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HOUSING MARKET

OUTLOOK

Toronto CMA

Canada Mortgage and Housing Corporation

www.cmhc.ca

STRONG NEW HOME MARKET IN 2006

Issue: Fall 2005

Record Condominium Apartment Starts

Demand for ownership housing has remained very strong. Steady growth in the local economy and very low mortgage rates have kept consumers confident in their ability to purchase and pay for a home over the long term.

Apartment starts will reach consecutive record highs in 2005 and 2006 in the Toronto Census Metropolitan Area (CMA), at 17,000 and 18,500 respectively.

Condominium apartments will make up the majority of new homes. New construction of this housing type will keep overall housing starts well above the historic average over the

next year. Construction will begin on a total of 43,000 homes in 2005 and more than 41,000 homes in 2006.

Price growth has followed in step with the strong demand for ownership housing. In the new home market, the average price of a completed single-detached home has been rising well above the general rate of inflation. Year-to-date (January through September), for example, the average price has increased by 14 per cent in comparison to the same period last year.

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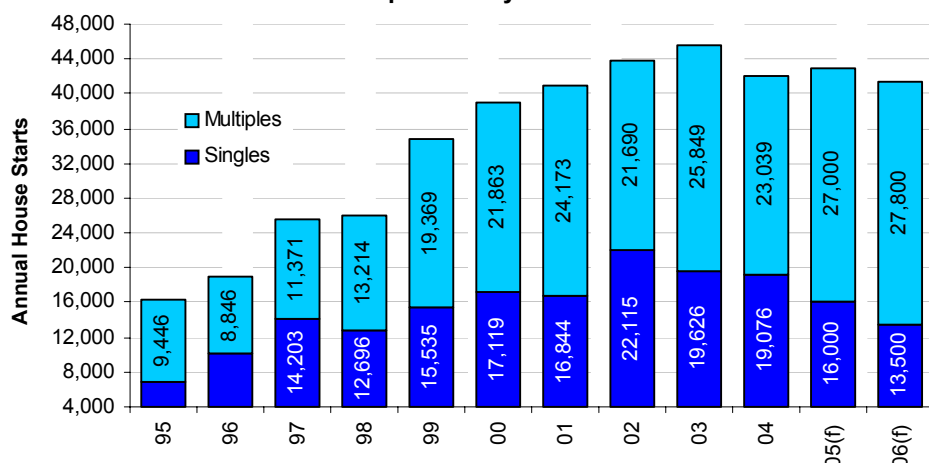
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Rising prices have made single-detached homes less affordable for some households. Households have opted for less expensive multiple family home types, including condominium apartments.

New condominium apartment sales in the Toronto area confirm that an increasing number of buyers are turning to high-rise developments. Year-to-date condominium apartment sales are up 34 per cent for the year ending August, according to the Greater Toronto Home Builders' Association.

Lending institutions require a

Share of Multiple-Family Starts will Grow



Source: CMHC

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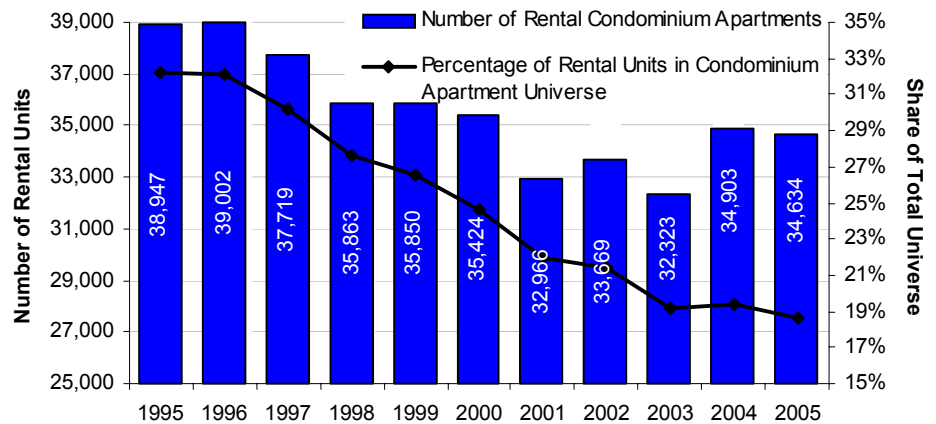
substantial level of pre-construction sales (at least 65 to 70 per cent of total units) before construction financing will be approved. A 12 to 18 month period is usually required to reach these pre-sale thresholds. As a result, sales centre activity in 2005 is a strong indicator pointing toward record levels of new condominium apartment construction in 2006.

