VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

Spring 2005

New Home Market

Housing starts in the Vancouver CMA reached 19,430 units last year, a level not seen in more than a decade. In fact, new home construction activity in 2004 was not far off the record number posted in 1989 when 21,834 units were started. Last year's activity was above both the ten and twenty year averages of 13,427 and 15,498 units, respectively. The reason new home construction is so strong has to do with pent-up demand and solid economic fundamentals.

During the last half of the nineties the housing market was plagued by falling demand. Population growth topped 3 per cent at the beginning of the decade, but fell to 1 per cent by the year 2000. After attracting 40,000 net migrants to the province in 1994, the pendulum began to swing the other way so that by 1998 we saw 20,000 more people moving out of BC than in. The implications were wide-ranging. Not only did the economy struggle, but consumer confidence also evaporated. By the year 2000, just 8,203 new homes were started in the Vancouver CMA, the lowest level since 1962 when the population was one-half of what it is today.

When consumer confidence is low, households delay their buying decisions and demand for housing falls below what demographic factors would suggest. This is pent-up demand, and it was unleashed in the winter of 2001-2002 when mortgage rates plunged to levels not seen since the 1950s. Over the last three years housing starts were driven largely by this latent demand. In fact, we are still about 9,000 units shy of what basic demographics would suggest.

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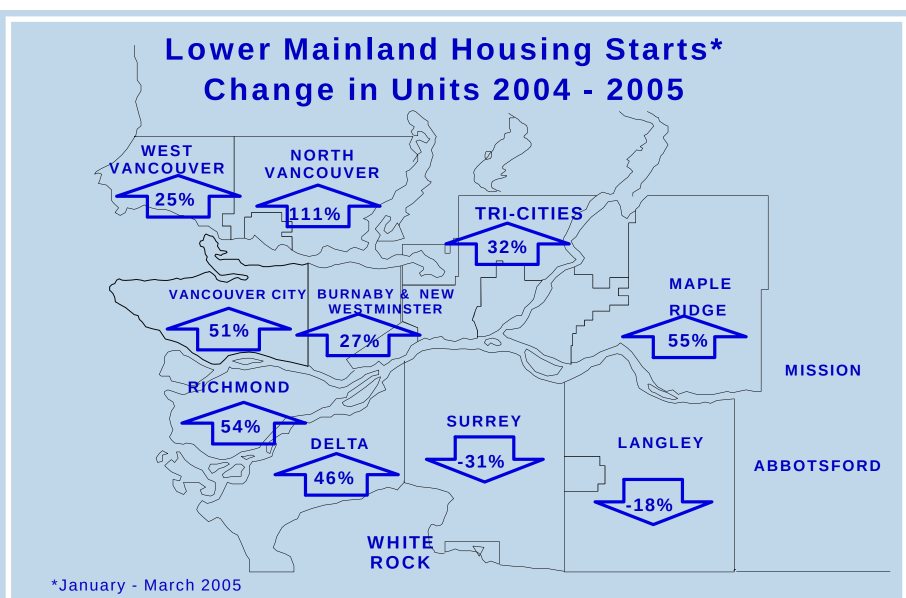

