HOUSING MARKET OUTLOOK

Toronto

Canada Mortgage and Housing Corporation

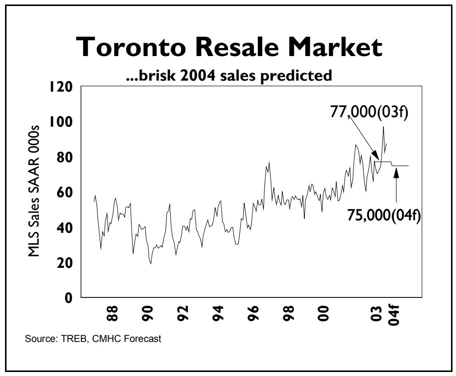
Issue: *Fall 2003*

RESALE MARKET

Sales will remain brisk in 2004

A stronger Toronto job market combined with continued low mortgage rates will translate into the second best sales volume in TREB history next year. This will come on the heels of yet another record in 2003. Toronto resales spiked to record highs in the third quarter thanks to recent interest rate reductions and more product choice. However, with no imminent rate increase on the horizon combined with improved supply conditions, the sense of urgency amongst buyers will dissipate. Similarly, the pool of first time buyer pent-up demand may also be shrinking as some "thinking about buying" purchasers have likely brought their decision to purchase a home forward. Taken together, sales next year will inch lower to a still strong 75,000 units, down from a record 77,000 sales this year.

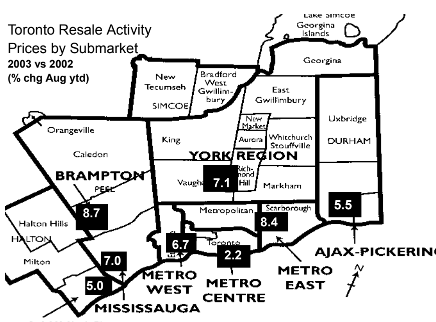
While Toronto`s housing market will remain robust, not all neighbourhoods and housing types will share equally in this strength. A disconnect is developing between the low rise and the high rise market. This emerging trend is being supported by neighbourhood analysis showing core neighbourhoods have



and will continue to soften relative to submarkets away from the GTA core. Taken together, low rise housing in suburban parts of the GTA will outperform on the sales front. A review shortly of both economic and demographic factors motivates this view for 2004.

Low mtg rates stabilize housing costs

Record low mortgage rates and income gains have and will continue to keep rising home costs in check. Despite nominal home prices eclipsing late 80s levels, home costs



remain respectable. Look for Toronto occupancy costs as a share of income to edge up but only marginally through next year. Modestly priced neighbourhoods are better insulated and should fair better should mortgage rates accelerate faster than what we expected.

In This Issue

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CMHC SCHL

HOME TO CANADIANS

Canada

Move-up buying will add to pool of listings

Supply will continue to flow onto the Toronto resale market in 2004. Year to date listings are up well over 20% with growth strongest in the City of Toronto. Much of the growth in supply in the year ahead will be driven by some key factors. A number of households have witnessed an increase in equity thanks to strong price growth and low interest rates. Those who trade-up will add their home to the listings pool. Secondly, the traditional move-up buying segment aged 45-64 is growing in size faster than other age segments. This combined with recent employment gains for this age cohort suggests this group will be more active in the year ahead. Finally, completions of newly constructed homes will accelerate over the next year. Existing home owners who take possession of their new homes will be putting their existing home up for sale--adding further to the supply pool.

A more balanced market in 2004

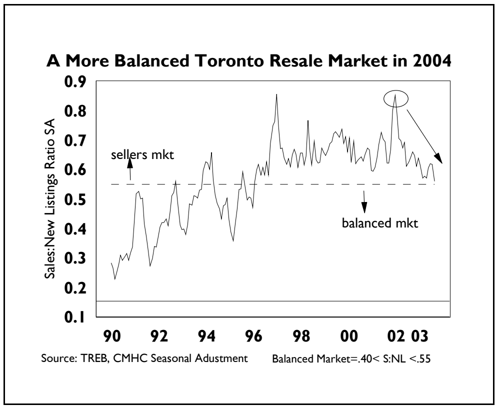
A gradual slowing in the sales pace combined with a boost in supply conditions across the GTA points to fewer market imbalances in 2004. CMHC actively tracks the sales to new listings ratio (S:NL), which measures the degree to which a market is under supplied. Toronto`s resale market has moved closer to a balanced state. The average year to date sales to new listings ratio is at 60% down from 69% this time last year. With more product choice, the sense of urgency among buyers will ease. Look for few if any bidding wars and the days on the market indicator to edge up. In this environment it is prudent for vendors to avoid overpricing product. Likewise, buyers should avoid costly bidding wars.

