

SPECIAL REPORT

TD Economics



October 18, 2013

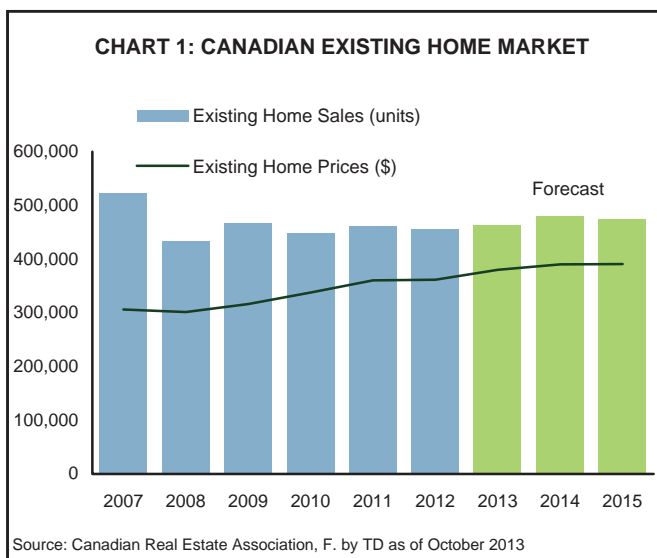
CANADIAN REGIONAL HOUSING MARKET OUTLOOK

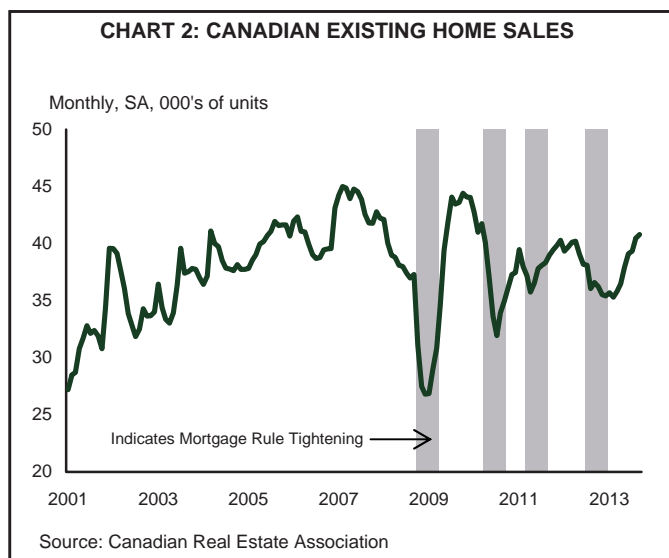
Highlights

- Since our last forecast in June, Canadian housing markets have been more resilient than we had expected, with Toronto, Vancouver, Calgary and Edmonton leading the way.
- We don't expect the recent upward momentum to carry forward into 2014. Some of the strength reflects buyers rushing into the market to beat out recent interest rate increases, which will result in a payback later this year.
- Overall, we anticipate relatively stable market conditions in 2014. Further interest rate increases are likely to be modest, while economic growth will continue at a moderate clip. Prospects for higher short-term interest rates later next year are likely to lead to a more pronounced cooling in 2015.
- In this report, we feature differences in affordability across Canada's major urban markets.

Canada's major housing markets have been heating up in recent months, prompting us to raise our near-term outlook. Existing home sales have rebounded smartly, returning to levels reached prior to the latest tightening in mortgage insured lending rules in July of last year. Home prices have also been gaining traction, with momentum strongest in Toronto, Vancouver, Calgary and Edmonton. In light of this recent performance, sales at the national level are now expected to turn in a gain for 2013 as a whole – compared to our June projection of a moderate decline – while estimated price growth has been nudged upward, to 2.7%.

Despite the display of resilience, our medium-term view of relatively stable activity in housing markets has not been altered. A good part of the recent strength is likely tied to increases in 5-year mortgage rates since the spring, which have pulled activity forward. Higher, but still-decent, borrowing costs against a backdrop of lacklustre economic growth is likely to translate into fairly stable housing conditions outside of a few notable pockets in 2014. With some degree of overvaluation persisting in most major housing markets, we still expect a moderate medium-term adjustment in prices to occur alongside a likely increase in short-term interest rates in the latter part of 2014 and 2015. In some markets, notably in Ontario and Québec, increased supply following a period of over-building is expected to increasingly weigh on prices over the forecast period.





Canadian housing market clear for take off?

While some markets, particularly Toronto, tested historical records in September, we are still of the view that a gradual cooling in Canada's housing market is underway. From a longer-term perspective, four rounds of mortgage insurance rule tightening since 2008 have had a cumulative dampening impact on housing activity. And, despite the recent gains, housing sales neither appear to be too hot, nor too cold. In fact, national existing home sales remain well down from their peaks experienced in the 2007-10 period and are near their 10 year averages. Meanwhile, home prices are on track for a 2.7% gain this year, which is below the average annual appreciation of 8% experienced between 2002 and 2010 and is roughly in line with our estimate of a sustainable long-run rate. More importantly, new home construction is slowly moving back in line with a pace that can be supported by demographic fundamentals.

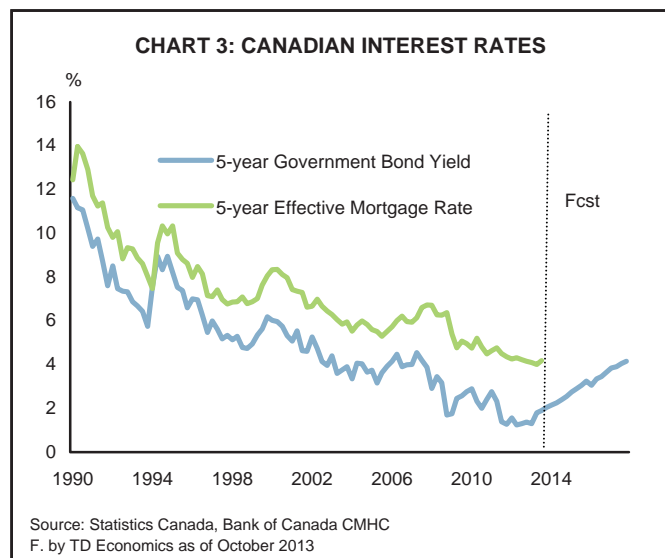
As is typically the case, variations across the country have been witnessed this year. The strength has been concentrated in markets with fewer excesses, like Vancouver, Victoria, Calgary and Edmonton, where markets have already gone through price corrections of various degrees over the past five years. Toronto has been another area of strength. However, the softening in Toronto is occurring where there has been more signs of froth – in housing construction. Housing starts are down 30% from record levels reached over 2011 and 2012. A number of markets in eastern Canada have been staging a rebound in sales activity in recent months, but activity remains relatively depressed. In Ottawa, Montreal and Québec City, a decade of rapid building appears to be coming home to roost, as

sales-to-inventory ratios point to a buyer's market. In those markets, prices have either flattened or declined outright this year. On the east coast, housing activity has been muted, reflecting soft job markets for the most part. The number of resales in Atlantic Canada is currently 19% below the peak reached in February of last year.

