

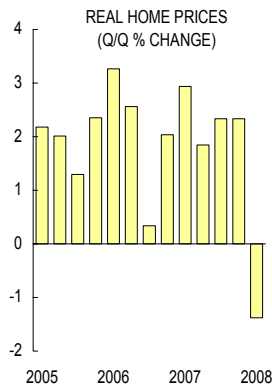


Real Estate Trends

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Canada's Housing Market Comes Off The Boil

After many false calls, there is now convincing evidence that Canada's housing market has come off the boil. Home resales, having fallen for four consecutive months, are running about 15% below last summer's historic peak. Average annual home price appreciation has eased back into the mid single digits, as rising new listings bring overall market conditions into better balance. Adjusted for inflation, the average resale home price in Canada registered its first quarterly decline in seven years in the first quarter of 2008.



Cracks are appearing on the new home front as well. While housing starts in early 2008 are essentially tracking last year's elevated levels, demand for new residential building permits has fallen sharply, both for single-family and multiple-unit projects. Price increases for new homes are moderating, while inventories of unsold new homes are trending higher.

Inhospitable weather in much of the country was likely a dampening factor on the sector's early 2008 performance. Among highly sought-after properties, reports of bidding wars are not uncommon. Home renovation expenditures are still extremely buoyant. Overall, however, the softening in housing demand and price appreciation is consistent with usual late-cycle developments: reduced affordability, limited pent-up demand and

increased supply.

We expect overall sales volumes in 2008 to total about 15% below last year's record levels, and home prices to increase on average by about 5%. Price gains should slow further in 2009 with the return of a 'balanced' market for the first time in a decade. Meanwhile, housing starts are projected to gradually moderate, returning toward underlying annual household formation levels of around 180,000 by the end of the decade, from the current 225,000 unit range.

From a regional perspective, the cooling in overall activity is most notable in many of Canada's hottest urban housing markets in recent years, including Calgary and Edmonton. Both centres have officially moved into buyers' territory as soaring prices weaken demand and fuel new listings. More generally, however, economic conditions continue to favour the resource-rich markets in the West over manufacturing-dominated centres in Central Canada hampered by a strong Canadian dollar and softening U.S. import demand. Regina and Saskatoon are currently in the strongest sellers' position nationally, supported by good affordability, rising population inflows and tight supply.

Scotia Economics

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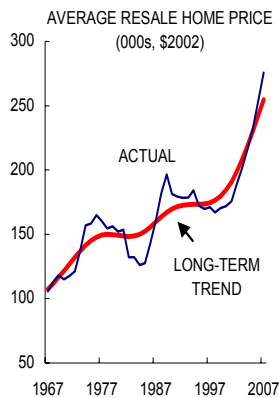
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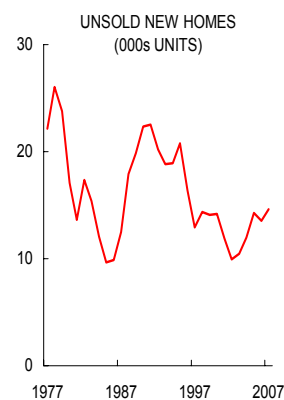
Risk Of A Major Correction Still Low

Canada's recent record of home price appreciation, averaging an annualized 10% from 2002 to 2007, was unsustainable, and a return to more historical norms is a welcome development. The faster and longer home prices climb, the greater the risk of an eventual price correction. Canada's last two major housing booms of the 1970s and 1980s were both followed by some degree of real price stagnation or decline — an essential ingredient to restoring affordability and generating renewed pent-up housing demand.



The downcycles following the prior two housing booms lasted 8-9 years (1977-1984 and 1990-1998), during which peak-to-trough real home prices fell 24% and 15%, respectively. Most of the price decline was due to inflation erosion, with nominal home prices falling in only two years between 1977-1984 and in only three years between 1990-1998. Home prices tend to be 'sticky' on the downside, as homeowners and investors are reluctant to sell in a soft market.

If historical patterns repeat, the post-boom era could prove persistent. Looking at a number of important benchmarks, however, we believe the current cycle has less downside risk, as it appears to be built on a stronger economic foundation than those of the 1970s and 1980s. Canada's housing market also fares well using these metrics against other major developed nations, including the United States.



