

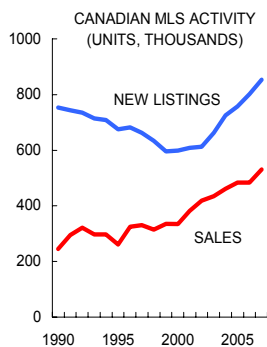


Real Estate Trends

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Canadian Housing Conditions Still Solid, But ...

Canada's housing market shows few cracks, at least leading up to the recent turmoil in global credit markets. The continuing strength in sales, construction and price appreciation is impressive, particularly in light of the sharp correction underway south of the border for well over a year.



Nationally, sales of existing homes climbed to a fourth consecutive record in July, while the average price topped \$310,000 for the first time. Home price appreciation has actually accelerated in recent months (to 12.6% y/y in July), as an increase in new listings fell short of the pickup in demand. The buoyant conditions are national in scope, with all 10 provinces reporting stronger sales volumes so far this year, and positive price growth.

The new home market has been somewhat more subdued.

Housing starts through August are down 4% compared with a year earlier, led by a 9% decline in single-family construction. Meanwhile, price increases have moderated to the high single digits (7.7% y/y in July). A modest slowing is evident in most regions of the country, with only Quebec, Manitoba and Saskatchewan reporting a pickup in new construction this year.

Healthy job and income gains are helping to sustain the strong sales momentum. The availability of new mortgage products, with the possibility of lower monthly payments, are providing added support. Nevertheless, we continue to anticipate a gradual cooling in both housing demand and price appreciation in the months ahead. Affordability is becoming increasingly stretched for many would be buyers after almost a decade of rising home prices. More recently, U.S. economic prospects have been downgraded in the wake of the intensifying financial market turmoil stemming from the subprime mortgage crisis. With domestic financial markets also affected by the spreading contagion, any further tightening in domestic liquidity conditions would only hasten the adjustment.

Scotia Economics

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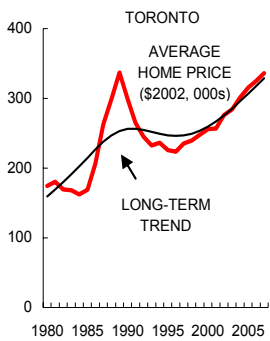




Real Estate Trends

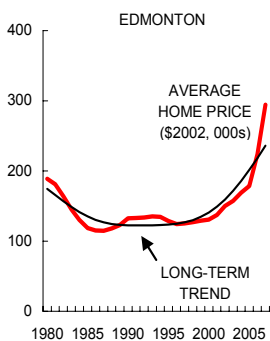
The Price Is Not Exactly Right

The fundamentals underpinning Canada's housing market are still quite good. Unemployment is low, immigration is high and apartment vacancy rates are tight. There is little evidence of overbuilding or speculative buying. The industry has relatively little direct exposure to subprime lending, with these loans accounting for only about 5% of domestic mortgages in recent years compared with about 20% in the United States.



Yet, there is little doubt that current trends are unsustainable. The current housing boom is now the longest of the post-war era (going on nine years) and has seen one of the largest cumulative real price gains (more than 60%). Builders have become more cautious as mortgage rates drift up and cost pressures mount, but total housing starts are still well above annual household formation levels of around 180,000.

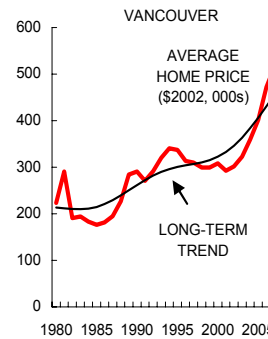
Moreover, there is growing evidence of overvaluation in home prices in some parts of the country — a precursor to a period of softening conditions. To identify which domestic markets may be more vulnerable, we have calculated the percentage deviation of real house prices from their long-term trend. While a relatively simple benchmark, it nonetheless provides an indication of current valuations relative to historical norms. Our analysis looks at 15 major markets across the country for which comparable data are available.



In all 15 centres with the exception of Thunder Bay, real home prices have risen over time. The national average increase is around 2% per year since 1980, though individual disparities are large, ranging from just 0.3% in Saskatoon to a high of 2.9% in Vancouver. This long-term price appreciation reflects a number of factors, including rising income levels, increasing population and land pressures, larger home sizes and housing quality improvements.

In all 15 cities with the exception of St. John's, current price levels are above their long-term trend. The national average deviation at mid-year

was roughly 8%. Again, however, there are big regional variations, ranging from just 1% in Ottawa to 25% in Edmonton.