Toronto Housing Costs

Table 1 homeownership costs to drift marginally higher in 2004

	1990	1996	2001	2003f	2004f
Avg Household income	$49,238	$55,952	$60,918	$64,159	$65,450
Avg 5yr mtg (%)	13.4	7.9	7.2	6.4	6.7
Avg Prices	$255,020	$198,150	$251,507	$292,000	$305,000
Taxes	$3,188	$2,477	$3,144	$3,662	$3,825
Occupancy costs*	$29,060	$16,013	$19,283	$21,170	$22,600
Costs as % income	**59%**	**29%**	**32%**	**33%**	**35%**

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



Fewer price pressures in 2004

With a downward trending sales to new listings ratio, look for annual price increases to slow through next year. Indeed, year to date price increases are running near half the pace witnessed this time in 2002. However, a market hovering near the lower end of a seller`s market(S:NL=.55) suggests that price increases should continue to exceed the rate of inflation. After average resale home prices rise by 6.0% to $292,000 in 2003, look for a more moderate increase of 4.5% to $305,000 next year.

Suburban sub markets will outperform in 2004

Neighbourhoods in Brampton, Mississauga and Ajax-Pickering will be most active in 2004. This means higher price increases will be realized and increases should exceed GTA averages. This trend will be supported by more move-up buying activity in these districts. Currently, homes priced between $250,00-$400,000 are tight vis-a-vis similar priced product in the amalgamated City of Toronto. In addition, core areas may not produce the same stock of new housing desired by value conscious buyers

High rise housing will lag strength in low rise housing

A number of demand and supply factors will weigh on the resale condo apartment market in 2004. This is particularly true for condo units with small square footage located in core areas. Firstly, owner occupiers living in smaller quarters are now facing different housing needs and have put their units up for sale. While some of this turnover has shifted into larger condo apartment units, most have ventured into semi detached and townhome product as indicated by sales to new listings ratios by house type. Secondly, vacancy rates are on the rise. This, coupled with softer rents and the perception of limited price gains ahead, is enticing investors to sell their units. Thirdly, completions of new condos are expected to accelerate in the year ahead.

As owner occupiers and investors take possession of these units, changing goals/needs could further add to the pool of listings.

Up to this point, record low mortgage rates driving the broader condo market has helped absorb the influx of new listings with prices up 4% across the GTA. However, look for supply to catch up to demand, particularly in downtown neighbourhoods in 2004. This is good news for prospective buyers looking for lower prices in core areas ahead.

Risks to the forecast

A combination of stronger listings and higher interest rates could negatively impact our sales and price forecast for 2004.

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

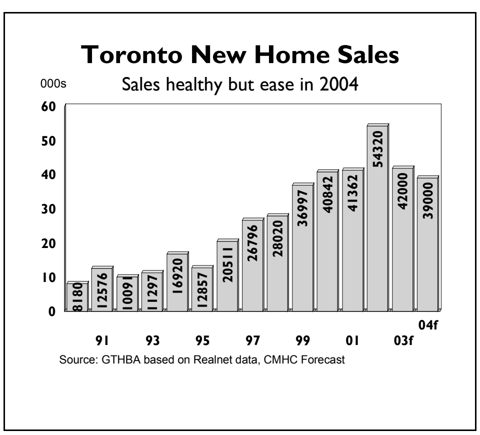
Sales	2003	2002	%chg
Ajax-Pickering	2,396	2,257	6.2
Brampton	5,431	4,946	9.8
Mississauga	8,004	7,911	1.2
Oakville	1,329	1,186	12.1
Toronto Central	8,946	8,433	6.1
Toronto East	7,951	7,568	5.1
Toronto West	5,725	5,760	-0.6
York Region	9,437	9,269	1.8
Avg Prices	**2003**	**2002**	**%chg**
Ajax-Pickering	$249,190	$236,306	5.5
Brampton	$250,697	$230,725	8.7
Mississauga	$270,476	$252,794	7.0
Oakville	$296,653	$282,673	5.0
Toronto Central	$391,111	$382,620	2.2
Toronto East	$256,917	$236,923	8.4
Toronto West	$282,167	$264,500	6.7
York Region	$334,684	$312,422	7.1

