



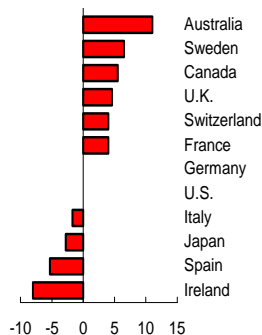
Global Real Estate Trends

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

Year-End Review And Outlook

Global residential property markets experienced a modest but uneven recovery in 2010, supported by ultra-low interest rates and gradually improving economic conditions. Of the twelve advanced nations tracked, we estimate average inflation-adjusted home prices increased this year in six (Australia, Canada, France, Sweden, Switzerland and the U.K.), were flat in two (Germany and the United States) and fell in four (Ireland, Italy, Japan and Spain) (figure 1). In 2009, eight of these twelve markets suffered price declines.

FIG. 1: REAL HOUSE PRICES
 (2010, Y/Y % CHANGE*)



* Scotia Economics estimate.

The rebound lost some steam in the latter half of the year, mirroring the general loss of momentum in global growth, though regional performances remain highly varied. Despite still attractive borrowing costs, the expiry of purchase incentives in many markets, the relatively slow pace of job creation and mounting concerns over the financial strains facing debt-heavy developed nations are weighing on confidence. These factors will likely keep many prospective buyers on the sidelines in 2011.

Australia is the clear front-runner in 2010. Housing demand is being supported by low unemployment, while tight supply is adding to the upward pressure on prices. Nonetheless, consecutive interest rate increases by the Reserve Bank of Australia (RBA), totaling 175 basis points since October 2009, alongside the expiry of the enhanced First Home Owners Grant in January 2010, have succeeded in cooling its red-hot property market to some degree. Average inflation-adjusted home prices in the third quarter of 2010 were up 9.4% year-over-year (y/y), compared with a 15.9% y/y increase in Q1.

We anticipate a further slowing in sales and price appreciation in 2011. While Australia's close trade ties with Asia and resource wealth will continue to underpin a solid pace of domestic activity, higher interest rates will worsen already strained affordability. The RBA has recently taken pause, but we expect the resumption of a gradual policy tightening path in 2011, with short-term rates rising an additional 75 basis points by year-end.

Elsewhere in Asia-Pacific, **Japan's** two-decade long property slump continues, with average inflation-adjusted prices (land only) down 2.8% y/y in Q3. Notwithstanding the past year's pick-up in consumer confidence and big-ticket spending, housing demand and prices are being restrained by broad deflationary forces and a declining population. With Japan's economy expected to slow next year on the back of a weaker export performance and reduced fiscal support, we see little prospect for a sustainable recovery in real estate valuations.

Scotia Economics

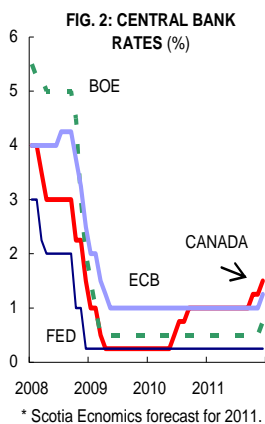
Scotia Plaza 40 King Street West, 63rd Floor
 Toronto, Ontario Canada M5H 1H1
 Tel: (416) 866-6253 Fax: (416) 866-2829
 Email: scotia_economics@scotiacapital.com

This Report is prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital. While the information is from sources believed reliable, neither the information nor the forecast shall be taken as a representation for which The Bank of Nova Scotia or Scotia Capital Inc. or any of their employees incur any responsibility.





Conditions in Europe are mixed, with housing activity in the core nations generally holding up better than in the periphery. The **U.K.** property market staged a strong early-year recovery, though this has given way to moderating conditions through the fall. Average inflation-adjusted home prices were up 4.4% y/y in Q3, down from a 6.8% y/y increase in the prior quarter, and monthly data point to a further slowing through October.



The abolition of the Home Information Packs in May, which prompted some welcome increase in supply, has contributed to the softer pricing environment. More importantly, however, consumer confidence has been dented by looming deep public sector spending cuts, including the elimination of up to half a million government jobs over the next four years. Combined with tight credit availability, this suggests a heightened risk of renewed price declines in 2011.

Germany's decade-long housing slump may have finally come to an end. While official house price data are only available with a considerable lag, private survey estimates suggest some firming in recent quarters, as solid export-driven growth bolstered employment and confidence. While the average euro zone unemployment rate has risen to a twelve-year high of just over 10%, Germany's jobless rate, at 7½%, is near its lowest level in almost two decades.

Nonetheless, property market stability is likely the best case outcome for 2011. Despite expectations of continued healthy economic growth, demographic trends are not supportive of housing demand. Along with Japan, Germany's population is not only aging, but shrinking. Meanwhile, its home-ownership rate, at roughly 45%, is among the lowest of high-income nations.

Housing activity remains reasonably buoyant in a number of other European markets. In **France**, the housing recovery continued to gather momentum through the third quarter, with average inflation-adjusted prices up 6.8% y/y. In **Switzerland**, prices are tracking in a fairly steady 4-6% range. In **Sweden**, 100 basis points of interest rate hikes by the Riksbank since mid-year, alongside new caps on mortgage lending, have only moderated its housing boom, with average prices still up 5.6% y/y in the July-September period.

