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Metropolitan Housing Outlook **Spring 2008**



In-Depth Housing Analysis for Canada, the Provinces, and Eight Metropolitan Areas

ECONOMIC PERFORMANCE AND TRENDS



Metropolitan Housing Outlook: In-Depth Housing Analysis for Canada, the Provinces, and Eight Metropolitan Areas
by Alan Arcand, Maxim Armstrong, Mario Lefebvre, Jane McIntyre, Greg Sutherland, and Robin Wiebe

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Preface

This report provides an in-depth analysis of the housing market at the national, provincial, and metropolitan levels. Covering a wide range of housing market statistics, such as interest rates, housing starts, mortgage approvals, and home prices, this report connects the economy with housing market activity. It also provides insights into the financial situation of consumers.

Eight census metropolitan areas are covered:

Québec City, Montréal, Toronto, Ottawa–Gatineau, Calgary, Edmonton, Vancouver, and Victoria.

Provincial coverage includes the Atlantic provinces, Quebec, Ontario, the Prairies, Alberta, and British Columbia.

This report is completed three times a year, in the spring, summer, and fall.

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What Has Changed?

Forecast growth in Canadian real gross domestic product (GDP) for 2008 has been reduced from 3.4 per cent in our last forecast to 2.2 per cent now. The downgrade can be largely pinned on an unexpectedly poor trade performance in 2007's fourth quarter, in part due to weaker-than-expected economic growth in the United States, by far Canada's largest trading partner.

We now forecast the Canadian dollar will average US\$1.00 in 2008, up from an expectation of US\$0.95 in this report's last release. Strong global demand for raw materials from emerging nations and for gold and oil from speculators has boosted Canadian commodity exports, resulting in higher demand for the Canadian dollar.

Our expectation for national housing starts has been revised upwards from the 194,000 units in 2008 and 191,200 units in 2009 presented in our last report to a current forecast of 215,000 units and 194,000 units respectively. Starts surprised on the upside last year and in this year's first quarter, fuelling a more optimistic outlook.

Price growth for new homes was expected to clock in at 3.7 per cent in 2008 and 3.5 per cent in 2009, while existing homes' average sale price was simultaneously expected to rise 5.7 per cent and 4.9 per cent. We now expect prices for new homes to advance 3.8 per cent in 2008 as land, labour, and material costs rise faster than expected this year. New home prices are now expected to rise

2.9 per cent in 2009, while resale prices advance 5.1 and 3.2 per cent in 2008 and 2009 respectively. A slightly weaker economy is largely responsible for the downgrades.

Our last forecast called for the number of mortgage approvals to drop 1.7 per cent in 2008 and for their value to rise 3.5 per cent. We now expect drops in both mortgage approval volumes and their dollar value: 6.8 per cent and 0.9 per cent respectively. Again, a generally softer economy and accompanying weaker resale market has prompted the downward revision.

Executive Summary

National Overview

Weaker U.S. growth and the hangover from a poor trade performance in 2007's fourth quarter will trim Canadian real gross domestic product (GDP) growth to 2.2 per cent in 2008. This forecast, predicated on our assumption that domestic demand will remain relatively healthy and continue to offset sagging trade activity, is bolstered by a better-than-expected first-quarter GDP reading from the United States.

Canadian consumers remain optimistic, boosting spending by an annualized 7.4 per cent in the fourth quarter of 2007, the second-highest pace in the last 30 years. Unfortunately, falling exports and rising imports offset much of this strength, shaving annualized real GDP growth to 0.8 per cent in last year's final quarter and to 2.7 per cent for the year as a whole. A stable exchange rate and recovering U.S. economy will foster Canadian GDP growth near 3.0 per cent in 2009 and 2010. Significant monetary stimulus in the United States including that ignited by a falling greenback underpins this positive outlook.

Driven by pent-up demand, sound employment growth, and lower interest rates, Canadian housing starts posted their eighth annual increase of the past decade last year. Total starts rose from 137,400 units in 1998 to 230,000 units in 2007, a 6.1 per cent average annual increase. But demographic requirements are expected to drop off, helping limit home price growth and construction levels. While regional performance will be mixed, national starts are expected

to ease to just under 215,000 units this year and 194,000 units in 2009, a 15 per cent drop. Starts will then hover around 189,500 units annually from 2010 to 2012. While starts of both singles and multiples are forecast to drop through 2010, the drop in singles will be generally larger. This reflects empty nesters' preference for multiples and these units' relative affordability for first-time homebuyers.

Although starts grew strongly during the late 1990s, new home price increases did not accelerate until interest rates started falling in 2001. Average new home price growth was only 1.9 per cent per year from 1999 to 2001, but rose to 4.9 per cent between 2002 and 2005 and 8.7 per cent in the past two years. New home prices averaged \$383,100 in 2007—\$60,000 more than in 2005, and \$130,000 more than in 1998.

A strong market lifted resale prices even faster. Since 2002, average resale home prices have increased by 10.2 per cent per year, exceeding \$300,000 for the first time in 2007. This was also \$60,000 more than in 2005, and more than double 1998's level.

Lower demand growth will temper future price hikes. New home prices are expected to rise a moderate 3.8 per cent this year, and average 3.0 per cent annual growth in 2009 to 2012. Resale home price growth is projected to slow to 5.1 per cent in 2008 and to 2.7 per cent by 2012. This is in marked contrast to the existing housing market in the United States, where prices peaked in late 2005 and have been sliding since.

Even though rising home prices and questionable lending practices caused a real estate bubble and bust in the United States, Canada's housing market is prompting no such concerns. Census data suggests that even elevated starts in 2002–2006 were in line with demographic requirements. Moreover, Canada's tighter lending practices and federally regulated mortgage insurance requirements ensure equal access to low mortgage rates—keeping housing markets active and boosting ownership affordability.

Rising housing demand has boosted national mortgage approval volumes by an average of 7.1 per cent per year and their dollar value by an annual average of 16.6 per cent since 2001. Weakening housing markets are forecast to cut approvals' 2008 number by 6.8 per cent. However, continued price growth will limit the dip in values to 0.9 per cent. Average numbers and values of mortgage approvals are expected to grow modestly from 2009 to 2012. High-ratio mortgage approvals had been growing faster than conventional approvals because rapid price increases left fewer buyers able to muster the 20 per cent down payment needed to avoid high-ratio status. In 2008, high-ratio approvals are expected to fall by 7.0 per cent, more than conventional mortgages' 6.5 per cent decline, as homebuyers use accumulated equity to purchase or refinance dwellings and the wave of high-ratio purchasers, given access to home ownership by innovative mortgage products, subsidies.

Provincial Overview

Commodity-fuelled economic growth generally favours Canada's four western provinces and is fostering stronger housing demand there. Price and volume behaviour in the resale market, along with burgeoning starts, reflect this. The more subdued manufacturing-oriented economies of Ontario and Quebec are prompting somewhat weaker housing outlooks.

In British Columbia, robust domestic demand should more than offset challenges from U.S. economic weakness, the lofty Canadian dollar, and financial market uncertainty, leading to growth of 2.6 per cent, down from 2.9 per cent last year but above the national pace. Softness in the vulnerable forestry and manufacturing industries will be countered by strength in wholesale and retail trade, construction, and mining. Still, slowing population hikes and sharply deteriorating housing affordability will shave starts by 2.9 per cent from 2007's 13-year high, followed by a larger drop in 2009 and subsequent modest easing. Although robust demand has prompted strong price increases for both new and existing homes, these will slow this year and continue to moderate throughout our forecast. As a result, affordability will deteriorate only slightly further this year, but then stabilize. Still, healthy international migration, especially from Asia, will help keep this market afloat. Indeed, most of Vancouver's population growth has come from abroad, since net domestic migration to the city has been negative for 11 straight years and the rate of natural increase is slowing.

Alberta's economy will remain strong in 2008, although soft natural gas prices and uncertainty over the

province's new royalty regime will curtail drilling and construction. Healthy manufacturing, oil production, and services sector growth will boost Alberta's economy by 2.8 per cent in 2008. Next year, rebounding construction and drilling will help generate 3.6 per cent growth. Nevertheless, the housing market has clearly turned. Affordability deterioration and a slowdown from recent years' breakneck growth are limiting housing demand, while recent strong price growth is attracting a burgeoning supply of resale listings. Alberta housing starts hovered above 48,000 units in 2006 and 2007, but are expected to fall a dramatic 17.9 per cent this year and more gradually thereafter. New home price growth, at 22.4 per cent in 2007, will plunge to 5.7 per cent in 2008 and ultimately slow further. The average resale price rose 24.3 per cent in 2007, but growth will slow sharply to 2.3 per cent this year.

A diversified manufacturing sector and large transportation equipment orders will boost Manitoba's economy 4.7 per cent in 2008. In Saskatchewan, high commodity prices, major capital projects, and a strong domestic economy will produce 5.0 per cent growth. Robust population and income hikes in both provinces have led to surging housing starts and strong house price appreciation. Starts will dip but stay strong this year, then pull back in 2009–2011. Our annual average forecast of 9,100 total starts during this period is still significantly higher than the 6,200 units per year between 1988 and 2007. While prices for both new and existing homes increased roughly 20.0 per cent in 2007, new home price growth will cool to 9.6 per cent and resale price growth will ease to 13.5 per cent this year. Price increases

for both house types will average roughly 2.4 per cent from 2009 to 2012.

Ontario's economy features an auto-dominated trade sector fighting softening U.S. consumer demand, financial market fallout, and the strong Canadian dollar. But moderate growth in consumption, investment, and public capital expenditures will offset some trade woes. Real GDP is forecast to grow by a modest 1.6 per cent in 2008. Domestic demand will continue to hold its own. Housing starts are expected to rise by 0.6 per cent this year, thanks to a blowout first quarter, but dip 3 per cent next year. In 2010 to 2012, improving income and demographic factors will lift starts by a yearly average of 4.9 per cent. New home prices will rise 2.7 per cent annually over the next two years, then by an annual average of 3.3 per cent. Resale price appreciation is expected to moderate from 4.4 per cent in 2008 to 2.6 per cent in 2012.

Quebec's economy is confronting the same external challenges as Ontario's. Despite strong capital expenditures, increased federal fiscal stimulus, and provincial income tax cuts, real GDP is expected to rise by only 1.8 per cent in 2008, although growth will accelerate to 2.6 per cent in 2009. Quebec housing starts are forecast to drop by 6.1 per cent in 2008 and by 14.2 per cent in 2009, with continued easing through the medium term, as starts fall more in line with demographic requirements near 30,000 units annually. New and existing home prices are forecast to rise 3.3 per cent and 4.7 per cent respectively in 2008 and 2009, then slow to average annual growth of 2.9 per cent for new homes and 3.0 per cent for existing homes.

Declining oil production in Newfoundland and Labrador, waning investment in Prince Edward Island, and difficult forestry markets facing New Brunswick will outweigh Nova Scotia's good private investment, manufacturing, and services sector outlook, cutting growth in Atlantic Canada's real GDP to 1.4 per cent in 2008 from 3.1 per cent last year. The region's growth will accelerate to 2.2 per cent in 2009. Last year, a strong Newfoundland and Labrador economy lifted total starts by 3.7 per cent, but starts are expected to resume easing, with drops of 6.9 per cent and 28.4 per cent in the next two years, to a low of 6,300 units in 2012. Price growth for both new and resale homes will decelerate to the mid-2 per cent range as demand falls.

Municipal Overview

Economic growth above 3.0 per cent will prevail in all four western census metropolitan areas (CMAs) covered in the *Metropolitan Housing Outlook* during 2008, while none of their four eastern counterparts will attain this threshold. Calgary is this year's expected leader, with 3.9 per cent GDP growth forecast. In Montréal, by contrast, GDP will advance only 2.4 per cent. Calgary and Montréal will retain their relative positions in 2009, with expected GDP growth of 4.0 per cent and 2.6 per cent respectively. Long-term outlooks for most CMAs are positive: average 2011–2012 economic growth will be above the 2007 level in all CMAs except Québec City and Victoria.

Housing starts are poised to drop in seven of the eight CMAs this year, with Toronto's 7.4 per cent starts advance the outlier. A

second straight year of declining starts is expected in the recently hot Alberta centres, but the drop will accelerate in Edmonton and taper off in Calgary. Victoria will see this year's largest relative starts drop, at 23.5 per cent, while Edmonton's roughly 2,900-unit decline is the largest absolute fall. Toronto will remain the longer term renegade, as its 4.4 per cent average annual starts growth in 2009–2012 will contrast with declines on average in the remaining seven CMAs. Relative drops of 7.4 per cent per year on average in Québec City and 6.3 per cent annually in Edmonton will be the largest.

Sales of existing homes advanced in six of our eight CMAs last year, with Montréal, Toronto, and Victoria all posting growth above 12.0 per cent. Resale volumes dipped in Calgary and Edmonton following several years of brisk advances. This year, sales are expected to fall in all eight CMAs, with drops of 12.1 per cent in Calgary and 9.3 per cent in Edmonton leading the downturn. The longer term looks brighter across the board, as annual sales will grow, on average, in all eight CMAs between 2009 and 2012. Toronto's 2.7 per cent expected annual advance will lead.

Resale market balances, measured by the sales-to-new-listings ratio, indicated sellers' conditions in at least six of eight markets during 2007. This ratio was 60 per cent or higher in all markets except Edmonton and Montréal, and the latter's 56 per cent reading was near the boundary between a balanced and a sellers' stance. Sales-to-new-listings ratios will drop in seven markets this year but remain unchanged in Québec City. Calgary and Montréal will

join Edmonton as balanced markets this year. Markets will remain relatively tight in Toronto, Québec City, and Vancouver; all are expected to have sales-to-new-listings ratios of 64 per cent or higher this year. These cities will also feature the highest sales-to-new-listings ratios in 2009–2012.

Unsurprisingly, average resale price increases were strongest last year in Edmonton and Calgary, with 34.3 per cent and 18.7 per cent growth respectively. By contrast, Ottawa's resale prices were up only 6.3 per cent. The 2008 picture is dramatically different, as price growth will plummet in the Alberta centres. Vancouver and Victoria will lead the way this year, with price growth of 8.9 per cent and 7.6 per cent respectively. In the longer term, Calgary will resume its position as a price growth leader; its 3.9 per cent average growth in 2009–2012 will be the best among this report's cities.

Affordability, evaluated by the ratio of mortgage payments to average household income has deteriorated in all eight of this report's cities in recent years. The worst affordability dip occurred in Edmonton, where the average mortgage payment as a percentage of household income increased from 17.9 per cent in 2006 to 23.6 per cent in 2007. Even at this higher level, Edmonton is hugely more affordable than Vancouver, where this ratio is 46.1 per cent. This ratio will rise more slowly this year than last in all markets and actually decline in Calgary and Edmonton. The worst of the affordability drops seems over, as slowing price growth allows incomes to play catch-up.

Economic Indicators

	GDP (1997 \$ millions)			Employment (000s)			Unemployment Rate			Personal Income per Capita			Retail Sales (\$ millions)		
	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f
Canada	1,316,219 2.7	1,345,613 2.2	1,385,976 3.0	16,865 2.3	17,159 1.7	17,348 1.1	6.0	5.8	5.8	35,264 5.0	36,378 3.2	37,483 3.0	411,993 5.8	434,879 5.6	458,894 5.5
Atlantic provinces	68,408 3.1	69,398 1.4	70,892 2.2	1,097 1.4	1,113 1.4	1,119 0.6	9.2	8.7	8.0	30,828 3.1	31,814 1.9	32,912 3.2	29,236 6.1	31,036 6.2	32,557 4.9
Quebec	248,166 2.6	252,601 1.8	259,057 2.6	3,852 2.3	3,901 1.3	3,925 0.6	7.2	6.9	6.8	32,424 5.1	33,212 2.4	34,160 2.9	90,470 4.3	94,365 4.3	99,188 5.1
Québec City	24,698 2.9	25,340 2.6	26,143 3.2	386 2.4	392 1.7	398 1.3	5.0	5.1	4.9	35,301 4.3	36,438 3.2	37,772 3.7	10,793 4.5	11,345 5.1	12,004 5.8
Montréal	122,953 2.2	125,939 2.4	129,219 2.6	1,902 2.5	1,926 1.3	1,942 0.8	7.0	7.0	7.1	33,879 4.6	35,030 3.4	36,146 3.2	40,969 3.3	42,994 4.9	45,246 5.2
Ontario	493,094 2.1	501,181 1.6	517,678 3.3	6,592 1.5	6,693 1.5	6,781 1.3	6.4	6.4	6.5	35,987 4.2	37,007 2.8	38,051 2.8	146,222 3.8	154,101 5.4	162,752 5.6
Ottawa-Gatineau	45,751 2.7	46,957 2.6	48,313 2.9	652 1.3	658 1.1	670 1.8	5.2	5.5	5.7	40,077 4.9	41,310 3.1	42,862 3.8	14,271 4.6	15,157 6.2	15,994 5.5
Toronto	221,758 2.5	227,210 2.5	235,664 3.7	2,866 2.3	2,902 1.3	2,971 2.4	6.8	6.8	6.7	37,018 3.5	37,981 2.6	39,300 3.5	57,980 5.3	61,476 6.0	65,384 6.4
Prairies	76,337 3.7	80,014 4.8	81,941 2.4	1,098 1.8	1,121 2.1	1,133 1.1	4.3	4.0	4.1	31,480 6.2	32,870 4.4	33,941 3.3	27,104 10.9	29,692 9.5	31,458 5.9
Alberta	181,419 2.7	186,548 2.8	193,345 3.6	1,959 4.7	2,013 2.7	2,049 1.8	3.5	3.2	3.1	45,617 7.6	47,656 4.5	49,189 3.2	61,116 9.0	64,460 5.5	68,434 6.2
Calgary	64,145 3.4	66,652 3.9	69,333 4.0	681 3.9	695 2.1	710 2.2	3.2	3.2	3.4	52,922 6.5	54,021 2.1	55,811 3.3	22,333 8.5	23,765 6.4	25,333 6.6
Edmonton	50,735 2.8	52,543 3.6	54,517 3.8	599 6.7	615 2.6	623 1.3	3.8	3.7	3.6	42,863 6.0	44,354 3.5	45,758 3.2	19,397 7.3	20,570 6.0	21,871 6.3
British Columbia	150,249 2.8	154,199 2.6	158,720 2.9	2,267 3.2	2,319 2.3	2,341 1.0	4.2	4.1	4.1	34,294 4.8	35,679 4.0	36,739 3.0	56,382 7.1	59,622 5.7	62,813 5.4
Vancouver	81,066 3.0	83,540 3.1	86,337 3.3	1,223 3.0	1,251 2.3	1,276 2.1	4.0	4.0	3.9	34,941 4.9	36,231 3.7	37,558 3.7	25,497 5.5	26,972 5.8	28,566 5.9
Victoria	11,490 3.5	11,839 3.0	12,156 2.7	183 4.4	189 3.2	190 0.5	3.3	3.6	3.8	38,945 6.2	40,553 4.1	41,783 3.0	3,963 8.1	4,205 6.1	4,410 4.9

Italics indicate percentage change.

Sources: The Conference Board of Canada; Bank of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Demographic and Housing Indicators

	Population (000s)			Housing Starts			Housing Completions			Existing Home Prices			New Home Prices		
	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f
Canada	32,934 1.0	33,249 1.0	33,558 0.9	228,343 0.4	214,928 -5.9	194,245 -9.6	209,129 -3.4	216,460 3.5	201,312 -7.0	306,879 11.1	322,424 5.1	332,840 3.2	383,133 7.7	397,789 3.8	409,240 2.9
Atlantic provinces	2,330 -0.2	2,334 0.2	2,337 0.1	12,391 3.7	11,530 -6.9	8,259 -28.4	11,505 -0.1	11,730 2.0	9,215 -21.4	158,008 6.8	162,938 3.1	167,006 2.5	275,413 4.1	286,465 4.0	293,085 2.3
Quebec	7,695 0.7	7,744 0.6	7,787 0.5	48,553 1.4	45,596 -6.1	39,131 -14.2	49,260 0.8	42,758 -13.2	38,976 -8.8	208,448 7.3	218,155 4.7	224,110 2.7	265,604 4.8	274,378 3.3	282,332 2.9
Québec City	729 1.1	736 1.0	743 0.8	5,284 2.1	4,866 -7.9	4,306 -11.5	4,442 -25.0	5,050 13.7	4,603 -8.9	165,620 11.4	174,887 5.6	179,666 2.7	191,176 4.0	198,300 3.7	204,284 3.0
Montréal	3,696 0.7	3,723 0.7	3,753 0.8	23,233 1.8	21,513 -7.4	18,636 -13.4	24,361 0.9	23,864 -2.0	18,986 -20.4	230,147 6.5	241,320 4.9	248,711 3.1	281,659 4.3	292,118 3.7	301,489 3.2
Ontario	12,790 0.9	12,902 0.9	13,050 1.1	68,123 -7.2	68,544 0.6	66,455 -3.0	64,013 -14.2	71,206 11.2	65,956 -7.4	299,732 8.0	312,850 4.4	322,688 3.1	445,788 3.1	457,839 2.7	469,751 2.6
Ottawa-Gatineau	1,169 0.5	1,176 0.6	1,187 0.9	9,294 5.5	8,566 -7.8	7,610 -11.2	8,310 1.4	9,239 11.2	7,826 -15.3	254,853 6.3	264,231 3.7	271,301 2.7	349,131 1.8	353,799 1.3	361,469 2.2
Toronto	5,510 1.6	5,599 1.6	5,704 1.9	33,293 -10.2	35,771 7.4	34,863 -2.5	30,357 -20.4	35,324 16.4	34,604 -2.0	385,826 7.5	400,234 3.7	413,980 3.4	518,619 2.7	534,223 3.0	549,506 2.9
Prairies	2,181 0.7	2,208 1.2	2,227 0.9	11,745 34.3	11,493 -2.1	9,930 -13.6	9,351 18.3	11,231 20.1	11,317 0.8	170,772 19.5	193,887 13.5	200,153 3.2	310,220 20.0	340,013 9.6	349,495 2.8
Alberta	3,460 2.9	3,512 1.5	3,570 1.6	48,336 -1.3	39,691 -17.9	36,082 -9.1	41,838 7.1	41,864 0.1	37,996 -9.2	355,658 24.3	363,943 2.3	373,635 2.7	464,885 22.4	491,182 5.7	507,977 3.4
Calgary	1,139 3.5	1,168 2.6	1,191 1.9	13,505 -20.8	13,075 -3.2	11,926 -8.8	13,112 3.3	13,991 6.7	12,708 -9.2	413,139 18.7	421,076 1.9	435,109 3.3	505,055 16.2	522,980 3.5	542,722 3.8
Edmonton	1,081 2.8	1,103 2.0	1,119 1.5	14,888 -0.5	12,014 -19.3	10,446 -13.0	11,839 -2.8	13,594 14.8	11,314 -16.8	337,428 34.3	345,987 2.5	353,668 2.2	422,095 32.1	457,182 8.3	472,511 3.4
British Columbia	4,374 1.4	4,429 1.3	4,480 1.1	39,195 7.6	38,073 -2.9	34,388 -9.7	33,162 -4.0	37,671 13.6	36,756 -2.4	437,757 12.1	479,325 9.5	500,358 4.4	653,244 6.7	679,811 4.1	701,405 3.2
Vancouver	2,286 1.3	2,312 1.2	2,343 1.3	20,736 10.9	19,505 -5.9	17,566 -9.9	17,816 -1.4	19,495 9.4	18,477 -5.2	568,588 11.5	619,357 8.9	651,201 5.1	674,490 7.1	705,268 4.6	729,307 3.4
Victoria	337 1.0	341 1.1	344 0.8	2,579 -5.8	1,974 -23.5	1,835 -7.0	2,141 4.7	2,454 14.6	1,974 -19.6	467,147 9.6	502,703 7.6	517,296 2.9	467,431 0.5	476,555 2.0	490,121 2.8

Financial Indicators (Canada only)

	2007	2008f	2009f	2007	2008f	2009f	2007	2008f	2009f
Exchange rate (US\$/C\$)	0.93	1.00	0.99	6.9	6.7	5.9	Federal bonds: 1-3 years		
Inflation rate	2.1	1.3	1.9	7.1	6.9	6.5	Federal bonds: 3-10 years		
Bank rate	4.6	3.3	3.6	7.1	7.0	6.7	Federal bonds: 10 years and over		

Italics indicate percentage change.

