

Attention Business/News Editors:

Condos to remain an attractive option for home buyers, says TD Economics

- Canada's major condo markets expected to deliver strong performance in 2007/2008
- Hot western market expected to cool somewhat, eastern markets likely to see solid price gains
- Condo affordability still far ahead of detached homes

TORONTO, May 17, 2007 – Canada's major condo markets should continue to deliver strong economic performance in 2007/08, due to strong economic trends including a robust labour market, supportive interest rates and an aging population, according to a special report by TD Economics. Despite the number of new condominiums coming on the market, robust demand appears to be absorbing the additional units, creating a sellers' market in most urban centres.

Entitled "Condos To Remain An Attractive Option for Many Home Buyers," the report follows an Ipsos-Reid survey of potential condo buyers in five cities commissioned by TD Canada Trust in March of this year. The survey found 39% of Canadians would consider buying a new or resale condo, a 4% rise from a similar survey in June 2006.

"The bottom line is that the TD condo survey corresponds well with economic trends," says Craig Alexander, Deputy Chief Economist, TD Economics, and the report author. "Several short- and long-term indicators support the large and growing popularity of the condo lifestyle. The hottest markets, notably Calgary and Vancouver, will see some cooling off from dramatic and unsustainable highs last year, but overall conditions will remain healthy and activity will be high."

A Sellers' Market

From 2001 to 2005, condo starts have posted an annual average increase of more than 16%. Over the past decade, condos have climbed from nearly one-fifth to nearly one-third of all new home construction. Despite this marked growth in supply, the sales-to-new listings ratio on apartments, which are dominated by condos, has been well above the traditional threshold for a sellers' market since 2001.

Strong price gains, especially in western markets, have outpaced growth in personal income and led to a deterioration in condo affordability nationwide. While this decline will eventually dampen demand and lead to slower price growth in future, it is not a major problem for the condo market since condos are, and will remain, considerably more affordable than houses.

Over the next 18 months, the pace of condo starts is expected to decline by close to 6% and resale prices should cool out west while still remaining quite elevated. Calgary will see price growth drop from 26.6% in 2005/06 to 10.5% in 2007/08. Edmonton will slip from 16.6% to 12.5% over the same time frame, and Vancouver from 16.3% to 10.5%.

Central and eastern markets are more balanced and will not experience major changes. Toronto price growth will slip marginally from 4.6% in 2005/06 to 4.2% in 2007/08, Ottawa price gains will rise slightly from 3.6% to 4.5% and Montreal price growth will soften from 6.4% to 3.5%.

“Our survey findings and the special report by TD Economics underscore the continued rise in popularity of condos among Canada’s city dwellers, despite the expectation of softening in some markets,” says Joan Dal Bianco, Vice President, Real Estate Secured Lending. “This is good news for builders, buyers and sellers as sustained growth brings greater choices for homeowners and reduces economic risks from boom and bust cycles.”

Key Supportive Trends

TD Economics found a number of short- and long-term drivers of the condo market:

- Continued job creation will keep national unemployment at a 30-year low and maintain the employment-to-population ratio at a record level.
- Personal income will rise at roughly 4% per annum for the next two years, and consumer confidence should remain robust.
- Employment and income gains will be strongest out west, but Central and Eastern Canada will also experience solid labour market conditions.
- Mortgage borrowing costs will remain stable and low by historical standards.
- Five-year government bond yields, which track closely to five-year fixed mortgage rates, are expected to remain near current levels and rise only modestly in 2008. Thus borrowing costs should remain favourable for real estate.

Other trends

- Given rapid increases in the price of detached dwellings in most cities, condos may be the only option for some homeowners – especially first-time buyers – in selected markets.
- Canada’s aging population, who are also living longer and healthier lives, will prove positive for condos as seniors downsize in favour of properties requiring less maintenance.
- While overall population growth may slow, cities will continue to expand faster than rural communities. In 1901, 37% of Canadians lived in cities; in 2006 it reached 80%. Land scarcity and growing gridlock are contributing to an urban renewal trend that is fuelling the growth of condos in or near urban centres.
- Immigration will play an increasingly important role in population growth. Seven out of ten new arrivals in the past three years have settled in Toronto, Montreal or Vancouver – the cities with the largest condo markets. Their continued preference for these cities will support condo growth in the coming decades.

“Some cooling is expected in Canada’s major condo markets, but conditions should remain healthy and the level of activity will be high,” concludes Craig Alexander.

For further information:

A downloadable copy of “Condos To Remain An Attractive Option for Many Home Buyers” is available at www.td.com/economics

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