



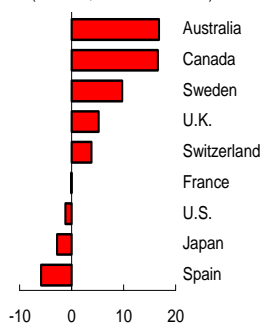
# Global Real Estate Trends

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## A Long And Winding Road

Global real estate markets entered 2010 with a renewed sense of optimism, piggybacking on the broader economic recovery underway. Housing demand and pricing improved in the first quarter of the year in the majority of the advanced nations we track, benefitting from ultra-low interest rates, improved affordability, and in some cases, government purchase incentives (see table on page 10).

FIGURE 1  
 REAL HOUSE PRICES  
 (2010Q1, Y/Y % CHANGE)



Australia and Canada, with inflation-adjusted average home prices rising at double-digit rates, led the pack, mirroring their relatively more favourable employment and lending conditions (figure 1). Sweden and Switzerland were posting steady increases, while in the U.K. home prices moved back into positive year-over-year territory for the first time in two years. The U.S. and French property markets were reporting only marginal declines.

There were a few exceptions to this generally improving trend, notably Spain and Ireland. Home prices in both nations were still declining on a year-over-year basis, weighed down by a large oversupply of housing and high unemployment. Japan's property market too shows little sign of emerging from its two-decade long slump.

A handful of these markets have now reported official second-quarter figures. Based on the available data, residential real estate activity appears to have cooled again. Demand and prices have softened alongside moderating global growth, heightened financial market volatility and sluggish job creation.

The slowdown has been most dramatic in Canada. Average home prices in Q2 were up just 6.8% y/y, compared with 16.6% y/y in Q1. Sales, while still at a high level, have trended steadily lower alongside reduced affordability and exhausted pent-up demand. Meanwhile, increased listings are tilting overall market conditions back in favour of buyers. We expect demand to remain at a lower ebb into next year, and prices on average to be roughly flat.

In the United States, real home prices broke into positive year-over-year territory in Q2 for the first time since 2006. However, monthly data point to a clear slowing in sales following the April 30 expiry of the federal home buyer tax credit. Weak employment growth combined with a considerable inventory overhang and rising foreclosures offer little prospect of any significant turnaround this year.

Data for the U.K. are mixed, but consistent with a modest cooling of its nascent housing recovery. Consumer confidence has been hit by a soft job market and forthcoming austerity measures aimed at reining in bloated public sector deficits, while supply has been lifted by the mid-May elimination of the Home Information Packs requirement for sellers. In Switzerland, real home prices were up a modest

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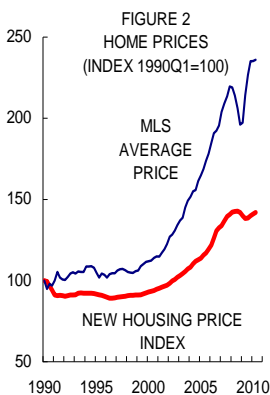


3.6% y/y in Q2, continuing the trend of positive yet moderating price appreciation. In Spain, prices continued to decline.

Australia's housing market, supported by low joblessness and a shortage of properties for sale, has largely bucked the cooling trend. Real home prices were up 15.3% y/y in Q2, down only marginally from the 16.8% Q1 pace. Nonetheless, we expect rising interest rates and weak affordability will begin to temper activity by the second half of the year.

The transition underway in global housing markets from the overvaluation and overbuilding of the mid- to late-2000s is expected to be slow and uneven. In some of the hardest-hit markets facing ongoing deleveraging by households and governments, the U.S., the U.K., Spain and Ireland included, we continue to anticipate a multi-year period of adjustment. In higher growth nations such as Canada and Australia, housing activity should prove much more subdued than in recent years.

### Canada's Resale Market Outperforms New Housing



Sellers of resale homes have consistently commanded greater price increases from buyers over the past decade than have new home builders. Between 2000 and the first half of 2010, the average cost of a new home increased by just over 50%. Over the same period, the average price of a resale home more than doubled (figure 2).

Sales of new and resale homes are driven by the same underlying factors — primarily interest rates and employment/income growth. Traditionally, the demand and pricing for new homes mirror, but

with a lag, trends in the resale market. When resale housing selection is limited, and/or prices are increasing sharply, buyers are more likely to consider a new home purchase.

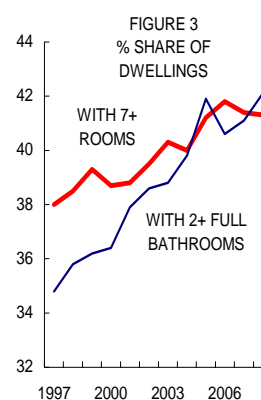
Several factors likely account for the outperformance of the resale market during the housing boom of the past decade:

For one, the supply of resale homes has been extremely tight. A strong economy, low interest rates and mortgage market innovation led to record housing demand, overwhelming the more moderate rise in listings. As a result, prices have been bid up beyond what would otherwise be expected given underlying economic, financial and demographic conditions.

A healthy supply-demand mix in a balanced market typically sees the addition of two new listings for every resale transaction. With the exception of the 2009 recession, the average new-listings-to-

sales ratio in Canada has hovered between 1.40 and 1.80 — consistent with a strong sellers' market — since 1999. In contrast, the stock of newly completed and unabsorbed new homes has been more in line with historical norms, limiting the negotiating power of developers relative to resellers.

Second, rising employment and incomes, alongside increasing household wealth (including housing wealth) have encouraged home equity withdrawals and fuelled a boom in renovation activity. Residential renovation expenditures, adjusted for inflation, increased at over a 7% average annual rate between 2000 and 2009. Over the prior decade they declined by an average of 1% annually.