Source: TREB, CREA

NEW HOME MARKET

New home sales will ease in 2004

More product availability in the resale market coupled with stronger new home completions will dampen new home sales in 2004. Land supply constraints will also limit availability of sites for new project development. This may also weigh on the market moving forward after strong absorptions of land were registered following robust new home sales in recent years. CMHC expects the pace of new home sales to ease but remain healthy next year. GTA new home sales will reach 42,000 units this year, down from the peak of 54,000 units in 2002, Look for sales to ease further hitting 39,000 units in 2004.

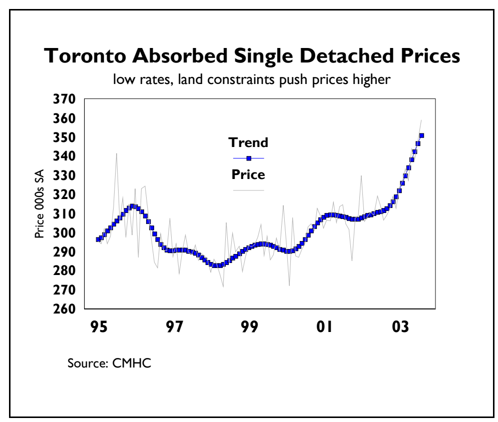


Low rise sales will remain firm in 2004

The new construction low rise market will remain stronger than the high rise market next year. As of the third quarter of 2003, low rise resale product types remain the tightest when looking at the balance between demand and supply. This is pointing to brisk sales for new construction lowrise homes. Look for the semi detached market to remain the strongest as this product type is modestly priced and represents an ideal housing type households can trade up to.

Freehold prices, particularly for singles on the rise

A combination of both supply and demand factors will keep price pressures on new housing present. Low interest rates have made even the most expensive housing desirable. The detached new home construction market is following in the footsteps of a tight market for resale singles recently. In addition, material and land constraints have and will continue to keep prices rising above the rate of inflation through 2004.



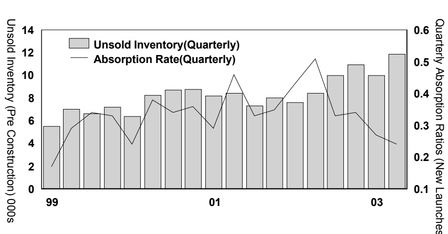
Condo sales to weaken further in 2004

A number of factors will continue to weigh on the new condo apartment construction market in 2004. Firstly, new condo completions flowing into the resale market combined with increased listings could cannibalize sales from the new construction market. Indeed a larger proportion of newer stock has been added to the pool of listings recently. As completions continue to materialize more will opt for newer resale units vs waiting for occupancy dates on newly purchased units. Secondly, a larger share of recent buyers fell into the first time buyer and investor pool. Shrinking pent-up demand and softer rental conditions will impact these respective buyer pools and therefore sales into 2004. Finally, average project sizes continue to climb, particularly in City of Toronto areas . This suggests the industry is delivering product with small square footage at a time when the market has an abundant supply relative to demand of these units.

Unsold Inventory to continue edging up

August year to date new condo sales are down 32% from this time last year. Absorption rates have also edged below historical averages. This has resulted in an increase in unsold inventory. With a still high level of launches anticipated, unsold inventory is expected to continue rising through 2004. Builders therefore must focus on clearing existing inventories prior to launching new projects. New projects away from the core may be better received by the market. This is indicated by tighter resale market conditions and generally stronger price increases in non core areas.