Reduced affordability to keep market in check

There are compelling reasons to suggest that the recent upward momentum in Canadian sales and prices is not likely to carry over into next year. For one, economic growth and job creation in most regions has been uninspiring in recent months, and our near-term outlook builds in only a modest improvement (for more details on regional economic performances, please see [TD Provincial Economic Forecast](#)). But perhaps more importantly, housing affordability has eroded significantly from its peak on the back of the tighter lending rules, higher prices and, most recently, increased longer-term mortgage rates. As we noted, the rate increases have the perverse impact of strengthening short term housing activity as buyers move off the sidelines to beat them out. Looking ahead to 2014 and 2015, we anticipate a further – albeit gradual – deterioration in affordability.

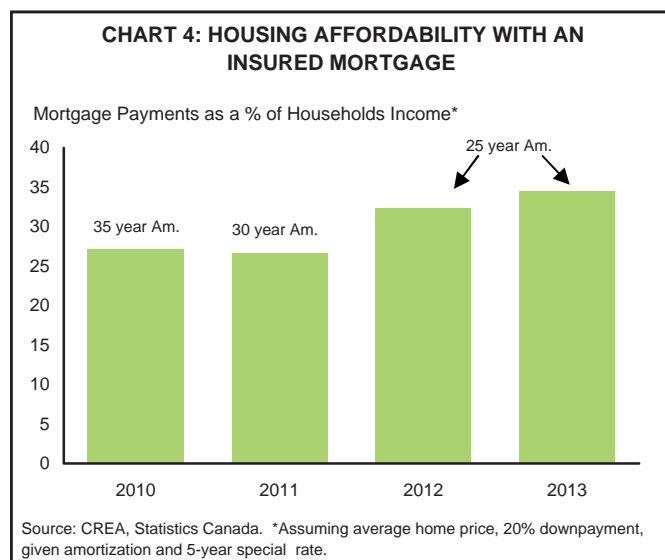
The accompanying table provides a forecast of affordability changes both nationally and by major market. Affordability is defined as the share of income that a family with an average income will have to devote to mortgage payments if they were to purchase an average priced home. Thus, a higher reading points to an affordability erosion. We base our calculation on the assumption of a 25-year amortization period, a five-year mortgage rate and a conventional 25% down payment.



The calculations in the table are instructive, especially in comparing relative changes in affordability across regions. However, they do not build in the negative impacts on affordability from reductions in amortization – from 40 years to 25 years – on high-ratio mortgages since 2008, so they under-estimate the true reduction in affordability for, say, many first time buyers. Using some simple assumptions, we show the impact on affordability for insured homebuyers in chart 4. The amortization reductions have also affected conventional mortgages, albeit to a lesser extent.

In the current moderately expanding price and income environment, changes in interest rates tend to be the number one determinant of affordability. Since May, as rates on other terms have held steady, the 5-year special mortgage rate has climbed by 70 basis points, to 3.8%. Since mortgages in Canada are largely funded within the bond market at effective yields for a similar maturity, this recent uptick has been driven by market-related developments. In particular, there have been growing expectations of less stimulative monetary policy in the United States that have rippled through to higher medium- and longer-term yields in bond markets in Canada and around the world.

With the U.S. central bank likely to move cautiously in reducing stimulus and the Bank of Canada expected to keep



rates low to support economic growth, increases in North American bond yields are likely to be gradual over the next few years. 5-year bond yields could rise by another 50 basis points by the end of next year and another 70 basis points through 2015. Short-term interest rates are also likely to start increasing in Canada by the final quarter of 2014, with the Bank of Canada expected to raise its overnight rate by a full percentage point through the end of 2015.

Given the current high level of home prices in Canada, small increases in interest rates will have larger impacts on affordability than they did in the past, especially in the priciest markets like Vancouver and Toronto (see table). We calculate that the rise in interest rates will likely drive a further deterioration in affordability of around 2 percentage points across Canada, on average, in the 2014-15 period. Regional impacts are expected to range from an erosion of 7 percentage points in B.C. by 2015 to a low of 1.3 percentage points. Stronger income prospects over the medium term – especially in the Prairie markets – are likely to cushion some of the blow resulting from rising interest rates.

The expected increase in interest rates is not significant enough to cause a sharp housing downturn, but rather will lead to a stabilization in housing activity. Mortgages will become more expensive to carry relative to the past few years, but the average affordability level will remain within historical ranges. Interest rates would have to increase to more normal levels – which is around 7.5% for a five-year mortgage rate – before having a material impact on housing affordability: a scenario that appears to have a low likelihood, at least over the next few years.

TABLE 1: HOME AFFORDABILITY*

Per cent

	Avg. 1990 to 2013	2012	2013F	2014F	2015F
CANADA	27.4	23.7	26.1	27.2	28.7
N. & L.	22.2	20.0	21.7	22.1	23.1
P.E.I.	17.6	12.5	13.3	13.3	13.9
N.S.	21.1	17.5	18.2	18.9	20.1
N.B.	18.0	13.2	14.0	14.4	15.1
Québec	22.2	21.1	22.2	22.3	23.4
Québec City	16.9	16.1	17.2	17.2	18.0
Montréal	24.5	23.9	25.3	25.7	27.0
Ontario	26.0	23.7	26.3	27.3	28.7
Ottawa	22.6	18.5	19.5	19.6	20.5
Toronto	29.5	27.7	31.2	32.6	34.2
Manitoba	17.2	17.2	18.7	19.2	20.3
Sask.	17.4	17.0	18.2	18.7	19.8
Alberta	22.2	17.7	19.1	20.0	21.4
Calgary	23.5	16.9	18.2	19.1	20.5
Edmonton	20.9	18.8	20.2	21.1	22.5
B.C.	37.1	35.6	38.8	40.0	42.1
Vancouver	45.5	46.1	51.0	53.8	56.5

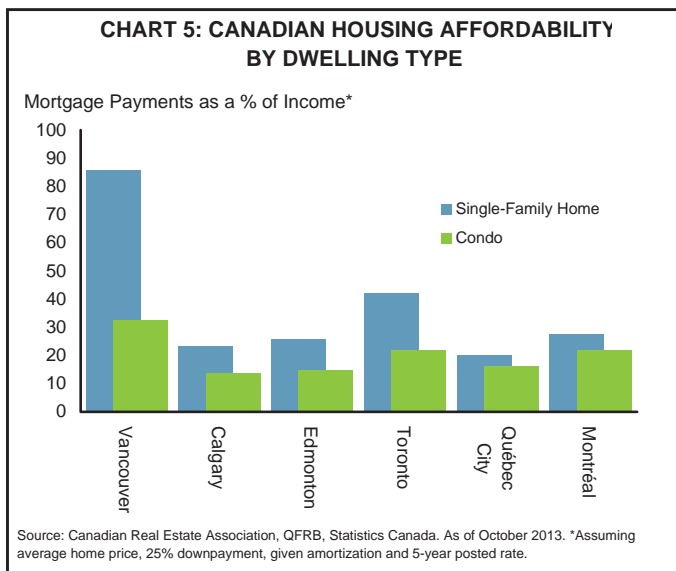
* Mortgage payment as % of average household income, average home price, 25% downpayment, 25-year amortization and 5-year fixed rate.
Forecast as of October 2013
Source: Canadian Real Estate Association, Statistics Canada

Location! Location! Location!

