Special Report

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MODERATION IN STORE FOR THE CANADIAN HOUSING MARKET

Vancouver and Toronto to record a more significant cool down while Calgary and Edmonton to outperform

HIGHLIGHTS

- **Relative to where they sat in 2011 Q1, national resale activity and average prices are projected to decline by 15.2% and 10.2% respectively over the next two years.**
- **Restrained economic growth, higher interest rates, new mortgage borrowing rules and eroding home affordability help support our call for more moderate housing activity.**
- **Fewer new home buyers and reduced investor appetite should also simmer new and resale condo activity.**
- **In addition to our national perspective, we provide an in-depth overview of twelve major markets within this paper.**
- **Over 2011-13, Calgary, Edmonton and Regina housing markets are set to lead the way. Still, the term "leader" is relative as no market is slated to experience a boom over our forecast. We simply have these regions doing better than the rest.**
- **Given their recent run-up in activity, new condo supply and only subdued economic growth forecast, Toronto and Vancouver are expected to see a larger-than-average correction in both sales and prices relative to other regions.**

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Canada's housing market appears set for a moderate correction, with resale activity and average prices projected to decline by roughly 15.2% and 10.2%, respectively, over the next two years. A combination of more subdued job and household income growth, rising interest rates, the recent tightening in borrowing rules for insured mortgages and fewer first time home buyers are expected to be the chief culprits behind the slowdown. With most of these drivers expected to remain supportive to housing demand in the very near term, we anticipate that the brunt of this adjustment will take place in 2012 and into 2013.

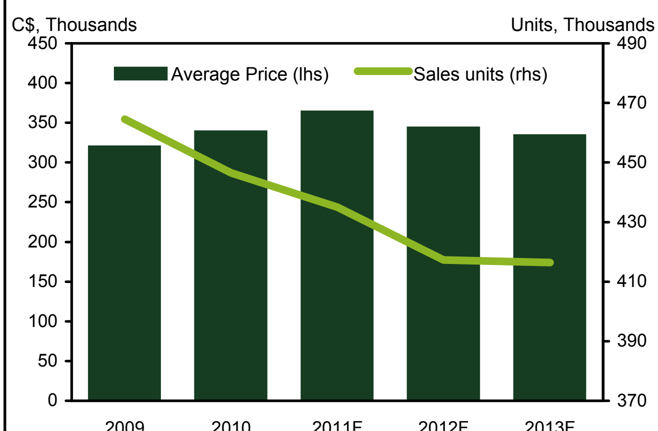
This overall picture hides considerable variations in regional performances. Among the twelve major markets profiled in this report, Vancouver and Toronto look poised for larger-than-average declines over the next few years, reflecting in part their exposure to the condominium segment, which appears particularly ripe for a correction. At the other end of the spectrum, prospects are considerably better for housing markets in Calgary, Edmonton and Regina. Still, no market is likely to experience a housing boom over the medium term.

Sales already off their peak

We have witnessed a significant swing in activity over the past year. Towards the end of 2010 and into 2011, buyers moved to beat out likely interest rate increases on the horizon and changes to insured mortgage eligibility rules in the spring. However, much of the gains in sales recorded during this run up have since been reversed.

Given the recent moderation in housing demand, resale activity is now more in line with the decade long average. Prices have proven to be more resilient, with increases continuing to be recorded. In May, the year-over-year national resale price increase stood at 8.3%. The sizeable gains recently recorded partially reflect the strength of the British Columbia housing market, in particular the Greater Vancouver Area. The standout provincial performance is undoubtedly skewing the national tally. Still, even if we were to exclude the province from the national average, price growth (+5.4%, Y/Y) is still

CANADIAN HOUSING MARKET EXPECTING TO SEE GRADUAL CORRECTION OVER 2011-13



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

quite strong.

High-end home sales also appear to be skewing the national price statistic. These sales represent homes in the top percentile of the resale price range. In effect, this activity is pushing the average statistic closer to the median, and inflating the average national headline number.

A healthy price performance during a period of only temperate sales suggests softness in the number of listings posted. Listings have been restrained in part due to the recent participation of first time buyers and investors, both of whom do not typically list properties. In addition, new home purchases that have generally increased over the last 12-18 months are not included in listing counts. As such, the sales to-listing ratio (0.52 as of May 2011) has tilted higher in the last two quarters. Still, the ratio range of 0.40-0.60 is generally believed to be consistent with a balanced market.

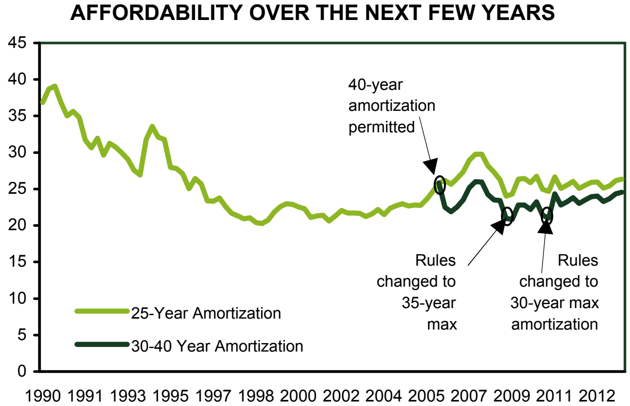
Fundamentals suggest housing moderation

After taking stock of the year-to-date performance, we turn our eyes to the near-term and how things will unfold from here. It is our view that there will be broad tailwinds and headwinds affecting the national picture. Still, the key drivers of housing demand will remain supportive over the rest of the year, but will become less favourable over 2012-13.

Economic growth to be modest

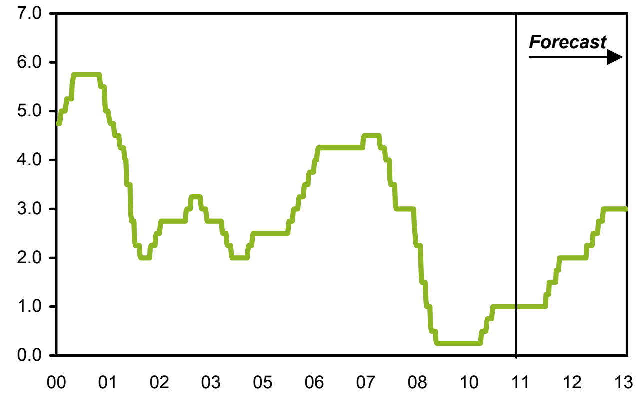
The economic climate is expected to become less supportive with respect to housing demand. National real GDP is expected to average 2.8% in 2011, before easing to 2.3% in 2012 and 1.9% in 2013. Personal disposable income growth will remain subdued at around 3.8% over our forecast horizon. The rate of job creation in 2010 was

RECENT MORTGAGE RULE CHANGES TO HURT AFFORDABILITY OVER THE NEXT FEW YEARS



* For the average resale price using a 75% loan-to-value ratio and the five-year fixed rate. Forecasts by TD Economics as at June 2011.
Source: CREA, Statistics Canada, Bank of Canada.

BANK OF CANADA EXPECTED TO LIFT ITS OVERNIGHT RATE STARTING IN JANUARY 2012



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

surprisingly high and is poised to hit 1.7% in 2011, in line with the decade-long average, before inching down to 1.2% over 2012-13. With the forecast growth performances below historical trends, economic activity should not generate enough momentum to sustain above average price and sales gains.

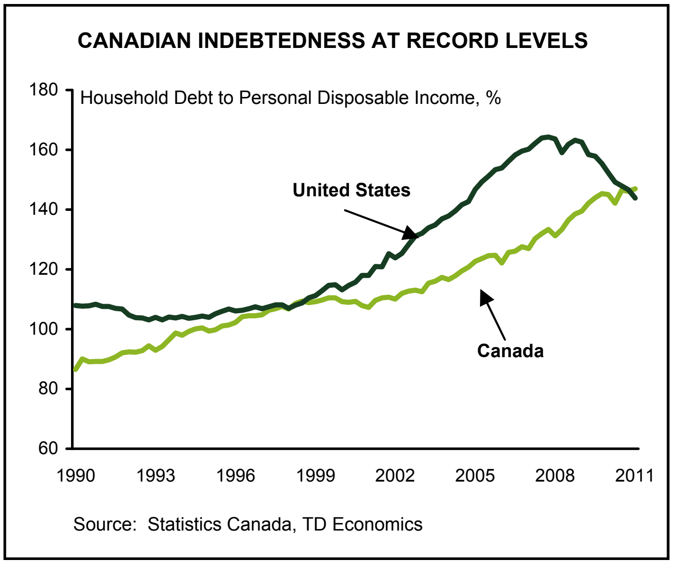
Interest rate to rise

Interest rate increases should also knock some of the wind out of the recent sails in home buying activity. Since our last housing report, we have changed the timing of when the Bank of Canada will start hiking its overnight rate. We now anticipate that interest rates will remain lower for longer. The prolonged rebalancing of monetary policy reflects the risk-filled economic environment. More precisely, we expect the tightening of monetary policy to now begin in January 2012. Gradual increases thereafter will take the overnight rate to 2.00% next year. After pausing to reassess the situation, the central bank is posed to further lift the rate to 3.00% by mid-2013.

The Bank of Canada policy rate is tied to variable rate mortgages that have gained popularity in recent years with 40% of current mortgage holders which is up from 24% in 2007. A scenario with a mortgage equal to $400,000 coupled with our new overnight rate forecast, the rate hikes would mean $440 more in monthly payments, all else equal and compared to current variable rates.

New mortgage rules took effect

Further exacerbating the erosion in home affordability caused by higher interest rates will be new insured mortgage financing rules, which came into effect earlier this year.



These changes were put in place to help slow the pace of household debt accumulation and include: (1) shortening the amortization period to 30 years down from 35 years; and (2) reducing the maximum refinance percentage to 85% loan-to-value, which is down from 95%.

The reduction in amortization alone will add about $150 to the average monthly mortgage payment, all else equal. According to our estimates, about a third of homebuyers will be impacted by the rule change. Interest rate hikes in conjunction with the amortization rule change will price out some buyers, particularly first-timers (see chart on the outlook for home affordability on the previous page).

