TD Bank Financial Group

TD Economics

Resale Housing Outlook

October 7, 2009

HOUSING MARKETS REBOUND SHARPLY, SIDESTEPPING THE WORST

HIGHLIGHTS

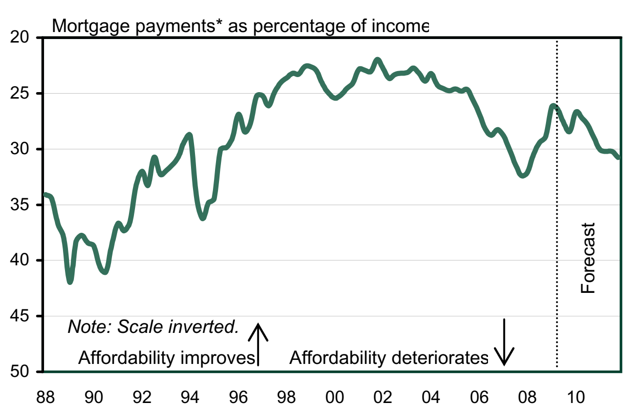
- **After plummeting last fall, sales of existing homes have rebounded sharply, buoyed by better pricing and low financing costs.**
- **Much of the rebound is attributable to the absorption of demand pent up during the fall. By our estimates, however, that source of near-term demand will have dried up by November.**
- **While listings are set to rise, home sales should remain well enough supported in 2009 and 2010 to generate modest price gains.**
- **Looking out further to 2011, eroding affordability will weaken demand. Meanwhile, supply has turned the corner and should increase throughout the forecast horizon. Both factors combined point to an easing in price growth.**

No other Canadian economic indicator has rebounded as sharply as sales of existing homes over the last few months. After plummeting by nearly a third in the second half of last year, the seasonally-adjusted level of sales had climbed back by 61 per cent as of August. Not even the 50 per cent S&P/TSX rally since March can match such a robust recovery. The fact is that existing home sales have more than recovered; they now exceed pre-recession levels and match the lofty sales volumes of 2007. All of this occurred in the midst of a recession gauged to be severe by most any other standard.

What lies behind this strong rebound, and was it all too much, too fast? The importance of this quick turnaround should not be understated. It was less than a year ago when some feared that a U.S.-style housing bust could extend to Canadian shores. We had long argued this was not the most likely scenario, but the magnitude and speed of the rebound was nonetheless surprising. In essence, the real economy and housing markets have been completely out of sync since early this year, with the former contracting and the latter bursting at the seam with activity.

To explain this, it is useful to take a broad but important detour to delve into a bit of macroeconomic history. Canadians may be used to seeing simultaneously booming and busting economies alongside real estate, like two peas in a pod. This was the script followed during the last two recessions. In the realm of macroeconomics, one typically shies away from the statement “this time is different”,for good reason. But the disjoint behaviour of the overall economy measured against that of resale home markets is evidence enough that the song is not the same this time around. Why so? Because this is the first-ever recession in modern Canadian economic history where the central

EXISTING HOME AFFORDABILITY



* For the average price home using a conventional 25-year amortization, 75% LTV ratio, 5-year fixed rate. Source: CREA, Statistics Canada, TD Economics (Forecast as of Sept. 2009).

bank's inflation-targeting regime has an established track record and is fully operational. The last two recessions of the early 1980s and early 1990s occured under different monetary policy frameworks. At the time, central banks had to tighten, rather than ease, monetary conditions in order rein in high inflation. Does anyone miss those good old days of stagflation? We thought not. In any event, with their inflation-fighting credentials now established, central banks in developed economies could ease monetary policy in the most aggressive manner ever to counter the threat of deflation and depression. Ergo, interest rates did not spike prior to this recession, contrary to previous recessions. To the contrary, and also because the U.S. recession started a full year earlier than in Canada, 5-year Government of Canada bond yields were a full 150 basis points (bps) lower at the onset of the 2008 recession than a year earlier. Simultaneously, the Bank of Canada's overnight rate had been slashed by 225 bps. This is the luxury afforded only to central banks which have managed to solidly anchor inflation expectations. The current episode is, therefore, fundamentally different from this perspective, most especially for housing markets, as they are highly sensitive to effective borrowing costs.

The sharp swing in sales is also largely reflective of a dramatic improvement in consumer confidence from historical lows. A reasonable amount of confidence in economic prospects is certainly necessary for the normal course of economic activity, particularly for big-ticket items – none bigger than housing. For many potential homebuyers, it certainly seems as though the aura of uncertainty that existed at the time was the only thing holding them back from stepping into homeownership or moving up the property ladder, rather than a specific deterioration of their own circumstances. These households were facing significantly better prices and lower rates than prior to the recession, and were ready to pounce once the dust settled.

This places the rally in existing homes sales, and the ensuing firming up of prices to the point of creating seller conditions in many local markets in context. Much of this rebound represents the release of pent-up demand from the brief, yet dramatic, crisis of confidence. Observers will note that in the 12 months prior to the onset of the recession, sales were already on a cyclical downtrend, roughly 20 per cent lower than the record levels of 2007. But just how much pent-up demand built up and how much more is there left to absorb? Put another way, how much longer can the current sales rally last?

MARKET FOR EXISTING HOMES - CANADA

DEMAND-SIDE FACTORS

	2009	2010	2011
Mortgage rates	↑↑	↑	↓↓
Income	↓	↔	↑
Employment	↓	↔	↑
Immigration	↑	↑	↑
Home prices	↑	↔	↓
New home market	↑	↑	↓
NET	↑	↑	↓

Net influence on aggregate purchases of existing homes:
Favourable (↑), Unfavourable (↓), Neutral (↔).

SUPPLY-SIDE FACTORS

	2009	2010	2011
Home prices	↓↓	↑	↔
Income	↓	↔	↑
Labour mobility	↑	↔	↑
Personal insolvencies	↑	↑	↓
NET	↓	↑	↑

Net influence on aggregate new listings of existing homes:
Favourable (↑), Unfavourable (↓), Neutral (↔).

Using two alternative methods, we estimate that between 45,000 and 53,000 sales that would normally have occurred in Q4-2008 did not, because of the fear and uncertainty created by the financial market turmoil. After the dust settled and it became clearer that the economy was not tilting into deflation and depression, potential buyers had another look. What they were looking at in most markets was an incredible window of opportunity: an environment in which price concessions had been made and where mortgages rates were at rock bottom low levels. And while prices are trending up again, this window of opportunity remains open to many Canadian households, even first-time buyers. In other words, the affordability picture improved dramatically. Whereas servicing a 75 per cent loan-to-value contract for the average-priced resale home, amortized over 25 years, required over 32 per cent of the average earner's income in early 2008, it only required 26 per cent a year later. All the ingredients had combined to improve affordability markedly: lower prices, lower rates, sustained income.

