HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

CALGARY

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IN THIS ISSUE:

1 **New Home market**
Single-family starts decline for the third consecutive year in 2005, albeit marginally. While multi-family construction could match the 22-year high set last year, a ten per cent decline is recommended to maintain healthy inventory levels.

4 **Resale market**
Following a new record in 2004, resale transactions will post another new high as persistently low mortgage rates fuel demand. Fewer listings relative to demand combined with strong sales at the upper-end of the market will boost the average price nine per cent.

5 **Rental Market**
Despite continued first-time buying activity, a modest reduction in vacancies is expected due to continued declines in Calgary's rental stock. Expect modest rent increases while incentives remain.

6 **Economy**
Employment growth suppressed as net migration is insufficient to cover demand for labour from employers.

8 **Forecast Summary**

New Home Market

Forecast for 2005 Housing Starts Upgraded, Though Decline Still Expected

In 2004, total housing starts in the Calgary Census Metropolitan Area (CMA) surpassed the 14,000-unit mark for only the second time in 23 years. Local builders started 14,008 homes of all types in 2004, up three per cent from the previous year. This was a truly remarkable feat considering supporting factors such as net migration and job growth were historically weak in the preceding two years. Despite this, the new home market benefited from the cumulative impact of these two indicators leading up to 2003. From 1995 to 2001, employment growth averaged 22,800 per year, 20,700 of which were full-time positions. Net migration was also strong, averaging 15,600 per year from 1997 to 2002.

Despite the benefits of job growth and net migration from previous years, 2004's housing market performance was predominantly fuelled by low financing costs. At 4.59 per cent, the average one-year posted mortgage rate was 25 basis points lower than its 2003 equivalent. Combined with competitive mortgage markets offering generous discounts, home buyers in 2004 enjoyed the lowest mortgage rate environment on record.

In the previous report (Fall 2004), an 80 basis point increase in mortgage rates in 2005 was expected to contribute to a 10 per cent decline in total housing starts in Calgary. Recently, however, the persistent strength in the Canadian dollar and subsequent negative impacts on the national economy has allowed the Bank of Canada to postpone the previously anticipated monetary tightening. As a result, low mortgage rates, a dominant force fuelling demand over the past few years, will continue to stimulate housing demand in 2005. As was the case previously, the low mortgage rates will continue to provide a stream of first-time buyers, while providing existing owners an opportunity to move up in the market. That said, a number of competing factors will counter the impact of persistently low mortgage rates, preventing 2005 from outperforming the previous year.

For 2005, the forecast for total housing starts in the Calgary CMA has been upgraded to 13,200 units, representing a decline of less than six per cent from 2004 levels. Despite the expected decline, the 13,200 housing starts in 2005 will still represent the fourth best year for new home construction since 1981. This year's total housing starts will exceed the preceding 10-year average of 11,154 units by a healthy 18 per cent.

Factors warranting the decline in new home construction include the following. While low mortgage rates will continue to buoy demand, two fundamental elements for new home demand are showing signs of moderation, at least by Calgary's standards. Though net migration in 2005 is expected to record a healthy increase from 2004's 12-year low, it will still pale in comparison to the average during the preceding eight years. For 2004 and 2005, net migration should average 5,000 per year, a considerable departure from the 14,000 per annum average from 1996 to 2003. A similar scenario is developing for Calgary's job creation, as the expected pace of employment growth from 2002 to 2005 will be just over 50 per cent of what it was in preceding seven years.

Previous performances will also be to blame for weaker housing starts in 2005. Low mortgage rates and the expectation of future price and rate increases have brought

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demand forward, inherently stealing activity from future years. Moreover, a number of factors point to Calgary's pent-up ownership demand being satisfied. Among CMAs, Calgary has persistently recorded the highest number of housing starts per capita, a trend which should continue in 2005. Meanwhile, housing starts have surpassed the rate of household formation since the turn of the millennium. As Calgary already holds the highest rate of home ownership among CMAs, these factors suggest that much of Calgary's pent-up demand has been satisfied.

Increasing debt loads are also cause for concern for Calgary's home ownership markets, especially considering debt levels have grown faster than household incomes. In previous years, many households upgraded their homes by taking on additional debt. Lower mortgage rates were the enabling factor, as the steady rate declines since 2001 countered the impact of higher house prices. In this declining mortgage rate environment, many households also changed their strategy by choosing short-term variable rate mortgages, allowing them to further increase their debt loads with minimal impact on monthly carrying costs. The concern moving forward is simple. Choosing a variable rate mortgage to afford a more expensive home in the past means a similar opportunity to do the same in the future is non-existent. Moreover, the heavier reliance on short-term mortgages increases a household's risk exposure to higher interest rates in the future.

Also of concern is that some households are taking out their home equity through refinancing. Essentially, a number of households have refinanced their homes, not only to renegotiate their mortgage rate, but also to compensate for a lack of income growth and subsidize current expenditures. With debt-to-equity ratios increasing as a result, many owners will only have their home's appreciation to rely on when attempting to upgrade to a more expensive unit.

