

Canadian Housing Industry Update

**Part 1: Canada's Housing Situation Not the Same
As In the U.S.**

**Part 2: Canadian Housing Industry – Performance
And Trends**

CANADIAN HOME BUILDERS' ASSOCIATION

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PART 1: CANADA'S HOUSING SITUATION NOT THE SAME AS IN THE U.S.

The housing market is cyclical. Following a very weak period during the 1990s, the housing sector in Canada has been extremely strong for the past several years. As with all cycles, this very strong housing performance had to moderate.

Canada Mortgage and Housing Corporation (CMHC) forecasts that starts will decline to 178,000 units in 2009. **While below the very high average of over 225,000 starts annually during the 2003-2007 period, this is still a very robust level of activity – it is well above the average of less than 150,000 starts annually during the 1990s.**

New housing activity in Canada over the next several years will be returning to levels more consistent with the underlying level of housing requirements. CMHC forecasts that starts will average 184,000 units annually during the 2010-2012 period.

A few commentators have drawn a parallel between the Canadian housing situation and the extreme difficulties in the housing market in the United States.

There is absolutely no merit in drawing such a parallel.

Summary

There are enormous differences between the situation in the Canadian housing market and the dramatic downturn that is afflicting the U.S. housing market. Significant differences between the situations in Canada and the U.S. are discussed in detail in this report – in summary, key differences between the Canadian and U.S. housing markets include:

- Unlike the situation in the U.S., underwriting standards for qualifying mortgage borrowers in Canada have been maintained at prudent levels. As a result, mortgage borrowers in Canada have been much more creditworthy than in the U.S.
- Canadian mortgage lenders never offered the type of low initial 'teaser' rate mortgages that led to most of the difficulties for mortgage borrowers in the U.S.
- Most mortgages in Canada are held by their original lender. They are not packaged and sold to third parties as is typical in the U.S. Consequently, Canadian mortgage lenders have a vested interest in ensuring that their mortgage borrowers are creditworthy and not likely to default.
- **Arrears experience confirms the creditworthiness of mortgage borrowers in Canada – 0.3% of Canadian mortgages are in arrears at present. In contrast, 4.5% of U.S. mortgages are currently in arrears and more than 2% were in arrears even in the more buoyant economic times of 2002-2006.**

- Mortgage insurance in Canada is mandatory for all high-ratio (80%+ loan to value ratio) mortgage loans – so mortgage holders are protected in the event of default. In the U.S., borrowers could avoid mortgage insurance by taking out ‘piggy-back’ loans, which were uninsured – and, therefore, much more risky for mortgage holders.
- CMHC mortgage backed securities (MBS) are packaged mortgage loans which are backed by the government of Canada. Investors in CMHC MBS therefore have protection in the event of default.
- The Canadian ‘sub-prime’ market is only one quarter the size of the U.S. sub-prime market. Also, the Canadian below-prime market is better described as ‘near-prime’. Due to the higher-quality of Canada’s ‘sub-prime’ mortgages, the incidence of defaults will be much lower than in the U.S.
- Canadian homeowners typically have much greater equity in their homes than U.S. homeowners – in part because mortgage interest deductibility in the U.S. reduces the incentive of homeowners to pay off their mortgages.
- In the event of mortgage default, Canadian lenders (and mortgage insurers) generally pursue borrowers and attempt to seize assets and garnishee wages. This is less prevalent in the U.S., so delinquent borrowers can ‘walk away’ from their obligations more easily than is the case in Canada. Homeowners in Canada have a greater incentive to work their way out of mortgage difficulties than U.S. homeowners.
- Canadian banks are recognized to be among the strongest in the world. Unlike in the U.S., the availability of mortgage funds is not an issue in Canada.

- Housing price increases in Canada were generally more moderate than the precipitous increases in housing prices in the U.S. – and the easing of housing prices in this country has been correspondingly mild.
- Inventories of new unsold homes in Canada are small and manageable. There is nothing in Canada to compare to the vast oversupply and plunging housing prices that characterize many U.S. housing markets – nor is such a scenario likely to occur for the foreseeable future.

These significant differences between the U.S. and Canada are discussed in more detail below.

Mortgage Underwriting Standards

In a bid to promote homeownership, particularly among minorities, the U.S. government over the past 20 years encouraged (indeed required) financial institutions to relax their underwriting standards to facilitate lending to borrowers who would not otherwise qualify for mortgages. The relaxed underwriting standards in the U.S. led to substantial lending to borrowers with inadequate incomes, few assets and, often, little or no credit history – leading to the so-called ‘ninja’ mortgages (no-income-no-job-no-assets). Predictably, many of these borrowers defaulted.

There was no such comparable reduction in underwriting standards for qualifying mortgage borrowers in Canada.

The relaxation of underwriting standards for qualifying mortgage borrowers in the U.S. raised the homeownership rate from about 64% in the 1980s and early 1990s to 68-69% in 2000-2007.

Canada’s homeownership rate in 2006 was 68.4%. This was achieved without relaxing underwriting standards for qualifying mortgage borrowers.

Exotic Mortgages

The initial interest rate on many U.S. mortgage loans was reduced to a ‘teaser’ rate which was up to two percentage points below market rates for the initial period of the loan. This allowed borrowers with low-incomes to obtain a mortgage. Predictably, when the interest rates on these mortgages were raised to market levels, many borrowers could not afford the payments.

The use of exotic mortgages with teaser rates was not restricted to U.S. sub-prime borrowers. They were also available to other borrowers, including speculators who intended to ‘flip’ the property (at a higher price) before the new higher interest rates applied. A large proportion of such mortgages were bound to fail if housing prices stabilized (or fell) and/or interest rates increased – as in fact occurred.

There were no comparable mortgage products in widespread use in Canada.

Packaging of Mortgage Loans

Most mortgages in the U.S. are packaged and sold by their original lenders to other investors – often as very complex securities. In recent years, collateralized debt obligations (CDOs) among other asset-backed securities were a common means of packaging mortgages (including sub-prime mortgages) and other debt instruments into securities which provided an income-stream to investors. These highly complex securities were often not understood by the investors – or indeed by the rating agencies which commonly gave them very high credit ratings. These securities were marketed to investors around the world. When a number of the mortgages defaulted, and investors realized their CDOs included such risky assets, the value of these securities plummeted – with significant ramifications for global credit markets.

In contrast to the U.S., only about one-quarter of mortgages in Canada are securitized. Most Canadian mortgages are held by their original lender. As a result, unlike U.S. lenders, Canadian lenders have a vested interest in ensuring that their mortgage borrowers are creditworthy and not likely to default – there were no ‘ninja’ mortgages in Canada.

This is confirmed by the arrears experience of Canadian mortgages (currently at 0.3%) compared to U.S. mortgages (currently at 4.5%, but generally in excess of 2% even in the more buoyant economic times of 2002-2006).

Mortgage Insurance

In the U.S., as in Canada, mortgages with high loan to value ratios (LTVs) are normally required to have mortgage insurance. However, in recent years, U.S. mortgage borrowers could avoid paying for mortgage insurance by taking out ‘piggy-back’ loans which bridged the gap between the first mortgage and the downpayment (if any). These piggy-back mortgages were included in the same CDO packages as the first mortgages. In the event of default, there was no mortgage insurance to protect the investor.

In Canada, all mortgages with LTVs in excess of 80% are required to have mortgage insurance. CMHC mortgage-backed securities (MBS) are similar to CDOs except that they are comprised exclusively of residential mortgages insured by CMHC or private mortgage lenders. Also, unlike the situation with U.S. CDOs, in the event of defaults, investors in CMHC’s MBS are protected against loss by the mortgage insurance – backed by the government of Canada.

In the event of defaults, CMHC (and ultimately the government of Canada) protect the investors from loss. Of course, the mortgages included in the MBS packages are of much higher quality than many of those in the typical U.S. CDOs, so the U.S.

default experience would not apply to the mortgages included in CMHC MBS.

Sub-Prime Share of the Market

Firm data are not available, but it appears that sub-prime mortgage borrowers accounted for 20-25% of new mortgages issued in the U.S. over the 2004-2006 period. These are borrowers who typically had low incomes, few assets and a poor or non-existent credit history – the type of borrower that would not qualify for a loan under normal (i.e. prudent) underwriting criteria. Not unexpectedly, a large proportion of these sub-prime loans are in default – and more are expected as teaser rates on mortgages are adjusted to normal mortgage rates in the future.

Canada's sub-prime market is vastly different from the U.S. sub-prime market. CMHC describes Canada's below-prime market as 'near-prime' – i.e. borrowers who are unable to meet some lending guidelines such as complete documentation of income or assets; or lending ratios, such as debt service or LTV ratios exceeding policy limits. While riskier than prime borrowers, near-prime borrowers are considered to be much less risky than sub-prime borrowers – as the term is used in the U.S.

Canada's sub-prime market (in the U.S. sense) is negligible; the near-prime market accounts for roughly 5-6% of mortgages.

In summary, Canada's 'sub-prime' market is only one-quarter the size of the U.S. sub-prime market and, because of the higher-quality of Canada's 'sub-prime' mortgages, the incidence of defaults is expected to be much lower than in the U.S.

Canada does not have a sub-prime mortgage problem.

Homeowner Equity

U.S. homeowners have a much higher debt load than Canadian homeowners. On average, mortgage debt accounts for 55% of the value of homes in the U.S. – in Canada, the comparable number is 31%. Put another way, Canadians' equity in their homes is 69% on average, versus 45% for U.S. homeowners. In general, Canadians have a much greater stake in their homes than Americans, and there is a commensurately lower likelihood of defaults in Canada, compared to the U.S.

Mortgage interest deductibility is a key factor behind the comparatively greater leverage of U.S. homeowners. Since their mortgage interest payments are deductible for income tax purposes, American homeowners have less incentive to pay off their mortgages than Canadian homeowners.

Lender Recourse in the Event of Mortgage Default

In the U.S., lenders typically do not launch legal proceedings against homeowners who default on their mortgages and 'walk away' from their homes. While details differ from one state to the next, generally, lenders have a legal right to pursue defaulting borrowers. However, in practice, such pursuits are rare – possibly due to the vagaries of the U.S. justice system and/or the specific bankruptcy provisions in particular states. Also, in the case of the current U.S. mortgage defaults, a large proportion of the defaulting borrowers have very low incomes and do not have sufficient assets to justify pursuit – which would likely end up in bankruptcy. As a result, lenders would probably end up with little to show for the effort (except for significant additional legal fees).

In most provinces in Canada, mortgage lenders (and mortgage insurers) have greater recourse against defaulting borrowers – in

terms of attaching personal assets and garnisheeing wages to recover losses. And, lenders/insurers in Canada typically pursue defaulting borrowers vigorously. Homeowners in Canada, therefore, have a greater incentive to work their way out of mortgage difficulties than U.S. homeowners.

It should be noted, however, that most Canadian lenders try to engage with borrowers who are in financial difficulty to design 'work-out' programs in an attempt to encourage borrowers to stay in their homes. Defaults are a last resort.

Availability of Credit

Housing markets depend on a steady supply of credit – both to purchasers seeking a home, and to builders and other businesses involved in providing homes. The U.S. banking system has been severely weakened by the global financial crisis. While interest rates have dropped, credit is extremely tight. Businesses are having difficulty obtaining the financing they require to maintain operations – worsening the downturn in the U.S. economy. The criteria for lenders to provide financing for homebuyers have been dramatically tightened, so even prospective purchasers who wish to buy a home in the current market conditions often cannot obtain the mortgage financing they require. This tightening in the credit market is reducing the demand for housing and making the oversupply of housing in the U.S. worse.

The credit situation in Canada is totally different. Canadian banks are among the strongest in the world. While there has been some tightening of financing criteria, creditworthy borrowers are generally able to find the financing they require.

Unlike in the U.S., the availability of funds for financing housing in Canada is not an issue.

House Prices

Average house prices in the U.S. exploded from 2000 to 2006 to a peak more than 180% above the 1991 average. Over the past two years, U.S. house prices have fallen from this unsustainable peak – the latest average price of resale homes in the U.S. is more than 20% below the peak. Even with this dramatic plunge, average U.S. resale house price increases over the 1991-2008 period remain greater than was the case in Canada over the same period.

Canadian resale housing price increases lagged the U.S. by about two years and never approached the (precarious) peak reached in the U.S. Since the Canadian house price peak in early 2008, prices have moderated – particularly in some western Canadian markets. On a national basis, the weighted average prices of existing homes sold through the multiple listings service (MLS) of the Canadian Real Estate Association in November were 4.7% below the same month last year.

Housing Markets

In general, Canadian housing markets are much healthier than U.S. housing markets. Inevitably, in a cyclical downturn, there is a reduction in the demand for housing and less price pressure than was the case in the past few years. However, inventories of new unsold homes in Canada are small and manageable.

There is nothing in Canada that compares with the vast oversupply and plunging housing prices that characterize many U.S. housing markets – nor is such a scenario likely to occur.

Conclusion

The housing situation in Canada is totally different from that of the U.S.

Housing markets in Canada are currently adjusting to changing conditions – as they continually do. Over the next few years, home builders will be building fewer new homes than was the case in the recent past, however, the expected levels of demand for new housing are still healthy. There will be some price moderation in some markets, but there is nothing to suggest that housing markets in Canada are vulnerable to the oversupplies and plunging prices that characterize many markets in the U.S.

We are a different country with a different housing system. We did not experience the same housing boom conditions that occurred in the U.S. – and there is no reason to expect that we are in for the serious pain they are currently suffering.

