H OUSING MARKET

OUTLOOK

Toronto

Canada Mortgage and Housing Corporation

Issue: *Spring 2003*

Housing Overview: Is a Correction Underway?

The Toronto home ownership market appears to have cooled somewhat in the first quarter of this year with home sales off last year's heated pace. At the same time, price increases have slowed compared to the near double digit hikes witnessed in 2002. The Toronto rental market has already reached a turning point with the vacancy rate nearly tripling in 2002 to 2.5 percent. The average rent increase last year, at 2.7 percent, barely kept pace with inflation and was significantly less than increases seen in previous years. This evidence of a slowing housing market begs the question: is a correction now underway? A general overview of what has been going on in the Toronto housing market can shed some light on this question.

The Toronto housing market posted record breaking sales numbers in 2002.

Table 1 Toronto Home Sales

	Sales		% of total	
	Resale	New	Resale	New
1995	39,273	12,855	75.3%	24.7%
1996	55,779	20,511	73.1%	26.9%
1997	58,014	26,796	68.4%	31.6%
1998	55,344	28,020	66.4%	33.6%
1999	58,957	36,997	61.4%	38.6%
2000	58,349	40,842	58.8%	41.2%
2001	67,612	42,262	61.5%	38.5%
2002	74,759	54,689	57.8%	42.2%
2003F	70,000	45,000	60.9%	39.1%

Source: TREB, GTHBA based on Realnet data

Sales activity was exceptionally brisk with nearly 130,000 homes sold last year (74,759 resale and 54,792 new). Last year, three of every seven homes sold in the Toronto area was a new home. This proportion is up substantially from 1995 when only one in four sales represented a new home. Indeed, new home sales have more than quadrupled since 1995. Much of the demand for new housing stock is due to the creation of thousands of additional households, thanks to positive economic factors.

There were many factors driving Toronto's housing market last year. High immigration, historically low mortgage rates, strong employment growth, rising disposable income, and solid consumer confidence all contributed to 2002's record sales numbers. Built on these same strong fundamentals, 2003 is shaping up to be another good year. Despite decreased consumer confidence at the beginning of this year combined with less than favourable weather, housing activity only cooled moderately this winter. Although the Toronto housing market has been characterized as very tight in the past, this year will see a movement towards more balance. While record sales activity in 2002 pushed prices higher, these price increases are largely sustainable, and not characteristic of a speculative real estate bubble. Nonetheless, a market converging towards more balance suggests that double digit price increases for some dwelling types, like condominiums, have and will likely continue to cool.

IN THIS ISSUE

CMHC Toronto Market Analysis

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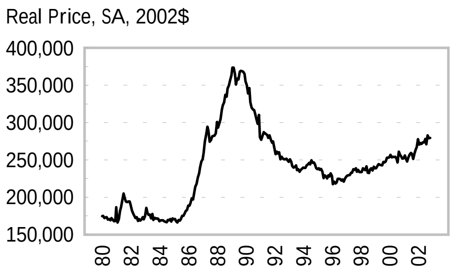
HOME TO CANADIANS

Canada

The classic characteristic of an asset bubble is that of continuous overvaluation followed by a correction. Sharp price increases in a short time frame with no underlying economic fundamentals marks the formation of a speculative asset bubble. Such was the case in the stock market run-up in the late 1990s, and the Toronto real estate market in the late 1980s. The housing boom of the late 1980s saw the real (inflation adjusted) house prices double in a period of three short years. In contrast, we are now entering year seven of the current expansion, and real prices have increased by only one third. In real price terms, the Toronto housing market is well off the levels recorded in the late 1980s.

