

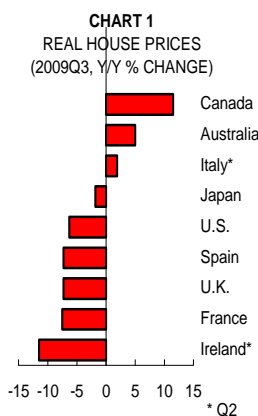


# Global Real Estate Trends

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## Global Real Estate Recovery Continues

The global housing recovery continues to gather momentum. Nourished by exceptionally low borrowing costs, direct government purchase incentives and improving confidence in the fledgling economic recovery, residential real estate in many major developed nations firmed up further in the third quarter of 2009.



Canada still leads the pack among the markets we track. Inflation-adjusted average home prices in the July to September period were up 11% from the same quarter a year ago, a dramatic turnaround from the 10% yearly decline recorded in the opening months of 2009 (chart 1 and table on page 9).

Available monthly data point to a further strengthening in the final quarter of the year. Average home prices in Australia have also moved back into positive growth territory, at 5% year-over-year in Q3, though recent interest rate increases may begin to temper the pace of appreciation.

Average home prices in many other markets are still falling on a year-over-year basis, but the rate of decline has for the most part slowed notably. In the United States, average existing home prices (adjusted for inflation) were down only 6% y/y in Q3, compared with a 14% decline in Q1. U.K. housing prices are following a similar track, while prices appear to be stabilizing in France.

A shortage of homes for sale, alongside strengthening housing demand, is contributing to the firming in prices in a number of countries, including Canada, Australia and the U.K. New construction essentially ground to a halt at the onset of the global financial crisis in the fall of 2008, and has yet to fully recover. Meanwhile, while 'first-time buyers' are out in full force, many potential 'move-up sellers' remain on the sidelines, contributing to a shortage of listings.

Yet, the global housing recovery remains uneven. In particular, housing activity in Spain, Italy and Ireland continues to flounder. Domestic demand and overall growth performance in these countries remain well below that of the largest euro zone nations. A significant oversupply of newly built unsold residential properties continues to plague some nations, including Spain. Meanwhile, the long process of fiscal repair and retrenchment in a number of these countries will amplify the pressure on housing and the duration of the consolidation period.

The road to recovery for the battered U.S. housing market is also expected to be slow. Sales and pricing have begun to show modest improvement, but any significant turnaround will be delayed by the combination of more cautious bank lending and a large supply glut. While inventories of unsold homes have declined appreciably in recent months, foreclosure rates remain around all-time highs, adding to existing overcapacity and depressing selling prices.

### Scotia Economics

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The pickup in housing activity, even if only modest, is providing much-needed fuel for the global economic recovery. Housing is a highly cyclical, interest rate sensitive sector, which typically leads the broader economy. Firming home prices, combined with rebounding stock markets globally, is gradually rebuilding lost household wealth and confidence.

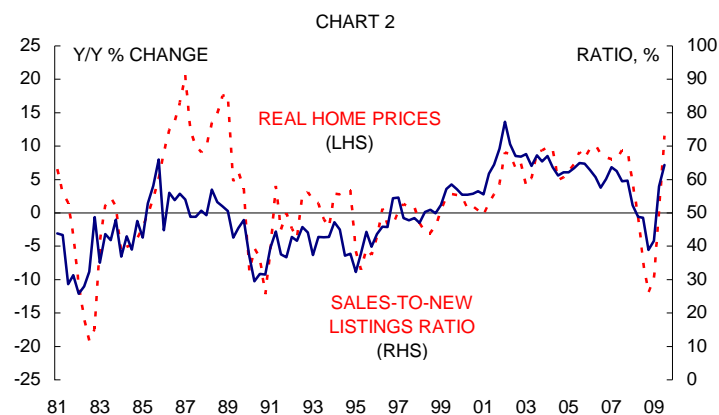
### Another Year For The Record Books

Shaking off a brief early-year slump, Canada's housing market wrapped up another strong year in 2009. We estimate MLS home sales totalled about 465,000 last year, an increase of 7% over 2008 (though still below the peak levels of 2005 though 2007). Average home prices in turn rose roughly 4% to a record of about \$315,000. Homebuilders were somewhat more cautious, breaking ground on an estimated 146,000 new dwellings, compared with 211,000 units in 2008, and a long-run average of 175,000.

These results exceed all expectations. We have been consistently among the more positive of forecasters of Canada's housing market, but were nonetheless predicting a 10-15% *decline* in sales volumes and a 10% *decline* in average prices early last year. We fared better on housing starts, with our forecast of a decline to 155,000 units.

Sales, particularly among first-time buyers, are being lifted by historically low mortgage rates, expectations that borrowing costs will soon be headed higher, as well as purchase incentives introduced in Ottawa's January 2009 Budget (i.e. tax credits to help offset closing costs and expanded RRSP withdrawal limits).

A persistent supply shortage has added to the upward pressure on prices. Potential move-up buyers have been much slower to come back to the market, perhaps due to lingering uncertainty over the employment outlook and/or a reluctance to take on a larger debt load. This has limited the pool of available listings.



We argue against taking an overly alarmist view to the renewed appreciation in Canadian home prices. Prices are being bid up by fundamental demand-supply factors, with little evidence of speculative buying activity. Typically, when the ratio of home sales to new listings moves above 50 — considered a sellers' market — selling prices rise faster than inflation. The larger the imbalance between the number of potential buyers and willing sellers, the larger the average price gain.

Nationally, the ratio of sales to new listings has been hovering in the 60-70 range since mid-2009 — signalling the strongest sellers' market since 2002 and consistent with recent price increases (chart 2). In contrast, at the tail end of Canada's last housing boom in the late 1980s, real price increases ran well above what would be expected given underlying market conditions. Continued more prudent lending practices, including tighter constraints on investor mortgages, are an important factor staving off riskier buying behaviour.

We expect housing demand will remain strong through the key spring sales season as buyers attempt to pre-empt the inevitable rise in interest rates, and improving labour markets bolster confidence. Reduced affordability — through a combination of higher home prices and borrowing costs — will eventually cool demand, though probably not until much later in 2010.