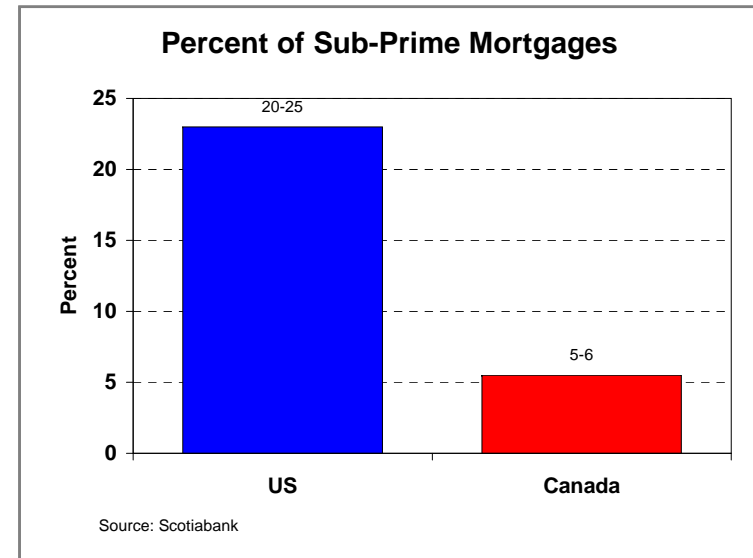
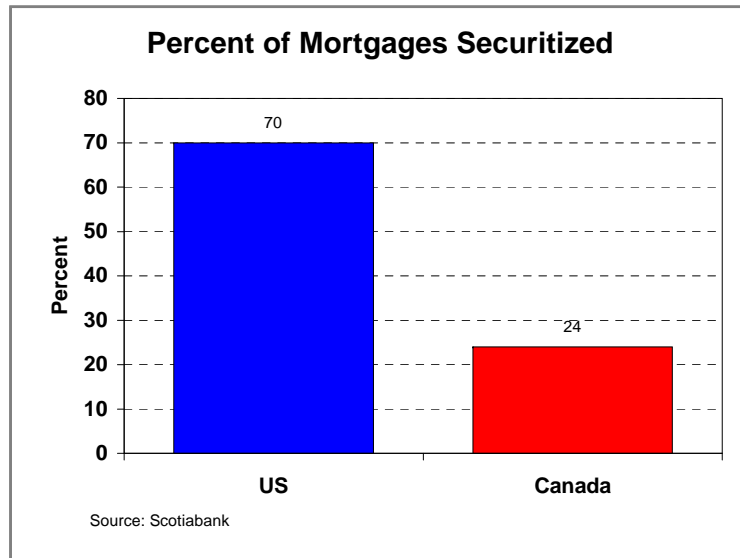
The moderation of house prices in Canada improves housing affordability and creates opportunities for first-time home buyers. They can take more time to assess their situation and look for a home that both serves their needs and meets their budgets.

Other homeowners have little to fear from the change in the market. For those selling a home and buying another, the moderation of housing prices should be relative – there should be no significant gain or loss from the easing of house prices. For those who have owned a home for some period, their equity will be substantial – given the rising prices of the past few years. For those who purchased their home recently, there should be few worries about a **modest temporary** reduction in value – a home is an investment for the family, not a short-term commodity stock. Real estate values will come back – they always do.

Charts Section

The following pages present several charts which compare critical differences between the Canadian and U.S. housing situations, as background to the preceding discussion.

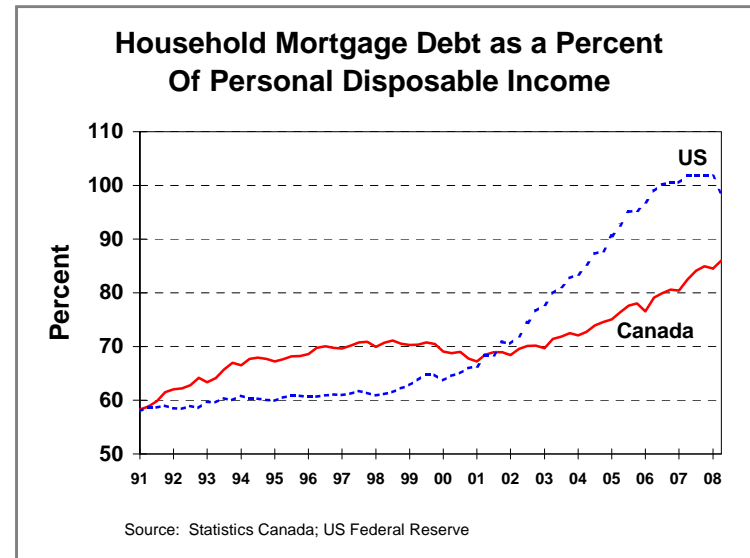
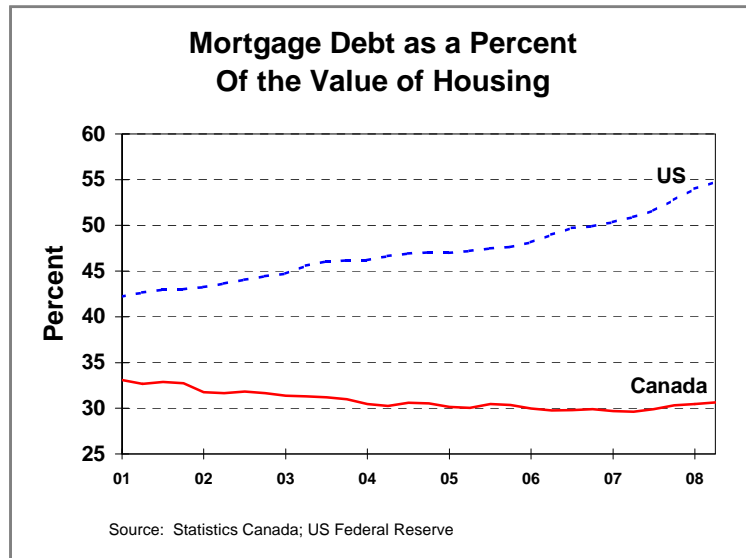
Canada's Lenders Have Vested Interest in Creditworthy Borrowers – Relatively Little 'Sub-Prime' Lending in Canada



- Lax underwriting standards by U.S. lenders were a critical factor behind the high volume of defaults. U.S. lenders had little incentive to ensure their borrowers were creditworthy since most mortgages south of the border are securitized – defaults end up being someone else's problem.
- Unlike the situation in the U.S., most Canadian lenders retain their mortgages for their own portfolio, rather than securitize them for sale to other investors. Canadian lenders, therefore, have a vested interest in ensuring their borrowers are creditworthy.
- The mortgages that are securitized in Canada (CMHC MBS) are safe for investors because they are guaranteed by the government of Canada.

- Sub-prime borrowers accounted for an estimated 20-25% of all U.S. mortgages during the boom times of 2004-2006.
- Sub-prime borrowers typically had low-incomes, few assets, and a poor or non-existent credit history – the type of borrower who would not qualify for a loan under normal (i.e. prudent) underwriting criteria.
- Default rates among U.S. sub-prime borrowers have been very high.
- Canada does not have a comparable sub-prime market. In Canada, 'near-prime' mortgages account for only an estimated 5-6% of the market. Near-prime borrowers are much more creditworthy than sub-prime borrowers.
- Canada does not have a sub-prime mortgage default problem.

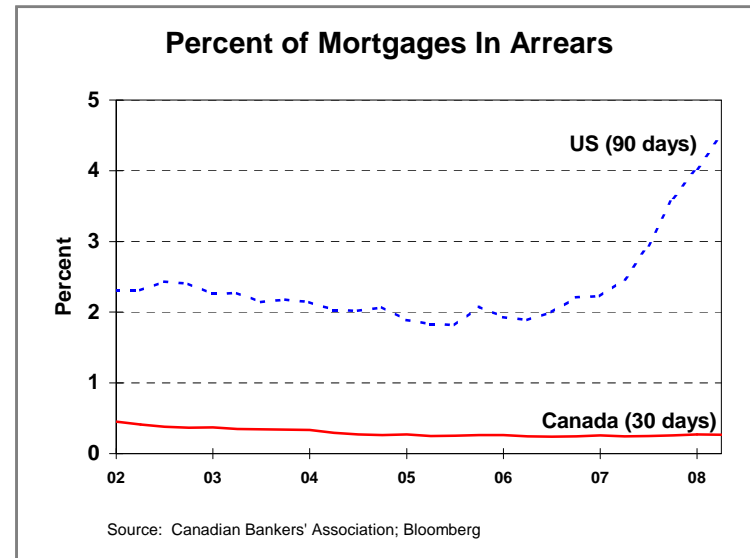
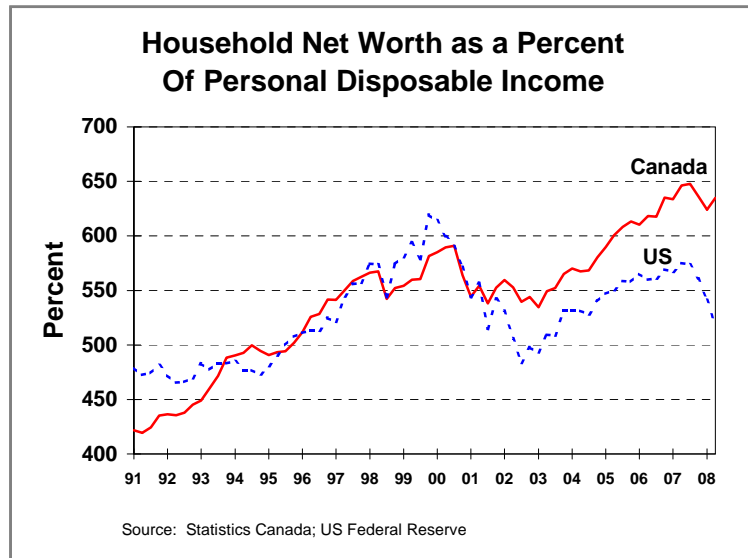
**Canadians Typically Have Much Greater Equity in Their Homes Than U.S. Homeowners
– Mortgage Debt in Canada Much More Manageable Than in the U.S.**



- In Canada, homeowners typically pay off their mortgage as quickly as possible.
- The situation in the U.S. is very different. Mortgage interest is deductible for tax purposes in the U.S., so there is less incentive to pay off mortgages early – indeed, deductibility encourages homeowners to refinance their homes to take out equity for other purposes (e.g. consumer spending).
- The difference is evident in a comparison of the value of mortgages in relation to the value of homes – in Canada, mortgage debt accounts for just over 30% of the value of homes versus 55% in the U.S.
- This leaves U.S. homeowners much more vulnerable to downturns in the housing market (i.e. more at risk of default) than Canadian homeowners.

- As indicated in the chart at left, American homeowners carry more mortgage debt than Canadian homeowners – in part due to mortgage interest deductibility.
- Household mortgage debt in the U.S. has risen dramatically in recent years and is now roughly equivalent to personal disposable income.
- In contrast, in Canada, while household mortgage debt has also risen in recent years, it is still only 85% of personal disposable income – significantly less than in the U.S.
- Canadian homeowners have a greater capacity to handle their mortgage debts than U.S. homeowners.

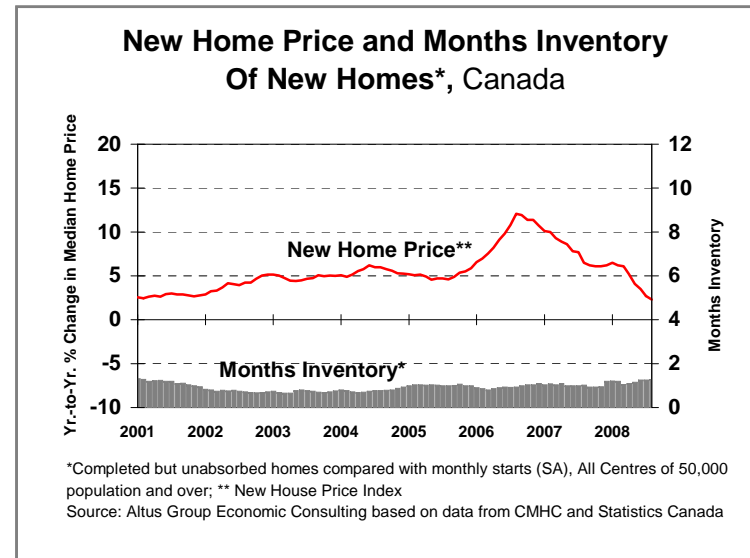
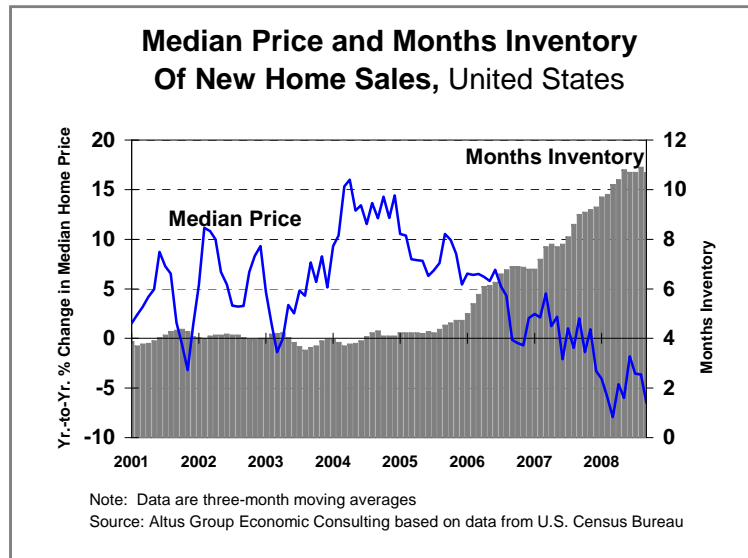
**Canadians Have Significantly Greater Net Worth As a Share of Disposable Income
 – Canadian Mortgage Arrears Experience Far Superior to the U.S.**



- Canadians not only have less mortgage debt as a share of personal disposable income than Americans, they also have greater net worth in relation to income – Canadians save more than Americans.
- In Canada, average household net worth is over 6 times personal disposable income – the comparable figure in the U.S. is just over 5 times.
- This is another example of the greater capacity of Canadian households to weather hard times.

- Mortgage arrears in Canada are much less than in the U.S.
- In Canada, roughly 0.3% of mortgages are in arrears (for 30 days). In the U.S., roughly 4.5% of mortgages are in arrears (for 90 days). The U.S. arrears figure would be even higher if it reflected 30 day arrears, as is the case in Canada.
- A larger proportion of U.S. homeowners are in difficulty than is the case in Canada. Also, while U.S. arrears have recently increased substantially, they have been significantly above Canadian levels even when housing markets were more buoyant.
- This is a reflection of the much looser underwriting standards for qualifying mortgage borrowers in the U.S. compared to Canada.

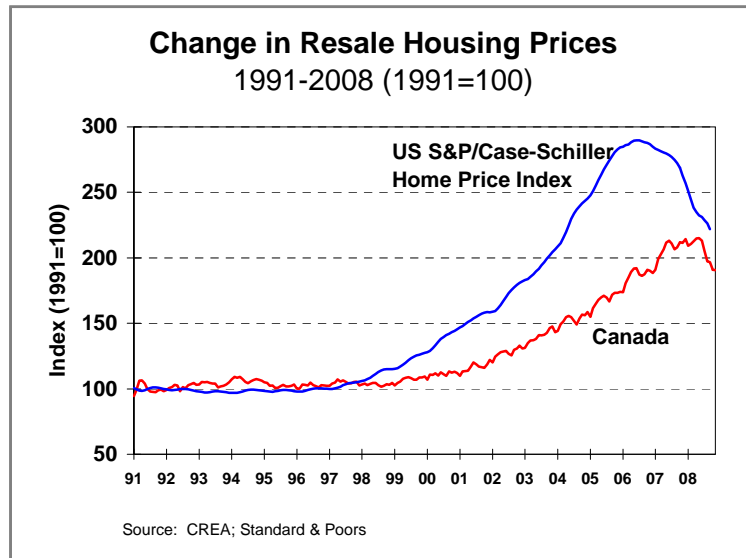
**Inventories of New Homes in the U.S. Always Much Higher Than in Canada
– Modest Increase in Canada Nothing Like in the U.S.**



- U.S. builders typically carry much more inventory than Canadian builders, who generally pre-sell their homes prior to building them.
- Over the period from 2001 until late 2005, U.S. builders carried inventories of roughly 4 months supply of homes at the current rate of home sales. At present, inventories stand at over 10 months supply.
- The decline in house prices in the U.S. in 2007 and 2008 mirrors the dramatic increase in unsold inventories during that period.