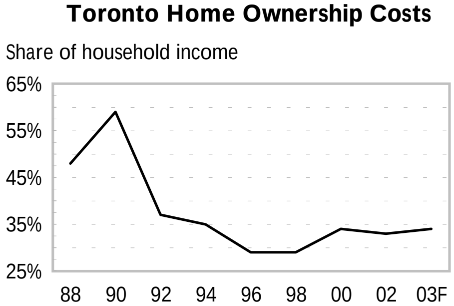
Toronto Real Home Prices



Source: MLS® CREA, TREB, Statistics Canada, CMHC

While real price growth has not been sharp or rapid, it has been based on underlying economic fundamentals. Eight years of solid job growth have added over 600,000 jobs to the Toronto CMA. Record low mortgage rates have decreased financing costs, while disposable household income has been on the rise. Although the average resale price last year did surpass the previous high (in nominal terms) set back in 1989, home ownership costs as a percentage of household income are well below those of the late 1980s (see graph below). Thus the recent real estate expansion is largely based on sound economic fundamentals.

Toronto Home Ownership Costs



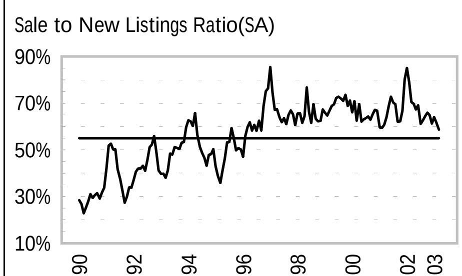
Source: MLS® CREA, TREB, statistics Canada, CMHC

Resale Market

Toronto Realtors® had an exceptionally busy 2002, recording an all time high of 74,759 sales. 2003 is shaping up to be another strong year. Activity skyrocketed in the first two months of 2002, posting a blistering 85,000+ SAAR (seasonally adjusted annual rate) sales in both January and February. Although this frenzied pace eased through the summer, sales gathered momentum in the fall, and much of that strength has spilled into the first quarter of 2003 despite a cold and snowy winter. First quarter sales are down 10 percent compared to the first three months of last year, but are nearly equal to 2002's total sales when converted to an annual rate.

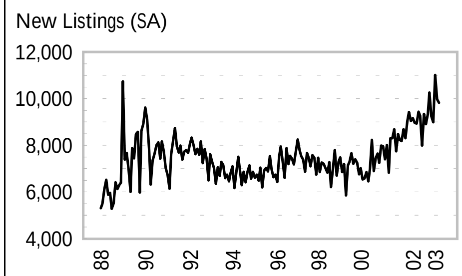
A small hike in mortgage rates combined with rising prices will ease resale activity in the second half of this year as carrying costs begin to rise. First time buyers will be impacted more than other buyers due to their lack of equity. However, rising incomes should offset some of the increased carrying costs this year. Home ownership costs at 34 percent of household incomes will only be marginally higher than 2002, and well off the highs recorded over a decade ago (see Table 2). At a forecasted 70,000 sales, 2003 will not better last year's sales numbers, but will represent the second best year ever.

Toronto Resale Market Moderates



Source: MLS® CREA, TREB, CMHC Seasonal Adjustment

Toronto New Listings



Source: MLS® CREA, TREB, CMHC Seasonal Adjustment

Supply on the rise

Although sales activity will ease marginally this year, new listings are on the rise. As existing home owners obtain equity gains, moving up becomes increasingly attractive. Given the record number of new home sales last year, many new

Toronto Housing Costs

Table 2 Home ownership costs to drift higher through 2003

	1990	1996	2000	2002	2003F
Household income	$49,238	$55,952	$59,432	$62,197	$64,375
Avg 5yr mtg (%)	13.4	7.9	8.4	7.0	7.0
Avg Prices	$255,020	$198,150	$243,255	$275,371	$292,000
Taxes	$3,188	$2,477	$3,041	$3,025	$3,190
Occupancy costs*	$29,060	$16,013	$20,237	$20,384	$21,786
Costs as % income	**59%**	**29%**	**34%**	**33%**	**34%**

Source: Bank of Canada, Stats Canada, MLS® *CREA, TREB, CMHC Forecast*

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

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

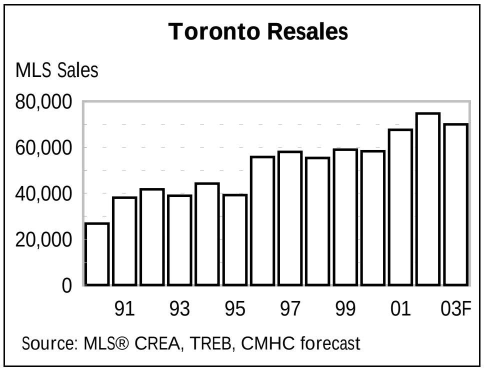


Table 3 Toronto MLS Sales & Prices: Major Sub Markets (1st quarter)