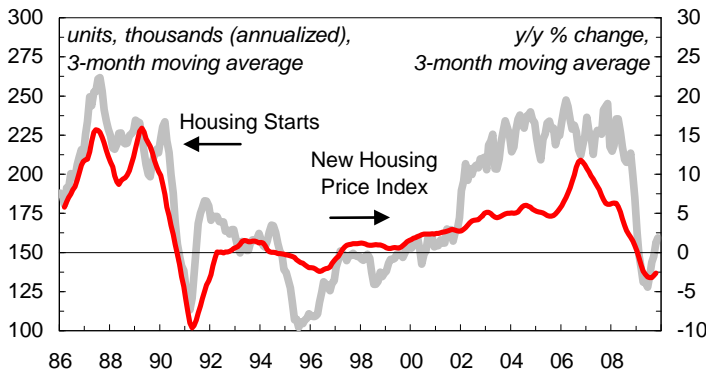
Meanwhile, the supply crunch is beginning to ease — the number of new listings increased in October and November, and homebuilders are again ramping up construction. However, it will take some time for a balanced market to return, suggesting continued upward pressure on prices in the months ahead.

Clearly, the further home prices climb, the greater the risk of an eventual price correction. Past housing booms, both in Canada and internationally, have almost always been followed by some degree of real price stagnation or decline. Indeed, this is an essential ingredient to restoring affordability and generating renewed pent-up housing demand. A sub-par pace of economic growth in 2011 and beyond as fiscal stimulus is reined in is also likely to contribute to a weaker housing outlook. The typical downcycle, however, is slow and protracted, with the post-boom era of real price declines averaging about five years.



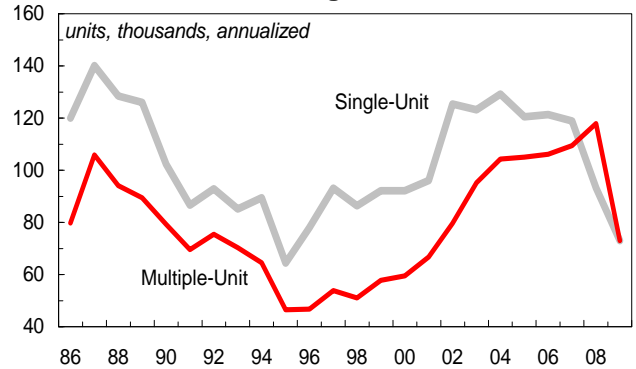
## Canadian Residential Markets

### New Home Markets



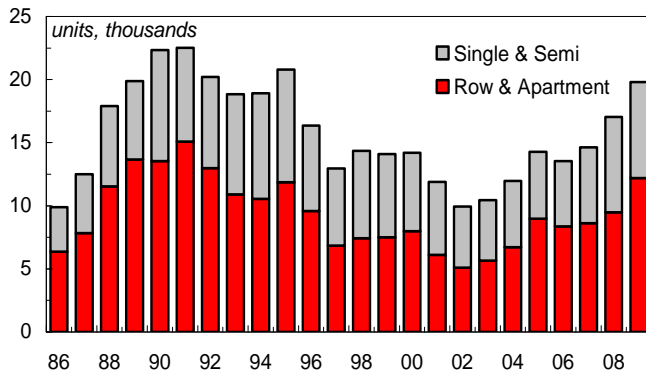
Source: CMHC, Statistics Canada

### Housing Starts



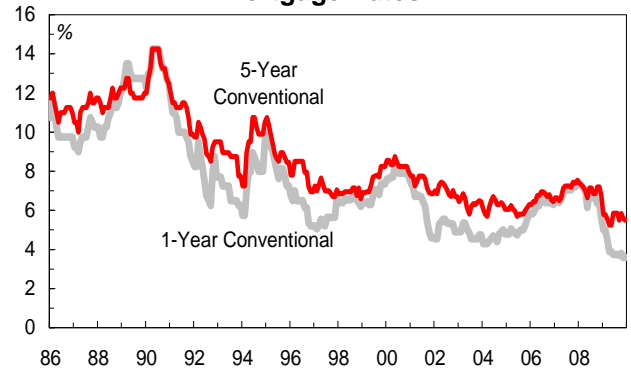
Source: CMHC

### Inventories of Unsold New Homes



Source: CMHC

### Mortgage Rates



Source: Bank of Canada

### Housing Starts

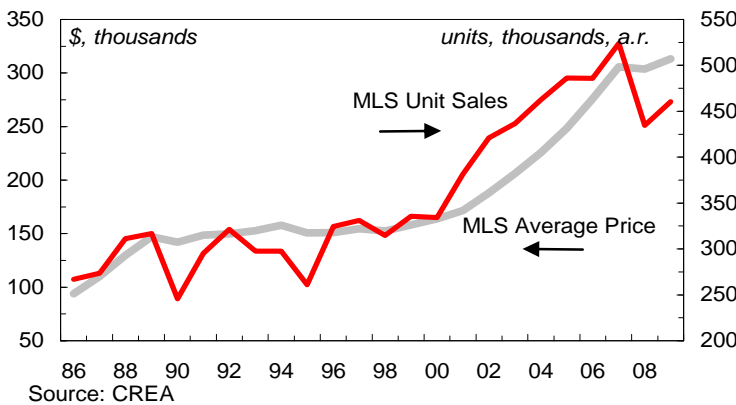
|                         | Canada              | B.C.              | Alberta            | Sask.             | Manitoba         | Ontario            | Quebec           | Atlantic            |
|-------------------------|---------------------|-------------------|--------------------|-------------------|------------------|--------------------|------------------|---------------------|
| <i>(000s units, sa)</i> |                     |                   |                    |                   |                  |                    |                  |                     |
| 2004                    | 233                 | 32.9              | 36.3               | 3.8               | 4.4              | 85.1               | 58.4             | 12.5                |
| 2005                    | 225                 | 34.7              | 40.8               | 3.4               | 4.7              | 78.8               | 50.9             | 12.1                |
| 2006                    | 227                 | 36.4              | 49.0               | 3.7               | 5.0              | 73.4               | 47.9             | 12.0                |
| 2007                    | 228                 | 39.2              | 48.3               | 6.0               | 5.7              | 68.1               | 48.6             | 12.4                |
| 2008                    | 211                 | 34.3              | 29.2               | 6.8               | 5.5              | 75.1               | 47.9             | 12.2                |
| 2009e                   | 146                 | 15.6              | 19.2               | 3.6               | 4.1              | 49.7               | 42.5             | 11.0                |
| 2010f                   | 168                 | 22                | 24                 | 5                 | 5                | 58                 | 43               | 11                  |
| 2011f                   | 172                 | 23                | 25                 | 5                 | 5                | 60                 | 43               | 11                  |
| <i>(units, nsa)</i>     |                     |                   |                    |                   |                  |                    |                  |                     |
| 2004                    | Vancouver<br>19,430 | Calgary<br>14,008 | Edmonton<br>11,488 | Toronto<br>42,115 | Ottawa<br>10,470 | Montreal<br>28,673 | Halifax<br>2,627 | St. John's<br>1,834 |
| 2005                    | 18,914              | 13,667            | 13,294             | 41,596            | 7,105            | 25,317             | 2,451            | 1,534               |
| 2006                    | 18,705              | 17,046            | 14,970             | 37,080            | 8,808            | 22,813             | 2,511            | 1,275               |
| 2007                    | 20,736              | 13,505            | 14,888             | 33,293            | 9,294            | 23,233             | 2,489            | 1,480               |
| 2008                    | 19,591              | 11,438            | 6,615              | 42,212            | 10,302           | 21,927             | 2,096            | 1,863               |
| 2009ytd                 | 7,995               | 6,176             | 6,005              | 26,433            | 8,353            | 18,859             | 1,775            | 1,639               |