New Condo Construction Market Absorption Rates Slowing



Source: Urbanation

New condo price growth to slow

After registering average quarterly price increases of 2.5%, new condo quarterly price increases have slowed to a 1% clip recently. More resale competition and higher pre construction unsold inventory will lead to a further slowing in price increases in 2004.

RESIDENTIAL STARTS

Starts peak in 2003; ease in 2004

Toronto area housing starts will reach a record this year before easing in 2004. Active 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 on par with last year`s strong levels. More modestly priced multiple housing will help starts reach 44,500 units this year. Home starts however will drop to 41,000 units next year.

Condos will weigh on 2004 construction market

Stronger condo sales over the past few years has fed an undersupplied condo resale market. These sales have generated a backlog of condominiums awaiting construction. Much of this project backlog has broken ground this year with condo apartment starts up 48% from this time last year. However, softer condo sales this year and next coupled with rising rental apartment vacancies suggests the pace of condo apartment starts will weaken. Taken together, apartment ownership and rental starts will negatively impact multiple housing starts in 2004.

Singles, semi starts to remain firm

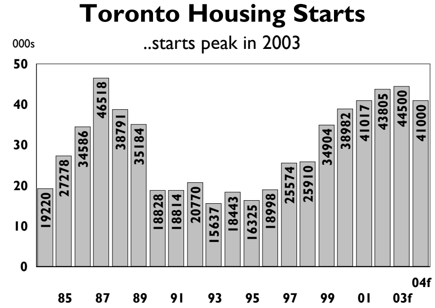
Stronger move-up buying activity, decent income growth and growth in home equity should benefit low rise home construction. In addition, with borrowing costs expected to nudge up only gradually, demand for more expensive housing should be sustained through 2004.

Short term shocks cause starts to deviate away from demographics

A number of one time events like 9-11, SARS, mad cow disease and a strong C$ have weighed on interest rates. Interest sensitive sectors like housing have been kickstarted. Pent-up demand has been unleashed but so has the decision to purchase been brought forward. Indeed, home starts both nationally and locally are currently running above levels consistent with demographic trends. Demographic trends in the Toronto area suggest housing starts over the 2001-2006 period should average between 35,000-40,000 units. This suggests home starts cannot be sustained at current levels for very much longer.

Toronto Housing Starts

..starts peak in 2003



Source: CMHC

Economic Overview

Employment

Relief expected ahead despite Cdn/Ontario economies slowing in Q2

Stronger US growth through this year and into 2004 will offset some of the drag a high dollar has had on Canadian/Ontario exports. Much of this weakness hit in Q2 and was felt by Central Canada. For the first time since the late 90s, growth in Canada narrowed significantly relative to US growth. However, with the impact of SARS, contaminated beef and an appreciating currency dissipating, look for Canadian growth to kick into higher gear through next year. Indeed leading US economic indicators suggest the US economy is at the early stages of an expansion. What will cement this view is a meaningful pick-up in US job creation.

Toronto labour demand will pick up in 2004

After a lackluster Q2 and Q3, labour demand is expected to pickup and gain speed through 2004. Job growth has slowed this year and is down from the supercharged rates witnessed in the late 90s. The Toronto labour market had excesses built up in financial services and high tech sectors. These excesses have weighed on the labour market but are close to winding down. After posting a rate of job growth of 2% this year, look for job growth of 2.3% in 2004

Job seekers remain very confident

Despite sluggish hiring in Q2 and Q3, labour market participation rates remain strong. In fact labour participation rates hit their highest levels since 1991 on a seasonally adjusted basis in Q2. This confirms that Toronto job seekers remain confident about future job prospects. Until a meaningful reversal in hiring is realized, the Toronto jobless rate should continue to edge up before stabilizing into 2004.

Full time employment growth stronger for 45-64 age group

Housing demand is sensitive to shifts in full time employment. Despite recent drops in full time jobs, job market trends/prospects have varied by age. Workers aged 45-64 have experienced better job prospects with stronger job growth over the past few years. Alternatively, the story is somewhat different for workers in the traditional first time buyer pool aged 25-44. Here, employment has been at a standstill over the past 12 months. In addition, growth for this first time buyer group has slowed since the stock market meltdown in March of 2000.

