



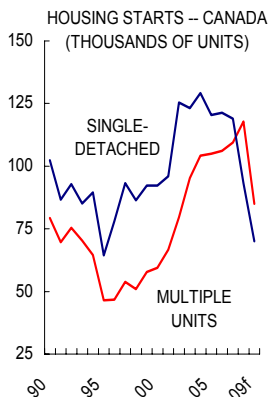
Real Estate Trends

Adrienne Warren (416) 866-4315
adrienne_warren@scotiacapital.com

Deepening Downturn in North American Real Estate Activity

Residential Outlook — Canada

Canadian housing starts totalled 211,056 units in 2008, down about 8% from an average of almost 230,000 units from 2004-2007. Higher multiple-unit construction was offset by a double-digit decline in single-family homes, with most of the falloff in B.C. and Alberta. Rising unsold inventory, falling new home prices, greater resale competition and reduced credit availability, all contributed to the slowdown. The pullback accelerated into the new year, as starts tumbled to an eight-year low of only 153,500 annualized units in January.



Resale activity has cooled even more forcefully. MLS sales volumes fell 17% last year, albeit from record levels in 2007, amid reduced affordability, rising unemployment and some tightening in mortgage lending since the fall (i.e. a capping in maximum amortization at 35 years and the reinstatement of a minimum 5% down-payment). Combined with a rise in new listings, this coincided with the reemergence of a buyers' market for the first time in a decade. Average home prices dipped 1% in 2008, a sharp reversal from the 10% annual appreciation from 2002-2007. By January, national average prices were down 11% year-on-year (though by a more modest 5-6% on a regional sales-weighted basis).

Residential activity should moderate further in 2009 alongside a general weakening in domestic economic conditions. Housing starts are forecast to fall to around 155,000 units — below longer-term replacement demand — with declines across all provinces and in both multi- and single-family segments. Another 15-20% decline in the volume of resales is likely this year, with a further 10% drop in average prices. Centres with the largest supply-demand imbalance, including Vancouver, Sudbury and Calgary, have relatively greater downside price risk.

While home sales and construction in Canada seem sure to turn down further in 2009, the outlook for renovations is somewhat mixed. The industry has been growing rapidly in recent years, with inflation-adjusted outlays rising an average of 8½% annually this decade, three times faster than overall GDP growth. Spending slowed progressively through 2008, but outlays are still estimated to have increased about 4%. Expenditures on home improvements and alterations (but excluding repairs) totalled close to \$40 billion last year, placing the renovation industry comparable in size to new construction.

Ottawa's recently announced renovation tax credit for households has the potential to provide a significant boost to the industry in 2009. The measure provides a 15% refundable

Scotia Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com

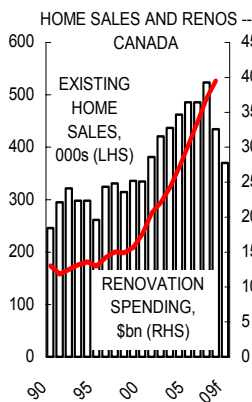
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tax credit on eligible renovation expenditures between \$1,000 and \$10,000, completed prior to February 2010. Many homeowners will undoubtedly take advantage of this year's price discount. At the least, some planned projects will be brought forward, and some underground spending pulled up.

But the initiative's overall effectiveness in filling the construction gap may be limited. The main factors behind the boom in renovations in recent years — record existing home sales, rising home prices and equity, high new home prices, record homeownership rates, an aged housing stock, and strong job and income growth — are no longer supportive. Renovation expenditures are typically highly cyclical, as are other areas of big-ticket discretionary spending. Job worries and a tendency for households to boost savings in today's uncertain economic and financial climate will likely trump the desire to undertake a significant new home renovation.



By and large, we expect renovation spending in 2009 to focus on more practical projects, including efficiency upgrades and preparations for selling over purely aesthetic improvements that prove more popular when home prices are rising. Regionally, centres with relatively stronger sales and price gains in 2008, including Winnipeg and St. John's, should see relatively stronger renovation spending. Quebec too could outperform, given a similar provincial renovation tax credit announced last month.