Additional factors cutting into housing starts include a diminished pool of first-time buyers, weaker demand for investment properties, and higher house prices. Strong competition from both the resale and rental markets will also dampen the pace of new construction. Though 2005's active listings will fall below those in 2004, they will still be among the highest levels since 1996, offering a healthy choice of product to prospective buyers. The recent jump in rental vacancies has also triggered rent reductions and incentives from property owners, in attempt to maintain their tenant base. Concerns over rising inventories in the multi-family market will also warrant a decline in total new home construction.

Following 8,233 starts in 2004, single-family builders are expected to start 8,000 units in 2005, a modest decline of three per cent from the previous year. While this represents the third consecutive decline, 2005's single-family starts will be about 500 units higher than the previous 10-year average, a period which included two years in excess of 9,200 units. Meanwhile, multi-family starts, which include semi-detached units, rows, and apartments, are expected to total 5,200 units in 2005, down from 5,775 in 2004. Despite the decline, multi-family starts in 2005 are expected to reach the second highest total since 1982.

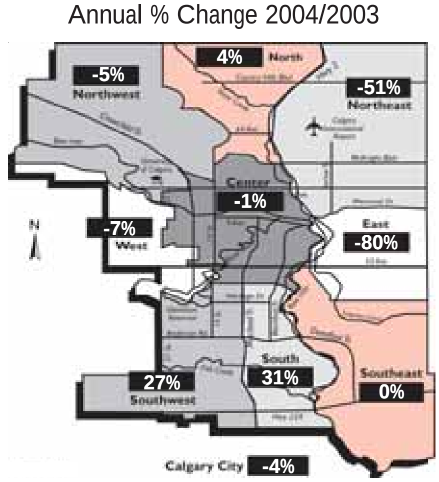
Strong Summer Expected for Single-family Starts

Given the pace of single-family construction in the first quarter of 2005, it appears that the market is in line with our forecast for the year. Single-family starts from January to March totalled 1,779 units, less than two per cent behind the pace set in 2004. Builders have been reporting exceptional sales leading up to spring, thus it is likely single-family starts will move ahead of 2004's pace in the next few months. First quarter single-family building permits support this hypothesis, as year-over-year permits are up by almost 10 per cent.

So far this year, many households are committing early to their new home purchase to take advantage of current pricing and mortgage rates before increases occur later in the year. A number of new subdivisions are also sparking early interest, while the Imperial Oil head office move is providing a welcome, yet temporary, jump in the home buying pool. Once these factors lose steam, the gains in single-family construction should begin to taper off around mid-year when the market competes with comparatively strong numbers from 2004. Single-family construction started 2004 on a relatively weak note before gaining momentum over the duration of the year.

SINGLE-DETACHED STARTS

Annual % Change 2004/2003



Source: Calgary Real Estate Board

Average Price to Reach $307,000

After increasing 10.2 per cent in 2003, Calgary's average new single-family house price recorded a relatively weaker gain of 6.8 per cent last year, reaching $285,250. While the slower pace of price growth came as welcome news for homebuyers, it still matched the gains in average price over the preceding five years. Unlike previous years when labour was a dominant factor, the average price increase in 2004 reflected higher costs for both building materials and land. Framing packages dominated price gains for building materials in 2004, due to strong North American demand and lack of production capacity.

Three months into 2005, the average price has jumped 13 per cent from the corresponding period in 2004. While this represents a steep gain, buyers can be assured that annual price growth in 2005 is expected to be much more subdued. As you will see below, the market is still facing strong upward price pressures. However, the extent of the price growth to-date has been inflated by compositional factors. In the first three months of 2005, 154 units were absorbed over $450,000, a 54 per cent gain from the first three months of 2004. This jump can, in part, be attributed to the record profits in the oil patch and subsequent bonuses last year.

For 2005, CMHC expects the average new house price to increase by 7.6 per cent, reaching $307,000. Thankfully, lumber prices will no longer dominate price growth as they did in 2004. However, steel inputs, such as doors, nails and fasteners, posts, and plumbing and heating fixtures, will all face price increases in 2005 due to strong Asian demand for steel. Meanwhile, with crude oil and natural gas prices near record levels, any inputs derived from, produced by, or transported using oil or gas will see further price increases. These include plastics and vinyl, glass, concrete, drywall, and asphalt shingles.