In contrast, in many of the hardest-hit European nations, housing prices continue to trend down. In **Spain**, average inflation-adjusted prices in Q3 were 5.2% lower than a year earlier, while **Ireland** is still reporting double-digit declines. Weak domestic demand, housing oversupply and high unemployment suggest further price

declines in the New Year. Average prices also continue to fall in **Italy**.

Throughout most of the region, housing demand will be supported by historically low borrowing costs. We expect the European Central Bank (ECB), the Bank of England (BoE) and the Swiss National Bank (SNB) to keep policy rates on hold until the final quarter of 2011 (figure 2). Nonetheless, fiscal belt-tightening will dampen job and income growth, tempering overall activity and prolonging the recovery.

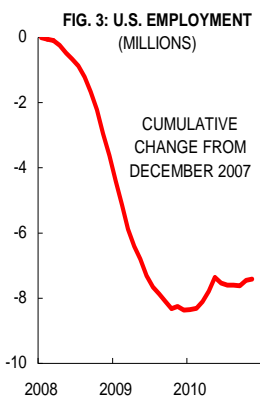
Turning to North America, some long-awaited stability finally appears to have returned to **U.S.** property markets. Average inflation-adjusted home prices were essentially flat year-over-year in Q3, and are unchanged on a year-to-date basis. While this semblance of normalcy is encouraging after the near-30% cumulative price correction of the prior four years, a weak job market — the U.S. economy has recouped only 11% of the staggering 8.4 million jobs lost during the recession (figure 3) — and the expiry of the home buyers' tax credit at the end of April have kept overall sales at relatively depressed levels through the fall.

Improving employment prospects in 2011 and continued ultra-low interest rates — we expect the Federal Reserve to maintain its record-low 0.25% Fed funds rate through the end of 2011 — are positive for the outlook for housing demand. Nonetheless, still high unemployment, cautious lending and a slower pace of household formation will limit the pickup in sales. Reflecting the uncertain economic climate and high joblessness, annual net household formation — a key driver of housing demand — totalled just 357,000 in the past year, a post-war low. Combined with a continued excess supply of vacant housing units and record foreclosure filings, this suggests there is more downside than upside risk to U.S. residential property values in the year ahead.

Canada had one of the better performing housing markets among advanced nations in 2010, though also one of the most volatile. An unusually active winter and spring, prompted by pent-up demand, expectations of rising interest rates that only partially materialized, the looming transition to a Harmonized Sales Tax (HST) in Ontario and British Columbia, and pending changes in lending



qualifying criteria, gave way to an unusually soft summer. Over the fall, sales have returned to a more typical, sustainable level.



Pricing has mirrored demand. Average inflation-adjusted home price appreciation swung from a twelve-month gain of 16.6% y/y in Q1 to a decline of 1.5% y/y in Q3. More recent monthly data point to a stabilization, with prices essentially unchanged in the twelve months to November. For the year as a whole, real home prices likely averaged about 5% above 2009 levels.

We are neither overtly optimistic nor pessimistic regarding the outlook for 2011.

On the one hand, we expect interest rates to remain at historically low levels, with the Bank of Canada deferring any further rate hikes until late 2011 given an uncertain global

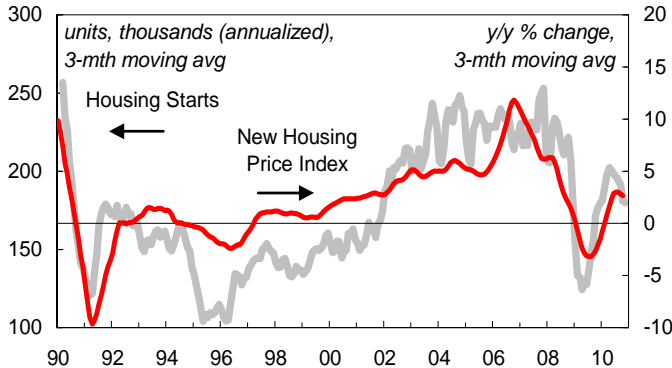
economic outlook and subdued inflation, and longer-term borrowing costs drifting up only modestly. This is an extremely powerful inducement for both first-time and move-up buyers and should maintain a decent level of sales.

Yet, demand will likely be tempered by more moderate employment and income growth as government restraint efforts take hold. Public sector hiring has accounted for fully a third of the net new jobs created in Canada over the past year, a pattern not likely to be repeated next year. Overall, we anticipate a fairly lacklustre year for residential housing, with modestly higher sales volumes and flat inflation-adjusted prices (equivalent to a 2% increase in nominal terms). The bigger risk likely awaits 2012 when more significant interest rate increases, combined with record high home prices, will notably strain affordability.