In the table, we also provide recent and forecast levels of affordability. Typically, households can qualify for a mortgage if their monthly mortgage payments and other housing costs do not exceed 36% of their income, and/or their total monthly debt costs (including other forms of borrowing like credit cards, student loans and so on) do not exceed 42%. CMHC also determines housing affordability to be “poor” when total shelter costs exceed 30% of a household’s income.

From a regional perspective, affordability in the most expensive markets will be more affected by the increase in interest rates. For instance, on average, housing appears unattainable to the average household in Vancouver given current interest rates. Mortgage payments on an average priced home would eat up a whopping 60% of a household income, which is exorbitant and suggests that the measured data are not capturing the whole story. Outside of B.C., Toronto is the second least affordable market. The average priced home would absorb more than 30% of an average family income. Elsewhere, housing is more affordable.

Hidden in the broad market estimates are the differing segments of housing. Condos in all major markets (including Vancouver) remain affordable to the average buyer. Indeed, at the prevailing floating rate term, condos are the most affordable they have been on record (dating back to 1990). In contrast, the share of income required to service debt on a typical single-family home is above the 36% threshold in all major markets. For instance, in Toronto, even a family with two incomes is cutting it close when trying to qualify for a mortgage to purchase an averaged price detached single family home, since mortgage payments alone would take up 42% of an average monthly income. Going forward, the affordability advantage for condos will help to absorb the



large supply of new product coming onto markets such as Toronto and Montreal over the next few years.

Stable in 2014, dip in 2015

Putting it all together, the recent increase in interest rates is more likely to generate volatility in existing home sales over the next few months. Homebuyers with pre-approved mortgages of up to 90 days have been jumping into the market to get ahead of the rise in interest rates. Strength now is simply stealing from future demand and will likely be followed by a period of weaker home sales in the late fall and winter seasons. Next year, the cross-currents of respectable job creation on the one hand and moderately eroding affordability on the other will leave most markets moving sideways, before some easing in activity takes place in 2015. That said, housing is always and everywhere a very regional story. In the pages to follow, we provide a brief update and outlook by province and major urban market.

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ATLANTIC PROVINCES - HOUSING SLUMPS

- In contrast to other markets, home resale activity in the Atlantic Region has underperformed our expectations this year. Sales are on track for a significant contraction in most Atlantic markets, led by Newfoundland & Labrador and Nova Scotia. While most markets remain tight relative to history, the drop in housing demand has started to weigh on prices which have been losing significant momentum since mid-year.
- Recent housing weakness in the Atlantic region overall is largely tied to economic performances. Economic growth in most Atlantic provinces has been weak since 2011 and the pace of expansion is not expected to pick up meaningfully until 2015.
- Home sales in New Brunswick and Nova Scotia are likely to stabilize in 2014 and 2015, with the former market expected to halt a seven year decline in housing activity. The housing market in Saint John found stability in 2012 and is likely to outperform the rest of the province over 2014 and 2015. While the population is in decline for New Brunswick as a whole, the number of residents in Saint John has been relatively stable, which in turn should provide support to home sales.
- Housing activity in Newfoundland & Labrador and Prince Edward Island is likely to suffer a more pronounced drop. In N&L, a projected slowdown in economic growth and moderate rise in the unemployment rate is likely to take a bite out of home demand. Both of these housing markets



should stabilize in 2015, supported by better economic conditions and still relatively-decent affordability.

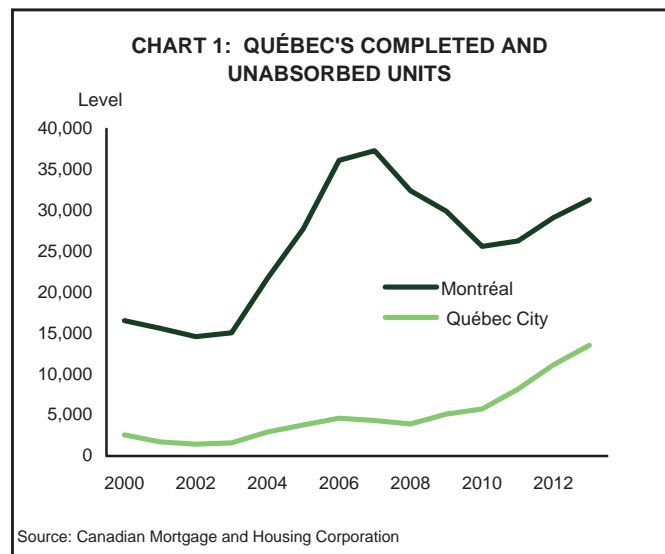
- Residential construction activity has also slowed considerably in most major urban centres in the Atlantic region. This is a trend we expect to continue over 2014 and 2015, as builders react to weaker demand and price growth. Halifax is one of the only major cities where the number of units under construction has remained at a historically high level. This trend reflects Halifax's relatively strong population growth and household formation rate. Looking ahead over the next several years, shipbuilding in the region will provide significant support to the Halifax housing market.

Housing Outlook Summary												
Atlantic Region												
	Newfoundland			Prince Edward Island			Nova Scotia			New Brunswick		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	4391	4374	4517	1490	1486	1508	9425	9770	9928	6357	6461	6494
Existing Home Sales (y/y% chg.)	-5.6	-0.4	3.3	-7.6	-0.3	1.5	-9.7	3.7	1.6	-0.7	1.6	0.5
Existing Home Prices (\$)	286345	288061	285761	157056	154914	153620	217894	222911	225586	161726	164311	162951
Existing Home Prices (y/y% chg.)	6.4	0.6	-0.8	2.8	-1.4	-0.8	-0.1	2.3	1.2	1.5	1.6	-0.8
Sales-to-New Listings Ratio	44.1	41.1	39.0	42.5	36.7	31.9	45.0	42.4	39.9	41.3	39.3	36.8
Affordability (%)	21.7	22.1	23.1	13.3	13.3	13.9	18.2	18.9	20.1	14.0	14.4	15.1
Price-to-Income Ratio	4.7	4.6	4.4	2.9	2.7	2.6	3.9	3.9	3.8	3.0	3.0	2.9
Housing Starts (000's)	3.0	2.9	2.8	0.8	0.8	0.6	3.9	3.8	3.7	2.9	3.8	3.7