Source: Canadian Mortgage and Housing Corporation (CMHC), Scotia Economics calculations and forecasts. Year-to-date data are expressed at annual rates.

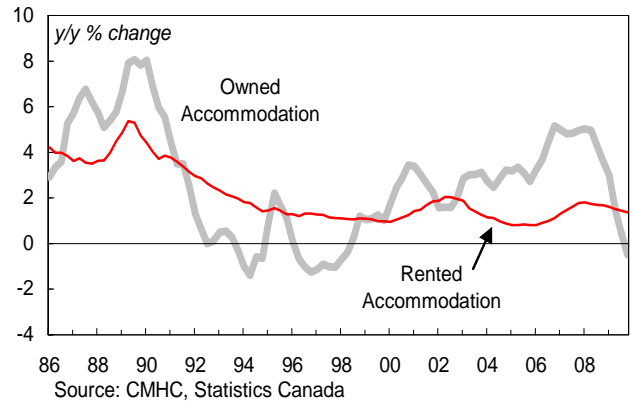


## Canadian Residential Markets

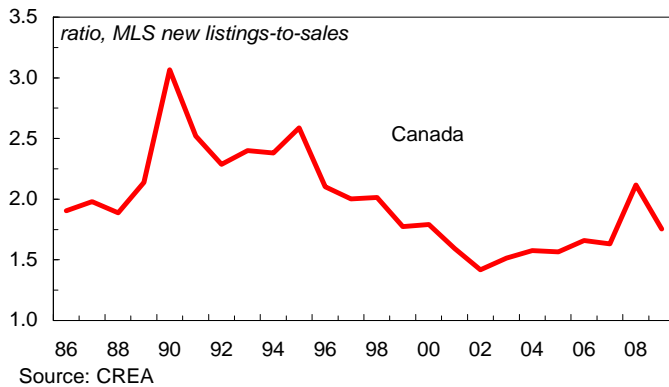
**Existing Home Sales & Prices**



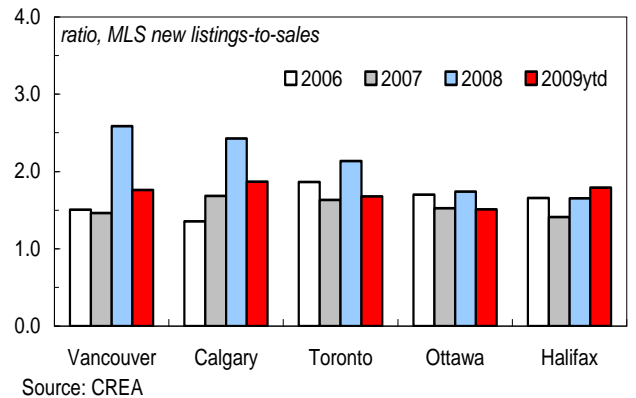
**Housing Cost Trends**



**Existing Home Inventories**



**Existing Home Inventories**



**MLS Home Sales**

|                | Canada     |         | British Columbia |         | Alberta    |        | Man.-Sask. |        | Ontario    |         | Quebec     |        | Atlantic   |        |
|----------------|------------|---------|------------------|---------|------------|--------|------------|--------|------------|---------|------------|--------|------------|--------|
|                | Avg. Price | Units   | Avg. Price       | Units   | Avg. Price | Units  | Avg. Price | Units  | Avg. Price | Units   | Avg. Price | Units  | Avg. Price | Units  |
| <b>2004</b>    | 225,581    | 462,363 | 289,107          | 96,385  | 194,769    | 57,460 | 115,850    | 20,270 | 245,230    | 197,353 | 167,392    | 70,869 | 130,844    | 19,631 |
| <b>2005</b>    | 248,257    | 486,084 | 332,224          | 106,310 | 218,266    | 65,866 | 129,480    | 21,073 | 262,949    | 197,140 | 180,431    | 72,806 | 142,177    | 22,444 |
| <b>2006</b>    | 276,008    | 485,804 | 390,963          | 96,671  | 285,383    | 74,350 | 142,742    | 22,158 | 278,364    | 194,930 | 190,284    | 74,297 | 148,277    | 22,851 |
| <b>2007</b>    | 305,822    | 523,855 | 439,119          | 102,805 | 356,235    | 71,430 | 171,609    | 25,982 | 299,544    | 213,379 | 202,895    | 83,453 | 158,589    | 26,258 |
| <b>2008</b>    | 303,594    | 434,477 | 454,599          | 68,923  | 352,857    | 56,399 | 205,041    | 23,728 | 302,354    | 181,001 | 210,775    | 79,402 | 171,248    | 24,537 |
| <b>2009ytd</b> | 313,321    | 460,462 | 447,394          | 83,665  | 338,679    | 57,473 | 217,502    | 23,681 | 313,662    | 192,204 | 222,923    | 80,270 | 181,973    | 22,654 |