While an aggressive easing of monetary policy was meant to cushion the Canadian economy from the massive negative external shocks that are the U.S. credit crisis and recession, this proved to be more of a trampoline for resale housing markets. By our estimates, as of August, 50 to 60 per cent of this pent-up demand had been absorbed. As for the rest, assuming sales continue near their current pace over the next few months, that sponge of pent-up demand will have completely dried up by November at the latest – and earlier if a significant chunk of households turn more pessimistic again.

After we strip away the near-term boost to sales provided by the release of this previously pent-up demand, what is left? Can any of the recent strength in sales be carried forward into next year? First, we do not believe the current buoyancy should be extrapolated much further into the future. Nonetheless, we are also of the view that the demand-side of the market will remain well enough supported to generate modest gains in annual sales and real prices in both 2009 and 2010, after the slippage recorded in 2008. Borrowing rates, and more general measures of affordability, remain the single most important driver of home sales. On this front, favourable interest rates are still expected to prevail until late next year, even if the lowest of low rates may be behind us.

While rising unemployment rates and weaker income growth continue to act as headwinds in the near-term, the signals are also becoming clearer that the recession is drawing to a close. While the real economy weighs on home markets this year, 2010 will mark a transition. Its impact on home markets will be largely neutral - slightly negative initially and turning more positive in the second half. Mortgage carrying costs (as a percentage of income) should stay within a 27% to 29% band in 2010. This is not as favourable as this year, but good enough to support modest growth in sales and prices.

Then, the picture reverses in 2011 with a real economy and housing markets out of sync again, but on the flipside. By then, a more favourable real economy will be unable to fully offset the drag on sales created by the ongoing erosion in home affordability. Mortgage carrying costs are expected to increase to 31% by the end of 2011. Using a blended (prime, 3-year, 5-year) interest rate, we estimate that the expected 230 bps increase in borrowing rates between late 2010 and the end of 2011 will lead to nearly 10% fewer sales (annual basis) once positive offsetting factors (e.g. income growth) are taken into account. Meanwhile, new and active listings are expected to increase gradually throughout the forecast horizon. How does this then all translate in terms of home price performance?

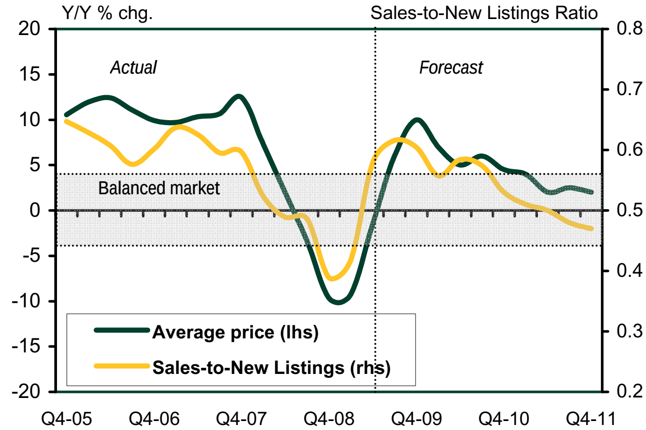
After a slight downward adjustment of 0.7% last year, the average existing home price will manage to eke out a modest 2.1% gain this year. While this would normally imply no gain in real (inflation-adjusted) terms, the good news is that CPI inflation is expected to average near zero, so this gain will not be eroded by inflation in 2009. The annual average price should climb up to $310,000 from $304,000 last year.

MARKET FOR EXISTING HOMES - CANADA

		2008	2009e	2010f	2011f
Sales	'000 units	434.5	445.0	455.0	415.0
	% chg.	-17.1	2.4	2.2	-8.8
Average price	'000 C$	303.6	310.0	325.5	332.0
	% chg.	-0.7	2.1	5.0	2.0

Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET BALANCE AND PRICE



Source: CREA. Forecast by TD Economics, Sept. 2009

As the early part of next year receives a good hand-off from the second half of this year, home appreciation is expected to come in at a decent 5.0% (annual basis) in 2010,bringing the average price slightly above the $325,000 mark. We expect CPI inflation to average a muted 1.1% during the same year, implying a near 4% real home price gain.

As the sales momentum eventually fizzles and more supply gradually continues to come onto the market, the pace of home appreciation should ease to roughly that of CPI inflation at 2.0% in 2011, therefore recording no notable gain in real terms.

The accompanying tables and charts provide short-hand summaries of how we expect demand-side and supply side factors to play out at the national level, along with sales and price outcomes. For details on how we expect specific major metropolitan markets to perform, turn to subsequent pages.

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VANCOUVER – TOO MUCH, TOO FAST

Existing homes in the Greater Vancouver area lost a whopping third of their value between October 2008 ($658,000) and April 2009 ($436,000). To put this in historical context, note that prices doubled between 2003 and 2008. So while quite dramatic, the price correction still left prices nearly 40% higher than in 2003. As a result, prices had simply fallen back in line with the historical personal disposable income trend, marking a swift improvement in home affordability compared to when peak prices prevailed.

The adjustment proved to be fleeting, however. Home prices have since then staged a remarkable comeback to average $608,000 as of August, down only 8% from their peak. This retracement of a needed adjustment is most likely too much, too fast. Current market conditions certainly validate that the environment has quickly turned from buyer-friendly to seller-friendly, but we feel this is temporary. In the near-term, it looks unlikely that prices, which respond to market tightness and slack with a few months' lag, will take a sustained dip. But the current sales rally will probably wane in the months ahead, and more listings have started to come on tap – a trend we expect to continue. By our estimate, the pent-up demand (roughly 4,000 foregone sales) that built up in the fall had already been absorbed as of June. Sales in August were more than triple their low of January and were the second highest ever recorded (the seasonally-adjusted data goes back to 1988).