Fewer first time home buyers

In the early phase of the recovery, first time home buyers took advantage of favourable borrowing conditions and measures like the Home Renovation Tax Credit to enter the market. According to the CMHC, 43% of households who purchased a residence in 2009 were first time buyers, up from 36% in 2008. The last home buying intention survey commissioned by the CMHC suggests this proportion is set to further decrease over 2011. Given what seems to be saturation in the number of first time home buyers, tighter mortgage borrowing rules and interest rate hikes on their way, these buyers can no longer support above average sales and price gains. In turn, a more moderate buying pace for the first time club looks to be in store.

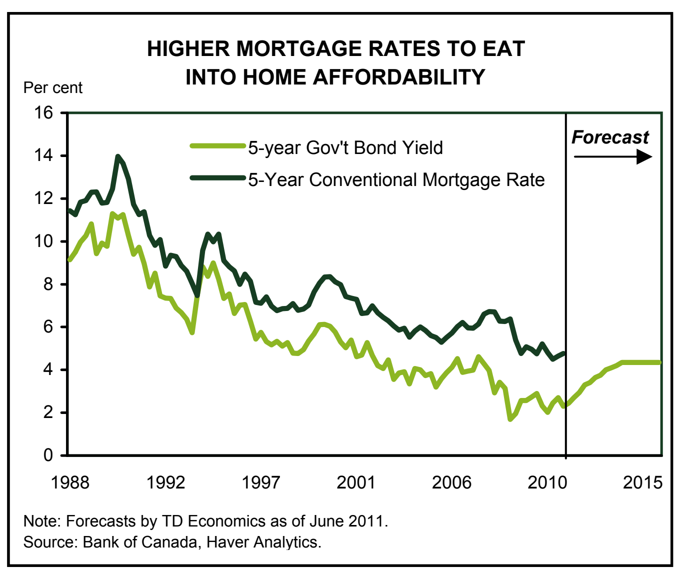
Putting context and numbers around our forecast

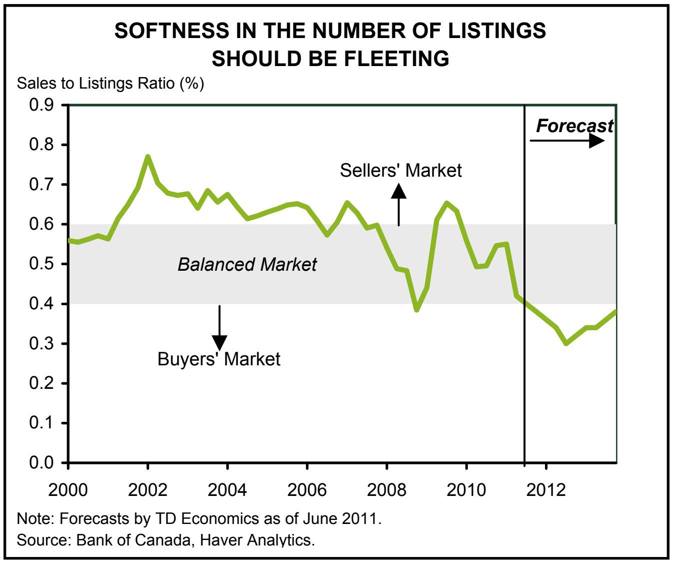
Over the next few months, sales and price performances will be difficult to judge as recent mortgage rule changes in particular lead to volatility in the data. In our view, the risks are tilted to the upside given the favourable borrowing climate and recent momentum in job creation. In fact, May home price and sales data suggest stronger conditions are present for the summer and early fall markets before softness sets in by year end. After peaking in the first quarter of 2011, Canadian home sales are likely to decline by 15% until reaching a trough in mid-2013. To put this decline into perspective, the national peak-to-trough drop during the 2007-08 recession amounted to 37%.

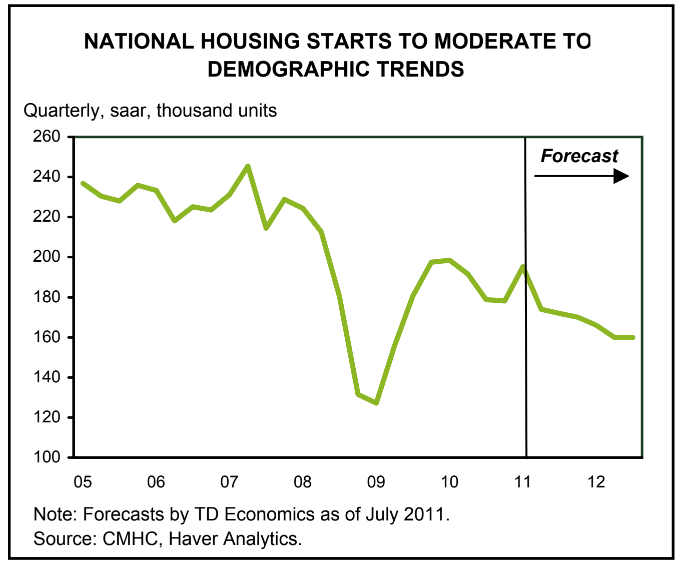
Translated into actual units, sales should record levels of 416,000-435,000 units in 2011-13. While these projections are lower than what was recorded during the economic boom of 2006-07 and during the period of near-zero borrowing rates in 2010, they are just slightly lower than the decade-long average.

In contrast to sales, listings are likely to improve as the first time buyer share eases from recent highs. However, listings may simultaneously be trending structurally lower given that an increasing share of sales are conducted privately and in turn, are not captured in the Canadian Real Estate Association data. We do not suspect that this share is sizeable, but it is one to keep in mind going forward.

With the sales and listings outlook already explored, we now turn our attention to resale prices. Most private sector forecasts are of the view that Canadian home prices are moderately over valued by about 10-15%. While this figure is difficult to measure precisely, it is consistent with a review of historical benchmarks such as the home-price-to-income ratio. Our national price forecast calls for a year-over-year price increase of 7.4% in 2011. However, the brunt of the anticipated price correction will take place in 2012 and 2013. Compared to the average price level prevailing in







the first quarter of 2011 ($365,170) which is also the peak level over the next three years, average prices are projected to decline by a cumulative 10.2% until reaching a low of $329,000 in 2013.

In the new home market, housing starts came in at 195,200 in the second quarter of 2011. Looking ahead, starts are projected to fall back to an average 164,000-171,000 per month over the next two years. These levels will come in slightly below the estimated 175,000-180,000 new households formed each year. Not only will new home demand be affected by the same factors as the resale market, lower prices for existing houses will result in increased competition for builders. On the plus side, still-low inventories of new and unabsorbed dwellings are consistent with only a moderate pull-back in starts activity.

The price adjustment described would help eliminate the current over-valuation built into the market and will bring prices more in line with economic and income fundamentals. However, there are some uncertainties and risks worth highlighting that could lead to a bumpier landing over the medium term. To start, the outlook for housing, consumer spending and the overall economy is held together by a relatively thin string. If something were to give on any of these fronts, the price landing could be bumpier than currently anticipated. In our view, a disruption in employment in Canada due to an unanticipated global shock is probably a higher risk scenario than a spike in interest rates at this stage.

Condo market tends to be more volatile

In our forecast overview, we discussed the national resale forecast as a whole. Categorization by type (e.g., singles, multi-residential) brings an interesting discussion to the table. Increasingly, Canada has become a tale of two markets. On one hand, there is the multi-residential component, which tends to be more prone to sharp up cycles and down-cycles. This is in contrast to the singles component that is usually less volatile.

The gravitation towards multi-residential properties is apparent when looking at national statistics. A number of drivers has supported the move towards multi-residential properties such as an outsized proportion of first time buyers and enhanced interest from both foreign and domestic investors. Part of the challenge in understanding the drivers of the condo segment concerns data limitations.

Let us begin with first time buyers. As already noted, this segment has accounted for as much as half of overall sales in recent years – up from a historical average of about one-third. We have assumed that this ratio falls back to about 40% in our forecast. Two reasons underpin the decline. To start, first time home buyers are increasingly shrinking in numbers. Next, higher resale affordability will price many of these individuals out of the market. A more significant drop in the number of these buyers cannot be ruled out.

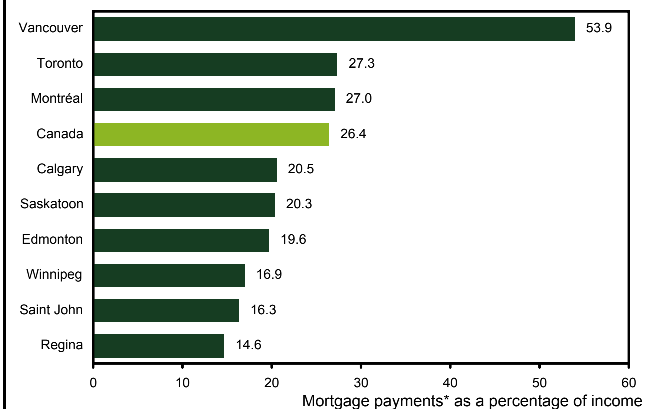
While the first time buyer component has been evident across the country, the impact of investors in real estate appears to be more a story in selected cities such as Toronto and Vancouver. Once again, data limitations prevent an in-depth analysis. Rental surveys from CMHC do suggest that about one-quarter of the condominium stock is held by investors in Vancouver. The number decrease to one-fifth when looking at the stock held by investors in Toronto. Anecdotally, these shares seem to have risen over the past few years.

Investors have been diversifying into real estate given the low returns on interest-bearing assets in recent years. Compared to the 1980s, when investors were frequently buying assets as a way to realize prompt capital gains, it is generally believed that investors in the current period are investing for longer-term purposes. Looking ahead, the economics in favour of investment properties are likely to become less attractive, particularly in the condo segment. A generous supply of new condos for 2011-12 is likely to dampen rents in the secondary market. At the same time, interest rates will likely to trend upward, resulting in higher borrowing costs. In light of these factors, investors may not be able to make a return in condo rentals if the increase in home ownership costs does not match rent prices.