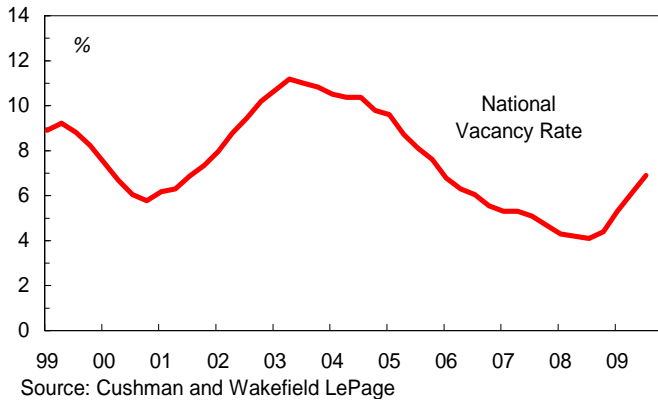
|                | Vancouver  |        | Calgary    |        | Edmonton   |        | Toronto    |        | Ottawa     |        | Montreal   |        | Halifax    |       |
|----------------|------------|--------|------------|--------|------------|--------|------------|--------|------------|--------|------------|--------|------------|-------|
|                | Avg. Price | Units  | Avg. Price | Units  | Avg. Price | Units  | Avg. Price | Units  | Avg. Price | Units  | Avg. Price | Units  | Avg. Price | Units |
| <b>2004</b>    | 373,877    | 37,972 | 222,860    | 26,511 | 179,610    | 17,652 | 315,266    | 84,854 | 238,152    | 13,457 | 189,050    | 48,564 | 175,132    | 5,516 |
| <b>2005</b>    | 425,745    | 42,222 | 250,832    | 31,569 | 193,934    | 18,634 | 336,176    | 85,672 | 248,358    | 13,300 | 203,720    | 49,506 | 189,196    | 6,698 |
| <b>2006</b>    | 509,876    | 36,479 | 346,675    | 33,027 | 250,915    | 21,984 | 352,388    | 84,842 | 257,481    | 14,003 | 215,659    | 50,106 | 203,178    | 6,462 |
| <b>2007</b>    | 570,795    | 38,978 | 414,066    | 32,176 | 338,636    | 20,427 | 377,029    | 95,164 | 273,058    | 14,739 | 229,902    | 56,151 | 216,339    | 7,261 |
| <b>2008</b>    | 593,767    | 25,149 | 405,267    | 23,136 | 332,852    | 17,369 | 379,943    | 76,387 | 290,483    | 13,908 | na         | na     | 232,106    | 6,472 |
| <b>2009ytd</b> | 555,358    | 35,921 | 382,868    | 25,150 | 319,554    | 18,790 | 388,939    | 87,220 | 303,068    | 14,985 | na         | na     | 240,408    | 6,028 |

Source: Canadian Real Estate Association (CREA), Scotia Economics calculations.  
Year-to-date data are expressed at seasonally adjusted annual rates.

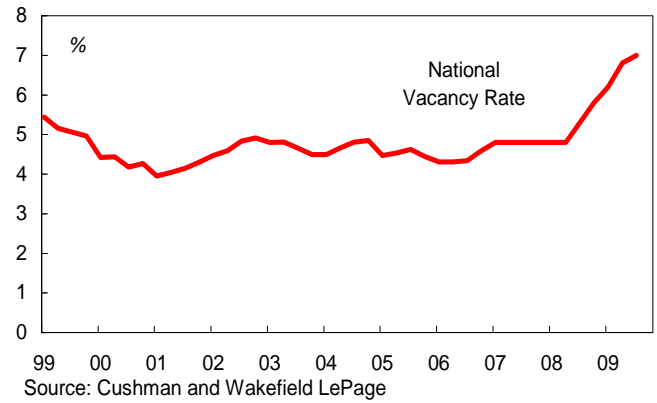


## Canadian Non-Residential Markets

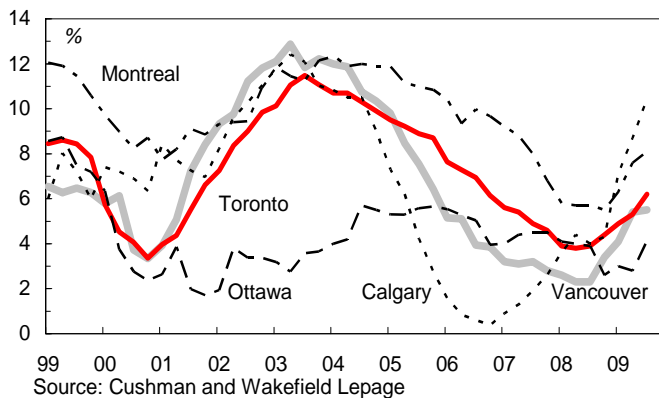
**Office Markets**



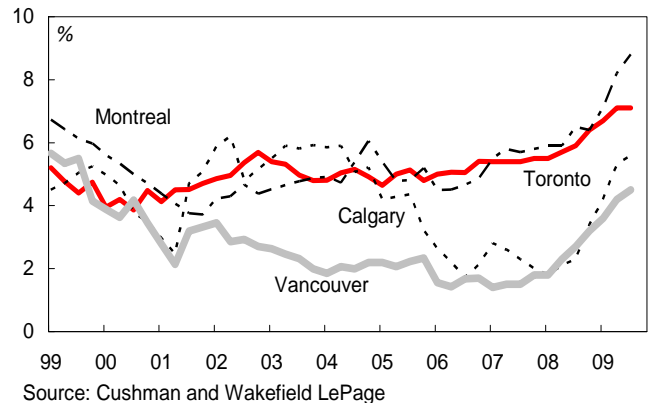
**Industrial Markets**



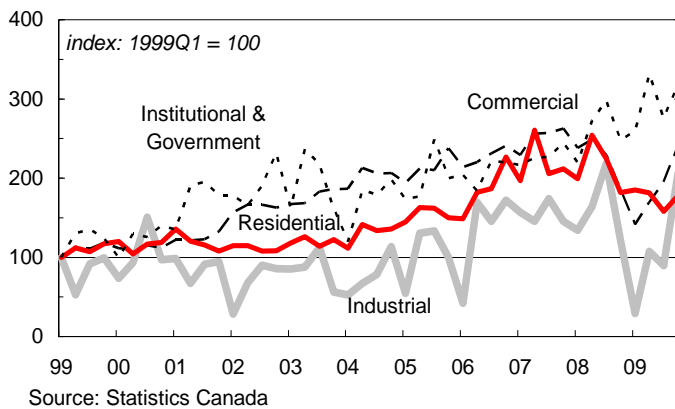
**Office Vacancy Rates  
Largest Five Markets**