F: Forecast by TD Economics as at October 2013
Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

QUÉBEC - AFTERMATH OF OVERBUILDING

- This year, the Québec housing market has continued to go through a moderate correction following a decade long run-up in sales and prices. Home sales across the province have fallen in two of the last three years, and as 2013 progressed, average prices began to soften. This adjustment is being concentrated in the two key markets of Montréal and Québec City, which have built up a significant amount of froth over the past 5-7 years.
- The adjustment in sales is likely to ebb in the coming months. We expect home sales to stabilize at their current lower levels over the next few years, supported by a firming in the economic backdrop and a lower unemployment rate. Meanwhile, housing in Québec overall remains relatively affordable on average compared to those of other large provinces, which will help to mitigate the negative impact of rising interest rates on demand. The exception is higher-priced Montréal, where affordability will likely continue to erode by more than in other Québec markets over the next few years.
- In contrast, some further downward pressure on prices is likely to continue through 2014 and 2015. The number of properties for sale across the province has been increasing and the sales-to-listing ratio (a measure of the supply-demand balance) has moved to an all time low in both Québec City and Montréal.
- Upward supply pressure reflects a number of years of overbuilding, particularly in the condo market. Since 2005, the pace of condo construction in Montréal has



been four times that of single-family homes. The share of condos to total starts in Montréal has been twice that recorded in Toronto. Meanwhile, the number of newly completed but unsold units in Québec City has reached a record high.

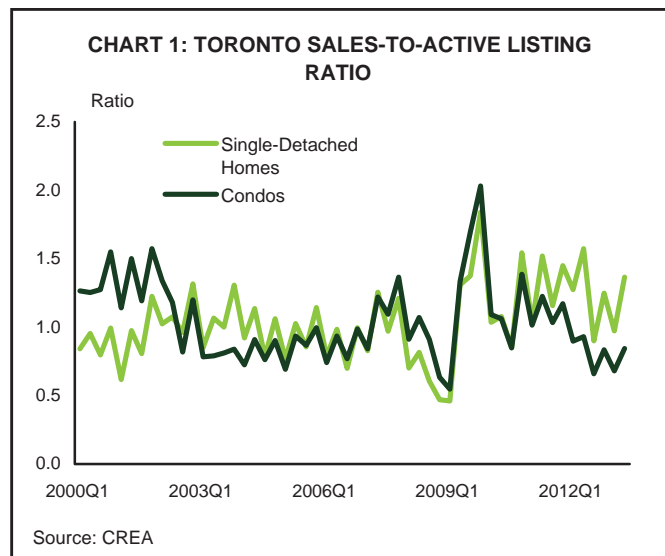
- While new home inventories in Montréal are still relatively low, there are concerns that current development could create a glut. While construction activity has slowed from its peak, it will take time to work off the additional supply of properties on the market. As such, home prices are likely to remain under moderate pressure over the next two years, which will help to unwind the over-valuation that persists in the marketplace.

Housing Outlook Summary									
Québec									
	Québec			Québec City			Montréal		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	73566	74725	73463	6576	6640	6508	38001	39269	38830
Existing Home Sales (y/y% chg.)	-5.0	1.6	-1.7	-8.5	1.0	-2.0	-5.3	3.3	-1.1
Existing Home Prices (\$)	271121	269820	268968	268140	264282	263182	327976	329597	328528
Existing Home Prices (y/y% chg.)	-0.3	-0.5	-0.3	3.4	-1.4	-0.4	0.2	0.5	-0.3
Sales-to-New Listings Ratio	45.8	42.4	39.8	49.5	43.2	39.6	47.0	42.1	39.0
Affordability (%)	22.2	22.3	23.4	17.2	17.2	18.0	25.3	25.7	27.0
Price-to-Income Ratio	4.8	4.6	4.5	3.7	3.5	3.4	5.4	5.3	5.1
Housing Starts (000's)	36.6	29.0	31.0	4.3	5.5	5.7	14.5	16.0	16.5

F: Forecast by TD Economics as at October 2013
 Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

ONTARIO - BATTLE OF THE MARKETS

- Within Ontario, the markets in Toronto and Hamilton CMAs have been the top performers this year. Supported by continued steady economic and employment growth, sales in both regions have been rebounding smartly from last year's weakness. The tightening in supply-demand conditions has left the Toronto and Hamilton markets in seller's territory for the first time since early 2012.
- In the Toronto market, the tightening in market conditions has been concentrated in the single-detached segment. In contrast, the condo market, has remained balanced.
- Hamilton's market this year appears to be benefitting from its geographical location. As affordability has continued to erode in the Toronto market, some buyers have been attracted to this relatively inexpensive and attractive option.
- In the coming months, we expect to see a moderation in housing activity across the Greater Toronto and Hamilton areas. Some of the recent increase in sales reflects buyers moving purchases forward to beat out the recent increase in longer-term mortgage rates. Further gradual increases in borrowing rates will take some additional steam out of these markets. While we believe that fears of a massive supply glut in Toronto's condo market are overdone, rising completions of units over the next few years will lead to growing excess supply. We assume that investor appetite for condos will stay healthy in part reflecting a strengthening rental market in downtown Toronto.