First, home prices in Canada are not substantially overvalued. Our long-term housing price model puts average home prices in 2007 at about 8% above their long-term trend, compared with a premium of 12% and 18%, respectively, at the 1976 and 1989 housing cycle peaks. Recent IMF estimates placed Canada at the bottom rungs of international home price overvaluation.

Second, there is still little evidence of widespread speculative home buying that often accompanies the late stages of a housing boom. Rather, real price trends remain largely consistent with short-term supply-demand dynamics (measured by the ratio of sales-to-new listings), with the tightest regional markets witnessing the biggest price gains.

Third, Canada's real estate market is not overbuilt. While inventories of unsold homes are trending higher, the number of unabsorbed units, including condominiums, remains well below prior cyclical peaks in most major centres. Tighter lending guidelines and high construction costs have likely contributed to a more cautious approach among builders.

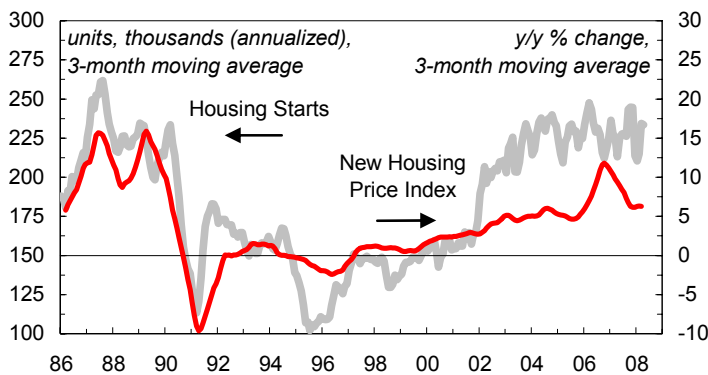
Fourth, households, for their part, are not overleveraged. Home equity as a share of real estate assets is near record highs, with price appreciation outpacing the rise in mortgage obligations. Mortgage carrying costs as a share of disposable incomes are historically low (though edging higher) despite rising home prices.

Finally, overall mortgage quality is still sound. Canadian lenders have maintained conservative loan qualifying criteria in recent years even while introducing a range of new products, including interest-only mortgages, no downpayment mortgages, and extended amortization of up to 40 years. Canada does not have ultra-low teaser rate mortgages that have contributed heavily to U.S. defaults as they reset. Adjustable-rate mortgages, sub-prime lending, borrowing against home equity, and insured investor mortgages all account for a much smaller share of the Canadian mortgage market than in the United States.

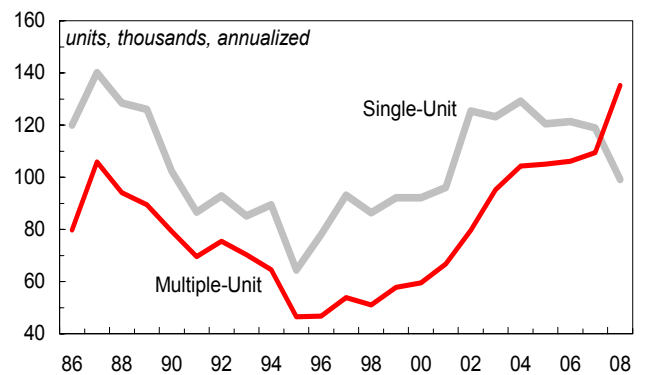
At the end of the day, we predict a soft landing for the Canadian housing market, with somewhat lower sales and construction, and a period of relatively flat inflation-adjusted home prices. While underlying domestic housing fundamentals remain healthy, a major risk to the outlook would be a deeper and more protracted downturn in the U.S. economy, with more serious repercussions for domestic output, employment and income growth. Tighter credit conditions and heightened global financial market volatility in the wake of the U.S. sub-prime mess pose additional downside risks to the sector's overall performance.