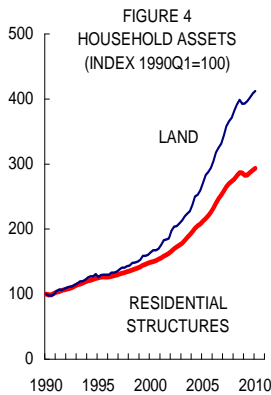


These housing reinvestments have added value to the existing stock of resale homes. Combined with any new housing inventory making its way back onto the resale market, and the typical Canadian resale home likely contains more updated and sought-after features which would account for some of the rise in average selling

prices. According to Statistics Canada latest Survey of Household Spending, the share of households having two or more full bathrooms rose from 34.8% in 1997 to a record 42.1% in 2008 (figure 3).

The average home is also getting bigger, at least until fairly recently. The share of households with seven or more rooms in the home rose from 38.0% in 1997 to a peak of 41.8% in 2006. It had edged down slightly to 41.3% by 2008, likely reflecting the rapid growth in multi-unit housing construction in recent years (multi-unit projects now account for roughly half of all housing starts). While these larger homes would be expected to command a higher selling price, official statistics on new home prices are measured on a constant-quality basis which takes into account any shift in the size of new homes or in the quality of its fixtures.

Third, urban land values are being driven up by increased population density and the revitalization of downtown cores. Lifestyle considerations are also



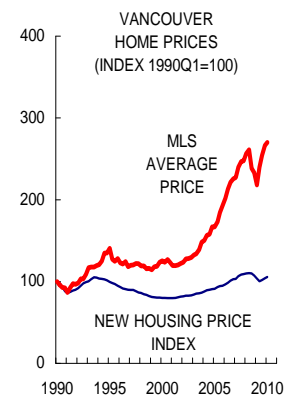
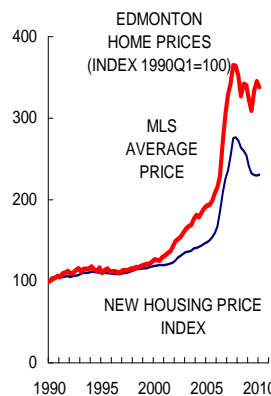
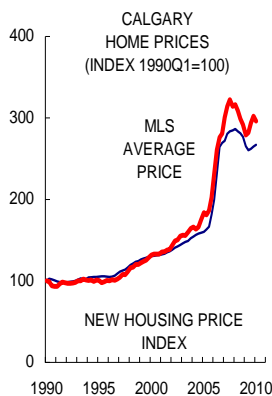
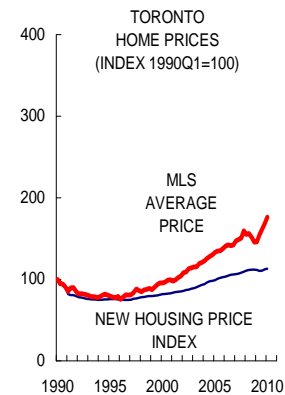
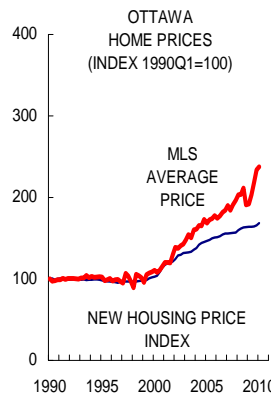
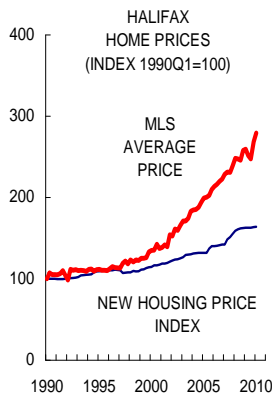
at play, with increased traffic congestion and lengthy commutes raising the attractiveness of urban living. The overwhelming majority of home sales in central municipalities, especially sought-after established neighbourhoods, take place in the resale market. New home construction, in contrast, is dominated by builders developing large tracts of suburban land. (Statistics Canada’s New Housing Prices Index excludes condominium developments that would be more prevalent in urban centres.)

which these structures stand has increased two-and-a-half fold (figure 4). Land values now account for close to 50% of the estimated value of residential properties, up from less than 40% in 1990.

The divergence in new and resale home prices is seen in most markets across the country, but to varying degrees. The biggest gap has opened up in British Columbia, where the lack of developable land in its largest city is a major contributor to its record high home prices. On the other hand, new home prices have largely tracked resale prices in Alberta and Saskatchewan, where a massive influx of population attracted to the region’s booming economy, and the inherent lag in adding sufficient new housing stock, fuelled across-the-board appreciation.

Based on national balance sheet data, the aggregate value of Canadians’ holdings of residential buildings (i.e. excluding land) has doubled over the past decade. However, the value of the land on

**New Versus Resale Home Prices — Selected Markets**

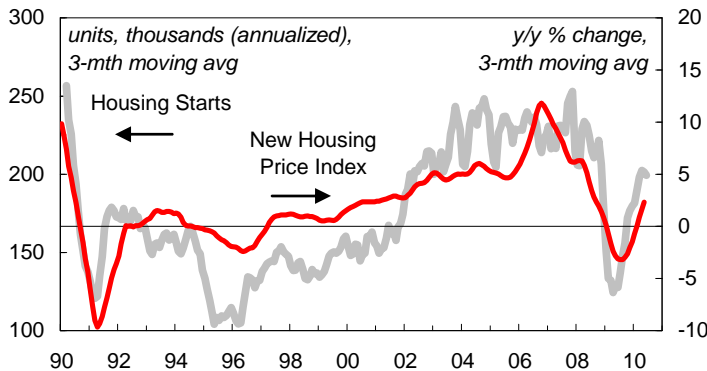


Source: Statistics Canada, Canadian Real Estate Association, Scotia Economics calculations. Data plotted to 2010Q1.