City of Toronto Drives Apartment Starts

Construction of condominium apartments in the metropolitan area will be centred in the City of Toronto. Through September 2005, almost 80 per cent of apartment starts have occurred in the City. High rise sales this year have also followed this trend. According to an industry survey,¹ approximately three-quarters of units being actively marketed in the Toronto CMA, are located in the City of Toronto.

The development of condominium apartments has and will continue to be associated with the ready access to the wide diversity of amenities and transportation options offered by most neighbourhoods in the City of Toronto.

Share of Rented Condominium Apartments Stable



Source: CMHC, 1995-2005 Condominium Surveys

Investor Penetration Low

Increased sales and construction of condominium apartment units has raised questions regarding the level of investor ownership and, by extension, price speculation that exists in the market.

The share of existing condominium apartments that are tenant as opposed to owner-occupied is a good indicator of investor penetration. CMHC's 2005 Condominium Survey for the Greater Toronto Area indicates that the share of rental units, at slightly less than 19 per cent, is currently at very low levels. In contrast, in 1995 over 30 per cent of the condominium stock

was investor held.

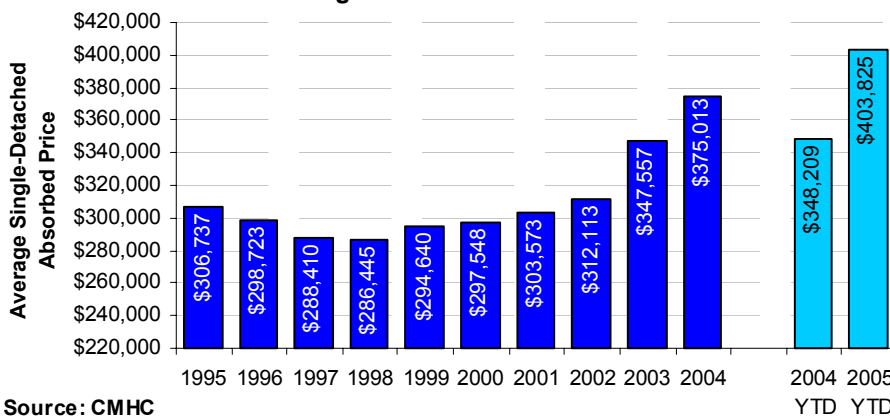
Speculative activity in the condominium apartment market is low relative to the peak of the last housing market cycle in the late 1980s and early 1990s. Between 1995 and 2003, many rental condominium apartments were sold as investors took advantage of capital gains resulting from robust annual price growth. A combination of slower price and rent appreciation and competition from other asset classes, including equities, has kept investor activity flat over the last three years.

Ground-Oriented Starts will Decline

The change in consumers' preferences toward less expensive multiple-family homes will continue into 2006. The construction of single and semi-detached houses will trend downward next year, causing total starts to edge lower as well.

Buyers looking for affordable ground-oriented homes will remain attracted to row houses. While row house starts are also expected to move lower in 2006, it is important to note that new construction activity will remain at higher levels than in 2003. The majority of these homes will be built in the outer lying regions of the metropolitan area.

Strong New Home Price Growth



Source: CMHC

Note: YTD based on average monthly absorbed single-detached price through August.

¹Refers to the Urbanation Inc. Condominium Market Survey for the Toronto CMA, Second Quarter 2005 Edition.

Resale Market Strong in 2006

Sales Plateau, Listings Grow

Steady job growth and very low mortgage rates have driven the strong annual increases in resales experienced since 2001. Existing home sales will edge up to a new record of 85,000 this year. In 2006, resales will decline slightly to 84,000. Job growth, while remaining positive, will moderate over the next two years. Over the same period, mortgage rates are expected to rise slightly. These two changes, coupled with continued average annual price growth above the level of inflation, will result in a plateau in existing home sales.