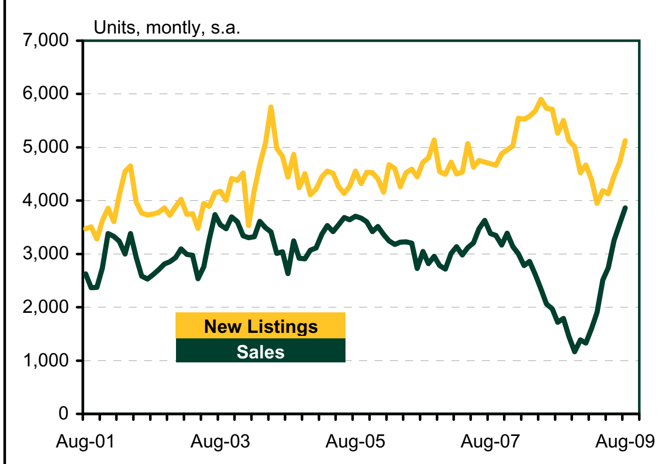
As a result, the current momentum will be enough to restrain the annual price drop to around 3% this year. While monthly prices will continue to be choppy heading into next year, the base effect should provide an annual price gain of 2.6% next year. Then we expect prices to slip somewhat in 2011 (-1.7%) as supply increases and demand weakens in delayed response to deteriorating affordability. As prices have almost entirely recovered and incomes are not yet growing substantially, the currently improved affordability (when compared to a year ago) rests almost solely on low interest rates, which will start to reverse course in late 2010. In turn, this will depress sales. In such a volatile market as Vancouver has proven to be, one cannot rule another abrupt adjustment, especially if the current sales rally continues unabated. We forecast that demand will cool off and supply will provide the other relief valve before interest rates rise significantly. True to form, however, the Greater Vancouver market will definitely be one to continue to watch closely.

MARKET FOR EXISTING HOMES - VANCOUVER

		2008	2009e	2010f	2011f
Sales	'000 units	25.1	30.0	32.0	27.0
	% chg.	-35.5	19.3	6.7	-15.6
Average price	'000 C$	593.8	575.4	590.3	580.3
	% chg.	4.0	-3.1	2.6	-1.7

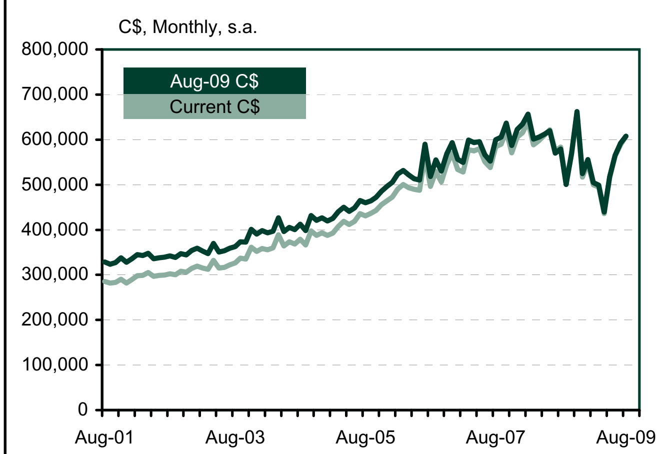
Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET - VANCOUVER



Source: Canadian Real Estate Association.

AVERAGE HOME PRICE - VANCOUVER



Source: Canadian Real Estate Association.

CALGARY – SEARCHING FOR SOLID GROUND

Calgary home prices surged during the height of the local boom from 2005 to 2007, from an average around $250,000 to above $400,000 in just two years. Then, as commodity prices tumbled in response to the global recession, the local economy had to re-adjust from head to toe. The Calgary area has lost 23,000 jobs (3.2%) since the onset of the recession, making it one of the hardest-hit large urban centres in the nation. Inward migration from other provinces, which had been an important source of new and resale housing demand for the region, slowed considerably. Consequently, local home sales, peaked in early 2007 above 3,000 units per month, and were earliest in the nation to mark a downtrend, dropping by a third to 2,000 units by the time the recession officially hit the nation late last year. Meanwhile, with listings on an uptrend, prices had initially flattened out before starting to slide. By the time the recession hit in the fourth quarter of last year, the average price was 13% lower than peak and seemed to be stabilizing. But the double-whammy of tumbling commodity prices now coupled with the world financial crisis that hit last fall pushed sales down to a low near 1,000 units early this year. In line with much weakened demand, prices started on a second leg down. In tandem, however, supply was also shrinking, an offsetting factor that help put a floor under prices, while demand was finding its legs. In all, as of August, the average price had fallen 18% from its peak. To place this in historical perspective, prices doubled from 2003 to 2007.

In synchronicity with the rest of the country as the mood brightened, sales have since rebounded sharply toward 2,500 units or so. It took a bit longer for the supply-side to thaw, but more listings have started to come online. As the news and expectation of firmer demand and prices takes hold, we expect to see a continuation of the recent uptrend in listings, which will mute price gains.

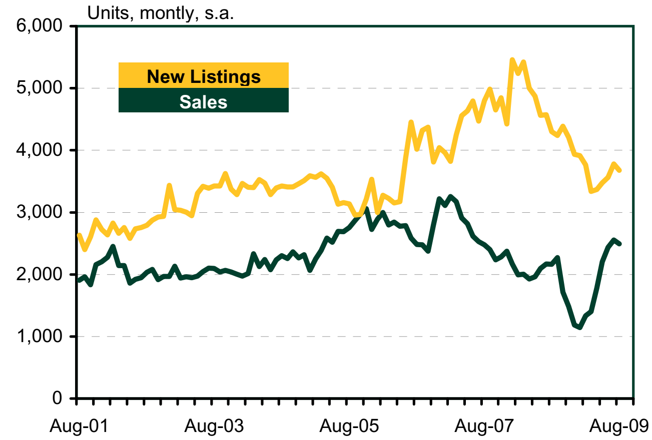
Nonetheless, this year's tightening in market conditions will partly carry over into 2010 prices, and should be enough to halt the two-year spell of price declines on an annual basis. After sliding by 2.1% and 5.0% respectively in 2008 (actual) and 2009 (by our estimate), the firming up of sales and slow response in supply should generate a modest 2.6% price gain next year. Looking out further to 2011,we expect larger supply and weaker demand to be reflected in an easing of price gains. The local economy will no doubt have regained some of its lost ground and get support from higher commodity prices, employment and incomes, but we doubt that will be enough to fully offset the negative impact of eroding affordability. As such, we expect prices to marginally increase in nominal terms (0.5%) in 2011, a modest setback in real (inflation-adjusted) terms (-1.5%).