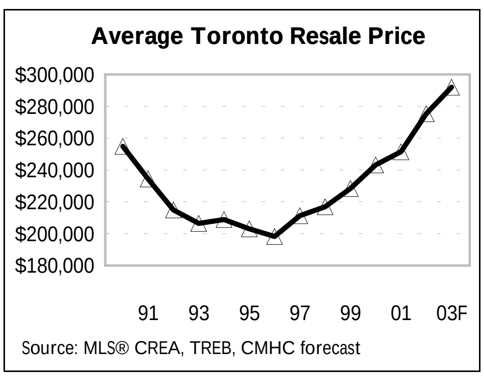
Sales	2003 Q1	2002 Q1	%chg
Ajax-Pickering	771	844	-8.6%
Brampton	1,587	1,731	-8.3%
Mississauga	2,591	2,935	-11.7%
Oakville	392	403	-2.7%
Toronto Central	2,790	3,063	-8.9%
Toronto East	2,483	2,727	-8.9%
Toronto West	1,841	2,140	-14.0%
York Region	2,980	3,304	-9.8%

Avg Prices	2003 Q1	2002 Q1	%chg
Ajax-Pickering	$246,986	$236,033	4.6%
Brampton	$241,348	$226,048	6.8%
Mississauga	$264,391	$247,683	6.7%
Oakville	$293,277	$276,880	5.9%
Toronto Central	$397,036	$384,794	3.2%
Toronto East	$251,819	$231,854	8.6%
Toronto West	$282,325	$262,346	7.6%
York Region	$327,361	$307,720	6.4%

Source: TREB

home purchasers are now seeing their occupancy dates rapidly approaching. Many of these repeat buyers will now be listing their existing homes for sale. CMHC's Intentions to Buy or Renovate a Home Survey revealed that repeat buyers will be more active this year making for 37 percent of purchasers compared to 25 percent in the previous year's survey.

With sales easing and the number of new listings rising, the state of the resale market will be more balanced this year. More homes listed for sale should also mean fewer bidding wars and fewer homes selling above asking

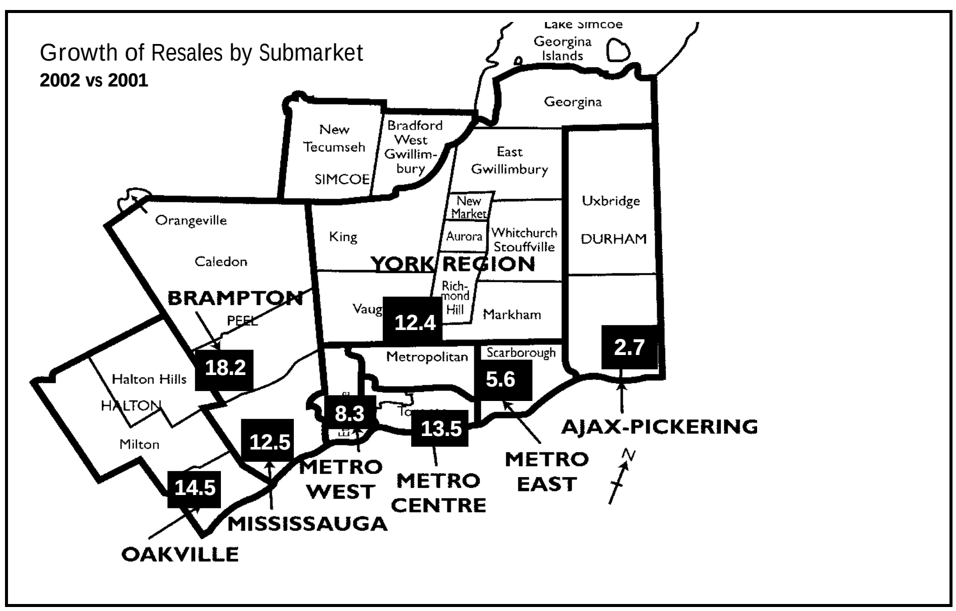


price. As the sales to new listings ratio approaches a more balanced range, price increases will rise at a slower pace, but will continue to outpace the general rate of inflation. For 2003, CMHC expects the average Toronto resale price to climb six percent to $292,000.

