16,000	-5.9
Total Sales	28,020	36,997	40,842	42,308	53,000	48,000	-9.0
HOUSING STARTS							
Total	25,910	34,904	38,982	41,017	45,000	47,000	4.4
Single Family Detached	12,696	15,535	17,119	16,844	23,000	22,000	-4.3
Semi/Row	8,576	10,646	11,607	10,479	11,000	11,500	4.5
Apartment	4,463	8,270	9,981	12,738	10,000	12,000	20.0
Private Rental Starts	175	453	275	956	1,000	1,500	50.0
RENTAL MARKET							
Vacancy Rate	0.8%	0.9%	0.6%	0.9%	1.1%		-
Average Rent (2-bed)	$881	$916	$979	$1,027	$1,099		-
							-
ECONOMIC OVERVIEW							-
Mortgage Rate-3 year	6.80%	7.38%	8.17%	6.88%	6.40%	7.20%	-
Mortgage Rate-5 year	6.90%	7.56%	8.35%	7.40%	7.10%	7.91%	-
Employment Growth (%)	3.3%	3.4%	4.5%	3.0%	1.7%	3.0%	-
Unemployment Rate	7.0%	6.1%	5.5%	6.2%	7.3%	7.1%	-
Net Migration (2)	43,000	58,000	65,000	95,000	90,000	85,000	-

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.