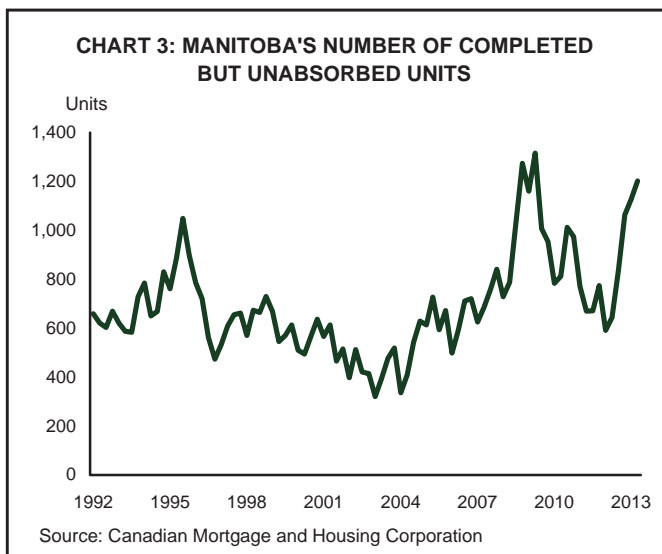
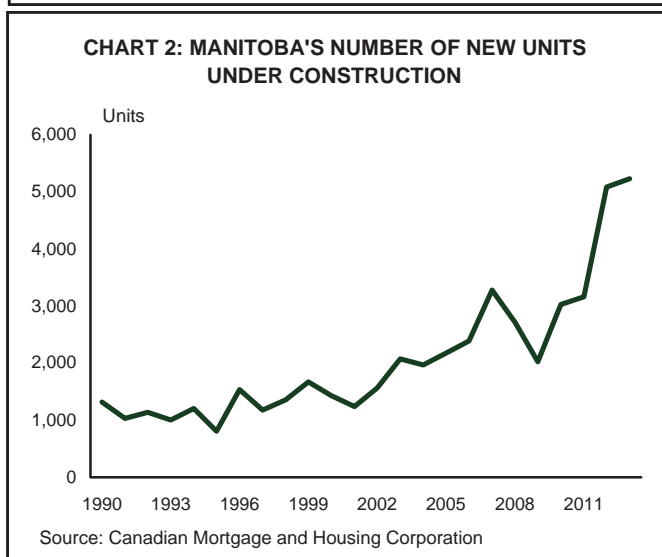
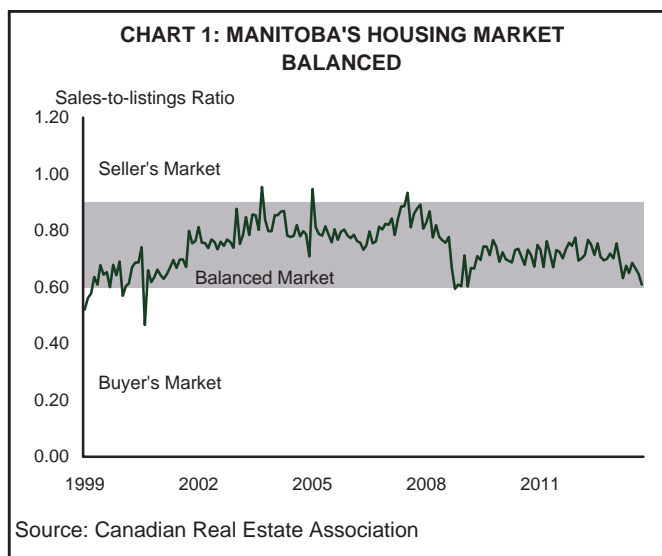
- In contrast, Ottawa's housing market has experienced a second straight year of softer demand in 2013 and flat prices. A weak labour market has weighed on homebuying. In addition, Ottawa is one market where years of overbuilding are coming home to roost. In the second half of 2013 so far, the number of newly built unabsorbed units increased 60% from year ago levels. The supply of resale condos on the market has also doubled relative to levels five years ago. And with housing starts remaining at elevated levels in 2013, bargaining power will likely be kept in the hands of the buyer next year and into 2015.

Housing Outlook Summary												
Ontario												
	Ontario			Toronto			Hamilton			Ottawa		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	201585	209307	204448	91108	93918	91235	13715	14936	14650	14273	15021	14417
Existing Home Sales (y/y% chg.)	2.0	3.8	-2.3	3.3	3.1	-2.9	5.2	8.9	-1.9	-1.5	5.2	-4.0
Existing Home Prices (\$)	400231	409324	409045	521635	538901	535853	383340	397426	398450	355325	352081	350435
Existing Home Prices (y/y% chg.)	5.0	2.3	-0.1	5.4	3.3	-0.6	7.0	3.7	0.3	1.2	-0.9	-0.5
Sales-to-New Listings Ratio	55.5	55.6	52.4	57.8	57.0	52.2	71.6	67.8	64.6	47.9	48.7	45.1
Affordability (%)	26.3	27.3	28.7	31.2	32.6	34.2	22.6	23.7	25.1	19.5	19.6	20.5
Price-to-Income Ratio	5.7	5.6	5.5	6.7	6.7	6.5	4.9	4.9	4.8	4.2	4.0	3.9
Housing Starts (000's)	59.6	57.0	52.0	31.9	27.0	25.0	3.4	2.7	2.9	6.0	5.5	5.1

F: Forecast by TD Economics as at October 2013
Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

MANITOBA - TOWER OF STABILITY

- Existing home sales are on track to hold steady in 2014 for the second straight year. Indeed, as most other provincial housing markets have undergone large swings over the past decade, housing activity in this region has remained a tower of stability.
- Supported by prospects for improved job creation, home sales in both Manitoba and Winnipeg are expected to grind modestly higher during the 2014-15 period.
- This year, home prices are estimated to grow moderately faster than income in the province, but affordability remains decent, especially when compared to the rest of Canada. Winnipeg is one of the most affordable major urban areas in the Prairie Region.
- The sales-to-listings ratio in Manitoba is well within a level consistent with a balanced market. However, it has been trending lower in recent months and is at its lowest level in almost 13 years. Listings have been growing at a faster pace than sales, likely the reflection of some overbuilding that has occurred in the province.
- This year, both housing starts as well as the number of newly completed but unsold homes in Winnipeg have moved at or near record highs. Furthermore, the number of units under construction is more than double the pace experienced over the last twenty years. A rising inventory of new homes for sale is likely to weigh on price growth over 2014 and 2015. Construction is likely to wind down as the housing market deals with its overhang of inventory.

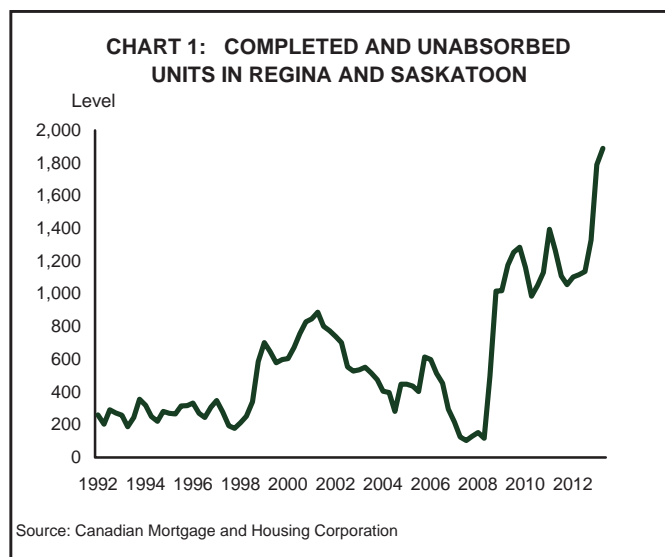


Housing Outlook Summary Manitoba						
	Manitoba			Winnipeg		
	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	13928	14429	14281	12227	12730	12539
Existing Home Sales (y/y% chg.)	-0.5	3.6	-1.0	1.1	4.1	-1.5
Existing Home Prices (\$)	256607	259690	261158	264998	267899	269914
Existing Home Prices (y/y% chg.)	4.7	1.2	0.6	4.3	1.1	0.8
Sales-to-New Listings Ratio	66.3	61.4	57.3	67.9	63.9	60.0
Affordability (%)	18.7	19.2	20.3	17.9	18.3	19.5
Price-to-Income Ratio	4.0	4.0	3.9	3.9	3.8	3.7
Housing Starts (000's)	7.5	6.1	5.9	4.60	3.50	3.10