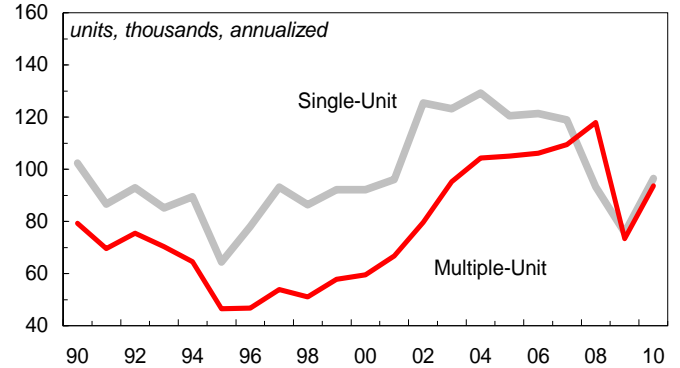
Canadian Residential Markets

New Home Construction & Prices



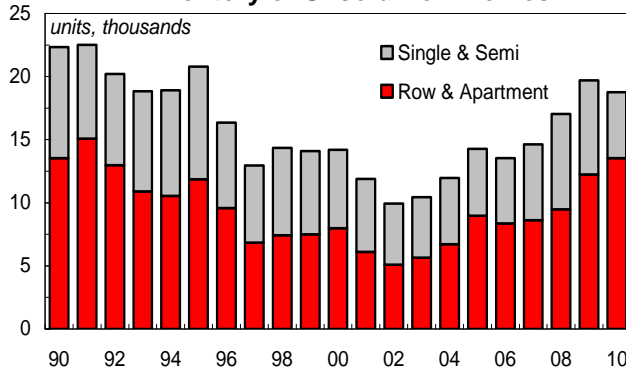
Source: CMHC, Statistics Canada

Housing Starts



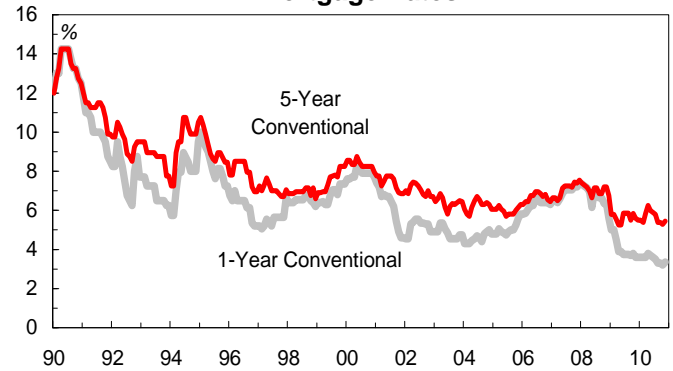
Source: CMHC

Inventory of Unsold New Homes



Source: CMHC

Mortgage Rates



Source: Bank of Canada

Housing Starts

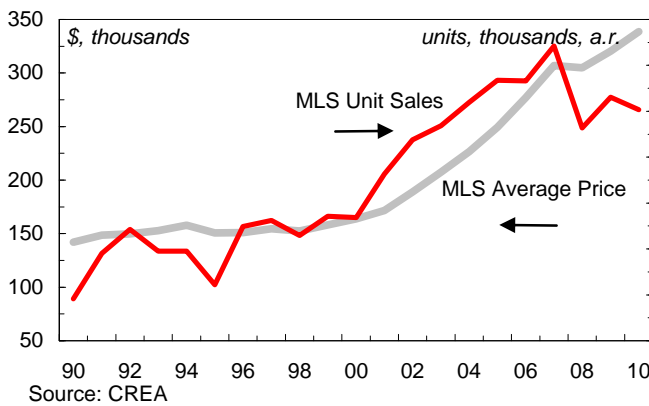
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2005	225	34.7	40.8	3.4	4.7	78.8	50.9	12.1
2006	227	36.4	49.0	3.7	5.0	73.4	47.9	12.0
2007	228	39.2	48.3	6.0	5.7	68.1	48.6	12.4
2008	211	34.3	29.2	6.8	5.5	75.1	47.9	12.2
2009	149	16.1	20.3	3.9	4.2	50.4	43.4	10.9
2010ytd	193	26.7	27.3	5.7	5.8	62.2	51.0	14.0
2010f	192	27	27	6	6	62	50	14
2011f	175	24	26	5	5	58	46	11
2012f	175	25	28	5	5	57	44	11
<i>(units, nsa)</i>								
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	14,729	9,574	10,256	30,133	9,060	22,000	2,492	1,793