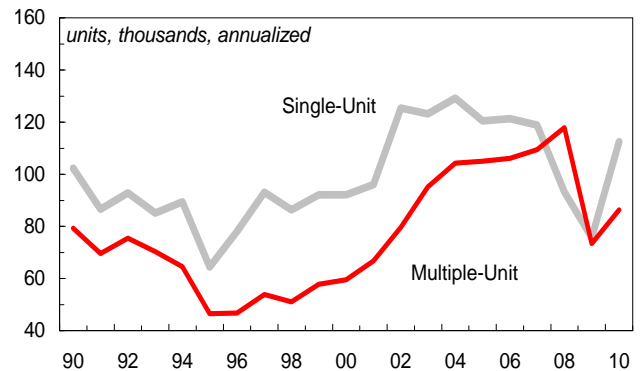
Canadian Residential Markets

New Home Markets



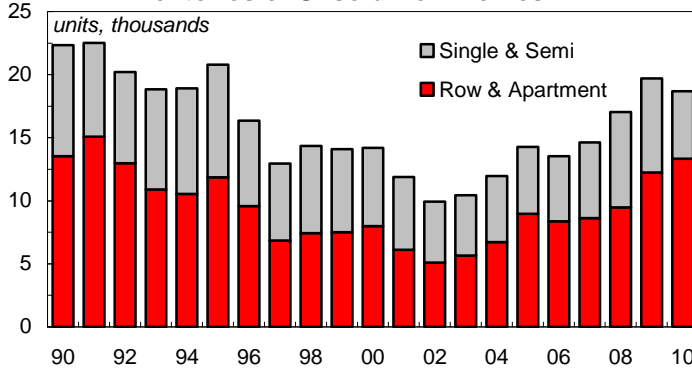
Source: CMHC, Statistics Canada

Housing Starts



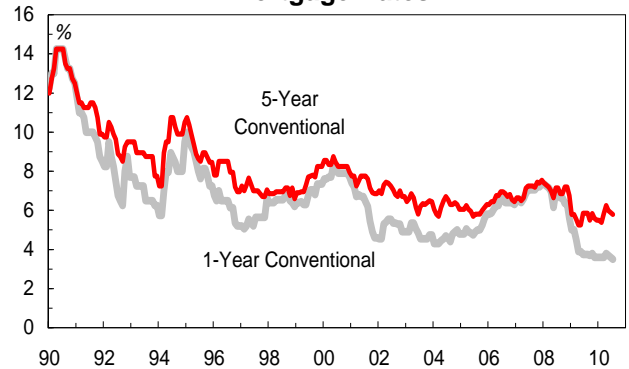
Source: CMHC

Inventories of Unsold New Homes



Source: CMHC

Mortgage Rates



Source: Bank of Canada

Housing Starts

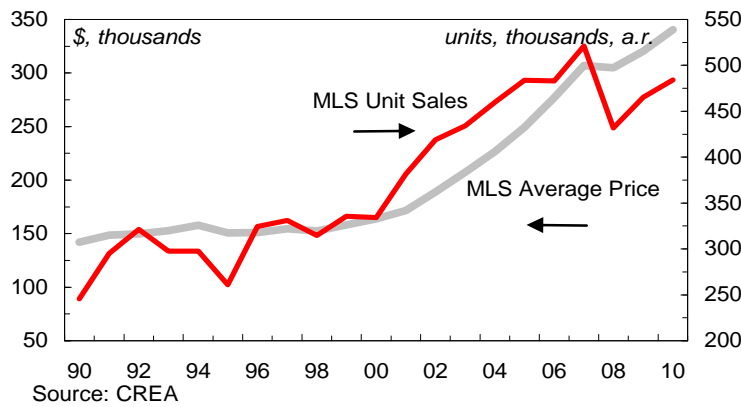
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2005	225	34.7	40.8	3.4	4.7	78.8	50.9	12.1
2006	227	36.4	49.0	3.7	5.0	73.4	47.9	12.0
2007	228	39.2	48.3	6.0	5.7	68.1	48.6	12.4
2008	211	34.3	29.2	6.8	5.5	75.1	47.9	12.2
2009	149	16.1	20.3	3.9	4.2	50.4	43.4	10.9
2010ytd	197	27.0	29.5	5.2	4.9	63.6	52.9	14.3
2010f	190	26	29	5	4	62	51	13
2011f	175	24	26	5	5	60	44	11
<i>(units, nsa)</i>								
	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2005	18,914	13,667	13,294	41,596	7,105	25,317	2,451	1,534
2006	18,705	17,046	14,970	37,080	8,808	22,813	2,511	1,275
2007	20,736	13,505	14,888	33,293	9,294	23,233	2,489	1,480
2008	19,591	11,438	6,615	42,212	10,302	21,927	2,096	1,863
2009	8,339	6,318	6,317	25,949	8,930	19,251	1,733	1,703
2010ytd	13,762	9,234	10,758	27,262	6,700	22,384	2,234	1,644