Canadian Residential Markets

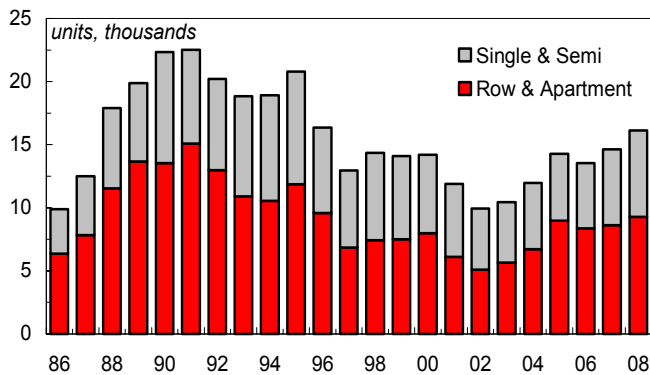
New Home Markets



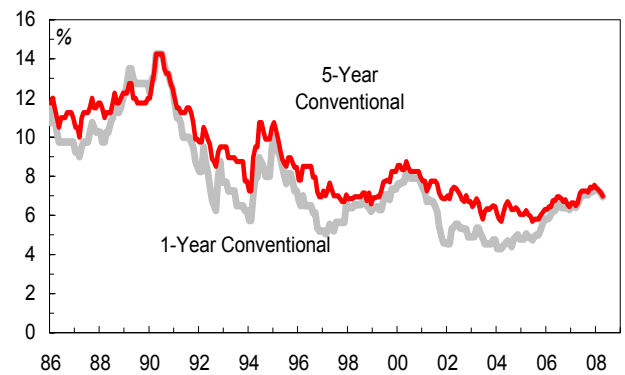
Housing Starts



Inventories of Unsold New Homes



Mortgage Rates



Housing Starts

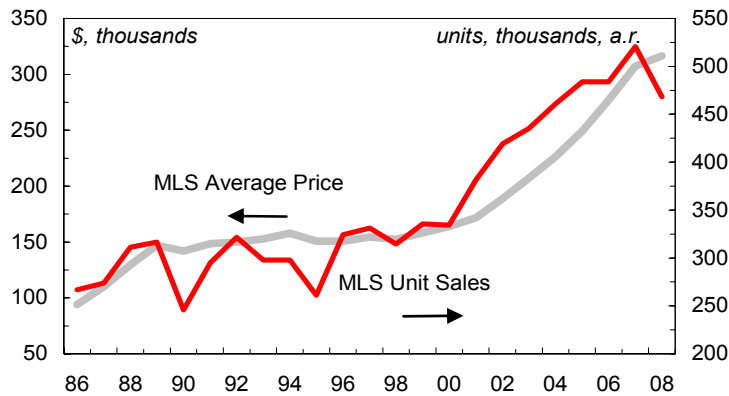
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
(000s units, sa)								
2003	218	26.2	36.2	3.3	4.2	85.2	50.3	13.1
2004	233	32.9	36.3	3.8	4.4	85.1	58.4	12.5
2005	225	34.7	40.8	3.4	4.7	78.8	50.9	12.1
2006	227	36.4	49.0	3.7	5.0	73.4	47.9	12.0
2007	228	39.2	48.3	6.0	5.7	68.1	48.6	12.4
2008ytd	229	39.0	39.9	6.4	5.6	78.2	47.2	13.1
2008f	212	36	42	6	5	65	46	12
2009f	192	32	39	4	5	61	41	10

(units, nsa)	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2003	15,626	13,642	12,380	45,475	9,182	24,321	3,066	1,604
2004	19,430	14,008	11,488	42,115	10,470	28,673	2,627	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
2008ytd	20,073	17,256	8,994	37,587	7,740	22,224	1,815	198

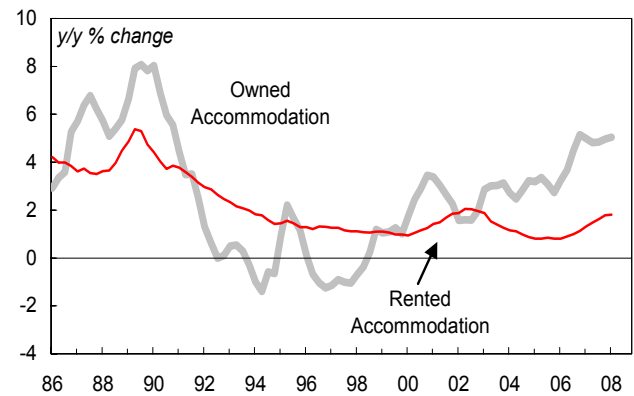
Source: Canadian Mortgage and Housing Corporation (CMHC), Scotia Economics calculations and forecasts.
Year-to-date data are expressed at annual rates.