- In Canada, while there are exceptions such as infill homes in existing neighbourhoods, most builders pre-sell their homes. As a result, inventories of unsold new homes in Canada are relatively small – generally about 1 months supply at the current rate of starts.
- Recently, there has been an increase in months supply of unsold inventories in Canada. However, there is no possibility that inventories of new homes carried by Canadian home builders will remotely approach those in the U.S.

**Housing Price Rises in Canada Were MUCH MORE Moderate Than in the U.S.
– Price Declines Will be More Moderate As Well**



- House prices have risen significantly in Canada – but Canadian house price increases have been nowhere near as dramatic as they were in the U.S. (prior to the downturn in prices south of the border).
- While there has been a moderation in prices in some markets (mainly in Western Canada), average prices have not declined anywhere near the degree experienced in the U.S. – nor is such a substantial decline likely.

PART 2: CANADIAN HOUSING INDUSTRY – PERFORMANCE AND TRENDS

Structure of This Part of the Report

The following pages review housing performance and trends in Canada – with charts to illustrate key issues. The analysis is structured into the following sections:

1. **New Housing Activity** – new housing activity in Canada is declining from the unsustainably high levels of recent years. CMHC’s long-term forecast indicates that starts will stay high in 2008 (212,200 units) and decline to 178,000 in 2009 and 2010, before recovering to the 190,000 range by 2012. This is still a very robust level of housing activity – well above the average starts levels in the 1990s.
2. **Residential Construction and the Economy** – spending on new housing and residential renovations has been rising progressively for the past several decades. Total residential construction spending comprised over 6.5% of Canada’s Gross Domestic Product in 2007. Spending on residential renovations has been greater than spending on new residential construction since the early 1990s – renovation spending also tends to be more stable from year to year.
3. **Drivers of Housing Activity** – the buoyant level of housing activity in Canada in recent years was based on a number of factors, including the strong economy, rising disposable incomes, relatively low mortgage interest rates, continued high levels of immigration and positive demographics. While economic conditions have become more challenging, improved affordability, high levels of immigration and demographics remain positive for Canadian housing demand.
4. **Housing Prices** – with the strong housing markets of the past several years, housing prices advanced significantly in most major Canadian centres. Price pressures have now eased in most centres and housing prices are moderating.
5. **The State of Homeownership Affordability** – with the high volumes of housing activity in recent years, homeownership rates increased across all age groups in the period up to the 2006 Census of Canada. With rising housing prices, however, homeownership affordability deteriorated significantly during 2006 and 2007. Affordability has improved somewhat in 2008 due to stable interest rates, rising incomes, and easing house price pressures.
6. **Challenges Facing Homeownership Affordability** – rising government-mandated costs are a significant threat to homeownership affordability. In particular, increased municipal charges (especially development cost charges – DCCs) are raising the costs for home builders – with follow-on impacts in house prices and homeownership affordability.

Freezing the GST rebate phase-out threshold is another serious impediment to housing affordability.

The threshold at which the federal GST New Housing Rebate begins to be phased out is currently \$350,000. It disappears entirely at \$450,000. This important measure of tax relief is effectively being phased out over time because the price thresholds, especially in Canada’s most costly urban centres, are exceeded.

It is not only new home buyers who are disadvantaged by the lack of indexation of the thresholds. Since new and resale homes are similar, competitive products, the higher (GST-included) prices of new housing are reflected in higher prices in the resale market as well.

Over the period since the GST was introduced in 1991, Statistics Canada's New House Price Index has increased by 55%. Had the GST New Housing Rebate thresholds been adjusted to take account of this increase in new house prices, the thresholds would be roughly \$540,000-\$700,000. Over recent years, freezing the thresholds has meant that an increasing number of households no longer receive a full or even a partial rebate.

The federal government will receive roughly \$300 million in GST revenue in 2009 in excess of what would have been received if the thresholds had been indexed.

The purpose of the federal government's commitment to index the GST thresholds was to protect housing affordability over time. With almost all new houses in many major centres now ineligible for the GST rebate, action by the federal government to fulfill this commitment is now urgent.

7. **Challenges Facing the Renovation Sector** – governments at all levels are losing billions of dollars annually through the activities of underground cash operators. The main Canada Revenue Agency response has been the 'Contract Payment Reporting System' which is both ineffective in addressing the underground cash economy and a source of significant administrative cost to the industry.

The Contract Payment Reporting System should be replaced with an effective approach to the underground cash economy. There are models from Australia and elsewhere

that are much more effective in reducing underground activity. These should be examined for application in Canada.

To complement such an approach, all firms and individuals in the construction industry should be required to register for a Business Number, even if they wish to take advantage of the GST exemption for companies which operate below the \$30,000 annual sales threshold.

The current restrictive definition of 'substantial renovation' for GST rebate purposes should be broadened to cover more types of projects that meet the test of being 'substantial' by any lay definition of the term, i.e. involve large expenditures on renewing and/or upgrading major elements of the home.

8. **Challenges Facing the Rental Sector** – changes in the federal income tax treatment of rental housing during the 1970s and 1980s significantly reduced the attractiveness of rental investment, as did the introduction of the GST in 1991. The negative effect of the GST on rental housing was reduced by extending the GST rebate to private rental housing (in 2000) and, in recent Budgets, by reducing the GST from 7% to 5%. However, more fundamental changes are needed in the federal tax regime for rental housing.

The CHBA calls for reforms to the federal tax treatment of rental housing, including:

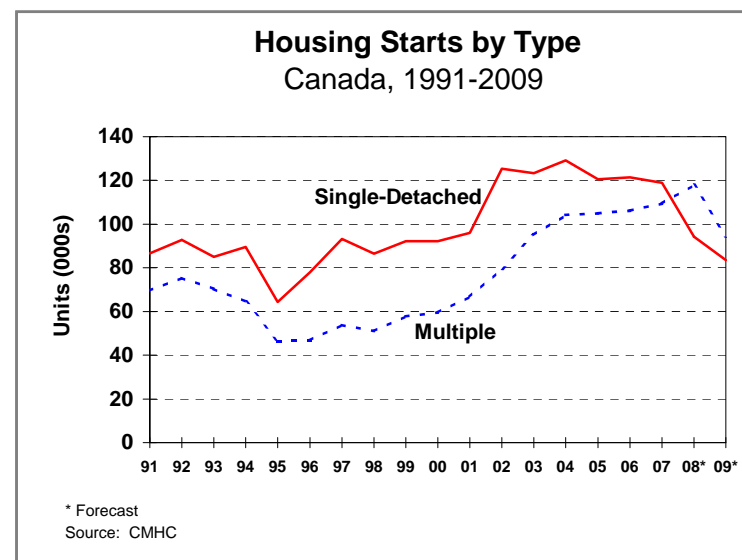
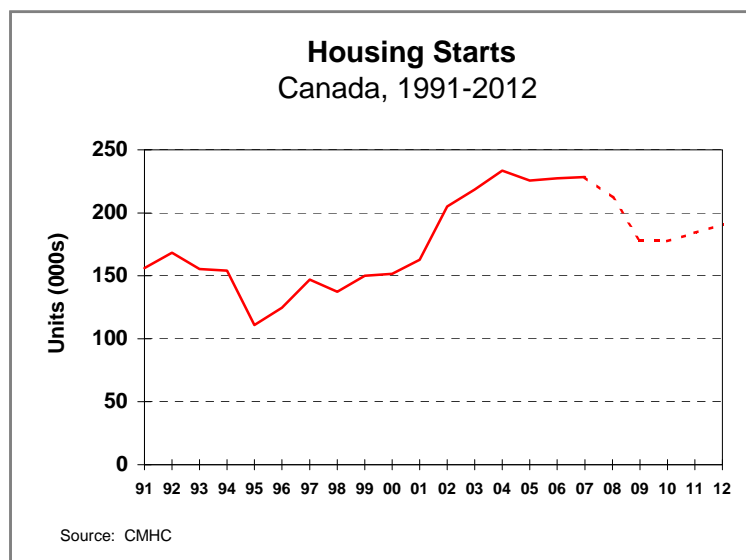
- *Deferring capital gains and recaptured depreciation deductions upon the disposition of rental properties if the proceeds are used to invest in new rental properties.*
- *Extending eligibility for deductions of rental losses created by capital cost allowance against income from other sources.*
- *Relaxing restrictions on the deductibility of soft costs.*

- *Allowing small rental landlords to use the small business deduction.*
- *Zero-rating rental housing for the purposes of the GST – i.e. the GST paid by businesses investing in rental housing should be refunded.*

The CHBA does not support proposals for tax preferences for low-cost rental housing production or renovation, favouring instead direct financial support to low-income households to meet their needs.

1. NEW HOUSING ACTIVITY

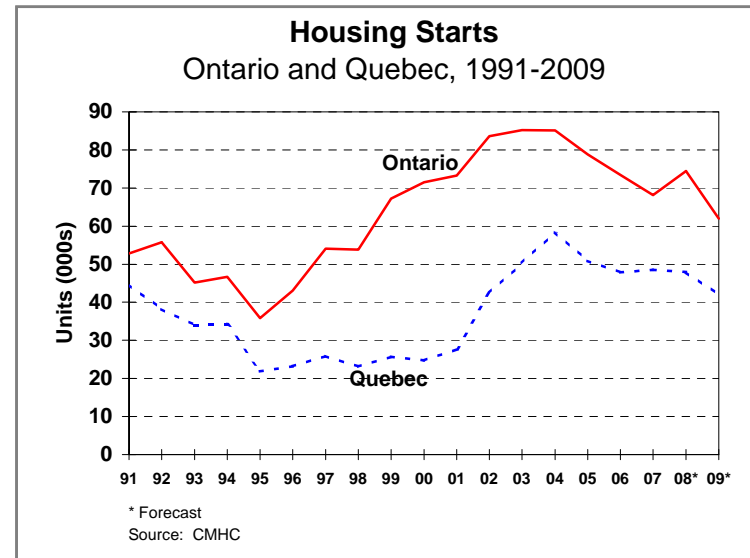
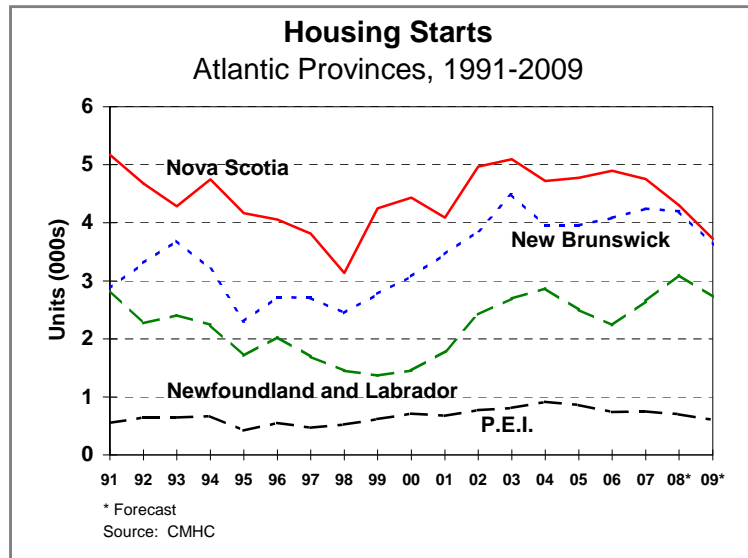
New Housing Activity Declining from Recent Unsustainable Levels – Multiples Accounting for Greater Share of Overall New Housing Activity



- Housing starts were above 225,000 units annually during the 2004–2007 period – an unsustainably high volume of activity.
- CMHC’s long-term forecast indicates that starts will total 212,200 in 2008 and decline to 178,000 in 2009 and 2010, before recovering to the 190,000 range by 2012.
- Compared to the 1990s, this is still a very robust level of housing activity.
- Prior to the surge in housing starts after 2001, new housing activity was very low. Starts during the 1995-2001 period averaged only 141,000 units annually. It is likely that some of the high demand for housing over the past several years was due to pent-up demand from this earlier period of low housing activity.

- Multiples (mainly condominiums) have accounted for a progressively higher proportion of housing starts in Canada in recent years.
- The continuing high volume of multiple starts is due to the long lead-times for starting multiple projects – many of the units in these projects were sold in previous years.
- Both condominium and single-family sales volumes are expected to decline from the very high levels of recent years.

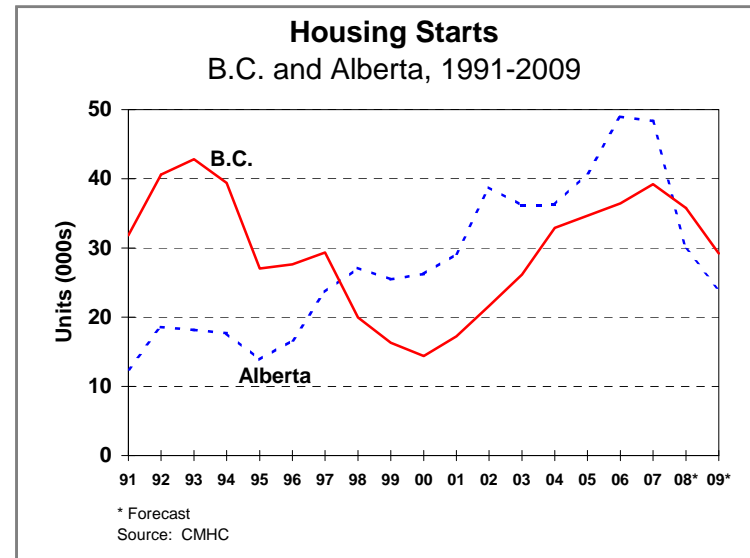
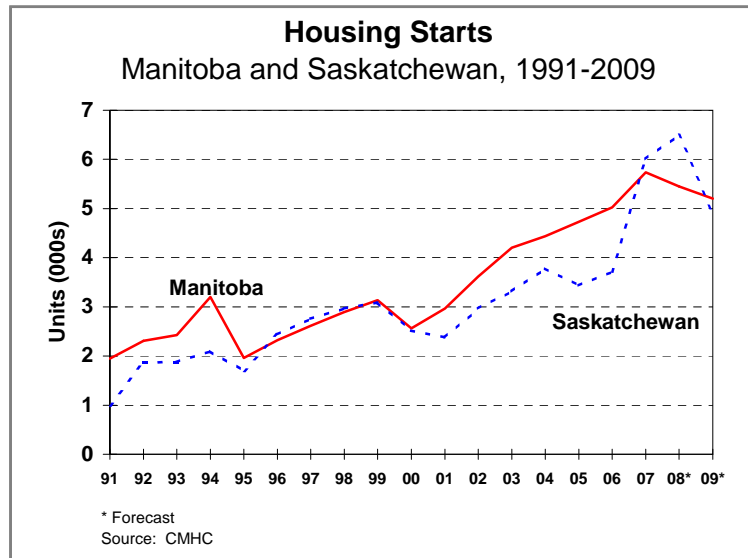
**Lower Starts Forecast for All Four Atlantic Provinces in 2009
– Higher Starts in Ontario This Year, But Lower Starts Next Year**



- Housing starts in the Atlantic Provinces as a whole are forecast to be relatively unchanged this year compared to 2007, according to CMHC. Starts are forecast to decline by 13% in the four provinces as a whole in 2009.
- In Nova Scotia, 2008 starts are forecast to total 4,300 units – down slightly from 4,750 starts last year. In 2009, starts are forecast to total 3,725 units.
- New Brunswick starts are forecast to be 4,200 units in 2008 (unchanged from 2007) and 3,625 units in 2009.
- Starts in Newfoundland and Labrador are forecast at 3,100 units in 2008 and 2,725 units in 2009 – compared to 2,649 units in 2007.
- In Prince Edward Island, 700 and 600 starts are forecast this year and next, respectively – down from 750 in 2007.