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

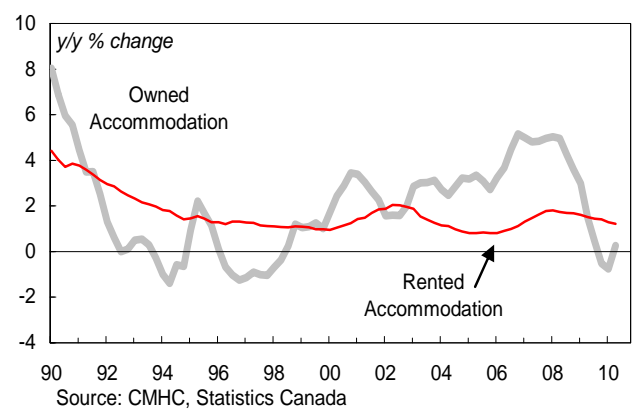


## Canadian Residential Markets

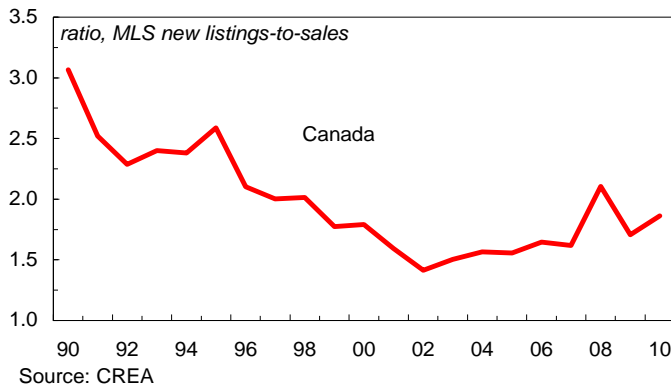
**Existing Home Sales & Prices**



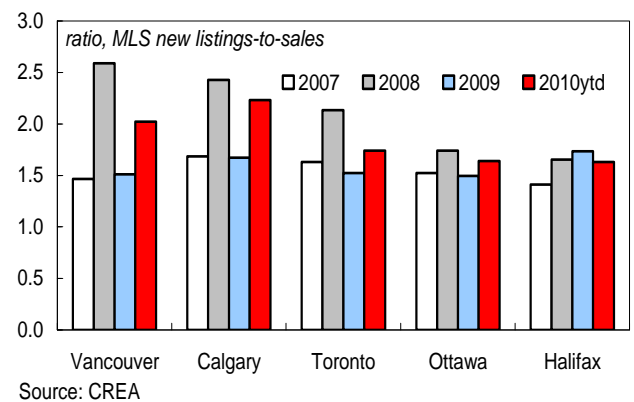
**Housing Cost Trends**



**Existing Home Inventories**



**Existing Home Inventories**



### MLS Home Sales

	Canada		British Columbia		Alberta		Man.-Sask.		Ontario		Quebec		Atlantic	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2005	249,187	483,663	332,224	106,310	218,266	65,866	129,480	21,073	262,949	197,140	184,492	70,385	142,177	22,444
2006	277,207	483,129	390,963	96,671	285,383	74,350	142,742	22,158	278,364	194,930	195,170	71,622	148,277	22,851
2007	307,094	521,051	439,119	102,805	356,235	71,430	171,609	25,982	299,544	213,379	207,530	80,649	158,589	26,258
2008	304,971	431,823	454,599	68,923	352,857	56,399	205,036	23,719	302,354	181,001	215,307	76,762	171,258	24,532
2009	320,333	465,251	465,725	85,028	341,201	57,786	216,012	23,942	318,366	195,840	225,412	79,290	182,640	22,844
2010ytd	340,400	484,232	495,431	83,448	351,564	52,966	227,370	24,106	346,843	214,056	238,833	85,068	195,134	24,138

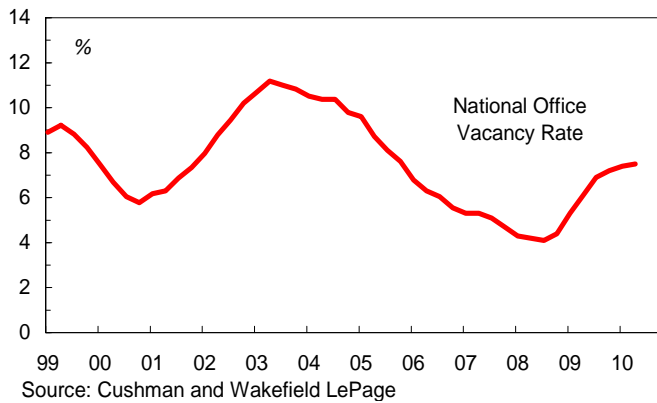
	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2005	425,745	42,222	250,832	31,569	193,934	18,634	336,176	85,672	248,358	13,300	203,720	49,506	189,196	6,698
2006	509,876	36,479	346,675	33,027	250,915	21,984	352,388	84,842	257,481	14,003	215,659	50,106	203,178	6,462
2007	570,795	38,978	414,066	32,176	338,636	20,427	377,029	95,164	273,058	14,739	229,902	56,151	216,339	7,261
2008	593,767	25,149	405,267	23,136	332,852	17,369	379,943	76,387	290,483	13,908	na	na	232,106	6,472
2009	592,441	36,257	385,882	24,880	320,378	19,139	396,154	89,255	304,801	14,923	na	na	239,158	6,062
2010ytd	653,499	34,084	399,332	22,628	323,488	17,366	435,277	99,536	339,041	15,592	na	na	255,794	6,260