Soft landing in most regions, but Toronto and Vancouver appear most at risk

Prospects for weaker activity in their large condominium segments, the recent run-up in sales and prices, and lacklustre economic growth will be primary factors leading to a larger than average housing market correction in the urban centre of Vancouver and Toronto. Given the regional flavour to housing markets and the different trends on tap, we next go through the 2011-13 housing outlook in more detail for twelve major regions across the country: Saint John, Halifax, Montréal, Québec, Toronto, Ottawa, Winnipeg, Regina, Saskatoon, Calgary, Edmonton, and Vancouver. For each region, we take note of the local economy and housing market, and outline our near term regional forecast while comparing it to national and provincial trends.

EROSION OF HOME AFFORDABILITY MORE OF A CONCERN IN SOME AREAS



* For the average resale price using a 75% loan-to-value ratio and the five-year fixed rate. Forecasts by TD Economics as at June 2011.
Source: CREA, Statistics Canada, Bank of Canada.

FROM HERE ON OUT, PRICE DECLINES ON TAP
Declines based on quarterly resale price figures

	Peak ($'000s)*	Trough ($000s)	%
CANADA	367	329	-10.2
Vancouver	793	675	-14.8
Calgary	422	395	-6.4
Edmonton	332	310	-6.6
Saskatoon	315	280	-11.1
Regina	280	263	-6.1
Winnipeg	245	226	-7.8
Ottawa	360	330	-8.3
Toronto	470	415	-11.7
Montreal	309	285	-7.8
Québec	245	228	-6.9
Halifax	264	248	-6.1
Saint John	180	170	-5.6

* Maximum home price reached on a quarterly basis. Markets are projected to reach their peak at different time periods. For the majority, the peak was reached in 2011 Q1 or will be reached in 2011 Q4.
F: Forecast by TD Economics as at June 2011
Source: Canadian Real Estate Association

EXISTING HOME SALES
Year-over-year per cent change

	2011Q1	2011F	2012F	2013F
CANADA	-6.8	-2.6	-4.1	-0.2
Vancouver	12.8	11.3	-9.7	-3.2
Calgary	-3.7	1.7	1.6	3.7
Edmonton	-9.5	-4.9	3.8	2.5
Saskatoon	9.3	5.9	-2.2	-2.7
Regina	0.2	2.8	-0.6	1.1
Winnipeg	9.9	7.2	-2.4	1.0
Ottawa	-12.0	-5.6	-4.2	3.0
Toronto	-14.6	-11.3	-5.4	1.4
Montreal	-10.6	-6.7	-2.0	1.0
Québec	-5.8	-2.4	0.6	0.4
Halifax	-5.6	-2.6	-2.8	2.2
Saint John	-13.5	-7.3	1.1	1.2

F: Forecast by TD Economics as at June 2011
Source: Canadian Real Estate Association

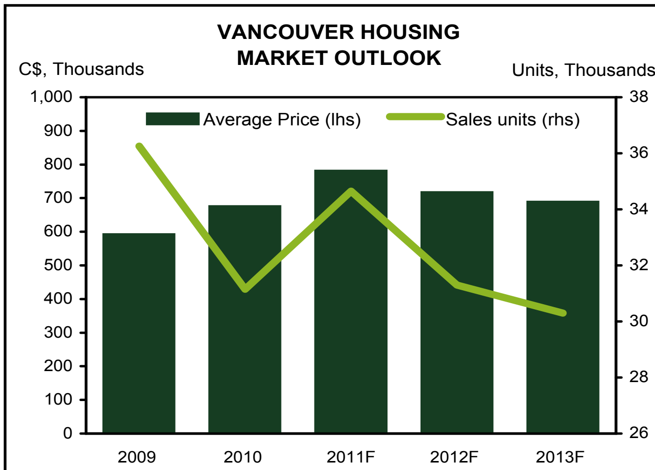
VANCOUVER – THE HOUSING MARKET THAT HAS ALL EYES WATCHING

Vancouver has been the poster child for those individuals worried about a real estate bubble here in Canada. We expect that Vancouver will post modest economic growth accompanied by subdued job and income gains. Interest rate hikes will be felt in Vancouver likely more than other places due to the fact that household debt levels are the highest across the country.

With this economic climate, we foresee a 25.4% peak-to-trough decline in sales and 14.8% in prices over 2012-13, by far the worst fate of any urban centre. Still, the path to correction will likely transpire over seven to eight quarters. What's more, just as some of the recent increase has reflected a shift in the composition in sales towards higher priced homes, normalization in the sales mix going forward will disproportionately weigh on average prices. At the expected trough in 2013, the average resale price is expected to sit at $675,000 – nearly double the national number and that of most other urban centres.

Solid gains year-to-date

Vancouver resale home prices certainly raise eyebrows; they currently sit at roughly ten times average income. Year-over-year growth stands at 18%. Excess gains appear to be more in the single detached category, pulling up the average statistic. Even with these prices, poor affordability readings in the region have been the norm for decades and yet, the market has continued to tick along. Therefore, while any measure of affordability measure shows Vancouver well above the rest of the country, it rests slightly above the decade long average. The fact that this measure is largely consistent with historical trends suggests that residents have adopted coping mechanisms that are not captured by the aggregate data. For example, income generation through self-employment or renting basement apartments may not be included in reported income. Still, the recent – and likely further – deterioration in affordability is instrumental in our projected housing sales and price declines.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

VANCOUVER, BRITISH COLUMBIA - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	36.3	31.1	34.7	31.3	30.3
Y/Y %	44.2	-14.1	11.3	-9.7	-3.2
Average Existing Home Price					
C$ ('000s)	592.4	675.9	780.7	717.5	688.8
Y/Y %	-0.2	14.1	15.5	-8.1	-4.0
Sales-to-Listings Ratio (%)	0.7	0.5	0.6	0.4	0.4
Price-to-Income Ratio (%)	7.8	8.6	9.7	8.5	7.8
Home Affordability (%)	46.3	49.7	53.9	51.6	51.0

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.

Outsized foreign investor component

The importance of foreign investors is likely another key factor driving a wedge between price and income fundamentals. With a strong Canadian dollar, investors appear to be coming from emerging markets in Asia, notably China. Data availability limit an accurate assessment of the share of properties bought by foreign investors, but anecdotal evidence suggest that about 10-15% of sales in Vancouver are driven by the investor category. Interest does not seem to be just in the downtown core, but all pockets of the region. The tightening of real estate rules in China (e.g., purchases of second properties) has also added fuel to the fire.

The risks to the base line scenario

Our forecast carries with it three key risks. First, foreign investor activity could pull back from their current levels. In our base case, we have assumed that investor demand, particularly from the U.S. and mainland China, will remain robust, but is expected to fall off recent highs. A greater pullback than anticipated could have a disproportionate impact on prices than what we present here. Second, household debt levels in Vancouver are gauged to be the worst in the country. While the number of mortgages more than ninety days in arrears was 0.5% in May, the share has been consistently trending up since early 2008. Lower home prices will help keep this number in check, but affordability remains a key risk on our radar. Third, condo starts have fallen back in the last few months, partially mitigating the risk of oversupply. However, vacancy and absorption rates for condos should be closely monitored.

CALGARY – WILL BE AN OUT-PERFORMER, BUT IT'S ALL RELATIVE

A good chunk of the Calgary economy rests in the commodity price outlook, particularly crude oil. We anticipate that these prices will hold fairly firm over 2011-13, which bodes well for the regional forecast. Relatively strong employment and wage prospects and gradual increases to net in-migration numbers are expected to accompany the solid economic showing. These underlying fundamentals help support our call that the Calgary housing market will outperform most other urban centres. In fact, we are calling for moderate sales and price growth for the region over 2011-13. Given the double digit gains in new starts recorded last year, they are expected to falter in 2012, before rebounding again in 2013.

Economy leading the way

In our provincial economic forecast, we have Alberta leading the way over 2012-13. Given Calgary's energy focus and intensity, it is not surprising that regional economic growth will likely shine as well. While commodity prices are quite volatile, we expect them to hold steady over our forecast. In turn, extraction and investments will remain elevated. Recent changes to the provincial royalty regime should also support this investment behaviour and help improve the overall corporate climate.

The better economic outlook will bring with it more jobs and higher income growth. While the former has been slow so far this year, we anticipate a better showing in the second half of 2011 and into 2012. Perking up net in-migration tallies are also helping meet labour shortages that are already being reported within the province.

Market to outperform the national trend

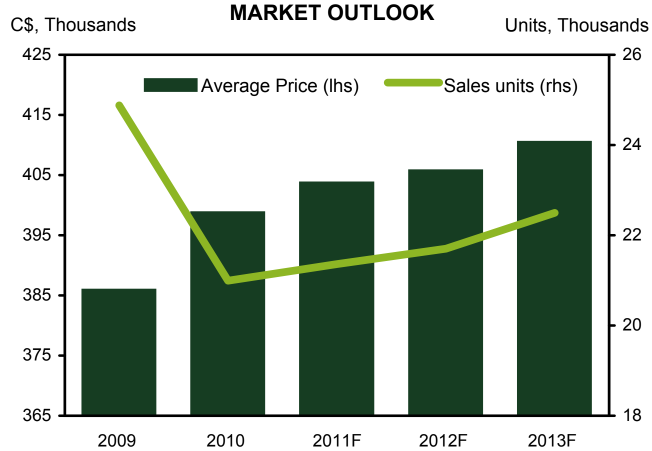
The economic activity boost will help support housing demand within Calgary into 2013. However, the region is far from off to the races. Instead, the anticipated housing out-performance is in a context where most other regions look set to record a more pronounced downturn. Also helping underpin our call is the fact that Alberta's housing recovery has lagged behind the national average. In turn, pent-up demand for homes has been generated and has created some momentum going forward.