MARKET FOR EXISTING HOMES - CALGARY

		2008	2009e	2010f	2011f
Sales	'000 units	23.1	24.0	25.8	22.5
	% chg.	-28.1	3.7	7.3	-12.6
Average price	'000 C$	405.3	385.0	395.0	397.0
	% chg.	-2.1	-5.0	2.6	0.5

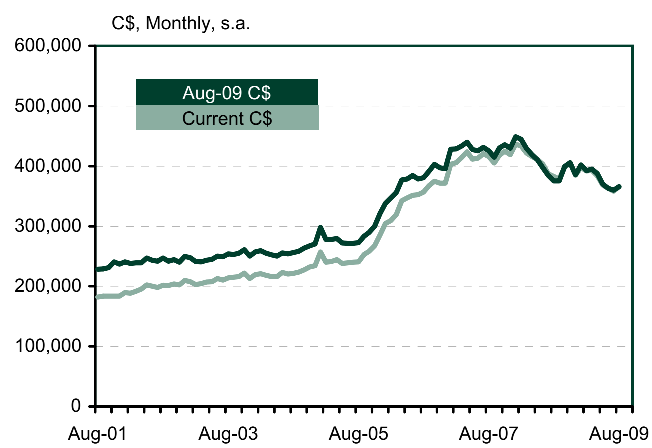
Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET - CALGARY



Source: Canadian Real Estate Association.

AVERAGE HOME PRICE - CALGARY



Source: Canadian Real Estate Association.

EDMONTON – WELL ADJUSTED

Following trends in Calgary by about six months, home prices in Edmonton took off in 2005-07, jumping from an average $200,000 to $350,000 in just two years. The overheated local economy has obviously taken a breather, as oil sands activity slowed, but it has nonetheless weathered the global economic storm better than generally thought. While the unemployment rate has more than doubled since last fall, it stood at an incredibly low and unsustainable 3.4% at the onset of the recession. Furthermore, the near 4 percentage points surge in the unemployment rate to 7.3% (as of August) has largely been due to unabated growth in the labour force (+3.0%) rather than a large drop in employment (-1.0%).

This is not to say that the local economic backdrop is positive for home sales and prices at the moment, but that it has compared favourably to Calgary and other parts of the province. The two cities share the fact that, after see-sawing madly over the last two years, home sales have settled down in recent months around the more sustainable levels observed from 2001 to 2005. Another factor helping to support the relative outperformance in prices is that new listings have not yet started to trend upwards, leading to slightly tighter market conditions. One way to measure this is by looking at the sales-to-new listings ratio, whereby a lower figure indicates more slack in the market. Over the last 3 months of data (Jun-Aug), this ratio has averaged 0.63 in Canada, 0.68 in Calgary, and 0.71 in Edmonton. While at the height of the boom such ratios could touch 0.90 and higher, ratios of 0.60 and higher are generally supportive of real (inflation-adjusted) price gains.

Largely reflecting the legacy of last year's buyer-friendly market balance, 2009 will mark a second annual decline (-3.5%) in prices.

Nonetheless, after falling 10% from their peak, home values are slowly on the mend, and back in line with a more sustainable long-term uptrend. On an annual basis, price growth will resume in 2010 at the modest pace of 2.8% in 2010, netting roughly a 1.5% real (inflation-adjusted) gain.

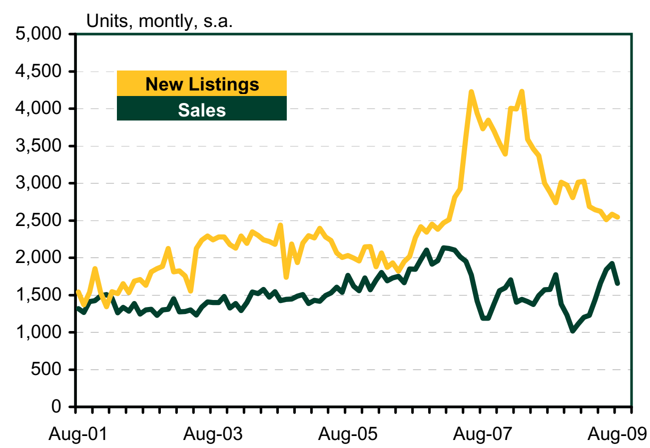
As interest rates begin to reverse to naturally higher levels and the delayed impact of higher prices boosts supply while dampening demand, the Edmonton market should slacken in 2011. By that time, however, a more favourable economic backdrop should ensure against a further significant and sustained price correction. All said, we expect the tug of war between worsening affordability conditions and a better economy to translate into a muted 1.5% nominal price growth, essentially nil in real terms.

MARKET FOR EXISTING HOMES - EDMONTON

		2008	2009e	2010f	2011f
Sales	'000 units	17.4	19.0	20.0	18.5
	% chg.	-15.0	9.4	5.3	-7.5
Average price	'000 C$	332.9	321.2	330.2	335.1
	% chg.	-1.7	-3.5	2.8	1.5

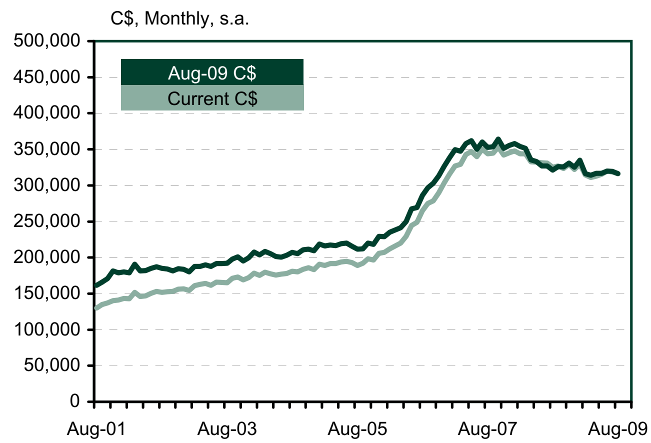
Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET - EDMONTON



Source: Canadian Real Estate Association.

AVERAGE HOME PRICE - EDMONTON



Source: Canadian Real Estate Association.

SASKATOON – CATCHING ITS BREATH

As the province of Saskatchewan took off in 2007 to overtake Alberta as Canada's fastest growing economy, so did home prices in Saskatoon. After a nearly uninterrupted two decade long decline, population growth had resumed, helping to boost home demand and prices while the resale market supply could not adjust as quickly to this inflow.

An ensuing new home construction boom provided some partial relief on the supply side, but nowhere nearly enough to stand in the way of rampant price growth that saw prices double from an average $150,000 to an average $300,000 over the course of 2007-2008.

It was only late in 2007 that existing home supply started to increase significantly, accompanied month for month by an easing in sales, with the result that prices naturally flat-lined a few months later. Nowhere in Canada had the market balance shift from extremely tight (seller) conditions to incredibly slack (buyer) conditions been so swift. A proxy measure for the demand/supply balance, the seasonally-adjusted sales-to-new listings ratio, plummeted from an elevated 0.90 in January 2008 to a very low of 0.37 just four months later.