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

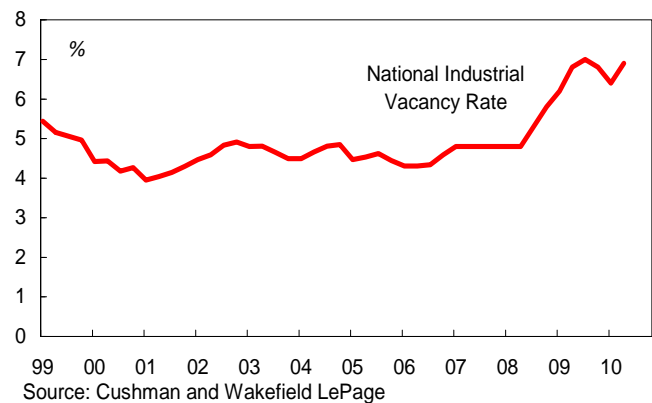


## Canadian Non-Residential Markets

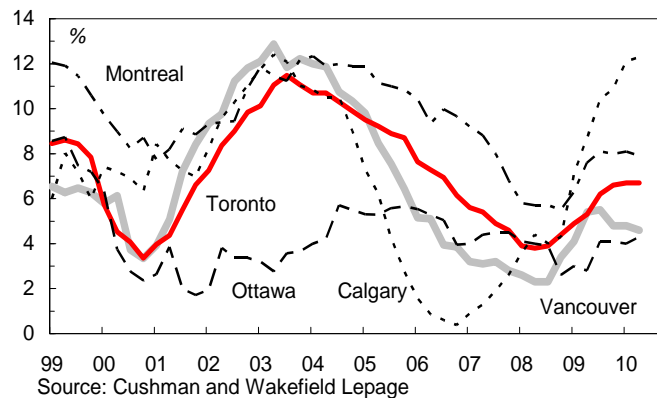
**Office Markets**



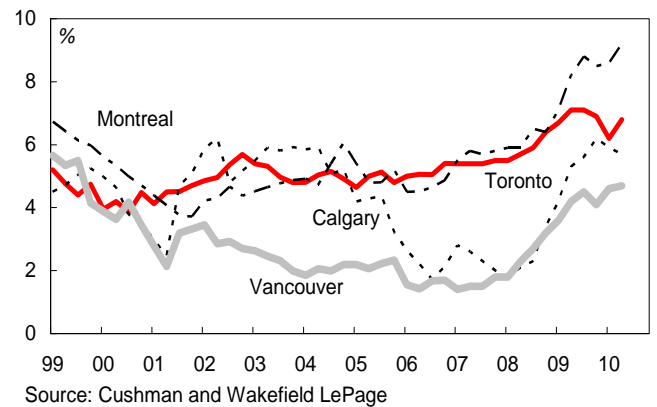
**Industrial Markets**



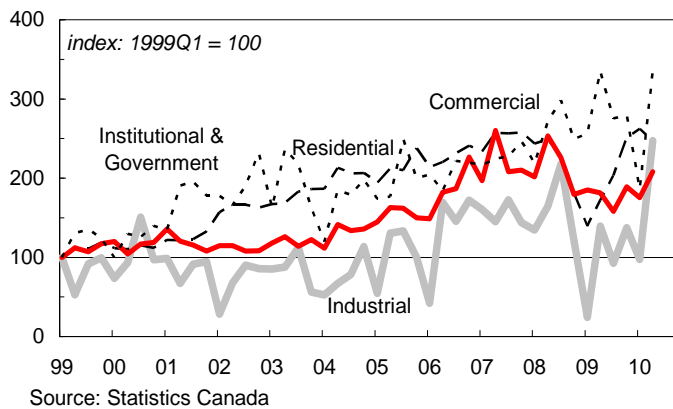
**Office Vacancy Rates  
Largest Five Markets**



**Industrial Vacancy Rates  
Largest Four Markets**



**Building Permits**



**Building Permits**

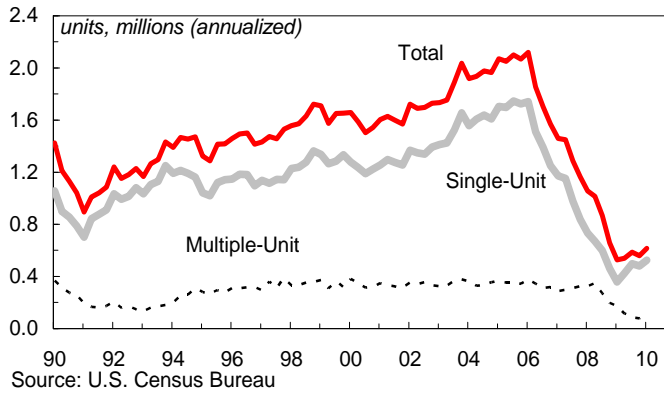
	Total	Res.	Indust.	Comm.	Inst. & Gov't
	(C\$ billions)				
<b>2005</b>	60.8	38.7	4.0	12.0	6.0
<b>2006</b>	66.3	41.1	4.5	14.4	6.2
<b>2007</b>	74.4	45.5	5.0	17.0	6.9
<b>2008</b>	70.4	40.9	5.1	16.7	7.8
<b>2009</b>	61.0	34.7	3.9	13.8	8.6
<b>2010ytd</b>	74.2	46.1	5.3	14.9	7.9