Recent resale data may seem at odds with our out-performance forecast; year-to-date figures have been lacklustre at best. Price gains have been restrained, but this is likely because roughly half of the homes sold were priced under $400,000. For condominiums, over 65% of homes sold were not more than $300,000. The share of lower-price units helps explain the low average price gains seen in the first quarter. Meanwhile, the rising sales to-listings ratio does seem to indicate firming resale conditions which will lead to a steadier pace of price growth.

Starts to pick up 2012

Starts were up 47% in 2010, relative to the year prior. So far this year, starts are depressed, likely suffering some pay back from the gains recorded in 2010. That being said, unabsorbed and inventory levels are far below the decade-long average. As regional economic growth prospects brighten and amid less resale competition, both multi- and single-detached starts should pick up. We expect this heightened activity to become more noticeable in mid-2012.

CALGARY HOUSING MARKET OUTLOOK



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

CALGARY, ALBERTA - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	24.9	21.0	21.4	21.7	22.5
Y/Y %	7.5	-15.6	1.7	1.6	3.7
Average Existing Home Price					
C$ ('000s)	385.9	398.8	403.7	405.8	410.5
Y/Y %	-4.8	3.3	1.2	0.5	1.2
Sales-to-Listings Ratio (%)	0.6	0.5	0.5	0.4	0.4
Price-to-Income Ratio (%)	3.1	3.2	3.1	3.0	2.9
Home Affordability (%)	21.9	21.5	20.5	21.7	22.7

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.

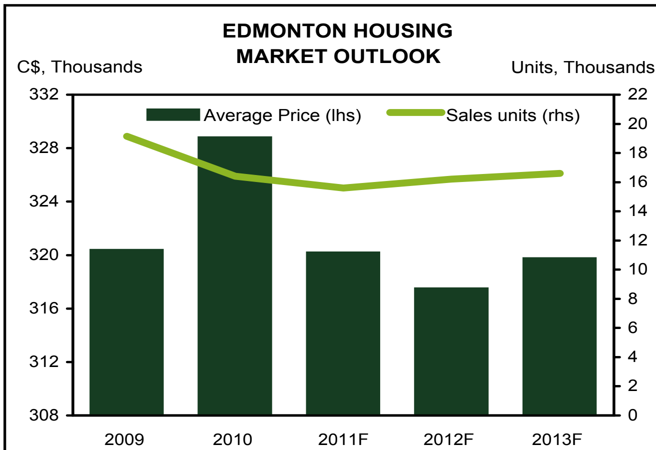
EDMONTON – EARLY MOVER ON THE CORRECTION JOURNEY

The outlook previously presented for Calgary looks quite similar to the one we present now for Edmonton. This is far from surprising given the similarities between the two regions. However, movements in the Edmonton housing market tend to lag those of its southern neighbour. On the economic front, growth will be supported by the energy and refining sector, but also manufacturing. Oil sands activity also seems to be forging ahead after a temporary lull witnessed during the initial recovery phase. Overall, Edmonton is poised to outperform the national average, but is expected to still remain in balanced territory.

Economy tied to energy, but fiscal restraint could serve as a drag

In the initial period following the recession, the local economy was quite slow to regain its footing. However, with commodity prices holding firm since then, the regional economy appears to have once again found its sweet spot. The local unemployment rate dropped to 5.4% in June, well below the near 8.0% peak recorded during the recession. While natural gas prices have yet to recover, they are used as an input to oil sands extraction; the relatively cheaper production costs among other things are helping spur investment. In addition, many oil sands projects in the Edmonton area were delayed given lingering global uncertainties. We are starting to see signs that projects are coming back to life.

Edmonton is also home to the provincial legislature. In turn, many civil servants work in the area. While Alberta is set to be in a deficit position until fiscal year 2012-13, the government is less fiscally constrained relative to others across the country. In turn, we expect fiscal drag to be less of an issue in Edmonton than is the case in other regions. However, if civil service reductions are imposed and/or wage freezes extended in addition to that already announced, the region's outlook may be subject to more fiscal drag than in our base case scenario.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Relatively favourable outlook

Data from Statistics Canada suggests that average weekly earnings grew in Alberta by 4.7% in April 2011, relative to 3.5% for Canada. If, as expected, this income growth continues filters down to the regional level housing demand will be propped up over the next few years. However, listings are still high, placing the sales to listing ratio at the lower end of the balanced range. This will serve to keep prices from moving too far away from their current level.

The Edmonton resale market has seen a slow first quarter, both in terms of sales and prices. For the first five months of the year, sales were down year-over-year by 7.2% and prices did not fare much better with a 2.4% decline. We expect a gradual tightening in market conditions in the second half of the year as the economic outlook improves and net in-migration tallies start to pick up. Interest hikes on their way early next year resulting in higher affordability costs will also bring prospective buyer intentions forward.

The starting balanced position and more subdued sales should limit the price and sales decline on tap for Edmonton. Compared to the quarterly peak set to kick in this year, we are calling for a sales and price dip of 9.5% and 6.6% respectively. It is worth pointing out that these numbers are slated to come in well below the national average. What's more, a vast amount of the correction has already taken place. This gives Edmonton (along with Calgary) a comparative advantage versus other regions that still have the bulk of their heavy-lifting ahead of them.

EDMONTON, ALBERTA - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	19.1	16.4	15.6	16.2	16.6
Y/Y %	10.2	-14.3	-4.9	3.8	2.5
Average Existing Home Price					
C$ ('000s)	320.4	328.8	320.2	317.5	319.8
Y/Y %	-3.7	2.6	-2.6	-0.8	0.7
Sales-to-Listings Ratio (%)	0.6	0.5	0.5	0.5	0.5
Price-to-Income Ratio (%)	3.2	3.1	2.9	2.8	2.7
Home Affordability (%)	22.0	21.4	19.6	20.5	21.4

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.

SASKATOON – ECONOMIC ACTIVITY LESS SUPPORTIVE FOR HOUSING

The Saskatoon economy stumbled in 2010 and so too did employment growth. We expect the region to fair better over our forecast, but it must first recoup all of the jobs lost in 2010. Despite the slow start from the gate, the economy is poised to benefit from several large scale capital projects and perking-up global demand. Still, we expect only a moderate near-term growth environment for Saskatoon. In turn, the regional housing market will retreat from a double digit gain in sales recorded in 2011 Q1; resale price gains should also inch down from the 4.2% number clocked in during this same quarter. Looking ahead, we are calling for a correction in both measures, lasting seven to eight quarters.

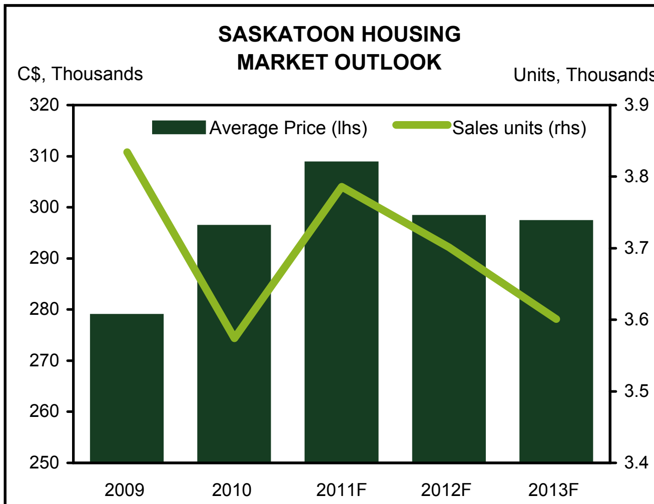
Economy to regain momentum lost in 2010

The regional economy faltered in 2010 due to a several different factors. For example, there was weakness in the price and global demand for uranium, a key export for Saskatoon. Agricultural production and processing also slowed due to flooding and rainfall that hit part of the province. In this environment, the region shed about 1,200 jobs (-0.8%). The jobless rate also inched up from 4.6% in 2009 to 5.3% in 2010.

Momentum on the job front has picked up, evident by the monthly job gains recorded so far this year. We thus feel confident with our call for a better regional economic showing for Saskatoon over our forecast horizon. Firm crude oil prices should lead to heightened drilling and economic activity. Recent uranium price advances and increases to potash production levels also signal good news for capital spending and investment for the near-term. One recent development to watch, however, is the recent flooding in this part of the province. The extent of damage to crop quality might affect the agriculture rebound in store for 2011.

SASKATOON, SASKATCHEWAN - TD ECONOMICS' FORECASTS (Various units)					
	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	3.8	3.6	3.8	3.7	3.6
Y/Y %	8.3	-6.8	5.9	-2.2	-2.7
Average Existing Home Price					
C$ ('000s)	278.9	296.3	308.7	298.3	297.3
Y/Y %	-3.1	6.2	4.2	-3.4	-0.3
Sales-to-Listings Ratio (%)	0.6	0.5	0.5	0.4	0.5
Price-to-Income Ratio (%)	2.9	3.0	3.0	2.8	2.7
Home Affordability (%)	20.5	20.6	20.3	20.6	21.3

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Resale sales and prices to inch down starting in 2012

The low interest rate environment in 2010, along with relatively modest price growth, made new homes an attractive buy. Starts were pushed to a 27-year high in 2010. We anticipate a much more subdued pace of residential construction in the next few years ahead given the current supply in the market and the economic climate. Still, we do not expect new units to deviate from long-run demographic and economic fundamentals.

The sales-to-listing ratio has averaged 0.5% in the first few months of the year. This comes in at a significantly lower rate than the historical trend. Heightened listings and the ample supply of new homes are expected to lead to price declines. More precisely, we anticipate an annual decrease in this measure of 3.4% in 2012 and 0.3% in 2013. This translates into an 11.1% fall in prices over the next few years compared to the peak level reached in the second half of this year, representing a decline slightly more than the national average.

Sales are also expected to decrease as higher mortgage rates and carrying costs come into effect. Home affordability in Saskatoon is worse than in both Regina and the provincial average. However, the robust provincial performance should temper the regional pullback of consumer demand for resale homes. Also of help will be fairly healthy levels of in migration. In turn, we anticipate a peak-to-trough decline of 11.5% on the sales front, lasting seven to eight quarters. While still higher relative to the provincial average and the Regina forecast, Saskatoon's fall is slated to come in several percentage points better than the national measure.