- Ontario starts are forecast to increase to 74,450 units in 2008 – up from 68,100 starts in 2007. The forecast increase is due mainly to condominiums in Toronto which were presold in earlier years.
- In 2009, 62,000 starts are forecast for Ontario. Starts in the province averaged almost 85,000 units annually during 2002-2004. While lower than in recent years, starts in Ontario are expected to remain well above the levels of the 1990s.
- Starts in the Toronto CMA, the largest housing market in Canada, are forecast to total 41,200 units this year and 32,000 in 2009 – compared to 33,300 starts in 2007.
- Quebec starts are forecast to total 47,900 units in 2008 – down slightly from 48,550 starts last year. Starts are forecast at 42,000 in 2009.

**Strong Starts Continue in Manitoba and Saskatchewan in 2008/2009
– Lower Starts in Alberta and British Columbia**

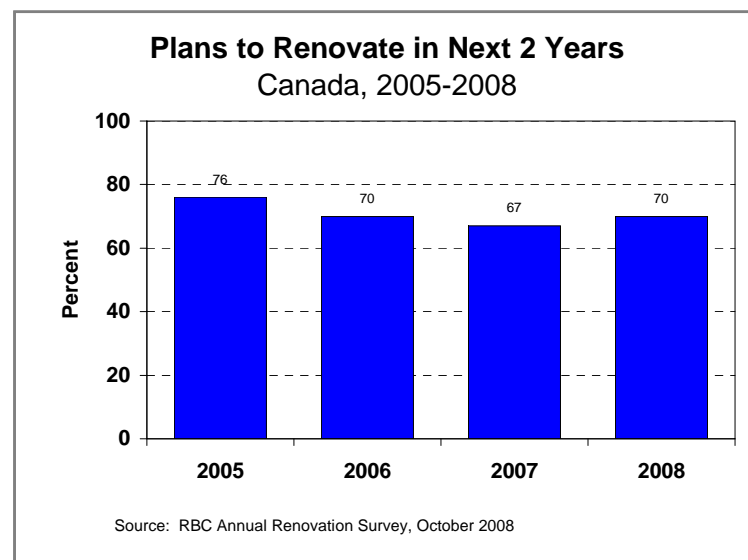
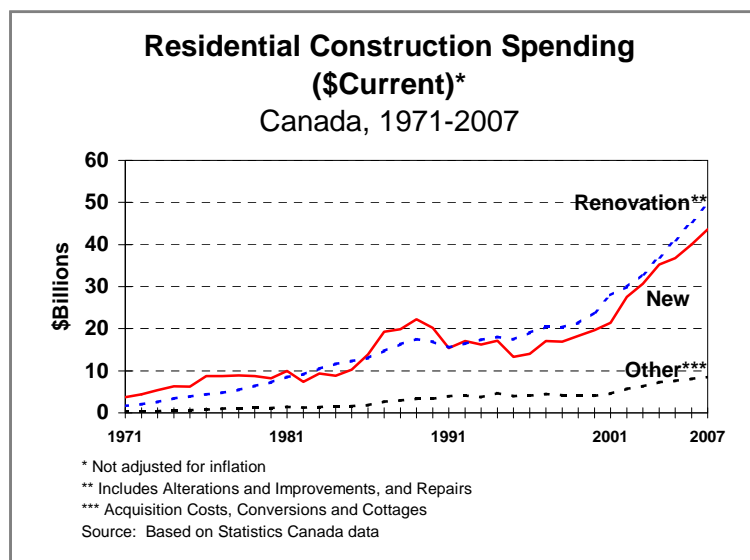


- Saskatchewan starts are forecast to increase to 6,500 units in 2008, compared to 6,000 units in 2007. Starts in Saskatchewan are forecast to decline to a (still strong) 4,900 units in 2009.
- In Manitoba, 2008 starts are forecast at 5,450 units – down slightly from 5,740 in 2007. Starts in Manitoba are forecast to ease slightly to 5,200 units in 2009.
- Starts in both Manitoba and Saskatchewan continue to be well above the levels of the 1990s.

- Starts in Alberta are forecast to drop to 29,750 units in 2008 – compared to 48,300 starts recorded in 2007. The substantial increase in housing prices in Alberta has now leveled off, however, it has dampened housing demand in the province.
- Alberta starts are forecast to ease further to 24,000 units next year – this is still above the level of the early 1990s.
- B.C. starts are forecast to total 35,800 units in 2008 – compared to 39,200 starts in 2007. Starts in B.C. are forecast to decline further to 29,200 units in 2009 – this is still above the levels of the 1995-2003 period.

2. RESIDENTIAL CONSTRUCTION AND THE ECONOMY

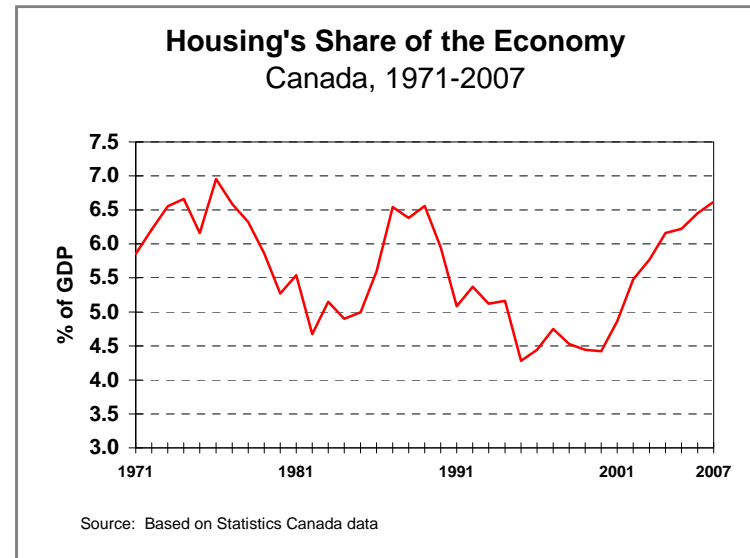
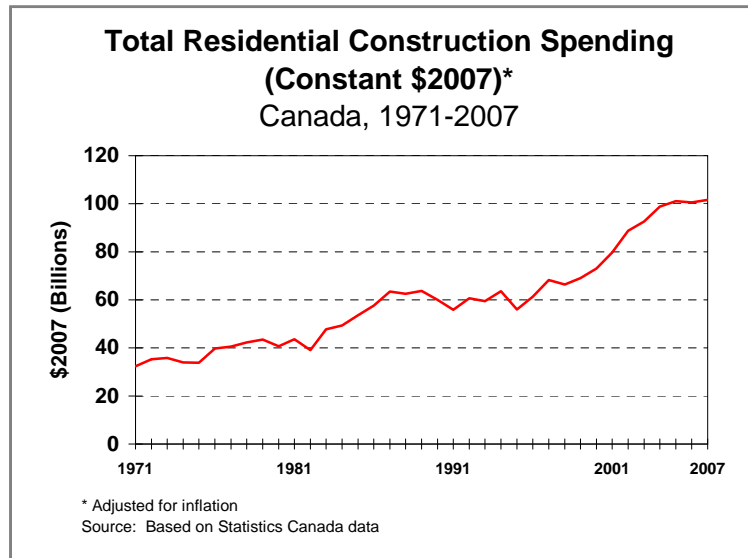
Spending on Residential Renovations Exceeds Spending on New Housing – Homeowners Plan to Continue Strong Renovation Activity



- New housing comprises only a part of housing’s contribution to the economy. Spending on residential renovations is greater than spending on new housing.
- Renovation expenditures (repairs and improvements to existing housing) have grown progressively over the past three decades – since the early 1990s, they have been greater than expenditures on new housing construction. Spending on *residential renovations* totaled roughly \$50 billion in 2007.
- Expenditures on *new housing* tend to be more volatile than renovations. They totaled roughly \$44 billion in 2007.

- With the lower levels of new housing activity, spending on new construction is likely to decline in the next few years. However, renovation spending intentions remain strong – according to the RBC Annual Renovation Survey (October 2008).
- According to the Survey, 70% of homeowners intend to undertake renovations in the next two years – similar to the levels of recent years.

**Residential Construction – A Strong Contributor to Canada’s Recent Economic Growth
– Spending on Housing Grew to Over 6.5% of the Total Economy in 2007**

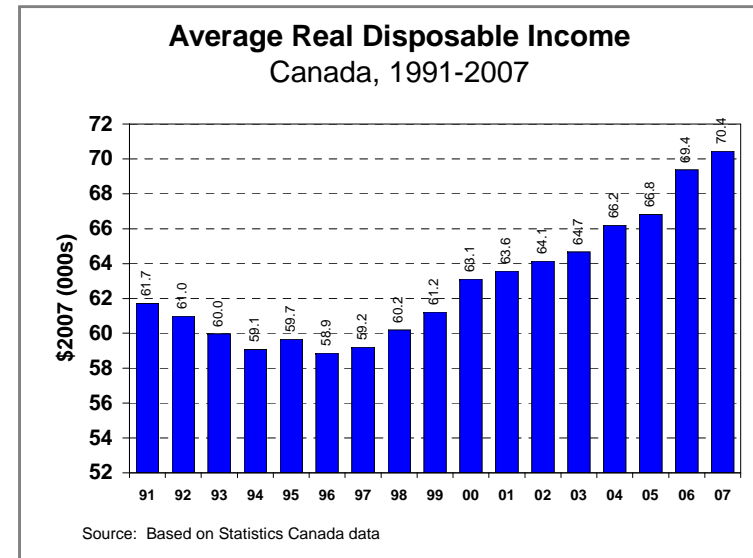
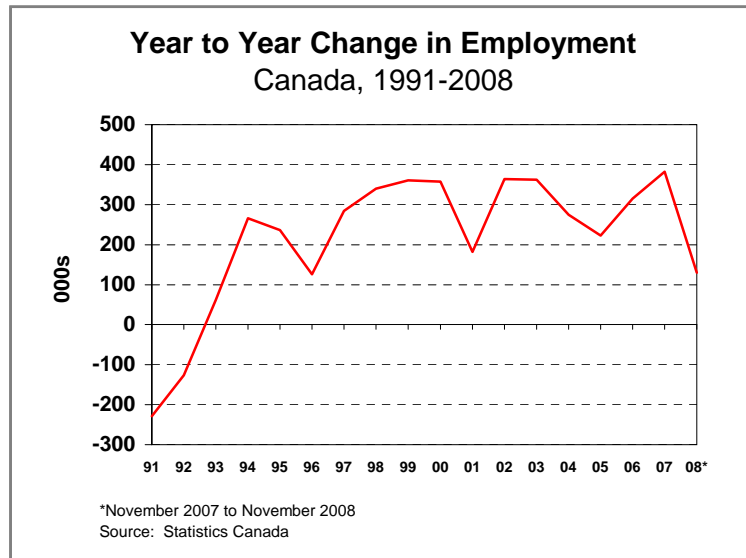


- Real spending on residential construction grew progressively throughout the 1971-2007 period. In terms of constant (inflation-adjusted) 2007 dollars, the value of residential construction spending increased from \$32 billion in 1971 to over \$100 billion annually during the 2005-2007 period.
- The \$100+ billion in residential construction spending in 2007 included new housing and renovations to existing dwellings, as well as cottages, conversions and acquisition costs for new housing.
- Estimates for the first half of 2008 point to a decline in residential construction spending – a trend that will likely continue with the expected lower starts levels in 2009.
- Nevertheless, residential construction expenditures will continue to be substantial.

- The housing sector has been a key factor supporting Canada’s strong economic performance of the past several years.
- After lagging during most of the 1990s, housing’s share of the economy has been increasing strongly since 2000. Total residential construction spending as a share of GDP increased to over 6.5% in 2007.
- With the coming decline in residential construction activity to more sustainable levels, the stimulus to the economy provided by the housing sector will ease. However, the contribution of residential construction to Canada’s economy will continue to be significant.