Condominium price pressures ease in 2003

The Toronto condominium market has seen significant equity gains over the past few years. Since 1996, the average price of a resale home has risen approximately 39 percent, while a resale condominium has increased 56 percent in this same time period. With low mortgage rates narrowing the gap between renting and buying, many first time buyers abandoned the rental market and have chosen to purchase condominiums. However, limited selection in the condominium market has driven prices higher at a faster rate than we have seen for other dwelling types. Last year, the average price of a resale condominium came in at $204,431.

Price pressures on condominiums will ease this year as supply increases and demand moderates. A number of newly completed condominiums are expected to find their way into the resale market and first time buyers of years past will be listing their units as their housing needs change. Finally, rising vacancies may discourage speculative investment capital into the condominium market.



New Home Market

Record high new home sales in 2002

New home sales typically follow activity in the resale market. As the resale market tightens, the reduced supply of listings causes many buyers to turn to the new home market for their housing needs. With the resale market's extremely high sales to new listing ratio throughout much of 2002, potential buyers found they had little negotiating power. Multiple offers in the resale market became the norm in many popular neighbourhoods, and choice properties sold for above their list price. With new home price increases typically lagging the movements in the resale market, many new home buyers found the prices of new construction extremely competitive compared to the resale market.

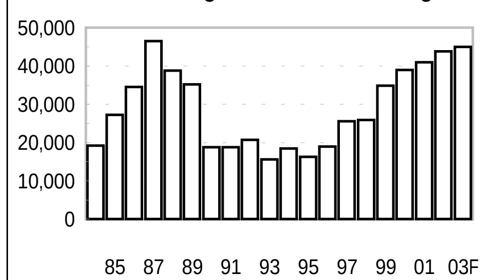
Given the record high number of home sales in the resale market and near double digit price increases, it is not surprising that the new home market also set a record last year at 54,689 homes sold. With fewer imbalances foreseen in the resale market this year, the demand for new homes will also moderate. However, continued strong net migration, employment growth, low new home inventories, and the trend towards home ownership will keep the new home market strong throughout this year. Look for new home sales in the Greater Toronto Area (GTA) to decline 18 percent to a still high level of 45,000 sales this year. Much of the decline in new home sales will come at the expense of detached homes as rising rates negatively impact price sensitive first time buyers. Meanwhile, Condominium high rise sales will continue to fair well in 2003 as renters recognize the relative attractiveness of owning vs renting.

Housing starts to rise in 2003

Mortgage rates near historic lows enabled new home buyers to purchase more expensive homes last year. Many buyers found that instead of being financially limited to a row or semi-detached home, they could now afford a higher priced single detached. Thus the impact of low mortgage rates was greatest for the more expensive single detached home segment. Single detached housing construction plateaued in 2002, rising 31 percent to 22,115 starts. Rising carrying costs in 2003 will cause single detached starts to decrease this year, but they will remain at a historically high levels. CMHC is forecasting that single detached construction will ease 9.6 percent to 20,000 starts this year.

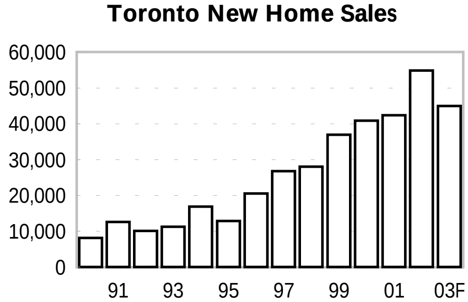
Unlike singles, multiples are expected to advance this year. Many of last year's 18,059 new condominium sales will see construction begin in 2003, thereby boosting this year's starts statistics. Look for condo apartment construction to rise 32 percent this year to 12,000 starts. Buoyed by apartments, multiples will rise 15 percent to 25,000 starts. Thus, total residential construction will expand 2.7 percent and peak at 45,000 housing starts this year.