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

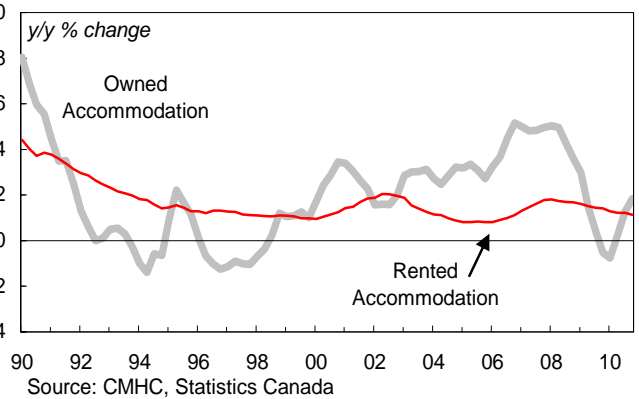


Canadian Residential Markets

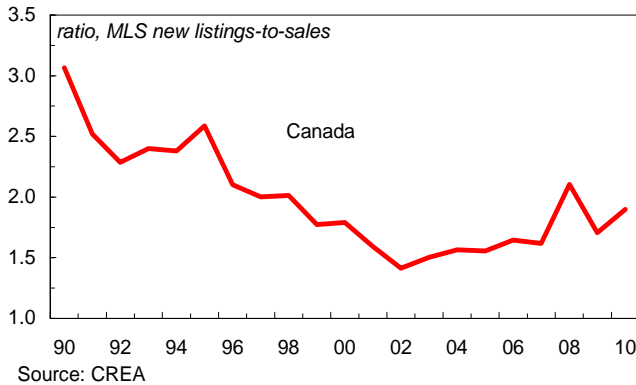
Existing Home Sales & Prices



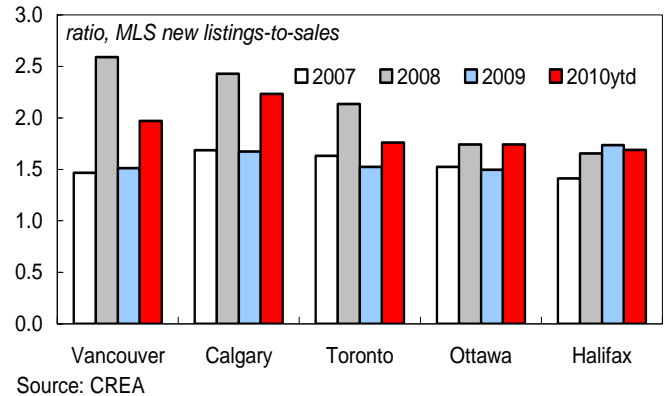
Housing Costs



Existing Home Inventory



Existing Home Inventory



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	338,676	451,825	503,245	75,435	352,771	49,956	230,279	24,008	342,992	198,109	240,491	81,116	193,940	22,776

	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	221,279	39,111	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	235,204	39,141	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	251,423	43,667	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	262,616	40,441	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	274,835	41,802	239,158	6,062
2010ytd	672,111	31,284	400,276	21,086	327,947	16,516	432,319	90,027	335,037	14,664	292,289	43,538	253,919	5,963

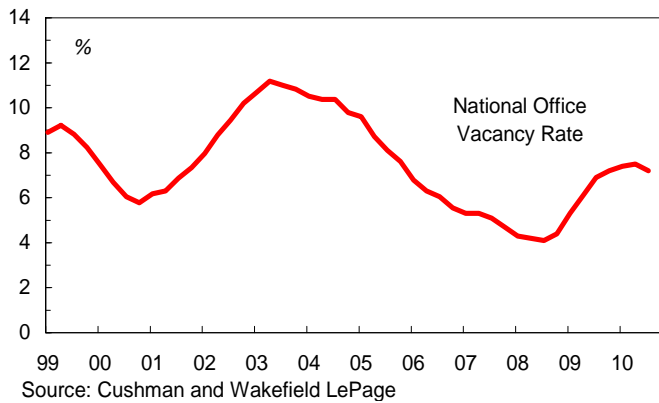
Source: Canadian Real Estate Association (CREA), QFREB, Scotia Economics calculations.

Year-to-date data are expressed at seasonally adjusted annual rates, except for Montreal which are not seasonally adjusted.