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

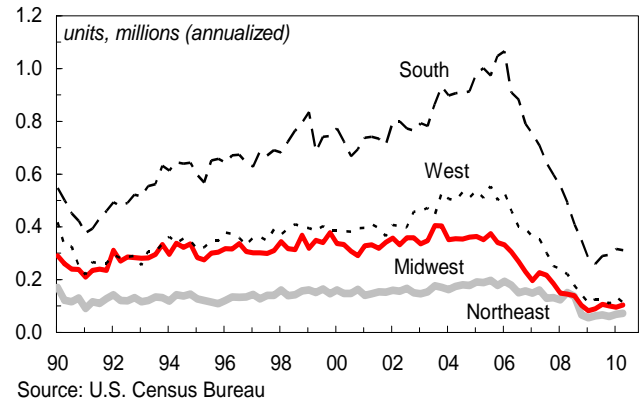


U.S. Residential Markets

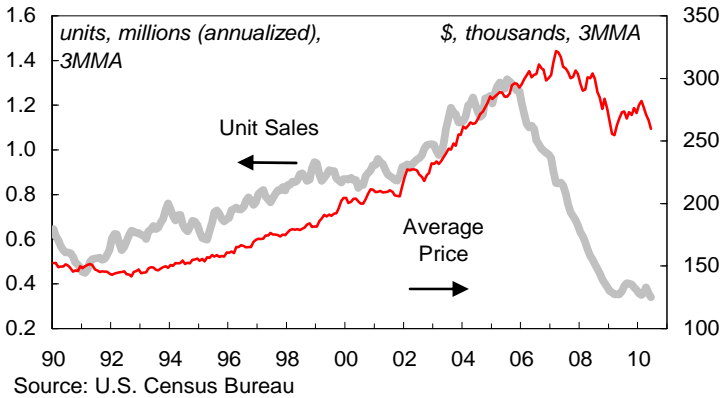
Housing Starts



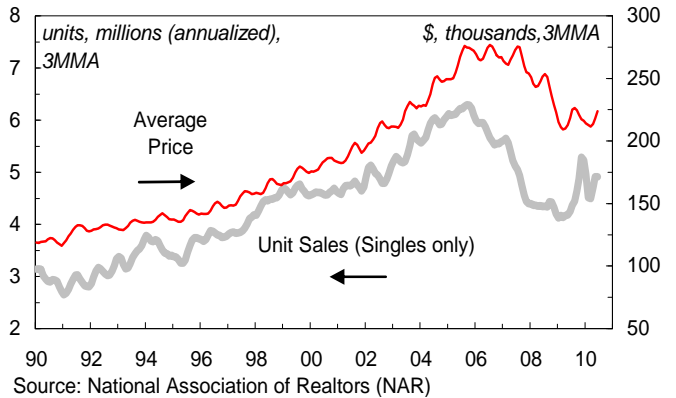
Housing Starts by Region



New Home Sales



Existing Home Sales



Housing Starts

Permits

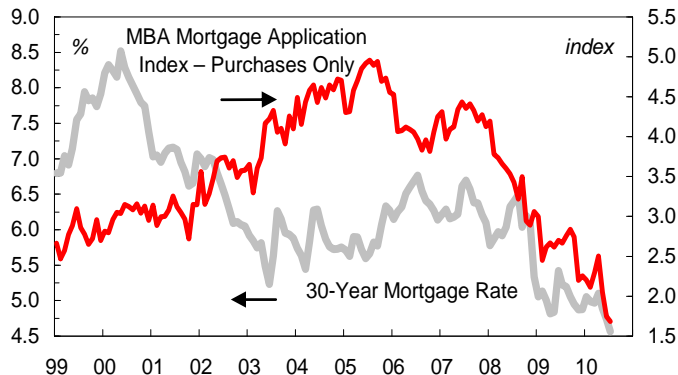
	Total	Singles	Multiples	West	South	Midwest	North East	Total	Single	Multiple
	<i>(millions of units)</i>							<i>(millions of units)</i>		
<b>2005</b>	2.068	1.716	0.352	0.525	0.996	0.357	0.190	2.155	1.682	0.473
<b>2006</b>	1.801	1.465	0.335	0.444	0.910	0.280	0.167	1.839	1.378	0.461
<b>2007</b>	1.355	1.046	0.309	0.321	0.681	0.210	0.143	1.398	0.980	0.419
<b>2008</b>	0.906	0.622	0.284	0.196	0.453	0.135	0.121	0.905	0.576	0.330
<b>2009</b>	0.554	0.445	0.109	0.117	0.278	0.097	0.062	0.566	0.434	0.131
<b>2010ytd</b>	0.622	0.519	0.103	0.126	0.321	0.102	0.073	0.630	0.499	0.130
<b>2010f</b>	0.60									
<b>2011f</b>	0.90									

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



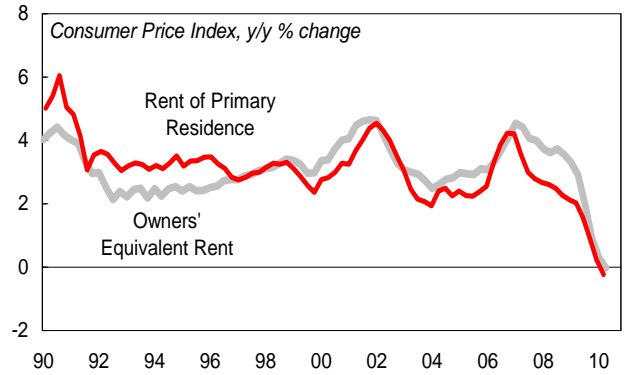
**U.S. Residential Markets**

**Mortgage Rates and Applications**



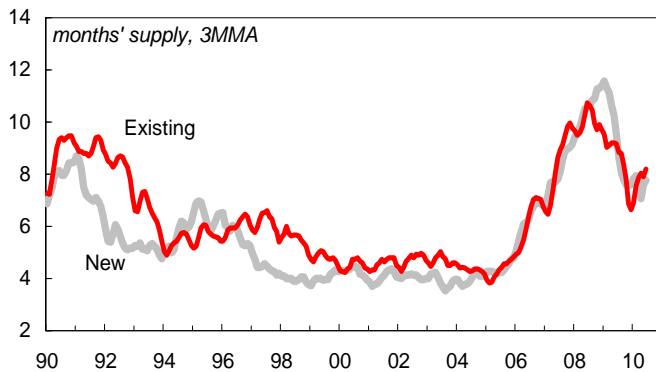
Source: Mortgage Bankers Association (MBA), FHLMC

