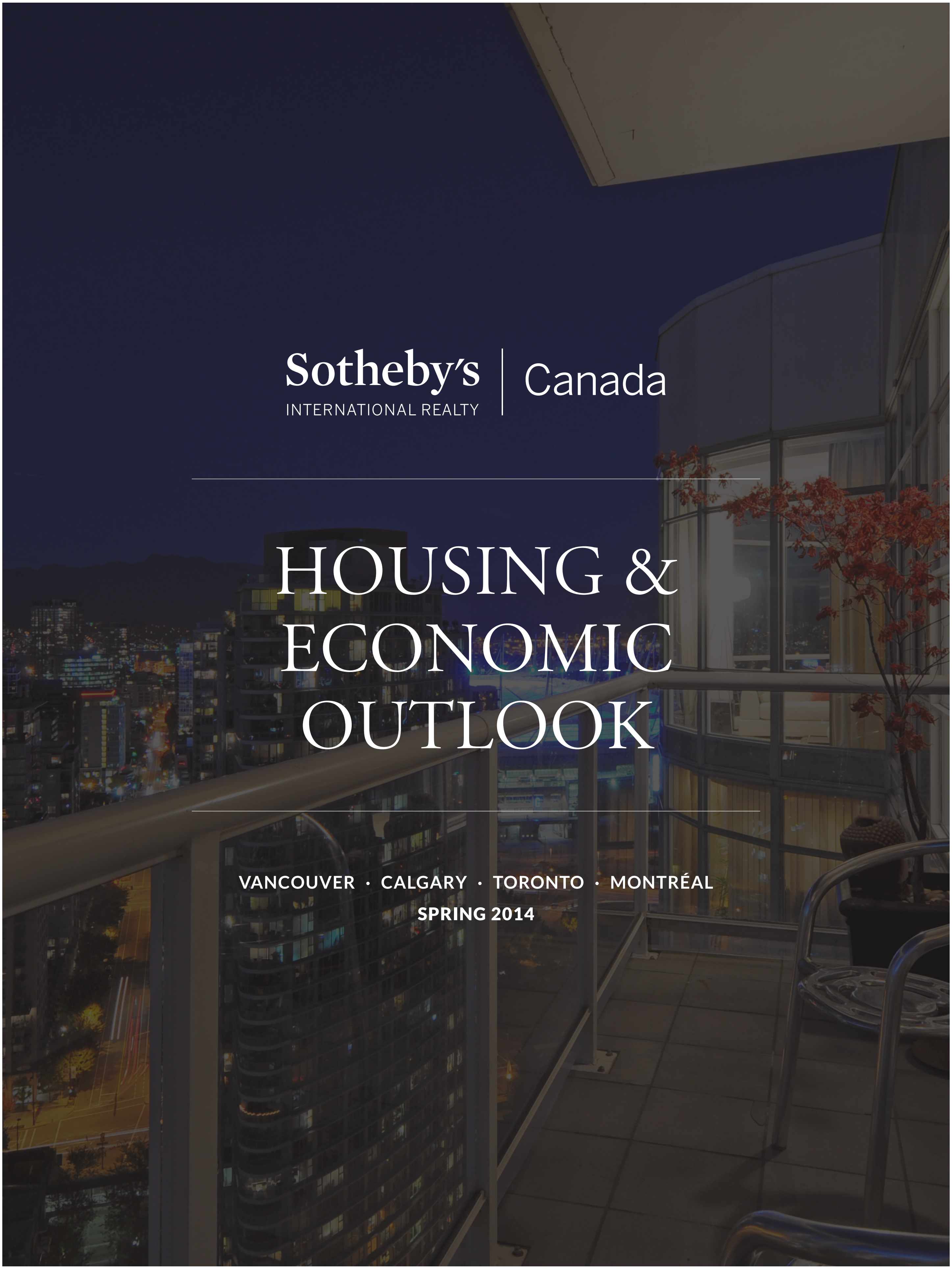

Sotheby's INTERNATIONAL REALTY | Canada

HOUSING & ECONOMIC OUTLOOK

VANCOUVER · CALGARY · TORONTO · MONTRÉAL

SPRING 2014

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INTRODUCTION

Sotheby's International Realty Canada's Housing and Economic Outlook: Spring 2014 is a seasonal report examining key economic indicators and market intelligence impacting the real estate market in Canada's largest urban centres. The report reviews national and local data to provide outlook commentary on the spring 2014 performance of the Vancouver, Calgary, Toronto and Montréal housing markets.