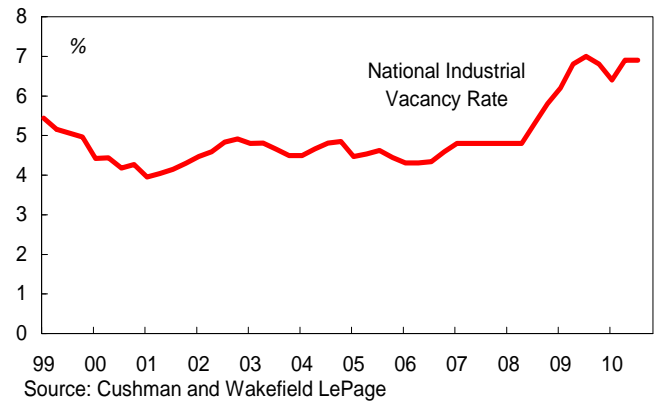


Canadian Non-Residential Markets

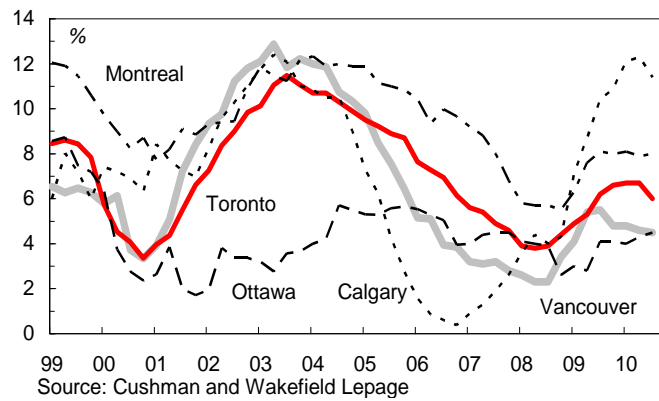
Office Markets



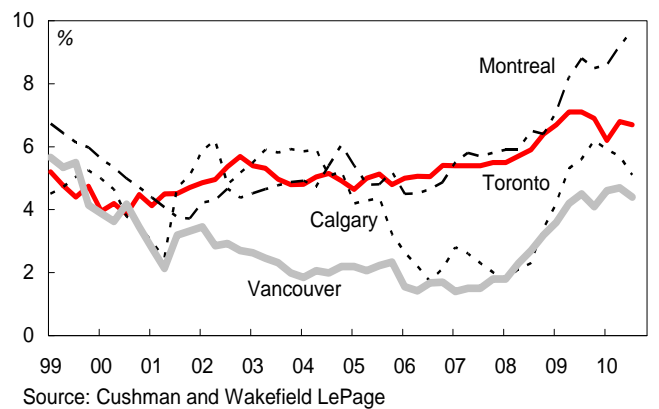
Industrial Markets



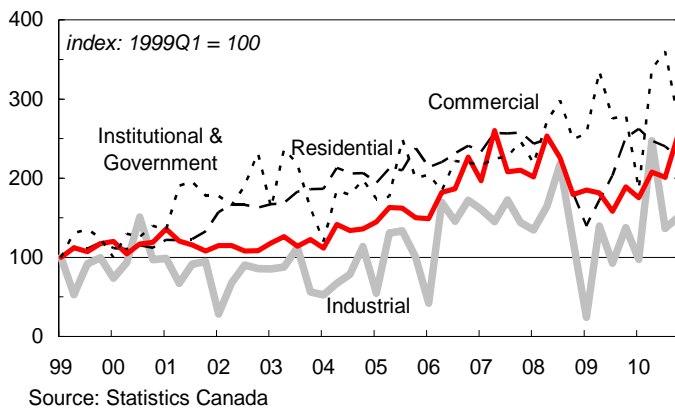
**Office Vacancy Rates
Largest Five Markets**



**Industrial Vacancy Rates
Largest Four Markets**



Building Permits



Building Permits

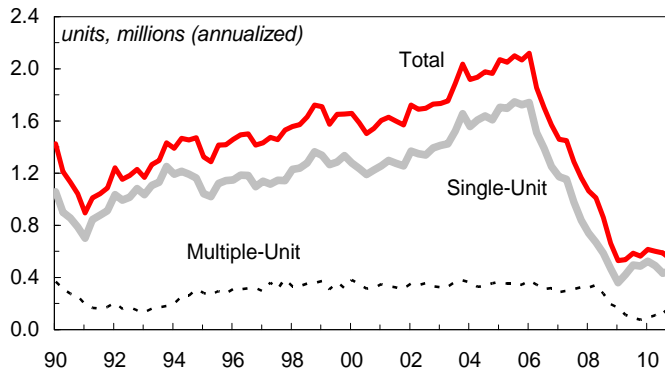
	Total	Res.	Indust.	Comm.	Inst. & Gov't
	(C\$ billions)				
2005	60.8	38.7	4.0	12.0	6.0
2006	66.3	41.1	4.5	14.4	6.2
2007	74.4	45.5	5.0	17.0	6.9
2008	70.4	40.9	5.1	16.7	7.8
2009	61.0	34.7	3.9	13.8	8.6
2010ytd	74.3	44.9	5.1	15.6	8.8

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



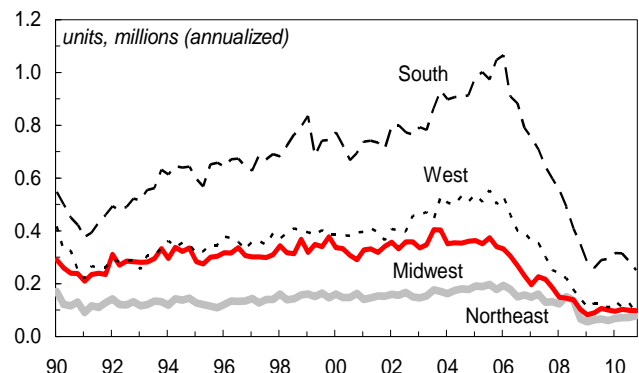
U.S. Residential Markets

Housing Starts



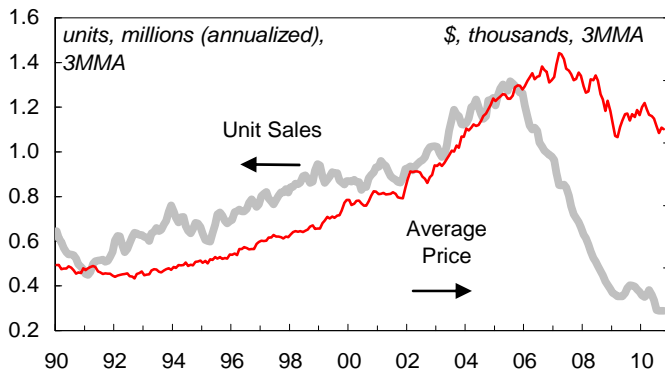
Source: U.S. Census Bureau

Housing Starts by Region



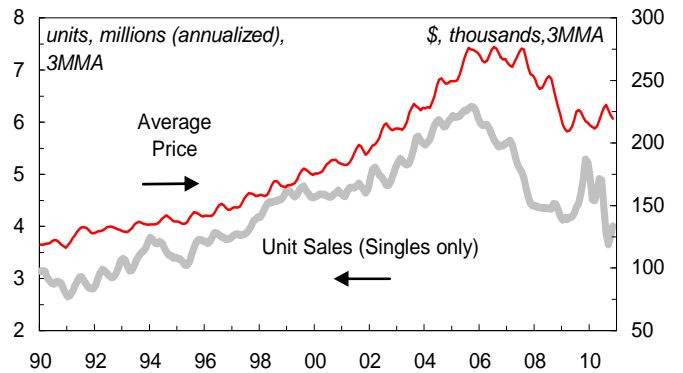
Source: U.S. Census Bureau

New Home Sales



Source: U.S. Census Bureau

Existing Home Sales



Source: National Association of Realtors (NAR)