Sources: The Conference Board of Canada; Bank of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Canada



Weaker U.S. growth coupled with poor trade performance over the fourth quarter of 2007 has forced a significant downward revision to the Canadian economic growth forecast for 2008. Real GDP is now expected to advance by 2.2 per cent this year. Despite a still strong domestic economy, housing starts will fall by 5.9 per cent this year and a further 9.6 per cent next year. Price growth in both the new and existing home markets will decelerate as well. The average price of a new home is forecast to grow by 3.8 per cent in 2008, while existing home prices will rise 5.1 per cent.

Economic Outlook

Although soft U.S. consumer sentiment is causing significant angst for some Canadian industries, for now, Canada's household sector seems unfazed by the slowdown south of the border. Canadian consumers boosted consumer spending by an annualized 7.4 per cent in the fourth quarter of 2007. To put this performance in perspective, consumer spending has matched this pace of growth only once in the last 30 years, with growth that reached 7.8 per cent in the third quarter of 1985. Unfortunately, a significant decline in exports—down by an annualized 8.5 per cent—and an even stronger gain in imports neutralized much of the strength in the domestic economy. As a result, real gross domestic product (GDP) posted annualized growth of only 0.8 per cent in the final quarter of last year, for a 2.7 per cent gain for the year as a whole.

Looking ahead, the turmoil in the United States and a still strong Canadian dollar will keep export growth in check. As well, employment growth is expected to slow because of a lack of labour supply, as the recent strength in job creation has exhausted sources of excess labour. The unemployment rate, which has been falling in recent years, is forecast to average a 33-year low of 5.8 per cent this year. Accordingly, real GDP growth in Canada is expected to advance by 2.2 per cent this year. This is a significant downward revision from the 2.8 per cent gain expected for this year in the previous *Metropolitan Housing Outlook*.

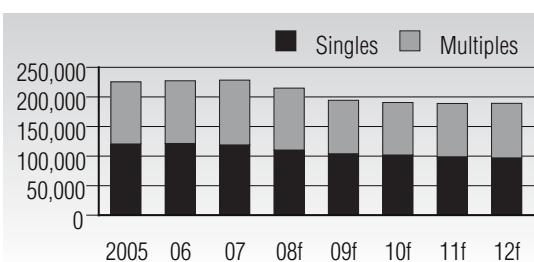
Over the forecast period, elevated raw material prices are expected to continue to benefit the Canadian economy despite the downturn south of the border. While some commodity prices will ease this year and next,

strength in the Raw Materials Price Index will be supported by stronger prices for agricultural commodities. Economic growth in the coming years will also be helped by a stable exchange rate and recovering U.S. economy. Overall real GDP growth of 3.0 per cent can be expected for 2009 and 3.1 per cent for 2010.

Financial Markets Outlook

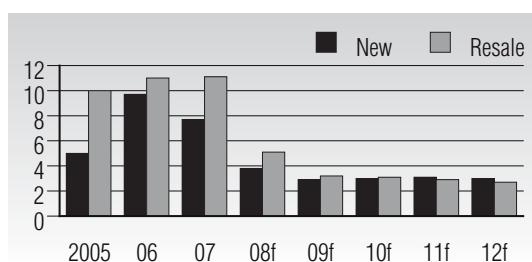
A strong loonie has been paying off in terms of lower retail prices for Canada, helping core inflation ease to well below 2.0 per cent in recent months. Moreover, the one percentage point reduction in the federal goods and services tax (GST), from 6 to 5 per cent, is expected to take roughly 0.6 percentage points off overall inflation this year. Accordingly, the Consumer Price Index (CPI) is expected to post growth of only 1.3 per cent in 2008, while a

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

more typical 1.9 per cent pace of inflation is forecast for 2009.

The U.S. housing market crisis, the sub-prime mortgage meltdown, and the fallout from a liquidity-starved, asset-backed commercial paper market have had central bankers working overtime to try to prevent these developments from spawning a U.S. recession and a worldwide economic slowdown. Not surprisingly the U.S. Federal Reserve (Fed) has been the most active in tackling the global credit crunch, injecting liquidity through open market operations and lowering financing rates. Including measures taken on April 30, 2008, the federal funds rate has now dropped by 325 basis points since August 2007.

Lower inflation has made the job somewhat easier for the Bank of Canada by providing some protection against the impact of a slowing U.S. economy. The Bank has lowered rates in Canada by 150 basis points since December 2007. With the aggressive easing by the Fed nearly at an end, the Bank of Canada is expected only to fine tune its policy in the near term. In 2009, as the U.S. economy begins to emerge from its slowdown, both the Fed and the Bank of Canada are expected to begin adjusting their benchmark interest rates up toward their equilibrium levels.

As for the dollar, lower rates in Canada, along with the recent drop in oil and other commodity prices meant the loonie fell below parity with the U.S. dollar in recent weeks. Fortunately, strong global demand for raw materials from emerging nations is expected to keep commodity prices elevated. In addition, demand for gold and oil in particular

has been lifted recently by speculators looking for a safe haven from volatile stock markets, inflation, and a depreciating greenback. This scenario should serve to keep the Canadian dollar from faltering much lower, despite the current cycle affecting the U.S. and Canadian economies. The Canadian dollar is expected to remain stable over this year and next, averaging US\$0.99, putting an end to the period of steady appreciation that has brought the loonie up from its 2002 low of US\$0.64.

Mortgage rates followed the lead of overall interest rates through the first half of this decade, with the cost of a conventional five-year mortgage falling from 8.4 per cent in 2000 to 6.0 per cent by 2005. The past three years have seen mortgage rates steadily climb back upward. By the fourth quarter of 2007, the five-year conventional mortgage rate had jumped back up to 7.4 per cent, resulting in an average rate of 7.1 per cent for the year as a whole. But in 2008, the lower Bank Rate will flow through to the mortgage market, allowing the average annual five-year conventional mortgage rate to slip to 7.0 per cent. Although mortgage rates are expected to begin creeping up again in early 2009, this will not be enough to offset the 2008 decline. Accordingly, the five-year conventional mortgage rate is expected to average just 6.7 per cent in 2009.

Housing Outlook

Last year marked the eighth annual increase in Canadian housing starts in the past 10 years. Over this period, the market was driven by pent-up demand, sound economic and employment growth, and lower interest rates after 2001. In total, housing starts rose from 137,400 units in 1998

to 228,000 units by 2007, an average annual increase of 6.1 per cent.

Despite the strong growth in starts in the last half of the 1990s, price increases for new homes did not really accelerate until after the interest rate declines. The average price of a new home rose by only 1.9 per cent per year from 1999 to 2001. This compares with average annual growth of 4.9 per cent from 2002 to 2005, and a whopping 8.7 per cent increase, on average, in the past two years. New home prices averaged \$383,100 in 2007—\$60,000 more than in 2005, and \$130,000 more than in 1998.

Resale prices rose by an even faster rate over the same time frame, signalling strength in that market as well. Since 2002, average resale home prices have increased by 10.2 per cent per year, reaching more than \$300,000 for the first time ever in 2007. This is also \$60,000 more than they were in 2005, and more than double their level in 1998.

Even though rising home prices and questionable lending practices resulted in a real estate bubble and bust in the United States, Canada's housing market faces no such concerns. Data from the 2006 census suggests that even though construction levels were elevated between 2002 and 2006, they did not outpace underlying demographic requirements. Moreover, Canada's tighter lending practices and federally regulated mortgage insurance requirements ensure equal access to low mortgage interest rates. This is partly why home prices have continued to appreciate in most regions and housing starts remain elevated.

Looking ahead, demographic requirements are expected to drop off over the forecast horizon, helping to deflate growth in home prices and construction levels. While the regional performance will be mixed, overall Canadian housing starts are expected to ease from current construction levels. Having averaged about 230,000 units over the past year, housing starts will ease to just under 215,000 at an annual rate this year and average 194,000 in 2009—a 15.0 per cent decline over the next two years. Starts will then hover around 189,500 units annually through the medium term (2010 to 2012).

Lower demand growth will lead to a slowdown in price growth in the coming years as well. New home prices are expected to rise by a more moderate 3.8 per cent this year, falling to average annual growth of 3.0 per cent from 2009 to 2012. On the resale side, home prices are forecast to increase by 5.1 per cent in 2008. Price growth in this market will then continue to decelerate, dropping to 2.7 per cent by 2012.

Mortgage Outlook

The increased demand for housing, of course, was accompanied by a corresponding increase in the number of mortgage approvals. Since 2001, the number of mortgages approved in Canada has risen by an average of 7.1 per cent per year (this includes a small 3.1 per cent decline in mortgage approvals in 2006, following lower housing starts in 2005). Thanks to significantly higher prices, the average annual dollar value of mortgage approvals rose by an even more rapid 16.6 per cent over the same period.

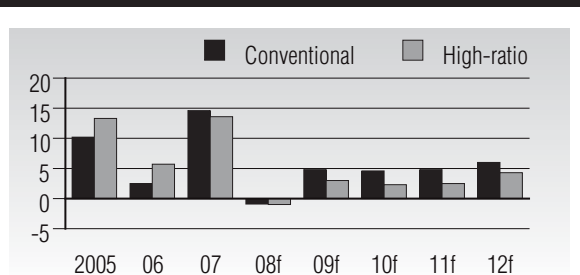
This year, mortgage approvals are expected to fall in line with declining housing starts and weaker resale market activity. The number of approvals is forecast to drop by 6.8 per cent in 2008, while dollar values will fall by a more modest 0.9 per cent, held up by still fairly solid price growth. Although both the number and the dollar value of approvals are expected to grow over the medium term, increases will be more modest than in recent years. Unit increases are forecast to average 1.2 per cent per year from 2009

to 2012, while annual dollar value growth is expected to be 4.1 per cent per year, on average, over the same time frame.

Also since 2001, high-ratio mortgage approvals—both in terms of units and dollar value—have grown at a faster pace than conventional mortgage approvals. A large part of the reason for this differential has been the rapid price increases over this period, which have eroded affordability. This has forced more buyers into the high-ratio category, defined as buyers having less than a 20 per cent down payment. But, this trend is expected to be reversed this year, with high-ratio mortgage approvals forecast to fall by 7.0 per cent, greater than the 6.5 per cent decline in conventional mortgages.

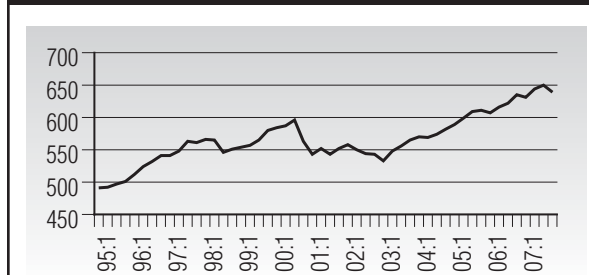
Separating out the new and existing markets reveals a similar story. Although high-ratio volumes in the new home market will fall less than conventional volumes, the situation is reversed in the far-more-active existing home business lines. Here, the number of high-ratio loans will fall 7.3 per cent, significantly more than conventional loans' 6.4 per cent drop.

**Chart 3—Mortgage Approval Growth
(dollar volume per cent change)**



Sources: The Conference Board of Canada; Genworth Financial Canada; CMHC Housing Time Series Database.

**Chart 4—Household Net Worth
(as a per cent of disposable income)**



Sources: The Conference Board of Canada; Statistics Canada.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at market prices (1997 \$ millions)	1,247,780 <i>3.1</i>	1,282,204 <i>2.8</i>	1,316,219 <i>2.7</i>	1,345,613 <i>2.2</i>	1,385,976 <i>3.0</i>	1,429,365 <i>3.1</i>	1,470,556 <i>2.9</i>	1,509,577 <i>2.7</i>
Total employment (000s)	16,172 <i>1.4</i>	16,485 <i>1.9</i>	16,865 <i>2.3</i>	17,159 <i>1.7</i>	17,348 <i>1.1</i>	17,543 <i>1.1</i>	17,743 <i>1.1</i>	17,909 <i>0.9</i>
Unemployment rate	6.8	6.3	6.0	5.8	5.8	5.8	5.8	5.8
Personal income per capita	31,987 <i>4.1</i>	33,576 <i>5.0</i>	35,264 <i>5.0</i>	36,378 <i>3.2</i>	37,483 <i>3.0</i>	38,690 <i>3.2</i>	39,948 <i>3.3</i>	41,228 <i>3.2</i>
Population (000s)	32,269 <i>1.0</i>	32,604 <i>1.0</i>	32,934 <i>1.0</i>	33,249 <i>1.0</i>	33,558 <i>0.9</i>	33,879 <i>1.0</i>	34,212 <i>1.0</i>	34,561 <i>1.0</i>
Retail sales (\$ millions)	366,171 <i>5.6</i>	389,567 <i>6.4</i>	411,993 <i>5.8</i>	434,879 <i>5.6</i>	458,894 <i>5.5</i>	483,794 <i>5.4</i>	509,112 <i>5.2</i>	534,146 <i>4.9</i>
Exchange rate (U.S./Can.)	0.83	0.88	0.93	1.00	0.99	0.98	0.97	0.96
Inflation rate	2.2	2.0	2.1	1.3	1.9	2.0	2.0	2.0

Table 2—Financial Indicators

Bank rate	2.9	4.3	4.6	3.3	3.6	4.9	5.0	5.0
Prime lending rate	4.4	5.8	6.1	4.8	5.1	6.4	6.5	6.5
Three-month treasury bill	2.7	4.0	4.2	2.5	3.1	4.5	4.6	4.6
One-year conventional mortgage rate	5.1	6.3	6.9	6.5	5.7	6.7	6.8	6.8
Three-year conventional mortgage rate	5.6	6.4	7.1	6.8	6.2	7.2	7.4	7.5
Five-year conventional mortgage rate	6.0	6.7	7.1	6.8	6.5	7.5	7.7	7.8
Federal bonds: 1–3 years	3.2	4.1	4.2	2.9	3.3	4.4	4.8	4.9
Federal bonds: 3–10 years	3.7	4.1	4.2	3.6	3.9	4.9	5.2	5.3
Federal bonds: 10 years and over	4.4	4.3	4.3	4.1	4.3	5.1	5.4	5.6

Table 3—Housing Indicators

Housing starts	225,481 <i>-3.4</i>	227,395 <i>0.8</i>	228,343 <i>0.4</i>	214,928 <i>-5.9</i>	194,245 <i>-9.6</i>	190,588 <i>-1.9</i>	188,845 <i>-0.9</i>	189,103 <i>0.1</i>
Singles	120,463 <i>-6.7</i>	121,313 <i>0.7</i>	118,917 <i>-2.0</i>	110,329 <i>-7.2</i>	103,935 <i>-5.8</i>	101,740 <i>-2.1</i>	98,975 <i>-2.7</i>	97,018 <i>-2.0</i>
Multiples	105,018 <i>0.7</i>	106,082 <i>1.0</i>	109,426 <i>3.2</i>	104,599 <i>-4.4</i>	90,310 <i>-13.7</i>	88,847 <i>-1.6</i>	89,870 <i>1.2</i>	92,084 <i>2.5</i>
Housing completions	211,753 <i>-1.7</i>	216,506 <i>2.2</i>	209,129 <i>-3.4</i>	216,460 <i>3.5</i>	201,312 <i>-7.0</i>	191,101 <i>-5.1</i>	185,756 <i>-2.8</i>	184,395 <i>-0.7</i>
Singles	118,328 <i>-5.9</i>	115,904 <i>-2.0</i>	115,671 <i>-0.2</i>	111,602 <i>-3.5</i>	103,756 <i>-7.0</i>	101,562 <i>-2.1</i>	98,714 <i>-2.8</i>	96,698 <i>-2.0</i>
Multiples	93,424 <i>4.1</i>	100,601 <i>7.7</i>	93,458 <i>-7.1</i>	104,858 <i>12.2</i>	97,556 <i>-7.0</i>	89,539 <i>-8.2</i>	87,042 <i>-2.8</i>	87,697 <i>0.8</i>
Average price of a new home (\$)	324,008 <i>5.0</i>	355,584 <i>9.7</i>	383,133 <i>7.7</i>	397,789 <i>3.8</i>	409,240 <i>2.9</i>	421,680 <i>3.0</i>	434,569 <i>3.1</i>	447,553 <i>3.0</i>
Average price of a resale home (\$)	248,763 <i>10.0</i>	276,207 <i>11.0</i>	306,879 <i>11.1</i>	322,424 <i>5.1</i>	332,840 <i>3.2</i>	343,287 <i>3.1</i>	353,166 <i>2.9</i>	362,808 <i>2.7</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; The Bank of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Atlantic Canada



Economic Outlook

After increasing by 3.1 per cent last year, Atlantic Canada's real gross domestic product (GDP) is expected to rise by just 1.4 per cent in 2008 and 2.2 per cent in 2009. Last year's growth largely resulted from increased oil production in Newfoundland and Labrador. However, with oil production expected to decline, that province's economic growth will fall from a 7.3 per cent increase in 2007 to a 0.8 per cent decline in 2008. Prince Edward Island's economy will also advance at a more moderate 2.2 per cent in 2008 owing to waning investment prospects and softening employment conditions, followed by 1.9 per cent growth in 2009. Meanwhile, New Brunswick's economy is expected to advance by only 1.5 per cent per year over 2008 and 2009 as a result of difficult market conditions in the forestry sector. But in Nova Scotia, new private

A slowing economy will lead to a 6.9 per cent decline in Atlantic Canada's housing starts in 2008. Starts are then expected to keep falling through the medium term as real GDP growth remains weak. New home prices are forecast to increase by 2.3 per cent after this year, modestly lower than the average 3 per cent growth seen in the past eight years. Resale price growth will be just slightly higher than new home price growth in the coming years, at an average of 2.7 per cent per year.

investment and stronger manufacturing prospects should add to the vigour in the services sector, lifting real GDP growth to 2.7 per cent in 2008 and 2 per cent in 2009.

Housing Outlook

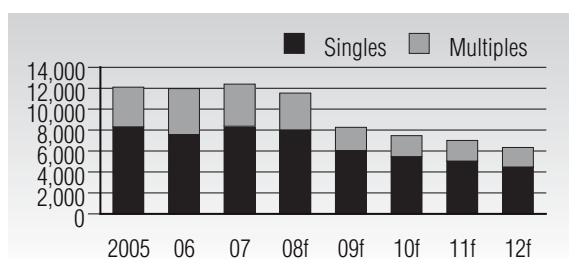
By 1999, Atlantic Canada's housing market was due for an expansion, as weak economic growth in the first half of the 1990s had resulted in starts declining for most of the decade. Thankfully, the pent-up demand from this period, combined with stronger economic growth in the early 2000s and lower interest rates after 2001, led to a near doubling of Atlantic Canada's housing starts from 1999 to 2003. Growth averaged 11.8 per cent per year, pushing housing starts back up to 13,100 units in 2003.

However, a declining population and a slowdown in real GDP resulted in a downturn in housing demand in

2004. Over the next three years, housing starts fell by an average of 3.0 per cent annually. While starts bounced back with 3.7 per cent growth in 2007, this increase is thought to have been temporary, boosted in part by the exceptionally strong economic growth in Newfoundland and Labrador. With population and economic growth in the region forecast to remain modest over the entire forecast horizon, housing starts are now expected to resume their downward slide. Anticipated drops of 6.9 per cent and 28.4 per cent are forecast for the next two years alone. By 2012, housing starts are expected to fall to 6,300 units, the lowest in at least 30 years.

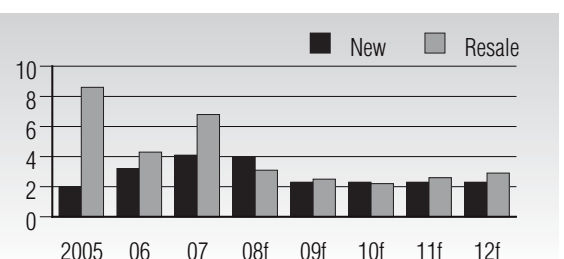
Unlike other regions of Canada, price growth for new homes in Atlantic Canada has not varied much over the past eight years, even as demand in the market spiked. The average price of a new home in the

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

region increased 3 per cent per year from 1999 to 2007. Still, in dollar terms, average new home prices reached \$275,400 last year, more than \$115,000 higher than average resale prices, despite stronger resale price growth over the same period. In all likelihood, the big price gap

between these two markets forced builders to keep price hikes modest in order to remain competitive with the resale market.

Price growth in both the new and resale home markets will decelerate in the coming years as demand falls

further. The average price of a new home is forecast to increase by 2.3 per cent per year from 2009 onward, while growth in resale home prices will average 2.6 per cent annually.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	64,943 <i>0.8</i>	66,378 <i>2.2</i>	68,408 <i>3.1</i>	69,398 <i>1.4</i>	70,892 <i>2.2</i>	72,712 <i>2.6</i>	74,269 <i>2.1</i>	75,353 <i>1.5</i>
Total employment (000s)	1,076 <i>0.2</i>	1,082 <i>0.5</i>	1,097 <i>1.4</i>	1,113 <i>1.4</i>	1,119 <i>0.6</i>	1,124 <i>0.4</i>	1,128 <i>0.4</i>	1,129 <i>0.0</i>
Unemployment rate	10.4	9.8	9.2	8.7	8.0	7.8	7.6	7.4
Personal income per capita	27,319 <i>4.1</i>	29,336 <i>7.4</i>	30,243 <i>3.1</i>	30,828 <i>1.9</i>	31,814 <i>3.2</i>	32,912 <i>3.5</i>	34,039 <i>3.4</i>	35,181 <i>3.4</i>
Population (000s)	2,341 <i>-0.2</i>	2,333 <i>-0.3</i>	2,330 <i>-0.2</i>	2,334 <i>0.2</i>	2,337 <i>0.1</i>	2,339 <i>0.1</i>	2,340 <i>0.1</i>	2,341 <i>0.0</i>
Retail sales (\$ millions)	26,103 <i>2.8</i>	27,550 <i>5.5</i>	29,236 <i>6.1</i>	31,036 <i>6.2</i>	32,557 <i>4.9</i>	34,107 <i>4.8</i>	35,667 <i>4.6</i>	37,173 <i>4.2</i>
Inflation rate	3.0	2.2	2.2	1.9	2.2	2.2	2.2	2.2

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	12,094 <i>-2.9</i>	11,953 <i>-1.2</i>	12,391 <i>3.7</i>	11,530 <i>-6.9</i>	8,259 <i>-28.4</i>	7,470 <i>-9.6</i>	7,019 <i>-6.0</i>	6,342 <i>-9.6</i>
Singles	8,314 <i>-9.1</i>	7,578 <i>-8.9</i>	8,377 <i>10.5</i>	8,027 <i>-4.2</i>	6,054 <i>-24.6</i>	5,469 <i>-9.7</i>	5,034 <i>-8.0</i>	4,472 <i>-11.2</i>
Multiples	3,780 <i>14.5</i>	4,376 <i>15.8</i>	4,014 <i>-8.3</i>	3,503 <i>-12.7</i>	2,205 <i>-37.1</i>	2,001 <i>-9.2</i>	1,985 <i>-0.8</i>	1,870 <i>-5.8</i>
Housing completions	11,591 <i>-14.5</i>	11,517 <i>-0.6</i>	11,505 <i>-0.1</i>	11,730 <i>2.0</i>	9,215 <i>-21.4</i>	8,041 <i>-12.7</i>	7,574 <i>-5.8</i>	7,014 <i>-7.4</i>
Singles	8,356 <i>-8.0</i>	7,727 <i>-7.5</i>	7,531 <i>-2.5</i>	8,367 <i>11.1</i>	6,529 <i>-22.0</i>	5,721 <i>-12.4</i>	5,293 <i>-7.5</i>	4,807 <i>-9.2</i>
Multiples	3,234 <i>-27.6</i>	3,790 <i>17.2</i>	3,975 <i>4.9</i>	3,363 <i>-15.4</i>	2,686 <i>-20.1</i>	2,321 <i>-13.6</i>	2,280 <i>-1.7</i>	2,208 <i>-3.2</i>
Average price of a new home (\$)	256,286 <i>2.0</i>	264,527 <i>3.2</i>	275,413 <i>4.1</i>	286,465 <i>4.0</i>	293,085 <i>2.3</i>	299,964 <i>2.3</i>	307,004 <i>2.3</i>	314,210 <i>2.3</i>
Average price of a resale home (\$)	141,814 <i>8.6</i>	147,959 <i>4.3</i>	158,008 <i>6.8</i>	162,938 <i>3.1</i>	167,006 <i>2.5</i>	170,710 <i>2.2</i>	175,110 <i>2.6</i>	180,249 <i>2.9</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Quebec



Quebec's housing starts increased by a modest 1.4 per cent in 2007 after falling in each of the previous two years. However, much of the increase likely resulted from temporary income gains, and so starts are expected to begin heading down again in 2008 and through the medium term, allowing the market to become more in line with demographic requirements. In turn, price growth will also slow in the coming years, to roughly 3 per cent per year between 2009 and 2012.