3. DRIVERS OF HOUSING ACTIVITY

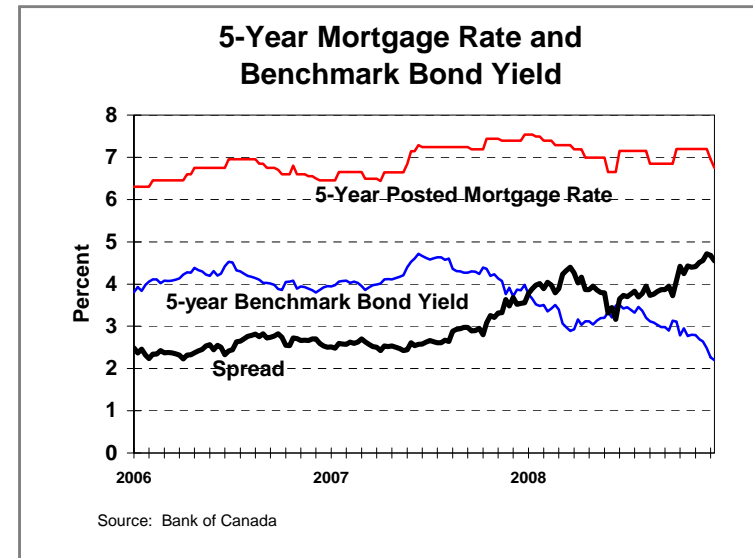
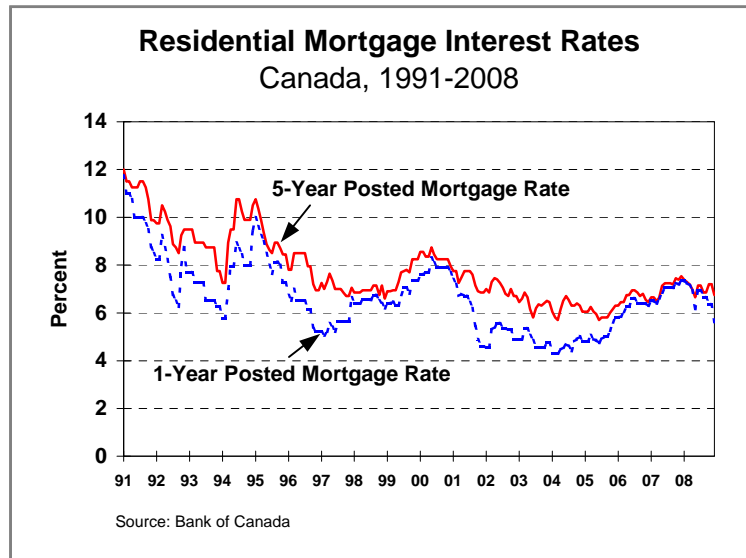
Until Recently, Strong Employment Growth and Rising Real Disposable Income Were Very Favourable for Housing Demand – The Picture is Changing Now



- Strong employment growth over the past several years was a major factor behind the buoyant level of housing activity.
- Between 1997 and 2007, employment growth averaged over 300,000 jobs annually.
- The picture has changed. While employment growth in the first half of 2008 was relatively strong, the economy has weakened considerably in recent months.

- Since the late 1990s, the combination of strong economic growth and reduced taxes led to substantial growth in the average real disposable income of Canadian households.
- Disposable income is the share of income left over after accounting for income taxes and other deductions.
- The drop in real disposable income during the 1990-1996 period was a significant factor behind the low levels of housing activity at that time. The subsequent rise in real disposable income provided an important boost to housing activity in recent years.
- With the economic slowdown, increases in average real disposable income are likely to be weaker.

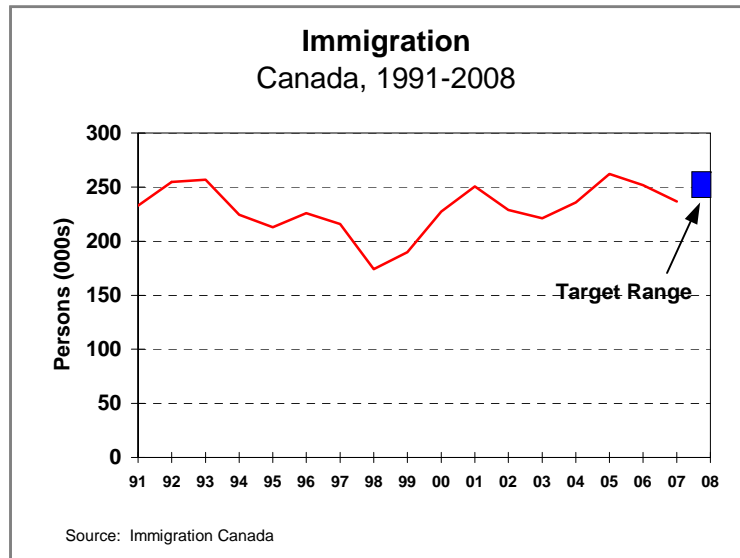
Mortgage Interest Rates Higher Than in the Recent Past – Rising Spreads Between Mortgage Rates and Canada Bond Yields



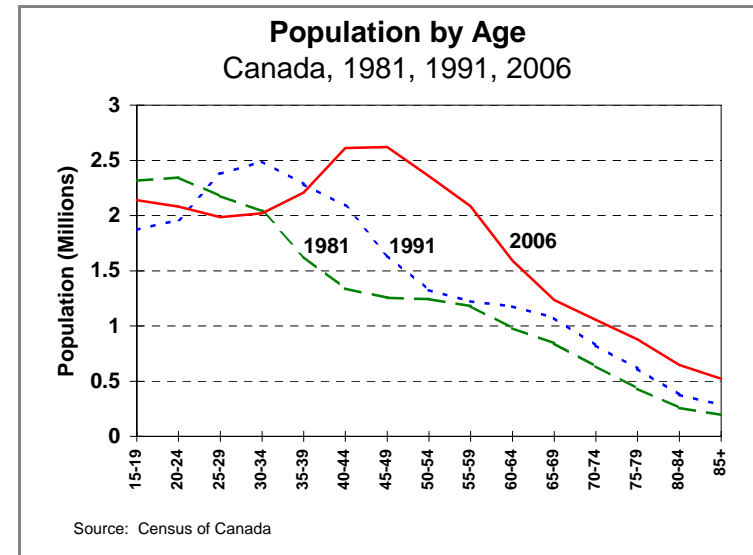
- Mortgage interest rates are critical for housing affordability and for the economics of investment in rental housing. The relatively low mortgage rates of the past several years have been a key factor behind buoyant housing activity.
- CMHC estimates that for every 1-percentage point drop [or rise] in the 5-year mortgage rate, starts over the following 12-month period increase [or decline] by 8,000-12,000 units.
- At present, chartered banks' 5-year posted rates are 6.75%, while 1-year rates are in the 5.6% range. These are down from earlier this year but are higher than a few years ago – 5-year rates averaged 6.0% in 2005, and 6.2% in 2004.
- By negotiating, borrowers can generally get rates lower than those posted by lenders.

- Historically, mortgage rates have mirrored changes in government of Canada bond rates. Prior to mid-2007, 5-year mortgage rates were typically about 250 basis points above the comparable benchmark bond yield.
- With the tightening global credit market, the spread increased to 400 basis points in early 2008 and has recently spiked to over 450 basis points.
- If the more traditional 250 basis point spread above Canada bonds applied, affordability of homeownership would be vastly improved.

Positive Demographics Point to Continued Strong Housing Requirements – Immigration and Baby Boom ‘Echo’ Generation Support Demographic Housing Requirements



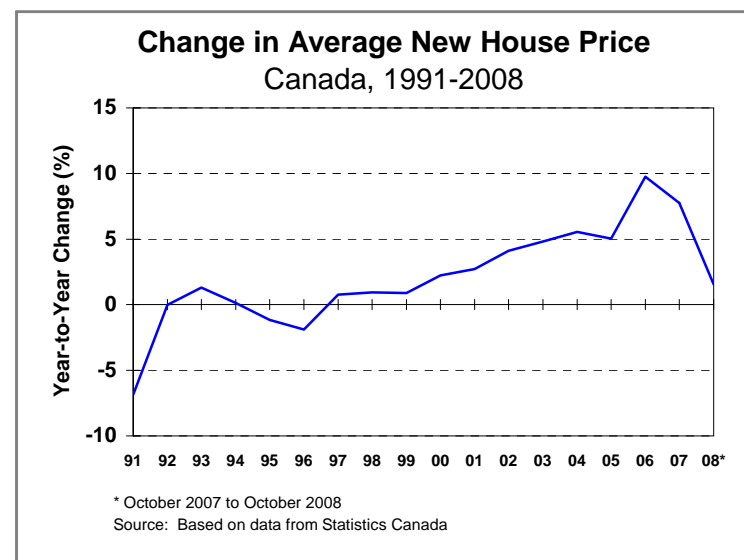
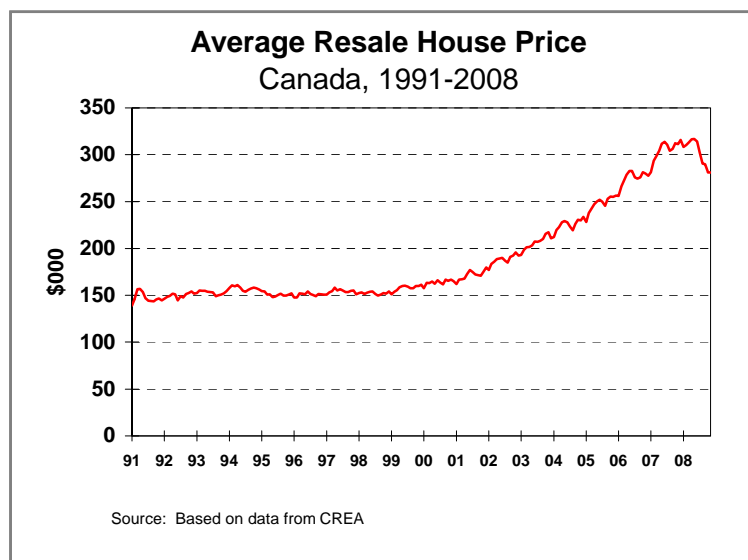
- Immigration has fluctuated in the 220,000-260,000 range for the past several years.
- In 2007, immigration totaled 236,800 – somewhat below the target range of 240,000-265,000. This is *immigration* – other components of international migration to and from Canada (e.g. emigrants, returning emigrants and non-permanent residents) largely offset each other in 2007.
- Research indicates that, over time, immigrants have housing occupancy characteristics similar to native-born Canadians. Therefore, immigration is a key source of housing demand.
- Immigration is also extremely important for providing skilled people to many industries – including construction.



- The ageing of the baby boom generation has had a pronounced effect on the volume and nature of housing demand in Canada since the late 1960s.
- At present, the most significant effect is a shift in demand towards move-up and empty-nester buyers.
- The baby boom ‘echo’ generation – the children of the baby boomers – is ageing into the household forming age groups. This will help to buoy household growth – and housing demand – in the future.

4. HOUSING PRICES

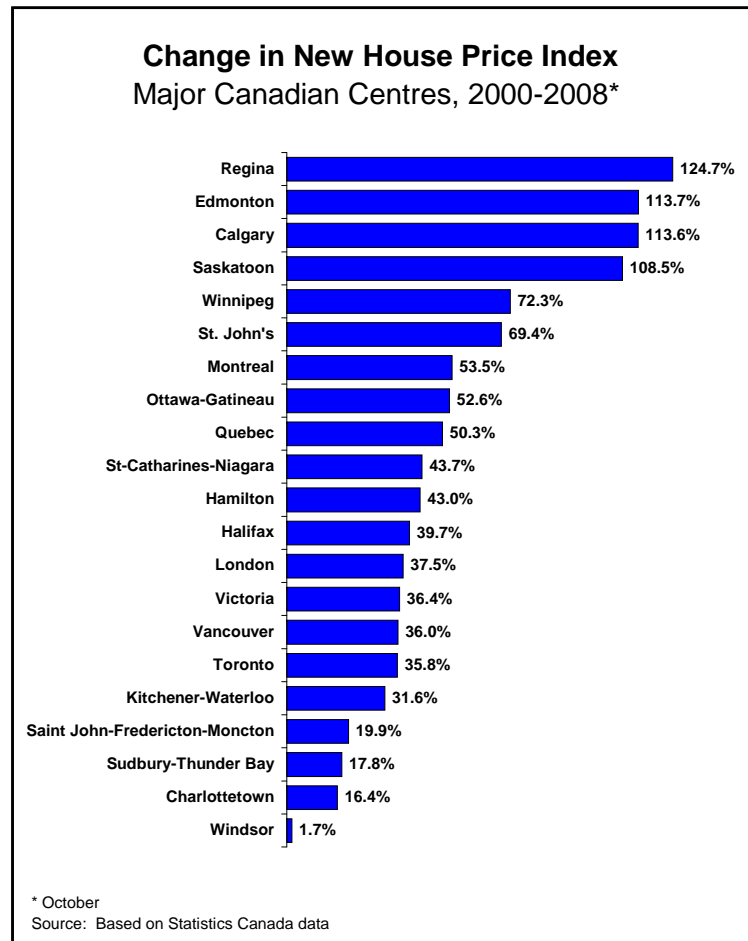
House Prices Moderating – A Reflection of More Balanced Housing Markets



- Strong housing markets in the past several years led to significant increases in housing prices.
- Average MLS resale house prices across Canada increased by roughly 10% each year during the 2002-2007 period.
- With moderating housing markets, resale house prices have declined in several centres in recent months.
- Despite the recent decline in housing prices, most purchasers of homes in recent years have substantially more equity than when they purchased. For those who have suffered some decline in equity, the decline will likely be temporary since housing prices will recover – they always do.

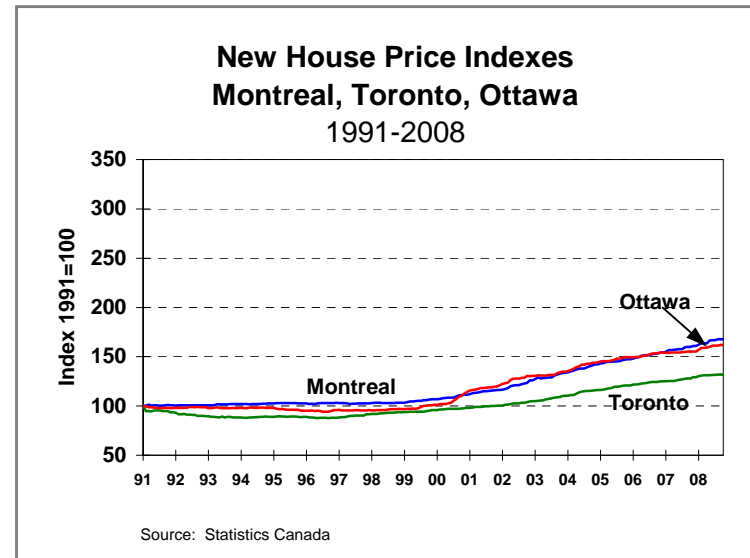
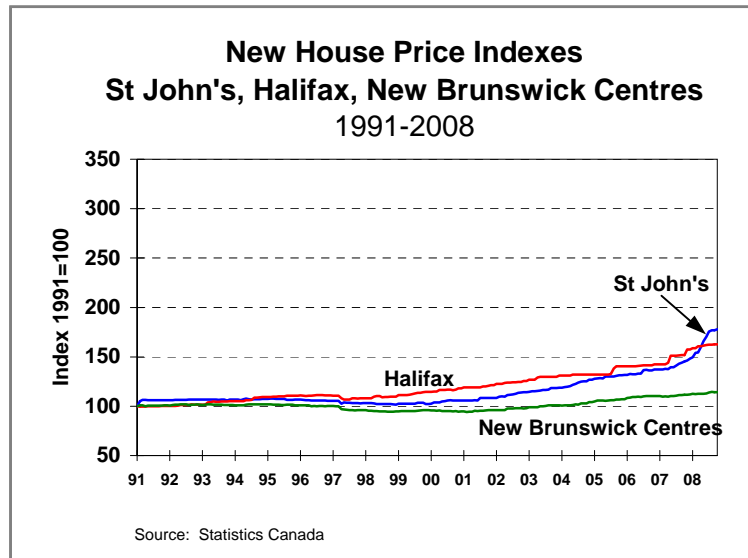
- New house prices in most of Canada have lagged somewhat behind the rise in prices in the resale market. However, new home prices have been rising significantly as well – particularly in 2006-2007.
- The rise in new house prices has moderated in 2008. The October 2008 New House Price Index for Canada as a whole was up only 1.5% from the same month last year.