Housing Starts

Permits

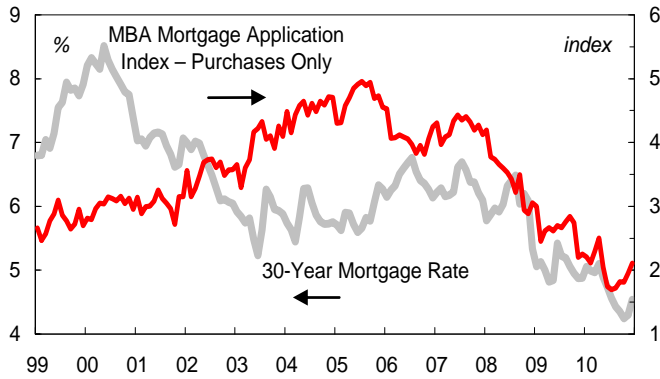
	Housing Starts							Permits		
	Total	Singles	Multiples	West	South	Midwest	North East	Total	Single	Multiple
	(millions of units)									
2005	2.068	1.716	0.352	0.525	0.996	0.357	0.190	2.155	1.682	0.473
2006	1.801	1.465	0.335	0.444	0.910	0.280	0.167	1.839	1.378	0.461
2007	1.355	1.046	0.309	0.321	0.681	0.210	0.143	1.398	0.980	0.419
2008	0.906	0.622	0.284	0.196	0.453	0.135	0.121	0.905	0.576	0.330
2009	0.554	0.445	0.109	0.117	0.278	0.097	0.062	0.566	0.434	0.131
2010ytd	0.596	0.479	0.117	0.122	0.302	0.099	0.072	0.596	0.453	0.143
2010f	0.60									
2011f	0.68									
2012f	0.90									