Residential Outlook — United States

U.S. housing conditions continued to worsen in 2008, with starts and resales by year-end down 75% and 40%, respectively, from their 2005/2006 peaks. Starts tumbled further to a record low of only 466,000 annualized units in January. Given historically high inventories of unsold homes, and record foreclosures as sub-prime and adjustable rate mortgages (ARMs) reset, U.S. builders are expected to remain extremely cautious. Starts for the year are forecast to total just 550,000 units, a post-war low.

Meanwhile, big job losses, totalling 3.5 million and counting, and tighter lending conditions are discouraging housing demand despite now record affordability as prices and interest rates come down. National average U.S. home prices at the end of 2008 were more than 20% off their mid-2006 peak. We anticipate a further 10% drop in average prices in 2009. At the same time, renovation activity is being restrained by a waning in home equity loans/withdrawals. An estimated 25% of U.S. homeowners with a mortgage are currently in a negative equity position.

Commercial Outlook — Canada

Office market activity in Canada is expected to cool in 2009 after several years of strong growth. Demand for office space is weakening alongside slowing office-based employment (e.g. finance, mining, engineering and information-technology services), tighter credit availability and sharply lower institutional investor activity. Meanwhile, substantial new supply will come on the market in 2009-2011, primarily in Toronto and Calgary, as a result of major new office tower developments currently underway.

The national downtown office vacancy rate, which had been retreating since 2004, edged up to a still very low 4.5% in 2008Q4, while absorption turned negative for the first time in five years. We expect vacancy rates to climb in all major centres in 2009, putting downward pressure on rents. Still, the sector appears better positioned than during the early-1990s downturn given a high pre-lease ratio and low starting vacancy rate.

Retail markets in 2009 will be pressured by weak consumer spending as well as significant new supply. An estimated 15 million square feet of new retail space is coming on the market in 2009, the most in a decade. Prime downtown locations will likely outperform more saturated suburban markets.

Commercial Outlook — United States

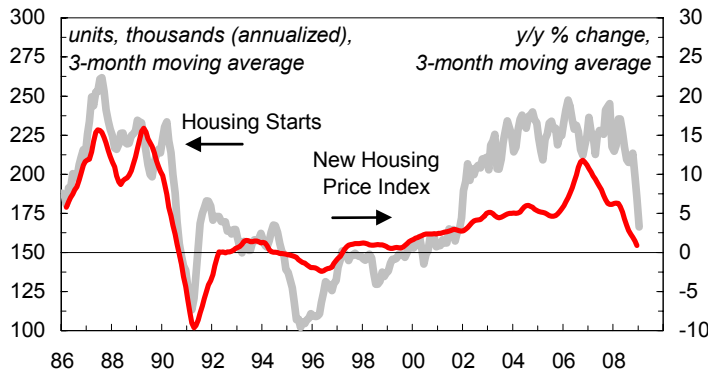
U.S. office market fundamentals have deteriorated more rapidly than in Canada, weighed down by a deeper economic retrenchment, rising commercial mortgage delinquency rates, and a lack of development financing. The national downtown office vacancy rate hit a two-year high of 11.7% in 2008Q4. Lower demand and substantial new and sublease space will put further pressure on vacancy rates and rents in 2009.

While the earliest softening in commercial demand and rents was concentrated in areas hardest hit by the housing downturn (e.g. Miami, Phoenix, Las Vegas and Southern California), the Manhattan office market is the latest, and perhaps most notable, casualty amid the deepening global financial crisis. Meanwhile, retail construction has stalled alongside the slump in homebuilding, a key driver in the demand for new shopping malls, and discretionary spending.