But as elsewhere in the country, the local market tightened right back up again in a hurry since the beginning of this year, and Saskatoon's 3-month average sales-to-new listings ration registered 0.70 as of August.

Throughout this much higher-than-normal housing market volatility, the seasonally-adjusted price level has nonetheless stayed more within a range than shown any strong trend either up or down, fluctuating around $275,000 over the last 6 months.

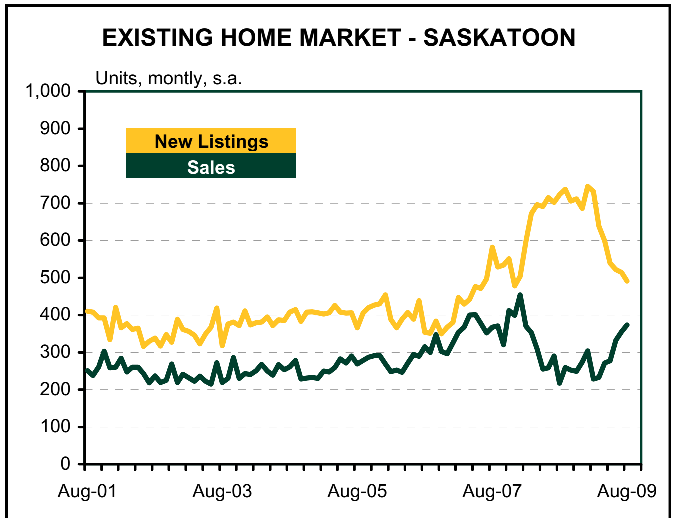
As new listings are not as of yet showing signs of a trend increase and sales are already back to 2007 levels, current market conditions should carry prices upwards at a decent pace until the end of the year at least. While this will not likely translate into an annual price gain for 2009 given the retreat recorded earlier in the year, it will mute what would otherwise have been a more significant pullback.

After three consecutive years of strong double-digit percentage price gains, Saskatoon home prices will slide by 2.7% in 2009. We expect this to be followed by a couple of years of modest annual average home price growth, namely 2.0% in 2010 and 1.1% in 2011, as the province and this local housing market resume a more sustainable pace.

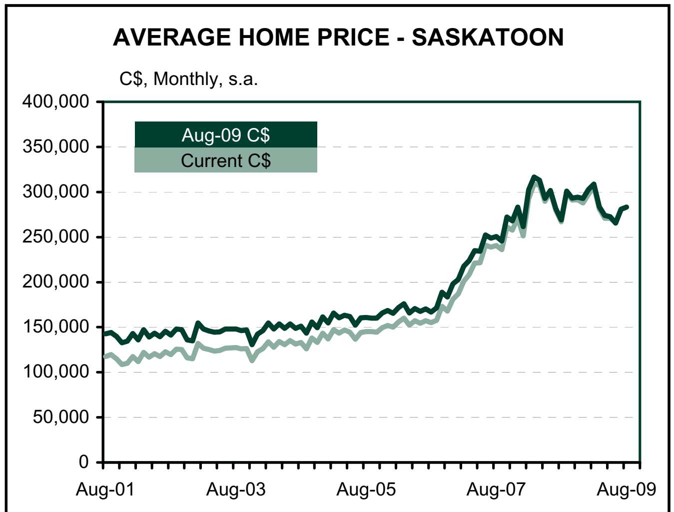
MARKET FOR EXISTING HOMES - SASKATOON

		2008	2009e	2010f	2011f
Sales	'000 units	3.54	3.50	3.60	3.20
	% chg.	-20.4	-1.1	2.9	-11.1
Average price	'000 C$	287.8	280.0	285.6	288.8
	% chg.	23.7	-2.7	2.0	1.1

Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009



Source: Canadian Real Estate Association.



Source: Canadian Real Estate Association.

WINNIPEG – COUNTING ITS BLESSINGS

While not reaching the heights of home price growth seen in Calgary, Edmonton, or Saskatoon, the Winnipeg home market has been a steady fast pace runner over the last decade.

From 2003 to 2008, resale home price growth ranged within a narrow double-digit range of 11% to 13%, with the end result that prices nearly doubled during this time frame. But the path on the way to double home values was much smoother compared to western counterparts. Prices also started from a lower point than in other markets, and of the markets covered in this outlook, Winnipeg remains the most affordable.

The positive flipside of not having seen a surge in home prices during 2005-07 when compared to other markets west of Ontario is that this market was faced will less downside risk.

As other western and prairie markets retreated, Winnipeg was able to hold its ground. Sales have not fluctuated dramatically and remain in a comfortable 900 to 1,000 units per month. Meanwhile, after a temporary increase last year, new listings have trended down. Both sides of the market have therefore combined to keep the market balance the tightest of all markets covered here. The 3-month average sales-to-new listings ratio stood at an elevated 0.76 in August.

Like everywhere else, the negative headwind of a weak real economy will continue to dampen sales and prices, but Manitoba is expected to record only a modest real GDP contraction this year (-0.8%) compared to the rest of the country (-2.4% for Canada as a whole) and its employment landscape has weathered the economic storm. Winnipeg employment has even posted a modest 3,500 (or 0.9%) net job creation since the onset of the recession.

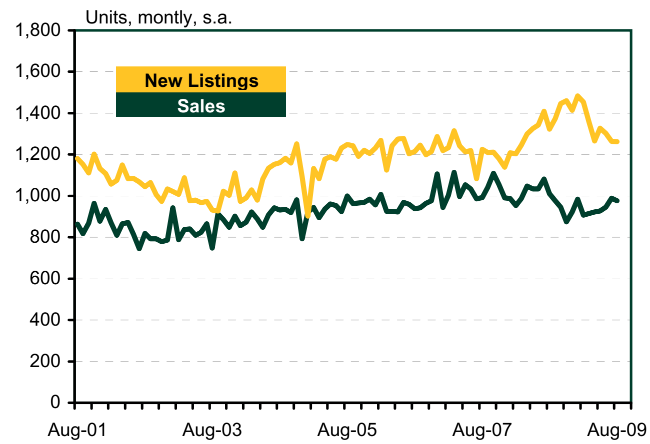
This combination of tight market balance and a relatively stronger economic backdrop place Winnipeg in a position to outperform most other markets in terms of resale home price performance, and most certainly its prairie and western peers. The average resale home price is expected to ease off its double-digit pace to record a decent 4.0% gain this year, a slightly higher 6.0% next year, and a modest gain of 1.8% in 2011, as the local market slackens in tandem with higher interest rates.