Economic Outlook

Sombre conditions south of the border and the elevated Canadian dollar are dragging down Quebec's economic growth. Despite strong business and public capital expenditures, as well as increased federal fiscal stimulus and new provincial income tax cuts that should help boost consumer spending in the province, real gross domestic product (GDP) is expected to rise by only 1.8 per cent in 2008, down from an estimated gain of 2.6 per cent last year. A more balanced performance between the domestic economy and the trade sector will allow the economy to advance by 2.6 per cent again next year.

Housing Outlook

In spite of slow overall economic growth between 2001 and 2004, Quebec's housing starts increased

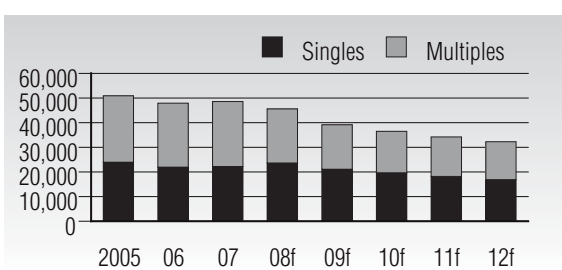
by a rapid 25.0 per cent per year on average, buoyed by pent-up demand and lower interest rates. Starts reached 58,500 units in 2004, more than double the 24,700 units in 2000. In line with increased demand, the average price of a new home gained 5.7 per cent annually between 2001 and 2004, up from 2.2 per cent average annual growth over the previous four years. A similar story played out in the resale market as well, with existing home prices rising by an average of 11.4 per cent per year from 2001 to 2004, up from 3.2 per cent in the four years prior.

Unfortunately, by 2005 continued weakness in real GDP growth was beginning to catch up to the housing market. It was also becoming apparent that at their current level, housing starts were significantly higher than the province's demographic requirements of around 30,000 units annually. As a result, starts began to falter that year, dropping by 12.9 per cent

and a further 6.0 per cent the following year. Although they were up and down on a quarterly basis, housing starts did manage to increase by a modest 1.4 per cent overall in 2007. Part of this strength likely resulted from a significant temporary increase in incomes in the province, thanks to pay equity settlements.

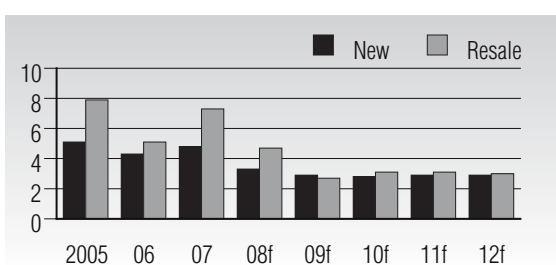
In January of this year, housing starts averaged a still strong 47,000 units at annual rates. However, given that income growth will slow in 2008, the housing market is expected to once again lose momentum. The province's demographic profile continues to suggest only 30,000 to 35,000 new homes a year will be needed going forward. Accordingly, housing starts are forecast to drop by 6.1 per cent in 2008 (to 45,600 units) and by 14.2 per cent in 2009 (to 39,100 units). Starts will remain on a downward trend through the medium term as well, falling in line with demographic requirements by 2011.

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Growth in new and existing home prices remained fairly strong from 2005 to 2007 even as demand fell. But prices are forecast to rise more moderately now. The average price

of a new home increased 4.7 per cent per year from 2005 to 2007, while resale price growth averaged 6.8 per cent. Price growth this year in each of the respective markets is

forecast to be 3.3 per cent and 4.7 per cent. Over the medium term, these rates will slow to an average of 2.9 per cent annually for new homes and 3 per cent for existing homes.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	237,593 <i>2.1</i>	241,949 <i>1.8</i>	248,166 <i>2.6</i>	252,601 <i>1.8</i>	259,057 <i>2.6</i>	265,232 <i>2.4</i>	270,771 <i>2.1</i>	276,806 <i>2.2</i>
Total employment (000s)	3,718 <i>1.0</i>	3,766 <i>1.3</i>	3,852 <i>2.3</i>	3,901 <i>1.3</i>	3,925 <i>0.6</i>	3,942 <i>0.4</i>	3,962 <i>0.5</i>	3,977 <i>0.4</i>
Unemployment rate	8.3	8.0	7.2	6.9	6.8	6.9	6.9	7.0
Personal income per capita	29,750 <i>3.0</i>	30,855 <i>3.7</i>	32,424 <i>5.1</i>	33,212 <i>2.4</i>	34,160 <i>2.9</i>	35,209 <i>3.1</i>	36,269 <i>3.0</i>	37,383 <i>3.1</i>
Population (000s)	7,592 <i>0.7</i>	7,644 <i>0.7</i>	7,695 <i>0.7</i>	7,744 <i>0.6</i>	7,787 <i>0.5</i>	7,828 <i>0.5</i>	7,876 <i>0.6</i>	7,922 <i>0.6</i>
Retail sales (\$ millions)	82,533 <i>5.1</i>	86,763 <i>5.1</i>	90,470 <i>4.3</i>	94,365 <i>4.3</i>	99,188 <i>5.1</i>	104,084 <i>4.9</i>	108,988 <i>4.7</i>	113,879 <i>4.5</i>
Inflation rate	2.3	1.7	1.6	1.3	2.0	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	50,910 <i>-12.9</i>	47,876 <i>-6.0</i>	48,553 <i>1.4</i>	45,596 <i>-6.1</i>	39,131 <i>-14.2</i>	36,464 <i>-6.8</i>	34,234 <i>-6.1</i>	32,255 <i>-5.8</i>
Singles	23,930 <i>-17.1</i>	21,918 <i>-8.4</i>	22,177 <i>1.2</i>	23,654 <i>6.7</i>	21,086 <i>-10.9</i>	19,675 <i>-6.7</i>	18,201 <i>-7.5</i>	16,875 <i>-7.3</i>
Multiples	26,980 <i>-8.8</i>	25,958 <i>-3.8</i>	26,376 <i>1.6</i>	21,942 <i>-16.8</i>	18,045 <i>-17.8</i>	16,790 <i>-7.0</i>	16,034 <i>-4.5</i>	15,380 <i>-4.1</i>
Housing completions	49,609 <i>-6.3</i>	48,866 <i>-1.5</i>	49,260 <i>0.8</i>	42,758 <i>-13.2</i>	38,976 <i>-8.8</i>	36,606 <i>-6.1</i>	34,923 <i>-4.6</i>	33,619 <i>-3.7</i>
Singles	23,202 <i>-19.7</i>	21,815 <i>-6.0</i>	21,805 <i>0.0</i>	20,231 <i>-7.2</i>	18,966 <i>-6.2</i>	17,974 <i>-5.2</i>	17,090 <i>-4.9</i>	16,476 <i>-3.6</i>
Multiples	26,407 <i>9.7</i>	27,050 <i>2.4</i>	27,456 <i>1.5</i>	22,528 <i>-17.9</i>	20,010 <i>-11.2</i>	18,632 <i>-6.9</i>	17,833 <i>-4.3</i>	17,144 <i>-3.9</i>
Average price of a new home (\$)	243,123 <i>5.1</i>	253,466 <i>4.3</i>	265,604 <i>4.8</i>	274,378 <i>3.3</i>	282,332 <i>2.9</i>	290,298 <i>2.8</i>	298,759 <i>2.9</i>	307,405 <i>2.9</i>
Average price of a resale home (\$)	184,786 <i>7.9</i>	194,194 <i>5.1</i>	208,448 <i>7.3</i>	218,155 <i>4.7</i>	224,110 <i>2.7</i>	230,996 <i>3.1</i>	238,091 <i>3.1</i>	245,227 <i>3.0</i>

Italics indicate percentage change.
Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Ontario



Economic Outlook

Ontario's trade sector will continue to struggle in 2008 against the tide of softening U.S. consumer demand, financial market fallout, and the strong Canadian dollar. Moderate growth in consumption, investment, and public capital expenditures will help to offset some of the trade balance losses and keep Ontario's economy afloat this year. Ontarians' pattern of consumer spending is expected to remain hearty in the near term thanks to stable employment, while on the investment front, new projects will drive construction. Overall, real gross domestic product (GDP) is forecast to grow by a modest 1.6 per cent in 2008 and then accelerate to 3.3 per cent in 2009 alongside a recovery in consumer spending south of the border.

Despite another year of weak economic growth in Ontario, housing starts are expected to rise by 0.6 per cent this year, thanks to strong first quarter results. Weakness in the economy will catch up to the market next year, however, resulting in a 3 per cent decline in starts. Fortunately, higher income and population growth will then keep starts rising at a modest pace through the medium term. Price growth in the new home market is expected to slow but then pick up after 2009, in line with the growth in starts.

Housing Outlook

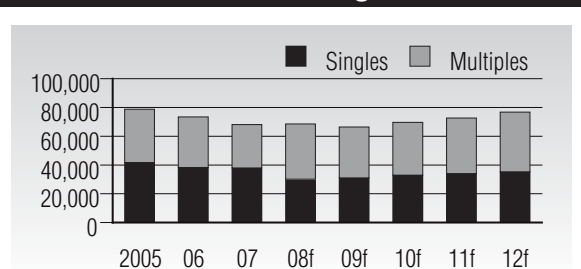
Ontario's housing starts increased by a brisk average of 9.9 per cent per year from 1999 to 2003, spurred on by pent-up demand and several years of strong economic growth in the late 1990s. Total housing starts peaked at 85,200 units in 2003, a level not seen in the province since 1989, despite the fact that Ontario's economy had already been struggling for a couple of years. But weak economic activity finally led to a drop in new home construction in 2004, and starts have been declining ever since. In 2007, construction started on 68,100 new homes, an eight-year low.

Initially, prices in the new home market did not respond to the pickup in demand. Through 1999 and 2000, new home prices grew by an average

of 3.1 per cent annually. But from 2001 to 2006, growth in new home prices accelerated to 4.4 per cent on an average annual basis. With demand continuing to fall, prices are now beginning to moderate again. In 2007, they rose by just 3.1 per cent.

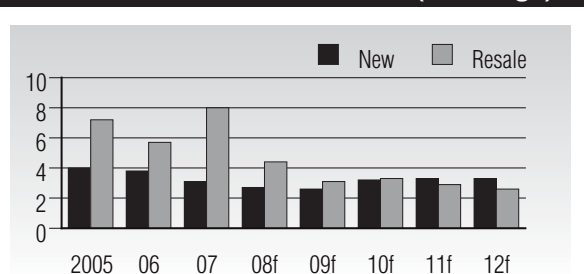
In contrast, resale prices began to increase at a faster pace from 1999 onward. Price growth in the resale housing market has so far remained strong as well. From 1999 to 2007, the average price of an existing home rose an average of 6.7 per cent annually. Yet even with this stronger growth, the price of an existing home is still much lower than that of a new one. Last year, the average cost of a new home in Ontario topped \$446,000, compared with just \$299,700 for an existing home. The price differential between the two markets has likely kept demand stronger in the resale market,

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

and allowed prices to keep growing at a faster pace.

Strong first quarter housing starts will lead to a 0.6 per cent increase for 2008, in spite of a still weak economy. However, the current slowdown in overall GDP growth will catch up to the market next year, pushing starts down by

3 per cent. Investment in new housing will then turn around again as personal income and demographic factors become more favourable. Indeed, housing starts are projected to increase by an average of 4.9 per cent per year from 2010 to 2012. New home prices are expected to follow a similar trend. After rising by an anticipated 2.7 per cent per

year over the next two years, prices in the new home market are forecast to grow by an annual average rate of 3.3 per cent over the rest of the forecast period. But resale home price appreciation is expected to ease from 4.4 per cent in 2008 to 2.6 per cent by 2012.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	472,323 <i>2.6</i>	483,130 <i>2.3</i>	493,094 <i>2.1</i>	501,181 <i>1.6</i>	517,678 <i>3.3</i>	536,005 <i>3.5</i>	553,222 <i>3.2</i>	569,610 <i>3.0</i>
Total employment (000s)	6,398 <i>1.3</i>	6,492 <i>1.5</i>	6,592 <i>1.5</i>	6,693 <i>1.5</i>	6,781 <i>1.3</i>	6,886 <i>1.5</i>	6,996 <i>1.6</i>	7,092 <i>1.4</i>
Unemployment rate	6.6	6.3	6.4	6.4	6.5	6.5	6.4	6.4
Personal income per capita	33,322 <i>3.3</i>	34,551 <i>3.7</i>	35,987 <i>4.2</i>	37,007 <i>2.8</i>	38,051 <i>2.8</i>	39,268 <i>3.2</i>	40,567 <i>3.3</i>	41,863 <i>3.2</i>
Population (000s)	12,544 <i>1.2</i>	12,682 <i>1.1</i>	12,790 <i>0.9</i>	12,902 <i>0.9</i>	13,050 <i>1.1</i>	13,204 <i>1.2</i>	13,367 <i>1.2</i>	13,545 <i>1.3</i>
Retail sales (\$ millions)	135,321 <i>4.8</i>	140,835 <i>4.1</i>	146,222 <i>3.8</i>	154,101 <i>5.4</i>	162,752 <i>5.6</i>	172,231 <i>5.8</i>	182,025 <i>5.7</i>	191,730 <i>5.3</i>
Inflation rate	2.2	1.8	1.8	1.3	2.0	2.0	2.0	2.1

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	78,795 <i>-7.4</i>	73,419 <i>-6.8</i>	68,123 <i>-7.2</i>	68,544 <i>0.6</i>	66,455 <i>-3.0</i>	69,690 <i>4.9</i>	72,657 <i>4.3</i>	76,755 <i>5.6</i>
Singles	41,682 <i>-14.8</i>	38,309 <i>-8.1</i>	37,910 <i>-1.0</i>	30,198 <i>-20.3</i>	31,094 <i>3.0</i>	32,972 <i>6.0</i>	34,012 <i>3.2</i>	35,302 <i>3.8</i>
Multiples	37,113 <i>2.6</i>	35,110 <i>-5.4</i>	30,213 <i>-13.9</i>	38,347 <i>26.9</i>	35,360 <i>-7.8</i>	36,718 <i>3.8</i>	38,646 <i>5.2</i>	41,452 <i>7.3</i>
Housing completions	77,309 <i>-4.8</i>	74,621 <i>-3.5</i>	64,013 <i>-14.2</i>	71,206 <i>11.2</i>	65,956 <i>-7.4</i>	64,164 <i>-2.7</i>	64,485 <i>0.5</i>	66,855 <i>3.7</i>
Singles	43,338 <i>-9.9</i>	39,965 <i>-7.8</i>	36,362 <i>-9.0</i>	34,073 <i>-6.3</i>	30,635 <i>-10.1</i>	32,470 <i>6.0</i>	33,008 <i>1.7</i>	33,577 <i>1.7</i>
Multiples	33,971 <i>2.6</i>	34,656 <i>2.0</i>	27,651 <i>-20.2</i>	37,134 <i>34.3</i>	35,321 <i>-4.9</i>	31,694 <i>-10.3</i>	31,478 <i>-0.7</i>	33,278 <i>5.7</i>
Average price of a new home (\$)	416,382 <i>4.0</i>	432,317 <i>3.8</i>	445,788 <i>3.1</i>	457,839 <i>2.7</i>	469,751 <i>2.6</i>	484,558 <i>3.2</i>	500,598 <i>3.3</i>	517,200 <i>3.3</i>
Average price of a resale home (\$)	262,413 <i>7.2</i>	277,453 <i>5.7</i>	299,732 <i>8.0</i>	312,850 <i>4.4</i>	322,688 <i>3.1</i>	333,384 <i>3.3</i>	342,944 <i>2.9</i>	351,726 <i>2.6</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Prairies



Healthy economies in the Prairie provinces of Manitoba and Saskatchewan will continue to generate gains in income, employment, and population, thus underpinning a solid 2008 housing outlook, despite an easing in starts from last year's 20-year high. The longer term economic backdrop is more moderate, but new construction volumes will remain above historical norms. Prices for new and resale homes registered record gains in 2007; this year's advances will be lower but still brisk. Price growth cooling lurks for 2009. Although affordability has diminished, it remains good by Western Canadian standards.

Economic Outlook

After an estimated 3.7 per cent gain in 2007, Manitoba's economy will grow by 4.7 per cent in 2008, outpacing all other provinces. Despite a slowing U.S. economy and the high Canadian dollar, Manitoba's manufacturing outlook is solid thanks to a well-diversified manufacturing sector and large, lucrative orders for buses and aircraft parts. The economy will grow a more modest 2.2 per cent in 2009. Manitoba's unemployment rate will hover near 4 per cent in both 2008 and 2009.

Real gross domestic product (GDP) in Saskatchewan will soar for a second consecutive year as well, expanding by 5 per cent in 2008 thanks to high commodity prices, important capital projects, and a strong domestic economy. Saskatchewan will continue to lure people back from neighbouring

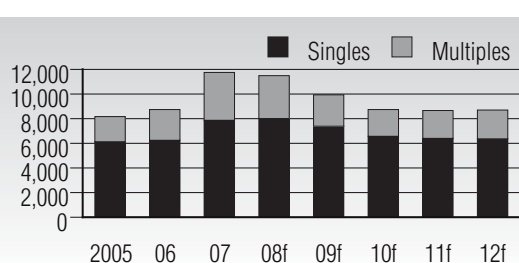
provinces, bolstering the domestic side of the economy. The positive interprovincial migration trend will subside in 2009, leading to overall real GDP growth of 2.7 per cent. Labour market conditions remain firm, as Saskatchewan's unemployment rate will average 4.2 per cent this year and next.

Housing Outlook

These surging economies have fuelled accelerating income increases and ignited population growth, two essential propellants of housing market liftoff. Accordingly, housing starts, along with new and resale prices, have skyrocketed. The general persistence of these conditions will prompt further, but easing, housing market strength in 2008. Most market signposts will revert to near or slightly below historical norms in the longer term.

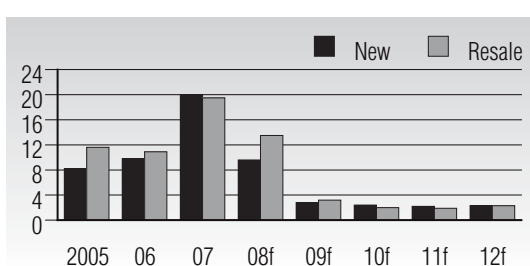
Housing starts in Manitoba and Saskatchewan soared by more than a third last year, the sixth advance in the past seven years. Over this period, starts rose by an annual average of 13 per cent; last year's 11,745-unit volume was the highest in 20 years. In 2007, starts were spurred by accelerating population growth and faster income hikes in these provinces. Total population rose 0.7 per cent last year, the fastest growth since 1985, while the concurrent advance in personal income per capita was 6.2 per cent. Recent quarterly starts above an annualized 11,000 units attest to further strength in 2008. Volumes will pull back in 2009–2011, although our forecast of an average of 9,100 total starts per year during this period remains more than 50 per cent above the annual average of 6,200 units posted between 1988 and 2007.

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Sizzling housing demand has fired up price increases for both new and existing homes, with each posting gains near 20 per cent in 2007. Unsurprisingly, this is record growth for both housing types. Annual new home price increases averaged 3.9 per cent during the 10 years to 2006; the equivalent resale average was 5.8 per cent. This year, price growth for new homes will cool to 9.6 per

cent, while resale's price hike will clock in at 13.5 per cent. New home prices are forecast to average \$340,000 this year, while the corresponding figure for existing homes will be \$193,890. Price increases for both house types will average roughly 2.4 per cent from 2009 to 2012.

Housing affordability in Manitoba and Saskatchewan is eroding, but

remains good compared with areas further west. Average mortgage payments accounted for 16 per cent of household income in 2007, the highest ratio since 1990 and up from 13.8 per cent in 2006. Affordability will erode a little more this year, as this ratio rises to 17.3, but then remain steady at roughly 18 per cent through 2012 as incomes and house prices rise similarly.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	72,527 <i>2.9</i>	73,624 <i>1.5</i>	76,337 <i>3.7</i>	80,014 <i>4.8</i>	81,941 <i>2.4</i>	83,876 <i>2.4</i>	85,998 <i>2.5</i>	87,797 <i>2.1</i>
Total employment (000s)	1,064 <i>0.7</i>	1,079 <i>1.4</i>	1,098 <i>1.8</i>	1,121 <i>2.1</i>	1,133 <i>1.1</i>	1,139 <i>0.6</i>	1,148 <i>0.7</i>	1,153 <i>0.4</i>
Unemployment rate	4.9	4.5	4.3	4.0	4.1	4.2	4.2	4.2
Personal income per capita	28,386 <i>2.9</i>	29,633 <i>4.4</i>	31,480 <i>6.2</i>	32,870 <i>4.4</i>	33,941 <i>3.3</i>	34,944 <i>3.0</i>	35,994 <i>3.0</i>	37,075 <i>3.0</i>
Population (000s)	2,165 <i>0.1</i>	2,165 <i>0.0</i>	2,181 <i>0.7</i>	2,208 <i>1.2</i>	2,227 <i>0.9</i>	2,242 <i>0.7</i>	2,256 <i>0.6</i>	2,270 <i>0.6</i>
Retail sales (\$ millions)	23,177 <i>5.6</i>	24,433 <i>5.4</i>	27,104 <i>10.9</i>	29,692 <i>9.5</i>	31,458 <i>5.9</i>	33,015 <i>4.9</i>	34,556 <i>4.7</i>	36,067 <i>4.4</i>
Inflation rate	2.5	2.0	2.5	1.8	2.5	2.0	2.1	1.9

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	8,168 <i>-0.6</i>	8,743 <i>7.0</i>	11,745 <i>34.3</i>	11,493 <i>-2.1</i>	9,930 <i>-13.6</i>	8,733 <i>-12.1</i>	8,656 <i>-0.9</i>	8,698 <i>0.5</i>
Singles	6,134 <i>8.1</i>	6,241 <i>1.7</i>	7,874 <i>26.2</i>	8,017 <i>1.8</i>	7,395 <i>-7.8</i>	6,565 <i>-11.2</i>	6,402 <i>-2.5</i>	6,361 <i>-0.6</i>
Multiples	2,034 <i>-20.0</i>	2,502 <i>23.0</i>	3,871 <i>54.7</i>	3,476 <i>-10.2</i>	2,535 <i>-27.1</i>	2,168 <i>-14.5</i>	2,254 <i>4.0</i>	2,337 <i>3.7</i>
Housing completions	7,993 <i>4.4</i>	7,901 <i>-1.1</i>	9,351 <i>18.3</i>	11,231 <i>20.1</i>	11,317 <i>0.8</i>	9,427 <i>-16.7</i>	9,016 <i>-4.4</i>	9,047 <i>0.4</i>
Singles	5,976 <i>9.4</i>	5,562 <i>-6.9</i>	7,008 <i>26.0</i>	8,065 <i>15.1</i>	8,157 <i>1.1</i>	6,968 <i>-14.6</i>	6,619 <i>-5.0</i>	6,554 <i>-1.0</i>
Multiples	2,017 <i>-8.2</i>	2,339 <i>16.0</i>	2,342 <i>0.1</i>	3,166 <i>35.2</i>	3,160 <i>-0.2</i>	2,459 <i>-22.2</i>	2,397 <i>-2.5</i>	2,493 <i>4.0</i>
Average price of a new home (\$)	235,307 <i>8.2</i>	258,419 <i>9.8</i>	310,220 <i>20.0</i>	340,013 <i>9.6</i>	349,495 <i>2.8</i>	357,810 <i>2.4</i>	365,774 <i>2.2</i>	374,263 <i>2.3</i>
Average price of a resale home (\$)	128,755 <i>11.6</i>	142,852 <i>10.9</i>	170,772 <i>19.5</i>	193,887 <i>13.5</i>	200,153 <i>3.2</i>	204,224 <i>2.0</i>	208,166 <i>1.9</i>	212,995 <i>2.3</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Alberta



A more balanced provincial economy will set the stage for more temperate housing markets in Alberta both this year and throughout our forecast. Although growth in employment, population, and incomes will continue, the advances will be modest by recently red-hot standards. Accordingly, housing starts and price growth for new and existing homes will all throttle back to a more sustainable pace. Still, we expect all these indicators to post levels in line with long-term norms. Slowing housing price growth will halt further affordability erosion, which had become problematic.