Service sector to lead growth in 2004

Toronto`s higher paying goods producing sector has weighed on employment recently. This is particularly true in manufacturing. Here a high dollar and slower US demand has resulted in rising inventories. This coupled with lower productivity has squeezed profit margins and put a lid on hiring in Q2. This trend should be short-lived as stronger US growth will add a boost to GTA manufacturing exports through 2004.

Likewise, the worst of the SARS outbreak and its impact on tourism, accommodation and film sectors are likely behind us. Indeed, after hotel occupancies dropped by over 20% in the second quarter, rates clawed back in Q3.

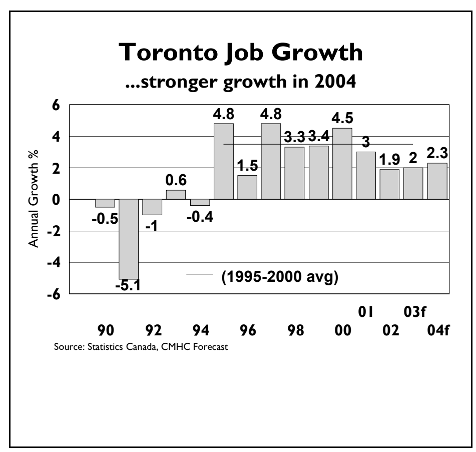
Public sector job creation especially in health care and education services will likely be the strongest sectors. The Canadian Nurses Association forecasts a shortage of 78,000 nurses by 2011 suggesting hiring should ratchet up. Likewise, hiring in the post secondary education level in the GTA has grown to accommodate the double cohort group.

A vibrant real estate market will continue through 2004 assisting both construction related and real estate job sectors.

Finally, the high tech and financial services sectors will take some time to gather momentum. Improved contracts/orders and revenues have been brought to light recently for these respective sectors. However, these sectors are tied closely to the outlook in equity markets which are expected to improve gradually through next year.

Risks to job forecast

Recent declines in labour productivity have boosted unit labour costs particularly in manufacturing. Likewise, a stronger then expected dollar may weigh on revenue growth. Taken together, profit margins could be squeezed, stalling job growth in the next twelve months



Mortgage Rate Outlook

Canadian economy decelerates, stalling rate increases

A rapidly decelerating Canadian inflation rate coupled with second quarter GDP growth dropping below full potential suggests the Bank of Canada will keep rates stable in the immediate term. A combination of health risks associated with SARS, soft exports linked to both a high dollar and mad cow disease has slowed economic activity in the second quarter. This resulted in Canada`s growth out performance narrowing significantly vis-a-vis the US. However, the recent softening in Canada`s economy is temporary. A meaningful pick-up in US activity will gradually take Canada with it through 2004.

Canadian dollar to slowly weaken

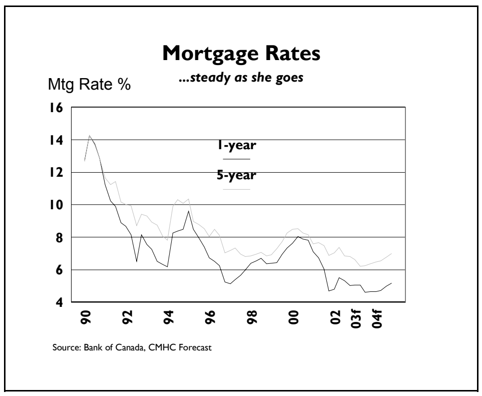
A Canadian economy slowing combined with an acceleration in US growth has narrowed the Cdn-US interest rate gap. Consequently, less upward pressure on the Canadian dollar can be expected, particularly as improved US equity markets attract foreign capital again. This should mean that the Canadian dollar will act as less of a drag on exports, growth and therefore on domestic interest rates through 2004.

Gradual rate increases expected through 2004

As the US economy improves and interest rates south of the border begin to rise by next year to contain inflation, Canadian rates will rise as well. However, the rise will only be gradual until US job growth rises meaningfully.

Short term Canadian interest rates are expected to stay low this year prior to rising 25-75 basis points (.25%-.75%) next year. Similarly, long term yields are forecast to continue their upward trend later this year and rise by 25-50 basis points (.25%-.50%) this year and next. According to our base case scenario, one, three and five year posted closed mortgage rates are forecast to be in the 4.25-5.25, 5.25-6.25 and 6.00-6.75 percent range respectively.