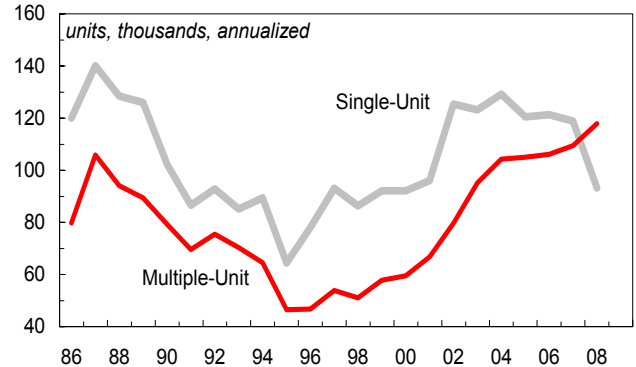


Canadian Residential Markets

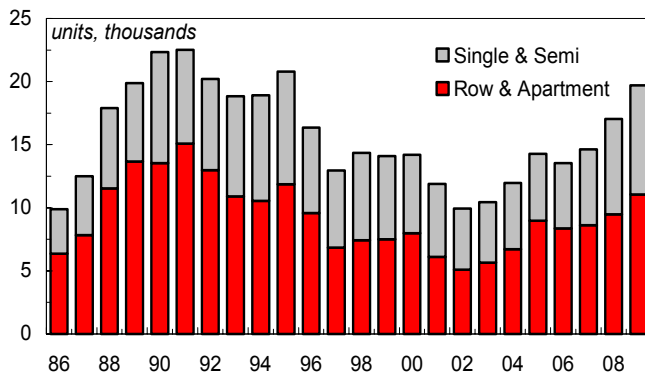
New Home Markets



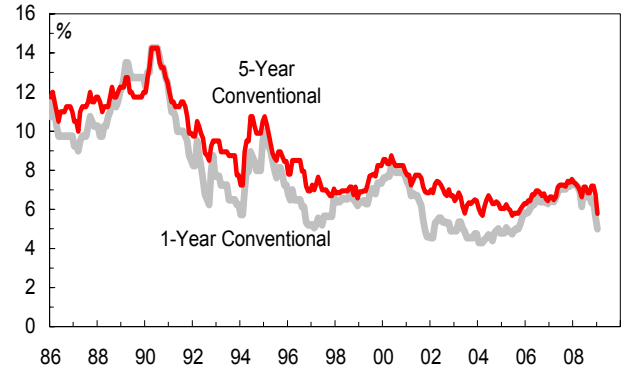
Housing Starts



Inventories of Unsold New Homes



Mortgage Rates



Housing Starts

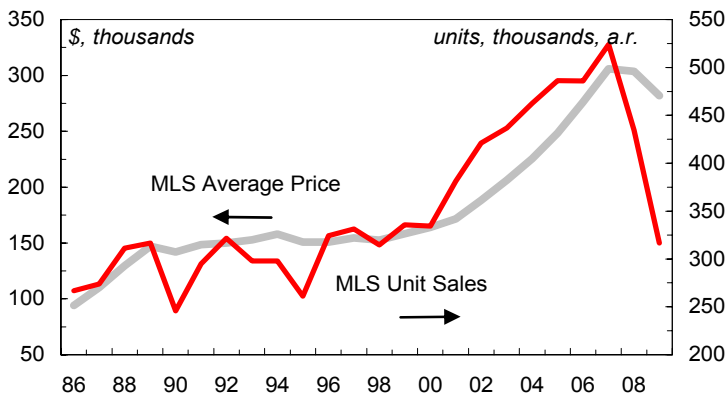
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2004	233	32.9	36.3	3.8	4.4	85.1	58.4	12.5
2005	225	34.7	40.8	3.4	4.7	78.8	50.9	12.1
2006	227	36.4	49.0	3.7	5.0	73.4	47.9	12.0
2007	228	39.2	48.3	6.0	5.7	68.1	48.6	12.4
2008	211	34.3	29.2	6.8	5.5	75.1	47.9	12.2
2009ytd	154	18.1	17.2	3.8	3.6	54.7	45.3	10.8
2009f	155	20	19	5	5	54	42	10
2010f	160	21	22	5	5	56	41	10
<i>(units, nsa)</i>								
2004	Vancouver 19,430	Calgary 14,008	Edmonton 11,488	Toronto 42,115	Ottawa 10,470	Montreal 28,673	Halifax 2,627	St. John's 1,834
2005	18,914	13,667	13,294	41,596	7,105	25,317	2,451	1,534
2006	18,705	17,046	14,970	37,080	8,808	22,813	2,511	1,275
2007	20,736	13,505	14,888	33,293	9,294	23,233	2,489	1,480
2008	19,591	11,438	6,615	42,212	10,302	21,927	2,096	1,863
2009ytd	7,308	2,916	4,956	18,672	4,932	13,836	684	1,488