**Industrial Vacancy Rates  
Largest Four Markets**



**Building Permits**



**Building Permits**

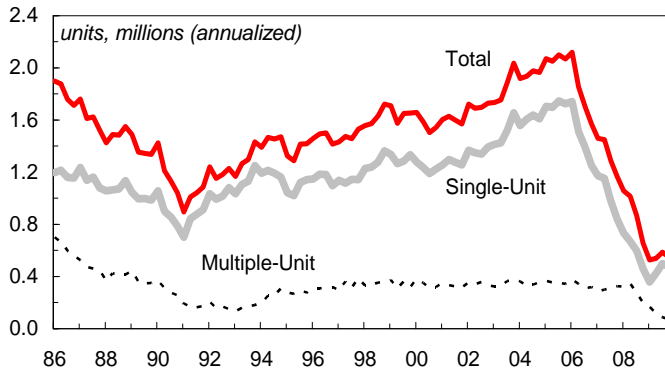
|                | Total          | Res. | Indust. | Comm. | Inst. & Gov't |
|----------------|----------------|------|---------|-------|---------------|
|                | (C\$ billions) |      |         |       |               |
| <b>2004</b>    | 55.6           | 36.8 | 3.5     | 10.1  | 5.1           |
| <b>2005</b>    | 60.8           | 38.7 | 4.0     | 12.0  | 6.0           |
| <b>2006</b>    | 66.3           | 41.1 | 4.5     | 14.4  | 6.2           |
| <b>2007</b>    | 74.4           | 45.5 | 5.0     | 17.0  | 6.9           |
| <b>2008</b>    | 70.4           | 40.9 | 5.1     | 16.7  | 7.8           |
| <b>2009ytd</b> | 59.3           | 32.9 | 3.9     | 13.6  | 8.9           |

Source: Statistics Canada. Year-to-date data are expressed at seasonally adjusted annual rates.



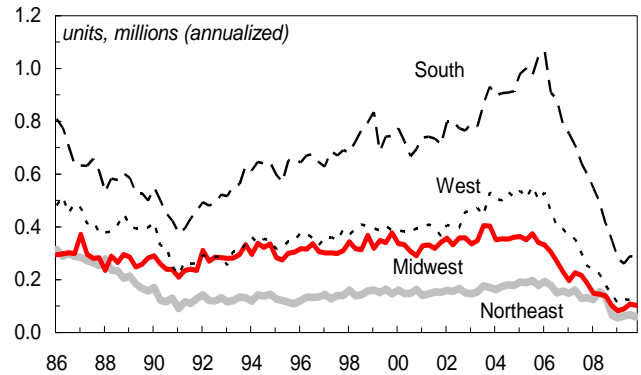
**U.S. Residential Markets**

**Housing Starts**



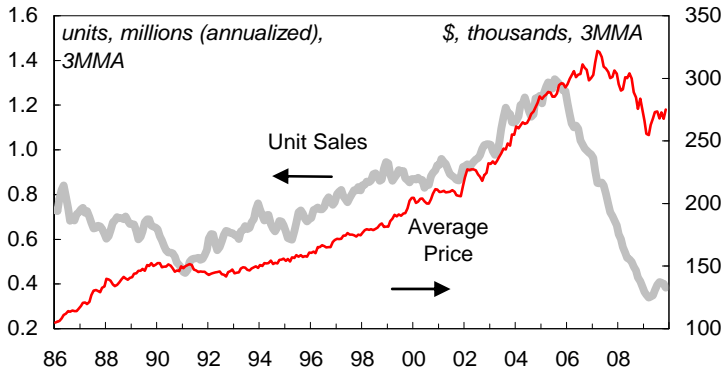
Source: U.S. Census Bureau

**Housing Starts by Region**



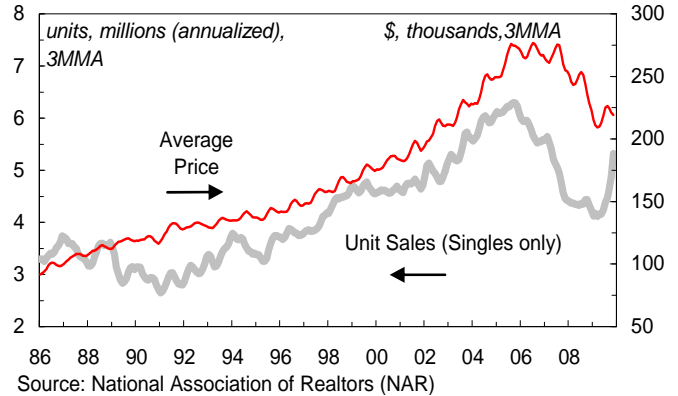
Source: U.S. Census Bureau

**New Home Sales**



Source: U.S. Census Bureau

**Existing Home Sales**



Source: National Association of Realtors (NAR)