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

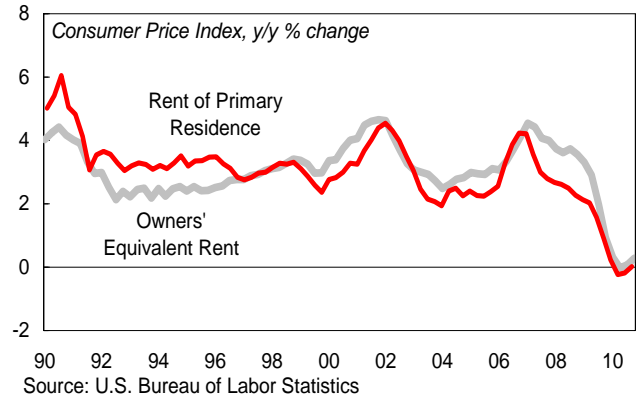


U.S. Residential Markets

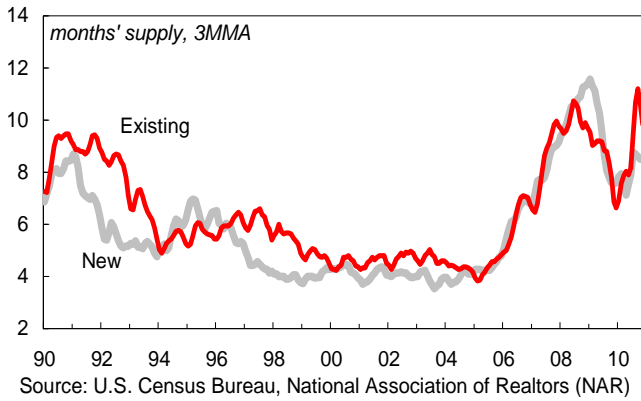
Mortgage Rates and Applications



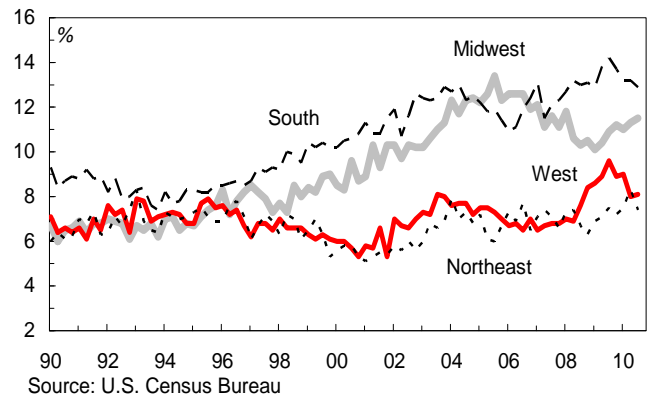
Housing Costs



New and Existing Home Inventories



Apartment Vacancy Rates



Existing Home Sales

New Home Sales

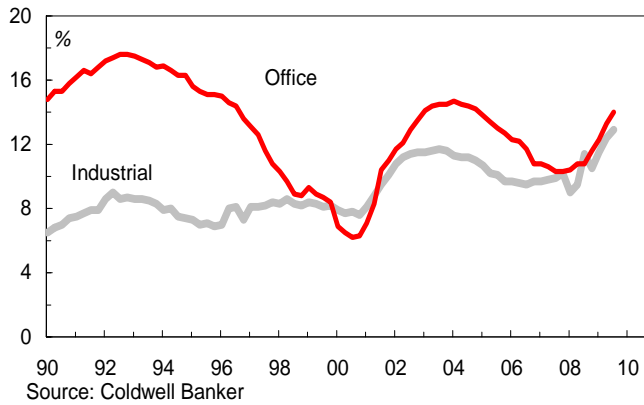
	Existing Home Sales				New Home Sales						
	Total	Avg Price (\$000s)	Months' Supply		West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)		(million units, saar, unless otherwise noted)						
2005	7.076	266.1	4.4		1.617	2.702	1.588	1.169	1.279	290.0	4.5
2006	6.478	269.5	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	0.769	308.8	8.4
2008	4.913	240.4	10.0		1.070	1.865	1.129	0.849	0.481	288.9	10.7
2009	5.156	217.1	8.3		1.211	1.914	1.163	0.868	0.371	268.3	9.1
2010ytd	4.885	220.4	9.2		1.143	1.849	1.074	0.820	0.324	267.4	8.1

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

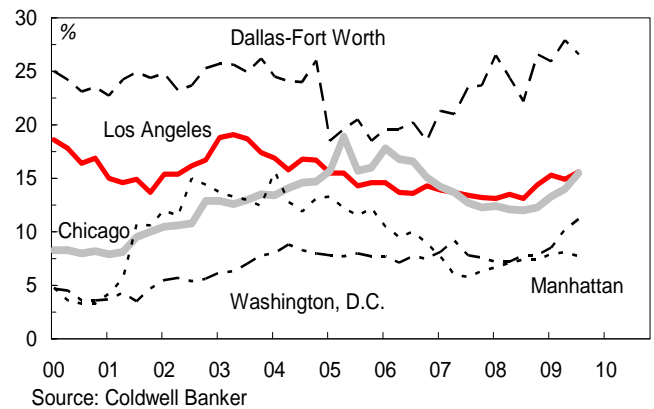


U.S. Non-Residential Markets

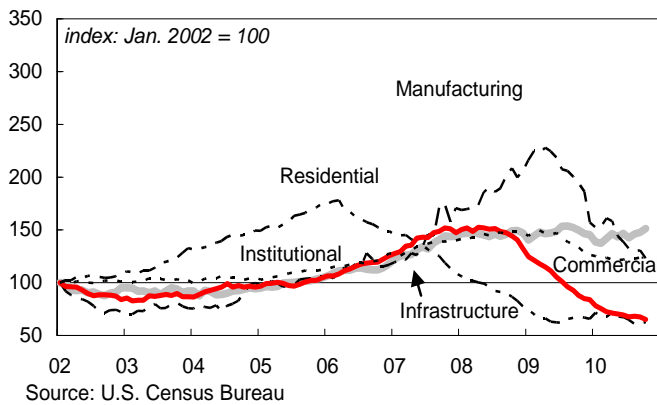
National Vacancy Rates



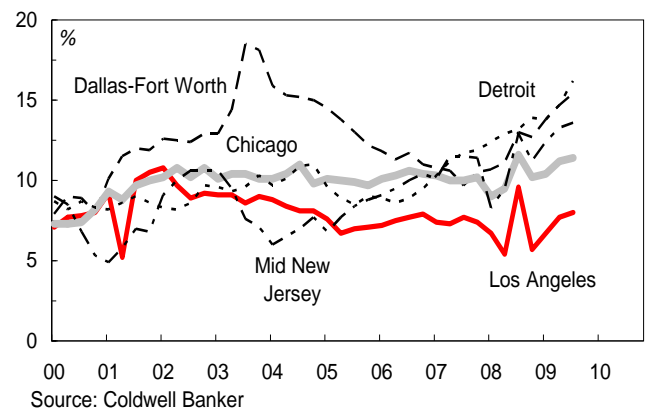
**Office Vacancy Rates
Largest Five Markets**



Construction Investment



**Industrial Vacancy Rates
Largest Five Markets**



Construction Investment

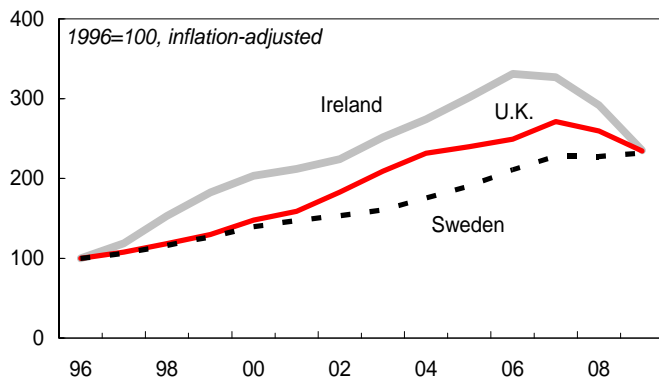
	Total	Residential	Manu- facturing	Office & Commercial	Institutional	Infra- structure	Private	Public
	(US\$ billions)							
2005	1104.1	617.5	28.6	128.8	144.4	184.8	870.0	234.2
2006	1167.2	619.8	32.7	149.0	158.0	207.7	911.8	255.4
2007	1152.4	500.5	40.6	183.7	179.5	248.1	863.3	289.1
2008	1067.6	357.7	53.2	190.6	193.9	272.1	758.8	308.7
2009	907.8	253.6	58.5	133.2	187.2	275.2	592.3	315.5
2010ytd	815.4	253.9	40.3	91.2	163.6	266.4	509.0	306.3