Toronto Housing Starts to Move Higher



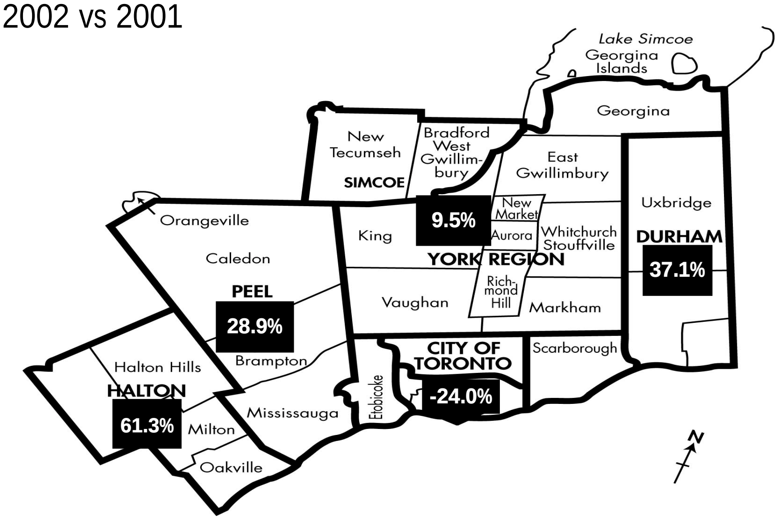
Source: CMHC

Toronto New Home Sales



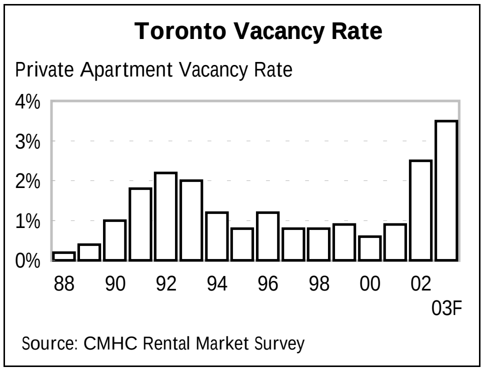
Source: GTHBA based on Realnet data, CMHC forecast

Growth of Starts by Submarket
2002 vs 2001



Rental Market

CMHC conducts its rental market survey during the first two weeks of October each year. The 2002 survey showed that the Toronto rental market reached a turning point when the apartment vacancy rate jumped to 2.5 percent from a tight 0.9 percent in 2001. The rise in vacancies is due to three main factors: weaker rental demand, high asking rents, and more non-conventional rental supply.

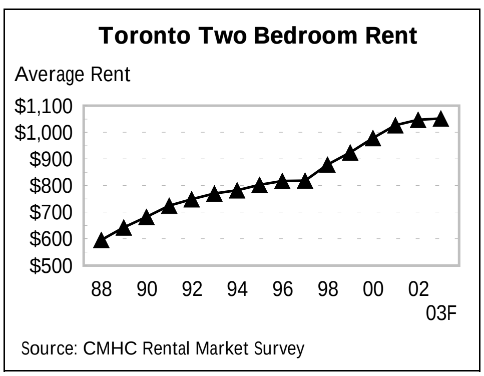


Mortgage rates near historic lows triggered significant rental outflows as first time buyers left the rental market for home ownership. CMHC's Intentions to Buy or Renovate a Home Survey found that three quarters of those households intending to buy in 2002 were from rental households. At the same time the formation rate of new rental households slowed as an increasing number of young adults remained in their parental homes. The recent release of 2001 Census data revealed that 54 percent of young adults, aged 20-29 years, in Toronto still resided in the parental home. The softening of the job market for young adults also impacted those individuals who would have otherwise formed new rental households.

High asking rents also impacted the rental market. In 1997, the average rent for a two bedroom apartment in the Toronto CMA was $821. In five years, that number increased 27.5 percent to $1,047. With some rental apartments exposed to above guideline heating increases alongside the annual guideline increase, rents may have eclipsed price sensitive thresholds. These higher asking rents contributed to a longer duration of vacancies.