Data in the Housing and Economic Outlook is aggregated from public sources including Statistics Canada, the Bank of Canada, the Canadian Real Estate Association (CREA) and Canada Mortgage and Housing Corporation (CMHC). The forecast takes into consideration macro-economic indicators including the U.S. economic recovery, strength of the Canadian dollar, Canadian transfer of wealth, unemployment rates, immigration numbers and interest rate trends[*].

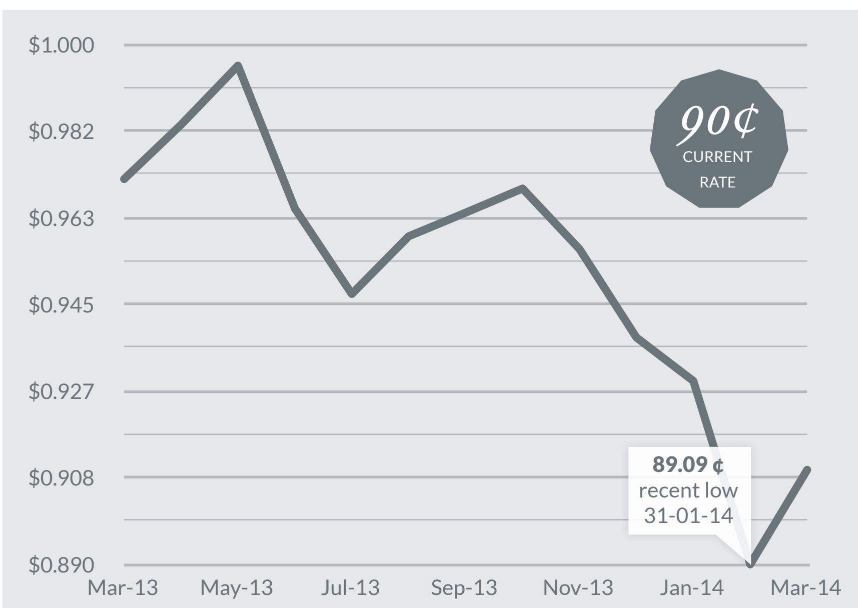
* The information contained in this report references data from Statistics Canada, the Bank of Canada, the Canadian Real Estate Association, Canada Mortgage and Housing Corporation, MLS boards across Canada and other secondary sources. Sotheby's International Realty Canada cautions that data of this nature can be useful in establishing trends over time, but do not indicate actual prices in widely divergent neighbourhoods or account for price differentials within local markets.

CANADIAN MARKET HEALTH

Following an analysis of key economic indicators impacting Canada's largest metropolitan real estate markets, Sotheby's International Realty Canada anticipates a spring market with few signs of stress in the months ahead. Overall, the Canadian real estate market is expected to enjoy a more balanced position than in 2013, which was polarized by a modest start to the year followed by a healthy Q3 and Q4.

U.S. ECONOMIC RECOVERY/CANADIAN DOLLAR

The state of the U.S. economy is inextricably linked to the Canadian economy, consumer confidence and in turn the health of Canada's housing market. To date, American efforts to recover from the 2008 financial crash have focused on improving the country's financial markets through various job and economic stimulus programs. Under the direction of Ben Bernanke, the Federal Reserve has been printing money at a rapid rate and purchasing trillions of dollars of treasury bonds and mortgage-backed securities to push down long-term borrowing costs and encourage investment and job creation. This approach, along with low inflation, has seen the country shift towards a more optimistic outlook for financial recovery in 2014.



CAD–USD Exchange Rate

Meanwhile, the Bank of Canada began a policy shift in October 2013 that sent the Canadian dollar to 4 1/2-year lows. In recent months, the Canadian dollar has dropped as low as 89.09 cents U.S. The dropping dollar has a number of positive benefits for the Canadian economy and certain geographical and product segments of the housing market. At current rates the price of Canadian goods, services and real estate have become more attractive to foreign buyers. Coupled with the uptick in U.S. economic growth, the falling Canadian dollar is expected to give a healthy boost to the Canadian exports and manufacturing sectors and the overall national economy, as well as to destination real estate markets for foreign investment such as Vancouver and Toronto. It will also make Canadian recreational real estate more attractive to domestic and international buyers.