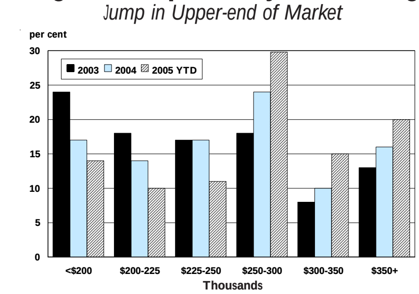
Labour and lot costs will result in additional price pressure in 2005. Strong new home construction, a robust renovation market,

back to TOC

and red-hot commercial construction sector will all compete for Calgary's finite pool of labour. The situation could become critical once residential and non-residential construction accelerates in the summer, especially for transferable trades such as drywallers, plumbers, and electricians. Exacerbating this further is stiff competition outside of Calgary. As many trades tend to be young and mobile, many will look to Fort McMurray and BC, as long as competitive wages are offered. Meanwhile, though serviced lot supplies appear to be in good shape, cost pressures from raw land, pipe, concrete, asphalt, and labour will continue to boost lot prices.

Single Absorptions by Price Range

Jump in Upper-end of Market



Source: CMHC *YTD March

Multi-family Market Remains Vibrant…

Following a 22-year high of 5,775 units in 2004, multi-family construction, including semi-detached, row, and apartment units, is expected to total 5,200 units in 2005. While this represents a 10 per cent decline from the previous year, the 5,200-unit performance will be the second best since 1982. It will also surpass the previous 10-year average by an impressive 43 per cent.

The multi-family market's persistent strength is fuelled by a number of factors, including gains in market acceptance, low mortgage rates and the relative price advantage to a single-family home. Calgary was once dominated by single-family ownership, though past population gains through migration and the aging of baby-boomers continues to elevate the acceptance of condominium living. The recent wave of first-time buying has also promoted multi-family ownership. Despite a diminished pool of potential first-time buyers moving forward, persistently low mortgage rates will continue enticing renters into their first home purchase. For those finding the single-family market cost-prohibitive, the multi-family market is often an affordable alternative. In 2004, the average single-family home was around $100,000 more than the average row and apartment condominium.

Multi-family demand is also supported by the fact it can provide a multitude of product in the central sector of the city. For buyers looking to for a short commute and inner-city lifestyle, a single-family home close to the core is often too expensive. At the end of March, almost 50 per cent of all multi-family units under construction within city limits were in the central sector of Calgary, up from 41 per cent one year earlier.

… Yet Elevated Supply Levels Warrant Caution

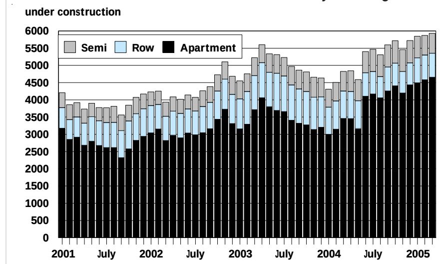
While a multitude of approved inner-city projects could push multi-family construction toward 2004 levels, a number of factors, both on the demand and supply side, do not support such a strong performance in 2005. Accordingly, CMHC expects multi-family builders to cut production to a more prudent level of 5,200 units.

On the demand side, Calgary is coming off weak years of employment growth and net migration. Given the lag from job creation and migration to home ownership demand, the softer performances should translate into weaker demand moving forward. Higher home ownership costs in 2005 will also take a bite out of demand. Over the last six years, declining mortgage rates cushioned the impact of rising prices. However, mortgage rates have now hit bottom and appear to be headed upwards. Combined with further price increases, some buyers will face affordability constraints, in turn tempering ownership demand. Rental property owners are also doing their share to trim ownership demand, as renters are enjoying lower rental rates and other incentives for the first time in years.

Investment demand is also fading. Investor interest in rental condominiums was strongest at the turn of the millennium when vacancy rates were near one percent and stock yields performed poorly. Since then, apartment vacancies have increased in concurrence with declining mortgage rates, sending many renters into home ownership. The subsequent drop in the rental demand pool combined with high rental vacancies imply that many such investors may only be successful if they cut rents. Others will sell their units in the resale market and re-inject their capital elsewhere. Prospective condo investors will also shy away, as many will see a substantial opportunity cost if their capital is tied up in a vacant condominium. Meanwhile, speculative investors would buy early in the construction process with the intention of flipping units closer to project completion may back away from areas showing signs of being oversupplied.

Multi-family Under Construction

Units Under Construction at 22-year High



Source: CMHC

On the supply side, concerns over rising inventories should warrant caution among developers moving forward. Inventory increases are already appearing, as the number of complete and unabsorbed units in March is among the highest total in four years. At the end of March, 654 multi-family units sat in inventory, five per cent higher than 2004. With a 22-year high of 5,931 units under construction at the end of March, expect to see further inventory gains once current projects are completed. In the first quarter of 2005, only 71 per cent of multi-family units were absorbed at completion, the lowest proportion since January 2001. Bear in mind, the multi-family market responded to similar conditions in 2001 with a 13 per cent decline in starts from the previous year.

Mark Your Calendars!