New listings, or the supply of homes for sale, will continue to increase

through next year. With growth in new listings outpacing that of sales, home buyers will benefit from more choice in the market place. This will reduce the tendency for multiple bids on homes and will have a moderating effect on annual price growth.

Price Growth will Moderate

The sales-to-new-listings ratio is a good leading indicator for the direction of housing prices. A sustained ratio above 55 per cent points to tight seller's market conditions, generally accompanied by price increases above inflation. The resale market remained very tight from the late 1990s through 2002. From 2003 onwards, new listings grew at a greater rate than sales, pushing the

resale market toward a more balanced state. This will continue next year. In a balanced market, average prices grow closer to inflation. The average resale price in 2005 will be \$335,000, growing to \$348,500 in 2006, representing growth rates of 6.3 and 4.0 per cent respectively.

Market conditions are not uniform across the metropolitan area. While the sales-to-new-listings ratio for the Toronto CMA as a whole is hovering near the balanced/seller's market threshold (55 per cent), many sub-markets are above or below this level.

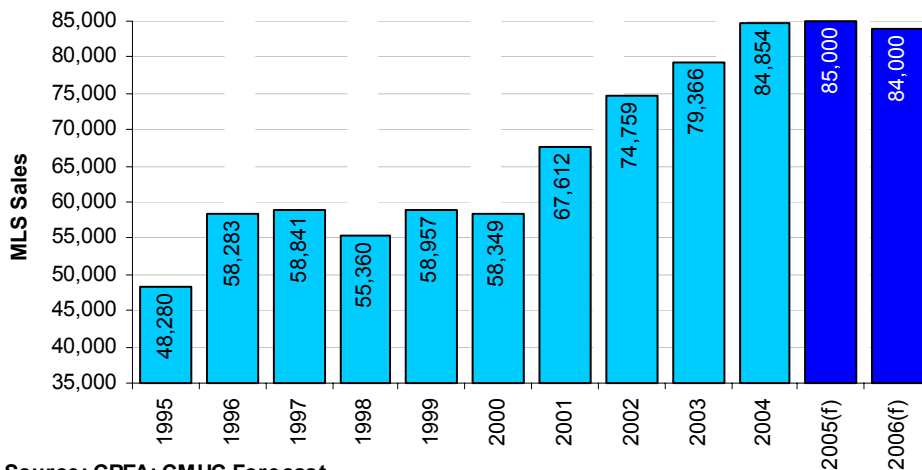
Central Toronto, Oakville, Mississauga and parts of York Region continue to experience seller's market conditions. Price growth in these sub-markets will be above average. In contrast, areas such as Toronto East, Toronto West and parts of Durham Region are closer to a balanced state. Expect price growth in these areas to be at or below average next year.

Monthly Payments will Remain Low

House price increases have outpaced inflation since the late 1990s. The issue of affordability has become more of a concern. In 2006, the average inflation adjusted resale price will move closer to the level experienced in 1989, at the peak of the last housing cycle.

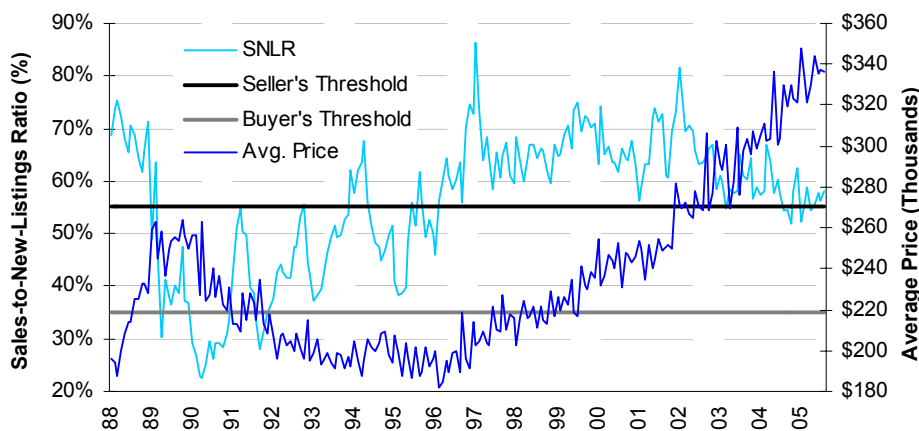
Strong increases in the average home price do not imply owners' monthly payments will be near historic highs. While annual price increases have been robust, mortgage rates at or near 50-year lows have had a substantial moderating effect on mortgage carrying costs. The average inflation-adjusted monthly payment (principal and interest) in 2006 will be less than 60 per cent of the level experienced in 1989. Lower monthly payments translate into lower household incomes required to carry a mortgage. A great number