Some deviation from underlying trends is to be expected at the late stage of a housing boom. In fact, at the peak of the prior two housing cycles in 1976 and 1989 national home prices were 12% and 18%, respectively, above their long-term

trend. The smaller degree of overshooting this time around, and the sustainability of price appreciation,

	Price Level 2007H1	Avg. ann. % change 1980-2006	% deviation from trend 2007H1
Canada	305,000	2.0	8
St. John's	143,000	0.5	-1
Halifax	215,000	1.8	2
Saint John	142,000	0.6	7
Québec City*	161,000	2.0	5
Montréal	227,000	2.2	2
Ottawa	273,000	1.9	1
Toronto	370,000	2.4	2
Thunder Bay	122,000	-0.6	3
Winnipeg	171,000	0.8	10
Regina	145,000	0.4	6
Saskatoon	221,000	0.3	21
Calgary	420,000	1.4	18
Edmonton	345,000	0.7	25
Vancouver	570,000	2.9	13
Victoria*	470,000	4.8	10

* 1984-2006. Real house prices are estimated as the average MLS price deflated by the CPI for each city. The long-term price is calculated using a Hodrick-Prescott filter, a generalization of a linear time trend that allows the slope of the trend to change gradually over time.

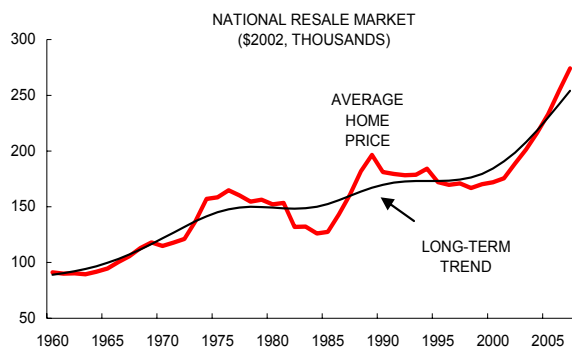


may reflect in part an undervaluation of Canadian real estate prices in the late 1990s and into the early part of this decade. It is also less indicative of speculative buying behaviour relative to prior cycles.

Canada ranks relatively low in the degree of house price overvaluation relative to other major developed nations which have also experienced a housing boom during the past decade. Using the same methodology, we estimate that average real home prices in the United States carried a near-record 14% premium in 2005. U.S. average valuations have since slipped below trend amid a large and growing supply overhang and weakening demand.

Despite the deviation in the *level* of Canadian home prices from long-term trends, price *growth* remains consistent with short-term supply-demand dynamics. Most major markets in Canada are still categorized as sellers' territory in which prices would be expected to rise faster than inflation. By and large, those cities enjoying the biggest price increases are also facing the tightest supply-demand conditions, including Regina and Saskatoon.

Nevertheless, the further domestic home prices climb above underlying economic fundamentals, the greater the risk of an eventual correction. The 1976 and 1989 housing peaks were both followed by some adjustment in real prices. In the past, this adjustment has normally occurred through a period of inflation erosion as opposed to nominal price declines.