REGINA – NEW HOMES TO COMPETE WITH EXISTING MARKET

With Saskatchewan expected to be one of the few to lead the way over the next few years, Regina should undoubtedly benefit. The momentum heading into 2011 is solid; the region ended 2010 on a high note with a 4.6% jobless rate and nearly 7,000 new jobs created in mostly full-time positions in December, year-over-year. Firm commodity prices over the next few years are poised to keep projects on track. In this context, we expect Regina housing market to outperform all other regions on our short-list. While both a price and sales correction will take place in 2012, when interest rate hikes resume, losses are poised to be made up by mid-2013.

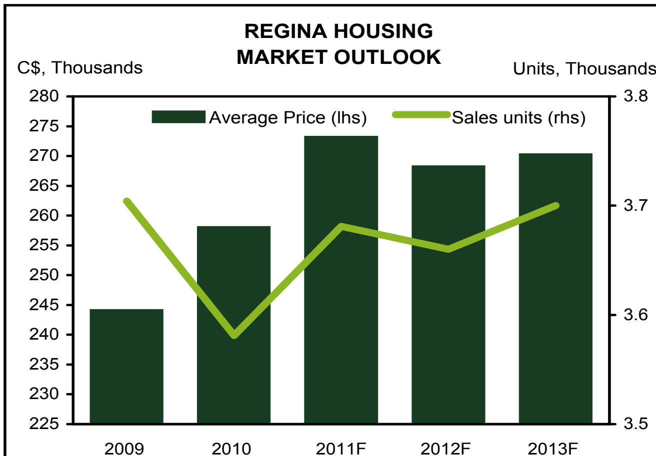
Capital projects to keep construction sector and economy growing

The region is home to many capital projects, some of which are related to oil refinery expansion, but others concern transportation and highway expansion. Most of these latter projects are expected to end in 2012. However, capital spending envelopes within the province have not been restrained as has been the case in other areas of the country. This is because Saskatchewan is one of the few provinces to be in a surplus fiscal position. Regina, home to the provincial legislature, will therefore not likely see public spending restraint seep into public administration job levels and wages.

Regina's small manufacturing sector is also expected to benefit from perking up global demand that we have seen of late. A persistently high Canadian dollar over our forecast period might be a challenge for these companies. However, due to the relatively small size of the sector, there does appear to be plenty of room to grow.

REGINA, SASKATCHEWAN - TD ECONOMICS' FORECASTS (Various units)	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	3.7	3.6	3.7	3.7	3.7
Y/Y %	11.0	-3.3	2.8	-0.6	1.1
Average Existing Home Price					
C$ ('000s)	244.1	258.0	273.8	268.3	270.3
Y/Y %	6.3	5.7	6.1	-2.0	0.7
Sales-to-Listings Ratio (%)	0.6	0.6	0.6	0.5	0.6
Price-to-Income Ratio (%)	1.8	1.9	1.9	1.7	1.7
Home Affordability (%)	14.9	14.8	14.6	14.9	15.4

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Prices do not appear to be over-valued

The relatively strong economic performance has helped increase new housing demand of late. New starts in 2010 were up 45% relative to the year prior. Construction was seen in both the single and multi unit categories. The momentum has carried forward to this year, with first quarter starts up 21% versus this same quarter last year. Going forward, an elevated supply of new units will slightly temper construction. Apartment rental vacancy rates are already starting to creep up, which support a decrease in investor and secondary market action. Still, population inflows and steady wage gains are poised to provide a floor to the decrease in store.

Even with the competition from new home building, the resale market has put forth a decent showing over the last 12-18 months. Annual resale price gains were recorded in both 2009 and 2010, and are also in place for the first five months of the year. Sales tumbled by 3.3% in 2010, slightly less than the national average, and are flat year-to-date. We anticipate that the second half of the year should see an increase in activity as homebuyers try to beat out the interest rate hike at the beginning of 2012. Prices are thus expected to hold firm in 2011. Both measures are poised to dip in 2012, but the underlying strong regional economic fundamentals suggest that the correction will be relatively slight and short in nature.

More generally, price-to-income – a general measure of how home prices line up with income fundamentals – suggest that even with the monthly gyrations described, the region is in balanced territory. However, if economic growth is stronger than anticipated, the market may in fact deviate from this neutral position.

WINNIPEG – RESIDENTIAL CONSTRUCTION TO TEMPER

The Winnipeg regional economy is expected to see modest growth over the years of our forecast. On one hand, new aircraft orders seem to be picking up which will help rejuvenate the region's manufacturing sector. Non residential construction is also poised to remain steady thanks to several large projects underway. The growth showing will help support housing demand over the next three years; however, we do not anticipate that the recent pace will be sustained. Rather, compared with their quarterly peak levels set to hit this year, we are calling for a decline of sales and prices of 7.9% and 7.8%, respectively; the bulk of the correction is expected to take place in 2012. Put in context, Winnipeg should fare better than the national average as well as other regional centres. Still, average resale home prices are expected to remain one of the lowest out of the regional centres reviewed in this report.

Manufacturing, non-construction to lead the way

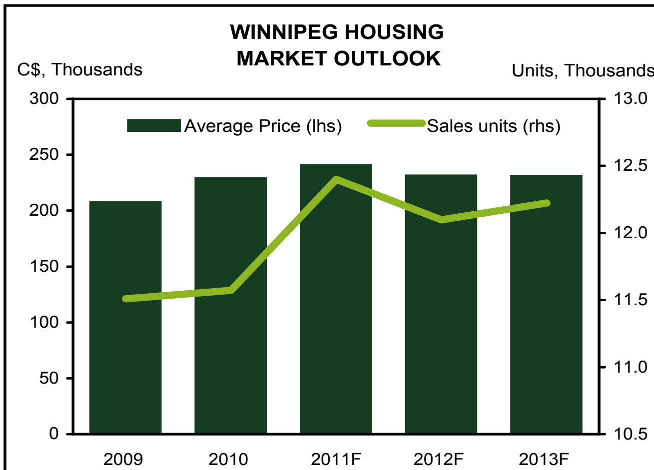
With global demand plummeting during the recession, the Winnipeg manufacturing sector has had a tough time of late. Manufacturing employment within Manitoba shrunk by 20% over 2008-09. Given its size relative to the provincial economy, Winnipeg likely recorded a large share of these losses. Today, new aircraft orders appear to be coming in again. Several firms also have announced new million dollar and multi-year infrastructure projects within the region. Heightened activity within manufacturing and non-construction is expected to lead to economic gains.

Economic growth should then support both employment and income gains. For the first few months of 2011, job growth within the region has been for the most part in full-time positions, which is a different story to what transpired last year. The jobless rate is hovering at 5.6% in June or several percentage points below the national measure. Steady population inflows are expected to help out on both of these fronts as well. To demonstrate, international migration to Manitoba improved year over-year by 15-20% in 2010. The provincial government has indicated that further increases to these tallies will likely be recorded over the next few years.

WINNIPEG, MANITOBA - TD ECONOMICS' FORECASTS
(Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	11.5	11.6	12.4	12.1	12.2
Y/Y %	-2.9	0.5	7.2	-2.4	1.0
Average Existing Home Price					
C$ ('000s)	207.3	228.7	240.7	231.3	231.0
Y/Y %	5.3	10.3	5.2	-3.9	-0.1
Sales-to-Listings Ratio (%)	0.7	0.7	0.7	0.5	0.5
Price-to-Income Ratio (%)	2.2	2.3	2.4	2.1	2.0
Home Affordability (%)	16.8	17.3	16.9	16.8	17.2

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

New starts and resale market to moderate

New starts surged to 3,244 units in 2010, the second highest tally recorded over the past 20 years. Unlike some other cities, increases in single-family and multiple-unit construction were equally important. The healthy inflow of individuals and solid employment and wage gains helped sustain new housing demand.

With so much supply present, we anticipate more subdued residential construction in 2011-12. However, according to CMHC, there is sufficient supply to last approximately seven to eight months, well below the average recorded over the past five years. In turn, we are less concerned about overbuild within the region. Instead, the anticipated slowdown in construction will reflect the more modest demographic and economic trends.

Increased competition from new homes is expected to reduce resale activity over the next few years. Active listings are poised to rise slowly, bringing the resale market towards balanced territory for the first time in several years. The interest hikes, combined with the lower resale prices, should keep home affordability in check at roughly 17%. This statistic lies far below the roughly 25-30% of monthly budgets most households set aside for dwelling costs. At the same time though, the regional resale home price will clock in at roughly $241,000 in 2011.

OTTAWA – FISCAL RESTRAINT LINGERS IN THE AIR

The Ottawa economy was particularly resilient over the recent global recession due to its heavy exposure to the service-sector. With federal fiscal restraint on its way, the region will record only modest economic growth over the next few years. Slower growth combined with increasing interest rates and eroding home affordability will see home buying and selling wane over the next three years. However, we anticipate that the Ottawa housing market will continue to be in balanced territory. In turn, the regional performance should come in better than the provincial and national forecast.

Service-driven economy to feel fiscal restraint

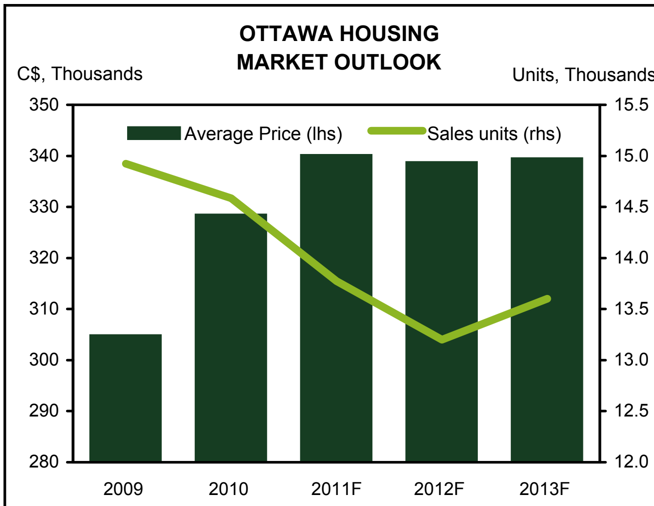
The Ottawa economy is quite diversified, but its core sectors remain in the services industries. It is also home to a trade heavy high-tech sector, which is starting to regain traction given the recent perking up global demand. The National Capital Region is also headquarters for the federal government and the site of employment for many civil servants. The government appears set to eliminate its deficit by 2014-15. To accomplish this, it will restrain annual program spending growth to 1-2% per year. Cuts to federal civil service employment mostly through attrition and wage freezes are already in place, but there could be a need for more austere fiscal policy ahead. This remains a downside risk to the local economic outlook.