2005 ALBERTA Housing Outlook Conference

Westin, Edmonton

November 17th, 2005

back to TOC

RESALE MARKET

Expect Another Record for Residential MLS® Sales in 2005

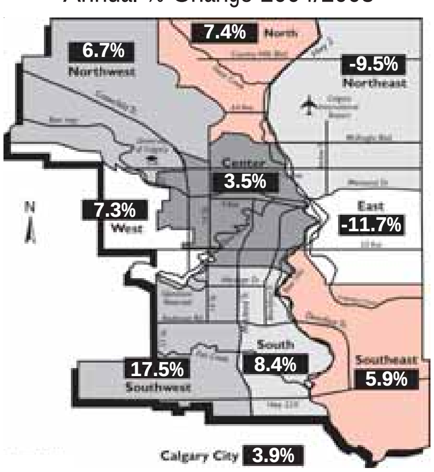
Calgary's resale market posted a number of new records in 2004, including sales, new listings, and average prices. The number of residential sales through the Calgary Real Estate Board (CREB) totalled 26,512 units, almost nine per cent above 2003's activity and six per cent above the previous record set in 2002. Considering 2004's net migration was the lowest in 12 years and employment growth in the preceding two years was historically weak, 2004's sales record was surprising. As was the case for the new home market, mortgage rates at record lows must be seen as the dominant factor fuelling demand. Another factor boosting activity was the highest resale selection since 1995.

Three months into 2005, it appears that residential sales through CREB are on pace for another new record. In the first quarter, the number of residential transactions totalled 6,810 units, nine per cent above the pace set in 2004. While this torrid pace is expected to moderate somewhat over the second half of the year, CMHC expects a new record will be easily attained. A total of 28,750 residential transactions are expected in 2005, representing an increase of eight per cent from 2004.

As Calgary has shifted away from the enormous levels of migration and employment growth enjoyed in the late 1990's, it may be difficult to comprehend how new sales records continue to be achieved. Undoubtedly, the overall strength of the market will continue to be fuelled by persistently low financing costs. Record-low mortgage rates are seen as a once in a lifetime opportunity for buyers, boosting demand among first-time and move-up buyers. With persistent price growth over time, first-time buyers understand that every year they put off buying a home represents an opportunity cost in the form of higher prices and mortgage rates in the future as well as lost appreciation. This will hold true for move-up buyers as well, though they have the additional advantage of equity gains in previous years which enable them to upgrade their home.

MLS® SINGLE-FAMILY SALES BY SECTOR

Annual % Change 2004/2003



Source: Calgary Real Estate Board

A number of other factors will also contribute to the record residential transactions in 2005. To some extent, activity in Calgary's resale market is self-sustaining. With over 111,000 housing starts in the last 10 years, the overall housing stock in Calgary has witnessed tremendous gains. Combined with a population expansion to nearly one million residents, there are more homes that can change hands among the gain in households. Supply conditions also remain favourable, as a healthy pool of active listings will provide buyers with an abundance of homes to choose from.

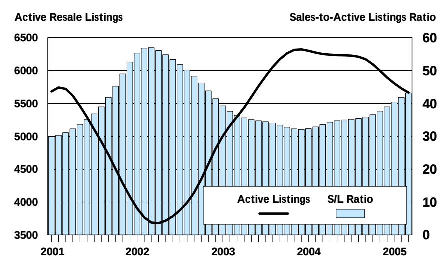
As was the case in 2004, activity on the MLS® will receive a boost as vendors shift away from listing their own homes to save on commission charges. In 2002, declining mortgage rates and low resale selection resulted in frantic sales, many with multiple offers, sales in excess of list price, and short listing durations. As a result, many sellers elected to forego the services and costs of a realtor and sold their homes on their own. With the escalation of prices and listings in 2004 and 2005, sellers now realize they must employ the services of a realtor to ensure their home is priced appropriately and that it sells in a reasonable period of time. This is especially critical for those sellers who are approaching possession dates of their newly constructed units.

In addition to the above factors, overall activity through MLS® will be heightened by the sale of newly constructed units. Until CREB stopped reporting new home sales via MLS® in the summer of 2004, they were on an upward trend. Information from both single- and multi-family builders suggests that this trend is continuing, as many engage realtors in their marketing strategies for unsold product. Realtors are also employed in the sale of condominium conversion projects, which reached a record high last year.

Near Sellers' Conditions Fuelling Price Growth

While CMHC currently classifies Calgary as a balanced market, it is quickly moving into sellers' market territory. In the first quarter of 2005, active listings averaged 5,360 units, nine per cent lower than corresponding period in 2004. With sales at record levels, the overall sales-to-active-listings ratio has escalated from 32 per cent in January to 53 per cent in March. As this is only a recent occurrence, however, it is early to claim that overall market conditions strongly favour the seller. Nonetheless, if such conditions and healthy price growth persists over the coming few months, sellers will be in a more favourable position than they have been in the last 24 months.

Resale Active Listings Decline, Sales-to-Active Listings Ratio Up



Source: Calgary Real Estate Board, Seasonally Adjusted by CMHC

Year-over-year price growth in the resale market sits at 11 per cent after one quarter, a further indicator of sellers' market conditions. At $179,160, average condominium prices in the first quarter are nine per cent higher than 2004. Single-family prices, meanwhile, are up an impressive 12 per cent during the same period, reaching $268,779. Arguably, overall price growth in the single-family market is being skewed upward by the number of sales in the extreme high price ranges.