**Housing Starts**

**Permits**

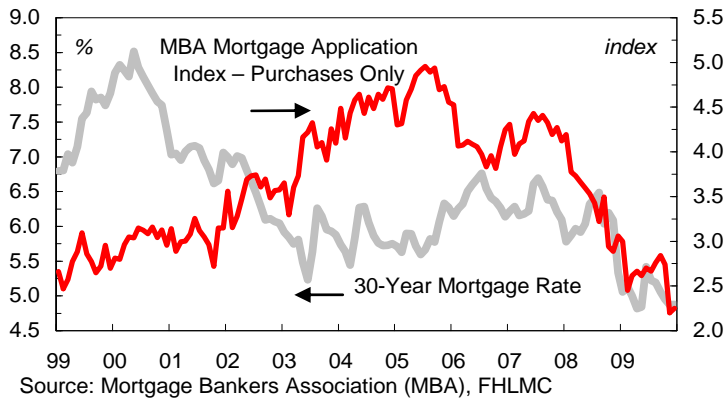
|                | Housing Starts      |         |           |       |       |         |            | Permits |        |          |
|----------------|---------------------|---------|-----------|-------|-------|---------|------------|---------|--------|----------|
|                | Total               | Singles | Multiples | West  | South | Midwest | North East | Total   | Single | Multiple |
|                | (millions of units) |         |           |       |       |         |            |         |        |          |
| <b>2004</b>    | 1.956               | 1.611   | 0.345     | 0.516 | 0.909 | 0.356   | 0.175      | 2.070   | 1.613  | 0.457    |
| <b>2005</b>    | 2.068               | 1.716   | 0.352     | 0.525 | 0.996 | 0.357   | 0.190      | 2.155   | 1.682  | 0.473    |
| <b>2006</b>    | 1.801               | 1.465   | 0.335     | 0.444 | 0.910 | 0.280   | 0.167      | 1.839   | 1.378  | 0.461    |
| <b>2007</b>    | 1.355               | 1.046   | 0.309     | 0.321 | 0.681 | 0.210   | 0.143      | 1.398   | 0.980  | 0.419    |
| <b>2008</b>    | 0.906               | 0.622   | 0.284     | 0.197 | 0.453 | 0.135   | 0.121      | 0.883   | 0.569  | 0.314    |
| <b>2009ytd</b> | 0.551               | 0.436   | 0.115     | 0.117 | 0.278 | 0.095   | 0.062      | 0.549   | 0.418  | 0.131    |
| <b>2010f</b>   | 0.73                |         |           |       |       |         |            |         |        |          |
| <b>2011f</b>   | 1.08                |         |           |       |       |         |            |         |        |          |

Source: U.S. Census Bureau, Scotia Economics calculations and forecasts. Year-to-date data are expressed at seasonally-adjusted annual rates.