**Housing Cost Trends**



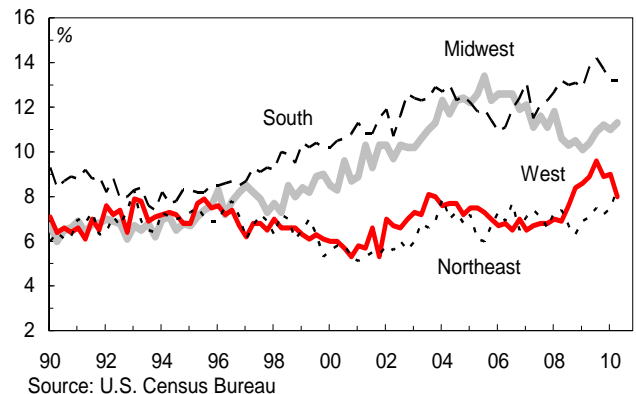
Source: U.S. Bureau of Labor Statistics

**New and Existing Home Inventories**



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

**Apartment Vacancy Rates**



Source: U.S. Census Bureau

**Existing Home Sales**

**New Home Sales**

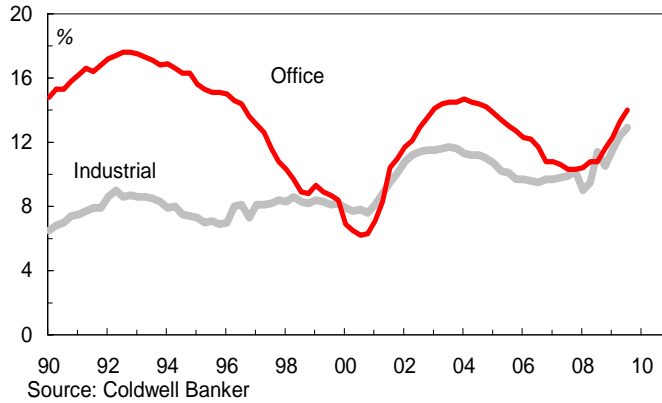
	Existing Home Sales				New Home Sales					
	Total	Avg Price (\$000s)	Months' Supply		Total	Avg Price (\$000s)	Months' Supply			
	(sa)	(nsa)	(nsa)	West	South	Midwest	North East			
	<i>(million units, saar, unless otherwise noted)</i>									
<b>2005</b>	7.076	266.1	4.4	1.617	2.702	1.588	1.169	1.279	290.0	4.5
<b>2006</b>	6.478	269.5	6.4	1.346	2.563	1.483	1.086	1.049	303.5	6.4
<b>2007</b>	5.652	263.8	8.7	1.084	2.235	1.327	1.006	0.769	308.8	8.4
<b>2008</b>	4.913	240.4	10.0	1.070	1.865	1.129	0.849	0.481	288.9	10.7
<b>2009</b>	5.156	217.1	8.3	1.211	1.914	1.163	0.868	0.371	268.3	9.1
<b>2010ytd</b>	5.373	217.7	8.0	1.247	1.997	1.215	0.917	0.350	268.3	7.7

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

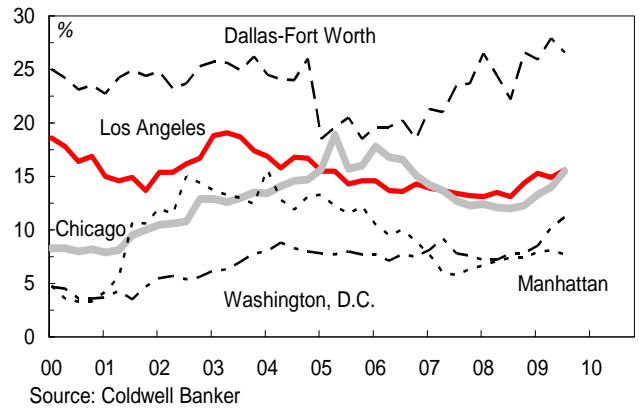


**U.S. Non-Residential Markets**

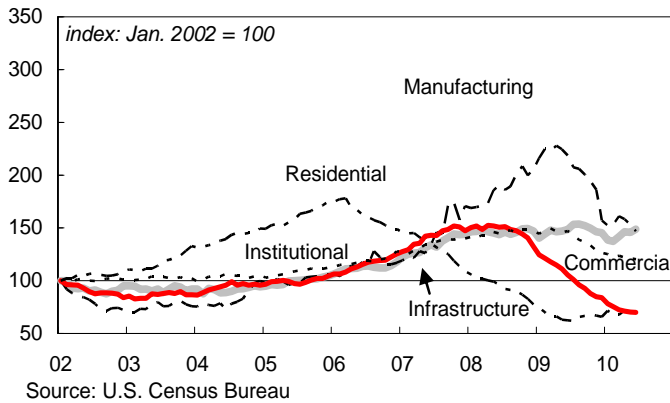
**National Vacancy Rates**



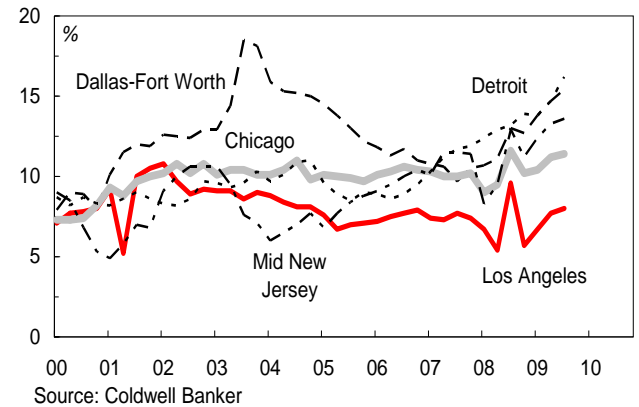
**Office Vacancy Rates  
Largest Five Markets**