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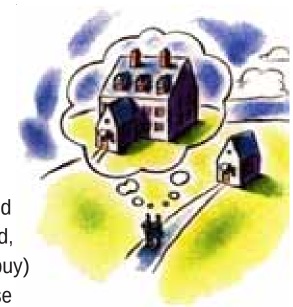
After three months, the number of single-family sales exceeding $900,000 totalled 48, up considerably from 16 the year previous.

For all of 2005, CMHC expects average MLS prices to rise nine per cent for all units, reaching $242,800. Price growth is expected to be strongest in the single-family market, with average prices escalating to $266,000, a 9.4 per cent gain over 2004. The jump in single-family prices will be driven by low mortgage rates and strong demand conditions, though the above-mentioned shift to the upper-end of the market will be responsible for some of the gain. The same can be said for demand close to the downtown core. Price growth will be strongest in the inner-city neighborhoods, as hefty demand competes for relatively few units. Buyers should expect more modest appreciation in suburban areas, as there is much more product listed relative to demand. If sellers in suburbia believe their home's appreciation is aligned with the inner-city market, it will extend their selling durations resulting in reductions from their original asking price.

Condominium prices are expected to increase 8.1 per cent in 2005, reaching $180,000. A lack of modestly priced single-family listings and solid selection of affordable units will maintain the demand for condominiums, as will the availability of units in the inner-city neighborhoods. The overall pool of active condominium listings will also include newer and more expensive product, hence boosting overall prices. However, CMHC does not expect a similar shift to the upper price ranges as the single-family market is facing.

Intentions to Buy a Home Survey



In December 2004, home buying intentions were surveyed in Calgary, Vancouver, Ottawa, Montreal, Toronto and Halifax. At 15 per cent of households, Calgary and Vancouver were tied with the strongest buying intentions. This represents an increase over the 2002 survey, which revealed 13 per cent of Calgary households intended to buy a home. Indeed, this suggests that housing starts and existing home sales will remain at high levels through 2005. That said, there was a slight decline among households with strong (ready to buy) purchase intentions. Among Calgary households with home purchase intentions, 59 per cent stated they were ready to buy during the latest survey. This represents a decline among those ready to buy in 2002, as 62 per cent indicated they were in such a position at that time.

The latest survey also revealed that home purchase intentions among renter households continue to slip. In 2004, 47 per cent of home purchase intenders were renter households. This represents a considerable decline from 2002 when 55 per cent of renter households intended to buy a home. In 1998 and 2000, home purchase intenders among renter households reached 60 and 59 per cent, respectively. This decline in intentions among renter households is a result of many already making their move to home ownership. During the past few years, multi-family home builders have produced a healthy selection of lower priced ownership options for first-time buyers, while condominium sales in the resale market continued to set records. Other reasons for the decline in purchase intentions among renters include a lack of rental rate increases, following the double-digit gains in the late 1990's.

Conversely, the proportion of purchase intenders among owners continues to increase. In 1998, 40 per cent of owners intended to buy a home. By 2004, that proportion increased to 53 per cent in 2004. This change is a function of the strong equity gains and mortgage rate declines over the past few years. Both are allowing existing owners to upgrade to a more expensive home without facing strong additions to their mortgage payments. Equity gains, lower mortgage rates, and the decline in purchase intentions among renters are also impacting the price of homes households intend to buy. In 2002, only 22 per cent of home purchase intenders were looking for a home over $250,000. In 2004, that proportion leaped to 41 per cent.

No Risk of a Price Bubble in Calgary

The recent debate of house price bubbles in world markets and price gains locally raise questions of whether a bubble exists in Calgary. In the first quarter of 2005, real (inflation adjusted) house prices marched to a record high in Calgary's resale market, essentially entering uncharted territory. It should be noted that the last time real house prices set records in Calgary was in 1982. As you may recall, the bubble burst in the following two years, with real prices tumbling downward by 42 per cent. Thankfully, the danger of a similar occurrence this time around is highly unlikely.

Currently, real carrying costs (monthly payment and interest) are among the lowest in history, thanks entirely to record low mortgage rates. In 1982, it was a vastly different story. Real carrying costs at that time more than doubled current levels, as mortgage rates approached the 20 per cent level. While mortgage rates have currently bottomed out and will begin to rise, they will still remain near historical lows. Buyers who have not already done so can follow the trend of variable rate mortgages which offer lower rates, a phenomenon that accelerated once rates started to decline in 2001. Meanwhile, Calgary's house price crash in the early 1980's coincided with tremendous job losses and an exodus of migrants. Though current migration and employment growth have softened from recent history, there are no risks of these indicators turning negative in the foreseeable future.