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

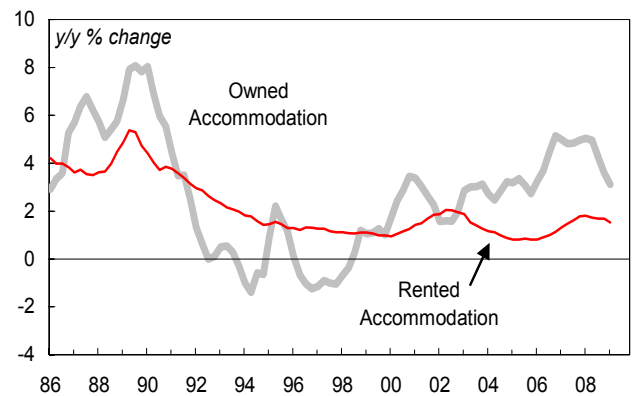


Canadian Residential Markets

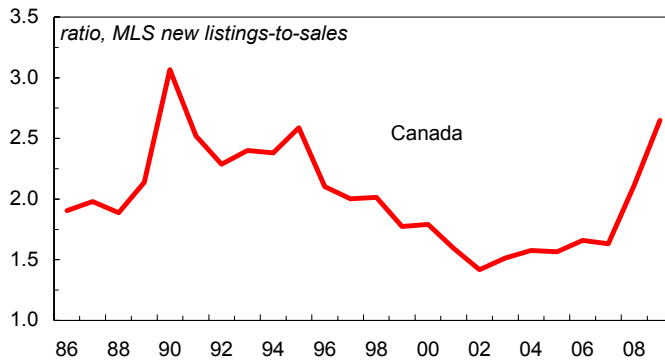
Existing Home Sales & Prices



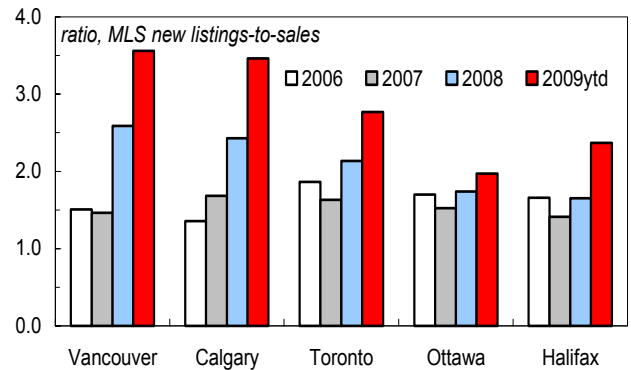
Housing Cost Trends



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
2004	225,581	462,363	289,107	96,385	194,769	57,460	115,850	20,270	245,230	197,353	167,392	70,869	130,844	19,631
2005	248,257	486,084	332,224	106,310	218,266	65,866	129,480	21,073	262,949	197,140	180,431	72,806	142,177	22,444
2006	276,008	485,804	390,963	96,671	285,383	74,350	142,742	22,158	278,364	194,930	190,284	74,297	148,277	22,851
2007	305,822	523,855	439,119	102,805	356,235	71,430	171,609	25,982	299,544	213,379	202,895	83,453	158,589	26,258
2008	303,594	434,477	454,599	68,923	352,857	56,399	205,041	23,728	302,354	181,001	210,775	79,402	171,248	24,537
2009ytd	281,749	316,512	412,916	42,912	337,927	37,284	208,554	22,680	285,943	131,556	210,702	61,620	171,839	20,148

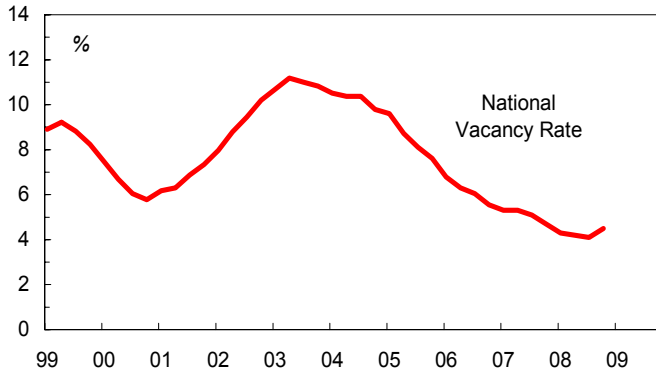
	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2004	373,877	37,972	222,860	26,511	179,610	17,652	315,266	84,854	238,152	13,457	189,050	48,564	175,132	5,516
2005	425,745	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
2009ytd	509,491	15,864	400,581	13,608	332,889	13,020	364,366	51,816	296,918	11,832	na	na	256,599	4,548