**Construction Investment**



**Industrial Vacancy Rates  
Largest Five Markets**



**Construction Investment**

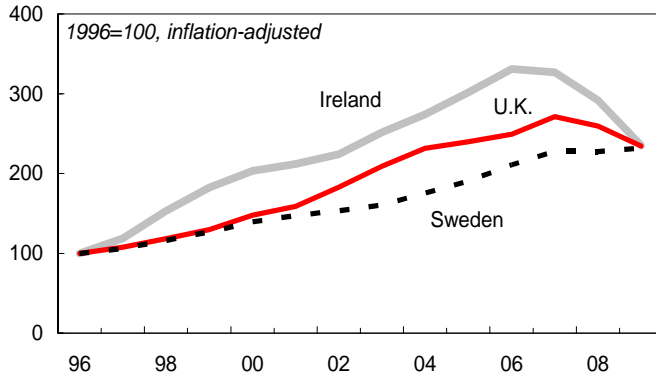
	Total	Residential	Manu- facturing	Office & Commercial	Institutional	Infra- structure	Private	Public
	(US\$ billions)							
<b>2005</b>	1104.1	617.5	28.6	128.8	144.4	184.8	870.0	234.2
<b>2006</b>	1167.2	619.8	32.7	149.0	158.0	207.7	911.8	255.4
<b>2007</b>	1152.4	500.5	40.6	183.7	179.5	248.1	863.3	289.1
<b>2008</b>	1067.6	357.7	53.2	190.6	193.9	272.1	758.8	308.7
<b>2009</b>	907.8	253.6	58.5	133.2	187.2	275.2	592.3	315.5
<b>20010ytd</b>	832.5	267.0	43.6	94.2	163.1	264.6	532.3	300.2

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



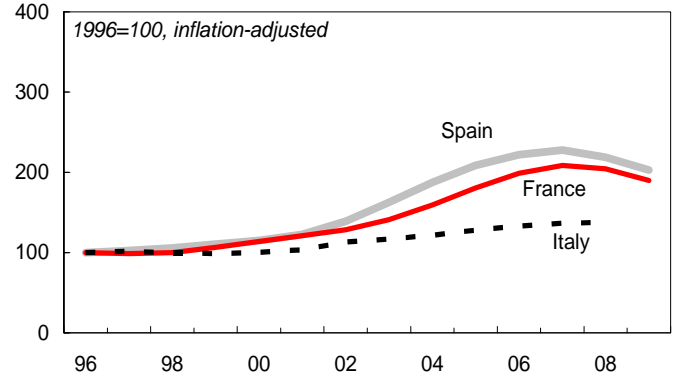
International Residential Markets

Inflation-Adjusted Home Prices



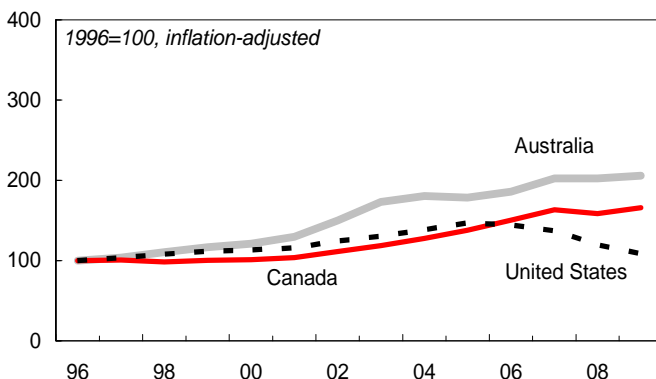
Source: Scotia Economics

Inflation-Adjusted Home Prices



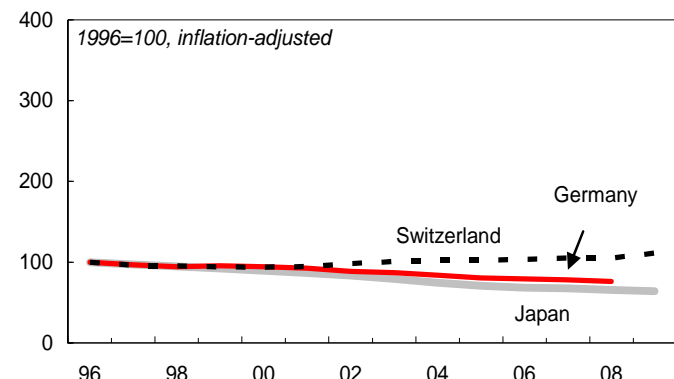
Source: Scotia Economics

Inflation-Adjusted Home Prices



Source: Scotia Economics

Inflation-Adjusted Home Prices



Source: Scotia Economics

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	09Q3	09Q4	10Q1	10Q2
Australia	3.8	6.8	15.8	15.4	4.2	-1.2	4.2	9.0	0.1	1.6	5.3	11.8	16.8	15.3
Canada	1.0	2.2	7.3	6.9	7.4	7.8	9.2	8.7	-3.1	4.7	11.5	19.1	16.6	6.8
France	7.0	6.1	6.4	9.6	12.9	13.3	10.2	5.0	-1.9	-7.2	-7.4	-4.8	-0.1	
Germany	-1.4	-1.9	-4.1	-2.0	-3.6	-3.8	-1.8	-1.2	-2.7	..	..	..	..	
Ireland	11.4	4.2	5.8	12.3	8.9	10.0	9.7	-1.1	-10.8	-19.4	-21.5	-21.6		
Italy	1.4	3.4	9.3	3.4	3.8	5.5	3.6	2.9	0.7	..	..	..	..	
Japan	-3.0	-3.3	-3.7	-5.0	-6.2	-4.8	-3.6	-1.1	-2.6	-2.4	-1.8	..	-2.8	..
Spain	4.0	6.7	13.4	16.9	15.3	11.2	6.5	2.6	-3.9	-7.3	-7.3	-6.7	-5.9	-4.9
Sweden	10.2	5.5	4.2	4.7	9.0	8.6	10.8	8.2	-0.2	1.9	2.6	7.5	9.7	
Switzerland	-0.6	0.9	4.0	2.3	1.6	-0.1	1.4	1.3	0.3	5.5	5.1	6.4	3.8	3.6
United Kingdom	13.9	7.5	15.3	14.2	10.8	3.5	3.9	8.8	-4.3	-9.7	-7.3	-1.6	5.2	
United States	1.6	1.9	7.5	4.8	6.3	6.1	-2.0	-5.0	-12.8	-9.1	-6.3	-4.6	-1.2	0.7

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