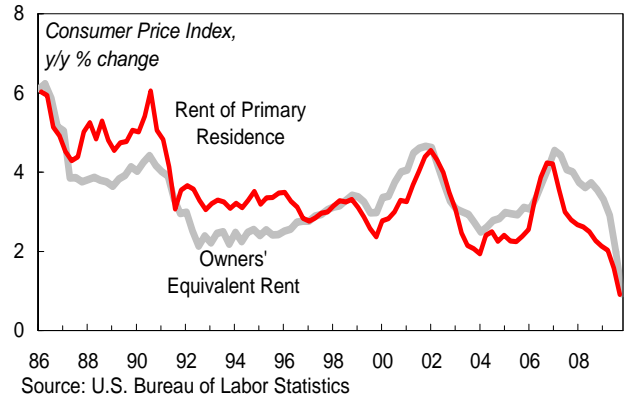


**U.S. Residential Markets**

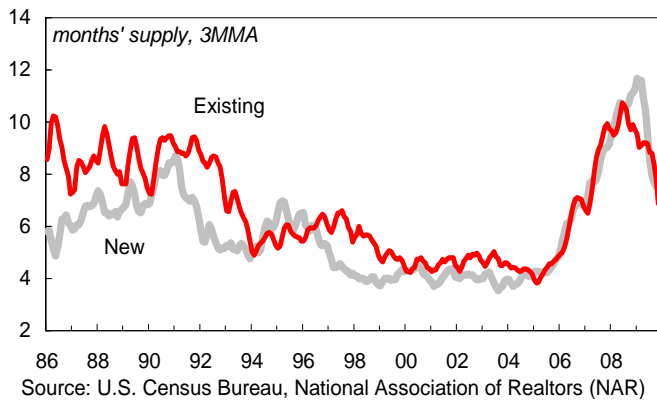
**Mortgage Rates and Applications**



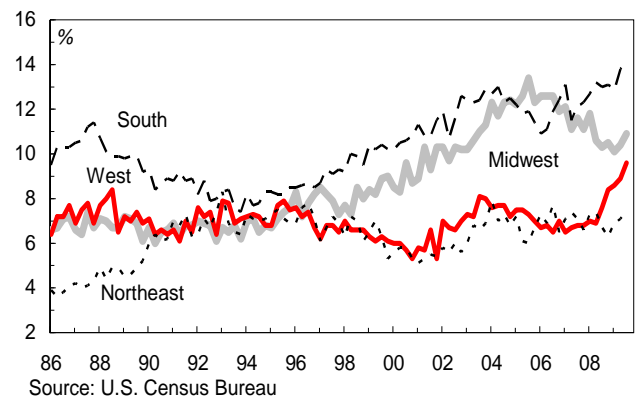
**Housing Cost Trends**



**New and Existing Home Inventories**



**Apartment Vacancy Rates**



**Existing Home Sales**

**New Home Sales**

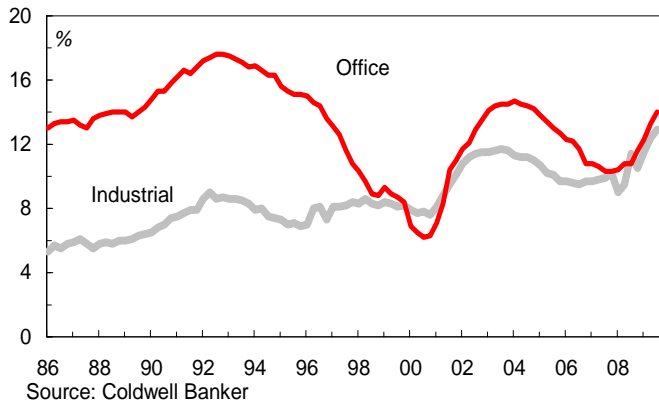
|                | Total<br>(sa) | Avg Price<br>(\$000s)<br>(nsa) | Months'<br>Supply<br>(nsa) | Region |       |         |               | Total | Avg Price<br>(\$000s) | Months'<br>Supply |
|----------------|---------------|--------------------------------|----------------------------|--------|-------|---------|---------------|-------|-----------------------|-------------------|
|                |               |                                |                            | West   | South | Midwest | North<br>East |       |                       |                   |
| <b>2004</b>    | 6.778         | 243.0                          | 4.3                        | 1.575  | 2.540 | 1.550   | 1.113         | 1.201 | 271.5                 | 4.0               |
| <b>2005</b>    | 7.076         | 266.1                          | 4.4                        | 1.617  | 2.702 | 1.588   | 1.169         | 1.279 | 290.0                 | 4.5               |
| <b>2006</b>    | 6.478         | 269.5                          | 6.4                        | 1.346  | 2.563 | 1.483   | 1.086         | 1.049 | 303.5                 | 6.4               |
| <b>2007</b>    | 5.652         | 263.8                          | 8.7                        | 1.084  | 2.235 | 1.327   | 1.006         | 0.768 | 308.8                 | 8.5               |
| <b>2008</b>    | 4.912         | 240.2                          | 10.0                       | 1.070  | 1.864 | 1.129   | 0.849         | 0.479 | 287.7                 | 11.2              |
| <b>2009ytd</b> | 5.138         | 217.4                          | 8.4                        | 1.202  | 1.904 | 1.170   | 0.859         | 0.373 | 267.0                 | 9.2               |

Source: National Association of Realtors (NAR), U.S. Census Bureau, Scotia Economics calculations.  
Year-to-date data are expressed at seasonally-adjusted annual rates.

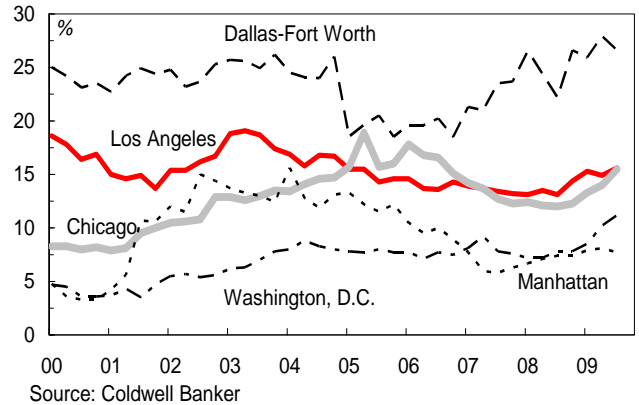


**U.S. Non-Residential Markets**

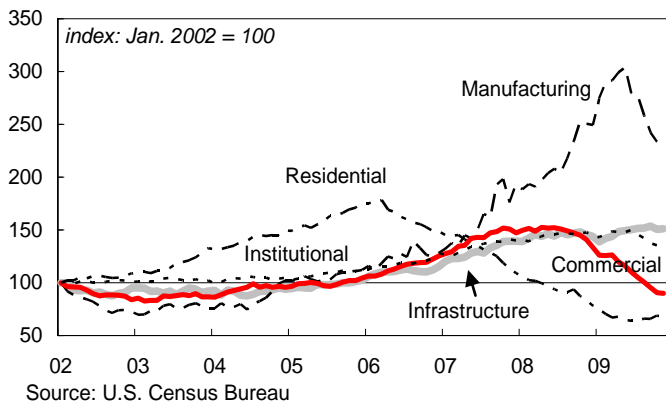
**National Vacancy Rates**



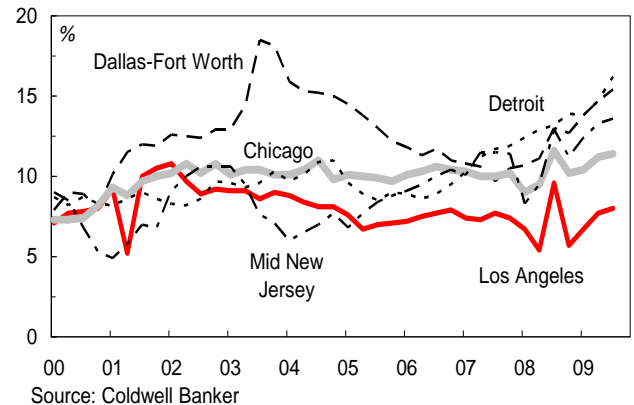
**Office Vacancy Rates  
Largest Five Markets**



**Construction Investment**



**Industrial Vacancy Rates  
Largest Five Markets**



**Construction Investment**

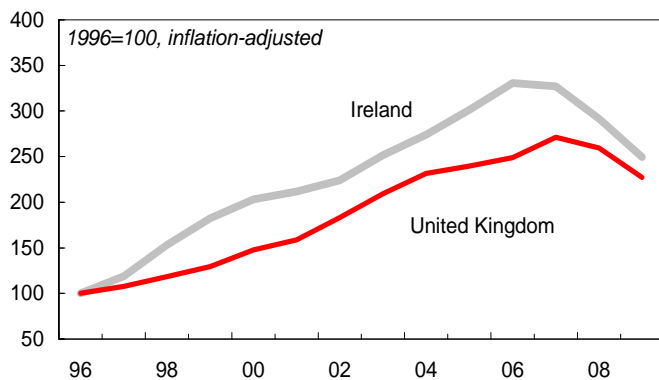
|                | Total                  | Residential | Manu-<br>facturing | Office &<br>Commercial | Institutional | Infra-<br>structure | Private | Public |
|----------------|------------------------|-------------|--------------------|------------------------|---------------|---------------------|---------|--------|
|                | <i>(US\$ billions)</i> |             |                    |                        |               |                     |         |        |
| <b>2004</b>    | 991.6                  | 538.4       | 23.8               | 121.8                  | 138.3         | 169.2               | 771.4   | 220.2  |
| <b>2005</b>    | 1102.7                 | 617.5       | 30.0               | 128.8                  | 144.4         | 181.9               | 868.5   | 234.2  |
| <b>2006</b>    | 1167.6                 | 619.8       | 35.5               | 149.0                  | 158.0         | 205.3               | 912.2   | 255.4  |
| <b>2007</b>    | 1137.2                 | 499.7       | 42.6               | 182.2                  | 178.3         | 234.3               | 850.0   | 287.1  |
| <b>2008</b>    | 1074.1                 | 363.4       | 63.7               | 194.1                  | 193.3         | 259.7               | 766.6   | 307.5  |
| <b>2009ytd</b> | 905.6                  | 263.0       | 66.0               | 117.2                  | 180.6         | 278.8               | 585.5   | 320.1  |

Source: U.S. Census Bureau, Scotia Economics calculations.  
Year-to-date data expressed at seasonally adjusted annual rates.