F: Forecast by TD Economics as at October 2013
Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

SASKATCHEWAN - UP AND COMING, WITH BUMPS ALONG THE WAY

- Following years of excessive growth, Saskatchewan's housing market appears to be stabilizing.
- Saskatchewan is the only Prairie province where existing home sales are on track for a notable drop in 2013. However, the decline is following a record year and resale activity is still at elevated levels.
- After growing at a double-digit pace for over a decade, average resale price gains are cooling to a moderate 3% annual pace in 2013 in both Regina and Saskatoon.
- Construction activity has increased three-fold in Saskatchewan's major markets over the last decade, which has led to an overhang of new properties for sale on the market. This is particularly true in Saskatoon where the number of newly built homes has doubled over the last two years. Home prices continue to advance at a double-digit rate in markets outside of Regina and Saskatoon, where building activity has been more moderate.
- While construction activity has been high relative to history, it is not elevated when the province's rapid population growth is taken into account. Supporting demographics and robust labour markets (Regina has the lowest unemployment rate among major Canadian cities) will likely keep existing home sales near record highs in 2014-15. As such, an excess supply of new homes for sale on the market will likely be absorbed in an orderly



fashion. Price pressures will, however, remain soft as bargaining power stays in the hand of the buyer over the next few years.

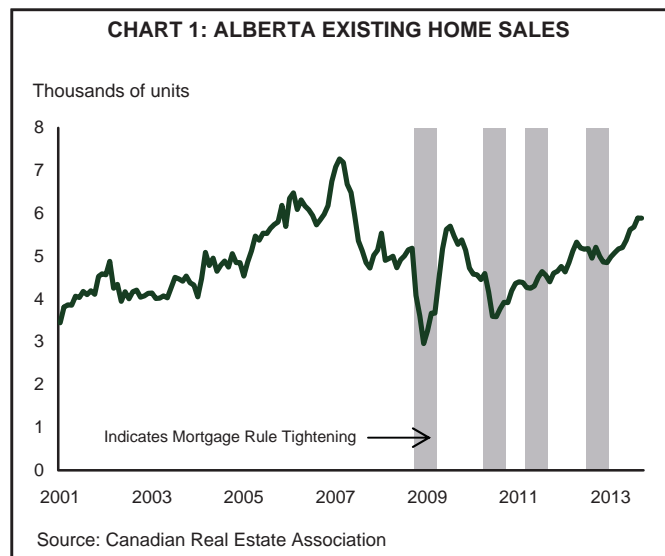
- A headwind that will likely keep housing activity in check is an erosion in affordability. Due to the recent sharp price gains, home affordability in the region has worsened. And on the medium-term horizon, a moderate increase in interest rates is likely to further weaken the economics of purchasing. That said, affordability in Saskatchewan remains decent relative to other large markets in Canada.

Housing Outlook Summary Saskatchewan									
	Saskatchewan			Regina			Saskatoon		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	13467	13494	13322	3686	3707	3618	5453	5231	5038
Existing Home Sales (y/y% chg.)	-3.5	0.2	-1.3	-6.8	0.6	-2.4	-0.2	-4.1	-3.7
Existing Home Prices (\$)	287036	291595	293342	313359	323225	325737	332202	337370	339482
Existing Home Prices (y/y% chg.)	4.7	1.6	0.6	4.1	3.1	0.8	4.9	1.6	0.6
Sales-to-New Listings Ratio	48.9	41.5	37.4	51.2	41.8	36.0	47.9	37.4	32.1
Affordability (%)	18.2	18.7	19.8	19.9	20.7	22.0	21.1	21.6	22.9
Price-to-Income Ratio	3.9	3.9	3.8	4.3	4.3	4.2	4.5	4.5	4.4
Housing Starts (000's)	7.8	6.0	5.2	3.0	2.0	1.7	2.3	1.5	2.5

F: Forecast by TD Economics as at October 2013
Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

ALBERTA - COMEBACK KID

- Alberta's housing markets are among the healthiest in Canada, underpinned by good fundamentals. The sharp decline in existing home prices and sales in the 2007-09 period appeared to erase the significant overvaluation that had been built up in the decade prior. Markets in Calgary and Edmonton were among the least affordable in 2007 and now enjoying better affordability than average.
- With the tightening in the mortgage insurance rules last year having less impact on Alberta's key housing markets, existing home sales are on track for a second consecutive double digit gain in 2013. The market is in a good position to benefit from robust labour markets and strong population growth. Even through the region's worst flooding in history, home sales in Calgary continued to expand at a decent clip.
- Markets have shown signs of tightening up over the past few months, reflecting a lack of supply. Accordingly, price growth has accelerated. In Calgary, price pressures have been broad based, with both the condo and single-family home market moving in unison. In Edmonton, the detached single-family home market has exhibited tighter market conditions and more price pressure than the condo market.
- The number of homes under construction is elevated relative to history which will help balance the market going forward. And while housing activity will likely continue to benefit from a strongly performing economy, prospects for higher interest rates will act to keep demand in check. TD Economics' projects price gains in a more sustainable 3%-4% range over the 2014-15 period.



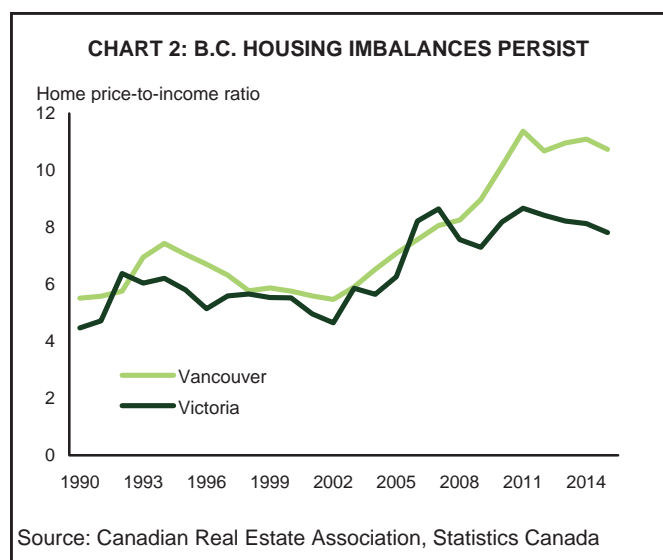
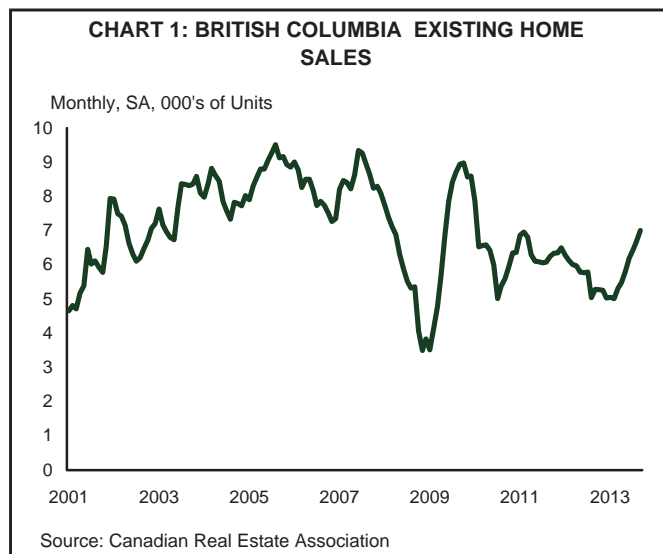
Housing Outlook Summary									
Alberta									
	Alberta			Edmonton			Calgary		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	66401	68366	69142	19737	20559	20595	29847	30024	30333
Existing Home Sales (y/y% chg.)	10.0	3.0	1.1	11.9	4.2	0.2	12.1	0.6	1.0
Existing Home Prices (\$)	381737	394975	402156	345430	356422	361408	437237	452904	461117
Existing Home Prices (y/y% chg.)	5.5	3.5	1.8	3.8	3.2	1.4	6.4	3.6	1.8
Sales-to-New Listings Ratio	64.1	61.7	59.3	64.9	62.1	58.3	69.9	64.1	60.7
Affordability (%)	19.1	20.0	21.4	20.2	21.1	22.5	18.2	19.1	20.5
Price-to-Income Ratio	4.1	4.1	4.1	4.3	4.4	4.3	3.9	3.9	3.9
Housing Starts (000's)	38.0	48.0	37.0	16.92	14.00	15.50	11.2	17.0	13.0