Economic Outlook

Alberta's economy will still be among Canada's best in 2008, although soft natural gas prices and uncertainty over Alberta's new royalty regime will curtail drilling and construction output. Stronger manufacturing prospects, rising oil production, and healthy services sector growth will boost Alberta's economy by 2.8 per cent in 2008. Next year, construction output will rebound along with drilling activity, but gains will be capped by the completion of large oil sands projects. Still, mining output will accelerate by 4.1 per cent in 2009, leading to 3.6 per cent provincial economic growth.

Despite containing only 10 per cent of Canada's population, Alberta has recently created 25 per cent of all its new jobs; provincial employment climbed by 86,258 in 2006 and

by a further 88,425 in 2007. Labour supply constraints will limit employment gains to 53,800 in 2008 and 35,800 in 2009. Nonetheless, Alberta's unemployment will hover in the low 3 per cent range throughout the forecast period. Rising living costs will trim net in-migration to only about 5,000 people in 2008.

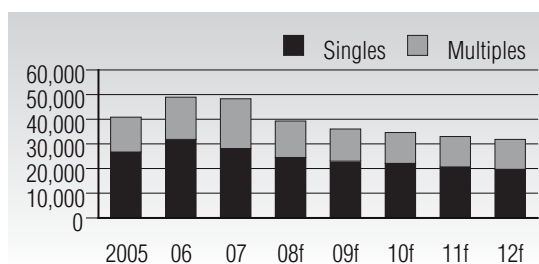
Housing Outlook

Alberta's housing market has peaked, with signs of cooling proliferating. Moderating economic growth, deteriorating affordability, slowing population growth, and rising resale supply in Calgary and Edmonton are combining to shape Alberta's more-balanced real estate future. Still, indicators signal continued advances.

Alberta housing starts have clearly plateaued. The 48,336 starts in 2007 were little changed from 2006's

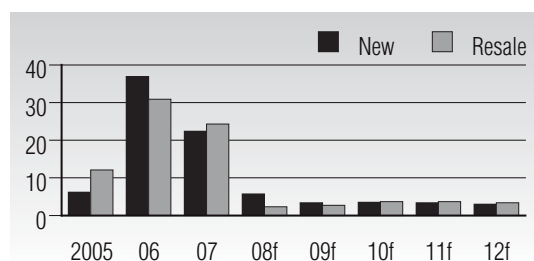
record high of 48,960 units. Provincial starts had risen every year but one since 2000. These rises have been abetted by population growth of an average of 2.6 per cent per year in the past three years, up from 1.6 per cent in the prior three. They have also been helped by burgeoning per capita personal income, which jumped more than 7 per cent for the fourth straight year in 2007. But recent data show starts easing further, as fourth-quarter 2007 volumes were the fewest in more than two years. Starts will continue to throttle back throughout our forecast as volumes dip an expected 17.9 per cent this year and an average of 5.1 per cent per year from 2009 to 2012. Nonetheless, our forecast of just under 35,000 total starts per year from 2008 to 2012 is not far off average volumes of roughly 35,730 units posted during the 10 years to 2007, which include the recent economic boom.

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Slowing housing demand growth cut the increase in new home prices from 36.9 per cent in 2006 to 2007's still-substantial 22.4 per cent. New home prices will advance a more sustainable 5.7 per cent in 2008 and 3.3 per cent average annual growth between 2009 and 2012. Average prices for resale units are similarly cooling and actually fell in the fourth

quarter. Still, last year's average price was up 24.3 per cent from 2006. Resale price growth will trough at 2.3 per cent this year, but accelerate to the 3 per cent range between 2010 and 2012.

Cooling price growth will allow incomes to keep pace with house price advances. In 2007, average

monthly mortgage payments accounted for 21.7 per cent of average household income, the highest on record and up from an average of 14.5 per cent in the 10 years to 2006. Affordability will essentially plateau at 2007's level throughout our forecast.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	165,597 <i>5.2</i>	176,638 <i>6.7</i>	181,419 <i>2.7</i>	186,548 <i>2.8</i>	193,345 <i>3.6</i>	200,013 <i>3.4</i>	207,482 <i>3.7</i>	214,169 <i>3.2</i>
Total employment (000s)	1,785 <i>1.5</i>	1,871 <i>4.8</i>	1,959 <i>4.7</i>	2,013 <i>2.7</i>	2,049 <i>1.8</i>	2,087 <i>1.8</i>	2,121 <i>1.7</i>	2,151 <i>1.4</i>
Unemployment rate	3.9	3.4	3.5	3.2	3.1	3.1	3.1	3.1
Personal income per capita	38,934 <i>8.4</i>	42,388 <i>8.9</i>	45,617 <i>7.6</i>	47,656 <i>4.5</i>	49,189 <i>3.2</i>	50,837 <i>3.4</i>	52,533 <i>3.3</i>	54,239 <i>3.2</i>
Population (000s)	3,270 <i>2.1</i>	3,363 <i>2.8</i>	3,460 <i>2.9</i>	3,512 <i>1.5</i>	3,570 <i>1.6</i>	3,629 <i>1.7</i>	3,686 <i>1.6</i>	3,742 <i>1.5</i>
Retail sales (\$ millions)	48,493 <i>11.8</i>	56,047 <i>15.6</i>	61,116 <i>9.0</i>	64,460 <i>5.5</i>	68,434 <i>6.2</i>	72,633 <i>6.1</i>	76,829 <i>5.8</i>	80,952 <i>5.4</i>
Inflation rate	2.1	3.9	4.9	2.4	2.4	2.0	2.1	2.1

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	40,847 <i>12.6</i>	48,961 <i>19.9</i>	48,336 <i>-1.3</i>	39,691 <i>-17.9</i>	36,082 <i>-9.1</i>	34,614 <i>-4.1</i>	32,997 <i>-4.7</i>	31,856 <i>-3.5</i>
Singles	26,684 <i>18.7</i>	31,834 <i>19.3</i>	28,105 <i>-11.7</i>	24,363 <i>-13.3</i>	23,028 <i>-5.5</i>	22,068 <i>-4.2</i>	20,698 <i>-6.2</i>	19,690 <i>-4.9</i>
Multiples	14,163 <i>2.8</i>	17,126 <i>20.9</i>	20,231 <i>18.1</i>	15,327 <i>-24.2</i>	13,053 <i>-14.8</i>	12,546 <i>-3.9</i>	12,299 <i>-2.0</i>	12,167 <i>-1.1</i>
Housing completions	36,906 <i>4.5</i>	39,053 <i>5.8</i>	41,838 <i>7.1</i>	41,864 <i>0.1</i>	37,996 <i>-9.2</i>	35,989 <i>-5.3</i>	34,455 <i>-4.3</i>	33,254 <i>-3.5</i>
Singles	24,614 <i>12.5</i>	26,105 <i>6.1</i>	29,010 <i>11.1</i>	25,424 <i>-12.4</i>	24,073 <i>-5.3</i>	23,010 <i>-4.4</i>	21,658 <i>-5.9</i>	20,579 <i>-5.0</i>
Multiples	12,292 <i>-8.4</i>	12,948 <i>5.3</i>	12,828 <i>-0.9</i>	16,440 <i>28.2</i>	13,923 <i>-15.3</i>	12,980 <i>-6.8</i>	12,797 <i>-1.4</i>	12,675 <i>-1.0</i>
Average price of a new home (\$)	277,469 <i>6.2</i>	379,725 <i>36.9</i>	464,885 <i>22.4</i>	491,182 <i>5.7</i>	507,977 <i>3.4</i>	525,952 <i>3.5</i>	543,628 <i>3.4</i>	560,208 <i>3.0</i>
Average price of a resale home (\$)	218,532 <i>12.1</i>	286,111 <i>30.9</i>	355,658 <i>24.3</i>	363,943 <i>2.3</i>	373,635 <i>2.7</i>	387,294 <i>3.7</i>	401,664 <i>3.7</i>	415,142 <i>3.4</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

British Columbia



Economic Outlook

British Columbia's robust domestic demand has potential to more than offset the challenges of U.S. economic weakness. Despite such external threats, economic growth is forecast to advance above the national pace, clocking in at 2.6 per cent this year and 2.9 per cent in 2009. But growth will vary widely across the province's industries. Contraction and weak advances in the vulnerable forestry and manufacturing industries will be countered by strong wholesale and retail trade prospects, continued growth in construction, and a mining industry renaissance. Headwinds facing export industries include the ailing U.S. housing market, the lofty Canadian dollar, and rising financial market uncertainty. The forestry industry will contract 4.9 per cent this year and show no growth in 2009. The problem will be exacerbated by the oversupply of wood

Despite the emerging U.S. economic slowdown, British Columbia's economic growth is forecast to hit 2.6 per cent in 2008 and foster a still-good housing market environment. Total starts will decline only fractionally from 2007's 13-year high and remain elevated through 2012. Average prices for both new and existing homes will continue to rise, albeit modestly by recent standards. This moderation will allow home-buyer incomes to catch up, thus slowing the significant affordability deterioration of recent years. Financial innovations, like the recent extension of allowable amortization periods, will lower monthly mortgage payments and help affordability.

resulting from the cutting of timber killed off by mountain pine beetles.

B.C.'s labour market will remain hot over the medium term, with high levels of non-residential construction and new mine developments helping to absorb job losses in forestry and manufacturing.

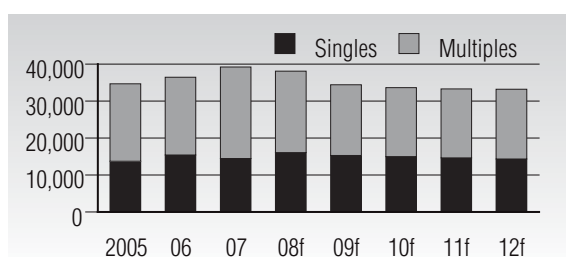
Housing Outlook

Easing provincial economic advances will combine with slowing population growth and sharply deteriorating affordability to cool B.C.'s housing market. Housing starts will dip, and price growth will slow for new and resale homes.

Still, healthy population and income growth will continue to support demand for housing. Decent economic growth will propel job counts to their seventh straight

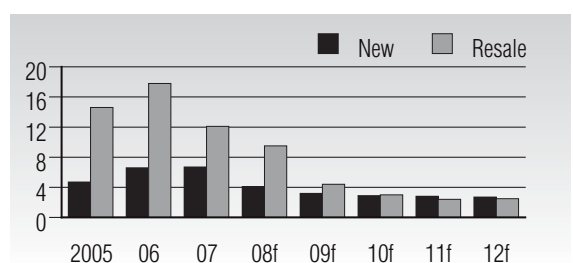
advance, albeit at the slowest pace during this period. But momentum from past annual employment gains, which have exceeded 3 per cent for three consecutive years, will continue to attract newcomers and fuel existing residents' housing demand. Meantime, retirees are still being drawn to B.C.'s favourable climate. Accordingly, B.C.'s population rose by a total of 2.8 per cent in 2006–2007, the best two-year growth in 10 years. Income growth has also exceeded 4 per cent in each of the last four years. Partly as a result, housing starts rose 7.6 per cent to 39,195 units in 2007, the seventh consecutive annual increase. Last year's starts were the most since 1994 and lifted average annual starts for the five-year period ending in 2007 to 33,880 units, nearly twice the 17,900-unit average posted during the preceding five years.

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

We expect 38,070 starts in 2008, off 2.9 per cent from 2007, but a sharper drop, to roughly 34,390 units, in 2009. Ensuing years will see further modest easing. Still, our forecast of about 34,700 starts annually on average from 2008 to 2012 exceeds the 1998–2007 annual average of 25,890 starts.

Robust demand has also prompted strong house price increases. New

home prices rose on average by 5.8 per cent per year from 2004 to 2007, after an annual average decline of 1.8 per cent during the 10 years ending 2003. Resale price increases exceeded 10 per cent in four straight years, including 2007's 12.1 per cent gain. Growth in prices for both new and existing homes will slow this year, then continue to moderate throughout our forecast.

Housing affordability has buckled under the weight of such large price jumps. Average monthly mortgage payments accounted for 38.1 per cent of average household income in 2007, up almost 10 full percentage points from 2005. Affordability will deteriorate further as this ratio hits 43 per cent in 2010, but stabilize thereafter.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	141,137 <i>4.2</i>	146,171 <i>3.6</i>	150,249 <i>2.8</i>	154,199 <i>2.6</i>	158,720 <i>2.9</i>	163,229 <i>2.8</i>	167,550 <i>2.6</i>	171,779 <i>2.5</i>
Total employment (000s)	2,131 <i>3.3</i>	2,196 <i>3.0</i>	2,267 <i>3.2</i>	2,319 <i>2.3</i>	2,341 <i>1.0</i>	2,365 <i>1.0</i>	2,387 <i>1.0</i>	2,407 <i>0.8</i>
Unemployment rate	5.9	4.8	4.2	4.1	4.1	4.2	4.3	4.3
Personal income per capita	30,883 <i>4.5</i>	32,729 <i>6.0</i>	34,294 <i>4.8</i>	35,679 <i>4.0</i>	36,739 <i>3.0</i>	37,855 <i>3.0</i>	39,031 <i>3.1</i>	40,233 <i>3.1</i>
Population (000s)	4,253 <i>1.3</i>	4,313 <i>1.4</i>	4,374 <i>1.4</i>	4,429 <i>1.3</i>	4,480 <i>1.1</i>	4,529 <i>1.1</i>	4,579 <i>1.1</i>	4,631 <i>1.1</i>
Retail sales (\$ millions)	49,286 <i>4.4</i>	52,627 <i>6.8</i>	56,382 <i>7.1</i>	59,622 <i>5.7</i>	62,813 <i>5.4</i>	65,934 <i>5.0</i>	69,154 <i>4.9</i>	72,353 <i>4.6</i>
Inflation rate	2.0	1.7	1.7	1.0	2.2	2.0	2.0	1.8

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Table 2—Housing Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	34,667 <i>5.3</i>	36,443 <i>5.1</i>	39,195 <i>7.6</i>	38,073 <i>-2.9</i>	34,388 <i>-9.7</i>	33,616 <i>-2.2</i>	33,282 <i>-1.0</i>	33,197 <i>-0.3</i>
Singles	13,719 <i>-2.4</i>	15,433 <i>12.5</i>	14,474 <i>-6.2</i>	16,069 <i>11.0</i>	15,277 <i>-4.9</i>	14,992 <i>-1.9</i>	14,629 <i>-2.4</i>	14,318 <i>-2.1</i>
Multiples	20,948 <i>11.0</i>	21,010 <i>0.3</i>	24,721 <i>17.7</i>	22,004 <i>-11.0</i>	19,111 <i>-13.1</i>	18,624 <i>-2.5</i>	18,653 <i>0.2</i>	18,879 <i>1.2</i>
Housing completions	28,345 <i>14.3</i>	34,548 <i>21.9</i>	33,162 <i>-4.0</i>	37,671 <i>29.9</i>	36,756 <i>-14.7</i>	34,885 <i>-5.1</i>	34,590 <i>-0.8</i>	34,543 <i>-0.1</i>
Singles	12,843 <i>3.8</i>	14,730 <i>14.7</i>	13,955 <i>-5.3</i>	15,444 <i>10.7</i>	15,629 <i>1.2</i>	15,333 <i>-1.9</i>	14,974 <i>-2.3</i>	14,703 <i>-1.8</i>
Multiples	15,503 <i>24.8</i>	19,818 <i>27.8</i>	19,207 <i>-3.1</i>	22,227 <i>15.7</i>	21,126 <i>-5.0</i>	19,552 <i>-7.5</i>	19,616 <i>0.3</i>	19,840 <i>1.1</i>
Average price of a new home (\$)	574,443 <i>4.7</i>	612,152 <i>6.6</i>	653,244 <i>6.7</i>	679,811 <i>4.1</i>	701,405 <i>3.2</i>	722,066 <i>2.9</i>	742,393 <i>2.8</i>	762,309 <i>2.7</i>
Average price of a resale home (\$)	331,505 <i>14.6</i>	390,489 <i>17.8</i>	437,757 <i>12.1</i>	479,325 <i>9.5</i>	500,358 <i>4.4</i>	515,165 <i>3.0</i>	527,751 <i>2.4</i>	540,695 <i>2.5</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association; Statistics Canada.

Québec City



Québec City's new and resale housing markets reaped the benefits of an uncharacteristic spike in the region's population growth last year. But with population growth moving back toward a more normal rate this year, unit sales of existing homes are forecast to fall by 2.7 per cent, while housing starts will drop by 7.9 per cent. Meanwhile, the average price of an existing home will rise by a forecast 5.6 per cent this year, half the increase of 2007. Growth in new home prices will be an even lower 3.7 per cent.

Economic Outlook

The approval of the \$840 million Rabaska liquefied natural gas (LNG) terminal could not have come at a better time. Although Québec City's economic growth has been solid for several years, the drivers of the recent expansion have been moderating. The housing market is slowing, and the manufacturing sector is teetering on the edge of a downturn. All in all, gross domestic product (GDP) growth in Québec City is expected to decelerate from 2.9 per cent in 2007 to 2.6 per cent in 2008, before bouncing back to 3.2 per cent in 2009, when the Rabaska project begins.

Housing Outlook

EXISTING HOUSING MARKET

Boosted by pent-up demand from the 1990s, as well as lower interest rates from 2001 onward, existing home sales increased 10.1 per cent on

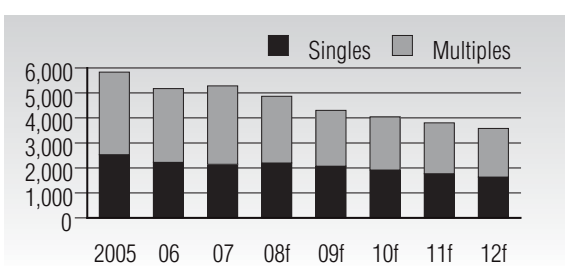
an average annual basis from 2000 to 2002. However, despite the higher demand, sellers retreated from the market. New listings fell by an annual average of 9.2 per cent, and so the market moved from a balanced one to a seller's market, with the sales-to-new-listings ratio climbing from 52.0 per cent in 2000 to 80.0 per cent in 2002.

But the strong seller's market finally sparked rapid price appreciation beginning in 2002. Homeowners responded with a 3.1 per cent increase in new listings in 2003, despite the fact that a weaker economy led to a dip in unit sales. However, existing home sales bounced back in 2004 and have increased every year since. Price growth has also been strong. From 2003 to 2006, average resale prices in Québec City rose by 9.5 per cent annually, reaching \$148,700 in 2006. Not surprisingly, new listings soared by a healthy 8.7 per cent per year over the same period.

Continued stability in the economy, together with the strongest population growth in 15 years, led to a further 6.8 per cent increase in unit sales last year. Resale price growth also remained robust, at 11.4 per cent. But with the market becoming more balanced, sellers backed off, and new listings fell by 2.2 per cent.

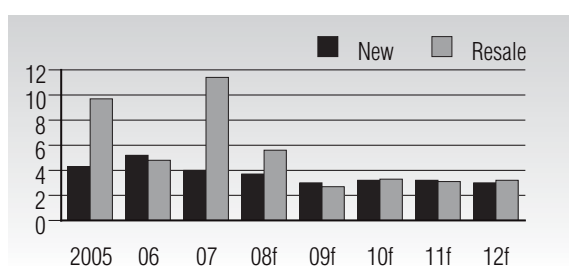
Québec City's resale housing market is finally expected to begin cooling off this year, partly because of affordability constraints. Mortgage payments as a per cent of average household income rose from 11.0 per cent in 2002 to 16.7 per cent by the fourth quarter of 2007, a level not seen since 1990. Moderating population growth is expected to be another factor. Indeed, population increases are forecast to moderate from 8,000 in 2007 to about 5,400 by 2012. Therefore, unit sales are expected to fall by 2.7 per cent in 2008 and an additional 0.9 per cent in 2009. Over the

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

rest of the forecast period, existing home sales are forecast to increase by a modest 1.4 per cent per year.

The weaker sales activity will help ease price pressures, as the market continues to move into balanced market territory. Resale home price growth is expected to slow from 11.4 per cent in 2007 to 5.6 per cent this year. From 2009 to 2012, annual price growth will average a more moderate 3.1 per cent. By 2012, the average home on the Multiple Listing Service (MLS) is expected to cost \$197,500.

NEW HOUSING MARKET

Québec City's housing starts increased by an exceptionally

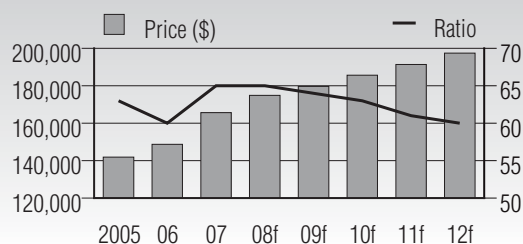
strong 29.3 per cent between 2000 and 2004, on an average annual basis. As in the resale market, higher demand for new homes was driven by pent-up demand accumulated during the 1990s, as well as lower interest rates after 2001. However, the rapid rise in starts was initially not enough to satisfy growing demand. Absorptions rose even faster, resulting in months' supply falling to a low of 0.4 months by 2002, down from 1.8 months in 1999. Finally by 2004, supply began to catch up to demand, allowing months' supply to climb back to 1 month.

Initially, prices did not respond to the tight market. The average price of a new home increased a modest

3 per cent annually from 2000 to 2002. But price growth took off beginning in 2003, reaching 9.1 per cent that year and 6.1 per cent in 2004. By 2004, average new home prices had reached \$167,500, over \$30,000 more than at the start of the decade.

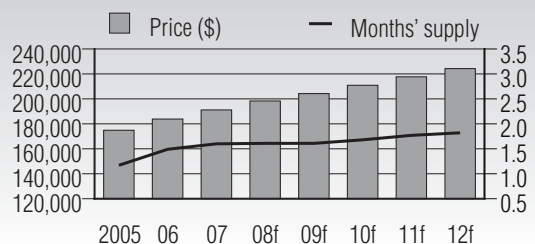
By 2005, demand growth was slowing, and so the growth in absorptions began to wane. As a result, builders reduced housing starts by 5.7 per cent in 2005 and 11.3 per cent in 2006. Even so, months' supply climbed back up to 1.4 months in 2006. Prices were much quicker to respond this time. Average price growth over 2005 and 2006 slipped back to 4.8 per cent per year.

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	23,376 <i>2.8</i>	24,013 <i>2.7</i>	24,698 <i>2.9</i>	25,340 <i>2.6</i>	26,143 <i>3.2</i>	26,939 <i>3.0</i>	27,577 <i>2.4</i>	28,244 <i>2.4</i>
Total employment (000s)	378 <i>3.9</i>	377 <i>-0.3</i>	386 <i>2.4</i>	392 <i>1.7</i>	398 <i>1.3</i>	404 <i>1.7</i>	408 <i>0.8</i>	411 <i>0.8</i>
Unemployment rate	5.6	5.2	5.0	5.1	4.9	4.8	5.1	5.2
Personal income per capita	32,727 <i>3.4</i>	33,835 <i>3.4</i>	35,301 <i>4.3</i>	36,438 <i>3.2</i>	37,772 <i>3.7</i>	39,303 <i>4.1</i>	40,644 <i>3.4</i>	42,064 <i>3.5</i>
Population (000s)	715 <i>0.5</i>	721 <i>0.8</i>	729 <i>1.1</i>	736 <i>1.0</i>	743 <i>0.8</i>	749 <i>0.8</i>	754 <i>0.7</i>	759 <i>0.7</i>
Retail sales (\$ millions)	9,843 <i>5.3</i>	10,329 <i>4.9</i>	10,793 <i>4.5</i>	11,345 <i>5.1</i>	12,004 <i>5.8</i>	12,681 <i>5.6</i>	13,317 <i>5.0</i>	13,950 <i>4.8</i>
Inflation rate	2.2	1.7	1.3	1.3	2.0	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Extraordinary population growth last year provided a boost to the new housing market, resulting in a 2.1 per cent increase in housing starts for 2007. However, as population growth now moves back toward more normal rates, starts are forecast

to slip 7.9 per cent to 4,900 units this year and a further 11.5 per cent, to 4,300 units, in 2009.