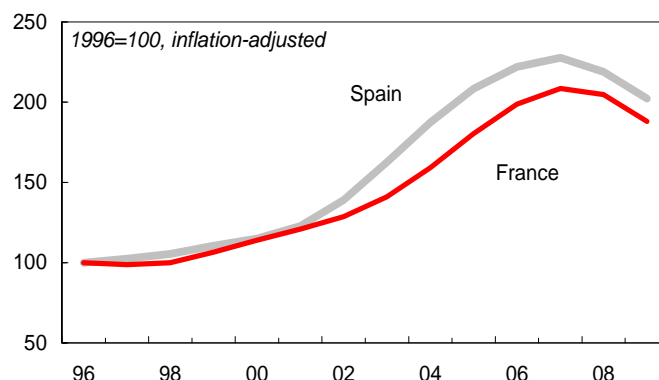
### International Residential Markets

**Inflation-Adjusted Home Prices**



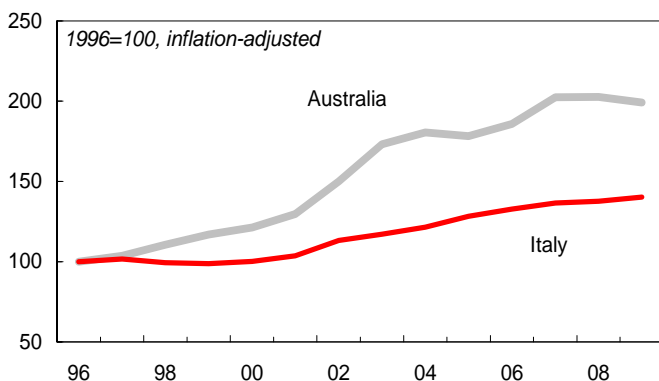
Source: Scotia Economics

**Inflation-Adjusted Home Prices**



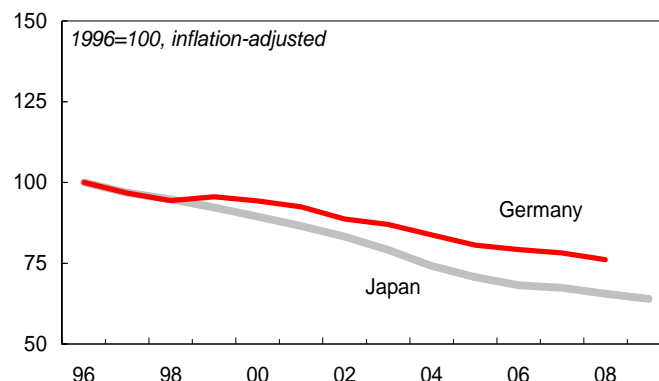
Source: Scotia Economics

**Inflation-Adjusted Home Prices**



Source: Scotia Economics

**Inflation-Adjusted Home Prices**



Source: Scotia Economics

**International House Prices  
(Inflation-adjusted, y/y % change)**

|                            | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008  | 2009Q1 | 2009Q2 | 2009Q3 |
|----------------------------|------|------|------|------|------|------|------|------|-------|--------|--------|--------|
| <b>Australia</b>           | 3.8  | 6.8  | 15.8 | 15.4 | 4.2  | -1.2 | 4.2  | 9.0  | 0.1   | -8.0   | -2.2   | 5.0    |
| <b>Canada</b>              | 1.0  | 2.2  | 7.3  | 6.9  | 7.4  | 7.8  | 9.2  | 8.7  | -3.1  | -10.0  | 0.4    | 11.5   |
| <b>France</b>              | 7.0  | 6.1  | 6.4  | 9.6  | 12.9 | 13.3 | 10.2 | 5.0  | -1.9  | -7.6   | -9.1   | -7.5   |
| <b>Germany</b>             | -1.4 | -1.9 | -4.1 | -2.0 | -3.6 | -3.8 | -1.8 | -1.2 | -2.7  | ..     | ..     | ..     |
| <b>Ireland</b>             | 11.4 | 4.2  | 5.8  | 12.3 | 8.9  | 9.9  | 9.7  | -1.1 | -10.8 | -17.4  | -11.5  | ..     |
| <b>Italy</b>               | 1.4  | 3.4  | 9.3  | 3.4  | 3.8  | 5.5  | 3.6  | 2.9  | 0.7   | ..     | 1.9    | ..     |
| <b>Japan</b>               | -3.0 | -3.3 | -3.7 | -5.0 | -6.2 | -4.8 | -3.6 | -1.1 | -2.6  | -3.3   | ..     | -1.8   |
| <b>Spain</b>               | 4.0  | 6.7  | 13.4 | 16.9 | 15.3 | 11.2 | 6.5  | 2.6  | -3.9  | -7.4   | -7.9   | -7.3   |
| <b>United Kingdom</b>      | 13.9 | 7.5  | 15.3 | 14.2 | 10.8 | 3.5  | 3.9  | 8.8  | -4.3  | -15.6  | -14.4  | -7.3   |
| <b>United States (NAR)</b> | 1.6  | 1.9  | 7.5  | 4.8  | 6.3  | 6.1  | -2.0 | -5.0 | -12.8 | -14.0  | -12.0  | -6.3   |

Source: OECD, Australian Bureau of Statistics, Canadian Real Estate Association, Statistics Canada, INSEE, Irish Department of the Environment, Heritage and Local Government, Eurostat, Bank of Italy, Istat, Japan Real Estate Institute, Japanese Ministry of Internal Affairs and Communications, Banco de Espana, Instituto Nacional de Estadistica, U.K. Office for National Statistics, U.S. National Association of Realtors, U.S. Bureau of Labor Statistics, Scotia Economics.