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

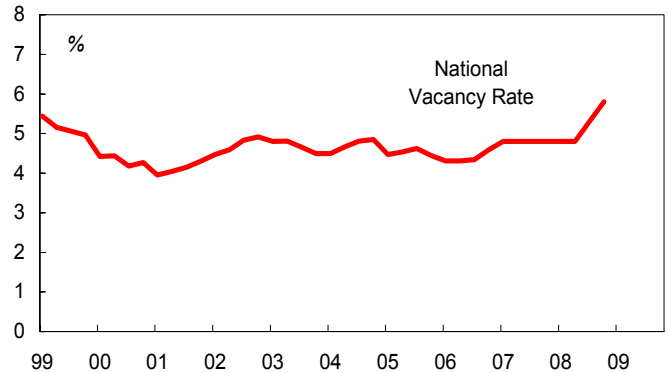


Canadian Non-Residential Markets

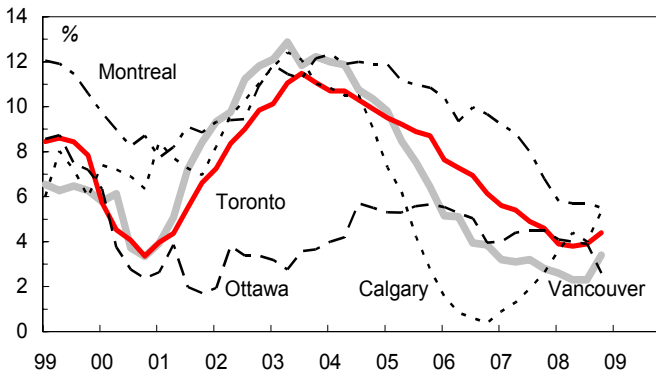
Office Markets



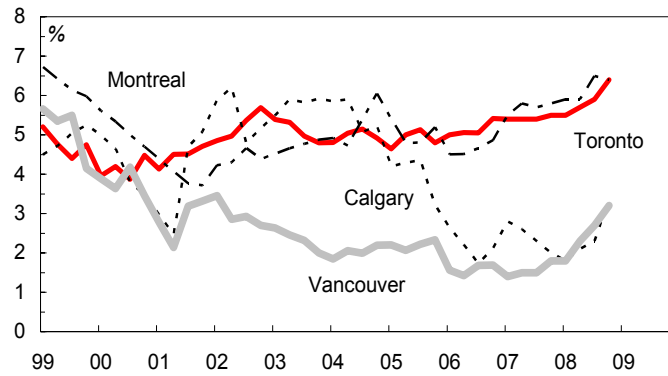
Industrial Markets



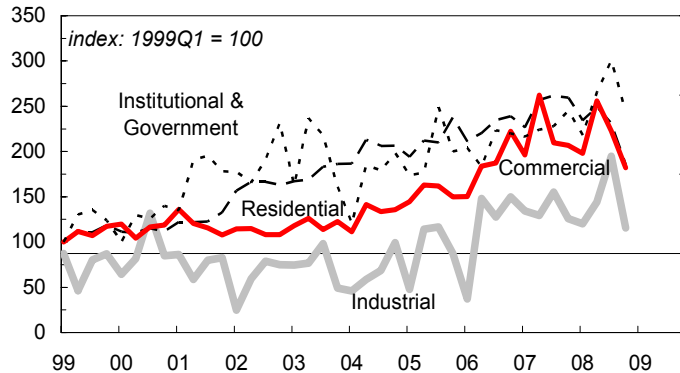
Office Vacancy Rates
Largest Five Markets