At these levels, month's supply should stay stable at 1.6 months. This will allow new home prices to keep

climbing, albeit at a more moderate pace. New home price appreciation is forecast to be 3.7 per cent in 2008, before averaging 3.1 per cent per year between 2009 and 2012.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	5,835 <i>-5.7</i>	5,176 <i>-11.3</i>	5,284 <i>2.1</i>	4,866 <i>-7.9</i>	4,306 <i>-11.5</i>	4,043 <i>-6.1</i>	3,803 <i>-5.9</i>	3,580 <i>-5.9</i>
Singles	2,528 <i>-6.5</i>	2,226 <i>-11.9</i>	2,144 <i>-3.7</i>	2,199 <i>2.6</i>	2,067 <i>-6.0</i>	1,916 <i>-7.3</i>	1,770 <i>-7.7</i>	1,632 <i>-7.8</i>
Multiples	3,307 <i>-5.0</i>	2,950 <i>-10.8</i>	3,140 <i>6.4</i>	2,666 <i>-15.1</i>	2,239 <i>-16.0</i>	2,126 <i>-5.0</i>	2,033 <i>-4.4</i>	1,948 <i>-4.2</i>
Under construction	2,647 <i>29.6</i>	2,074 <i>-21.6</i>	2,178 <i>5.0</i>	2,051 <i>-5.8</i>	1,857 <i>-9.5</i>	1,620 <i>-12.8</i>	1,499 <i>-7.5</i>	1,405 <i>-6.3</i>
Housing completions	6,149 <i>16.9</i>	5,922 <i>-3.7</i>	4,442 <i>-25.0</i>	5,050 <i>13.7</i>	4,603 <i>-8.9</i>	4,079 <i>-11.4</i>	3,825 <i>-6.2</i>	3,600 <i>-5.9</i>
Singles	2,588 <i>3.2</i>	2,308 <i>-10.8</i>	2,162 <i>-6.3</i>	2,057 <i>-4.9</i>	2,156 <i>4.8</i>	1,944 <i>-9.8</i>	1,802 <i>-7.3</i>	1,663 <i>-7.7</i>
Multiples	3,561 <i>29.4</i>	3,614 <i>1.5</i>	2,280 <i>-36.9</i>	2,993 <i>31.3</i>	2,447 <i>-18.3</i>	2,135 <i>-12.7</i>	2,023 <i>-5.2</i>	1,937 <i>-4.2</i>
Newly completed and unabsorbed	575 <i>31.4</i>	651 <i>13.1</i>	615 <i>-5.5</i>	662 <i>7.7</i>	630 <i>-4.9</i>	574 <i>-8.8</i>	567 <i>-1.3</i>	550 <i>-2.9</i>
Absorptions	5,972 <i>14.0</i>	5,680 <i>-4.9</i>	4,720 <i>-16.9</i>	4,921 <i>4.3</i>	4,704 <i>-4.4</i>	4,099 <i>-12.9</i>	3,834 <i>-6.5</i>	3,621 <i>-5.6</i>
Months' supply	1.2	1.4	1.6	1.6	1.6	1.7	1.8	1.8
New housing price	174,820 <i>4.3</i>	183,878 <i>5.2</i>	191,176 <i>4.0</i>	198,300 <i>3.7</i>	204,284 <i>3.0</i>	210,850 <i>3.2</i>	217,684 <i>3.2</i>	224,283 <i>3.0</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	8,906 <i>10.4</i>	9,073 <i>1.9</i>	9,694 <i>6.8</i>	9,431 <i>-2.7</i>	9,350 <i>-0.9</i>	9,528 <i>1.9</i>	9,554 <i>0.3</i>	9,736 <i>1.9</i>
Dollar volume sales (\$ millions)	1,260 <i>21.0</i>	1,349 <i>7.0</i>	1,599 <i>18.6</i>	1,650 <i>3.2</i>	1,680 <i>1.8</i>	1,768 <i>5.3</i>	1,829 <i>3.4</i>	1,923 <i>5.2</i>
New listings	14,149 <i>9.4</i>	15,232 <i>7.7</i>	14,899 <i>-2.2</i>	14,490 <i>-2.7</i>	14,660 <i>1.2</i>	15,235 <i>3.9</i>	15,567 <i>2.2</i>	16,146 <i>3.7</i>
Sales-to-new-listings ratio	63	60	65	65	64	63	61	60
Resale price	141,854 <i>9.7</i>	148,711 <i>4.8</i>	165,620 <i>11.4</i>	174,887 <i>5.6</i>	179,666 <i>2.7</i>	185,615 <i>3.3</i>	191,401 <i>3.1</i>	197,486 <i>3.2</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.

Montréal



A temporary boost in disposable incomes last year in Montréal led to increases in existing home sales and higher housing starts. But sales of existing homes are forecast to fall by 1.8 per cent this year and by 0.6 per cent in 2009. Meanwhile, housing starts are set to drop by 7.4 per cent in 2008 and 13.4 per cent next year. Price growth will also moderate this year, to 3.7 per cent for new homes and 4.9 per cent for existing homes, then ease further over the medium term.

Economic Outlook

Montréal's economy has been growing only modestly for the past several years, in spite of healthy services sector growth, together with sound housing construction last year. A prolonged recession in the manufacturing sector cut an average of 0.4 per cent from overall gross domestic product (GDP) growth every year from 2001 to 2007. But some major construction projects and a gradual recovery in manufacturing will help overall GDP growth reach 2.4 per cent in 2008 and 2.6 per cent in 2009, a modest improvement over the average annual rate of 2 per cent in the past six years.

Housing Outlook

EXISTING HOUSING MARKET

Annual average growth in unit sales of existing homes in Montréal was a strong 11.2 per cent from 1999

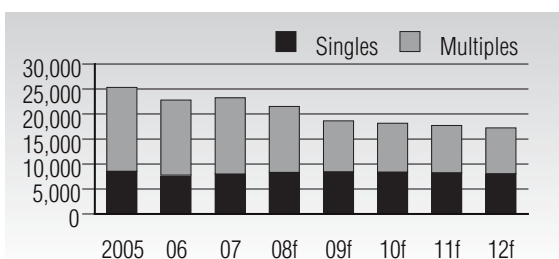
to 2002, thanks to pent-up demand and exceptional economic growth in the late 1990s. Still, this higher demand was not met by an influx of sellers, as the number of new listings continually fell, and so the sales-to-new-listings ratio rose from 40.1 per cent in 1998 to 72.4 per cent by 2002, indicating a sellers' market. Despite increasing tightness in the resale market, price growth remained modest. Over 1999 to 2001, the average price of an existing home increased an average of 4 per cent per year. Accordingly, mortgage payments as a per cent of average household income stayed relatively constant around 13.5 per cent.

By 2003, a weaker economy was starting to stifle demand: unit sales of existing homes fell by 1 per cent that year, and then averaged growth of only 1.8 per cent per year from 2004 to 2006. But higher prices were also finally encouraging additional sellers to enter the market, causing a substantial rise in new

listings and a corresponding drop in the sales-to-new-listings ratio, which fell to 50.5 per cent, indicative of a balanced market. Indeed, existing home prices grew by an average of 14.4 per cent annually from 2002 to 2004 and by an additional 7.8 per cent and 5.9 per cent, respectively, over the next two years. All told, this amounted to a \$90,000 price increase in just five years, as prices topped \$216,000 by 2006. It also meant that mortgage payments as a per cent of average household income steadily increased, climbing to 20.5 per cent by the fourth quarter of 2006.

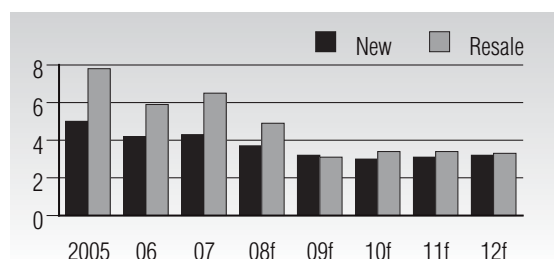
The first two quarters of 2007 saw buyers return to the market, leading to a 12.1 per cent increase in sales last year. Unfortunately, this was likely the result of a temporary increase in incomes, due to the provincial pay equity settlement. Sales have eased once again in recent months, and so a 1.8 per cent annual decline is forecast for 2008. Meanwhile, more

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

modest growth in new listings will keep the sales-to-new-listings ratio in balanced market territory at around 54 per cent this year.

A better balance in the market means price growth will moderate in the coming years. After increasing by 4.9 per cent this year, the average price of an existing home is expected to rise by 3.3 per cent per year for the rest of the forecast (2009–2012).

NEW HOUSING MARKET

As in the existing home market, demand in Montréal's new home market was spurred on after several years of sound economic growth in the late 1990s. Lower interest rates

after 2001 also helped to keep demand strong even as growth in the overall economy slowed. Builders were adept at responding to the increases in demand, as starts rose by an annual average of 19.7 per cent from 1999 to 2004, keeping months' supply between 0.9 months and 1.5 months.

Price growth was slow to respond to this higher demand. The average price of a new home increased only 2.1 per cent in 1999 and a modest 3.7 per cent a year later. However, over 2001 to 2004, growth in new home prices jumped up by an average of 6.1 per cent per year. By 2004, new home prices in Montréal had reached nearly \$250,000, about

\$60,000 higher than they were in 1999, and also \$60,000 more than in the resale market at the same time.

The deteriorating affordability of new homes and improved selection in the resale market are two reasons why demand for new homes fell in 2005 and 2006. As a result, housing starts dropped from 28,700 in 2004 to 22,800 in 2006. The temporary boost in incomes in 2007 sparked a one-year turnaround in new home construction. Specifically, housing starts climbed by 1.8 per cent to 23,200 units. However, at the same time, months' supply reached an 11-year high of 2.3, presaging lower new housing activity.

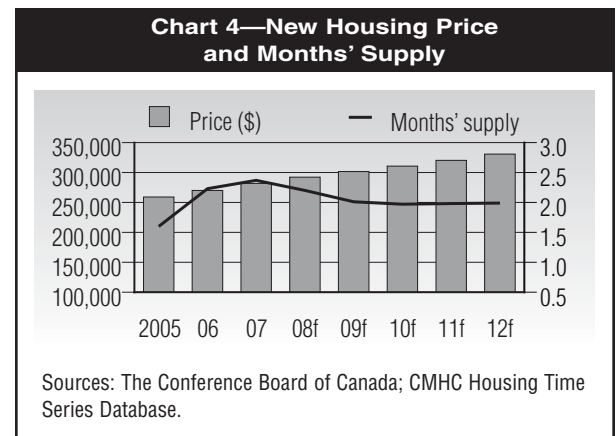
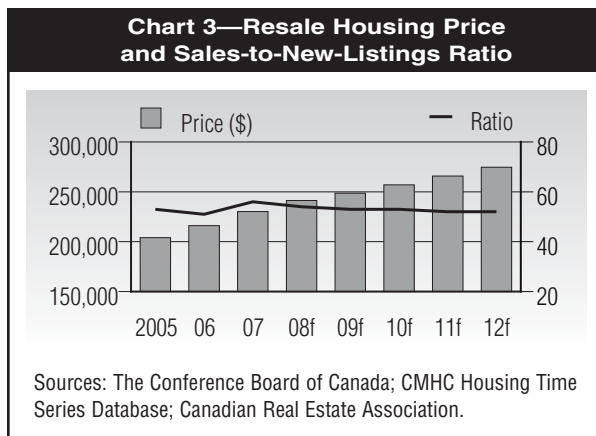


Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	118,037 <i>2.1</i>	120,289 <i>1.9</i>	122,953 <i>2.2</i>	125,939 <i>2.4</i>	129,219 <i>2.6</i>	132,960 <i>2.9</i>	136,782 <i>2.9</i>	140,613 <i>2.8</i>
Total employment (000s)	1,823 <i>1.1</i>	1,857 <i>1.8</i>	1,902 <i>2.5</i>	1,926 <i>1.3</i>	1,942 <i>0.8</i>	1,962 <i>1.1</i>	1,983 <i>1.0</i>	1,999 <i>0.8</i>
Unemployment rate	8.7	8.4	7.0	7.0	7.1	7.1	7.0	7.0
Personal income per capita	31,255 <i>3.0</i>	32,389 <i>3.6</i>	33,879 <i>4.6</i>	35,030 <i>3.4</i>	36,146 <i>3.2</i>	37,409 <i>3.5</i>	38,744 <i>3.6</i>	40,076 <i>3.4</i>
Population (000s)	3,637 <i>0.7</i>	3,669 <i>0.9</i>	3,696 <i>0.7</i>	3,723 <i>0.7</i>	3,753 <i>0.8</i>	3,786 <i>0.9</i>	3,821 <i>0.9</i>	3,856 <i>0.9</i>
Retail sales (\$ millions)	38,129 <i>5.1</i>	39,652 <i>4.0</i>	40,969 <i>3.3</i>	42,994 <i>4.9</i>	45,246 <i>5.2</i>	47,731 <i>5.5</i>	50,368 <i>5.5</i>	52,955 <i>5.1</i>
Inflation rate	2.3	1.7	1.6	1.3	2.0	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Indeed, moving forward, housing starts are expected to resume their downward slide, falling by 7.4 per cent in 2008 and another 13.4 per cent next year. This will help to keep demand and supply in check, holding months' supply in the 2-month range. Housing starts are then expected to

keep falling through the medium term, down by an average of 2.5 per cent annually, moving more in line with demographic requirements. By 2012, housing starts will have fallen to 17,200 units, down from their peak of 28,700 units in 2004.

Price growth will moderate in the coming years as well. New home prices are forecast to grow by 3.7 per cent this year and by 3.1 per cent on an average annual basis from 2009 to 2012, to reach \$330,600 by 2012.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	25,317	22,813	23,233	21,513	18,636	18,163	17,700	17,225
	<i>-11.7</i>	<i>-9.9</i>	<i>1.8</i>	<i>-7.4</i>	<i>-13.4</i>	<i>-2.5</i>	<i>-2.5</i>	<i>-2.7</i>
Singles	8,544	7,793	8,013	8,310	8,464	8,396	8,258	8,084
	<i>-19.2</i>	<i>-8.8</i>	<i>2.8</i>	<i>3.7</i>	<i>1.9</i>	<i>-0.8</i>	<i>-1.6</i>	<i>-2.1</i>
Multiples	16,773	15,020	15,220	13,203	10,172	9,767	9,442	9,141
	<i>-7.3</i>	<i>-10.5</i>	<i>1.3</i>	<i>-13.3</i>	<i>-23.0</i>	<i>-4.0</i>	<i>-3.3</i>	<i>-3.2</i>
Under construction	17,575	17,088	15,120	16,657	13,138	12,018	11,660	11,393
	<i>1.1</i>	<i>-2.8</i>	<i>-11.5</i>	<i>10.2</i>	<i>-21.1</i>	<i>-8.5</i>	<i>-3.0</i>	<i>-2.3</i>
Housing completions	25,699	24,143	24,361	23,864	18,986	18,141	17,669	17,207
	<i>3.1</i>	<i>-6.1</i>	<i>0.9</i>	<i>-2.0</i>	<i>-20.4</i>	<i>-4.5</i>	<i>-2.6</i>	<i>-2.6</i>
Singles	9,282	8,344	7,720	8,115	8,406	8,423	8,315	8,158
	<i>-11.4</i>	<i>-10.1</i>	<i>-7.5</i>	<i>5.1</i>	<i>3.6</i>	<i>0.2</i>	<i>-1.3</i>	<i>-1.9</i>
Multiples	16,417	15,799	16,641	15,749	10,580	9,718	9,354	9,049
	<i>13.6</i>	<i>-3.8</i>	<i>5.3</i>	<i>-5.4</i>	<i>-32.8</i>	<i>-8.1</i>	<i>-3.7</i>	<i>-3.3</i>
Newly completed and unabsorbed	3,341	4,196	4,787	4,474	3,303	3,001	2,923	2,861
	<i>44.6</i>	<i>25.6</i>	<i>14.1</i>	<i>-6.5</i>	<i>-26.2</i>	<i>-9.1</i>	<i>-2.6</i>	<i>-2.1</i>
Absorptions	25,111	22,651	24,912	24,387	19,727	18,283	17,732	17,272
	<i>5.3</i>	<i>-9.8</i>	<i>10.0</i>	<i>-2.1</i>	<i>-19.1</i>	<i>-7.3</i>	<i>-3.0</i>	<i>-2.6</i>
Months' supply	1.6	2.2	2.3	2.2	2.0	2.0	2.0	2.0
New housing price	259,128	270,081	281,659	292,118	301,489	310,571	320,333	330,566
	<i>5.0</i>	<i>4.2</i>	<i>4.3</i>	<i>3.7</i>	<i>3.2</i>	<i>3.0</i>	<i>3.1</i>	<i>3.2</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	49,506	50,106	56,151	55,127	54,798	55,177	55,786	56,498
	<i>1.9</i>	<i>1.2</i>	<i>12.1</i>	<i>-1.8</i>	<i>-0.6</i>	<i>0.7</i>	<i>1.1</i>	<i>1.3</i>
Dollar volume sales (\$ millions)	10,085	10,806	12,909	13,303	13,629	14,184	14,833	15,517
	<i>9.9</i>	<i>7.1</i>	<i>19.5</i>	<i>3.1</i>	<i>2.4</i>	<i>4.1</i>	<i>4.6</i>	<i>4.6</i>
New listings	93,667	99,197	100,182	102,249	102,620	104,405	106,792	109,231
	<i>10.3</i>	<i>5.9</i>	<i>1.0</i>	<i>2.1</i>	<i>0.4</i>	<i>1.7</i>	<i>2.3</i>	<i>2.3</i>
Sales-to-new-listings ratio	53	51	56	54	53	53	52	52
Resale price	204,065	216,100	230,147	241,320	248,711	257,057	265,876	274,631
	<i>7.8</i>	<i>5.9</i>	<i>6.5</i>	<i>4.9</i>	<i>3.1</i>	<i>3.4</i>	<i>3.4</i>	<i>3.3</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.

Toronto



A relatively weak economy, reduced affordability, and the introduction of a land transfer tax in Toronto will result in unit sales of existing homes falling by 3.9 per cent in 2008. In contrast, new home construction remains elevated. Housing starts are expected to increase this year for the first time since 2003, thanks to a blowout first quarter. Price growth in both markets is forecast to be moderate, at 3.7 per cent for existing homes and 3 per cent for new homes.

Economic Outlook

Toronto's real gross domestic product (GDP) increased by 2.5 per cent last year, buoyed by a 3.6 per cent gain in services sector output. Growth would have been even stronger if not for a third consecutive decline in manufacturing output. The manufacturing industry is expected to fall further in 2008, hurt by the economic slowdown in the United States and the resulting drop in U.S. consumer demand. Thankfully, a still stable services sector will mean another 2.5 per cent increase in Toronto's real GDP this year. By 2009, economic growth is forecast to improve to 3.7 per cent, as the goods sector finally begins to recover.

Housing Outlook

EXISTING HOUSING MARKET

In spite of relatively weak overall economic growth, Toronto's resale housing market was strong between

2001 and 2004, as unit sales increased by an annual average of 9.9 per cent, boosted by lower interest rates and pent-up demand. In response to the higher sales, price growth also accelerated, rising by 7.8 per cent annually from 2002 to 2004. In turn, higher price growth made the market much more attractive to sellers. New listings increased 13.4 per cent on an average annual basis, driving down the sales-to-new-listings ratio from 75.0 per cent in 2001 to a still high 65.2 per cent in 2004.

As the economic slowdown persisted, demand in the resale market began to fall off. Unit sales increased by only 1.0 per cent in 2005 and then fell 1.0 per cent in 2006. But price growth stayed strong, averaging 5.6 per cent over those two years. As a result, new listings continued to increase modestly, allowing the sales-to-new-listings ratio to fall to 60.6 per cent by 2006.

Surprisingly, Toronto's resale market picked up strength in the

first two quarters of 2007, leading to a 12.2 per cent increase in unit sales for the year overall. At the same time, resale prices rose another 7.5 per cent, bringing prices to \$385,800. Since 2000, resale home prices in Toronto have increased by nearly \$140,000. Slower income growth last year, combined with stronger house price appreciation, meant that the ratio of mortgage payments to average household income increased more than 4 percentage points over the year—the same increase as over the entire 2000 to 2006 period. The ratio hit 28.3 per cent by the end of 2007, a level not seen since 1991.

Given the significant decline in affordability in 2007 and the persistent weakness in the economy this year, unit sales of existing homes are expected to fall by 3.9 per cent in 2008. Sales are being further hampered by the introduction on February 1 of a land transfer tax for all home sales in the city of Toronto, although first-time purchasers of

Chart 1—Housing Starts

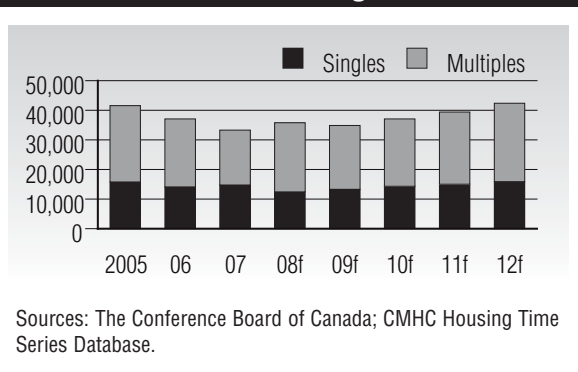
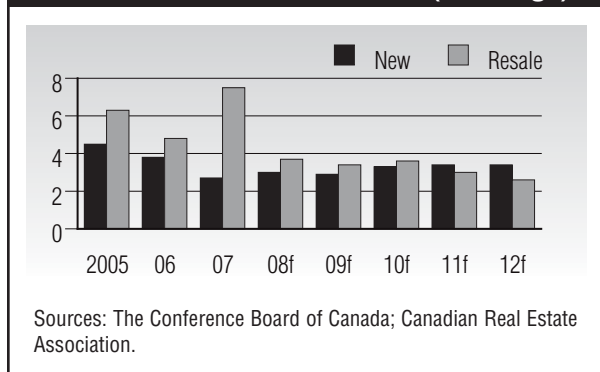


Chart 2—House Price Growth (% change)



both new and existing homes will receive a full rebate on homes valued at \$400,000 or less. Fortunately, as the market adjusts and as the economy picks up steam, existing home sales are expected to bounce back by 1.8 per cent next year, and then increase steadily to 3.8 per cent growth by 2012. Price growth, however, will continue to moderate, slowing from 3.7 per cent in 2008 to 2.6 per cent by 2012.

NEW HOUSING MARKET

Housing starts in Toronto rose at a substantial 23.2 per cent per year through 1999 and 2000. Demand in the new home market was driven by strong increases in overall economic

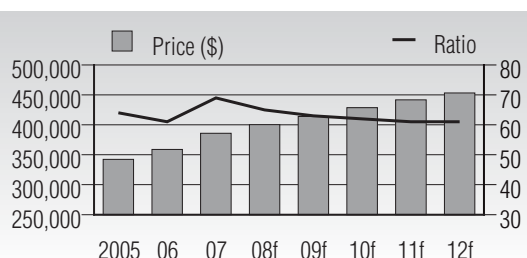
growth. But a subsequent economic slowdown resulted in annual average growth in housing starts easing to 5.3 per cent from 2001 to 2003. This helped to keep supply in line with demand as months' supply held steady and tight, between 0.4 months and 0.6 months over 1999 to 2003, the same level it had been since the mid-1990s.

Despite the tightness in the market, price growth remained modest until 2003, when growth in new home prices accelerated to 4.7 per cent. But even with the modest growth until 2003, new home prices hit nearly \$440,000 that year, among the highest in the country.

As the weakness in the economy dragged on, builders began to retreat from the market. From 2004 to 2007, housing starts posted average declines of 7.4 per cent per year. Absorptions also fell, allowing months' supply to hold steady. Price growth initially strengthened, reaching 5.9 per cent in 2004 and 4.5 per cent in 2005, but then dropped back to average 3.3 per cent over the past two years.

