

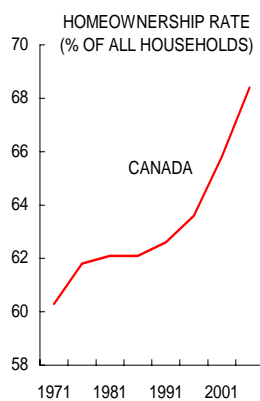


Real Estate Trends

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A Nation Of Homeowners

Canada is increasingly a nation of homeowners. According to the 2006 census, a record 68.4% of Canadian households owned their own home, up from 65.8% in 2001 and 63.6% in 1996. The rate of homeownership likely edged up further in 2007 before levelling off last year, as the longest housing boom of the post-war era came to an abrupt, but inevitable, end.



The rate of second home ownership is also on the rise. Based on data from Statistics Canada's *Survey of Financial Security* and CMHC, 9% of Canadian households owned a second home (e.g. a cottage, resort condominium or other vacation home) in 2005, up from 7% in 1999. Other available data suggest the rate of second home ownership has held fairly steady around 9% from 2006-2008.

Part of the rise in homeownership reflects the aging of the population, with the large 'baby boom' generation – i.e. those born between 1947 and 1966 – currently in their peak homeownership years. The likelihood of owning either a first or second home is highest for Canadians aged 45-64 (essentially today's baby boomers). This cohort accounts for roughly 45% of all homeowners, but over 70% of the increase in the number of homeowners in recent years.

But age specific home ownership rates have also increased. A number of favourable developments have helped more Canadians make the transition from renter to owner in recent years, including strong job and income growth, low mortgage rates, and mortgage innovation. Meanwhile, rising real estate equity in principal residences and rising stock market wealth appears to have put second home ownership within the reach of more Canadian families.

Demand for second homes/vacation homes could slow over the coming decade as the large baby boom generation moves past its peak cottage buying years, and wealth gains fail to replicate the outsized increases of the past decade. Anecdotal reports suggest that 'baby bust' households – those born between 1967 and 1979 – are already stepping up as the next wave of vacation home buyers. However, this cohort is far smaller than its baby boom predecessor.

For potential second home buyers, this suggests some easing off in the steady upward pressure on cottage/vacation home prices seen over the past decade. At the same time, however, the available supply of listings is likely to remain fairly tight. Family properties are

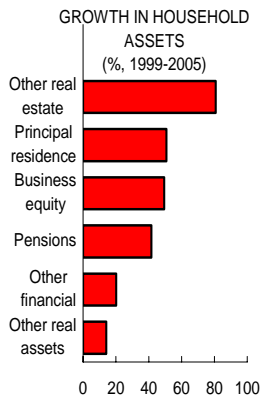
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often passed down through generations and available developable land, especially for prime waterfront properties, is limited.



More Canadians are building wealth through real estate holdings, as evidenced by the rise in both first and second home ownership. Real estate assets (including principal residences as well as other real estate) accounted for 42% of total household assets in 2005, the largest component, up from 38% in 1999. We estimate this share is probably closer to 45% today.

Real estate holdings outpaced growth in the value of all other major household asset classes from 1999 to 2005,

including private pensions, non-pension financial assets, business equity, and other real assets. The fastest growing asset class was 'other real estate', which in addition to second homes/vacation homes includes timeshares, rental and commercial properties. Households' holdings of 'other real estate' almost doubled between 1999 and 2005, with an estimated 16% of households owning real estate other than a principal residence. Notwithstanding the potential for a cyclical slowdown in home sales and price appreciation over the next few years, the longer-term trend toward real estate investing will likely remain an important component of household wealth accumulation and portfolio diversification.

Is there a typical cottage/vacation home owner in Canada ?

Cottage and other recreational property owners typically have much higher average income and net worth than other households, not surprising given the cost of purchasing and maintaining a second home.

Only about a quarter of vacation homes are owned by families with children living at home. The remainder are owned by singles, childless couples and empty-nesters.

The rate of second home ownership is relatively consistent across regions of the country.

The median age of a second home owner in Canada is 50.

Roughly 75% of second homes owned by Canadians are located in Canada.

Source: Statistics Canada, CMHC