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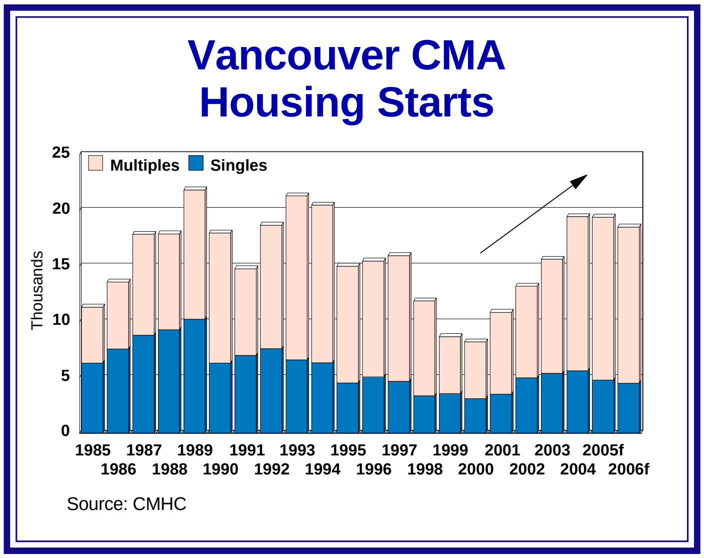
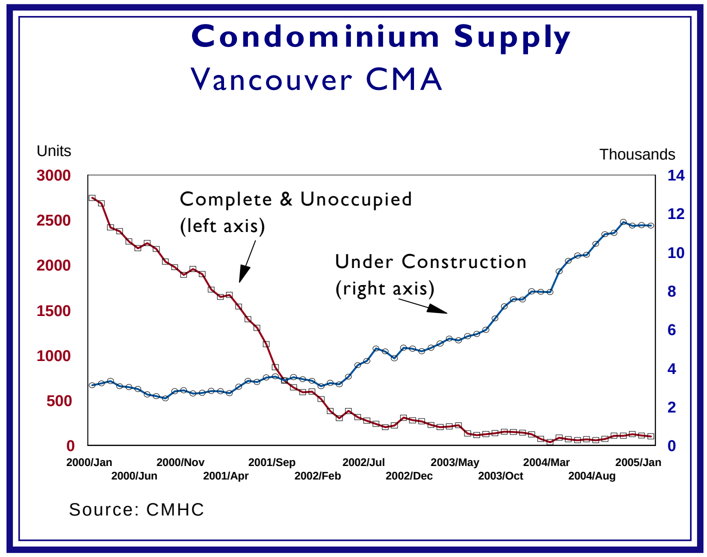
HOME TO CANADIANS





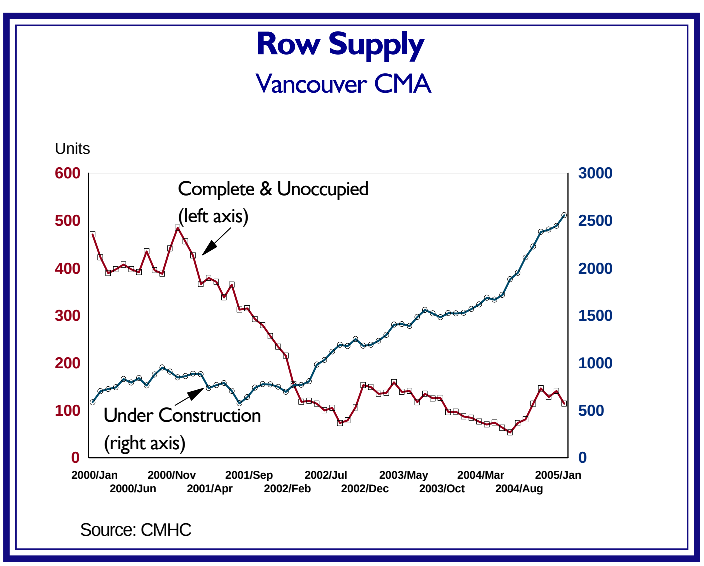
Now, add to this an economy that is firing on all cylinders and it's no wonder new construction activity is so strong. Economic activity in the province surged ahead in 2004, growing an astounding 3.9 per cent. Increasing job growth and rising wages provide a solid foundation for the housing sector by fortifying the consumer base and drawing migrants from other parts of the country in search of jobs.

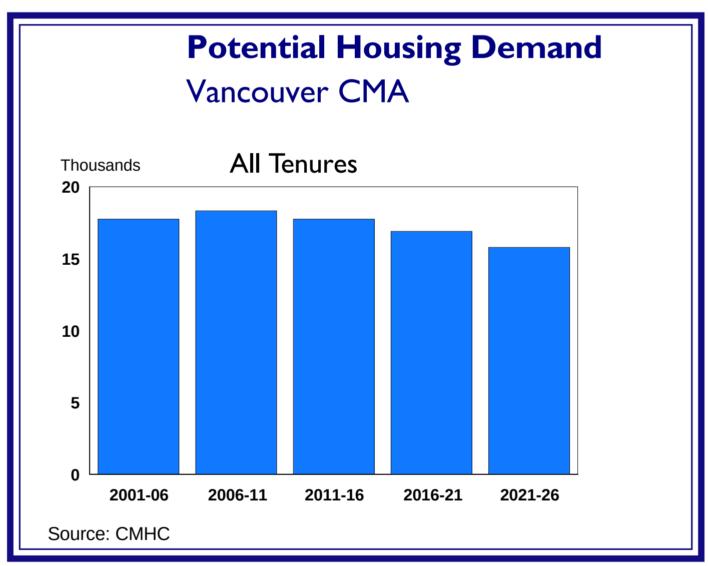
As a result, housing starts in the Vancouver CMA are forecast to equal last year's output of 19,400 units in 2005. However, there is a shift occurring towards more multiple starts and comparatively fewer single-detached starts. This densification of Greater Vancouver has been underway for some time now. Twenty years ago multiple starts comprised 44 per cent of all new construction activity. Today, three-quarters of all housing starts are apartments and townhouses.