RENTAL MARKET

Expect a Modest Decline in Vacancies in 2005

In the Calgary CMA, average apartment rents in October 2004 declined for the first time in over 10 years. Combined with generous rental incentives and a 909-unit decrease in the apartment rental universe, the modest rent reductions prevented a further escalation in vacancies. After climbing to the highest rate since 1994, Calgary's apartment vacancy rate recorded a marginal decline from 4.4 per cent in October 2003 to 4.3 per cent in 2004.

Despite the decline in vacancies, Calgary's apartment vacancy rate remained near its highest level since 1994, second only to 2003's rate of 4.4 per cent. As was the case in 2003, low mortgage rates continued to pose a threat toward higher vacancies, fuelling another wave of first-time buying activity. At the same time, a 12-year low of net migration in 2004 reduced the number of replacement households who typically backfill those leaving rental in favour of home ownership.

Following a 4.3 per cent vacancy rate in 2004, CMHC expects apartment vacancies will tighten modestly to 4.2 per cent in 2005. Moving forward, the supply of first-time buyers will diminish as much of the

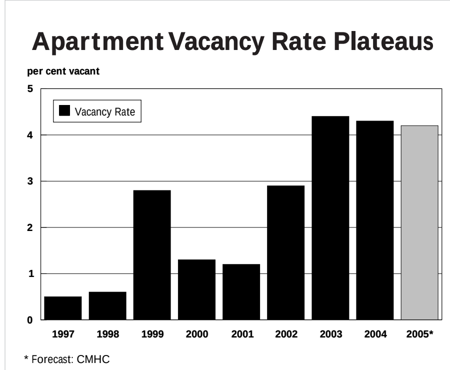
back to TOC

demand has been brought forward from previous years (see *Intentions to Buy a Home Survey* above). Meanwhile, elevated ownership costs brought on by modestly higher mortgage rates and further price gains will push ownership beyond the reach of some renters. The continuation of rental incentives and lack of rental rate increases will also slow the move to home ownership.

Declining rental competition should also result in lower vacancies moving forward. Good news for landlords, at least for the short-term, is a student housing renovation on SAIT campus displacing 400 students requiring accommodation elsewhere. The renovation is expected to begin in May 2005, finishing in September 2006. Meanwhile, the number of conversions from rental to condominium will continue to surpass new construction, resulting in a continued decline in the rental market universe. Calgary's rental market universe is the lowest per capita among the 28 CMAs, and continues to decline due to persistent population gains and conversions surpassing new rental construction. With vacancies exceeding the previous 10-year average by a sizeable margin, little rental construction should be expected moving forward.

Meanwhile, landlords will face more modest competition from the condominium investment market. In 2001 and 2002, investors looked to rental condominiums as an alternative investment channel. It was a great strategy at the time, as the stock market was performing poorly and rental vacancies were low. Since then, however, vacancies have increased. Consequently, investors encountering difficulty finding tenants for their units may seek to sell their units on the resale market and re-inject their capital elsewhere. Prospective condominium investors will also shy away, as many will see a substantial opportunity cost if their capital is tied up in a vacant condominium.

Despite the expected decline in vacancies in 2005 to 4.2 per cent, there is little risk of further downward pressure. While mortgage rates will rise in the second half of 2005, they will still be low by historical standards. As a result, first-time buying will continue to be healthy, albeit at a lesser pace than previous years. The new ownership market will continue to target renters by producing a multitude of affordable home ownership options. Condominium ownership starts set a new record in 2004, many of which are marketed to the first-time buyer.



Modest Rent Increases Expected

With vacancies among their highest levels since 1994, tenants have been enjoying renter's market conditions. In 2003, average two-bedroom rents failed to record an increase over the previous year, the only such occurrence in eight years. A similar scenario occurred in 2004 as landlords hedged the risk of higher vacancies. In addition to holding rents stable in 2004, landlords reintroduced a number of incentives such as paid utilities and a free month rent with lease. While such incentives have promoted tenant retention and helped attract new ones, they have also cut into net operating incomes.

By October 2005, tenants can expect the first notable increase in average rents in three years. With vacancies declining for the second consecutive year, property owners will attempt to support their bottom lines with a two per cent gain in rents. Such increases will translate into a $16 per month increase for a two-bedroom unit, reaching $822. Many property owners will find the increase necessary as they face heightened operating costs. These include higher natural gas prices as well as increased insurance and property taxes.

Upside risk to average rental rates comes from the completion of some newly constructed units, as they typically command higher than average rents. At the end of March 2005, 464 rental suites were under construction, half of which will be completed and eligible for 2005's survey. That said, such a risk to higher rents will be mitigated by weak increases in the upper rent ranges, since vacancies will continue to be highest among the older and most expensive units.

MORTGAGE RATE OUTLOOK

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Posted mortgage rates are forecast to rise moderately as interest rates head up in 2005 and 2006. However, tame inflation, a strong Canadian dollar vis-à-vis the U.S. dollar, and slower economic growth in Canada will restrain the size and speed of Canadian interest and mortgage rates increases in the next two years.