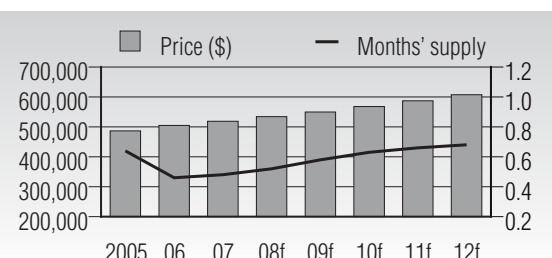
Toronto's housing starts are forecast to increase this year for the first time in five years, thanks to a blowout first quarter. The seasonally adjusted annual rate was 45,000 units in the first three months of 2008, a level not seen since early 2005. But housing

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	210,776 <i>2.9</i>	216,439 <i>2.7</i>	221,758 <i>2.5</i>	227,210 <i>2.5</i>	235,664 <i>3.7</i>	245,109 <i>4.0</i>	254,459 <i>3.8</i>	264,180 <i>3.8</i>
Total employment (000s)	2,763 <i>2.1</i>	2,802 <i>1.4</i>	2,866 <i>2.3</i>	2,902 <i>1.3</i>	2,971 <i>2.4</i>	3,049 <i>2.6</i>	3,127 <i>2.5</i>	3,204 <i>2.5</i>
Unemployment rate	7.0	6.6	6.8	6.8	6.7	6.5	6.5	6.4
Personal income per capita	34,910 <i>3.1</i>	35,783 <i>2.5</i>	37,018 <i>3.5</i>	37,981 <i>2.6</i>	39,300 <i>3.5</i>	40,708 <i>3.6</i>	42,160 <i>3.6</i>	43,663 <i>3.6</i>
Population (000s)	5,314 <i>1.9</i>	5,424 <i>2.1</i>	5,510 <i>1.6</i>	5,599 <i>1.6</i>	5,704 <i>1.9</i>	5,815 <i>1.9</i>	5,933 <i>2.0</i>	6,057 <i>2.1</i>
Retail sales (\$ millions)	53,370 <i>3.8</i>	55,085 <i>3.2</i>	57,980 <i>5.3</i>	61,476 <i>6.0</i>	65,384 <i>6.4</i>	69,700 <i>6.6</i>	74,195 <i>6.4</i>	78,852 <i>6.3</i>
Inflation rate	1.9	1.6	1.9	1.2	2.0	2.0	2.0	2.0

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

starts are expected to be lower through the rest of this year. As well, price growth is forecast to remain a modest 3 per cent. Through the medium term, strong population growth will play a key role in driving new housing demand. Higher levels of international migration and improved

net interprovincial migration will result in the population rising by 2.1 per cent by 2012, a step up from the 1.6 per cent growth seen in 2007 and expected again in 2008. Housing starts are therefore projected to climb to 42,400 units by the end of the forecast period.

Home price appreciation will slip to 2.9 per cent next year, but is then expected to average 3.4 per cent annually from 2010 to 2012. This will result in average new home prices topping \$600,000 by the end of the forecast.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	41,596 <i>-1.2</i>	37,080 <i>-10.9</i>	33,293 <i>-10.2</i>	35,771 <i>7.4</i>	34,863 <i>-2.5</i>	37,108 <i>6.4</i>	39,398 <i>6.2</i>	42,416 <i>7.7</i>
Singles	15,797 <i>-17.2</i>	14,120 <i>-10.6</i>	14,769 <i>4.6</i>	12,432 <i>-15.8</i>	13,294 <i>6.9</i>	14,342 <i>7.9</i>	15,050 <i>4.9</i>	15,886 <i>5.6</i>
Multiples	25,799 <i>12.0</i>	22,960 <i>-11.0</i>	18,524 <i>-19.3</i>	23,339 <i>26.0</i>	21,569 <i>-7.6</i>	22,765 <i>5.5</i>	24,347 <i>6.9</i>	26,530 <i>9.0</i>
Under construction	42,228 <i>4.5</i>	41,880 <i>-0.8</i>	43,238 <i>3.2</i>	39,967 <i>-7.6</i>	32,757 <i>-18.0</i>	34,258 <i>4.6</i>	36,711 <i>7.2</i>	39,364 <i>7.2</i>
Housing completions	39,296 <i>-0.8</i>	38,121 <i>-3.0</i>	30,357 <i>-20.4</i>	35,324 <i>16.4</i>	34,604 <i>-2.0</i>	37,172 <i>7.4</i>	39,560 <i>6.4</i>	42,202 <i>6.7</i>
Singles	16,917 <i>-11.8</i>	14,779 <i>-12.6</i>	14,082 <i>-4.7</i>	13,462 <i>-4.4</i>	12,987 <i>-3.5</i>	14,347 <i>10.5</i>	15,156 <i>5.6</i>	15,922 <i>5.1</i>
Multiples	22,379 <i>9.5</i>	23,342 <i>4.3</i>	16,275 <i>-30.3</i>	21,862 <i>34.3</i>	21,617 <i>-1.1</i>	22,825 <i>5.6</i>	24,404 <i>6.9</i>	26,280 <i>7.7</i>
Newly completed and unabsorbed	2,108 <i>34.0</i>	1,443 <i>-31.6</i>	1,226 <i>-15.0</i>	1,475 <i>20.4</i>	1,667 <i>13.0</i>	1,928 <i>15.7</i>	2,170 <i>12.5</i>	2,382 <i>9.8</i>
Absorptions	39,633 <i>0.2</i>	38,308 <i>-3.3</i>	30,827 <i>-19.5</i>	34,752 <i>12.7</i>	34,357 <i>-1.1</i>	36,915 <i>7.4</i>	39,336 <i>6.6</i>	41,989 <i>6.7</i>
Months' supply	0.6	0.5	0.5	0.5	0.6	0.6	0.7	0.7
New housing price	486,497 <i>4.5</i>	504,949 <i>3.8</i>	518,619 <i>2.7</i>	534,223 <i>3.0</i>	549,506 <i>2.9</i>	567,654 <i>3.3</i>	587,182 <i>3.4</i>	607,419 <i>3.4</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	85,672 <i>1.0</i>	84,842 <i>-1.0</i>	95,164 <i>12.2</i>	91,447 <i>-3.9</i>	93,073 <i>1.8</i>	94,683 <i>1.7</i>	98,168 <i>3.7</i>	101,853 <i>3.8</i>
Dollar volume sales (\$ millions)	26,469 <i>8.4</i>	27,481 <i>3.8</i>	33,166 <i>20.7</i>	36,603 <i>10.4</i>	38,533 <i>5.3</i>	40,597 <i>5.4</i>	43,360 <i>6.8</i>	46,164 <i>6.5</i>
New listings	134,801 <i>3.5</i>	139,903 <i>3.8</i>	137,940 <i>-1.4</i>	141,687 <i>2.7</i>	147,451 <i>4.1</i>	152,498 <i>3.4</i>	160,285 <i>5.1</i>	167,745 <i>4.7</i>
Sales-to-new-listings ratio	64	61	69	65	63	62	61	61
Resale price	342,221 <i>6.3</i>	358,818 <i>4.8</i>	385,826 <i>7.5</i>	400,234 <i>3.7</i>	413,980 <i>3.4</i>	428,746 <i>3.6</i>	441,662 <i>3.0</i>	453,211 <i>2.6</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.

Ottawa–Gatineau



Housing starts in Ottawa–Gatineau are forecast to fall by about 20 per cent over the next two years, bringing new home construction more in line with demographic requirements. The resale market is expected to fare better: units sales will decline by only 1.9 per cent in 2008 and stay steady in 2009. Still, price growth in both markets will be modest this year and next. The average price of a new home is expected to grow by 1.7 per cent per year, while resale prices will rise by an average of 3.2 per cent annually.

Economic Outlook

Growth in the Ottawa–Gatineau economy slowed last year, partly because of softness in the public administration sector. In 2008, although domestic demand will cool and the region’s high-tech sector will suffer from lower U.S. demand, a stronger showing from the public administration sector will help keep the economy on a steady growth track, with real gross domestic product (GDP) forecast to expand by 2.6 per cent. Even stronger growth of 2.9 per cent is anticipated for 2009, as the U.S. economy rebounds and construction activity in the city accelerates on the back of several non-residential investment projects.

Housing Outlook

EXISTING HOUSING MARKET

After increasing by 18.4 per cent in 1999 and an additional 15.9 per cent in 2000, growth in unit sales of

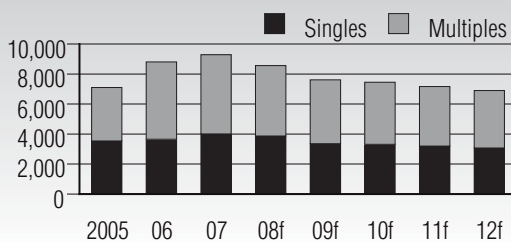
existing homes in Ottawa–Gatineau slowed to a modest 2.4 per cent on an average annual basis between 2001 and 2006. While many areas of the country were reaping the benefits of lower interest rates, as well as pent-up demand from the 1990s, the resale housing market in Ottawa–Gatineau was being hampered by the downturn in the region’s high-tech industry.

Despite the slowdown in existing sales growth, price growth was initially strong. From 2000 to 2004, the average price of an existing home increased by 9.5 per cent per year, reaching \$221,600 in 2004—an \$80,000 price hike over just five years. The higher prices resulted in a sharp acceleration in new listings growth, from just 1.6 per cent growth in 2001 to an average of 9.0 per cent annually over the next four years. Accordingly, the sales-to-new-listings ratio dropped from 72.1 per cent in 2001 (a sellers’ market) to 55.1 per cent by 2005 (a balanced market).

Resale home price appreciation began to moderate in 2005, in line with slowing demand. In 2005 and 2006, existing home prices rose by an annual average of 4.0 per cent, helping to keep affordability in check. Previously, stronger price growth had pushed up the ratio of mortgage payments as a per cent of average household income from around 14.0 per cent in 1999 to nearly 19.0 per cent in 2004. By the end of 2006, this ratio was still holding steady at 19.3 per cent. A return to higher sales growth in 2007 (as unit sales increased by 6.1 per cent) and a subsequent 6.3 per cent price hike pushed the ratio of mortgage payments as a per cent of average household income to 21.5 per cent in the final quarter of last year, its highest point since 1995.

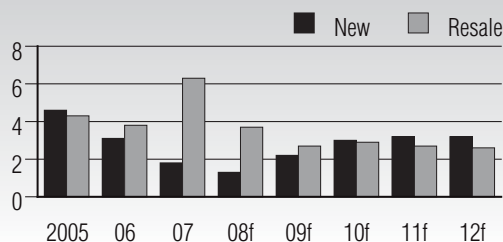
With the domestic economy slowing in 2008, unit sales of existing homes are expected to fall by 1.9 per cent. But as economic growth recovers in 2009 and into the medium term,

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

sales growth will slowly improve. Sales are forecast to remain flat for 2009, before averaging increases of 1.6 per cent per year from 2010 to 2012. Price growth will continue to moderate, however. The average price of an existing home is expected to grow by 3.7 per cent this year and then an average of 2.7 per cent annually for the rest of the forecast. This price appreciation will be more or less in line with household income growth, allowing resale home affordability to stabilize over the medium term.

NEW HOUSING MARKET

Average increases in housing starts of 21 per cent per year resulted in a more than doubling of total

starts from 4,900 units in 1998 to 10,300 units in 2002. This growth resulted from a solid economy as well as pent-up demand from the previous decade. However, even with the strong growth in starts from 1999 to 2002, demand was outstripping supply. Accordingly, months' supply dropped by half, falling to 0.6 months by 2002. In turn, price growth was also strong from 2000 to 2002, as the average price of a new home increased by 8.9 per cent per year.

Over the next four years—2003 to 2006—housing starts were volatile, rising significantly in one year and then tumbling the next. Weaker economic growth was partly to blame for

this volatility. Even though starts climbed by 24 per cent in 2006, the 8,800 units recorded that year still fell short of 2004's 10,500 unit level.

Strong income gains and still relatively low interest rates supported strong housing market activity in 2007, as starts increased a further 5.5 per cent to 9,300 units, the third-highest level in the recent housing cycle and well above current demographic requirements. Indeed, population growth was the weakest in more than 20 years in 2007, as the area lost a net 5,000 people to other Canadian provinces, most likely to the West, where economic growth has been much stronger.

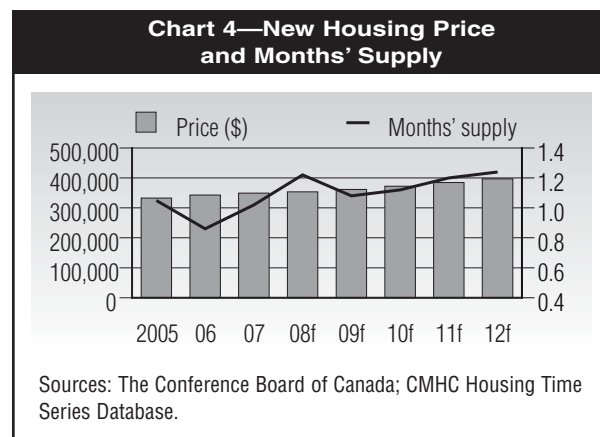
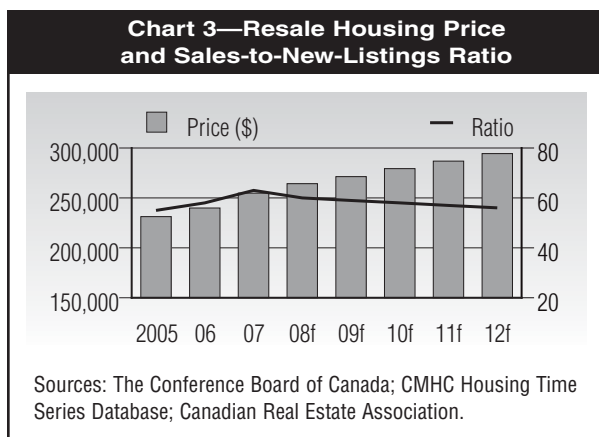


Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	43,045 <i>2.8</i>	44,547 <i>3.5</i>	45,751 <i>2.7</i>	46,957 <i>2.6</i>	48,313 <i>2.9</i>	49,709 <i>2.9</i>	51,059 <i>2.7</i>	52,443 <i>2.7</i>
Total employment (000s)	619 <i>1.5</i>	643 <i>4.0</i>	652 <i>1.3</i>	658 <i>1.1</i>	670 <i>1.8</i>	683 <i>1.8</i>	694 <i>1.6</i>	704 <i>1.5</i>
Unemployment rate	6.6	5.2	5.2	5.5	5.7	5.5	5.4	5.4
Personal income per capita	36,721 <i>4.1</i>	38,215 <i>4.1</i>	40,077 <i>4.9</i>	41,310 <i>3.1</i>	42,862 <i>3.8</i>	44,476 <i>3.8</i>	46,125 <i>3.7</i>	47,863 <i>3.8</i>
Population (000s)	1,151 <i>0.7</i>	1,163 <i>1.0</i>	1,169 <i>0.5</i>	1,176 <i>0.6</i>	1,187 <i>0.9</i>	1,198 <i>0.9</i>	1,209 <i>1.0</i>	1,221 <i>1.0</i>
Retail sales (\$ millions)	13,078 <i>5.2</i>	13,648 <i>4.4</i>	14,271 <i>4.6</i>	15,157 <i>6.2</i>	15,994 <i>5.5</i>	16,871 <i>5.5</i>	17,774 <i>5.4</i>	18,692 <i>5.2</i>
Inflation rate	2.3	1.7	1.9	0.9	2.0	2.0	2.0	2.0

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

Population growth is expected to pick up somewhat over the coming years. Nevertheless, new residential construction is expected to ease to a level more in line with underlying household formation. Specifically, housing starts are forecast to decrease to 8,600 units in 2008 and 7,600 units

in 2009. At these levels, months' supply will hold steady around 1.2 months through the entire medium term.

Price growth in the new home market was weak last year, at 1.8 per cent. Even more modest growth of

1.3 per cent is expected this year. Growth in new home prices will then accelerate to an average of 3.2 per cent from 2010 onward. By 2012, the average price of a new home in Ottawa–Gatineau will be just under \$400,000, \$50,000 more than it was last year.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	7,105 <i>-32.1</i>	8,808 <i>24.0</i>	9,294 <i>5.5</i>	8,566 <i>-7.8</i>	7,610 <i>-11.2</i>	7,450 <i>-2.1</i>	7,161 <i>-3.9</i>	6,902 <i>-3.6</i>
Singles	3,542 <i>-26.3</i>	3,651 <i>3.1</i>	4,010 <i>9.8</i>	3,864 <i>-3.6</i>	3,358 <i>-13.1</i>	3,315 <i>-1.3</i>	3,191 <i>-3.7</i>	3,066 <i>-3.9</i>
Multiples	3,563 <i>-37.1</i>	5,157 <i>44.7</i>	5,284 <i>2.5</i>	4,702 <i>-11.0</i>	4,252 <i>-9.6</i>	4,135 <i>-2.7</i>	3,971 <i>-4.0</i>	3,837 <i>-3.4</i>
Under construction	5,006 <i>-13.1</i>	4,631 <i>-7.5</i>	5,688 <i>22.8</i>	5,251 <i>-7.7</i>	3,881 <i>-26.1</i>	3,369 <i>-13.2</i>	3,225 <i>-4.3</i>	3,095 <i>-4.0</i>
Housing completions	8,290 <i>-18.6</i>	8,199 <i>-1.1</i>	8,310 <i>1.4</i>	9,239 <i>11.2</i>	7,826 <i>-15.3</i>	7,378 <i>-5.7</i>	7,171 <i>-2.8</i>	6,893 <i>-3.9</i>
Singles	4,001 <i>-13.5</i>	3,574 <i>-10.7</i>	3,566 <i>-0.2</i>	4,036 <i>13.2</i>	3,471 <i>-14.0</i>	3,264 <i>-6.0</i>	3,193 <i>-2.2</i>	3,066 <i>-4.0</i>
Multiples	4,289 <i>-22.9</i>	4,625 <i>7.8</i>	4,744 <i>2.6</i>	5,203 <i>9.7</i>	4,354 <i>-16.3</i>	4,114 <i>-5.5</i>	3,978 <i>-3.3</i>	3,827 <i>-3.8</i>
Newly completed and unabsorbed	701 <i>38.8</i>	607 <i>-13.5</i>	691 <i>13.8</i>	924 <i>33.8</i>	720 <i>-22.1</i>	686 <i>-4.7</i>	716 <i>4.3</i>	715 <i>-0.1</i>
Absorptions	8,160 <i>-17.1</i>	8,430 <i>3.3</i>	8,123 <i>-3.6</i>	9,102 <i>12.1</i>	8,013 <i>-12.0</i>	7,349 <i>-8.3</i>	7,152 <i>-2.7</i>	6,900 <i>-3.5</i>
Months' supply	1.0	0.9	1.0	1.2	1.1	1.1	1.2	1.2
New housing price	332,849 <i>4.6</i>	343,104 <i>3.1</i>	349,131 <i>1.8</i>	353,799 <i>1.3</i>	361,469 <i>2.2</i>	372,364 <i>3.0</i>	384,400 <i>3.2</i>	396,850 <i>3.2</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	18,033 <i>-0.3</i>	18,791 <i>4.2</i>	19,944 <i>6.1</i>	19,574 <i>-1.9</i>	19,564 <i>0.0</i>	19,749 <i>0.9</i>	20,106 <i>1.8</i>	20,518 <i>2.1</i>
Dollar volume sales (\$ millions)	4,044 <i>3.7</i>	4,389 <i>8.5</i>	4,953 <i>12.9</i>	5,172 <i>4.4</i>	5,308 <i>2.6</i>	5,516 <i>3.9</i>	5,769 <i>4.6</i>	6,041 <i>4.7</i>
New listings	32,729 <i>8.5</i>	32,541 <i>-0.6</i>	31,620 <i>-2.8</i>	32,415 <i>2.5</i>	33,077 <i>2.0</i>	34,008 <i>2.8</i>	35,231 <i>3.6</i>	36,412 <i>3.4</i>
Sales-to-new-listings ratio	55	58	63	60	59	58	57	56
Resale price	231,166 <i>4.3</i>	239,839 <i>3.8</i>	254,853 <i>6.3</i>	264,231 <i>3.7</i>	271,301 <i>2.7</i>	279,292 <i>2.9</i>	286,899 <i>2.7</i>	294,386 <i>2.6</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.

Calgary



Persistent economic, job, and population growth will prevent the current slowing in Calgary housing markets from becoming a major correction. Despite mushrooming resale supply, prompted by dramatic house price increases, steady sales demand will keep average prices advancing, albeit much more sedately. This will allow incomes to catch up and limit further weakening of housing affordability. New construction is similarly slowing, although starts will remain above historical norms. Builder inventories of completed and unabsorbed units are expected to stay relatively low and therefore not impede new construction volumes.

Economic Outlook

Solid results in most industries lifted Calgary's economy to another good year in 2007. Overall output was helped along by strong performances in construction and in wholesale and retail trade, although weakness in the manufacturing, primary, and transportation and communication sectors limited overall real gross domestic product (GDP) growth to a still solid 3.4 per cent. In 2008, Calgary's economy will continue to prosper, supported by relatively strong energy demand and sound consumer spending growth. Real GDP is forecast to rise by a further 3.9 per cent. Calgary's unemployment rate is expected to hover just above 3 per cent through 2012.

Housing Outlook

EXISTING HOUSING MARKET

Calgary's resale market is cooling sharply as employment growth

slows and a significant deterioration of housing affordability trims population growth. A big listings supply upswing, combined with flattening sales demand, has quickly moved the market to a balanced state and will dramatically curtail price growth. A strong but generally balanced market and moderate price increases will prevail through 2012. This will allow incomes to recapture ground lost to soaring house prices and limit further affordability erosion.

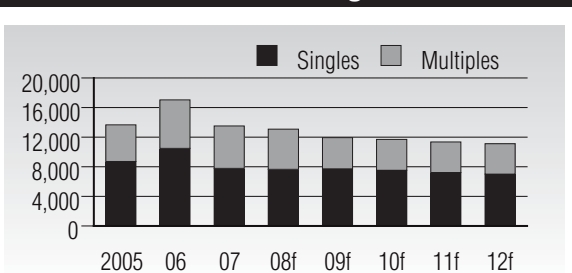
Despite an acceleration in population growth last year, Calgary resale volumes have clearly peaked. Seasonally adjusted sales dropped in three of 2007's four quarters, leading to a 2.6 per cent sales decline for 2007, the first annual dip since 2003. Last year's roughly 32,180 sales nevertheless bettered the prior 10 years' volume average by nearly a third. Sales will drop 12.1 per cent this year, to a still reasonable 28,280 units, then rise slowly in 2009–2012. But 2012

volumes will remain more than 2,000 units below 2006's peak.

Maintaining a steady supply of new listings was problematic early this decade as sales boomed. Listings growth during the five years to 2005 averaged 4.4 per cent annually, less than half the concurrent 10 per cent rise in sales. But during the last two years, new listings proliferated as Calgary homeowners sought to benefit from strong sales demand. Existing housing supply rose 21.2 per cent in 2007, the fastest growth since 1990, lifting annual new listing counts to 54,200 units, easily the highest on record. Listings will grow again this year, albeit more slowly, to roughly 55,900 units and subsequently plateau between 54,000 and 56,000 units.

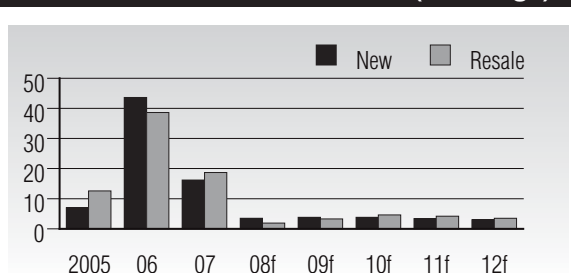
Last year's sales easing juxtaposed against the leap in listings cut the sales-to-new-listings ratio to 60 per cent, the lowest level since 1995 and down from readings well above

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

70 per cent in both 2005 and 2006 that signalled an overheating market. Since this year's ratio of around 50 per cent is consistent with a balanced market, Calgary's resale market will still enjoy a good year. We expect Calgary's sales-to-new-listings ratio to hover near 55 per cent in 2009–2012, a level near the boundary of balanced and sellers' markets.