Canadian Residential Markets

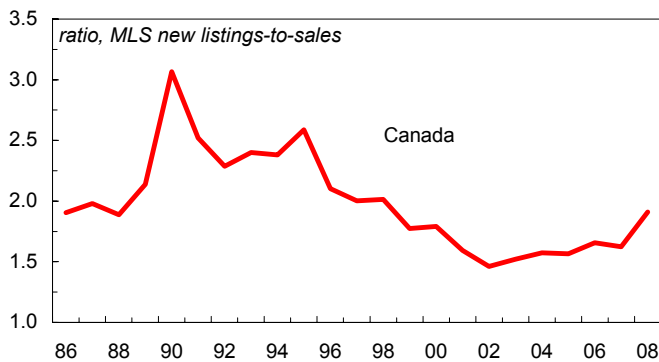
Existing Home Sales & Prices



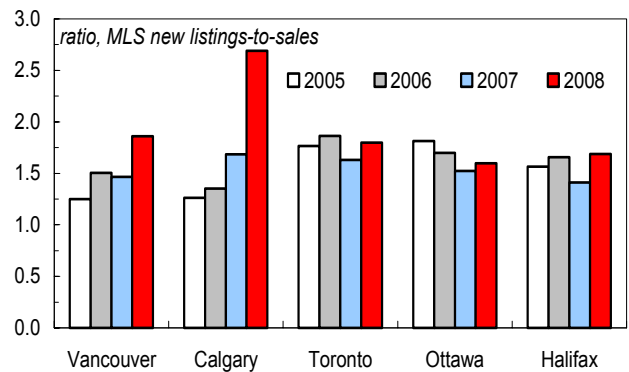
Housing Cost Trends



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
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	249,165	483,927	332,224	106,310	218,266	65,866	129,480	21,073	262,949	197,140	184,583	70,649	142,177	22,444
2006	276,883	484,027	390,963	96,671	285,383	74,350	142,742	22,158	278,364	194,930	194,024	72,520	148,277	22,851
2007	307,265	520,747	439,123	102,812	356,235	71,430	171,609	25,982	299,544	213,379	208,240	80,338	158,589	26,258
2008ytd	316,421	468,204	476,459	90,168	364,616	59,536	198,909	27,028	301,130	190,596	217,779	75,720	166,958	24,620

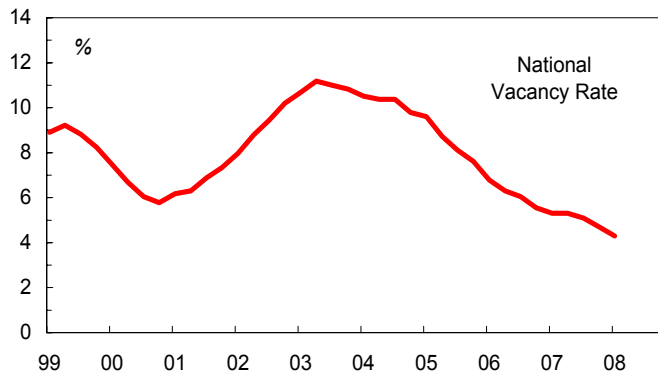
	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2003	329,447	39,022	211,155	24,359	165,541	16,277	293,308	79,366	219,713	12,877	166,930	47,436	162,486	5,813
2004	373,877	37,972	222,860	26,511	179,610	17,652	315,266	84,854	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
2008ytd	620,894	35,216	423,732	24,456	349,591	17,992	376,931	81,664	285,593	13,532	na	na	225,546	6,448