New Sales Record in 2005



Source: CREA; CMHC Forecast

Market has Become More Balanced



Source: CMHC, CREA

of households will continue to have home ownership as a viable option in 2006. Low mortgage rates are a key reason why the number of existing home sales will remain near record highs over the following year.

Housing Type Preferences Changing

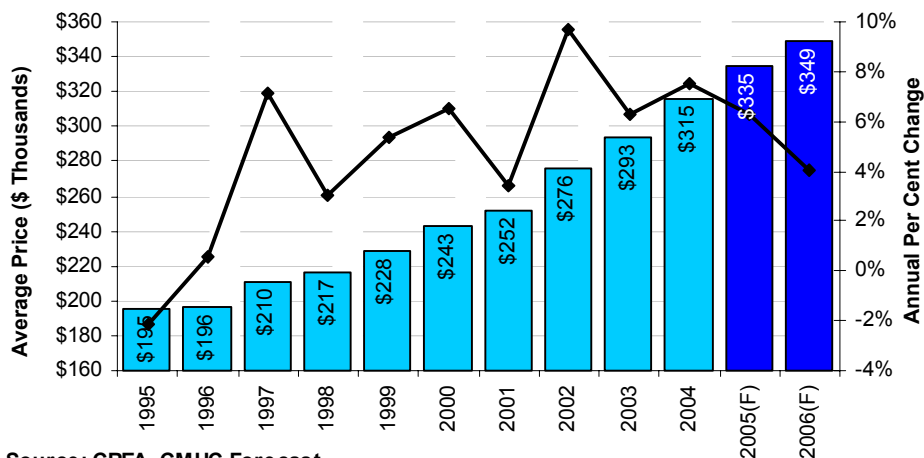
Very low mortgage rates have kept housing affordable, on average. However, in the face of rising prices, the type of housing considered by some buyers has changed. According to the 2005 CMHC *Consumer Intentions to Buy or Renovate Survey*, households intending to purchase a home are aware that average prices have increased and plan to spend more than intenders three years ago. Moreover, the survey results also point out that an increasing number of buyers are intending to purchase a multiple-family dwelling, as opposed to the more expensive single-detached home.

Actual conditions in the resale market have been in line with the survey results in 2005. Sales of multiple-family homes relative to the number listed have increased.

Throughout all regions covered by the Toronto Real Estate Board (Central, North, West and East) seller's market conditions persist for semi-detached homes and row houses. A seller's market also exists for existing condominium apartments in the Central region. Conversely, in all regions *but* Central, the market for single-detached homes is comparatively more balanced.

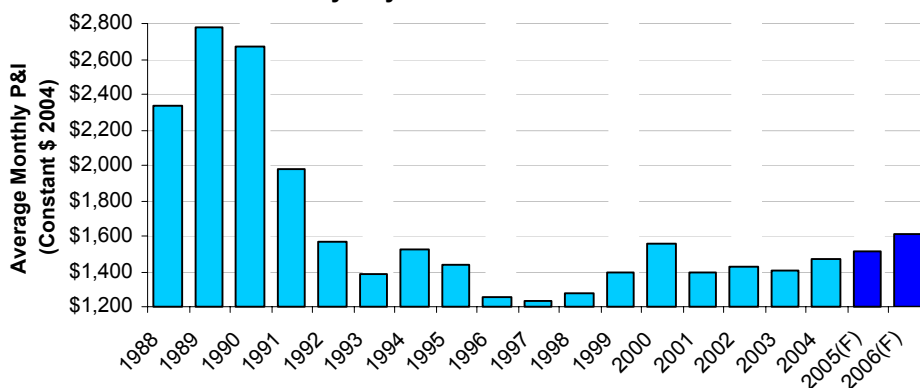
Expect 2006 market conditions to remain tight for multiple-family homes. The average price of existing homes will continue to rise in 2006. Row houses and condominium apartments will be the most common choice amongst first-time buyers.