Industrial Vacancy Rates
Largest Four Markets



Building Permits



Building Permits

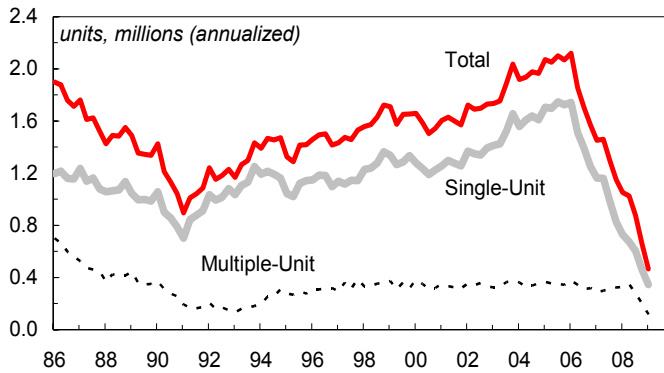
	Total	Res.	Indust.	Comm.	Inst. & Gov't
	(C\$ billions)				
2004	55.6	36.8	3.5	10.1	5.1
2005	60.8	38.7	4.0	12.0	6.0
2006	66.3	41.1	4.5	14.4	6.2
2007	74.4	45.5	5.0	17.0	6.9
2008	70.4	40.9	5.1	16.6	7.8
2009ytd	na	na	na	na	na