With the sales-to-new-listings ratio dipping because of cooling demand and rising supply, price growth has throttled back to a more sustainable pace. Calgary's average resale price rose 18.7 per cent last year, still strong, but well off the 38.6 per cent pace posted in 2006. Still, the 23.3 per cent price growth

posted each year on average from 2005 to 2007 was red-hot by any standard and simply unsustainable. Calgary's 1.9 per cent price growth expected in 2008 will feel like a reversal in fortunes but is, in fact, a needed pause. Price growth will rebound in 2009 and average 3.9 per cent per year in 2009–2012.

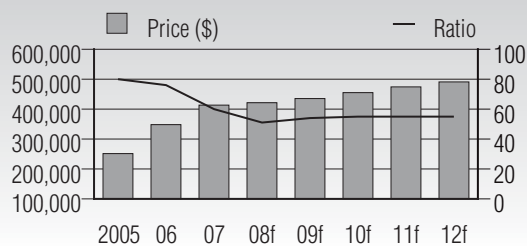
NEW HOUSING MARKET

Calgary's new home market is similarly softening as slower net migration, affordability constraints, and strong competition from the resale market burden new construction. Housing starts peaked in 2006 and will dip in each year of our forecast, albeit to still strong levels.

Calgary's robust economy has attracted plenty of newcomers: the city's population rose 3.5 per cent in 2007, following jumps of just under 3 per cent in each of the two prior years. This growth has fostered rapid new home take-up; absorptions have risen in six of this decade's eight years and exceeded 13,000 units in each of the last three, a strong level for this market. New unit supply fell to 0.5 months in 2007, the lowest on record. As well, the number of newly completed and not absorbed dwellings each month averaged a low 520 units in 2007.

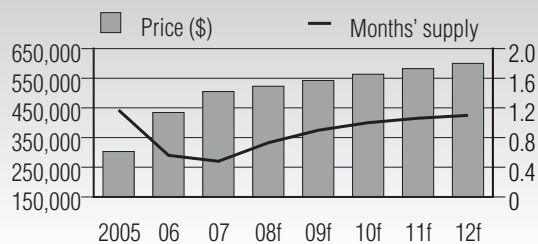
Against this backdrop, dips in housing starts will be relatively modest. Total starts corrected strongly in

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	57,437 <i>5.9</i>	62,024 <i>8.0</i>	64,145 <i>3.4</i>	66,652 <i>3.9</i>	69,333 <i>4.0</i>	72,127 <i>4.0</i>	74,973 <i>3.9</i>	77,934 <i>3.9</i>
Total employment (000s)	606 <i>1.2</i>	655 <i>8.1</i>	681 <i>3.9</i>	695 <i>2.1</i>	710 <i>2.2</i>	723 <i>1.8</i>	736 <i>1.7</i>	748 <i>1.7</i>
Unemployment rate	4.0	3.3	3.2	3.2	3.4	3.5	3.5	3.3
Personal income per capita	45,308 <i>9.3</i>	49,705 <i>9.7</i>	52,922 <i>6.5</i>	54,021 <i>2.1</i>	55,811 <i>3.3</i>	57,407 <i>2.9</i>	59,106 <i>3.0</i>	60,946 <i>3.1</i>
Population (000s)	1,069 <i>2.8</i>	1,101 <i>2.9</i>	1,139 <i>3.5</i>	1,168 <i>2.6</i>	1,191 <i>1.9</i>	1,215 <i>2.0</i>	1,238 <i>1.9</i>	1,261 <i>1.8</i>
Retail sales (\$ millions)	17,654 <i>13.5</i>	20,579 <i>16.6</i>	22,333 <i>8.5</i>	23,765 <i>6.4</i>	25,333 <i>6.6</i>	26,969 <i>6.5</i>	28,700 <i>6.4</i>	30,504 <i>6.3</i>
Inflation rate	2.0	4.6	5.0	2.8	2.5	2.1	2.1	2.1

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

2007 and will fall a further 3.2 per cent to just under 13,100 units this year. Although starts will ease throughout our forecast, we expect volumes to remain above 11,000 units in 2012, well above the 9,900-unit annual average during the 20 years to 2007.

Price growth for new homes has moved in lockstep with that for

existing units. Growth in average new home price hikes clocked in at 16.2 per cent last year, still a robust pace, but well behind 2006's torrid 43.6 per cent hike. Calgarians cannot be faulted for experiencing new home sticker shock; last year's average new home cost just over \$505,000, roughly double the price in 2002. Affordability has suffered accordingly. While

incomes rose a healthy 16 per cent in 2006–2007, this was no match for the nearly 60 per cent simultaneous jump in new home prices. A slowing market will dramatically cut price growth to 3.5 per cent this year and to an average of 3.5 per cent annually in 2009–2012. New home prices will average just over \$600,000 by 2012.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	13,667	17,046	13,505	13,075	11,926	11,693	11,343	11,107
	<i>-2.4</i>	<i>24.7</i>	<i>-20.8</i>	<i>-3.2</i>	<i>-8.8</i>	<i>-2.0</i>	<i>-3.0</i>	<i>-2.1</i>
Singles	8,719	10,482	7,777	7,644	7,708	7,525	7,223	7,008
	<i>5.9</i>	<i>20.2</i>	<i>-25.8</i>	<i>-1.7</i>	<i>0.8</i>	<i>-2.4</i>	<i>-4.0</i>	<i>-3.0</i>
Multiples	4,948	6,564	5,728	5,431	4,217	4,168	4,120	4,099
	<i>-14.3</i>	<i>32.7</i>	<i>-12.7</i>	<i>-5.2</i>	<i>-22.4</i>	<i>-1.2</i>	<i>-1.1</i>	<i>-0.5</i>
Under construction	9,589	12,936	14,619	15,449	11,867	9,678	8,542	7,824
	<i>9.1</i>	<i>34.9</i>	<i>13.0</i>	<i>5.7</i>	<i>-23.2</i>	<i>-18.5</i>	<i>-11.7</i>	<i>-8.4</i>
Housing completions	12,814	12,690	13,112	13,991	12,708	11,897	11,515	11,224
	<i>-1.5</i>	<i>-1.0</i>	<i>3.3</i>	<i>6.7</i>	<i>-9.2</i>	<i>-6.4</i>	<i>-3.2</i>	<i>-2.5</i>
Singles	7,977	8,181	9,149	7,428	7,857	7,563	7,312	7,057
	<i>-3.8</i>	<i>2.6</i>	<i>11.8</i>	<i>-18.8</i>	<i>5.8</i>	<i>-3.7</i>	<i>-3.3</i>	<i>-3.5</i>
Multiples	4,837	4,509	3,963	6,562	4,851	4,333	4,203	4,167
	<i>2.4</i>	<i>-6.8</i>	<i>-12.1</i>	<i>65.6</i>	<i>-26.1</i>	<i>-10.7</i>	<i>-3.0</i>	<i>-0.8</i>
Newly completed and unabsorbed	1,266	605	520	827	948	989	1,019	1,030
	<i>-5.0</i>	<i>-52.2</i>	<i>-14.0</i>	<i>59.0</i>	<i>14.5</i>	<i>4.4</i>	<i>3.0</i>	<i>1.0</i>
Absorptions	13,197	13,095	13,134	13,639	12,651	11,851	11,495	11,218
	<i>2.6</i>	<i>-0.8</i>	<i>0.3</i>	<i>3.8</i>	<i>-7.2</i>	<i>-6.3</i>	<i>-3.0</i>	<i>-2.4</i>
Months' supply	1.2	0.6	0.5	0.7	0.9	1.0	1.1	1.1
New housing price	302,746	434,763	505,055	522,980	542,722	563,392	582,350	600,072
	<i>7.0</i>	<i>43.6</i>	<i>16.2</i>	<i>3.5</i>	<i>3.8</i>	<i>3.8</i>	<i>3.4</i>	<i>3.0</i>

Italics indicate percentage change.
Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	31,569	33,027	32,176	28,281	29,369	29,977	30,438	30,962
	<i>19.1</i>	<i>4.6</i>	<i>-2.6</i>	<i>-12.1</i>	<i>3.8</i>	<i>2.1</i>	<i>1.5</i>	<i>1.7</i>
Dollar volume sales (\$ millions)	7,919	11,450	13,323	11,910	12,779	13,640	14,427	15,189
	<i>34.0</i>	<i>44.6</i>	<i>16.4</i>	<i>-10.6</i>	<i>7.3</i>	<i>6.7</i>	<i>5.8</i>	<i>5.3</i>
New listings	39,821	44,725	54,202	55,914	54,233	54,310	55,080	56,106
	<i>-3.3</i>	<i>12.3</i>	<i>21.2</i>	<i>3.2</i>	<i>-3.0</i>	<i>0.1</i>	<i>1.4</i>	<i>1.9</i>
Sales-to-new-listings ratio	80	76	60	51	54	55	55	55
Resale price	251,142	348,004	413,139	421,076	435,109	454,988	473,960	490,538
	<i>12.6</i>	<i>38.6</i>	<i>18.7</i>	<i>1.9</i>	<i>3.3</i>	<i>4.6</i>	<i>4.2</i>	<i>3.5</i>

Italics indicate percentage change.
Sources: The Conference Board of Canada; Canadian Real Estate Association.

Edmonton



Edmonton's relative economic strength will limit the downturn in its softening housing market. Although soaring resale supply prompted a fourth quarter dip in the average resale price, prices were still up more than a third for 2007 as a whole. Prices will keep advancing, albeit much more modestly. Increased homebuyer choice is prompting a backlog of unsold new homes and dampening builder enthusiasm. Accordingly, housing starts, which levelled in 2007, will post a significant correction in 2008 and 2009, but remain near their 10-year average. Housing affordability has significantly declined, but the worst appears over.

Economic Outlook

Edmonton's real gross domestic product grew by a reasonable 2.8 per cent in 2007. The services sector generated most of the gains, thanks to sturdy growth in the wholesale and retail trade sector and the transportation and communications sector. Unfortunately, goods sector activity stalled, because of a primary sector retraction and mediocre manufacturing results. In 2008, goods sector growth is expected to rebound, while solid consumer spending will again boost services, allowing real output growth to accelerate to 3.6 per cent. Labour markets will remain solid as Edmonton's unemployment rate hovers below 4 per cent.

Housing Outlook

EXISTING HOUSING MARKET

Edmonton's resale market is cooling rapidly. A sharp increase in the supply of new listings has increased

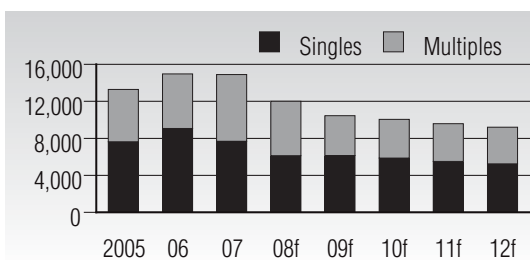
buyer choice and is limiting vendors' pricing power. Sales demand peaked in 2006, and 2008 will mark a second straight annual volume drop. Weaker future price growth is this scenario's obvious implication, following red-hot price advances in 2006 and 2007. Incomes will rise faster than house prices in 2008 and 2009, stabilizing Edmonton affordability, after several years of deterioration. A balanced market is in store for 2008, but ensuing years will see sellers gradually regain the upper hand.

Local resale volumes eased 7.1 per cent to 20,400 units in 2007, following 2006's 18 per cent increase. Most of the weakness occurred at mid-year, as sales declined in both the second and third quarters, before a fourth quarter uptick. Still, last year's volume was more than 25 per cent above the 16,100-unit annual average in 1997–2006. Sales will drop a further 9.3 per cent in 2008 but stay above this long-term average.

Annual volumes will subsequently rise modestly and reach 20,000 units again by 2012.

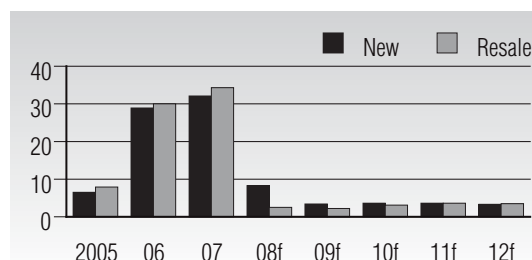
New listings were little changed during the three years to 2006 as sales roared ahead. But price run-ups finally attracted greater supply last year, and new listings surged 60.3 per cent to over 40,700 units, nearly twice the prior 10 years' annual average of 22,500 new listings. Accordingly, the sales-to-new-listings ratio, which had exceeded 65 per cent for nine straight years—including 2006's all-time high of 87 per cent—plummeted to an 11-year low of 53 per cent. This signalled a big and rapid shift from a sellers' to a balanced market. New listings are forecast to keep declining through 2011, which will, along with gentle sales increases, lead to a gradually tightening in the market. By 2011, the sales-to-new-listings ratio will be back in sellers' territory near 64 per cent.

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

This decade's sky-high sales-to-new-listings ratio gave home sellers excellent bargaining power. Accordingly, Edmonton's average resale price rose 34.3 per cent in 2007 following a 30 per cent jump in 2006, as average prices essentially tripled to \$337,400 in the decade ending 2007. But the recent supply increase will limit local resale price growth in 2008 to 2.5 per cent. Prices will rise slightly faster after 2010 as the market balance slides back to sellers, but growth will remain a relatively modest 3 to 3.5 per cent.

Easing price growth will relieve further erosion in affordability. Monthly mortgage payments required 23.6 per cent of average household

income in 2007, up from 14 per cent in 2005 and an annual average of 13.6 per cent in 1997–2006. Affordability will deteriorate only modestly further as this share rises to 25.9 per cent by 2012.

NEW HOUSING MARKET

The rising supply of available resale units, along with a slowing economy and easing population growth, is prompting a similar retrenchment of Edmonton's new home market. A big increase in builder inventories of unsold homes, which face increasing competition from resale listings, will prompt significant corrections in housing starts in 2008 and 2009. Still, starts will

remain well above the 7,800-unit annual average of 1988–2007.

Starts plateaued in 2007, dipping a tiny 0.5 per cent after two years of double-digit percentage hikes. The 2006–2007 average of 14,900 starts was incredible given the annual average of roughly 6,600 starts in the 20 years to 2005. But 2007's total resulted in additions to builder stocks, rather than more sales to consumers. Potential homebuyers, of course, could also select from burgeoning resale supply. Thus, after three years during which growth in new unit absorptions exceeded that in completions, the positions reversed last year, leading to a sharp rise in the number of completed and unabsorbed

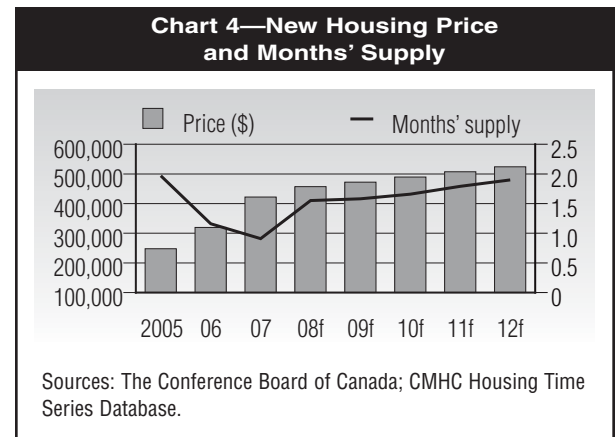
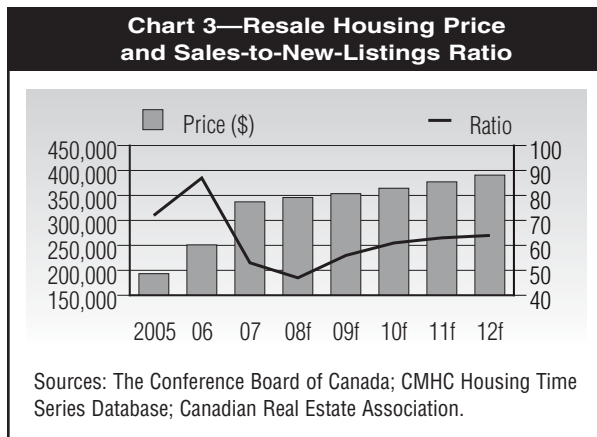


Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	46,164 <i>5.3</i>	49,349 <i>6.9</i>	50,735 <i>2.8</i>	52,543 <i>3.6</i>	54,517 <i>3.8</i>	56,567 <i>3.8</i>	58,656 <i>3.7</i>	60,747 <i>3.6</i>
Total employment (000s)	546 <i>-1.4</i>	561 <i>2.8</i>	599 <i>6.7</i>	615 <i>2.6</i>	623 <i>1.3</i>	632 <i>1.5</i>	642 <i>1.5</i>	651 <i>1.4</i>
Unemployment rate	4.5	3.9	3.8	3.7	3.6	3.6	3.5	3.5
Personal income per capita	37,461 <i>7.0</i>	40,446 <i>8.0</i>	42,863 <i>6.0</i>	44,354 <i>3.5</i>	45,758 <i>3.2</i>	47,126 <i>3.0</i>	48,586 <i>3.1</i>	50,131 <i>3.2</i>
Population (000s)	1,024 <i>2.0</i>	1,052 <i>2.7</i>	1,081 <i>2.8</i>	1,103 <i>2.0</i>	1,119 <i>1.5</i>	1,137 <i>1.6</i>	1,153 <i>1.5</i>	1,169 <i>1.4</i>
Retail sales (\$ millions)	15,786 <i>10.3</i>	18,072 <i>14.5</i>	19,397 <i>7.3</i>	20,570 <i>6.0</i>	21,871 <i>6.3</i>	23,223 <i>6.2</i>	24,655 <i>6.2</i>	26,107 <i>5.9</i>
Inflation rate	2.1	3.1	4.8	2.9	2.5	2.1	2.1	2.1

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

new homes during 2007's second half. In 2008, growth in absorptions will again lag that of completions, leading to a near doubling in the number of completed and unoccupied homes, to an average of 1,680 units per month.

Easing population advances will further limit future starts. Edmonton's

population soared nearly 3 per cent during each of 2006 and 2007, with last year's 2.8 per cent growth the highest on record. Population growth will cool to 2 per cent in 2008, then post annual increases near 1.5 per cent in 2009–2012. Against this backdrop, softening starts are inevitable. Accordingly, housing starts will ease to just over 12,000 units this year and just

over 10,400 next. In the medium term, easing population and employment growth will slice starts to roughly 9,200 units. The weakening new home market will also curtail expected new home price hikes. After averaging 30 per cent annual growth in 2006 and 2007, prices will rise 8.3 per cent in 2008 and in the mid–3 per cent range annually from 2009 to 2012.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	13,294	14,970	14,888	12,014	10,446	10,049	9,577	9,212
	<i>15.7</i>	<i>12.6</i>	<i>-0.5</i>	<i>-19.3</i>	<i>-13.0</i>	<i>-3.8</i>	<i>-4.7</i>	<i>-3.8</i>
Singles	7,623	9,064	7,682	6,129	6,139	5,863	5,507	5,232
	<i>15.3</i>	<i>18.9</i>	<i>-15.2</i>	<i>-20.2</i>	<i>0.2</i>	<i>-4.5</i>	<i>-6.1</i>	<i>-5.0</i>
Multiples	5,671	5,906	7,206	5,885	4,308	4,186	4,069	3,980
	<i>16.4</i>	<i>4.1</i>	<i>22.0</i>	<i>-18.3</i>	<i>-26.8</i>	<i>-2.8</i>	<i>-2.8</i>	<i>-2.2</i>
Under construction	9,350	12,079	14,896	13,850	9,024	7,374	6,811	6,437
	<i>4.1</i>	<i>29.2</i>	<i>23.3</i>	<i>-7.0</i>	<i>-34.8</i>	<i>-18.3</i>	<i>-7.6</i>	<i>-5.5</i>
Housing completions	11,290	12,175	11,839	13,594	11,314	10,138	9,654	9,234
	<i>-5.8</i>	<i>7.8</i>	<i>-2.8</i>	<i>14.8</i>	<i>-16.8</i>	<i>-10.4</i>	<i>-4.8</i>	<i>-4.4</i>
Singles	6,843	7,044	7,641	6,460	6,348	5,998	5,687	5,366
	<i>7.8</i>	<i>2.9</i>	<i>8.5</i>	<i>-15.5</i>	<i>-1.7</i>	<i>-5.5</i>	<i>-5.2</i>	<i>-5.7</i>
Multiples	4,447	5,131	4,198	7,134	4,966	4,140	3,967	3,868
	<i>-21.0</i>	<i>15.4</i>	<i>-18.2</i>	<i>69.9</i>	<i>-30.4</i>	<i>-16.6</i>	<i>-4.2</i>	<i>-2.5</i>
Newly completed and unabsorbed	1,862	1,247	854	1,681	1,521	1,408	1,438	1,458
	<i>31.4</i>	<i>-33.1</i>	<i>-31.5</i>	<i>96.9</i>	<i>-9.5</i>	<i>-7.5</i>	<i>2.1</i>	<i>1.4</i>
Absorptions	11,449	12,871	11,683	12,988	11,549	10,153	9,621	9,220
	<i>-2.1</i>	<i>12.4</i>	<i>-9.2</i>	<i>11.2</i>	<i>-11.1</i>	<i>-12.1</i>	<i>-5.2</i>	<i>-4.2</i>
Months' supply	2.0	1.2	0.9	1.6	1.6	1.7	1.8	1.9
New housing price	248,064	319,637	422,095	457,182	472,511	489,368	507,182	523,988
	<i>6.5</i>	<i>28.9</i>	<i>32.1</i>	<i>8.3</i>	<i>3.4</i>	<i>3.6</i>	<i>3.6</i>	<i>3.3</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	18,634	21,984	20,427	18,521	19,014	19,520	19,967	20,330
	<i>5.6</i>	<i>18.0</i>	<i>-7.1</i>	<i>-9.3</i>	<i>2.7</i>	<i>2.7</i>	<i>2.3</i>	<i>1.8</i>
Dollar volume sales (\$ millions)	3,614	5,516	6,917	6,408	6,725	7,114	7,537	7,942
	<i>14.0</i>	<i>52.6</i>	<i>25.4</i>	<i>-7.4</i>	<i>4.9</i>	<i>5.8</i>	<i>5.9</i>	<i>5.4</i>
New listings	25,820	25,393	40,708	39,659	34,057	32,228	31,824	31,848
	<i>-1.7</i>	<i>-1.7</i>	<i>60.3</i>	<i>-2.6</i>	<i>-14.1</i>	<i>-5.4</i>	<i>-1.3</i>	<i>0.1</i>
Sales-to-new-listings ratio	72	87	53	47	56	61	63	64
Resale price	193,229	251,169	337,428	345,987	353,668	364,473	377,467	390,663
	<i>7.9</i>	<i>30.0</i>	<i>34.3</i>	<i>2.5</i>	<i>2.2</i>	<i>3.1</i>	<i>3.6</i>	<i>3.5</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.

Vancouver



Steady, but slower, population and income growth will keep Vancouver housing markets performing well throughout our forecast. Existing home sales will dip but remain elevated in 2008 and resume growth in 2009. The average resale price is expected to keep rising, although sedately by recent standards. Housing starts are forecast to fall between 2008 and 2012, but forecast levels are still healthy. Vancouver housing affordability, already weak by national standards, will continue to decline in 2008 and 2009, but will thereafter plateau as house price increases taper off.

Economic Outlook

After hitting 3.6 per cent in 2006, Vancouver's real gross domestic product (GDP) growth eased to 3 per cent last year. Although the construction sector and most services-producing industries posted strong gains, weakness in manufacturing and public administration constrained overall growth. In 2008, solid consumer spending will again lift services sector output, while construction activity is expected to remain strong, thanks in part to a host of major infrastructure projects in the run-up to the 2010 Olympics. As a result, real output growth will accelerate to 3.1 per cent. Vancouver's labour market will stay healthy, as the unemployment rate will hover near 4 per cent.

Housing Outlook

EXISTING HOUSING MARKET

Despite its extremely poor affordability, Vancouver's resale market

will benefit from ongoing population and income growth. Sales demand will dip modestly this year, but stay elevated. A simultaneous modest rise in listings supply will not be enough to alter the market's current balance in favour of sellers. However, price growth, which was still solid even while hitting a four-year low in 2007, will dip further into single digits in 2008, then continue to ease. This will put house price growth just slightly above income advances, so affordability will decline only slightly in 2008 and 2009.