Affordability is an important factor. With the average price of a new single-detached home approaching $600,000, many households simply cannot afford to buy a home of this type. As a result, single-detached housing starts have been trending down over the last several months, and are expected to fall 15 per cent in 2005 to 4,800 units.

However, multiple housing starts will pick up the slack. New multiple construction activity is forecast to increase 6 per cent to 14,600 units this year. Inventories of newly complete and unoccupied apartment condominiums remain near record lows. There are still only about 100 vacant new units across the Vancouver CMA, low compared to the more than 2,600 units in this category only a few short years ago. While there are nearly 12,000 units currently under construction, the vast majority, around 70 per cent, have already been pre-sold.

Townhouse inventories are also low compared to historical levels. Today, around 120 units are complete and unoccupied, compared to 500 units four years ago. Of the approximately 2,500 units currently under construction, nearly 40 per cent have been pre-sold. The lower relative prices of both new apartments and townhouses make them the most popular new home structure types in the Vancouver CMA. ■





The Resale Market

Buying a home continues to be a top priority for Vancouverites. While sales slipped three per cent from the record pace set in 2003, the 37,900 units sold through the Real Estate Board of Greater Vancouver last year was the third highest level ever recorded. In fact, the last three years set a new benchmark for housing demand in Greater Vancouver. This unprecedented demand is expected to continue through 2005.

The BC economy is finally starting to fire on all cylinders. Previously weak export markets have turned around, and with commodity prices rising more rapidly than the Canadian dollar, a new cycle of prosperity in the resource sector is at hand. Retail sales, which comprise more than half of the region's GDP, are expected to continue their upward momentum, a signal that consumers are confident in their future.

Economic prosperity means increasing job growth and lower unemployment. Last year nearly 46,000 jobs were created in the province, nearly all of them full-time. The construction sector contributed to two-thirds of this growth, with many being employed in the booming Vancouver residential market. Now that the economy is performing much better, BC is experiencing the first positive gains in migrants from other parts of the country in many years.

This decidedly economic perspective conveys that the housing market has solid fundamentals driving it. While low mortgage rates have increased the purchasing power of households, it is strong economic fundamentals that will sustain the market in the longer term. Fortunately for the Greater Vancouver housing market these fundamentals are already in place.

Economics aside, the housing market did enter a new phase last year. After a significant run-up in home prices during the first half of the year, the market softened in the latter half. A much anticipated increase in active listings combined with an easing of demand shifted the trajectory of the market toward more balanced conditions. Gone is the frenetic activity