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



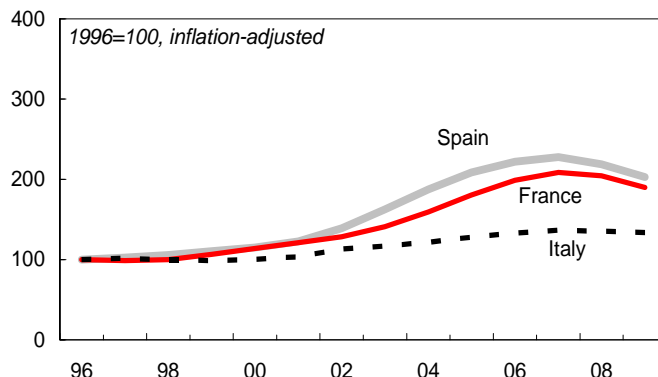
International Residential Markets

Inflation-Adjusted Home Prices



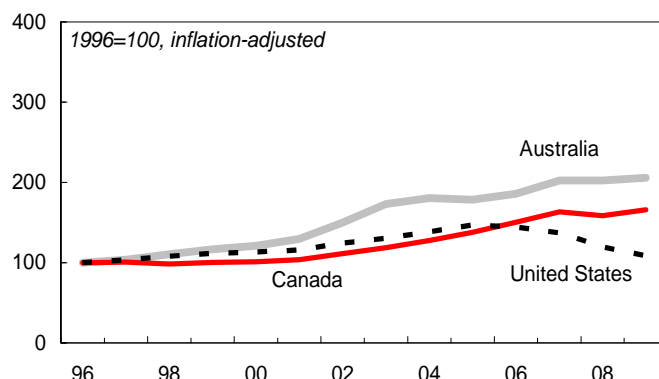
Source: Scotia Economics

Inflation-Adjusted Home Prices



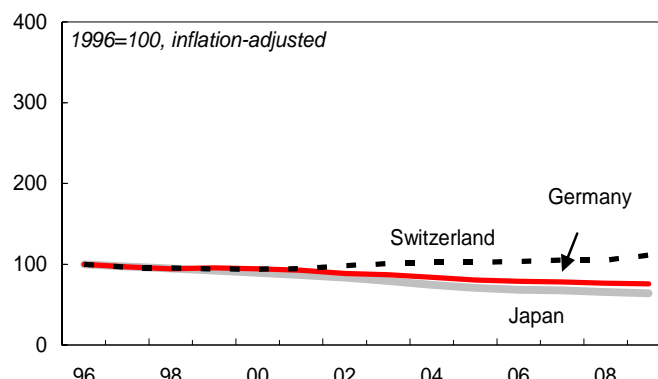
Source: Scotia Economics

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	09Q4	10Q1	10Q2	10Q3
Australia	3.8	6.8	15.8	15.4	4.2	-1.2	4.2	9.0	0.1	1.6	11.8	15.9	13.2	9.4
Canada	1.0	2.2	7.3	6.9	7.4	7.8	9.2	8.7	-3.1	4.7	19.1	16.6	6.9	-1.5
France	7.0	6.1	6.4	9.6	12.9	13.3	10.2	5.0	-1.9	-7.2	-4.8	0.2	4.4	6.8
Germany	-1.4	-1.9	-4.1	-2.0	-3.7	-3.9	-1.8	-1.3	-1.8	-1.2
Ireland	11.4	4.2	5.8	12.3	8.9	10.0	9.7	-1.1	-10.8	-19.4	-21.6	-14.3
Italy	1.4	3.4	9.3	3.4	3.8	5.5	3.6	2.9	-0.9	-1.2	-1.0	..	-1.7	..
Japan	-3.0	-3.3	-3.7	-5.0	-6.2	-4.8	-3.6	-1.1	-2.6	-2.4	..	-2.8	..	-2.8
Spain	4.0	6.7	13.4	16.9	15.3	11.2	6.5	2.6	-3.9	-7.3	-6.7	-5.9	-4.9	-5.2
Sweden	10.2	5.5	4.2	4.7	9.0	8.6	10.8	8.2	-0.2	1.9	7.5	9.7	7.9	5.6
Switzerland	-0.6	0.9	4.0	2.3	1.6	-0.1	1.4	1.3	0.3	5.5	6.4	3.8	3.6	4.7
United Kingdom	13.9	7.5	15.3	14.2	10.8	3.5	3.9	8.8	-4.3	-9.7	-1.6	5.2	6.8	4.4
United States	1.6	1.9	7.5	4.8	6.3	6.1	-2.0	-5.0	-12.8	-9.1	-4.6	-1.2	0.6	-0.4

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 Estadística, 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.