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

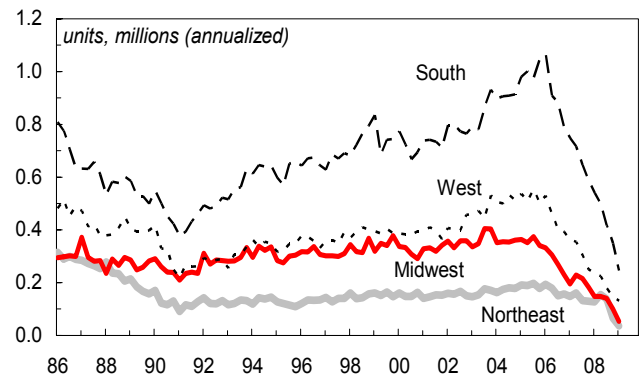


U.S. Residential Markets

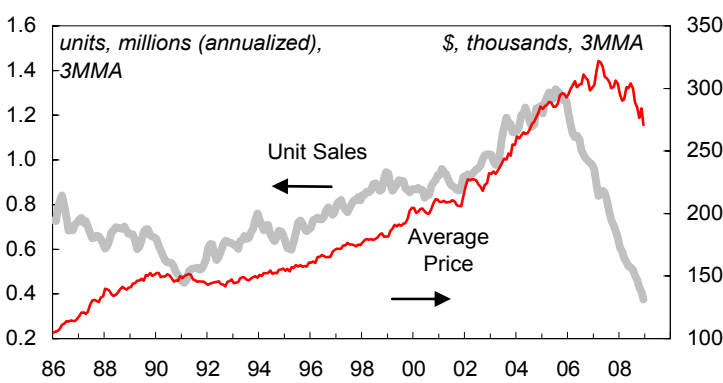
Housing Starts



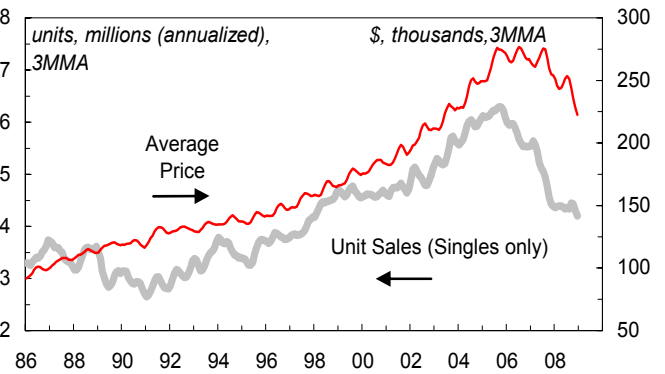
Housing Starts by Region



New Home Sales



Existing Home Sales



Housing Starts

Permits

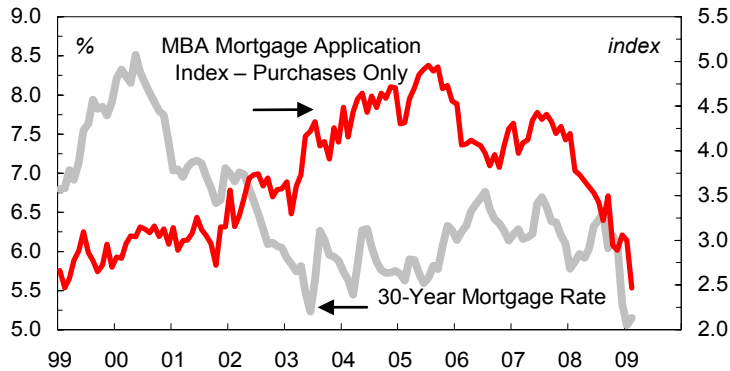
	Total	Singles	Multiples	West	South	Midwest	North East	Total	Single	Multiple
	(millions of units)							(millions of units)		
2004	1.956	1.611	0.345	0.516	0.909	0.356	0.175	2.070	1.613	0.457
2005	2.068	1.716	0.352	0.525	0.996	0.357	0.190	2.155	1.682	0.473
2006	1.801	1.465	0.335	0.444	0.910	0.280	0.167	1.839	1.378	0.461
2007	1.355	1.046	0.309	0.321	0.681	0.210	0.143	1.398	0.980	0.419
2008	0.906	0.622	0.284	0.197	0.453	0.135	0.121	0.883	0.569	0.314
2009ytd	0.466	0.347	0.119	0.131	0.246	0.053	0.036	0.521	0.335	0.186
2008f	0.55									
2009f	0.80									