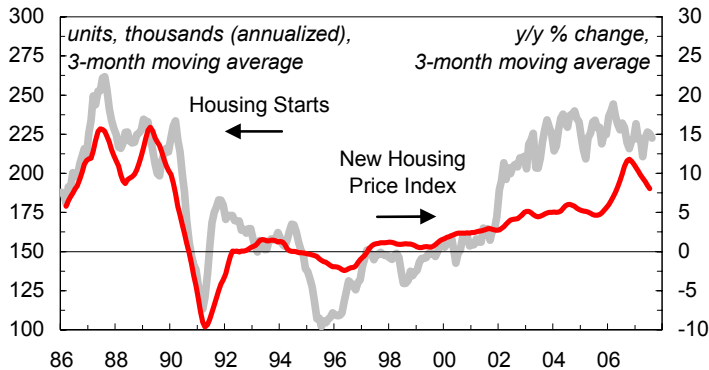




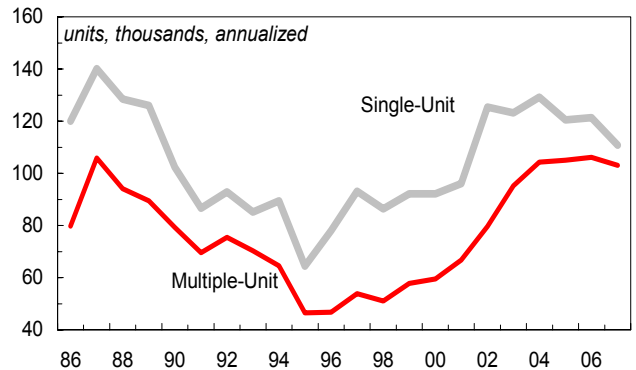
Real Estate Trends

Canadian Residential Markets

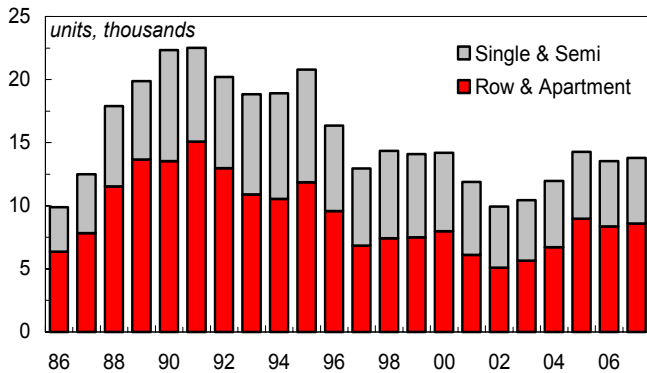
New Home Markets



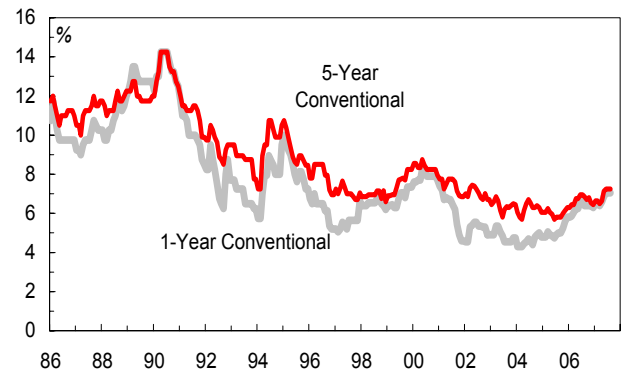
Housing Starts



Inventories of Unsold New Homes



Mortgage Rates



Housing Starts

	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
			<i>(thousand units, saar)</i>					
2002	205	21.6	38.8	3.0	3.6	83.6	42.5	12.0
2003	218	26.2	36.2	3.3	4.2	85.2	50.3	13.1
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
Jan-Aug 2006	233	33.4	41.7	2.8	3.1	71.8	38.8	9.1
Jan-Aug 2007	224	32.4	39.1	4.6	3.9	60.8	40.7	7.9
2006 % chg.	0.8	5.1	19.9	8.1	6.3	-6.8	-6.0	-0.8
2007 YTD % chg.	-4.2	-3.1	-6.2	60.4	27.0	-15.3	5.0	-13.6
2007f	215	35	47	6	6	64	47	10
2008f	195	32	43	5	5	60	40	10
<i>(units, nsa)</i>	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2002	13,197	14,339	12,581	43,805	10,349	20,554	3,310	397
2003	15,626	13,642	12,380	45,475	9,182	24,321	3,066	580
2004	19,430	14,008	11,488	42,115	10,470	28,673	2,627	516
2005	18,914	13,667	13,294	41,596	7,105	25,317	2,451	501
2006	18,705	17,046	14,970	37,080	8,808	22,813	2,511	565
Jan-Aug 2006	20,156	18,002	14,969	38,076	8,193	20,481	2,550	540
Jan-Aug 2007	19,085	14,127	15,090	31,626	8,186	21,872	2,490	672
2006 % chg.	-1.1	24.7	12.6	-10.9	24.0	-9.9	2.4	12.8
2007 YTD % chg.	-5.3	-21.5	0.8	-16.9	-0.1	6.8	-2.4	24.4

* National and annual provincial data include urban and rural areas; monthly provincial data include urban centres only.

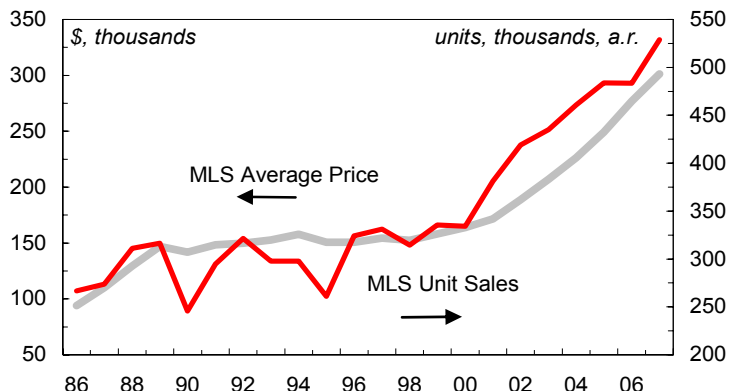
Source: Canadian Mortgage and Housing Corporation (CMHC), Scotia Economics calculations.