TRANSFER OF WEALTH: $1 TRILLION OVER 20 YEARS

Another important influence on Canada's housing market is the unprecedented wealth currently being transferred between generations, with $1 trillion[*] estimated inheritance to be received by baby boomers in Canada over the next 20 years. According to the latest figures, Canadian baby boomers make up 42.4% of the population and will individually average $56,000 in inherited capital.

$1 Trillion[*]
Estimated Inheritance Received by Boomers in Canada in the Next 20 Years

18%[†]
of Those Who Inherited Received Over $100,000

$56,000[*]
Average Inheritance Received

This transfer of wealth is expected to be shared between baby boomers and their children, to whom a percentage of that wealth will be transferred almost immediately.

[*] BMO report Wealth Institute Report (2012)
[†] Investors Group Report (Feb 2012)

This national trend has several positive implications for Canada's real estate market. To begin, it provides a degree of stability to the condominium and attached home markets. For those baby boomers who have already seen their home values appreciate, an inheritance is an opportunity to assist their millennial generation children with down payments to enter the real estate market, particularly in major urban centres such as Vancouver where housing affordability is an ongoing concern. For other baby boomers, an inheritance triggers the decision to change homes or to downsize.

This transfer of wealth is also expected to impact the real estate market indirectly through the renovation of existing homes, funding home upgrades as baby boomers adapt their homes for retirement living or renovations to be enjoyed in the shorter term prior to downsizing. According to TD Bank, $45 billion in renovation activity is expected by 2015[†], more than twice the level from a decade ago. Renovations increase the value of the existing housing supply and have a positive effect on real estate prices.

IMPROVING UNEMPLOYMENT RATES & INCOME

At the same time, key income and employment indicators from Canada's largest urban housing market point to a strong second quarter. According to the latest report from Statistics Canada, the median household income in Vancouver, Toronto, Montréal and Calgary have increased 2.8%, 2.4%, 3.2% and 4.4% respectively[‡].

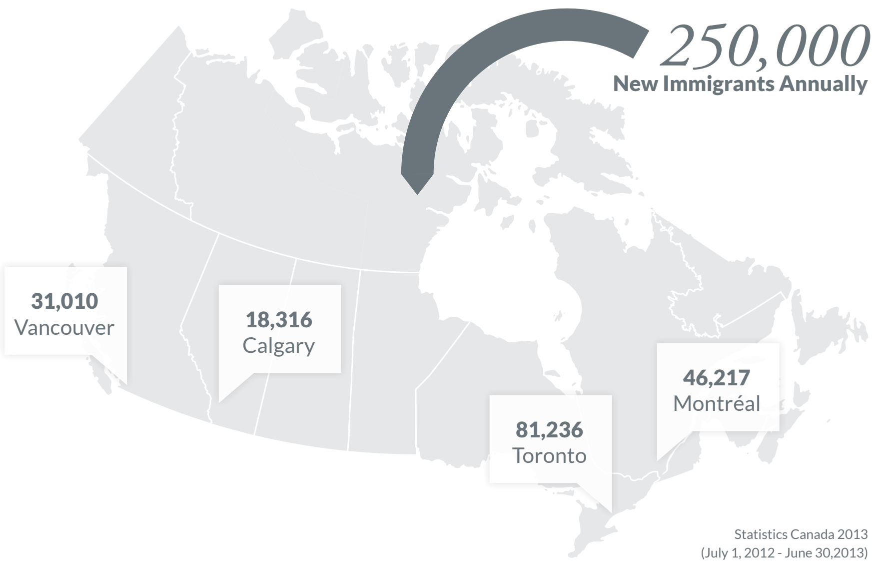
Canadian unemployment figures continue to improve, averaging 7% nationally with an expectation to remain stable and see slight improvements into the spring. Of the four centres, data shows Calgary leading the country with the strongest economy and outlook for growth.

† TD Bank - Outlook for Canadian Renovation Spending (2013)

‡ Statistics Canada - 2011 National Household Survey (Median Income)

HEALTHY IMMIGRATION LEVELS

In 2014, immigration will continue to contribute to a strong urban housing market particularly in Vancouver, Calgary, Toronto and Montréal. According to Statistics Canada's most recent data on immigration, Toronto and Montréal have experienced the largest gains in international immigrants, with an estimated 46,217 entering Montréal, and 81,236 moving to Toronto. Immigration to Calgary increased 6.5% during this period and Vancouver gained 31,010 new immigrants.