No National Housing Market – Instead a Series of Local Markets Which Respond to Local Economic Conditions



- National house price trends, as presented on the previous page, are an amalgam of trends in local housing markets – each of which responds to local economic and demographic factors.
- This is evident through an examination of house price trends in major Canadian centres in recent years – using data from Statistics Canada’s New House Price Index, which measures price changes in a ‘constant quality’ new house over time. The analysis here covers the changes in the price of the full package of a new house plus land in each centre over the 2000 to October 2008 period.
- While overall national new house prices have risen by 52% over the period from 2000 to October 2008, changes in house prices in local markets varied from an increase of almost 125% in Regina, to an increase of less than 2% in Windsor.
- New house prices in other centres varied between these extremes: Edmonton, Calgary and Saskatoon all had increases in new house prices of 108% or more – though, as discussed later, prices are easing in these formerly red-hot housing markets.
- Other markets with house price increases of 50% or more were: Winnipeg, St. John’s, Montreal, Ottawa-Gatineau and Quebec.

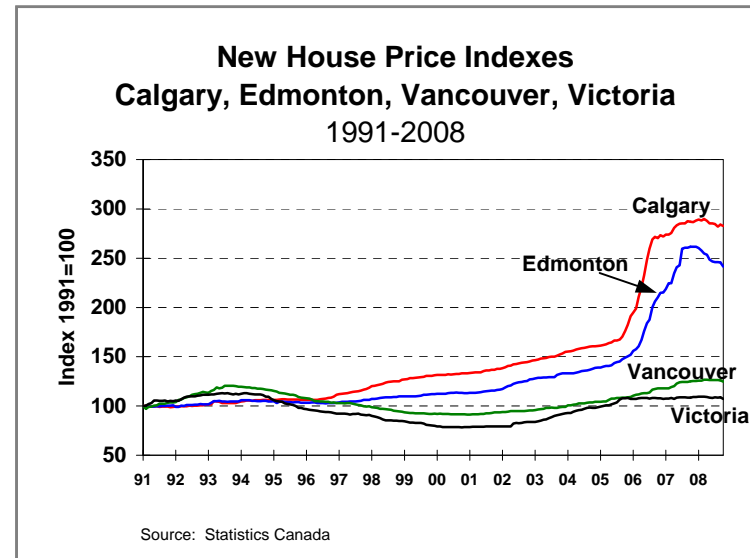
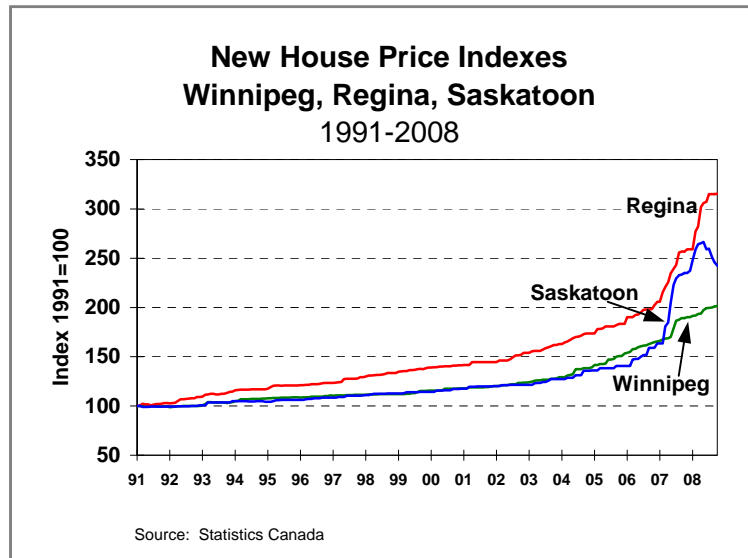
**Strong Increase in House Prices in St. John's This Year
– Other Eastern Centres Show More Modest Rises in Prices**



- The house price changes during a short period (e.g. 2000-2008, as shown on the previous page) must be viewed within the context of trends over the longer-term.
- For example, in Toronto, the October 2008 New House Price Index is up only 32% compared to 1991 – among the lowest rates of increase among major Canadian centres. However, during the second half of the 1980s (not shown in the chart), Toronto had by far the strongest housing market in Canada – with prices rising by 80% in only three years. Subsequently, Toronto prices moderated and have not experienced the increases of other major centres since 1991.

- Over the 1991-2008 period as a whole, St. John's (78%) has had the largest price increase among the eastern Canadian centres presented here, followed by Montreal (68%), Halifax (63%), Ottawa-Gatineau (62%) and Toronto (32%).
- New Brunswick centres (Saint John, Fredericton and Moncton) had relatively modest increases in housing prices over the period – 14% for the 1991-2008 period as a whole.
- As shown on the next page, house price increases in centres in Saskatchewan and Alberta have been much more substantial.

**Easing Housing Prices in Saskatchewan and Alberta Centres
– More Modest Gains in Winnipeg and B.C. Centres**

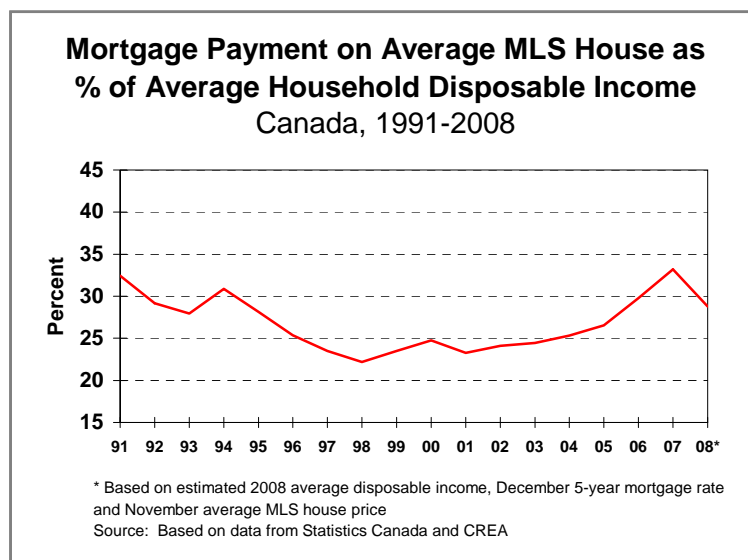


- Over the past three years, the precipitous increases in new house prices in Regina, Saskatoon, Calgary and Edmonton have outpaced all other major centres in Canada.
- Compared to 1991, new house prices in Regina are up by 215%. In Saskatoon, house prices have also increased significantly – up by 142% since 1991.
- Most of the increase in house prices in Regina and Saskatoon occurred in the past two years. Prices are now showing signs of easing in both centres.
- Winnipeg house prices are up by 101% since 1991.

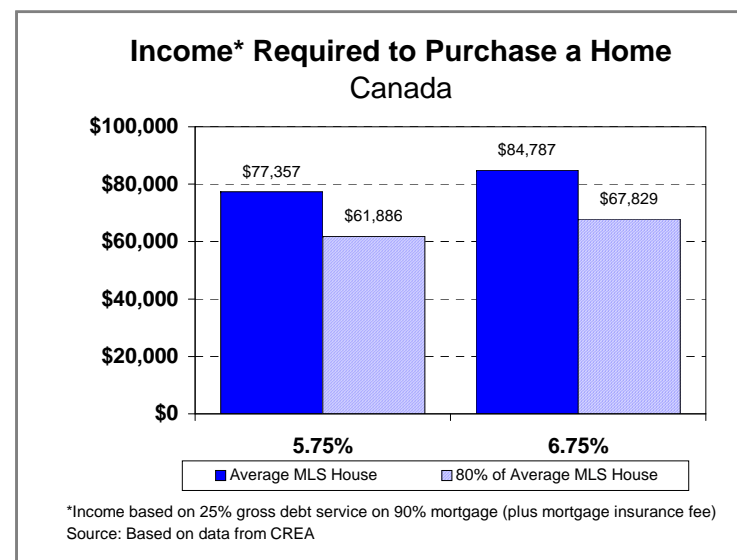
- After very significant increases in 2006 and 2007, new house prices in Calgary and Edmonton leveled off this year and have eased below their highs.
- Compared to 1991, Calgary new house prices were up 183% in October 2008, while Edmonton prices were up 141%.
- In Vancouver, new house prices started to rise in 2002 after declining progressively since the peak reached in 1993. October 2008 prices are up 25% from 1991.
- Prices in Victoria are up 7% from 1991 levels.

5. THE STATE OF HOMEOWNERSHIP AFFORDABILITY

Affordability Recovering After Deteriorating in 2006 and 2007 – Substantial Incomes Required to Buy a Home

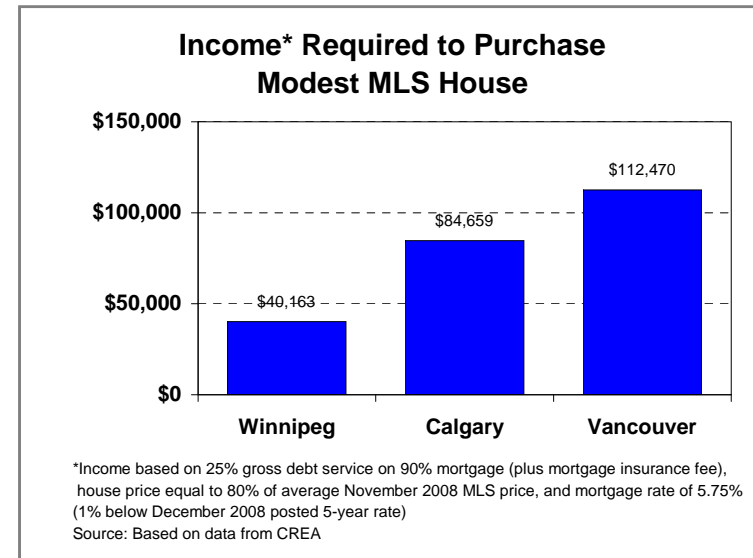
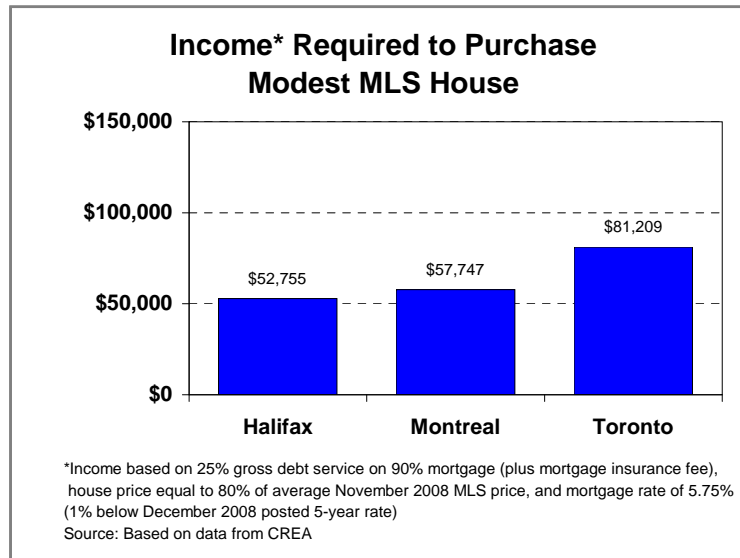


- With rising housing prices and higher interest rates, the share of average household disposable income required to buy the average MLS house increased significantly in 2006 and 2007.
- In 2008, with rising incomes, lower interest rates and moderating house prices, affordability has improved.
- Affordability is expected to improve further with moderating housing prices.
- This type of analysis illustrates the impact of changing housing prices, incomes and interest rates on the ‘average’ household – including those who already own a home. Potential first-time buyers typically would have incomes lower than the average, so they would face a more difficult situation than that presented in the chart.



- First-time buyers need large incomes to buy a home – or help from others (e.g. parents) to provide a larger downpayment.
- CMHC requires that mortgage payments, plus property taxes and heating costs cannot exceed 32% of income. Since heating costs and property taxes vary, the minimum income required to buy an average home is defined here to be based on mortgage payments totaling a maximum 25% of income.
- Assuming a 90% mortgage, a first-time buyer would need a minimum income of \$77,400 to buy the average MLS house in Canada (\$280,880 – November 2008) and \$61,900 to buy at 80% of the MLS average – assuming an interest rate of 5.75% (1% below the posted rate of 6.75%). If the purchaser is not successful in negotiating a reduced mortgage interest rate, the required incomes are even higher.