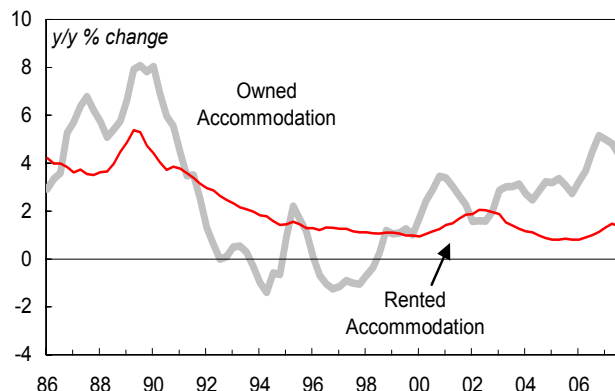
Real Estate Trends

Canadian Residential Markets

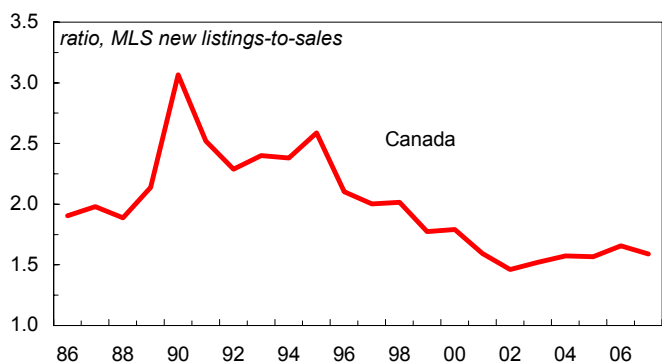
Existing Home Sales & Prices



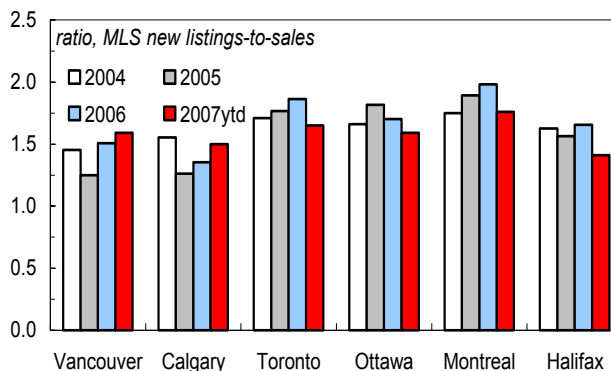
Housing Cost Trends



Existing Home Inventories



Existing Home Inventories



**MLS Home Sales
(not seasonally adjusted)**

	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
2002	188,754	419,242	238,877	82,737	170,253	51,042	98,517	19,041	210,901	178,058	130,403	68,161	115,605	19,652
2003	207,111	435,070	259,968	93,095	182,845	51,334	106,070	19,221	226,824	184,457	151,881	67,130	122,398	19,352
2004	226,337	460,790	289,107	96,385	194,769	57,460	115,850	20,270	245,230	197,353	171,099	69,296	130,844	19,631
2005	249,201	483,789	332,224	106,310	218,266	65,866	129,480	21,073	263,042	197,007	184,583	70,649	142,186	22,439
2006	276,974	483,609	390,963	96,671	285,497	74,189	142,742	22,158	278,455	194,793	194,024	72,520	148,459	22,731
Jan-Jul 2006	274,327	43,812	383,265	8,974	272,470	6,783	141,989	1,938	278,609	17,538	193,020	6,632	149,617	1,903
Jan-Jul 2007	303,262	48,041	430,348	9,301	354,710	7,111	163,975	2,365	295,145	19,455	205,162	7,544	160,631	2,215
2006 % chg.	11.1	0.0	17.7	-9.1	30.8	12.6	10.2	5.1	5.9	-1.1	5.1	2.6	4.4	1.3
2007 YTD % chg.	10.5	9.7	12.3	3.6	30.2	4.8	15.5	22.1	5.9	10.9	6.3	13.7	7.4	16.4

	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
2002	301,473	34,909	198,350	24,706	150,165	15,923	275,887	74,759	177,945	17,412	142,603	47,913	148,737	6,687
2003	329,447	39,022	211,155	24,359	165,541	16,277	293,308	79,366	196,239	17,477	166,930	47,436	162,486	5,813
2004	373,877	37,972	222,860	26,511	179,610	17,652	315,266	84,854	215,640	18,091	189,050	48,564	175,132	5,516
2005	425,745	42,222	250,832	31,569	193,934	18,634	336,176	85,672	224,273	18,033	203,720	49,506	189,196	6,698
2006	509,876	36,479	346,675	33,027	250,915	21,984	352,388	84,842	233,544	18,791	215,659	50,106	203,178	6,462
Jan-Jul 2006	497,529	3,404	334,870	3,125	230,188	1,932	353,135	7,666	231,435	1,737	214,661	4,608	201,020	586
Jan-Jul 2007	559,890	3,519	414,046	3,223	336,658	2,107	371,055	8,626	245,468	1,883	226,556	5,281	214,865	684
2006 % chg.	19.8	-13.6	38.2	4.6	29.4	18.0	4.8	-1.0	4.1	4.2	5.9	1.2	7.4	-3.5
2007 YTD % chg.	12.5	3.4	23.6	3.1	46.3	9.1	5.1	12.5	6.1	8.4	5.5	14.6	6.9	16.8

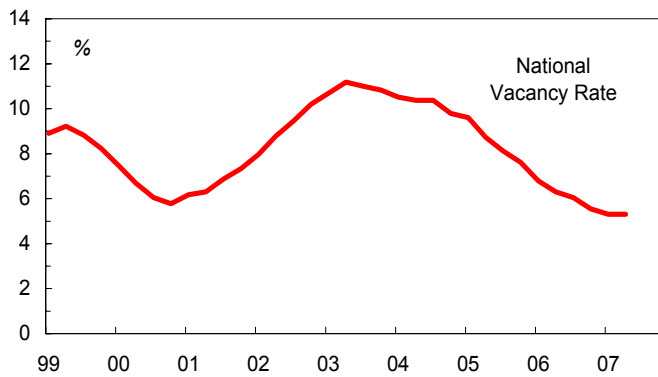
Source: Canadian Real Estate Association (CREA), Scotia Economics calculations.