Recent developments

Even with the economic undertones, the employment and income growth forecasts remain supportive for local housing. During the downturn, the average regional resale price did not decline substantially as was the case in other cities; rather prices held steady and in turn, they inched closer to the national average. As of May 2011, the average home price in Ottawa stands at roughly $375,000, in line with the national statistic. Year-over-year sales also appear to have stabilized as we head towards the busy summer months.

OTTAWA, ONTARIO - TD ECONOMICS' FORECASTS (Various units)	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	14.9	14.6	13.8	13.2	13.6
Y/Y %	7.3	-2.3	-5.6	-4.2	3.0
Average Existing Home Price					
C$ ('000s)	304.8	328.4	342.3	338.8	339.5
Y/Y %	4.9	7.8	4.2	-1.0	0.2
Sales-to-Listings Ratio (%)	0.7	0.6	0.5	0.4	0.4
Price-to-Income Ratio (%)	3.0	3.3	3.4	3.3	3.2
Home Affordability (%)	21.2	22.1	22.1	23.3	24.6

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Resale, new markets set to moderate going forward

The region transitioned from a seller's market to a balanced one in 2010, where it is expected to stay over the forecast period as a result of stable new listings and sales drifting lower. The early retreatment of both sales and prices suggests that the correction has already begun, well in advance of the interest move in 2012. The early decline should help mitigate the additional decreases required in the months ahead. We forecast a decline in sales and prices of 13.3% and 8.3% respectively from their quarterly peaks over a seven to eight quarter time frame.

Also helping to lessen the decline in home prices and sales are relatively mild resale affordability costs. In 2011 Q1, we have calculated this measure to be 21.5%. This statistic comes in well below the provincial and national average. The upcoming rate hike will erode home affordability, but we forecast that it will peak at roughly 25%. In other words, one quarter of monthly household income will be going towards mortgage costs. This budget share remains in the typical range used for most household plans.

Moving over to the new home category, Ottawa witnessed a high number of condo starts in 2010 at 1,509; we expect multi-residential starts to slow over the next two years. A floor to the decline will be the deterioration in home affordability that makes relatively cheaper condos an attractive buy. Investors may also stay interested in condo purchases if rent inflation holds steady.

TORONTO – RE-BALANCING ALREADY UNDERWAY

The Greater Toronto Area (GTA) housing market served as a barometer of confidence during the 2008-09 period – it saw sharp declines during the fall of 2008 only to bounce back strongly afterwards. Part of the resurgence was driven by first-time home buyers revelling in the low interest rate environment as well as the steady investor inflow component. As both of these buyers segments do not generally list properties, listings have been kept in check and the overall balance remained in favour of sellers.

More balanced activity in store

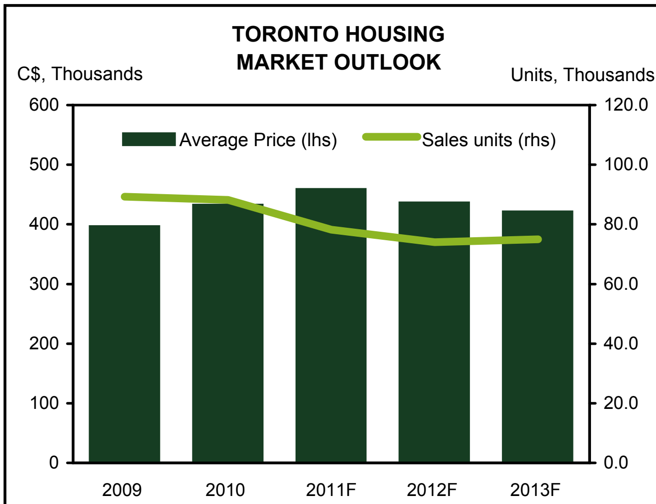
Towards the end of 2010 and into 2011, both sales and prices ramped up to beat expectations of higher interest rates and upcoming mortgage rule changes. The momentum was fleeting, however, and we have seen sales and resale prices enter into negative territory over the last few months. With interest rates not rising until January 2012, we expect the second half of the year to put forth a better showing. At that point, we anticipate a gradual correction in sales on the order of 25% over the next 7-8 quarters. As the number of first time home buyers and investors settle back down to more normal levels, the balance will soften, helped in part by the erosion in home affordability.

The price decline is poised to be less in Toronto than in Vancouver; we are calling for a fall of 11.7% in Toronto from 2011 Q4 through mid-2013. Helping keep a lid on GTA resale home prices will be continued activity in the high-end housing market. According to CMHC and for the first four months of the year, one in eight houses sold for above $750,000 and one in twelve condos sold for over $500,000. We anticipate that the factors driving high-end sales should remain in place. As these buyers are thought to be less sensitive to uncertainty and mortgage rate moves, they are expected to prop up the average price figure.

TORONTO, ONTARIO - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	89.3	88.2	78.2	74.0	75.0
Y/Y %	16.8	-1.2	-11.3	-5.4	1.4
Average Existing Home Price					
C$ ('000s)	396.2	432.3	458.6	436.3	421.3
Y/Y %	4.3	9.1	6.1	-4.9	-3.4
Sales-to-Listings Ratio (%)	0.7	0.6	0.5	0.4	0.4
Price-to-Income Ratio (%)	3.9	4.2	4.4	4.0	3.7
Home Affordability (%)	26.1	27.1	27.3	27.4	27.6

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Condo performance, supply pipeline and rental units

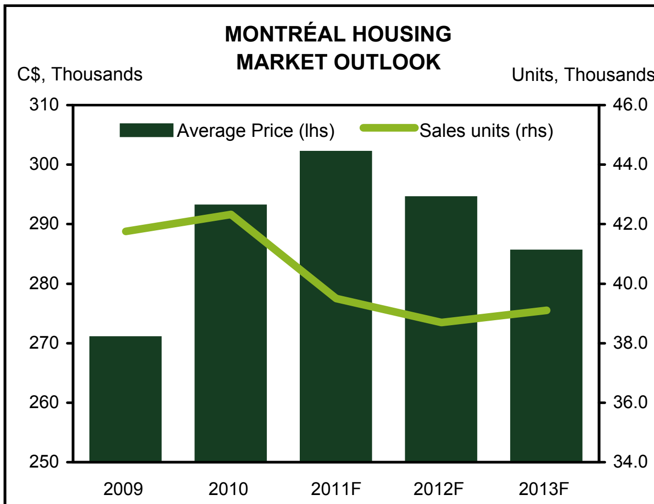
With interest rate hikes on their way, home buyers will have to comb through a few options when contemplating the "if not now then when" conundrum. For example, they could delay their purchases to save up for a larger down payment or they could consider a less expensive home. Those individuals choosing the second option might turn to condominiums.

Data on multi-residential starts suggest that there are still a record-high number of units under construction. This has been the prevailing trend for last three to four years. We estimate that roughly 20,000-24,000 units will come on line each year over 2011-13. When we take demographic changes into consideration, these numbers are well below the 1980s build up period, but at the same time, place the regional housing market in a somewhat precarious position in the event the economy falters again. What's more, all signs point to rent inflation within the GTA coming in below the decade long average.

At present, roughly 45-60% of all condos are purchased by an investor who then in turn, rents the space out. Eroded home affordability combined with sub-par rent levels is expected to reduce investor activity in this particular segment. As long as the economy and population continue to expand at a modest rate, which is our baseline forecast, the newly built units will be absorbed. A minimum pre-buy percentage before construction should also help on this front as well. However, the various "what if" scenarios described suggest that the condo performance over 2011-13 is a risk to our base line GTA forecast.

MONTRÉAL – CONDO SUPPLY PIPELINE EXPECTED TO EASE

Austerity imposed by the provincial government has dampened growth in disposable income and restrained consumer spending. At the same time, new orders for Montréal's aerospace industry are expected to generate economic gains for the region. The mixed climate suggests that the pace of new and resale home buying and selling will slow. However, the year-to-date housing data suggest that lower sales are already taking place. Prices are typically lagged to sales and thus, we anticipate that 2012 will bear much of the brunt of the decrease. Still, the early move on the sales correction should give Montréal a slight edge when compared to the national forecast. The condo supply and the degree, if any, of overbuild is something to keep an eye on for this region.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Manufacturing sectors continue to perk up

The Montréal economy and its manufacturing sector were hit hard by the recession. Last year, growth was driven by a rebound in this sector, but also healthy increases were noted in construction, transportation and retail trade. With much of public stimulus funds expiring last year as well as new revenue-generating measures in place (e.g., increases to the Québec Sales Tax, QPP premium hikes, higher gasoline tax rates, additional post-secondary tuition fees), consumer spending growth will serve as a drag to the near-term provincial economic outlook. Public capital funding envelopes are also constrained due to the fiscal austerity in place; this will dampen construction activity as well. The effects of these government measures will also be felt in the region, the largest in the province.

On a more positive note, the manufacturing sector is poised to continue its rebound after declining throughout the recession and the initial phases of the recovery. Several of the region's aerospace players appear to be getting more orders and media reports indicate that cancellations are becoming rarer. Air passenger travel also seems to be picking up and in some cases, have returned to pre-recessionary highs.