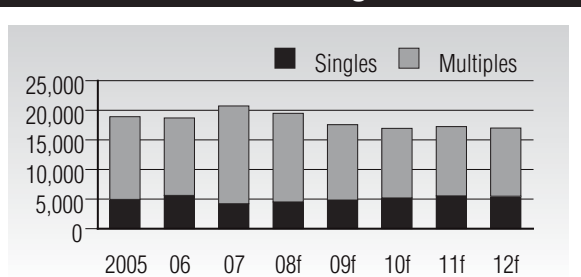
Sales of existing Vancouver homes rose 6.9 per cent to just under 39,000 units in 2007, partially recouping 2006's 13.6 per cent drop. Last year's transactions were well above the prior decade's 31,000-unit annual average and represented the fourth consecutive annual volume greater than 36,000 units. Before 2003, this level had been reached only in 1992. This year's expected sales dip of

1.6 per cent is insignificant and leaves volumes healthy. Between 2009 and 2012, sales will rise at 2.5 per cent per year on average to a record 42,300 units in 2012.

Attracting sufficient resale supply has been difficult. Although listings rose roughly 4 per cent in each of 2006 and 2007, the prior decade saw annual new listings decline 0.5 per cent on average. A 4.5 per cent listings advance in 2008 should start to alleviate supply concerns. These worries will be further addressed in 2009–2012 as listings grow faster than sales.

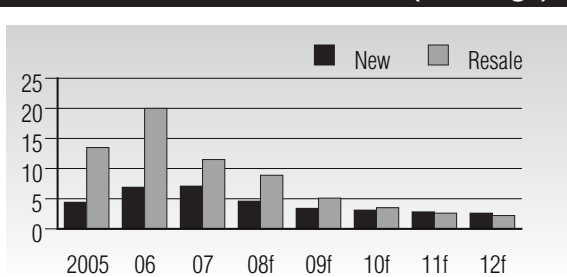
Supply issues underlay run-ups to incendiary levels of Vancouver's sales-to-new-listings ratio, which hit an annual average of 80 per cent in both 2003 and 2005. Indeed, Vancouver has been a sellers' market, with a ratio above 66 per cent, since 2001. With listings expected to rise more rapidly than sales through our

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

forecast, this ratio will ease each year, dipping to 61 per cent by 2012. This will ease pressure on prices, which have risen in double-digit percentage terms for four consecutive years. Although 2007's 11.5 per cent gain was modest by recent standards, it lifted Vancouver's average house price to just under \$568,590, nearly twice 1997's average and over four times 1987's. Prices are forecast to keep rising, albeit more gently; this year's 8.9 per cent advance will be the smallest in six years. Easing price growth will continue as the market becomes more balanced.

Vancouver's housing market continues its solid performance despite affordability issues that would derail

most other markets. The area's homes have always been expensive relative to incomes by Canadian standards. But average mortgage payments will consume a staggering 48.4 per cent of average household income this year. Advances in house prices will exceed those for incomes again this year, but we think a plateau in the mortgage payments to income ratio is approaching.

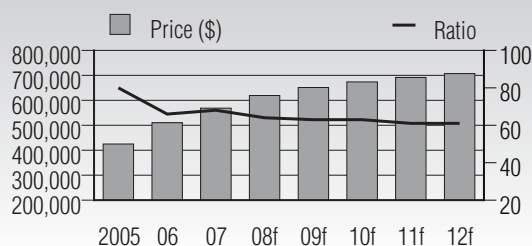
NEW HOUSING MARKET

Vancouver's new home market appears to be levelling after last year's 15-year high in housing starts. Total housing starts in Vancouver advanced 10.9 per cent to 20,736 units last year, following modest declines in both 2005 and 2006. Last year's

volume was the highest since 1993 and partially reflects recent years' above-average growth in jobs, incomes, and population, all of which had boosted developer confidence in starting new projects.

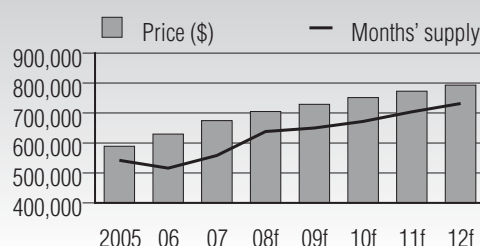
Unfortunately, the jump in starts also added to builder stocks. Absorptions declined more than completions last year, marking the second straight year during which completions exceeded absorptions. This lifted the number of completed and not absorbed units more than a third to a month-end average of 1,160 units last year, the highest level in four years.

Chart 3—Resale Housing Price and Sales-to-New-Listings Ratio



Sources: The Conference Board of Canada; CMHC Housing Time Series Database; Canadian Real Estate Association.

Chart 4—New Housing Price and Months' Supply



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	76,001 4.2	78,716 3.6	81,066 3.0	83,540 3.1	86,337 3.3	89,311 3.4	92,204 3.2	95,111 3.2
Total employment (000s)	1,156 2.5	1,187 2.7	1,223 3.0	1,251 2.3	1,276 2.1	1,299 1.8	1,322 1.8	1,343 1.6
Unemployment rate	5.7	4.4	4.0	4.0	3.9	3.9	4.1	4.2
Personal income per capita	31,900 4.3	33,316 4.4	34,941 4.9	36,231 3.7	37,558 3.7	38,856 3.5	40,278 3.7	41,719 3.6
Population (000s)	2,215 1.8	2,257 1.9	2,286 1.3	2,312 1.2	2,343 1.3	2,376 1.4	2,409 1.4	2,444 1.4
Retail sales (\$ millions)	22,687 2.0	24,163 6.5	25,497 5.5	26,972 5.8	28,566 5.9	30,241 5.9	31,965 5.7	33,715 5.5
Inflation rate	1.9	1.9	2.1	1.3	2.2	2.0	2.0	1.8

Italics indicate percentage change.

Sources: The Conference Board of Canada; Statistics Canada.

Starts will ease 5.9 per cent to 19,500 units this year, as builders unsuccessfully attempt to whittle down this inventory. Indeed, continued advances in completed and not absorbed counts will accompany moderating population and employment growth as the prime causes of the expected easing in starts. Volumes will dip during

three of the four years to 2012, but will remain well above the 1998–2007 annual average.

Despite 2007's rise in builders' completed and unoccupied stocks, growth in Vancouver's average new house price accelerated to 7.1 per cent last year, the fastest in 15 years. Indeed, this price growth has generally

quicken since 2000, following seven straight years of declining average prices. Slowing starts and small but persistent gains in builder inventories will temper price increases throughout our forecast. Still, Vancouver's average new house is forecast to cost nearly \$800,000 by 2012.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	18,914	18,705	20,736	19,505	17,566	16,959	17,238	17,013
	<i>-2.7</i>	<i>-1.1</i>	<i>10.9</i>	<i>-5.9</i>	<i>-9.9</i>	<i>-3.5</i>	<i>1.6</i>	<i>-1.3</i>
Singles	4,935	5,614	4,211	4,510	4,825	5,193	5,539	5,475
	<i>-12.1</i>	<i>13.8</i>	<i>-25.0</i>	<i>7.1</i>	<i>7.0</i>	<i>7.6</i>	<i>6.7</i>	<i>-1.1</i>
Multiples	13,979	13,091	16,525	14,995	12,741	11,766	11,699	11,538
	<i>1.2</i>	<i>-6.4</i>	<i>26.2</i>	<i>-9.3</i>	<i>-15.0</i>	<i>-7.7</i>	<i>-0.6</i>	<i>-1.4</i>
Under construction	19,395	21,665	22,668	17,954	15,856	15,225	14,714	14,446
	<i>17.6</i>	<i>11.7</i>	<i>4.6</i>	<i>-20.8</i>	<i>-11.7</i>	<i>-4.0</i>	<i>-3.4</i>	<i>-1.8</i>
Housing completions	15,834	18,072	17,816	19,495	18,477	17,607	17,160	16,973
	<i>10.7</i>	<i>14.1</i>	<i>-1.4</i>	<i>9.4</i>	<i>-5.2</i>	<i>-4.7</i>	<i>-2.5</i>	<i>-1.1</i>
Singles	4,692	5,306	4,552	4,229	4,550	4,896	5,261	5,413
	<i>-11.0</i>	<i>13.1</i>	<i>-14.2</i>	<i>-7.1</i>	<i>7.6</i>	<i>7.6</i>	<i>7.5</i>	<i>2.9</i>
Multiples	11,142	12,766	13,264	15,267	13,927	12,711	11,899	11,559
	<i>23.4</i>	<i>14.6</i>	<i>3.9</i>	<i>15.1</i>	<i>-8.8</i>	<i>-8.7</i>	<i>-6.4</i>	<i>-2.9</i>
Newly completed and unabsorbed	939	841	1,160	1,862	1,921	1,981	2,157	2,327
	<i>2.8</i>	<i>-10.4</i>	<i>38.0</i>	<i>60.5</i>	<i>3.2</i>	<i>3.1</i>	<i>8.9</i>	<i>7.9</i>
Absorptions	16,113	17,871	17,583	18,790	18,476	17,476	16,974	16,818
	<i>12.1</i>	<i>10.9</i>	<i>-1.6</i>	<i>6.9</i>	<i>-1.7</i>	<i>-5.4</i>	<i>-2.9</i>	<i>-0.9</i>
Months' supply	0.7	0.6	0.8	1.2	1.2	1.4	1.5	1.7
New housing price	589,218	629,595	674,490	705,268	729,307	751,656	773,022	793,425
	<i>4.4</i>	<i>6.9</i>	<i>7.1</i>	<i>4.6</i>	<i>3.4</i>	<i>3.1</i>	<i>2.8</i>	<i>2.6</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	42,222	36,479	38,978	38,342	39,266	39,971	41,039	42,327
	<i>11.2</i>	<i>-13.6</i>	<i>6.9</i>	<i>-1.6</i>	<i>2.4</i>	<i>1.8</i>	<i>2.7</i>	<i>3.1</i>
Dollar volume sales (\$ millions)	17,976	18,600	22,248	23,753	25,571	26,929	28,374	29,918
	<i>26.6</i>	<i>3.5</i>	<i>19.6</i>	<i>6.8</i>	<i>7.7</i>	<i>5.3</i>	<i>5.4</i>	<i>5.4</i>
New listings	52,736	54,947	57,145	59,689	61,854	63,957	66,803	69,640
	<i>-4.5</i>	<i>4.2</i>	<i>4.0</i>	<i>4.5</i>	<i>3.6</i>	<i>3.4</i>	<i>4.4</i>	<i>4.2</i>
Sales-to-new-listings ratio	80	66	68	64	63	63	61	61
Resale price	424,789	509,802	568,588	619,357	651,201	673,680	691,358	706,799
	<i>13.5</i>	<i>20.0</i>	<i>11.5</i>	<i>8.9</i>	<i>5.1</i>	<i>3.5</i>	<i>2.6</i>	<i>2.2</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.

Victoria



Victoria housing markets are showing signs of easing as a run-up in both new and resale supply curtails expectations for housing starts and limits pricing power for vendors of existing homes. This follows an electric six-year run during which uninterrupted increases in employment, population, and income combined to generate soaring housing starts and double-digit price growth. Starts, resale volumes, and resale price advances will all ease this year, but stay healthy by long-term standards. Poor affordability, a big issue in this market, will deteriorate further in 2008, and stabilize thereafter.

Economic Outlook

Thanks to relatively strong growth among services-producing industries, Victoria's economy had a good 2007. Although real gross domestic product growth is expected to slow from last year's 3.5 per cent, it will still register a solid 3 per cent in 2008. Thanks to recently robust employment and income gains, domestic demand is expected to remain strong. Still, growth in consumer spending is not expected to match last year's torrid pace, and output in the services sector will moderate as a result. But this will be partly offset by stronger goods sector activity as manufacturing begins a gradual recovery from a tough 2007.

Housing Outlook

EXISTING HOUSING MARKET

Victoria's resale market is cooling after several strong years prompted by steady gains in jobs, incomes,

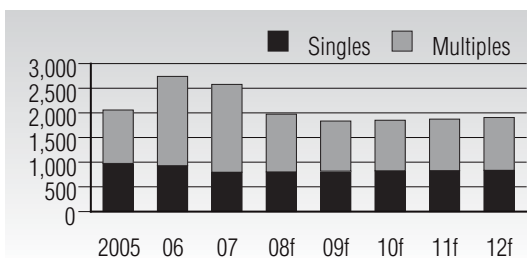
and population. Modest economic cooling will shave resale volumes in 2008 and, along with a listings supply run-up, slow price growth. This will relieve potential homebuyers who have seen average resale home prices rise much faster than incomes. Indeed, affordability is a leading culprit in the emerging slowdown. Nonetheless, average resale prices will continue to advance, while transactions exceed their 10-year average.

Resale volumes rose 12 per cent in 2007, the sixth hike in the past seven years. This lifted sales to 8,400 units, the most since 1991 and the second highest on record. Sustained local demand has been demonstrated by an annual average of more than 7,800 sales in the five years to 2007, 38 per cent above the prior five years' average. Volumes will ease 2.8 per cent this year but remain above 8,000 units, before averaging 8,100 units in 2009–2012.

New listings hikes have lagged sales growth in five of the latest seven years. But rising resale prices are finally drawing greater resale supply; annual listings increases averaged 11.3 per cent in 2006–2007, well above the 0.1 per cent average rise during the 10 years to 2005. This lifted the absolute number of new listings to an all-time high of 12,840 in 2007. Listing activity has stayed strong, with seasonally adjusted counts averaging just under 12,950 units during the autumn and winter quarters, setting the stage for a 5.7 per cent advance this year. Listings growth will average 2.8 per cent per year in 2009–2012, putting annual new listings at 15,120 by our forecast's end.

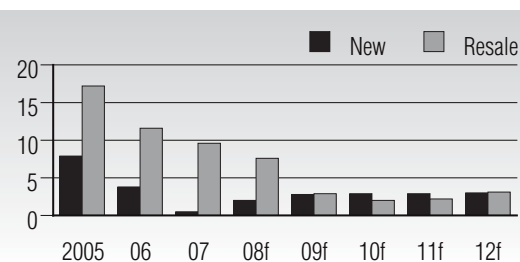
Big run-ups in unit sales earlier this decade far outstripped growth in new listings, leading to a sharp jump in the sales-to-new-listings ratio. Indeed, during 2001–2005, sales increased 10.9 per cent per year on

Chart 1—Housing Starts



Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Chart 2—House Price Growth (% change)



Sources: The Conference Board of Canada; Canadian Real Estate Association.

average, more than three times the 3.4 per cent concurrent growth in listings. This kept the sales-to-new-listings ratio in strong sellers' market territory, above 70 per cent. The market has since moved closer to balance, as faster new listings growth cut the ratio to 65 per cent last year. More of the same is in store this year: an expected sales easing and listings advance will trim the ratio to 60 per cent, still a sellers' market reading. Since we expect sales to grow more slowly than listings between 2009 and 2012, the sales-to-new-listings ratio will dip each year.

This strong ratio of sales demand to listings supply has kept price growth buoyant. Resale prices

advanced an annual average of 15 per cent from 2003 to 2006. In 2008, the weakening supply-demand balance and a dipping ratio will cool average price growth to a seven-year low of 7.6 per cent. Between 2009 and 2012, continued easing in the supply-demand balance will slice annual price growth to 2.6 per cent on average.

NEW HOUSING MARKET

Victoria's new home market is also levelling off after several strong years. Starts have been boosted by a solid economy and by retirees who have moved to the area, absorbing new units in large numbers and boosting their prices. Moderation is now being signalled by gentle

upticks in the number of completed and unabsorbed homes, and thus new unit supply, despite healthy absorption.

Housing starts rose in five of this decade's eight years, averaging 12 per cent annual growth during this period. But following a 33 per cent increase in 2006, starts eased to 2,579 units last year, setting the stage for a further pullback this year, to just under 2,000 units. Steady, albeit modest, growth in employment and population will keep starts relatively buoyant in the longer term: we expect annual volumes to average just under 1,900 units in 2009–2012, still above the 1998–2007 average of roughly 1,750 units.

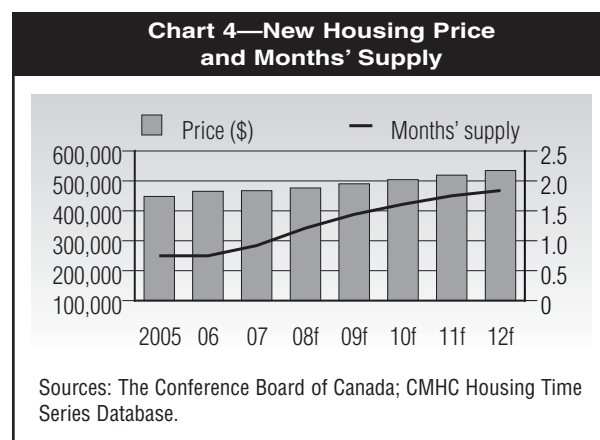
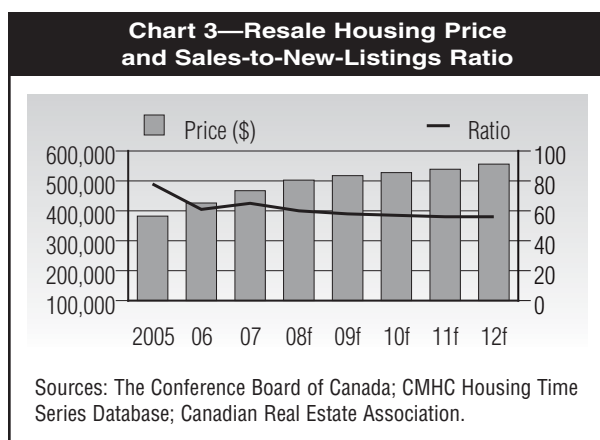


Table 1—Economic Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Real GDP at basic prices (1997 \$ millions)	10,703 4.0	11,100 3.7	11,490 3.5	11,839 3.0	12,156 2.7	12,448 2.4	12,731 2.3	13,014 2.2
Total employment (000s)	169 4.5	175 3.6	183 4.4	189 3.2	190 0.5	191 0.6	192 0.6	193 0.5
Unemployment rate	4.5	3.7	3.3	3.6	3.8	4.0	4.1	4.1
Personal income per capita	34,520 4.4	36,674 6.2	38,945 6.2	40,553 4.1	41,783 3.0	43,083 3.1	44,511 3.3	45,976 3.3
Population (000s)	332 0.7	334 0.5	337 1.0	341 1.1	344 0.8	346 0.7	349 0.8	352 0.8
Retail sales (\$ millions)	3,456 3.7	3,668 6.1	3,963 8.1	4,205 6.1	4,410 4.9	4,601 4.3	4,812 4.6	5,021 4.3
Inflation rate	2.2	1.6	1.1	0.9	2.2	2.0	2.0	1.8

Italics indicate percentage change.
Sources: The Conference Board of Canada; Statistics Canada.

New unit absorptions rose a brisk 7.2 per cent to roughly 2,100 units last year. During the last five years, such new-unit take up has averaged 1,860 per year, well above the previous five years' 1,150-unit pace.

Despite the rise in absorptions, an even greater rise in completions led to an increase in the average number of complete and not absorbed new

homes. Still, at 151 units, the number was modest compared with the 226-unit average posted in 1997–2006. Such volumes will present only a mild deterrent to new construction.

A slightly slowing market will lengthen absorption periods for the units that have been built recently. Accordingly, the number of complete

and not absorbed new homes will jump sharply in 2008, then drift upward slowly. By 2012, the supply of new homes will reach 1.8 months, double the 0.8 months in 2007.

Moderating new-unit take-up will limit price advances to 2 per cent in 2008 and an average of 2.9 per cent per year in 2009–2012.

Table 2—New Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Housing starts	2,058	2,739	2,579	1,974	1,835	1,852	1,876	1,908
	<i>-12.9</i>	<i>33.1</i>	<i>-5.8</i>	<i>-23.5</i>	<i>-7.0</i>	<i>0.9</i>	<i>1.3</i>	<i>1.7</i>
Singles	974	928	795	802	819	825	830	835
	<i>-6.2</i>	<i>-4.7</i>	<i>-14.3</i>	<i>0.9</i>	<i>2.1</i>	<i>0.8</i>	<i>0.6</i>	<i>0.6</i>
Multiples	1,084	1,811	1,784	1,172	1,016	1,027	1,045	1,072
	<i>-18.2</i>	<i>67.1</i>	<i>-1.5</i>	<i>-34.3</i>	<i>-13.3</i>	<i>1.0</i>	<i>1.8</i>	<i>2.6</i>
Under construction	1,943	2,341	3,123	2,320	1,723	1,541	1,532	1,548
	<i>19.2</i>	<i>20.5</i>	<i>33.4</i>	<i>-25.7</i>	<i>-25.8</i>	<i>-10.6</i>	<i>-0.5</i>	<i>1.0</i>
Housing completions	1,873	2,045	2,141	2,454	1,974	1,814	1,823	1,850
	<i>0.3</i>	<i>9.2</i>	<i>4.7</i>	<i>14.6</i>	<i>-19.6</i>	<i>-8.1</i>	<i>0.5</i>	<i>1.5</i>
Singles	935	902	815	789	804	805	811	816
	<i>-3.7</i>	<i>-3.5</i>	<i>-9.6</i>	<i>-3.2</i>	<i>1.8</i>	<i>0.2</i>	<i>0.8</i>	<i>0.6</i>
Multiples	938	1,143	1,326	1,664	1,170	1,009	1,012	1,034
	<i>4.7</i>	<i>21.9</i>	<i>16.0</i>	<i>25.5</i>	<i>-29.7</i>	<i>-13.8</i>	<i>0.3</i>	<i>2.1</i>
Newly completed and unabsorbed	111	121	151	240	238	241	263	282
	<i>9.3</i>	<i>8.6</i>	<i>24.8</i>	<i>59.4</i>	<i>-0.7</i>	<i>1.0</i>	<i>9.1</i>	<i>7.3</i>
Absorptions	1,874	1,984	2,127	2,376	1,992	1,798	1,801	1,833
	<i>0.0</i>	<i>5.9</i>	<i>7.2</i>	<i>11.7</i>	<i>-16.2</i>	<i>-9.8</i>	<i>0.2</i>	<i>1.7</i>
Months' supply	0.7	0.7	0.8	1.2	1.4	1.6	1.7	1.8
New housing price	448,024	465,256	467,431	476,555	490,121	504,180	519,034	534,464
	<i>7.9</i>	<i>3.8</i>	<i>0.5</i>	<i>2.0</i>	<i>2.8</i>	<i>2.9</i>	<i>2.9</i>	<i>3.0</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; CMHC Housing Time Series Database.

Table 3—Resale Housing Market Indicators

	2005	2006	2007	2008f	2009f	2010f	2011f	2012f
Unit sales	7,970	7,500	8,403	8,166	7,911	7,880	8,085	8,400
	<i>3.7</i>	<i>-5.9</i>	<i>12.0</i>	<i>-2.8</i>	<i>-3.1</i>	<i>-0.4</i>	<i>2.6</i>	<i>3.9</i>
Dollar volume sales (\$ millions)	3,036	3,204	3,924	4,106	4,092	4,158	4,359	4,672
	<i>21.4</i>	<i>5.5</i>	<i>22.5</i>	<i>4.6</i>	<i>-0.3</i>	<i>1.6</i>	<i>4.9</i>	<i>7.2</i>
New listings	10,407	12,280	12,840	13,573	13,600	13,844	14,425	15,120
	<i>0.8</i>	<i>18.0</i>	<i>4.6</i>	<i>5.7</i>	<i>0.2</i>	<i>1.8</i>	<i>4.2</i>	<i>4.8</i>
Sales-to-new-listings ratio	78	61	65	60	58	57	56	56
Resale price	382,168	426,391	467,147	502,703	517,296	527,630	539,145	556,115
	<i>17.2</i>	<i>11.6</i>	<i>9.6</i>	<i>7.6</i>	<i>2.9</i>	<i>2.0</i>	<i>2.2</i>	<i>3.1</i>

Italics indicate percentage change.

Sources: The Conference Board of Canada; Canadian Real Estate Association.





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