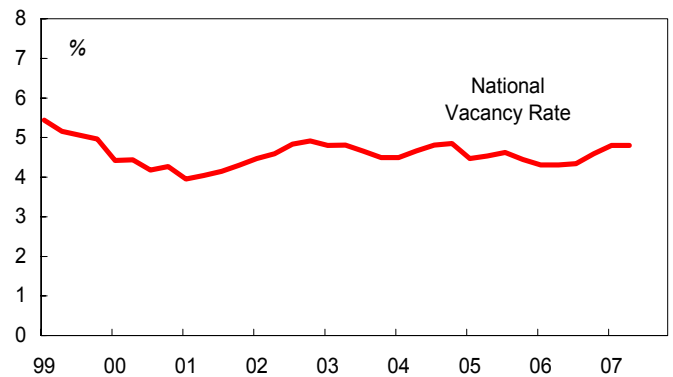
Real Estate Trends

Canadian Non-Residential Markets

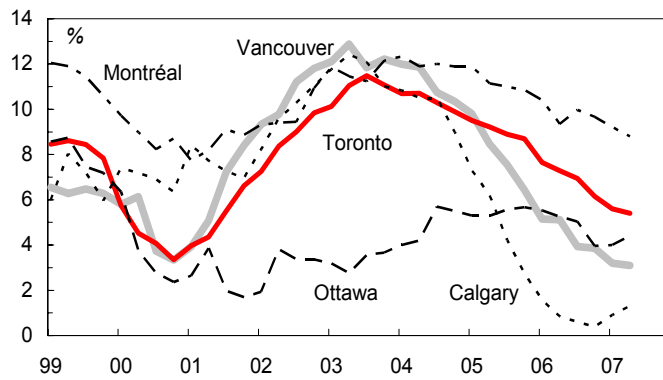
Office Markets



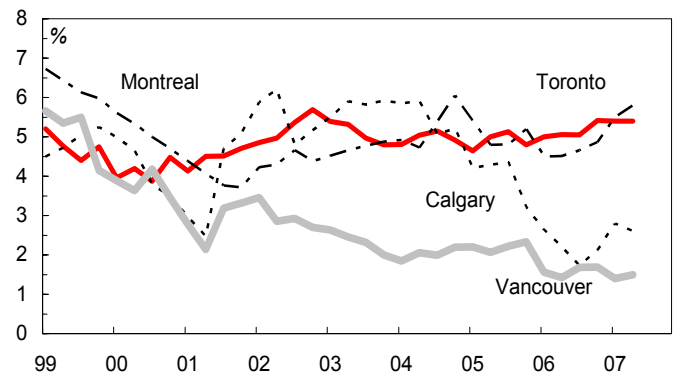
Industrial Markets



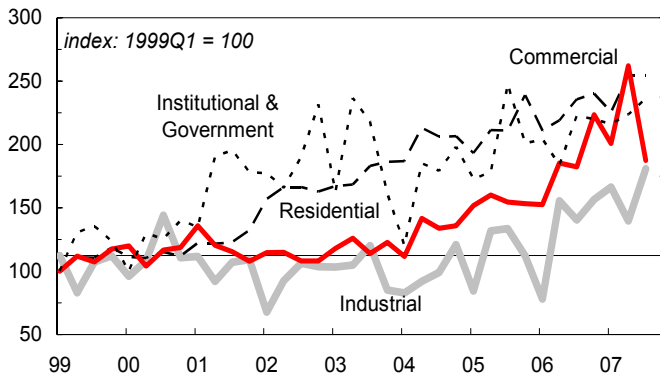
**Office Vacancy Rates
Largest Five Markets**



**Industrial Vacancy Rates
Largest Four Markets**



Building Permits



Building Permits

	Total	Res.	Indust.	Comm.	Inst. & Gov't
	(C\$ billions, saar)				
2002	47.3	29.6	3.3	8.6	5.8
2003	50.8	32.0	3.6	9.3	5.9
2004	55.6	36.8	3.5	10.1	5.1
2005	60.8	38.7	4.0	12.0	6.0
2006	66.3	41.1	4.5	14.4	6.2
Jan-Jul 2006	62.6	39.4	4.1	13.2	5.9
Jan-Jul 2007	73.4	43.9	5.3	17.5	6.7
2006 % chg.	9.1	6.0	13.5	20.1	3.9
2007 YTD % chg.	17.3	11.5	29.6	32.6	13.7