Mortgage rates are expected to remain low, rising by less than 50 basis points annually this year and next. One, three and five-year mortgage rates are forecast to be in the 4.50-5.50, 5.50-6.50, and 5.75-6.75 per cent range respectively in 2005. However, rising posted mortgage rates may not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.

ECONOMIC OVERVIEW

Labour Shortages Cast Shadow on Calgary's Hot Economy

While record oil prices are adding fuel to an already hot economy, the ability to create jobs at levels experienced in the late 1990's is being restrained by weaker net migration. From 1996 to 2001, Calgary created an average of 23,000 jobs per year, the most impressive string of job creation in history. In the face of a declining unemployment rate and high rate of labour force participation, such a performance would not have been possible without strong levels of net migration. Thankfully, an average of 15,600 net migrants per year arrived in Calgary at that time, providing the much-needed labour force additions.

Following an impressive peak in 2001/2002, Calgary's net migration has dramatically declined (see *Net Migration…* page 7). While a number of mergers and acquisitions in the oil patch suppressed job growth in subsequent periods, so too did a lack of net migration. Following 20,900 new jobs in 2001, employment growth fell to only 9,800 new positions in 2002 and 10,900 in 2003.

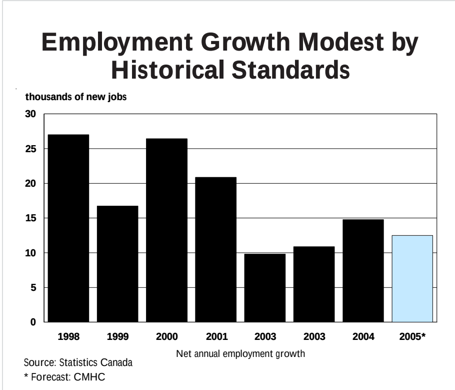
In 2004, payrolls in the Calgary CMA recorded a welcome improvement to 14,800 new positions, confirming expectations of higher migration in the 12-month period ending April 2005. Rising oil prices boosted corporate profits to record levels, while solid residential and non-residential activity maintained strong levels of construction. Accordingly, payrolls in the oil and gas sector increased by 4,500 positions, while the supporting professional, scientific, and technical services sector added 5,200 jobs. During the same period, construction employment expanded by 4,400 positions. While these represent solid performances, the overall labour market underperformed in 2004. Though a strong Canadian dollar resulted in job losses in certain sectors, overall employment growth would likely have been higher had it not been for weak net migration.

Unfortunately, the improved employment picture in 2004 has yet to carry into 2005. According to Statistics Canada, the Calgary CMA had 500 fewer people employed in the first quarter of 2005 than it did the previous year. This represents the first year-over-year decline in local employment since 1993, a surprise considering the strong fundamentals prevailing in our local economy. A closer look at the data, however, suggests that Calgary's employment picture is more promising than the overall figures indicate.

Critical for housing demand is the rate of full-time job growth, as it is an important prerequisite for buying a home. In the first quarter of 2005, full-time employment totalled 487,600 positions in the Calgary CMA, 7,200 more than the previous year. Though this lags the corresponding pace of full-time job creation in 2004, the current rate of full-time growth should quell concerns of a failing labour market. All of the full-time job growth to-date has occurred at the expense of part-time positions, further confirmation of persistent shortages in Calgary's labour market. In the first quarter of 2005, Calgary's unemployment rate averaged 4.4 per cent, 1.2 percentage points lower than the previous year and the lowest rate since the middle of 2001. Undoubtedly, the recent moderation in net migration has forced the promotion of part-time employees to full-time positions.

Despite the modest decline to-date, CMHC expects 12,500 new jobs will be created in 2005. Admittedly, there are downside risks to the outlook, which continue to relate to persistent labour shortages, an unemployment rate below five per cent, the highest labour force participation rate in the country, and modest net migration. Nonetheless, readers can be assured that the majority of growth in 2005 will be in full-time and highly paid positions.

The oil and gas and professional, scientific, and technical services sectors will continue to add to job growth in 2005. Crude oil prices accelerated to new highs recently, with the futures contract reaching a record $57.27 US per barrel. This will reinforce the investment decisions by many Calgary-based companies, with current and proposed energy-related projects in Alberta topping $69 billion. While the majority of labour requirements will be in Northern Alberta, the management and planning of these projects will boost payrolls locally. One such confirmation is the head office transfer of 500 Imperial Oil jobs to Calgary.