MONTRÉAL, QUÉBEC - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	41.8	42.3	39.5	38.7	39.1
Y/Y %	3.2	1.4	-6.7	-2.0	1.0
Average Existing Home Price					
C$ ('000s)	271.0	293.1	305.4	294.5	285.5
Y/Y %	4.6	8.2	4.2	-3.6	-3.1
Sales-to-Listings Ratio (%)	N/A	N/A	N/A	N/A	N/A
Price-to-Income Ratio (%)	3.9	4.2	4.4	4.1	3.9
Home Affordability (%)	25.8	26.9	27.0	27.9	28.6

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: QREB/Statistics Canada / Haver Analytics.

Consumer spending restraint leaves new condo supply more vulnerable

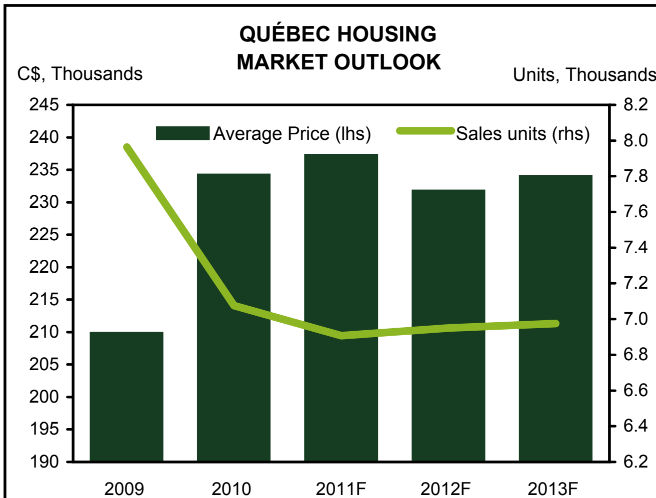
The new fiscal austerity measures in place are poised to particularly affect the new home segment. Much of the growth witnessed recently has been in the multiple-unit category. In fact, we saw these units reach a 22-year high last year. The moderate growth environment, stricter mortgage rules and interest rate hikes will see lower new units built over the next two years. We have already seen a bit of this slowdown in the first few months of 2011.

Mitigating the decline in new condo starts will be the fact that Montréal welcomes the majority of international immigrants who enter Québec every year. Because condos are more affordable than single detached dwellings, these units might be the better alternative for the potential home buyer contemplating ownership, but is worried about budget commitments and monthly carrying costs. Also, vacancy rates and the count of unabsorbed properties do not suggest that there are a lot of new unsold condo units waiting to flood the market.

Moving over to the resale market, we have seen an 11% decline in sales, year-over-year, so far in 2011. Price gains still hover in the 4-5% year-over-year range. While peak-to-trough declines for both measures are slightly less than the national correction in store, the head start should give Montréal a more solid footing relative to others early next year.

QUÉBEC – REGION DEALING WITH FISCAL RESTRAINT

Québec's high concentration in public administration and other general services suggests that the next few years will see sub-par growth. This is because both of these sectors are expected to slow given new austerity measures in place. Both employment and income growth will be subdued, but are still expected to help support housing demand. In 2010, resale units fell by 11.1%, year-over-year, but prices shot up by 11.6%. So far this year, sales are experiencing a bit of pay-back, but prices are holding steady. We expect weakness to creep into prices over the next few months as more listings come on line. Given the economic climate, we do not expect either housing market activity to surge over 2012-13; rather we anticipate that sales will pick up again in 2012, whereas prices gains will once again become the norm in the early part of 2013.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Regional economy concentrated in the services

With provincial government spending restraint in place, Québec will feel the brunt of the fiscal prudence. This is because the region is home to the provincial legislature and the public administration sectors makes up about 13% of GDP. Civil service reductions and compensation freezes should leave both income and employment growth contained until 2013-14, when budgetary surplus is once again achieved.

More broadly, the service sector, including public administration, comprises about 80% of regional GDP, a share that is significantly above the national average. In turn, the new revenue-generating measures in place (e.g., increases to the Québec Sales Tax, QPP premium hikes, higher gasoline tax rates, additional post-secondary tuition fees) will particularly affect the regional economic outlook. Since the start of the year, 16,000 jobs have been lost and the unemployment rate remains elevated at 5.8%. However, part of this latter increase has been due to a growing labour force.

QUÉBEC, QUÉBEC - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	8.0	7.1	6.9	7.0	7.0
Y/Y %	1.6	-11.1	-2.4	0.6	0.4
Average Existing Home Price					
C$ ('000s)	209.9	234.2	241.1	231.8	234.0
Y/Y %	7.3	11.6	2.9	-3.9	1.0
Sales-to-Listings Ratio (%)	N/A	N/A	N/A	N/A	N/A
Price-to-Income Ratio (%)	2.1	2.4	2.4	2.2	2.1
Home Affordability (%)	16.5	17.5	17.0	17.1	18.0

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: QREB/Statistics Canada / Haver Analytics.

In spite of uncertainty, housing to outperform national

Even with the volatility we have seen of late in the Québec regional economy, we anticipate that the correction in store for both prices and sales should be smaller than the national forecast. Part of the reason for the out-performance call lies in the fact that much of the sales correction is already underway; in the first quarter of 2011, sales were down 5.8% relative to the same period last year. The second half of the year will see a bit more activity as people bring forward their purchases/sales to beat the upcoming interest rate hikes. Price gains are expected to therefore simmer down during this period. Overall, we expect a peak-to-trough decline in sales of 7.3% and prices of 6.9% with the Québec region. However, both fall are slated to come in below the provincial and national forecast.

Healthy levels of new immigrants have helped keep annual population growth steady over the last three years. The lacklustre economic forecast might have these population inflows quiet down over the remainder of the 2011-13 period. The slower demographic projections suggest that new home construction will ease as well. Multiple starts also shot up in 2010, and the market must first work through this supply. Still, we do not anticipate any significant deviations in condo construction from demographic trends for two reasons. First, these units are attractive for empty nesters or ageing individuals looking for little maintenance responsibilities. Second, condos are relatively cheaper for a home buyer debating ownership given the economic environment.

HALIFAX – UNDER-WHELMING, UPSIDE POSSIBLE THOUGH

Halifax is service-oriented, has a more diverse employment base, and has a number of large projects and contracts in progress relative to Nova Scotia as a whole. Nonetheless, the regional centre is an important driver of provincial economic growth. Halifax is still reeling from a two percentage point hike to the provincial portion of its Harmonized Sales Tax (HST) put in place last year. What's more, changes to the labour composition seem to suggest that economic uncertainty lingers in the air. Less favourable economic fundamentals should seep into home sales and price activity over the remainder of 2011 and in 2012-13. Due to its starting balanced position though, we anticipate a relatively smaller housing correction for Halifax versus other cities.

Economic fundamentals are a mixed bag

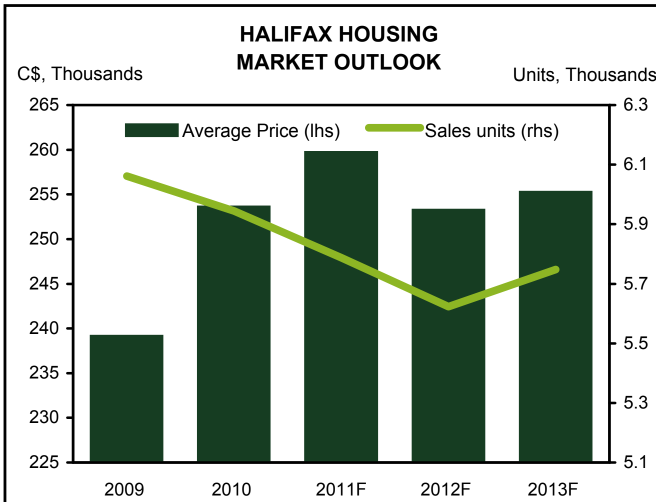
Our forecasts have Nova Scotia trailing the rest of the provincial pack over the 2011-13 period for both economic and employment growth. However, for Halifax, its jobless rate comes in well below the national figure (by about 1.0 ppts) and the provincial figure (by about 2.5 ppts). The better showing is a result of the region's urban setting and its service-sector orientation.

Within the region, discretionary income and consumer spending growth is still feeling the sting of last year's HST hike. Employment growth was also subdued last year and job gains have not been consistently posted so far this year. Of the jobs created, most were in part-time positions. Roughly 20% of the workplace is now in this segment, a high not seen for several years. Economic uncertainty and global risks seem to be keeping employers at bay, but there could also be a more structural change underway.

On a positive note, Halifax is currently in the running for a multi-year, million dollar shipbuilding contract. If the region does get the task, our economic growth forecast would need to be significantly upgraded. The project would undoubtedly bring new jobs and higher wages to the Halifax region and surrounding areas.

HALIFAX, NOVA SCOTIA - TD ECONOMICS' FORECASTS (Various units)	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	6.1	5.9	5.8	5.6	5.7
Y/Y %	-6.3	-1.9	-2.6	-2.8	2.2
Average Existing Home Price					
C$ ('000s)	239.2	253.6	260.6	253.3	255.3
Y/Y %	3.0	6.0	2.8	-2.8	0.8
Sales-to-Listings Ratio (%)	0.6	0.6	0.6	0.6	0.4
Price-to-Income Ratio (%)	2.9	2.9	2.9	2.6	2.5
Home Affordability (%)	20.4	20.3	19.5	19.7	20.4

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Market remains in balanced territory

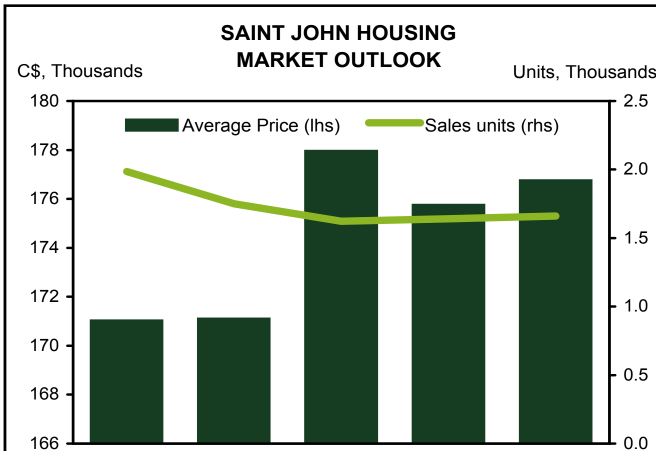
Sub-par job creation, the gravitation towards part-time jobs, and only moderate wage growth should keep housing demand in check. This crept in home sales and we are seeing declines on a year-over-year basis. Prices so far remain up when compared to the same month last year.