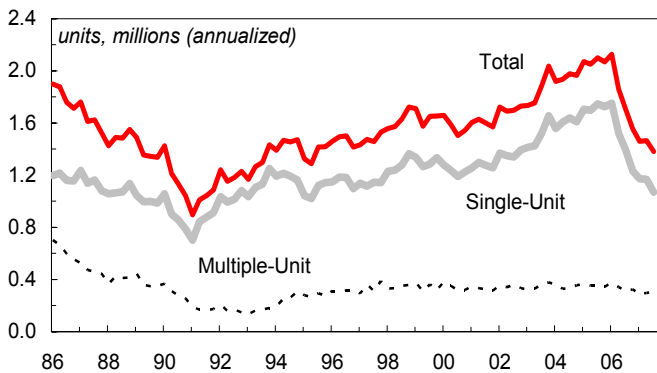
Source: Statistics Canada



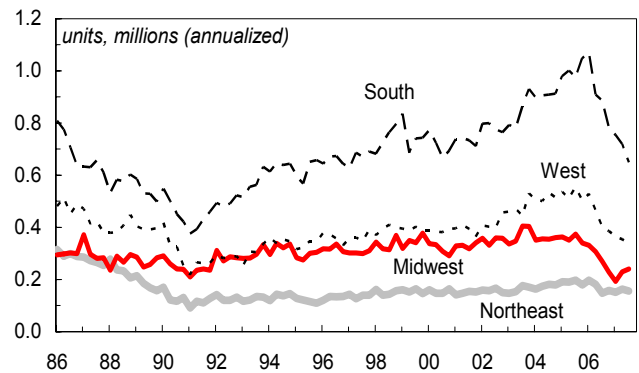
Real Estate Trends

U.S. Residential Markets

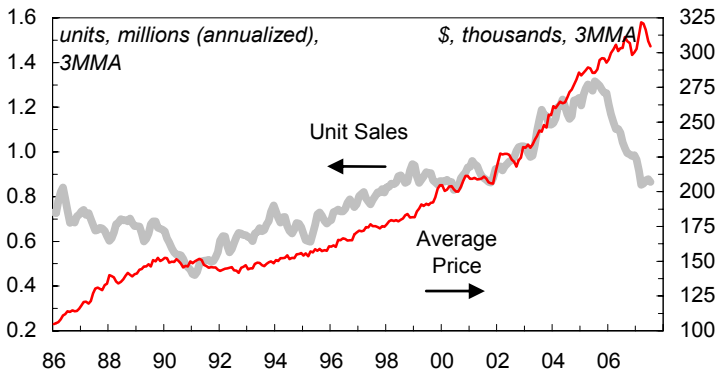
Housing Starts



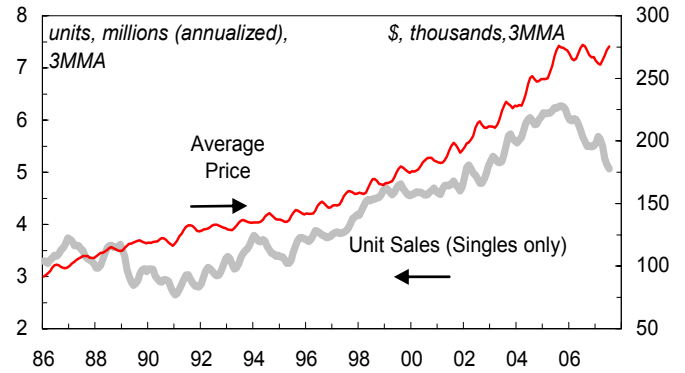
Housing Starts by Region



New Home Sales



Existing Home Sales



Housing Starts

Permits

	Total	Singles	Multiples	West	South	Midwest	North East	Total	Single	Multiple
	<i>(million units, saar)</i>							<i>(million units, saar)</i>		
2002	1.705	1.359	0.346	0.415	0.781	0.350	0.158	1.748	1.333	0.415
2003	1.848	1.499	0.349	0.473	0.839	0.374	0.163	1.889	1.461	0.428
2004	1.956	1.611	0.345	0.516	0.909	0.356	0.175	2.070	1.613	0.457
2005	2.068	1.716	0.352	0.525	0.996	0.358	0.190	2.115	1.660	0.455
2006	1.802	1.466	0.336	0.447	0.914	0.286	0.172	1.835	1.380	0.455
Jan-Jul 2006	1.959	1.607	0.352	0.486	0.974	0.315	0.183	2.001	1.507	0.495
Jan-Jul 2007	1.451	1.156	0.295	0.355	0.724	0.215	0.156	1.494	1.075	0.419
2006 % chg.	-12.9	-14.6	-4.7	-14.9	-8.2	-20.1	-9.4	-13.2	-16.9	0.2
2007 YTD % chg.	-25.9	-28.1	-16.0	-26.9	-25.7	-31.7	-14.7	-25.4	-28.7	-15.3
2007f	1.430									
2008f	1.430									