Finally, the booming condominium apartment market attracted a significant number of investors, thereby adding to the number of apartments available for rent. Anecdotal evidence suggests that approximately 30 percent of recent condominium sales have been purchased by investors. These new investor owned condominiums are being made available to renters who otherwise would have sought out more traditional rental accommodations.

The jump in the Toronto vacancy rate has slowed the rate of rent increases. On average, apartment rents advanced by 2.7 percent in 2002 compared to the 4.5 percent increase recorded in 2001. The benchmark two bedroom rent increased $20 (1.9 percent) to $1,047 last year.



The rental market outlook this year will see increasing vacancies limiting rent increases. Asking rents on vacant apartments will face downward pressures as landlords try to limit vacancy losses. Landlords will also be increasingly called upon to become more active marketers, offering a variety of incentives to fill vacated units. With the provincial rent guideline declining to 2.9 percent in 2003, there will be additional pressure on landlords to switch to a tenant preservation mode as competition for tenants heats up. Look for the private apartment vacancy rate to rise to 3.5 percent this year. Rent increases in 2003 are expected to be marginal with the average rent for a two bedroom apartment rising only 0.5 percent to $1,052.

2002 TORONTO RENTAL MARKET REPORT

Annual rental market survey reports are created with the valued participation and contribution of local property owners and managers. CMHC has developed extensive rental market information that is unmatched in the market place. The Toronto Rental Market Report presents in-depth data and analysis drawn from this source to deepen your understanding of the Toronto rental market.

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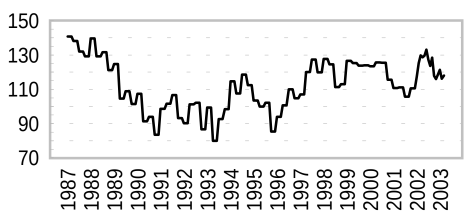
Economic Indicators

Consumer confidence on shaky ground

Weak equity markets and corporate scandals marked much of last year, yet consumer confidence in Ontario soared to a 14 year high in June 2002. Then in early 2003, consumer confidence was shaken as uncertainty

Consumer Confidence Slips

Consumer Confidence Index, 1992=100



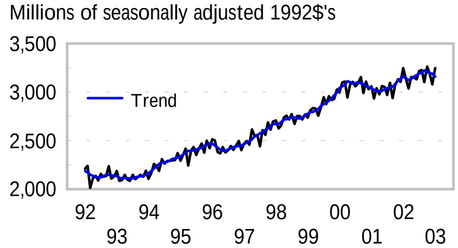
*Note: Index of Consumer Attitudes, Ontario
Source: Conference Board of Canada

then war in Iraq was followed by reports of Severe Acute Respiratory Syndrome (SARS). With various foreign media labeling the City of Toronto as one of the epicentres of the SARS outbreak, reduction in tourism (travelers and conferences) will negatively impact the local economy. Furthermore, some Torontonians are now avoiding public places, such as restaurants and shopping centres, thereby dampening domestic consumption. However, much of the drop in domestic demand will be temporary with many purchases simply being postponed rather than cancelled outright.

Despite frigid January weather, retail sales bounced back from a weaker than expected holiday season. However, the trend in consumer spending has softened, especially when compared to growth in the latter half of the 1990s. Growth in motor vehicle spending has run its course as durable goods purchases should slow in a higher interest rate environment.

Toronto Retail Sales Trend Higher

Millions of seasonally adjusted 1992$'s



Note: Seasonal Adjustment by CMHC
Source: Statistics Canada

Exports suffer as U.S. economy stumbles

Exports to the U.S. could suffer as the war in Iraq may lead to decreased American demand for Canadian goods if the American economy continues to sputter. While defense spending is stimulative for certain sectors of the U.S. economy, the costs of the war and rebuilding Iraq could lead to higher U.S. debt and taxes. Even with the U.S. Federal Reserve taking an extremely stimulative monetary stance (1.25 percent fund rate), the American economy is not firing on all cylinders. Given the uncertainty and weakness in the U.S. economy, money has been flowing out of equities and into safe-havens such as bonds. Hence, bond yields and mortgage rates have remained low.