HISTORICALLY LOW INTEREST RATES

In recent years, low borrowing costs have encouraged homebuyers and investors to enter the Canadian housing market and this trend is expected to continue in 2014. On March 5, 2014 the Bank of Canada announced that the overnight lending rate would continue to sit at the historically low rate of 1.00%, a position it has held since September 2010.

Meanwhile, predictions of an imminent interest rate hike have changed over the past 12 months. In spring 2013, a Reuters poll of 30 economists and financial analysts predicted an interest rate hike in late 2013 or early to mid-2014. The same Reuters poll in March 2014 predicted that an interest rate increase should not be expected until July to September 2015.

VANCOUVER

The forecast for Vancouver's spring real estate market anticipates modest gains in the second quarter of the year, bringing sales numbers reported by the Greater Vancouver Real Estate Board back in line with the ten year sales average. With February 2014 sales reflecting a 40.8% increase over the same month in 2013, Vancouver entered its tenth consecutive month of year-over-year sales gains with the market looking equally healthy for spring. Meanwhile, Metro Vancouver housing prices are expected to remain strong. The MLS® Home Price Index composite benchmark price rose to $609,100 in February 2014, 3.2% over February 2013[*].

Based on economic indicators, much of the expected sales activity this spring will be driven by improved market confidence, tighter inventory and mortgage rates that remain at historical lows. Rising employment rates and strong immigration numbers also paint an encouraging picture for the city's rebounding economy. Announcements for new mega-commercial and residential real estate and transportation projects, and the province's investment in the liquefied natural gas sector, mean that unemployment rates are expected to remain below the national average. The current unemployment rate in the Vancouver census metropolitan area sits at 6.3%, which is well below Canada's national average of 7.0%[†].

Recent data from Statistics Canada also reported that Vancouver added 31,010 new immigrants between July 1, 2012 and June 30, 2013[‡]. With Vancouver's declining unemployment rate and rebounding confidence in both the economy and the real estate market, Vancouver's spring housing market is expected to remain healthy through the second quarter.

* Real Estate Board of Greater Vancouver (February 2014)

† Statistics Canada (February 2014). Seasonally adjusted unemployment rate.

‡ Statistics Canada (2013)

CALGARY

In recent years, Calgary has stood out as a pillar of strength among Canada's major urban centres, bolstered by continued economic growth and record-breaking real estate market performance. This resilience helped the city's housing market recover from the effects of widespread flooding that took place in June and July 2013, described by the provincial government as the worst in Alberta's history.

In the year ahead, Alberta is expected to lead the country in total capital investment growth driven largely by oil and gas extraction and pipelines. For years, these investments have resulted in healthy economic growth and positive overall net migration numbers in Calgary. The city is also attracting international immigrants in increasing numbers: the latest data from Statistics Canada showed 18,316 entering the Calgary market between July 1, 2012 and June 30, 2013, a 6.5% increase over the previous year[*].

On the heels of a strong 2013, sales volume continues to move upward in 2014, with the Calgary Real Estate Board's February data noting an 8.68% gain over 2013. For the same period, the average selling price of homes in the City of Calgary also increased 5.25% to $473,593, while average days on market reflected a marked decline of 20.93% to 34 days[†]. Low inventory and high demand from buyers have resulted in bidding wars, multiple offers and an increase in sales above asking prices for single-family homes both in the city and its surrounding areas. Low vacancy rates are also encouraging first time buyers into the market, driving specific demand for homes in the $300,000 to $700,000 range with the effect trickling up to homes at higher price points.

Anticipated regulatory approval of any one of the many proposed pipeline projects will also contribute positively to the momentum of the city's economic performance in 2014. Calgary's economy is expected to benefit from healthy construction activity as Canada Mortgage and Housing Corporation reported total housing starts in the Calgary census metropolitan area rose 41.7% in February 2014 compared to the same time last year. The single-detached market was up 15.0% while the multi-family market was up a significant 73.4% from the same time last year[‡].

* Statistics Canada (2013)

† Calgary Real Estate Board (February 2014)

‡ CMHC (February 2014)

Based on key economic indicators, the outlook for Calgary's real estate market is positive. Although additional inventory is expected to hit the market in the spring, the expectation is that it will be absorbed by consumer demand driven by low interest rates, tight rental and resale real estate markets and strong economic fundamentals.