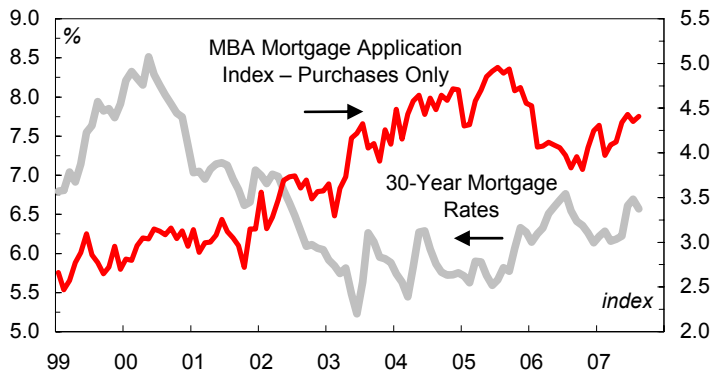
Source: U.S. Census Bureau, Scotia Economics calculations.



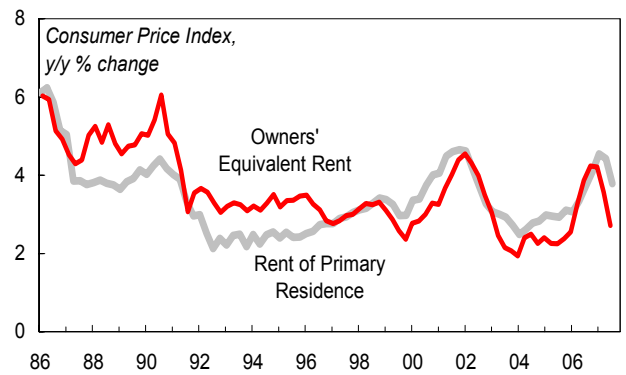
Real Estate Trends

U.S. Residential Markets

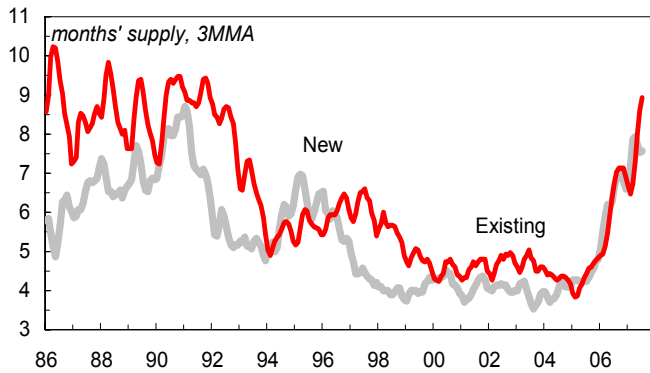
Mortgage Rates and Applications



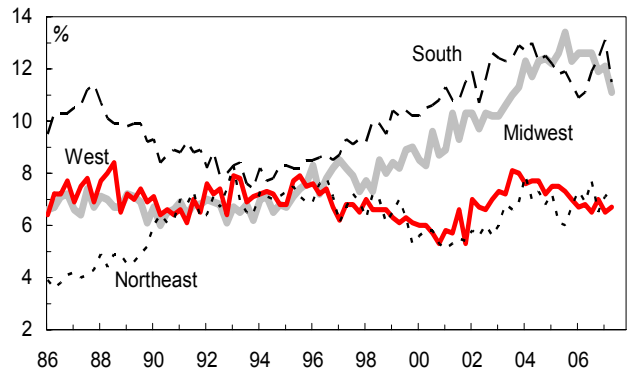
Housing Cost Trends



New and Existing Home Inventories



Apartment Vacancy Rates



Existing Home Sales

New Home Sales

	Existing Home Sales				New Home Sales						
	Total	Avg Price (\$000s)	Months' Supply		West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)		(million units, saar, unless otherwise noted)						
2002	5.631	208.4	4.7		1.269	2.065	1.346	0.951	0.976	225.9	4.1
2003	6.178	223.0	4.7		1.405	2.284	1.469	1.020	1.091	243.7	3.9
2004	6.778	243.0	4.3		1.575	2.540	1.550	1.113	1.201	271.5	4.0
2005	7.076	266.1	4.4		1.617	2.702	1.588	1.169	1.279	290.0	4.5
2006	6.478	269.5	6.4		1.346	2.563	1.483	1.086	1.049	303.5	6.4
Jan-Jul 2006	6.684	270.6	6.0		1.409	2.630	1.536	1.111	1.089	304.0	6.3
Jan-Jul 2007	6.110	268.3	7.9		1.206	2.389	1.430	1.083	0.866	313.0	7.7
2006 % chg.	-8.5	1.3			-16.8	-5.1	-6.6	-7.1	-18.0	4.7	
2007 YTD % chg.	-8.6	-0.9			-14.4	-9.2	-6.9	-2.6	-20.4	3.0	