Average Home Prices to Grow Slower



Source: CREA, CMHC Forecast

Monthly Payments will Remain Low



Source: CREA, Statistics Canada; CMHC Forecast. Assumes average house price in Toronto CMA, 25 per cent down payment, 3-year closed fixed rate mortgage and 25-year amortization period.

Local Economic Outlook

Steady Job Growth

Toronto will experience steady job growth of 1.5 per cent in 2006. This annual growth rate is more moderate than has been experienced in many years over the past decade. The labour market in the metropolitan area has remained very tight, with the employment rate near record levels and the unemployment rate trending lower. With the local economy trending closer to full employment, job growth going forward is expected to be closely correlated with slower labour force and population growth. The annual population growth rate has been trending below two per cent since 2003.

Through the first three quarters of 2005, employment gains have been spread across multiple industry sectors. These sectors include construction, finance, insurance and real estate (FIRE), retail trade, wholesale trade, education and the public service. Job growth in these sectors is expected to remain strong in the coming year.

It is important to note that construction, FIRE and retail trade are somewhat interest rate sensitive. As short and long term interest rates increase in 2006, expect job growth in these sectors to moderate.

Overall manufacturing employment

is down year-over-year for the first nine months of 2005. This is largely a reflection of the high Canadian dollar, which has affected the export of manufactured goods. To combat the negative effects of the Canadian dollar, many firms have made or intend to make capital expenditures to increase productivity. Increased productivity will help restore the competitive advantage for many exporters of manufactured goods. This may help stabilize the downtrend in manufacturing employment.

Healthy labour market conditions will have a positive influence on the demand for housing. This influence will come from two sources. First, young people, who have gained quality full-time employment, will continue to decouple from their parents and move into a home of their own. Second, migrants, who have been attracted to the Toronto area by the steady job prospects, will also be in the market for housing. As baby boomers move beyond their child-bearing years, migration will increasingly become the main engine of population growth.

Immigration will Drive Population Growth

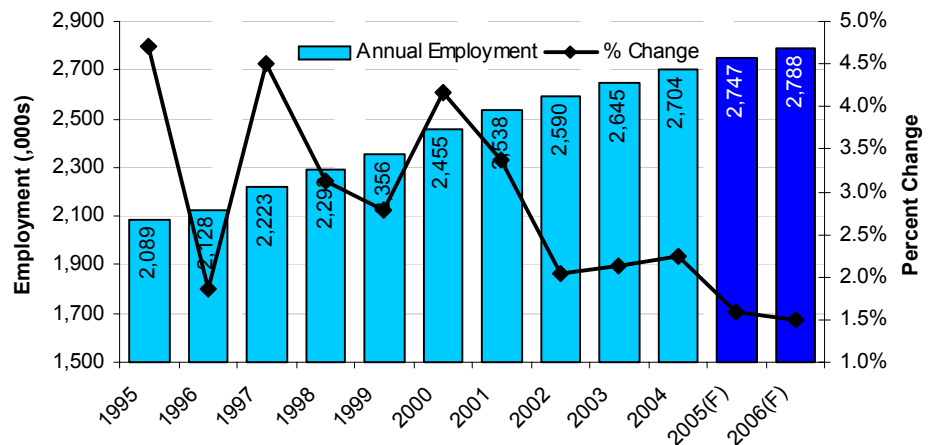
In-migration into the Toronto area is driven by immigration. Well-established ethnic networks and a more diverse array of job opportunities, relative to many other Canadian metropolitan areas, continue to attract international migrants. After dropping sharply in 2003, the number of immigrants choosing to settle in Toronto has started to trend upward once again. Movement of some households to other provinces or other areas within Ontario will continue to dampen the impact of immigration on overall population growth. Expect net migration to be in the 65,000 to 70,000 range in 2005 and 2006.