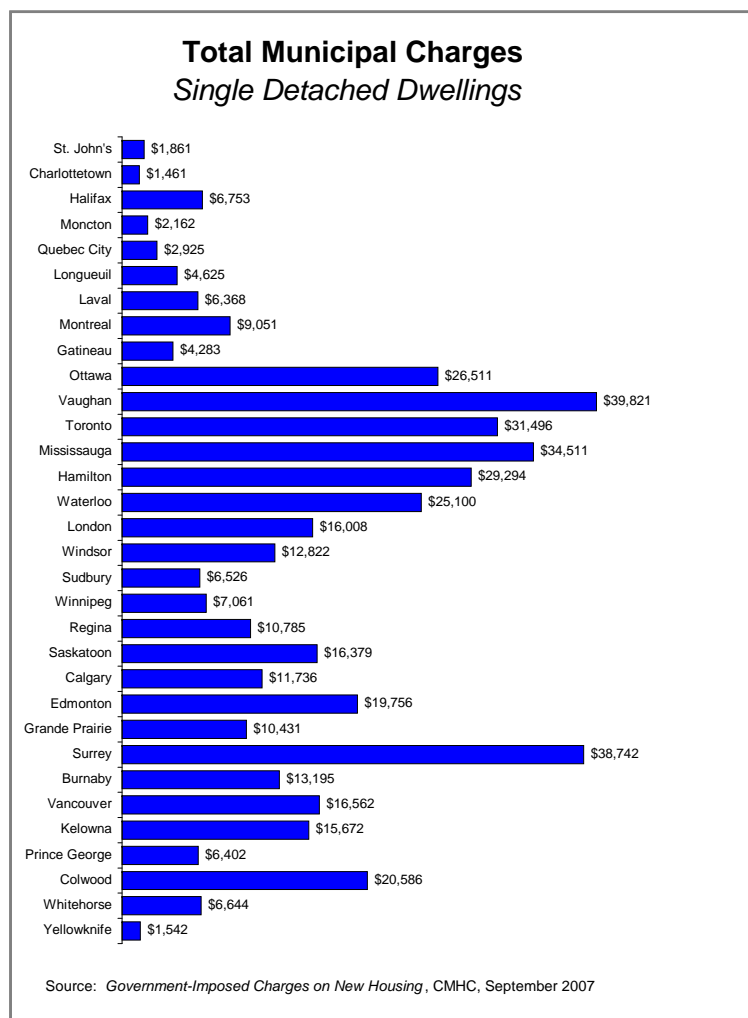
Higher Incomes Required to Purchase a Home in High-Cost Centres Such as Vancouver, Calgary and Toronto



- The income required to purchase a typical home varies significantly across the country.
- Based on the same assumptions as the analysis on the previous page (i.e. 90% loan, mortgage payments equal to 25% of income, mortgage rate equal to 1% less than the posted rate, home price of 80% of average MLS price), a first-time buyer would require an income of \$112,500 to purchase a home in Vancouver (80% of the November 2008 MLS price is \$408,000).
- Similarly, in Calgary and Toronto, also high-cost centres, a first-time buyer would require an income of about \$84,700 and \$81,200, respectively – based on 80% of the November 2008 average MLS house prices: \$307,000 (Calgary) and \$295,000 (Toronto).
- In Montreal, an income of \$57,700 is required to purchase a house priced at 80% of the MLS average (\$210,000).
- In lower-cost centres, such as Winnipeg and Halifax, houses are much more affordable – an income of \$40,200 is required to purchase a house priced at 80% of the Winnipeg MLS average (\$146,000).
- In Halifax, an income of \$52,800 is required to purchase a house priced at 80% of the MLS average ((\$192,000).
- As noted, these estimates assume a mortgage rate which is 1% less than the posted rate. If borrowers are not able to obtain this large a discount, the required incomes would be correspondingly higher.

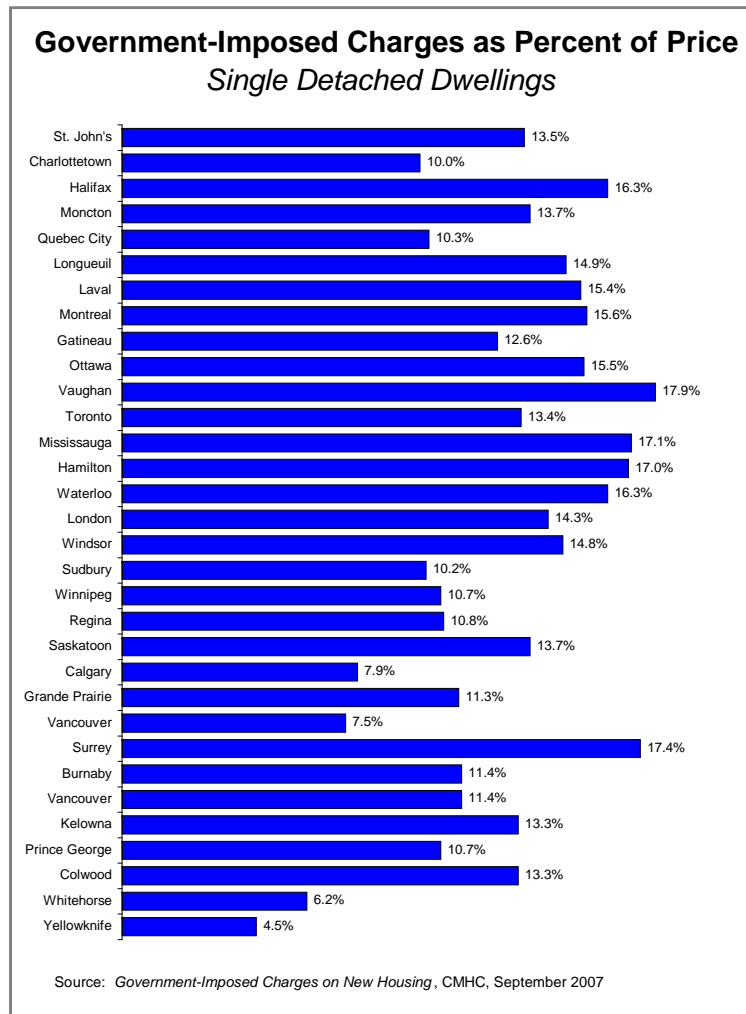
6. CHALLENGES FACING HOMEOWNERSHIP AFFORDABILITY

Heavy Municipal Levies, Fees and Charges on New Homes Reduce Housing Affordability – Charges Total Almost \$40,000 in Some Municipalities



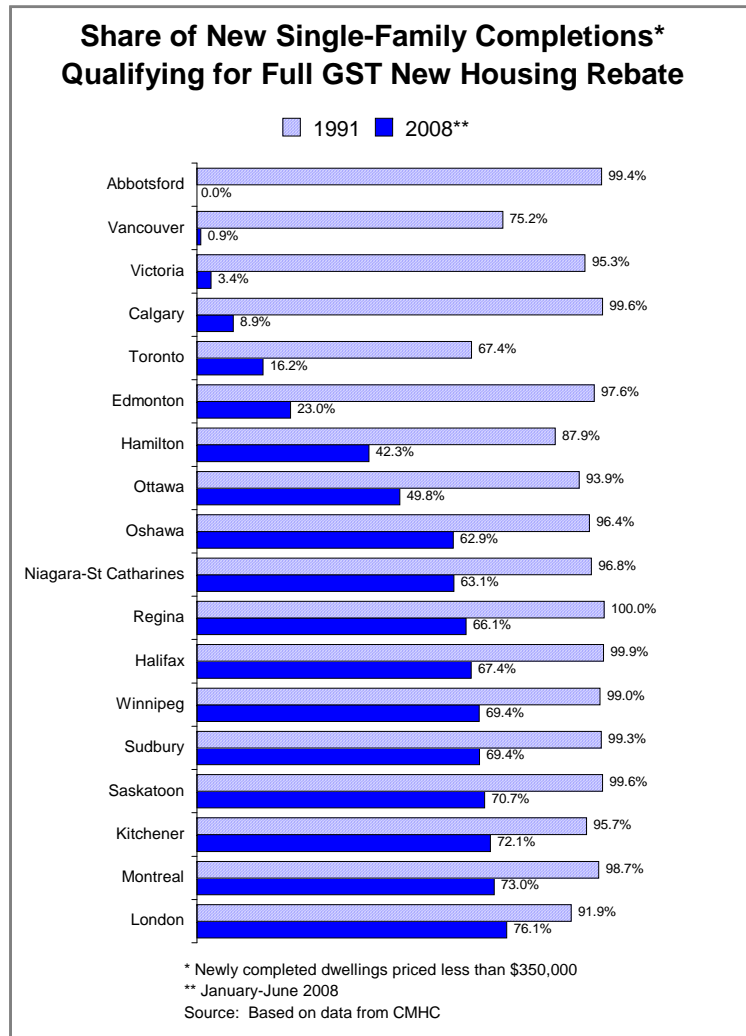
- Municipalities impose a variety of charges on new homes. These include DCCs and lot levies, other infrastructure-related charges, development application processing fees, building permit fees, etc.
- A study of 32 municipalities across Canada conducted for CMHC in 2007 documented the total municipal charges for typical modest dwellings in each municipality – they range from almost \$40,000 in some Ontario and B.C. municipalities, to less than \$5,000 in other parts of the country.
- The most important factor influencing the differences in total charges among the municipalities is the amount of infrastructure charges – mainly DCCs. These sometimes include charges for ‘soft services’ such as education and recreational facilities.
- Some of the variations in infrastructure charges among municipalities reflect differences in the methods of providing infrastructure – some municipalities do not charge DCCs but instead require developers to cover the cost of installing infrastructure through special agreements.
- The 2007 CMHC study updated the results from similar studies in 1997 and 2002. The study confirmed that municipal charges on new housing continue to increase.

GST/HST, Provincial Taxes and Municipal Charges – Almost 18% of House Prices in Many Parts of Canada



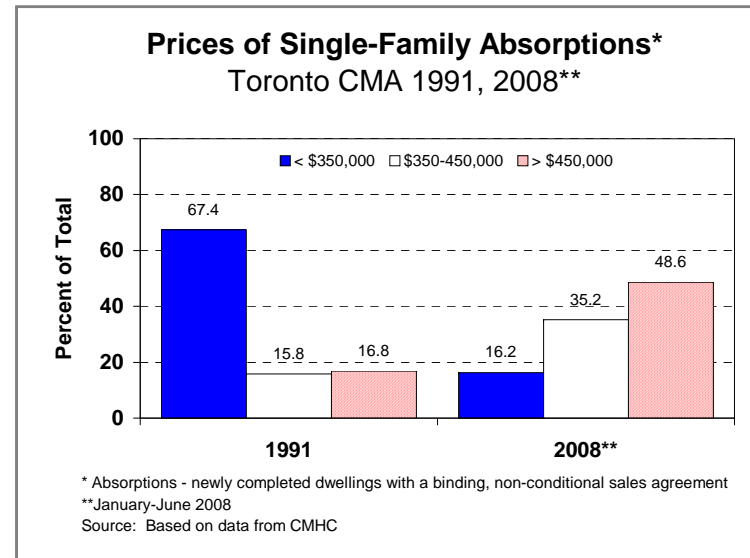
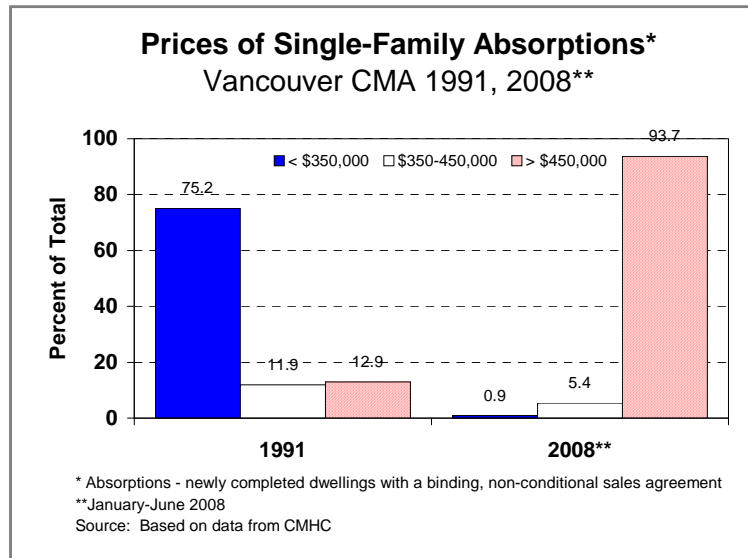
- In addition to the charges imposed by municipalities, both the federal and provincial governments collect significant revenues from new housing through the GST, and provincial sales and land transfer taxes.
- Taxes such as the GST/HST and land transfer taxes are applied to the price of a home. Since municipal charges, such as DCCs, are built into the price of a new home, there is a significant element of pyramiding ('tax on tax') in the application of these taxes on new homes.
- Adding the federal and provincial taxes to municipal charges raises the burden on new homes to over \$80,000 in several municipalities – and over \$100,000 in Toronto.
- Municipal, provincial and federal government-imposed charges totaled over 10% of the price of a new house in most municipalities. In several cases, the charges accounted for 17% or more of the price of a new house.
- The costs associated with levies, fees, charges and taxes, plus transaction costs, are passed on to purchasers through higher prices. Sustaining housing affordability requires that such government-mandated costs be reduced.
- The reduction of 2% in the GST resulted in lower GST payable on new housing. The reduction, together with the GST New Housing Rebate, reduces total government-imposed charges on new houses by 1.28% (for houses eligible for the full rebate). However, due to the frozen thresholds for eligibility for the GST rebate (discussed next), increasing numbers of home buyers are not eligible for the rebate.

Increases in Housing Prices Have Pushed Many New Homes Above the GST Rebate Thresholds – Particularly in High-Cost Centres



- Only homes priced at \$350,000 or less are eligible for the New Housing Rebate of GST. There is a phase-out of the rebate for homes priced between \$350,000 and \$450,000. For new homes priced above \$450,000, there is no rebate – the full GST applies to the price of a new home.
- These price thresholds have been frozen since the GST was introduced in 1991, despite a federal commitment to “review these thresholds at least every two years and adjust them as necessary to ensure that they adequately reflect changes in economic conditions and housing markets”.
- Freezing the GST rebate thresholds has eroded housing affordability across Canada, with homebuyers in high-cost centres particularly disadvantaged.
- In Vancouver, for example, less than 1% of the purchasers of new single-family homes completed in the first six months of 2008 qualified for the full GST rebate. In neighbouring Abbotsford, none of the purchasers of new single-family homes qualified for the full rebate.
- In contrast, in 1991, 99% (Abbotsford) and 75% (Vancouver) of the purchasers of new homes qualified for the full rebate.
- In Toronto, only 16% of the purchasers of new houses completed in the first six months of 2008 qualified for the full GST rebate. In 1991, 67% of the purchasers of new houses qualified for the full rebate.
- The negative impacts of freezing the GST rebate thresholds on housing affordability extend to centres all across Canada.