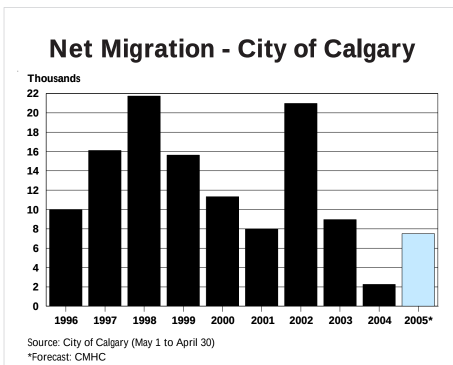
Meanwhile, major non-residential and infrastructure projects will continue to boost construction employment in 2005. Since the Fall 2004 report, a number of projects have been announced including the $100-million Bow Valley Campus redevelopment and a $300-million Hunt Power gas-fired power plant south of Crossfield. Calgary's office sector has also heated up in the past six months, cutting into vacancies and boosting rental and occupancy rates. Bentall Real Estate Services have been the first to respond by beginning construction on a $130-million Livingston Place office tower. Two other towers are planned for construction, one next to the Calgary Tower and another on 8th Avenue and 5th Street Southwest.

The above projects are adding to an already vibrant construction sector in Calgary. Seven new schools are under construction, while the University of Calgary is facing $210-million in education-related expenditures. In health care, construction continues on the new $220-million Children's Hospital, the $70-million health research lab at the Foothills Medical Centre, and the new $500-million South Calgary hospital. Elsewhere, the $300-million courthouse downtown continues, as does the $500-million Deerfoot Meadows retail project, the millions of dollars in roadway and interchange improvements, and the $800-million in improvements at Calgary's airport. All combined, $4.8-billion in non-residential projects are currently announced or under construction in Calgary, a 52 per cent jump from the previous year. Given the extent of the increase, construction firms are concerned that persistent labour shortages could lead to project delays and cost overruns.

Net Migration Low by Historical Standards

In 2004, the City of Calgary recorded its second consecutive steep decline in net migration. Following an impressive 20,962 net migrants for the 12-month period ending April 2002, the city experienced a 57 per cent drop in net migration one year later to 8,965. While migration in 2004 was expected to be weak by historical standards, another decline like the one in 2003 was not expected. Calgary's labour market was recovering from 2003's poor job performance and still enjoyed one of the lowest unemployment rates in the country. Unfortunately though, an increase failed to materialize as net migration fell to only 2,253 people in 2004, down 75 per cent from the previous year. This represents the lowest annual total since 1992.

Once the census results for 2005 are reported, the 2,253-migrant performance in 2004 will be considered an anomaly. For the 12-month period ending April 30, 2005, CMHC expects net migration to reach 7,500 people, a three-fold gain over levels reported in 2004. Despite this increase, the 7,500 net migrants will still appear low by historical standards. Though the improved job creation in 2004 and persistent labour shortages will continue to attract newcomers, our magnetic power will remain suppressed. Within the province, Edmonton and Fort McMurray will maintain their attraction, thanks to massive investments in the energy sector. Meanwhile, British Columbia will increasingly fight for labour, as they are primed for the strongest labour market performance in the country.



CMHC FORECAST SUMMARY

Calgary Housing Market Outlook - May 2005

	2002	2003	%Chg	2004	%Chg	2005*	%Chg
RESALE MARKET							
MLS® (1)active listings (Annual Avg.)	4,004	5,801	44.9%	6,178	6.5%	5,700	-7.7%
MLS® Sales							
Total	25,054	24,359	-2.8%	26,512	8.8%	28,750	8.4%
Single-family	19,031	18,319	-3.7%	19,513	6.5%	21,000	7.6%
Condominium	6,023	6,040	0.3%	6,999	15.9%	7,750	10.7%
MLS® Price ($)							
Total	$198,058	$211,155	6.6%	$222,851	5.5%	$242,800	9.0%
Single-family	$212,844	$229,082	7.6%	$243,059	6.1%	$266,000	9.4%
Condominium	$151,337	$156,781	3.6%	$166,514	6.2%	$180,000	8.1%
NEW HOME MARKET							
Starts							
Total	14,339	13,642	-4.9%	14,008	2.7%	13,200	-5.8%
Single-family	9,413	8,526	-9.4%	8,233	-3.4%	8,000	-2.8%
Multiple-family	4,926	5,116	3.9%	5,775	12.9%	5,200	-10.0%
Average New House Price: Single-family	$242,386	$267,104	10.2%	$285,250	6.8%	$307,000	7.6%
RENTAL MARKET							
Vacancy rate (Oct)	2.9	4.4		4.3		4.2	
2-bedroom Rent (Annual % Chg)	2.7	0.0		0.0		2.0	
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	5.17	4.84	-0.33	4.59	-0.25	5.01	0.42
Mortgage rate (5 yr term)	7.02	6.39	-0.63	6.23	-0.16	6.28	0.05
Employed	572,630	583,510	1.9%	598,280	2.5%	610,780	2.1%
Employment growth (# jobs)	9,830	10,880		14,770		12,500	
Net-migration (Census Year 2)	20,962	8,965	-57.2%	2,253	-74.9%	7,500	232.9%

* CMHC Forecast
Source: CMHC, Calgary Real Estate Board, Statistics Canada, City of Calgary
1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

back to TOC