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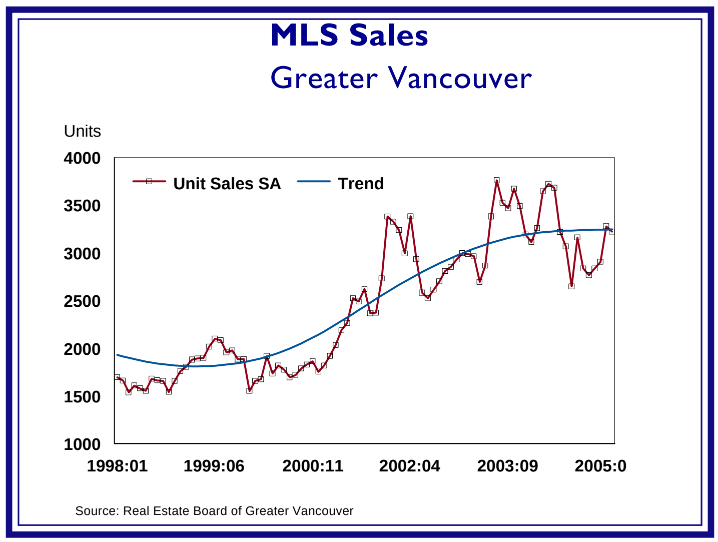
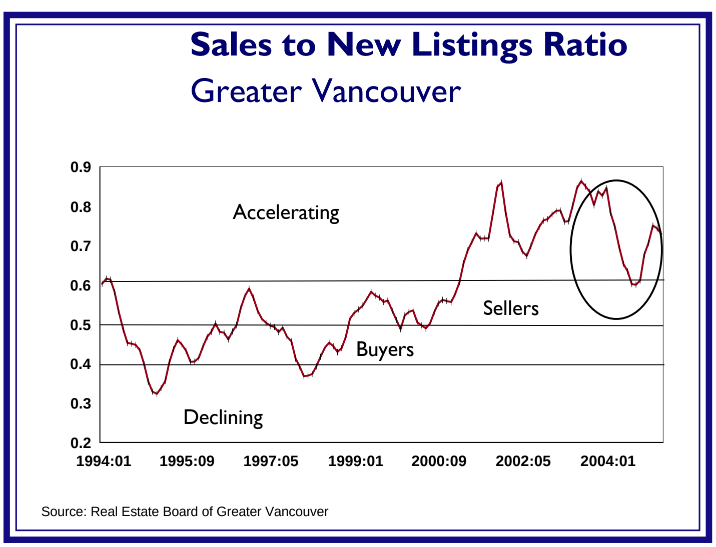
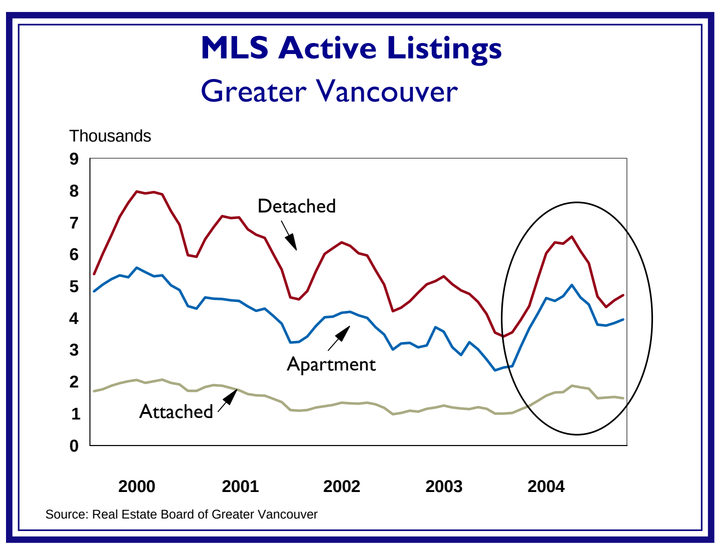






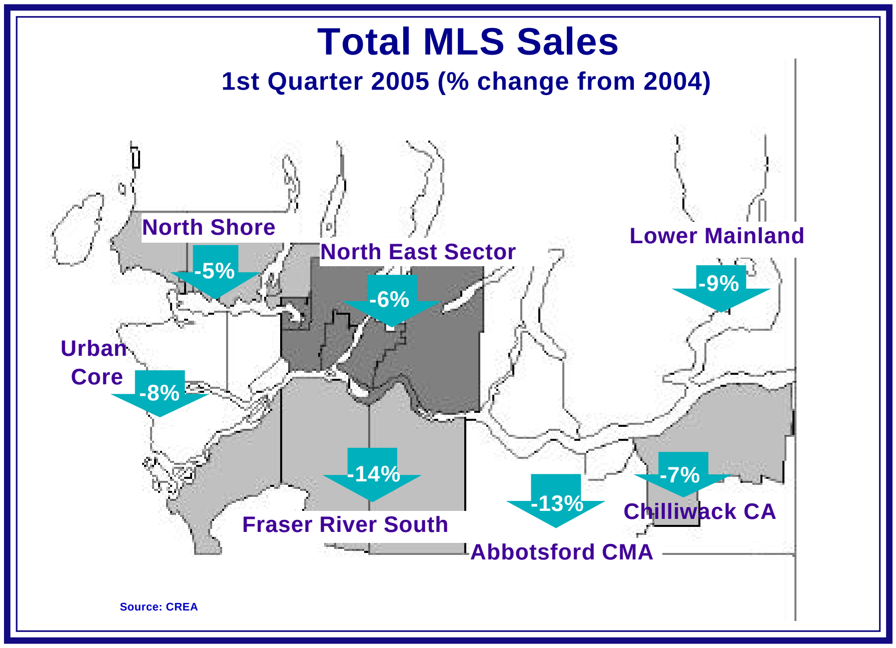
of the past few years. Instead of a hot, hot market we began to see just a hot market.