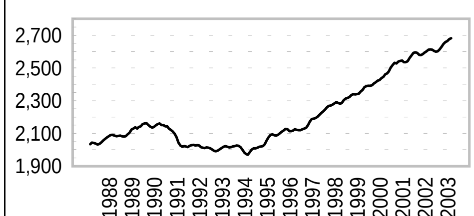
Toronto employment is on a roll

The local economy has been on a roll since 1995 posting eight consecutive years of employment growth. Expanding at an average rate of 3.4 percent per year, the Toronto CMA has added 614,400 jobs in the last eight years. Even more impressive is that 86.9 percent of these additional jobs were full time. While 2002 marked the eighth year of expansion, employment growth did slow to a seven year low at 1.9 percent. For the first three months of 2003, the Toronto CMA has added 23,000 seasonally adjusted jobs with year over year employment growth running between 2.7 and 2.8 percent. With employment on the upswing, expect this year's average annual employment level to better last year by an additional 2.6 percent, keeping the jobless rate in check.

In 2002, employment growth in Toronto was driven by the manufacturing, construction and the educational service sectors. Employment in the manufacturing sector ballooned 7.3 percent with the addition of more than 34,000 jobs to the Toronto CMA ranks. After the exceptionally strong run-up throughout 2002, manufacturing employment fell off in the first quarter of this year, due to weakness in shipments to the U.S., declining 4.5 percent on a seasonally adjusted basis. After a weak 2002, service jobs have outperformed in the first quarter of this year adding 2.6

Toronto CMA Employment Pushes Higher

Employment* (000's)



*Note: Seasonally Adjusted 3 Month Moving Average
Source: Statistics Canada

percent or 29,000 additional workers (seasonally adjusted).

Although not the largest in percentage terms, the trade sector accounted for the largest net job loss in 2002. Given the weakness in the U.S. economy, it is not surprising that local trade employment shed almost 18,000 jobs (4.3%) last year. Trade continued to falter in the first three months of 2003, but should rebound once the American economy picks up steam.

Bank rate moves higher in March

The Bank of Canada pulled the trigger on March 4th and raised the Bank Rate by one-quarter percent to 3¼ percent. The hike this March followed increases totaling 75 basis points (bps) seen last year. The Bank sited persistent above target (two percent) inflation rates, both core and total, over the past few months as impetus for the hike. Recent increases in inflation are the result of higher crude oil and natural gas prices combined with increases in auto insurance premiums and price pressures in certain sectors such as housing, food, and some services. Nationally, this February's Consumer Price Index (CPI) rose 4.6 percent compared to a year earlier. Sharp increases in gasoline and fuel oil prices pushed the CPI higher. Excluding energy, the CPI came in at 3.4 percent, which is slightly lower than the previous three months readings of 3.5 percent. Locally, the Toronto CPI rose 4.5 percent.

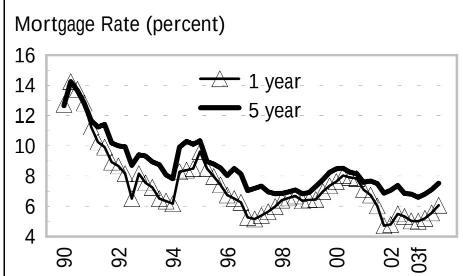
The March increase in the Bank Rate was viewed as a credibility issue. The Bank of Canada clearly signaled that it remains committed to its two percent target, thereby managing inflation expectations. The current monetary policy stance remains stimulative, and additional increases by the Bank are expected in the latter part of 2003 and into 2004.

Mortgage rates to rise

Short term mortgage rates move in tandem with the prime rate while mid and long term mortgage rates vary in response to the cost of raising funds in the bond markets. Mortgage rates are forecast to rise as interest rates head up this year and next. Spreads between mortgage rates and comparable bond yields have remained at 200-250 bps in the last couple of years, providing lenders with some room to negotiate discounts ranging 50-150 bps from the posted rates. These spreads are likely to persist in the near term.