MARKET FOR EXISTING HOMES - WINNIPEG

		2008	2009e	2010f	2011f
Sales	'000 units	11.85	11.20	11.50	10.50
	% chg.	-3.8	-5.5	2.7	-8.7
Average price	'000 C$	196.9	205.0	217.3	221.2
	% chg.	13.1	4.1	6.0	1.8

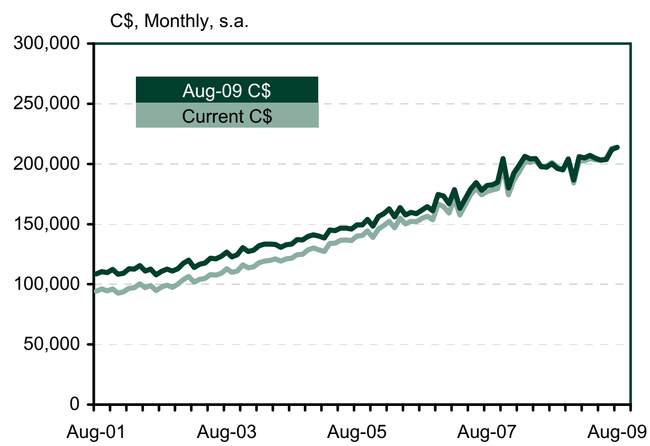
Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET - WINNIPEG



Source: Canadian Real Estate Association.

AVERAGE HOME PRICE - WINNIPEG



Source: Canadian Real Estate Association.

TORONTO – RUNNING AGAINST THE GRAIN

In the face of rising unemployment and a contracting economy, Toronto's housing market has bounced back stronger and faster than most observers anticipated. While some housing markets, Toronto included, may be getting ahead of themselves in the near-term, the sales collapse of last year was also disproportionate in light of the overall performance of the GTA economy. Sales had fallen by more than a third (-36%) from September 2009 to January 2009. Certainly, employment in the region has taken a hit – down 2.0% since the onset of the recession – but but this is out of sync and pales in comparison to the massive job loss tally of nearly 9% recorded in the early 1990s recession.

Once the financial storm clouds of last fall had dissipated, homebuyers came back in droves. As a result, sales in August were nearly double their low of January and match earlier record levels set in 2007.

The average price having fallen 13% from peak (Dec.07) to trough (Oct.08) and borrowing costs having declined definitely helped attract potential buyers that might have shied away earlier and light a spark under sales by broadening the pool of households willing and able to enter into homeownership.

However, taking a step back to look at the longer-term track record of homes prices helps place the current cycle in perspective. Home prices climbed quite steadily over the last decade, but Torontonians need no reminder that this followed this infamous 1990s, a decade where Toronto home prices went nowhere. It took a good eleven years for the average home price to double from $205,000 in 1997 to a peak $410,000 in 2007 – the equivalent in growth of roughly 7% per annum. This translates into real (net of inflation) appreciation of 5%, which is good but nothing alarming to write home about either.

It is doubtful, in other words, that 'bubble' conditions exist in the GTA. While the rebound has left prices only 2% lower than peak, we doubt the current market tightness will continue much longer. The resurgence of local bidding wars is no doubt evidence of some market tightness, but they arose in the context of earlier price concessions, some eager pent-up demand, and interest rates trending lower. Looking forward, new listings are expected to continue their uptrend and the erosion in affordability will cool sales.

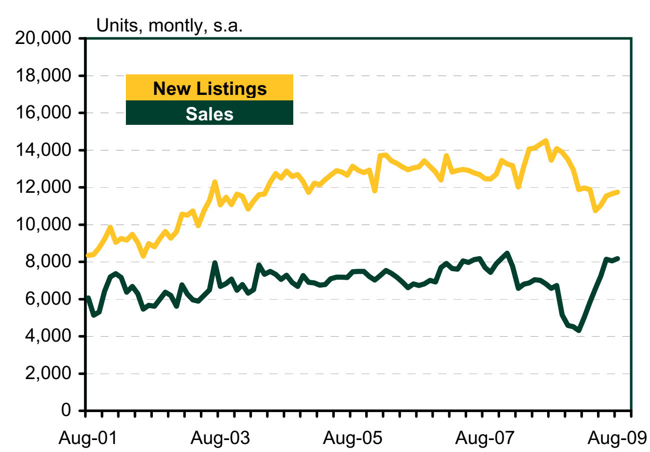
It is nonetheless remarkable that the Toronto area average resale home price now looks set to climb by 1% to 2% this year when all prior indications were that they would drop substantially. The handoff from late this year should translate into annual price growth of as much as 5% to 6% in 2010. We then expect sales activity to moderate significantly in 2011, with consequent price growth (1.0%) struggling to keep pace with inflation.

MARKET FOR EXISTING HOMES - TORONTO

		2008	2009e	2010f	2011f
Sales	'000 units	76.4	78.0	80.0	75.0
	% chg.	-19.7	2.1	2.6	-6.3
Average price	'000 C$	379.9	385.6	406.9	410.9
	% chg.	0.8	1.5	5.5	1.0

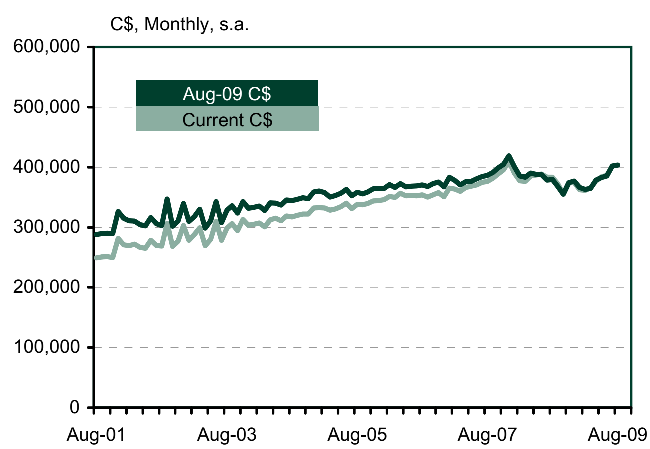
Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET - TORONTO



Source: Canadian Real Estate Association.

AVERAGE HOME PRICE - TORONTO



Source: Canadian Real Estate Association.