This is not bad news. A return to more balanced conditions will mean prices will rise more moderately. Rather than double-digit price increases, only single-digit price increases are expected this year. The average MLS price is forecast to climb 8 percent to $405,000 in 2005. With home prices accelerating less radically, household incomes will have a chance to catch-up. So long as mortgage rates remain low, as they are expected to this year, affordability will continue to be strong.

Despite solid fundamentals and a trend toward more balanced market conditions, MLS sales are forecast to decline 5 percent to 36,000 units in 2005. Much of the pent-up demand that developed before 2002 has already worked its way through the marketplace. In addition, fewer first-time buyers and investors will be in the market this year, contributing to reduced demand and higher listing inventories.

At least part of the recent dip in MLS sales performance was due to the lack of new homes available for sale. The lag-time between increasing demand and builders responding sufficiently to that demand turned many would-be new homebuyers to the resale market due to a lack a supply. Builders have now ramped up production to the point where there is more choice for homebuyers.

By all accounts, the Greater Vancouver housing market will remain robust in 2005. No longer driven solely by low mortgage rates and pent-up demand, the market is now poised for a sustained high level of activity. Backed by solid market fundamentals, the Greater Vancouver housing market may just be in for the longest bull market in its history. ■



Are households too deep in debt?

Household debt has risen steadily over the past 30 years, and its share of income has increased to 100 per cent. In addition, the largest component of household debt is mortgage debt (69 per cent in 2004). Many have expressed concern about Canadians' indebtedness and wonder if they are too deep in debt.

Looking at debt as a share of income can be misleading because it does not capture the impact of low interest rates on reducing the carrying costs of debt. A better measure is the mortgage payment to income ratio, which is at an all-time low. It is reassuring to note that many households took advantage of low mortgage rates and signed on for a 5-year term or longer. In this way, they are protected from any potential rate increases, at least for the duration of the term.

According to last year's FIRM Residential Mortgage Survey, 46 per cent of mortgage holders had a mortgage of with a fixed 5-year term, and 7 per cent had a mortgage with a fixed term longer than 5 years. Households with longer-term fixed rate mortgages will be able to anticipate a higher mortgage rate environment and will adapt by increasing their savings, paying down their mortgage, or moving to a less expensive home.

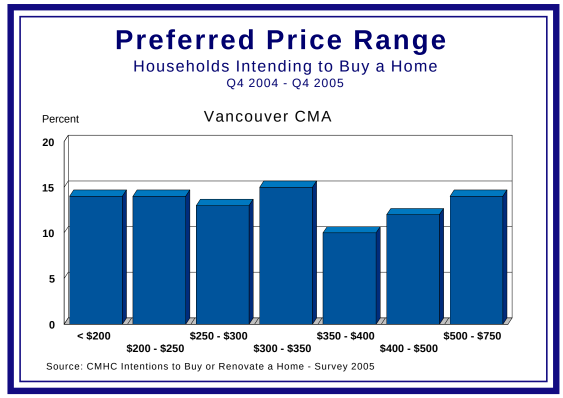
Overall, the risk from rising mortgage rates is not very high. Given today's low inflation environment, mortgage rates are only expected to increase modestly. As a result, the debt burden of Canadian households appears to be sustainable. ■

Home Buying Intentions

CMHC's Consumer Intentions to Buy or Renovate a Home Survey identifies the home buying intentions in six major urban centres in Canada: Vancouver, Calgary, Toronto, Ottawa, Montreal, and Halifax. According to the fall 2004 survey, 12 per cent of households in these six centres stated that they intend to buy a home within the next 12 months.