**Zero GST New Housing Rebate for 94% of New House Purchasers in Vancouver
 – Almost Half of New House Purchasers in Toronto Receive No GST Rebate**

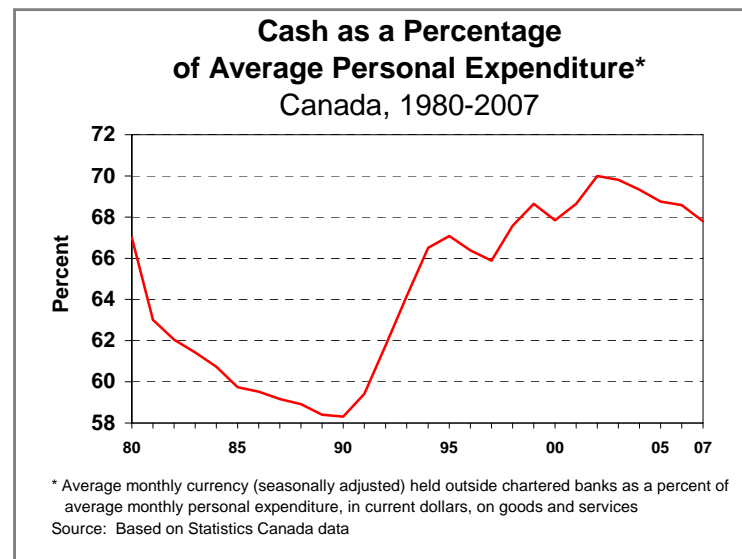
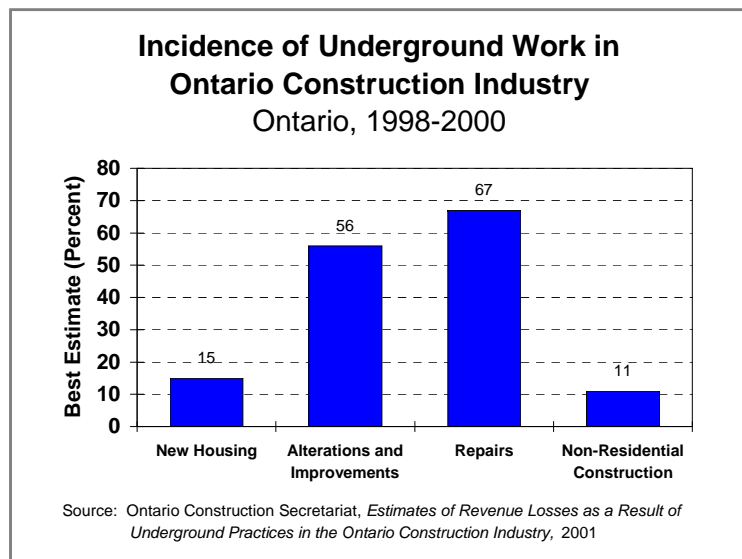


- 93.7% of the purchasers of new single-family homes completed in Vancouver in the January-June period of 2008 received *zero* rebate of the GST on their homes – i.e. their homes were priced at more than \$450,000. 5.4% received a partial rebate (homes priced at \$350,000-\$450,000).
- Less than 1% (0.9%) received the full GST rebate.
- This contrasts with the situation in 1991, when over 75% of new houses qualified for the full GST New Housing Rebate – i.e. their homes were priced at less than \$350,000.

- In Toronto, almost half (48.6%) of the purchasers of new houses completed in January-June 2008 received *zero* rebate – up from 17% in 1991. Only 16.2% received the full GST rebate. In 1991, in contrast, two-thirds (67.4%) of the purchasers of new houses received the full GST rebate.
- These figures relate to houses completed during the first six months of 2008 – most of these houses would have been started last year.
- The purpose of the federal government’s commitment to index the GST thresholds was to protect housing affordability over time. With almost all new houses in some major centres now ineligible for the GST rebate, it is essential to act on this commitment on an urgent basis.

7. CHALLENGES FACING THE RENOVATION SECTOR

Underground Activity – A Serious Problem for the Residential Renovation Sector – Strong Link Between GST and Growth in Underground Practices

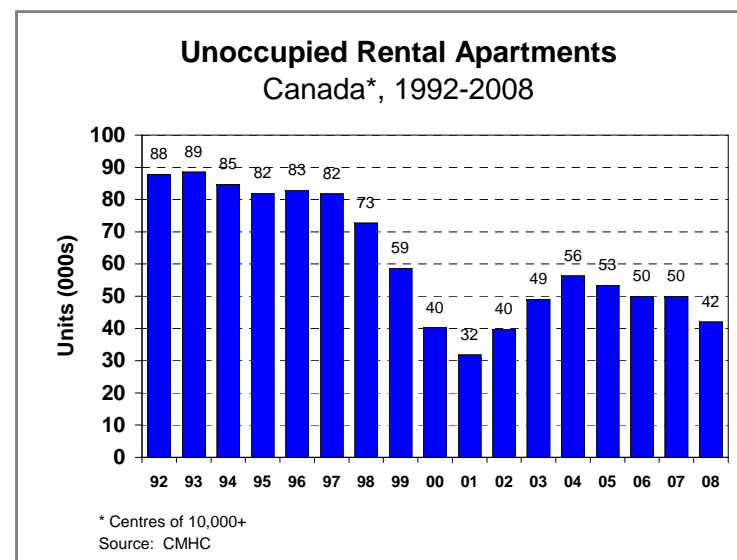
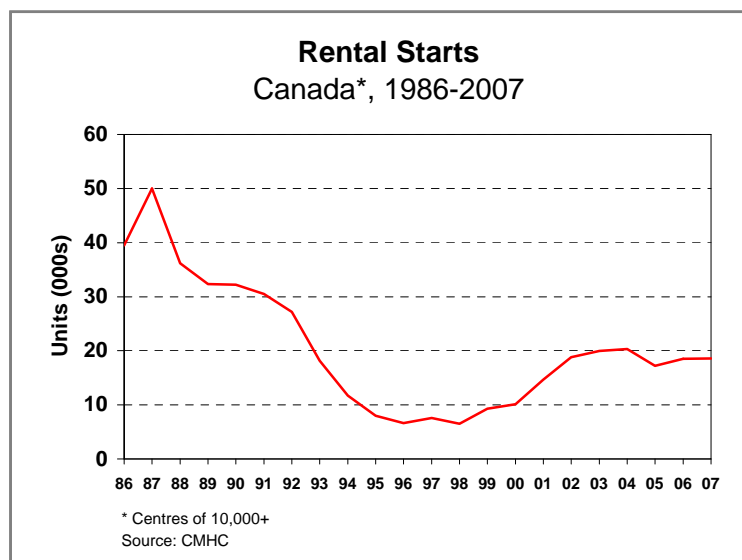


- Reliable estimates of the size of the underground economy in construction have been elusive. However, a report prepared for the Ontario Construction Secretariat (OCS) in 2001 estimates that the incidence of underground employment is greatest in the residential renovation sector.
- The OCS report estimated that 56% of major renovations (alterations and improvements), and 67% of repairs were undertaken by underground operators. Underground practices are less common in other types of work.
- The high volume of underground renovation work is a serious problem for the housing industry. Legitimate contractors have a severe competitive disadvantage compared to underground workers who will work for ‘cash-deals’ on which no taxes or other charges are paid.

- The OCS study draws a strong link between the growth in underground construction practices and the introduction of the GST in 1991.
- Cash is the currency of the underground economy. There was an upsurge in the use of cash starting in 1991 – the year the GST was introduced.
- Prior to 1991, because of increased use of credit cards, etc., there was a progressive decline in the use of cash in the economy.
- This provides strong evidence of a link between the GST and underground activity – especially for residential renovations.

8. CHALLENGES FACING THE RENTAL SECTOR

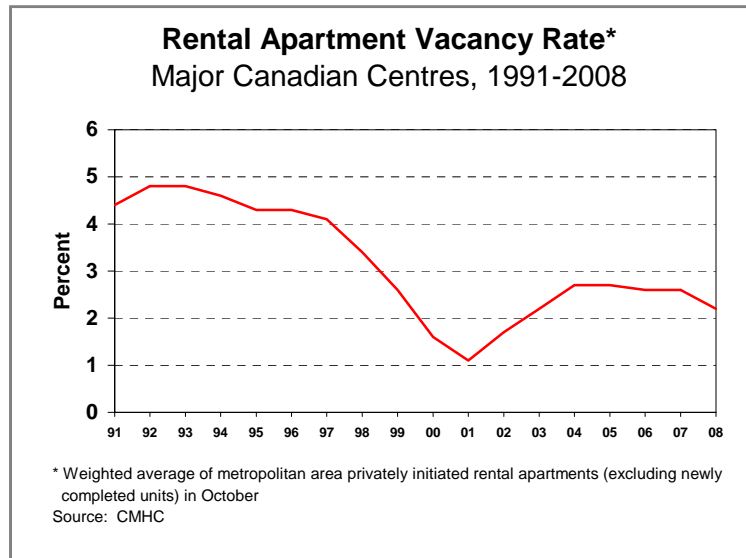
Low Volume of New Rental Construction Due to Poor Investment Economics – Rise in Unoccupied Units Only Temporary



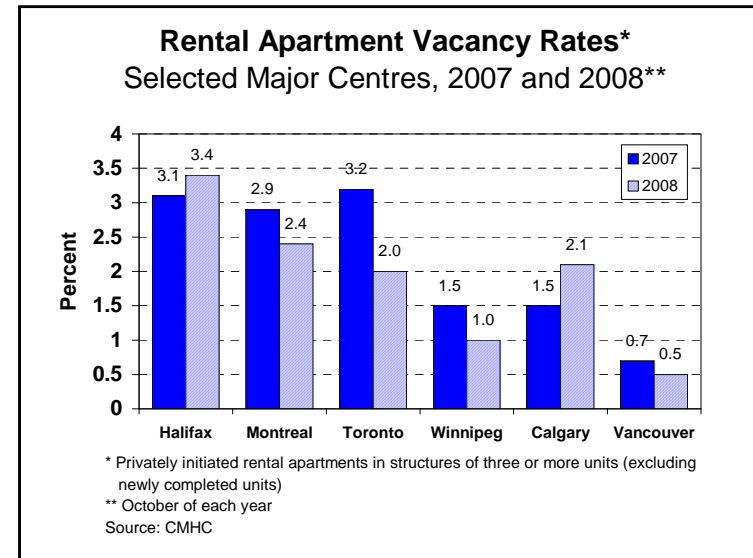
- Rental housing starts have increased since the very low levels of the second half of the 1990s; however, they remain well below historical levels – and housing requirements.
- In part, the low volume of rental construction is due to the termination of social housing supply programs. However, changes in the income tax treatment of rental housing, the introduction of the harmonized sales tax in some provinces, and higher municipal charges (particularly DCCs) have led to a decline in the economic viability of new rental investment.
- The reduction in the GST from 7% to 5%, together with the continuation of the rebate, has somewhat improved the economics of rental investment but more needs to be done to encourage the construction of new rental housing.

- With the low volume of rental construction, the number of unoccupied rental units dropped substantially in the period from 1997 to 2001.
- There was a temporary increase in unoccupied units in the 2002-2004 period, mainly due to an increase in the migration of renters into homeownership.
- In the past four years, the volume of unoccupied rental units has declined.
- With lower volumes of new ownership housing construction over the next several years, in the absence of additional new rental supply, the number of unoccupied rental units will drop further from current levels. This will be bad news for renters.

Rental Vacancy Rates Declining – Most Major Markets Tightening

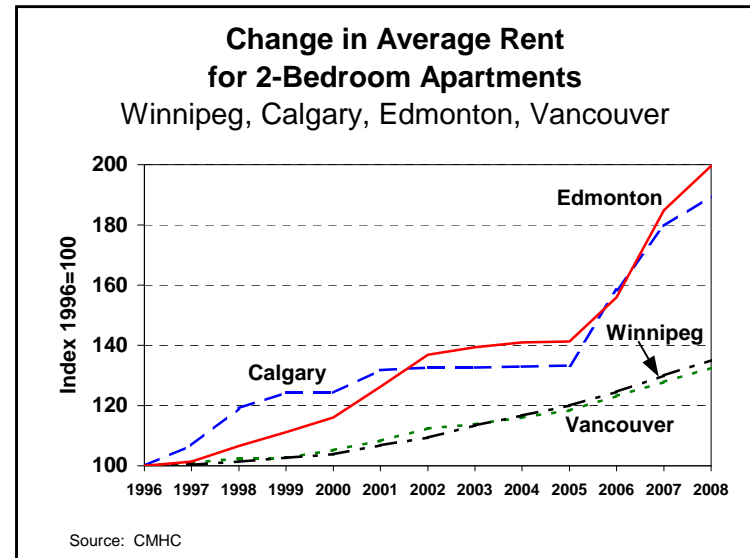
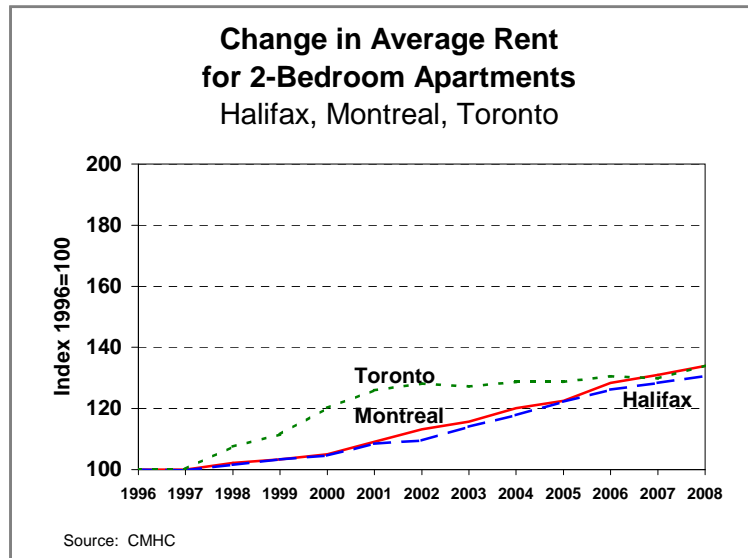


- The average vacancy rate for rental apartments in major centres in October 2008 was 2.2%, according to CMHC. While vacancy rates are lower than the recent peak in 2004, they are still well above the low of 1.1% in 2001.
- Rental markets are much tighter now than during the 1991-1997 period.
- With the low volumes of new rental construction, vacancy rates are expected to decline over the next few years



- Eight of Canada's major centres have vacancy rates of more than 3%; 12 have vacancy rates in the 'balanced' 2-3% range; 8 have vacancy rates of 1-2%; and, 7 have very tight rental markets (vacancy rate of <1%).
- Among major regional centres, Montreal, Toronto, Winnipeg and Vancouver all have lower vacancy rates in 2008 compared to 2007. Calgary and Halifax had increases in vacancy rates.
- While welcome, the balanced rental markets in most parts of Canada are only temporary. The number of renters moving into homeownership will drop over the next several years and, as a result, rental demand will increase. This, plus the low volume of new rental construction, will lead to further reductions in vacancy rates.

**Increased Vacancies Dampen Rent Increases
 – Rent Rises in Calgary and Edmonton Likely to be Softened by Higher Vacancies**



- Vacancy rates are an indicator of the relative strength of supply and demand in the rental market. When vacancy rates drop, demand is outpacing supply and rents tend to rise.
- The opposite occurs when vacancy rates increase – higher numbers of vacant units mean that landlords need to moderate their expectations regarding rent levels in order to attract tenants.
- This is evident from a review of trends in average rents in selected major markets in Canada.
- In Toronto, rents rose rapidly during the 1996-2001 period due to very tight rental markets (vacancy rates of less than 1%) and relaxation of the very strict rent control regime in Ontario. However, in the past few years, due to increased vacancy rates, rent increases tapered off.

- The situation in Calgary and Edmonton was similar – rapid rent increases followed by a tapering off due to increased vacancies – at least until 2005 (as shown in the chart). In 2006, the market tightened significantly (and rents in both centres increased substantially).
- Rent increases will likely moderate next year in Calgary and Edmonton due to the increases in vacancy rates in both centres.
- Rent increases in other centres have been relatively more moderate – a reflection of more balanced markets.