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

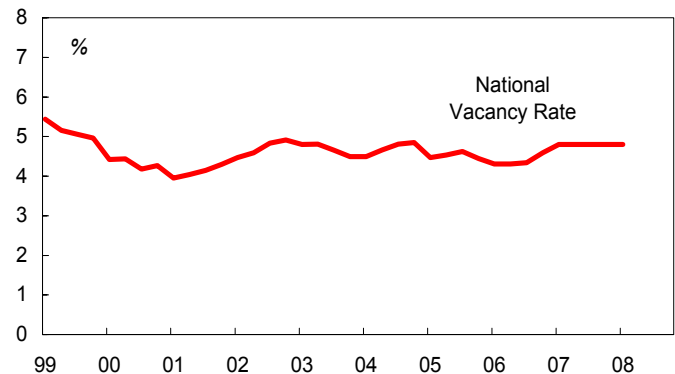


Canadian Non-Residential Markets

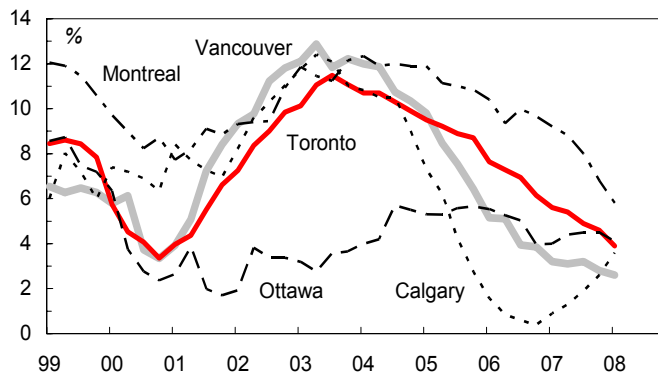
Office Markets



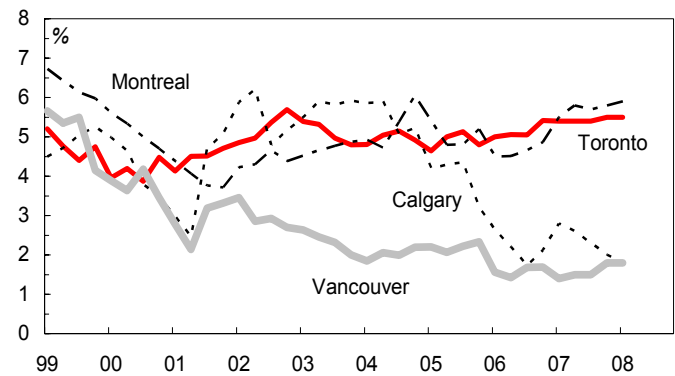
Industrial Markets



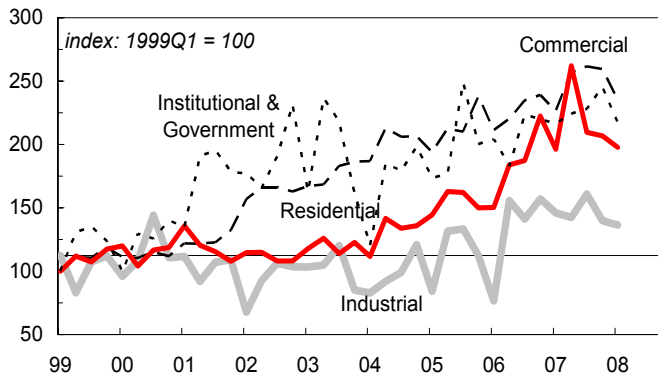
Office Vacancy Rates Largest Five Markets