Mortgage rates will rise, but remain low by historical standards. The one, three and five year closed mortgage rates are expected to be in the 5.00-6.25, 6.00-7.25, and 6.50-7.75 percent ranges respectively this year.

Mortgage Rates on the Rise



Source: Bank of Canada, CMHC forecast

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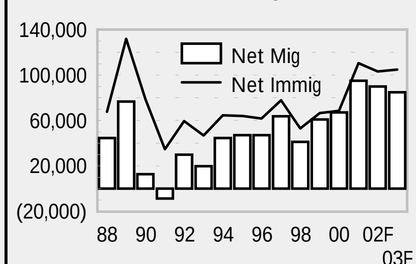
Migration

Immigration boosts housing demand

The natural rate of population growth (births minus deaths) accounts for only a small portion of Toronto's increasing populous. However, the ethnically diverse population of Toronto continues to draw the majority of immigrants coming to Canada. Over 125,000 immigrants chose to call Toronto home in 2001, thereby boosting local housing demand. With the majority of immigrants choosing to rent during their first years in Canada, immigrants are an important part of sustaining rental demand. However, once these newcomers have lived in this country for ten years, ownership rates approach that of Canadian born citizens. Thus, past immigration boosts the demand for home ownership in the long term.

Although Toronto is the destination of choice for many newcomers, many Torontonians leave the CMA in search of less expensive housing alternatives. Toronto's growing commuter shed has attracted thousands of people to move just outside the CMA boundaries. Every year, more people join the commuting masses, moving to communities such as Burlington, Whitby, and Barrie. Thus net migration statistics are typically less than immigration totals.

Toronto net migration



Source: Statistics Canada, CMHC annual estimates

For 2003, stronger job creation in other parts of the country will curb the inflow of inter-provincial migrants. CMHC estimates that net migration will ease marginally this year to a still strong 85,000 people.

FORECAST SUMMARY

Toronto CMA Spring 2003

RESALE MARKET	1998	1999	2000	2001	2002	2003F	Chg.%
MLS(1) Sales	55,344	58,957	58,349	67,612	74,759	70,000	-6.4%
MLS Price	$216,815	$228,372	$243,255	$251,508	$275,371	$292,000	6.0%
Sales to New List Ratio	65%	70%	65%	66%	67%	60%	
NEW HOME MARKET							
Freehold Sales	17,954	26,157	27,964	29,201	36,639	32,000	-12.7%
Condo Sales	10,066	10,840	12,878	13,061	18,059	13,000	-28.0%
Total Sales	28,020	36,997	40,842	42,262	54,689	45,000	-17.7%
HOUSING STARTS							
Total	25,910	34,904	38,982	41,017	43,805	45,000	2.7%
Single Family Detached	12,696	15,535	17,119	16,844	22,115	20,000	-9.6%
Semi/Row (ownership)	8,576	10,646	11,607	10,479	11,097	11,500	3.6%
Apartment (ownership)	4,463	8,270	9,981	12,738	9,081	12,000	32.1%
Rental Starts (Row/Apt)	175	453	275	956	1,512	1,500	-0.8%
RENTAL MARKET							
Vacancy Rate	0.8%	0.9%	0.6%	0.9%	2.5%	3.5%	-
Average Rent (2-bed)	$881	$916	$979	$1,027	$1,047	$1,052	-
ECONOMIC OVERVIEW							
Mortgage Rate-3 year	6.80%	7.38%	8.17%	6.88%	6.28%	6.43%	-
Mortgage Rate-5 year	6.90%	7.56%	8.35%	7.40%	7.02%	7.01%	-
Employment Growth (%)	3.3%	3.4%	4.6%	2.9%	1.9%	2.6%	-
Unemployment Rate	7.0%	6.1%	5.5%	6.3%	7.4%	7.2%	-
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®) and Realtor® are trademarks owned by the Canadian Real Estate Association.
(2) Source-Net Migration=CMHC Annual Estimates, Statistics Canada
F=CMHC Forecast

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