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

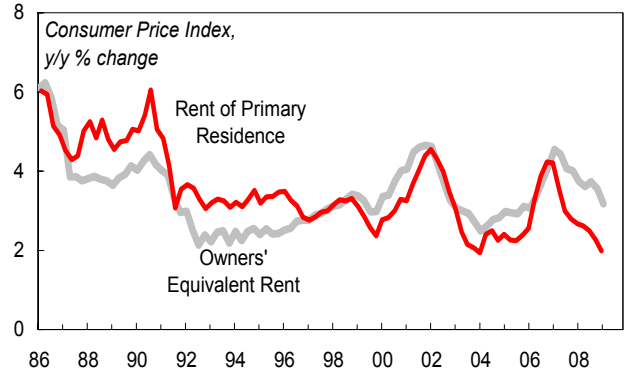


U.S. Residential Markets

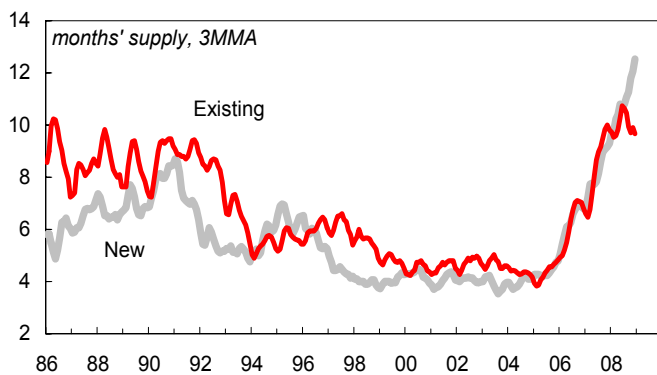
Mortgage Rates and Applications



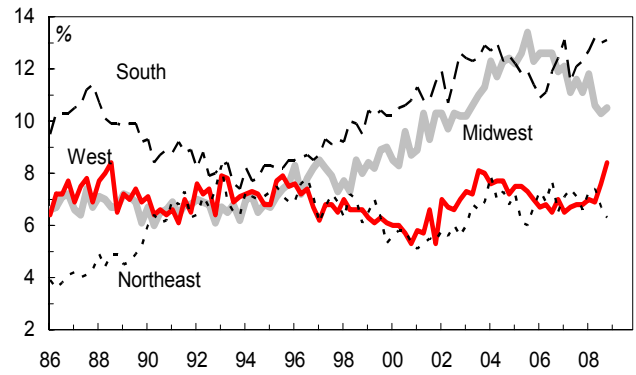
Housing Cost Trends



New and Existing Home Inventories



Apartment Vacancy Rates



Existing Home Sales

New Home Sales

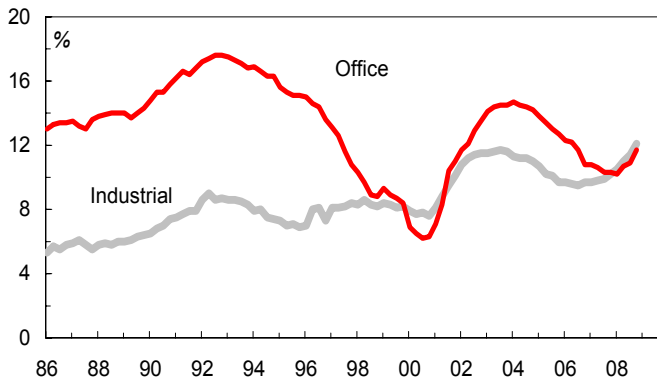
	Total	Avg Price (\$000s)	Months' Supply	West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)	(million units, saar, unless otherwise noted)						
2004	6.778	243.0	4.3	1.575	2.540	1.550	1.113	1.201	271.5	4.0
2005	7.076	266.1	4.4	1.617	2.702	1.588	1.169	1.279	290.0	4.5
2006	6.478	269.5	6.4	1.346	2.563	1.483	1.086	1.049	303.5	6.4
2007	5.652	263.8	8.7	1.084	2.235	1.327	1.006	0.768	308.8	8.5
2008	4.912	240.2	10.0	1.070	1.864	1.129	0.849	0.479	287.7	11.2
2009ytd	na	na	na	na	na	na	na	na	na	na

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

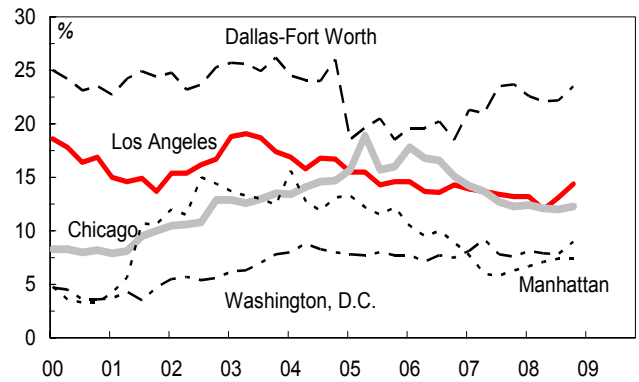


U.S. Non-Residential Markets

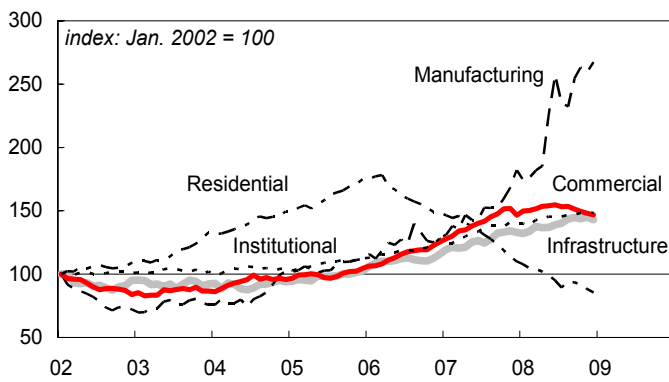
National Vacancy Rates



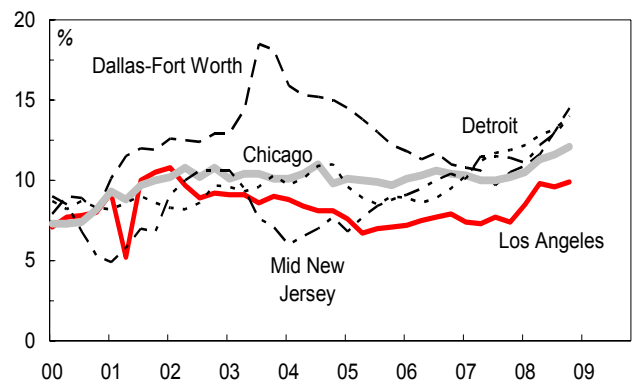
**Office Vacancy Rates
Largest Five Markets**



Construction Investment



**Industrial Vacancy Rates
Largest Five Markets**



Construction Investment

	Total	Residential	Manu- facturing	Office & Commercial	Institutional	Infra- structure	Private	Public
	(US\$ billions)							
2004	991.6	538.4	23.8	121.8	138.3	169.2	771.4	220.2
2005	1102.7	617.5	30.0	128.8	144.4	181.9	868.5	234.2
2006	1167.6	619.8	35.5	149.0	158.0	205.3	912.2	255.4
2007	1137.2	499.7	42.6	182.2	178.3	234.3	850.0	287.1
2008	1078.9	365.9	64.3	195.4	193.5	259.7	770.4	308.5
2009ytd	na	na	na	na	na	na	na	na

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