Industrial Vacancy Rates Largest Four Markets



Building Permits



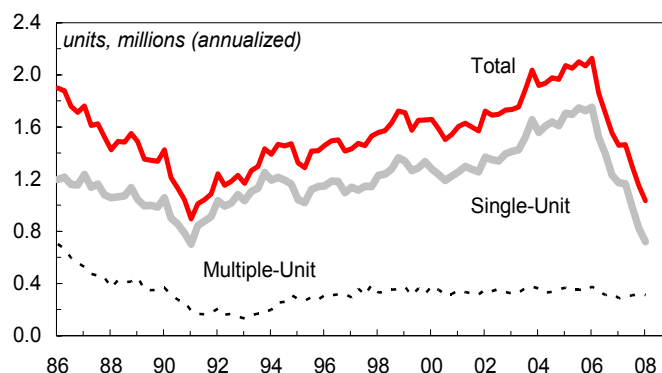
Building Permits

	Total	Res.	Indust.	Comm.	Inst. & Gov't
	(C\$ billions)				
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
2007	74.4	45.5	5.0	17.0	6.9
2008ytd	69.1	42.6	4.6	15.3	6.5

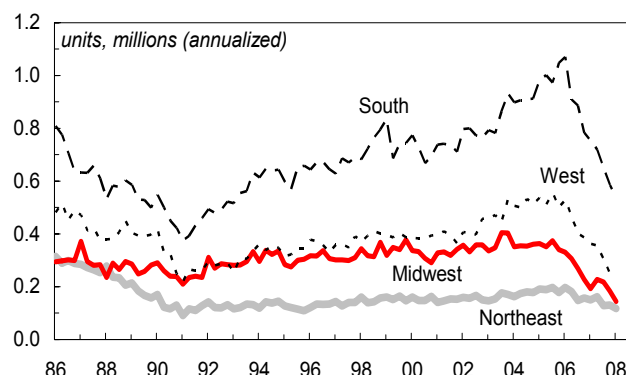
Source: Statistics Canada. Year-to-date data are expressed at seasonally adjusted annual rates.

U.S. Residential Markets

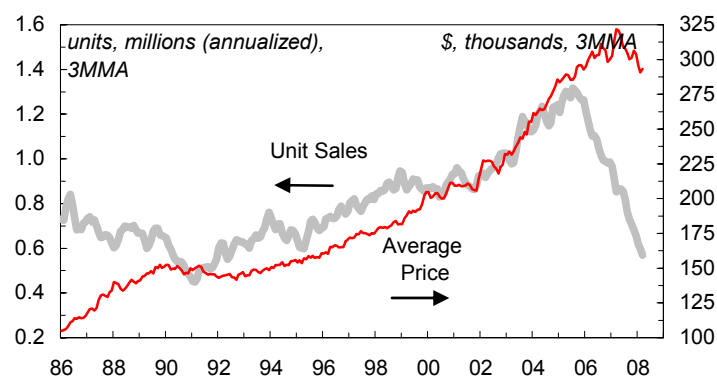
Housing Starts



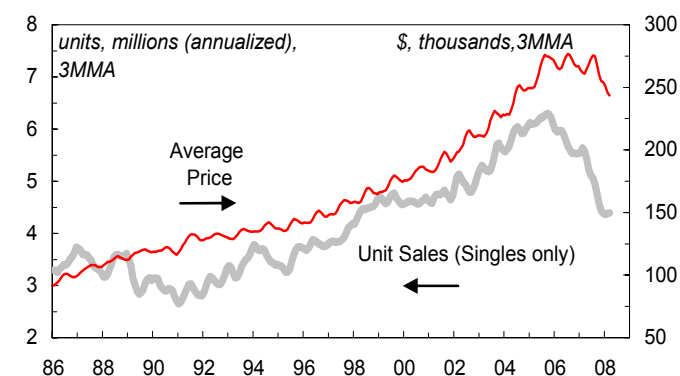
Housing Starts by Region



New Home Sales



Existing Home Sales



Housing Starts

	Total	Singles	Multiples	West	South	Midwest	North East
	(million units)						
2003	1.848	1.499	0.349	0.473	0.839	0.374	0.163
2004	1.956	1.611	0.345	0.516	0.909	0.356	0.175
2005	2.068	1.716	0.352	0.525	0.996	0.357	0.190
2006	1.801	1.465	0.335	0.444	0.910	0.280	0.167
2007	1.355	1.046	0.309	0.321	0.681	0.210	0.143
2008 ytd	1.035	0.722	0.313	0.238	0.536	0.144	0.117
2008f	0.95						
2009f	1.01						