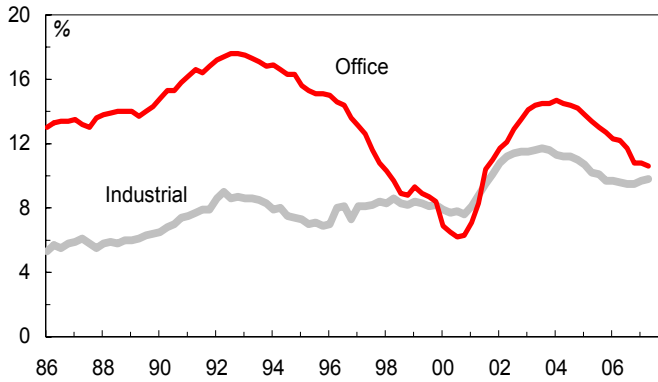
Source: National Association of Realtors (NAR), U.S. Census Bureau, Scotia Economics calculations.



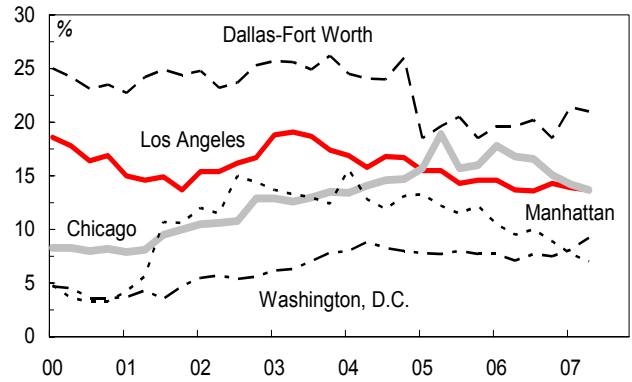
Real Estate Trends

U.S. Non-Residential Markets

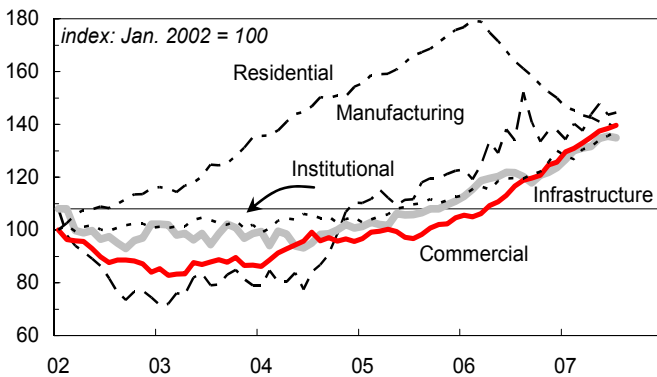
National Vacancy Rates



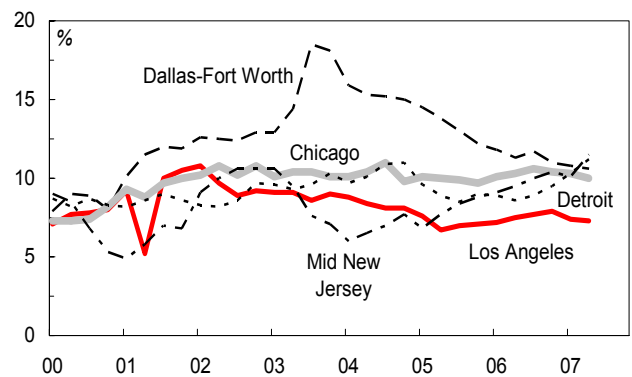
**Office Vacancy Rates
Largest Five Markets**



Construction Investment



**Industrial Vacancy Rates
Largest Five Markets**



Construction Investment

	Total	Residential	Manu- facturing	Office & Commercial	Institutional	Infra- structure	Private	Public
	<i>(US\$ billions, saar)</i>							
2002	876.8	428.7	23.0	120.4	135.2	169.5	659.7	217.2
2003	926.9	482.9	21.5	114.8	139.9	167.8	702.9	224.0
2004	1034.7	572.5	23.8	125.8	145.4	167.1	804.2	230.5
2005	1143.7	650.5	31.1	134.6	151.6	175.9	899.0	244.7
2006	1197.4	638.9	37.0	155.4	167.3	198.8	928.3	269.2
Jan-Jul 2006	1210.4	678.8	33.2	141.5	155.6	201.3	958.5	251.9
Jan-Jul 2007	1166.7	558.3	36.3	174.3	175.8	222.0	886.2	280.5
2006 % chg.	4.7	-1.8	18.9	15.5	10.4	13.0	3.3	10.0
2007 YTD % chg.	-3.6	-17.8	9.2	23.2	13.0	10.3	-7.5	11.4

Source: U.S. Census Bureau, Scotia Economics calculations.