Strong Ownership Demand

Demand for housing, resulting from steady employment and in-migration, will continue to be focused on the ownership market in 2005. Ownership demand will be primarily driven by the continuation of very

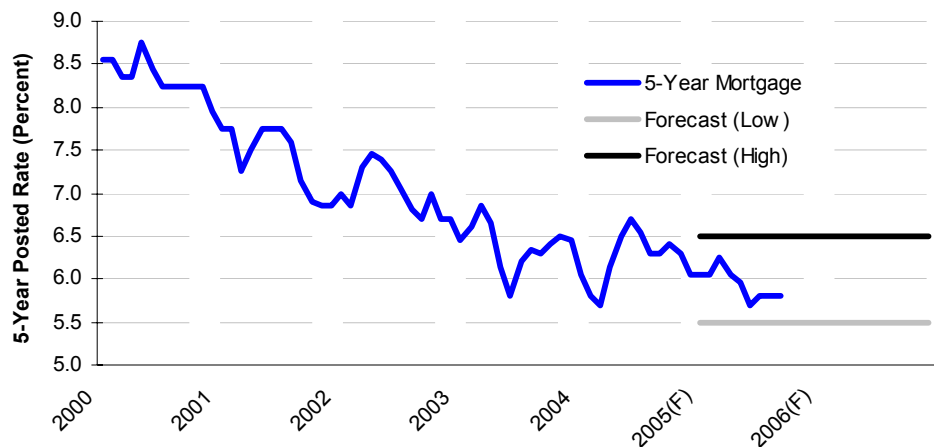
low mortgage rates. Rates are expected to climb modestly through 2006. Low mortgage rates will be beneficial to first-time buyers. These households are more rate-sensitive due to smaller down-payments and thus larger debt-to-equity ratios.

Steady employment growth will continue



Source: Statistics Canada; CMHC Forecast

Mortgage rates will remain near 50-year lows



Source: Bank of Canada, CMHC Forecast

Mortgage Rate Outlook

Mortgage rates will remain low in 2005 and rise moderately in 2006. Tame inflation, and a strong Canadian dollar vis-à-vis the U.S. dollar will restrain the size and speed of Canadian interest and mortgage rate increases in 2005 and 2006.

Short-term mortgage rates are expected to be 25-35 basis points higher in 2005 than in 2004 while longer-term rates will be lower by a similar amount in 2005 compared to

the previous year. While still low by historical norms, mortgage rates are expected to rise gradually by 25- 50 basis points in 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges respectively in 2005-06.

Rising posted mortgage rates will not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.

OUTLOOK SUMMARY TORONTO CENSUS METROPOLITAN AREA

NEW HOME MARKET	2003	2004	2005(F)	% Change	2006(F)	% Change
Starts						
Single-detached	19,626	19,076	16,000	-16.1%	13,500	-15.6%
Semi-Detached	4,786	3,526	3,300	-6.4%	3,000	-9.1%
Row House	5,749	5,873	6,700	14.1%	6,300	-6.0%
Apartment	15,314	13,640	17,000	24.6%	18,500	8.8%
Total	45,475	42,115	43,000	2.1%	41,300	-4.0%
RESALE MARKET						
MLS ¹ Sales	79,366	84,854	85,000	0.2%	84,000	-1.2%
MLS ¹ New Listings	132,819	145,023	150,000	3.4%	156,000	4.0%
Sales-to-Listings Ratio	59.8%	58.5%	56.7%	-	53.8%	-
MLS ¹ Average Price	\$293,308	\$315,266	\$335,000	6.3%	\$348,500	4.0%
RENTAL MARKET						
Apartment Vacancy Rate	3.8%	4.3%	4.0%	-	5.0%	-
ECONOMIC OVERVIEW						
Mortgage Rate (1 year term)	5.17%	4.59%	4.94%	-	5.52%	-
Mortgage Rate (3 year term)	6.28%	5.65%	5.66%	-	6.04%	-
Mortgage Rate (5 year term)	7.02%	6.23%	5.95%	-	6.27%	-
Employed (000's)	2,644	2,704	2,747	1.6%	2,788	1.5%
Net Migration (Census Year)	63,347	59,673	65,000	8.9%	70,000	7.7%

Sources: CMHC, CREA, Statistics Canada and Bank of Canada.

¹Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

2005 Ontario Retirement Homes Report

Do you want to learn more about the dynamic private retirement home market in Ontario?

The 2005 Retirement Homes Report has detailed Ontario-wide survey findings by market area covering vacancy rates and per diems by bed type, capture rates, new supply and vacancy rates by rent range for private beds as well as rent distributions.

For more information on the content of this report, please contact:

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