In terms of the average resale price, the Halifax housing market does not show signs of being over valued; the price to income ratio currently sits at 2.9 or roughly the decade-long average. This is the case even with the mild run up in home prices that we have seen of late. As such, prices do not appear to be at a risk of a significant downturn going forward. In turn, the region is expected to see less housing-related uncertainty than other major urban centres.

Even with the region firmly in balanced territory, we anticipate that Halifax should see a peak-to-trough decline in sales and prices of 8.3% and 6.1%, respectively. Both of these corrections are poised to come in well below the national average. Helping keep a floor on the price decrease is that fact that two-storey homes now represent approximately 50% of the resale market. These single properties currently have a resale price of about $300,000, which is helping to support the regional average price.

SAINT JOHN – ECONOMIC FACTORS LESS SUPPORTIVE FOR HOUSING

The New Brunswick government's sizeable deficit suggests that there will some fiscal drag to come over the next few years. This restraint is likely to spill over into the province's three major centres. For this regional overview, we have focused on the Saint John region and its housing market. The economic outlook will be mixed going forward; manufacturing industries are poised to record gains, but the pulp and paper sector is expected to see depressed activity amid fairly low lumber prices. The lacklustre forecast is poised to translate into only some support for continued housing demand. However, the market is currently in a balanced position and we can expect it to remain there over 2011-13. All told, we call for a 10.8% and 5.6% peak-to-trough decline in sales and prices over these years relative to where the region stands today.



Note: Forecasts by TD Economics as of June 2011.
Source: CREA, Haver Analytics.

Economic outlook has its strong and weak spots

Saint John is the industrial centre of the province, concentrated in oil refining, shipbuilding and paper processing. The first segment will likely continue to see gains, even though crude oil prices are to remain robust over the 2011-13 period. The manufacturing segment of the region is expected to be rewarded with the recent thawing of global demand. Large scale capital investments, while in the initial stages, may bring benefits to the regional economy.

The regional shipbuilding industry could take a hit if Halifax is awarded the shipbuilding federal government contract under consideration. However, Saint John may be well positioned to see some spill over benefits. Still, the economic impacts are too premature to forecast at this stage.

Last but not least, the forestry sector is also an important sector for the regional economy. It produces significant quantities of lumber and paper products, which are then shipped to the U.S. The slow, gradual recovery south of the border, combined with low lumber prices and a high Canadian dollar, will represent several challenges to overcome over the near-term.

The economic climate suggests that income and job growth will be muted going forward. In fact, for the first six months of the year, the job gains within the region have been relatively flat. Income growth should therefore follow suit. While the next few years are expected to put forth a better showing, the overall environment will be rather subdued.

SAINT JOHN, NEW BRUNSWICK - TD ECONOMICS' FORECASTS (Various units)

	2009	2010	2011F	2012F	2013F
Existing Home Sales					
Units ('000s)	2.0	1.8	1.6	1.6	1.7
Y/Y %	-8.3	-11.8	-7.3	1.1	1.2
Average Existing Home Price					
C$ ('000s)	171.0	171.1	178.0	175.8	176.8
Y/Y %	8.2	0.0	4.0	-1.2	0.6
Sales-to-Listings Ratio (%)	0.6	0.5	0.5	0.4	0.4
Price-to-Income Ratio (%)	2.1	2.3	2.2	2.2	2.1
Home Affordability (%)	18.9	17.5	16.6	16.3	16.9

E, F: Estimate, Forecast by TD Economics as of June 2011.
Source: CREA/Statistics Canada / Haver Analytics.

Housing to correct in light of economic outlook

In 2010, new home starts increased as there was speculation surrounding new investments into the region's energy sector. Since many of these projects are still under consideration, we expect starts to moderate over the next three years. New condo starts will remain attractive however, given the subdued income and job gains anticipated and the rising carrying cost burden; Saint John has the highest average resale price in the province ($178,513 in May 2011).

In light of the economic context, we believe that factors will be less supportive for resale demand over our forecast period. In 2011 Q1, sales were down by 13.5%, but prices held steady at 6.2%. New listings coming on line in the months ahead will soften the annual price gain. The price and sales correction in store is quite small relative to the national average. This out-performance is based on the fact that the price-to-income ratio does not point to a great degree of over-valuation in the market. Second, home affordability remains favourable in the 16-18% range even with interest rate hikes to come and tighter mortgage rules already in place.

HOUSING STARTS Thousands of units	2009	2010	2011F	2012F	2013F
CANADA	148.8	191.5	176.1	164.0	171.0
N. & L.	3.2	4.2	3.4	3.6	4.1
P.E.I.	0.9	0.8	0.7	0.7	0.7
N.S.	3.4	4.4	3.7	3.7	3.5
N.B.	3.5	4.5	1.8	2.0	2.4
Québec	44.0	51.0	45.5	41.0	45.6
Ontario	50.1	61.2	63.4	55.0	55.5
Manitoba	4.0	6.0	4.3	4.2	4.0
Sask.	3.8	6.1	6.2	6.8	7.0
Alberta	20.0	26.9	21.1	21.5	22.2
B.C.	16.0	26.6	26.0	25.5	26.0

F: Forecast by TD Economics as at June 2011
Source: CMHC / Haver Analytics

HOUSING STARTS Per cent change	2009	2010	2011F	2012F	2013F
CANADA	-29.7	28.7	-8.1	-6.8	4.3
N. & L.	0.0	32.5	-18.6	5.9	13.9
P.E.I.	22.9	-9.8	-11.3	0.0	-1.5
N.S.	-15.8	27.8	-15.3	0.0	-5.4
N.B.	-21.6	29.6	-59.9	11.1	20.0
Québec	-8.2	15.8	-10.7	-9.9	11.2
Ontario	-33.7	22.3	3.6	-13.2	0.9
Manitoba	-26.8	49.1	-28.6	-2.3	-4.8
Sask.	-45.2	61.1	2.2	9.7	2.9
Alberta	-31.6	34.3	-21.4	1.9	3.3
B.C.	-53.2	66.4	-2.4	-1.9	2.0

F: Forecast by TD Economics as at June 2011
Source: CMHC / Haver Analytics

EXISTING HOME SALES Thousands of units	2009	2010	2011F	2012F	2013F
CANADA	465.1	447.0	435.0	417.3	416.4
N. & L.	4.4	4.2	4.1	4.1	4.2
P.E.I.	1.4	1.5	1.5	1.5	1.5
N.S.	10.0	10.0	9.8	9.6	9.9
N.B.	7.0	6.7	6.6	6.6	6.7
Québec	79.1	80.1	73.2	70.7	72.2
Ontario	195.8	195.6	185.7	177.0	175.0
Manitoba	13.1	13.2	14.1	13.9	14.3
Sask.	11.1	10.9	11.7	11.3	11.3
Alberta	57.5	49.7	50.5	51.1	52.0
B.C.	85.0	74.6	78.0	71.4	69.5

F: Forecast by TD Economics as at June 2011
Source: CREA

EXISTING HOME SALES Per cent change	2009	2010	2011F	2012F	2013F
CANADA	7.7	-3.9	-2.7	-4.1	-0.2
N. & L.	-5.9	-4.1	-3.7	1.1	2.4
P.E.I.	-0.6	5.9	2.6	-2.0	0.4
N.S.	-7.8	0.1	-2.1	-2.0	2.3
N.B.	-7.3	-4.3	-1.7	0.6	0.4
Québec	3.1	1.2	-8.6	-3.4	2.1
Ontario	8.2	-0.1	-5.1	-4.7	-1.1
Manitoba	-3.2	0.6	7.0	-1.3	2.9
Sask.	5.3	-2.0	7.3	-2.9	-0.7
Alberta	2.7	-13.6	1.5	1.3	1.7
B.C.	23.4	-12.2	4.4	-8.4	-2.7

F: Forecast by TD Economics as at June 2011
Source: CREA

AVERAGE EXISTING HOME PRICE Thousands of C$	2009	2010	2011F	2012F	2013F
CANADA	320.4	339.0	363.7	343.8	334.1
N. & L.	206.4	235.3	246.4	247.0	248.5
P.E.I.	146.0	147.2	144.6	143.3	144.0
N.S.	196.7	206.2	211.5	204.3	206.5
N.B.	154.9	157.2	157.6	159.0	160.0
Québec	225.4	241.5	252.6	241.8	234.0
Ontario	318.4	342.2	360.7	342.0	330.6
Manitoba	201.3	222.1	236.4	230.5	230.0
Sask.	232.9	242.3	256.1	250.8	251.0
Alberta	341.8	352.3	358.4	360.0	365.0
B.C.	465.7	505.2	563.8	520.5	502.5

F: Forecast by TD Economics as at June 2011
Source: CREA

AVERAGE EXISTING HOME PRICE Per cent change	2009	2010	2011F	2012F	2013F
CANADA	5.0	5.8	7.3	-5.5	-2.8
N. & L.	15.6	14.0	4.7	0.2	0.6
P.E.I.	4.4	0.8	-1.7	-1.0	0.5
N.S.	3.6	4.8	2.6	-3.4	1.1
N.B.	6.3	1.5	0.3	0.9	0.6
Québec	4.7	7.1	4.6	-4.3	-3.2
Ontario	5.3	7.5	5.4	-5.2	-3.3
Manitoba	5.8	10.3	6.4	-2.5	-0.2
Sask.	4.0	4.0	5.7	-2.1	0.1
Alberta	-3.4	3.1	1.7	0.4	1.4
B.C.	2.4	8.5	11.6	-7.7	-3.5

F: Forecast by TD Economics as at June 2011
Source: CREA