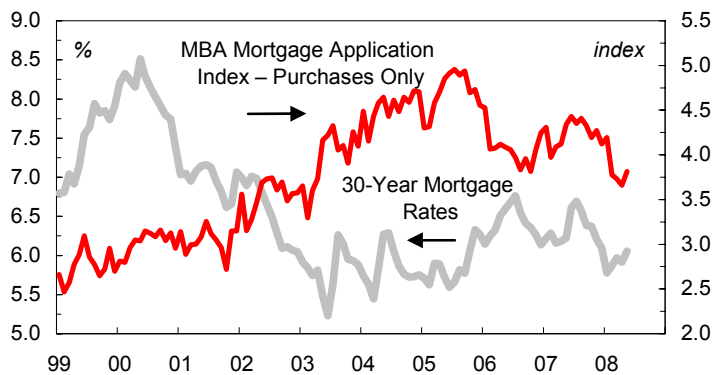
Permits

Total	Single	Multiple
(million units)		
2003	1.461	0.428
2004	1.613	0.457
2005	1.682	0.473
2006	1.378	0.461
2007	0.970	0.399
2008 ytd	0.644	0.346

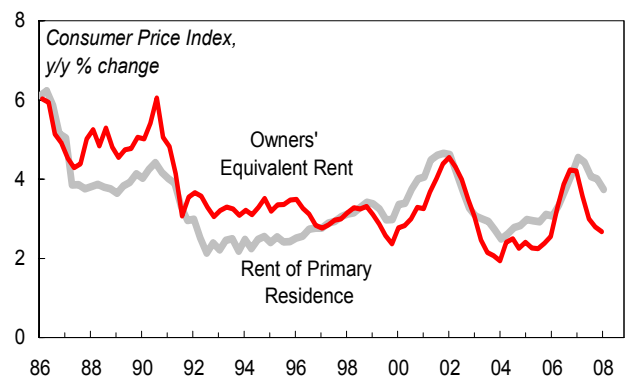
Source: U.S. Census Bureau, Scotia Economics calculations and forecasts. Year-to-date data are expressed at seasonally-adjusted annual rates.