F: Forecast by TD Economics as at October 2013

Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

BRITISH COLUMBIA - RECHARGED

- British Columbia's housing market went through a correction between late 2010 and early 2013. Home sales and prices are still currently 25% and 5% below their 2010 peak, respectively. Housing construction activity is running at a pace that is half of its 2007 pace. Housing weakness was shared equally across Vancouver and Victoria.
- Data since the spring suggest that the recent correction has halted. Sales have staged a moderate rebound, albeit to levels that remain below their 10-year average. Prices have also bounced back modestly. Large foreign investment inflows have been a key supporting factor in these markets, and the decline in home prices over the past few years appears to have rekindled some interest.
- B.C. is expected to enjoy a pickup in economic growth over the next few years, which will provide some underlying support to housing markets. On the flip side, B.C. housing markets still appear to be struggling with imbalances. Home price-to-income ratios in Vancouver and Victoria remain relatively high compared to a decade ago as well as in other markets. And, Vancouver has twice as many newly completed but unabsorbed new homes compared to both Toronto and Montreal. These imbalances are likely to limit the upside potential of the market over the next few years.
- Furthermore, the Vancouver and Victoria housing markets are among the most vulnerable to rising interest rates given the lofty average prices. As such, prospects for a gradual increase in borrowing costs are likely to lead to a moderation in housing activity in 2014-15.



Housing Outlook Summary									
British Columbia									
	British Columbia			Vancouver			Victoria		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Existing Home Sales (Units)	72388	76674	76093	28385	28847	28369	5581	5021	5022
Existing Home Sales (y/y% chg.)	7.0	5.9	-0.8	11.6	1.6	-1.7	2.2	-10.0	0.0
Existing Home Prices (\$)	532620	542609	541185	766006	798625	796229	481934	490864	485700
Existing Home Prices (y/y% chg.)	3.8	1.9	-0.3	5.6	4.3	-0.3	0.0	1.9	-1.1
Sales-to-New Listings Ratio	49.2	49.5	47.2	50.8	47.0	43.3	48.6	40.3	37.8
Affordability (%)	38.8	40.0	42.1	51.0	53.8	56.5	38.3	39.5	41.1
Price-to-Income Ratio	8.3	8.3	8.0	11.0	11.1	10.7	8.2	8.1	7.8
Housing Starts (000's)	25.9	22.0	23.0	18.6	16.0	17.5	1.2	1.1	1.2

F: Forecast by TD Economics as at October 2013
Source: Canadian Real Estate Association, Canadian Mortgage and Housing Corporation, Statistics Canada

SUMMARY TABLES

EXISTING HOME SALES					EXISTING HOME SALES				
units					Annual per cent change				
	2012	2013F	2014F	2015F		2012	2013F	2014F	2015F
CANADA	454,572	463,097	479,084	473,197	CANADA	-1.1	1.9	3.5	-1.2
N. & L.	4,650	4,391	4,374	4,517	N. & L.	3.8	-5.6	-0.4	3.3
St. John's*	--	--	--	--	St. John's*	--	--	--	--
P.E.I.	1,613	1,490	1,486	1,508	P.E.I.	6.0	-7.6	-0.3	1.5
N.S.	10,436	9,425	9,770	9,928	N.S.	1.2	-9.7	3.7	1.6
Halifax	6,237	5,353	5,598	5,742	Halifax	1.9	-14.2	4.6	2.6
N.B.	6,399	6,357	6,461	6,494	N.B.	-3.0	-0.7	1.6	0.5
Saint John	1,609	1,602	1,605	1,615	Saint John	2.3	-0.4	0.1	0.6
Québec	77,426	73,566	74,725	73,463	Québec	0.3	-5.0	1.6	-1.7
Québec City	7,186	6,576	6,640	6,508	Québec City	-0.2	-8.5	1.0	-2.0
Montréal	40,114	38,001	39,269	38,830	Montréal	-0.6	-5.3	3.3	-1.1
Ontario	197,627	201,585	209,307	204,448	Ontario	-2.0	2.0	3.8	-2.3
Ottawa	14,497	14,273	15,021	14,417	Ottawa	-0.4	-1.5	5.2	-4.0
Toronto	88,156	91,108	93,918	91,235	Toronto	-3.9	3.3	3.1	-2.9
Hamilton	13,035	13,715	14,936	14,650	Hamilton	-6.4	5.2	8.9	-1.9
Manitoba	14,005	13,928	14,429	14,281	Manitoba	0.4	-0.5	3.6	-1.0
Winnipeg	12,093	12,227	12,730	12,539	Winnipeg	-1.7	1.1	4.1	-1.5
Sask.	13,952	13,467	13,494	13,322	Sask.	6.3	-3.5	0.2	-1.3
Regina	3,954	3,686	3,707	3,618	Regina	1.4	-6.8	0.6	-2.4
Saskatoon	5,464	5,453	5,231	5,038	Saskatoon	5.4	-0.2	-4.1	-3.7
Alberta	60,369	66,401	68,366	69,142	Alberta	12.3	10.0	3.0	1.1
Calgary	26,634	29,847	30,024	30,333	Calgary	18.6	12.1	0.6	1.0
Edmonton	17,642	19,737	20,559	20,595	Edmonton	4.0	11.9	4.2	0.2
B.C.	67,635	72,388	76,674	76,093	B.C.	-11.8	7.0	5.9	-0.8
Vancouver	25,445	28,385	28,847	28,369	Vancouver	-22.7	11.6	1.6	-1.7
Victoria	5,460	5,581	5,021	5,022	Victoria	-5.4	2.2	-10.0	0.0

