

Report on **Business**

House prices to drop: TD

Bank sees shift over course of the year with lower prices in 2011

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House prices will fall in 2011, TD Bank said Wednesday as it revised its outlook for the Canadian [real estate](#) sector.

The bank left its forecast in place for 2010, saying there should be about 475,000 transactions at an average price of \$350,000. That's a 9-per-cent increase compared to the end of 2009.

"However, this hides an underlying shift occurring over the course of the year," said [TD Bank](#) economist Pascal Gauthier. "While we anticipated sales and prices to be strong in the first half and to cool in the second half, we now expect this contrast between the two halves will be sharper."

While income and employment seems to be recovering quickly from the recession, the number of listings to hit the market and the number of new housing starts has caught the bank by surprise. It had previously expected prices to gain 1.6 per cent in 2011 in inflation adjusted terms, the bank now is calling for a 2.7-per-cent drop.

Ontario and British Columbia are expected to bear the brunt of the decline, seeing their markets drop 3.4 per cent and 3 per cent respectively.

"As a result of the stronger supply response, the market balance is now expected to be somewhat softer next year, consistent with market conditions more favourable to potential buyers and a mild depreciation in home values," he said. "Taking into account the typical lags between home affordability, sales and price behaviour, the impact of all these combined changes is that we now project a modest price pullback for 2011."

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The forecast is slightly more pessimistic than that put forward by the Canadian Real Estate Association, which has said since the beginning of the year that prices would like fall by 1.5 per cent in 2011 as more supply enters the market and rising values price many would-be owners out of the market.

On Tuesday, Brookfield Real Estate Services chief executive officer Phil Soper told the company's annual general meeting that CREA's forecast is likely out of date, and the market will be notably softer in 2011. The company owns Royal LePage and Le Capitale.

"It's likely too conservative, but they have the direction right," he said. "Affordability is eroding in Canada, and higher prices and more expensive mortgages will push people out of the market quite quickly."

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