OTTAWA – STEADY IN THE NATION'S CAPITAL

The Ottawa economy has not been as sheltered from the global economic storm as one might think. Employment is down 1.9% since the onset of the recession, which is on par with the Toronto CMA. Nonetheless, employment in the nation's capital seems to have turned the corner and has been able to net 11,000 (or 2.3%) new jobs since hitting an apparent low in May of this year. Furthermore, the local unemployment rate has remained low at 5-6%. While it may climb in the months ahead and potentially reach 7%, there are no indications it would surge up to the 9% level seen in previous recessions or currently prevailing in the province as a whole.

As a result, the economic backdrop has not posed much of a drag on the local housing market, which has been largely unscathed by the current recession. The Ottawa housing market also entered the economic downturn on a well-balanced footing, with a goldilocks sales-to-new listings ratio hovering in the 0.55 to 0.60 range. Such a range is generally indicative of a market that is neither strongly tilted in favour of buyers or sellers, and tends to support modest and sustainable real (inflation-adjusted) home price growth.

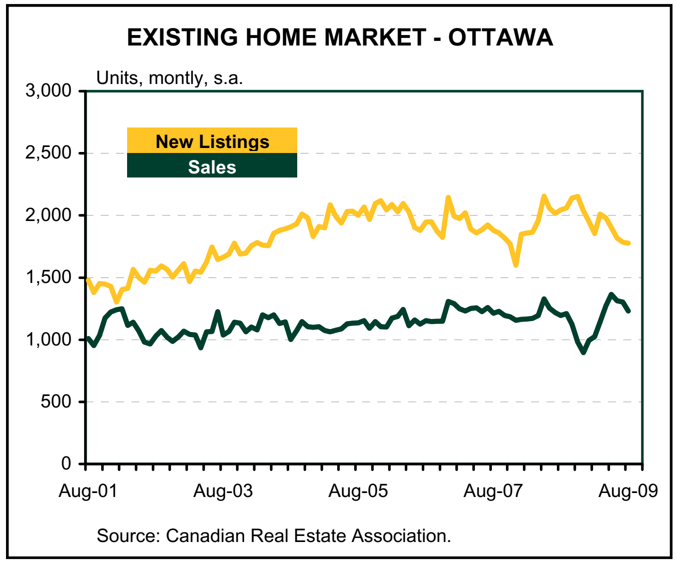
Home sales did give way momentarily in the fall like in most every other market, but the decline in sales in percentage terms was only a third of that registered in Toronto and Canada as a whole. Also in tandem with the rest of the country, sales have since regained their footing and are largely on par with levels observed in previous years. A concurrent decline in new listings has tightened the current market balance slightly in favour of sellers, seeding the sows of slightly stronger price growth in the near future.

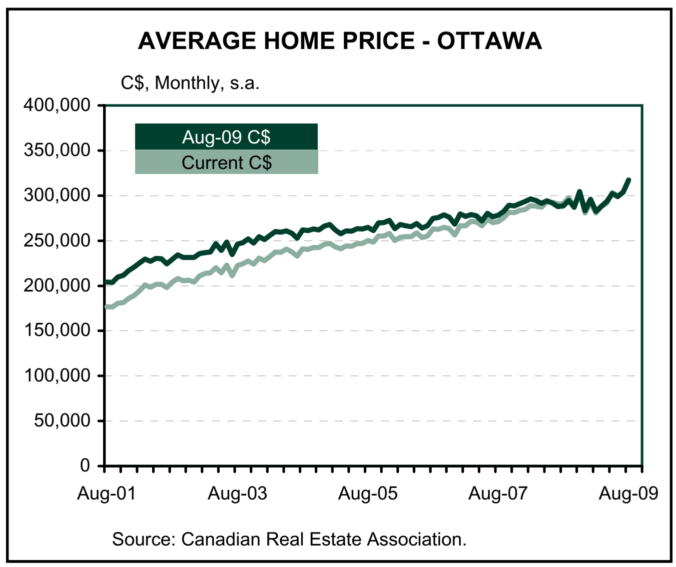
The average home price in Ottawa looks set to record a 4.0% gain in 2009, picking up to 4.7% in 2010 before easing to 3.2% in 2011. Local market prices are therefore expected to outperform the national market both this year and in 2011, and perform largely on par with the national market in 2010. A steadily growing economy and balanced, affordable housing market should continue to mark a measured pace of home appreciation over the next two years, much as it has over the last decade.

MARKET FOR EXISTING HOMES - OTTAWA

		2008	2009e	2010f	2011f
Sales	'000 units	13.9	14.0	14.5	13.5
	% chg.	-5.6	0.7	3.6	-6.9
Average price	'000 C$	290.5	302.1	316.3	326.4
	% chg.	6.4	4.0	4.7	3.2

Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009





MONTREAL – KEEPS ON TICKING

Canada's largest east coast housing market has weathered the economic storm with aplomb. The local economy has certainly taken its fair share of knocks, and some of them with a lag compared to the rest of the country and Ontario. This suggests that there could still be difficult times ahead for the Montreal area labour market. On the flipside, it will have helped the local economy sidestep the worst part of the recession early this year.

Moreover, there are encouraging signs that economic growth resumed in the third quarter and that the global recession is drawing to an end. The local economy has fared much better in the current recession than in those of the early 1980s and early 1990s. The job loss tally since October 2008 totals 20,400 jobs, or 1.1% of intial employment, and the unemployment rate has gone from 7.4% in October 2008 to 9.6% in August 2009. For comparison, the early 1990s recession dragged employment down for four years, resulting in over 100,000 jobs lost (nearly 7% of employment) and an unemployment rate that peaked at over 14%.

Adding to the stability was the fact that the local housing market had not gone through serious bouts of sustained overheating in recent years, as many other large urban centres had. This meant there was little risk of an abrupt correction in prices above and beyond what the real economy would bring, even as the average price growth cooled from a brisk 12.2% in 2008 to an estimated 3.5% in 2009. Over the long-term, average and median home prices are on pace to double by 2012, from where they stood in 2002.

Sales did see a decline earlier this year, but it was not particularly pronounced compared to other cities and lasted only two quarters, and prices did not drop. The recent momentum in sales and good affordability throughout the forecast horizon will help to keep prices on their steady upward climb. After two consecutive years of decline, sales are expected to increase by over 5% in 2010, before easing commensurably with national home sales in 2011.