F: Forecast by TD Economics as at October 2013

*Insufficient Data

Source: Canadian Real Estate Association

F: Forecast by TD Economics as at October 2013

*Insufficient Data

Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE				
Canadian \$				
	2012	2013F	2014F	2015F
CANADA	361,502	379,986	390,027	390,609
N. & L.	269,212	286,345	288,061	285,761
St. John's*	--	--	--	--
P.E.I.	152,708	157,056	154,914	153,620
N.S.	218,221	217,894	222,911	225,586
Halifax	269,256	276,515	284,850	290,549
N.B.	159,398	161,726	164,311	162,951
Saint John	166,633	172,831	174,248	172,802
Québec	271,993	271,121	269,820	268,968
Québec City	259,309	268,140	264,282	263,182
Montréal	327,452	327,976	329,597	328,528
Ontario	381,299	400,231	409,324	409,045
Ottawa	350,985	355,325	352,081	350,435
Toronto	495,031	521,635	538,901	535,853
Hamilton	358,117	383,340	397,426	398,450
Manitoba	245,203	256,607	259,690	261,158
Winnipeg	253,995	264,998	267,899	269,914
Sask.	274,041	287,036	291,595	293,342
Regina	300,967	313,359	323,225	325,737
Saskatoon	316,598	332,202	337,370	339,482
Alberta	361,970	381,737	394,975	402,156
Calgary	410,799	437,237	452,904	461,117
Edmonton	332,661	345,430	356,422	361,408
B.C.	512,936	532,620	542,609	541,185
Vancouver	725,622	766,006	798,625	796,229
Victoria	481,985	481,934	490,864	485,700

F: Forecast by TD Economics as at October 2013
 *Insufficient Data
 Source: Canadian Real Estate Association

AVERAGE EXISTING HOME PRICE				
Annual per cent change				
	2012	2013F	2014F	2015F
CANADA	0.3	5.1	2.6	0.1
N. & L.	7.6	6.4	0.6	-0.8
St. John's*	--	--	--	--
P.E.I.	3.7	2.8	-1.4	-0.8
N.S.	2.8	-0.1	2.3	1.2
Halifax	3.6	2.7	3.0	2.0
N.B.	0.2	1.5	1.6	-0.8
Saint John	-1.9	3.7	0.8	-0.8
Québec	4.1	-0.3	-0.5	-0.3
Québec City	5.0	3.4	-1.4	-0.4
Montréal	4.1	0.2	0.5	-0.3
Ontario	5.0	5.0	2.3	-0.1
Ottawa	2.3	1.2	-0.9	-0.5
Toronto	6.8	5.4	3.3	-0.6
Hamilton	7.8	7.0	3.7	0.3
Manitoba	4.6	4.7	1.2	0.6
Winnipeg	5.3	4.3	1.1	0.8
Sask.	5.9	4.7	1.6	0.6
Regina	8.9	4.1	3.1	0.8
Saskatoon	5.3	4.9	1.6	0.6
Alberta	2.6	5.5	3.5	1.8
Calgary	2.2	6.4	3.6	1.8
Edmonton	2.6	3.8	3.2	1.4
B.C.	-7.9	3.8	1.9	-0.3
Vancouver	-6.1	5.6	4.3	-0.3
Victoria	-2.9	0.0	1.9	-1.1

F: Forecast by TD Economics as at October 2013
 *Insufficient Data
 Source: Canadian Real Estate Association

HOUSING STARTS					HOUSING STARTS				
Thousands of Units					Per cent change				
	2012	2013F	2014F	2015F		2012	2013F	2014F	2015F
CANADA	214.8	186.1	178.5	165.0	CANADA	10.8	-13.4	-4.1	-7.6
N. & L.	3.97	3.00	2.90	2.8	N. & L.	11.6	-24.4	-3.3	-3.4
St. John's*	2.2	1.6	1.7	1.8	St. John's*	12.0	-28.0	9.7	2.9
P.E.I.	0.94	0.80	0.75	0.6	P.E.I.	-2.8	-14.9	-6.3	-16.0
N.S.	4.5	3.9	3.8	3.7	N.S.	-2.7	-14.1	-2.6	-2.6
Halifax	2.8	2.7	2.5	2.3	Halifax	-6.8	-2.4	-7.0	-8.0
N.B.	3.3	2.9	3.8	3.7	N.B.	1.2	-10.9	31.0	-2.6
Saint John	0.4	0.2	0.3	0.4	Saint John	-1.7	-44.2	51.4	33.3
Québec	47.1	36.6	29.0	31.0	Québec	-2.3	-22.2	-20.8	6.9
Québec City	6.4	4.3	5.5	5.7	Québec City	17.8	-33.6	29.1	3.6
Montréal	20.6	14.5	16.0	16.5	Montréal	-9.4	-29.7	10.6	3.1
Ontario	77.0	59.6	57.0	52.0	Ontario	13.7	-22.6	-4.4	-8.8
Ottawa	6.0	6.0	5.5	5.1	Ottawa	4.0	-1.2	-7.6	-7.3
Toronto	48.1	31.9	27.0	25.0	Toronto	21.0	-33.7	-15.3	-7.4
Hamilton	3.0	3.4	2.7	2.9	Hamilton	20.6	14.1	-20.3	7.4
Manitoba	7.4	7.5	6.1	5.9	Manitoba	24.7	1.4	-18.7	-3.3
Winnipeg	4.1	4.6	3.5	3.1	Winnipeg	22.0	13.1	-23.9	-11.4
Sask.	10.0	7.8	6.0	5.2	Sask.	40.6	-22.2	-23.1	-13.3
Regina	3.1	3.0	2.0	1.7	Regina	82.6	-2.0	-34.0	-15.0
Saskatoon	3.8	2.3	1.5	2.5	Saskatoon	25.4	-39.7	-33.7	66.7
Alberta	33.3	38.0	48.0	37.0	Alberta	30.7	13.9	26.3	-22.9
Calgary	12.8	11.2	17.0	13.0	Calgary	38.2	-13.1	52.4	-23.5
Edmonton	12.8	16.9	14.0	15.5	Edmonton	37.6	31.8	-17.2	10.7
B.C.	27.5	25.9	22.0	23.0	B.C.	4.6	-5.9	-15.1	4.5
Vancouver	19.0	18.6	16.0	17.5	Vancouver	6.5	-2.4	-13.8	9.4
Victoria	1.7	1.2	1.1	1.2	Victoria	3.5	-30.6	-6.8	9.1

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