TORONTO

In spite of an unrelenting winter, the Toronto real estate market experienced a strong start to the year. Home sales reported by the Toronto Real Estate Board for February 2014 were up 2.1% compared to the same period last year and the average selling price was up 8.6% to $553,193[*]. Tight inventory, strong demand and continued affordability have resulted in multiple offers and bidding wars, particularly within the Downtown Central Core, with a ripple-out effect to the city's perimetre.

The region's luxury real estate segment has shown particularly notable momentum leading into spring. In the first two months of the year, sales of homes over $2 million were up over 18% year over year in the Greater Toronto Area[†] with 104 units sold compared to 88 units sold within the same period in 2013. Single family and attached homes near the $2 million price point in the Downtown Central Core have been in exceptionally high demand. With this strong start to the year, the outlook for the city's luxury housing market is expected to remain healthy into 2014.

There are several economic and demographic factors that will continue to spur Toronto's housing market to perform above the national average through the second quarter of 2014. To begin, the improving U.S. economy is expected to have a disproportionately positive impact on Ontario's economy relative to other Canadian urban centres due to the region's manufacturing and trade sectors.

Furthermore, immigration will also continue to play a significant role in the health of the city's real estate market. According to the most recent data from Statistics Canada, the Toronto census metropolitan area saw 81,236 new immigrants, the highest numbers in Canada, between July 1, 2012 and June 31,2013. In 2014, this trend will continue to fuel a real estate market already in short supply of rental and resale housing[‡].

At the same time, Toronto's condominium and attached home markets will continue to be impacted by the growing segment of empty nesters downsizing for lifestyle reasons. This group will not only directly sustain

* Toronto Real Estate Board (February 2014)

† Toronto Real Estate Board (January- February 2014 data). Greater Toronto Area figures (Durham, Halton, Peel, Toronto and York). Condominiums - All Condo Types (Residential Condo & Other): Common Element Condo, Condo Apt, Condo Townhouse, Co-op Apt, Co-Ownership Apt, Detached Condo, Leasehold Condo, Locker, Other, Parking Space, Phased Condo, Semidetached Condo, Time Share, Vacant Land Condo. Attached Homes - Attached/Row/Townhouse, Semi-Detached, Duplex (Residential Freehold). Single Family Homes - Detached, Detached with Common Elements, Links (Residential Freehold)

‡ Statistics Canada (2013)

demand for these property types into 2014, reinforcing the level of confidence that was restored in the condo market in 2013, it will influence the nature and quality of these homes to meet the lifestyle standards of end users, as opposed to investors.

Overall, the Toronto real estate market is expected to remain strong through the second quarter, with the city's luxury housing market expected to emerge as one of the leaders among Canadian real estate markets.

MONTRÉAL

Entering spring 2014, Montréal faces a number of political and economic hurdles that will further temper the city's real estate market. Rising taxes, an unemployment rate that exceeds the national average, as well as diminishing government revenue have all taken their toll on the Montréal economy. Furthermore, political uncertainty regarding the potential outcome of the upcoming April 7 provincial election have dampened the confidence of real estate consumers.

The latest residential sales statistics for the Montréal census metropolitan area from the Greater Montréal Real Estate Board reflect a market that continues to favour buyers. In February 2014, sales volume decreased 2% year over year, while the median price of single-family homes across the city increased 2% in February to reach $275,000[*].

In spite of lacking consumer confidence in Montréal's current housing market, there are a few influences that could see a positive impact on sales leading into spring. The city has experienced a strengthened job market boosted by the exports and manufacturing sectors, which contributed to a 8.5% drop in unemployment rate year over year[†]. The favourable Canadian exchange rate has also resulted in an increase in foreign buyers from the United States, Middle East and Europe, who are investing in newer build, medium grade condominium products. Furthermore, Montréal has reported the second highest immigration numbers in the country, with 46,217 international immigrants entering the city between July 1, 2012 and June 30, 2013 and bolstering demand for housing[‡].

While it is widely anticipated that the Montréal housing market will continue to favour buyers through 2014, the outcome of the April election will be the defining influence on the health of the city's economy and real estate market this year and into 2015.

* Greater Montréal Real Estate Board (February 2014)

† Statistics Canada (2013)

‡ Statistics Canada (2013)