U.S. Residential Markets

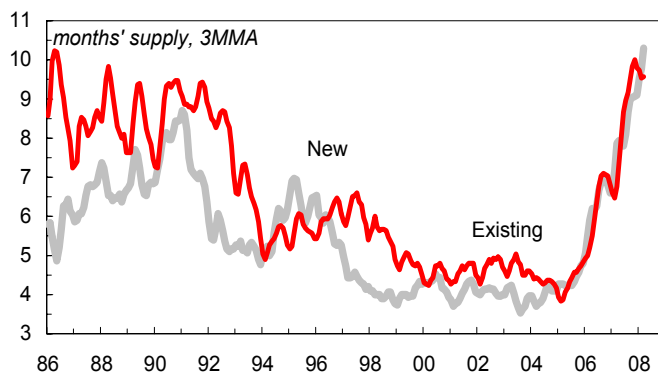
Mortgage Rates and Applications



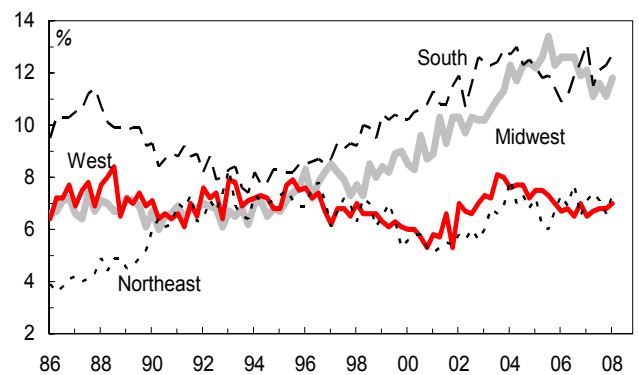
Housing Cost Trends



New and Existing Home Inventories



Apartment Vacancy Rates



Existing Home Sales

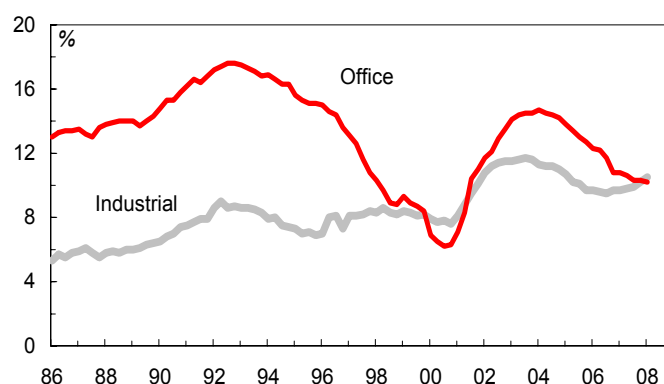
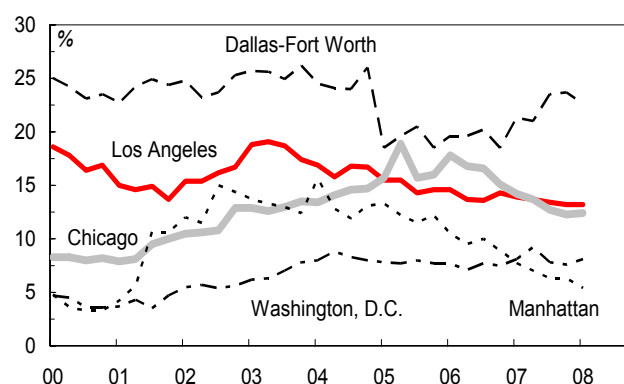
New Home Sales

	Total	Avg Price (\$000s)	Months' Supply	West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)						(sa)	
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
2007	5.652	263.8	8.7	1.084	2.235	1.327	1.006	0.773	307.8	8.4
2008ytd	4.950	243.5	9.6	0.930	1.953	1.203	0.867	0.569	293.2	10.3

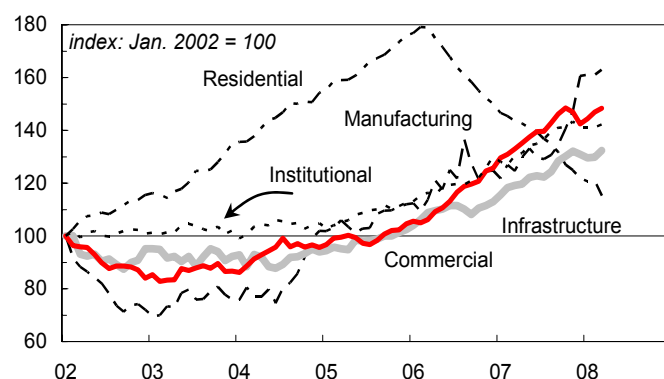
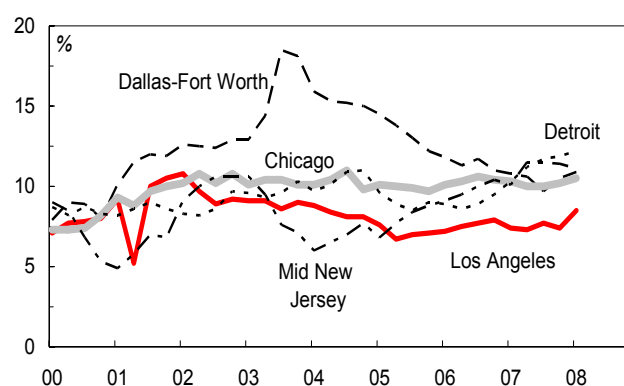
Source: National Association of Realtors (NAR), U.S. Census Bureau, Scotia Economics calculations.

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)							
2003	921.4	481.2	21.5	111.7	136.2	170.9	705.3	216.1
2004	1023.5	570.3	23.8	121.8	138.3	169.2	803.3	220.2
2005	1132.1	647.0	30.0	128.8	144.4	181.9	898.0	234.2
2006	1192.2	647.4	34.5	148.2	159.3	202.9	937.0	255.2
2007	1161.7	532.5	38.0	180.2	181.1	229.9	875.0	286.7
2008ytd	1130.8	465.8	45.8	189.4	188.3	241.5	836.2	294.7

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