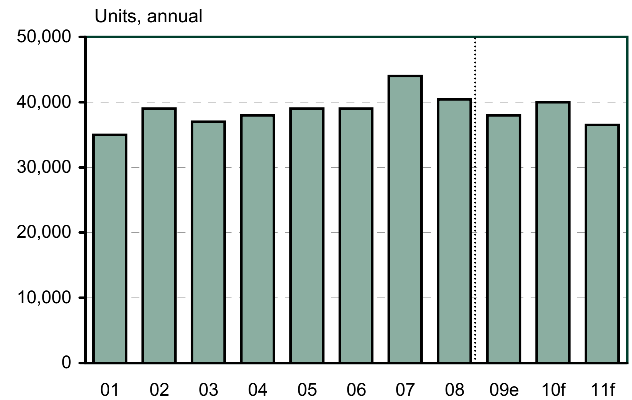
All said, our forecast calls for a price gain of 4.1% in 2010 followed by 4.6% in 2011, which would bring the average price slightly above the $290,000 mark.

MARKET FOR EXISTING HOMES - MONTREAL

		2008	2009e	2010f	2011f
Sales	'000 units	40.4	38.0	40.0	36.5
	% chg.	-8.1	-6.0	5.3	-8.8
Average price	'000 C$	258.0	267.1	278.0	290.8
	% chg.	12.2	3.5	4.1	4.6

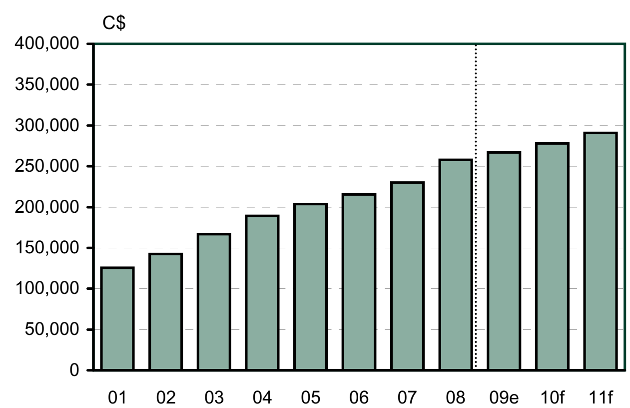
Source: FCIQ; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME SALES - MONTREAL



Source: Fédération des Chambres Immobilières du Québec (FCIQ).
e: estimate, f: Forecast by TD Economics, Sept. 2009.

AVERAGE HOME PRICE - MONTREAL



Source: Fédération des Chambres Immobilières du Québec (FCIQ).
e: estimate, f: Forecast by TD Economics, Sept. 2009.

HALIFAX – SAFE HARBOUR

The Halifax economy shows few signs of strain from the current recession. Overall employment since October 2008 has actually increased by nearly 7,000, an impressive 3.3% climb. While this is unlikely to be sustained and there may yet be some hardship ahead, the unemployment rate remains low, having increased by a modest 0.8 percentage points to 6.4% from a year ago. Economic hardship has centered more on manufacturing outside the provincial capital, and the local diversity of an economy increasingly geared to service industries has helped weather the storm.

Like many of its eastern counterparts, the Halifax-Dartmouth housing market has not been rocked too wildly by the financial turmoil and global recession. New listings of homes barely registered the change in global economic conditions. Sales did see a substantial dip in the last quarter of 2008, but the decline was not sustained and sales are already back up to near-2007 levels. The local market balance did slacken enough to temporarily soften home price growth in subsequent months. However, this was not enough to induce year-over-year price declines. Furthermore, the ensuing pickup in sales can be expected to support price gains in the near future. The local market's sales-to-new listings ratio stood a little over 0.60 over the last 3 months leading up to August, which augurs well for near-term (Q4-2009 and Q1-2010) price performance. Note that on the back of low double-digit percentage price gains in the last two months of last year, the year-over-year percentage change in price will appear depressed in November and December of this year, but one should not read much into that.

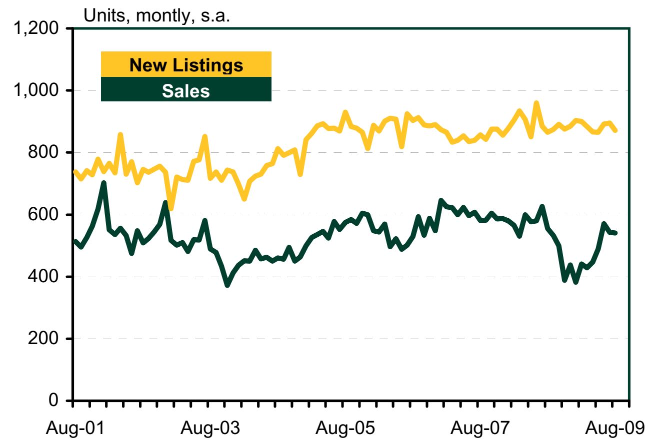
We expect the annual volume of sales to stay at or above 5,500 units throughout the forecast horizon, with this year estimated to be the low point. We forecast sales to pickup to 6,000 units in 2010 before slipping to 5,700 in 2011. After a solid annual price gain over 7% in 2008, we estimate the average price for 2009 to mark a 3.4% to $240,000. Subsequent gains of 4.3% and 3.9% over the next two years are expected to bring the average price up to $260,000 by 2011.

MARKET FOR EXISTING HOMES - HALIFAX

		2008	2009e	2010f	2011f
Sales	'000 units	6.47	5.50	6.00	5.70
	% chg.	-10.9	-15.0	9.1	-5.0
Average price	'000 C$	232.1	240.0	250.3	260.2
	% chg.	7.3	3.4	4.3	3.9

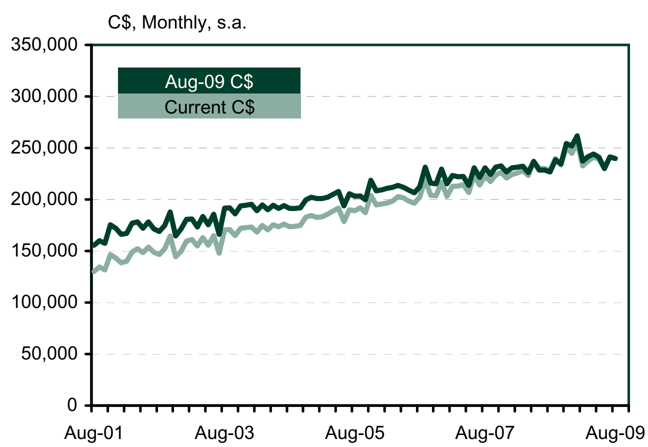
Source: CREA; e: estimate, f: forecast, TD Economics, Sept. 2009

EXISTING HOME MARKET - HALIFAX



Source: Canadian Real Estate Association.

AVERAGE HOME PRICE - HALIFAX



Source: Canadian Real Estate Association.