Emerging geopolitical risks, sluggish business and labour investment and an upward shock to the Canadian dollar could further postpone rate increases. Alternatively, faster economic growth could usher in higher rates quicker than what was anticipated.



2003 GTA Condo Survey Report

During the month of June 2003, the Toronto Office of Canada Mortgage and Housing Corporation (CMHC) conducted its annual survey of residential condominiums in the Greater Toronto Area. Only condominium apartment projects were surveyed. This study serves as a complement to CMHC's annual survey of privately initiated rental accommodation in the Rental Market Survey (RMS).

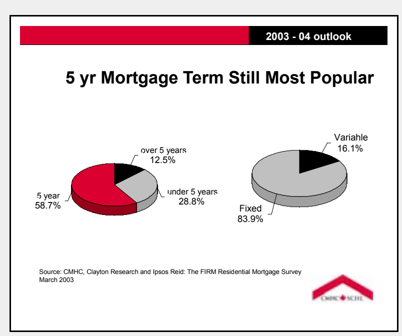
The main objective of the condominium survey is to identify the extent to which condominiums are being offered for rent, and find the subsequent rental vacancy rate. The data was collected for all regions within the GTA, including Toronto, York Region, Peel Region, Halton Region and Durham.

To order your report please call: 1-800-493-0059

Mortgage Term Selection

Variable rate mortgages have become increasingly popular in recent years.
Events surrounding Sept 11th and other shocks to the Canadian economy have pushed short term rates lower. This according to statistics from the Financial Industry Research Monitor Survey has encouraged many into the variable rate mortgage product. Indeed, variable rate mortgages through history have proven to deliver cost savings to homeowners who opted going short vs going long. However, savings could be limited if circumstances lead to short term rates being jolted upwards as was the case in the late 80s and early 90s.

An overwhelming number of existing mortgage holders prefer a longer term. Most will pay a premium for the security of a fixed payment over the life of a mortgage. However, as of June in 2003, spreads (premium) between long and short term rates narrowed significantly as a result of a shock to North American currency markets. Indeed a discounted five year mortgage rate below 5% and at a 50 year low was only marginally higher than the variable rate in early summer. In addition, strong discounting on the long term rate has helped narrow the cost advantage of going short recently. These factors along with a pick-up in economic growth bode well for the popularity of long term mortgage rates ahead .



Demographic & Migration Outlook

Immigration flows decline from high levels

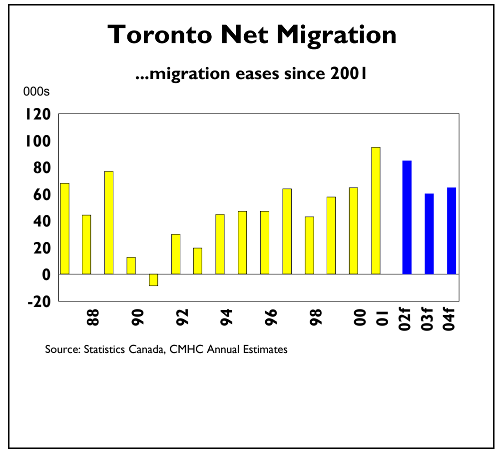
The outbreak of SARS globally, increased security concerns and lower cross border traffic generally has weighed on immigration flows into the Toronto area. Immigration numbers for August year to date are 25% below levels this time last year. Despite immigration edging down from its peak in 2001, it is still the main population driver.

Recent announcements by Immigration Canada to loosen entrance requirements for skilled workers should boost immigration in the near term. With the worst of SARS behind us and with geopolitical tensions easing, look for higher immigration levels through 2004. Indeed strong immigration since the turn of the century will continue to feed housing demand over the next few years

Flows from rest of Canada down but should stabilize.

Ontario`s job growth superiority vs other regions has come to a halt. It is Ontario`s relative job performance which dictates migration flows between Ontario and the rest of Canada. Sectors like financial services and more recently manufacturing have been closely tied to US growth prospects. Indeed since the stock market meltdown, inter provincial flows into the Toronto area have softened. Alternatively, sectors and regions of Canada tied to energy production have benefited. Most notable examples include Alberta and the Atlantic Canada region. However, a boost in US growth through 2004 should boost employment in Central Canada and help net interprovincial flows stabilize.

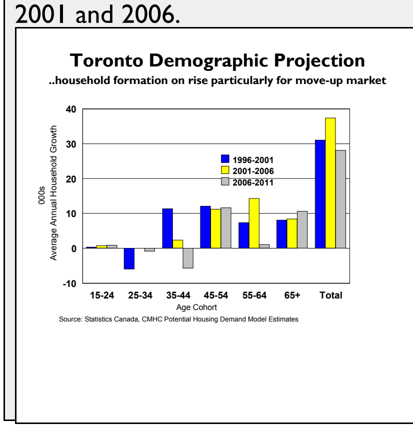
CMHC forecasts 65,000 net migrants next year, up from 60,000 net migrants in 2003. Despite dropping sharply from the peak in 2001. these numbers are still respectable on a historical basis.



Toronto`s Household Age Structure Changing

Strong in-migration into Toronto has in the interim partly added relief to an aging local population trend. Indeed nearly 50% of all migrants that have come into the region recently have been between the ages of 25-44. According to industry contacts, some of these buyers were financially capable of jumping into the ownership market sooner contributing to the recent surge in home sales across the GTA..

The long term aging population story however is still in place. While annual household growth is expected to continue through 2006, the composition of that growth is changing. With live births in Ontario peaking in the early 60s, a larger segment of the population is shifting to a higher age cohort. While an interest rate induced surge in home sales has been drawing down the pool of first time buyer pent-up demand, demographics will also be weighing on the 25-44 age cohort. CMHC projections point to stronger growth in the traditional move-up buyer segment aged 45-64 between 2001 and 2006.



FORECAST SUMMARY

Toronto Fall 2003

RESALE MARKET	1999	2000	2001	2002	2003f	2004f	Chg.%
MLS(1) Sales	58,957	58,349	67,612	74,759	77,000	75,000	-2.6
MLS Price	$228,307	$243,249	$251,508	$275,371	$292,000	$305,000	4.5
Sales to New List Ratio	70%	65%	66%	68%	60%	55%	
NEW HOME MARKET							
Freehold Sales /(Low Rise)*	26,157	27,964	29,201	38,758	30,000*	29,000	-3.3
Condo Sales /(High Rise)**	10,840	12,878	13,061	15,931	12,000**	10,000	-16.7
Total Sales	36,997	40,842	41,362	54,689	42,000	39,000	-7.1
HOUSING STARTS							
Total	34,904	38,982	41,017	43,805	44,500	41,000	-7.9
Single Family Detached	15,535	17,119	16,844	22,115	20,000	19,000	-5.0
Semi/Row	10,646	11,607	10,479	11,097	10,000	10,500	5.0
Apartment	8,270	9,981	12,738	9,081	12,800	10,500	-18.0
Private Rental Starts	453	275	956	1,512	1,700	1,000	-41.0
RENTAL MARKET							
Vacancy Rate	0.9%	0.6%	0.9%	2.5%	4.0%	-	-
Average Rent (2-bed)	$916	$979	$1,027	$1,047	$1,052		-
							-
ECONOMIC OVERVIEW							-
Mortgage Rate-3 year	7.38%	8.17%	6.88%	6.28%	5.76%	6.40%	-
Mortgage Rate-5 year	7.56%	8.35%	7.40%	7.02%	6.36%	6.70%	-
Employment Growth (%)	3.4%	4.5%	3.0%	1.9%	2.0%	2.3%	-
Unemployment Rate	6.1%	5.5%	6.3%	7.4%	7.8%	7.8%	-
Net Migration (2)	58,000	65,000	95,000	85,000	60,000	65,000	-

Source: Toronto Real Estate Board, Statistics Canada , GTHBA based on Realnet Data, 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

(Low Rise)*= Realnet Data switches to low rise definition in 2003=singles, semis, townhomes(both freehold and condo)
(High Rise)**= Realnet Data switches to high rise definition in 2003=condo apartments exclusively

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