Across the six centres, the largest share of potential buyers were located in Vancouver and Calgary, where 15 per cent of households said they intend to buy a home in 2005. In Toronto, 13 per cent of households intend to buy a home, while in Ottawa and Halifax it was 12 and 11 percent respectively. The lowest home buying intentions occurred in Montreal, where just 9 per cent of households indicated their intent to buy a home this year.

Almost one-third (31%) of home buying intenders plan to purchase a newly built home, while more than half (58%) of intenders plan to buy an existing home. About half (51%) of intenders are between the ages of 35 and 54, up from 37 per cent in 2003. However, the proportion of intenders under age 35 has decreased to one in three from one in two home buying intenders.



Renters continue to be a key market segment. Sixty per cent of potential homebuyers currently rent their home. Smaller households of two or less people make up fully half of all potential homebuyers. Moreover, 40 per cent of home buying intenders do not have children under the age of 18 in their household.

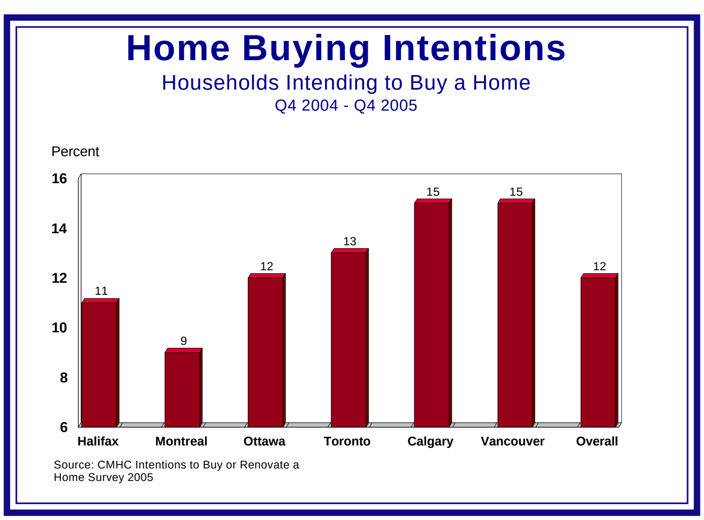
Fully two-thirds of the potential buyers in the six major centres are thinking about buying a home larger than their current residence. The number of potential high ratio mortgage borrowers, those planning to a less than 25 per cent down payment, represents half of all intenders.

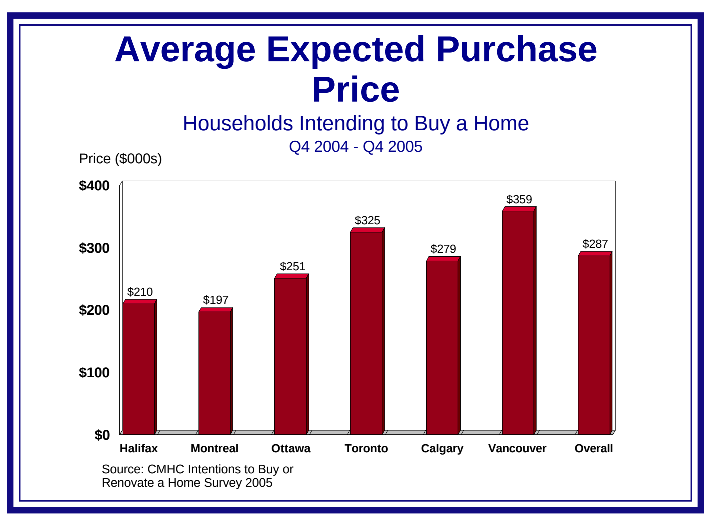
Household savings is the main source of down payment for 48 per cent of home buying intenders, while 28 per cent will use the existing equity from their present home. Those planning to use the RRSP Home Buyers Plan represent 8 per cent of potential homebuyers, and 4 per cent intend to borrow their down payment.

Potential buyers in all age groups stated that single-detached homes were their preferred structure type, 59 per cent were in this category. Only 15 per cent claimed to prefer a semi-detached home. In addition, the older the age group, the more likely they were to prefer an apartment condominium.

Nationally, 32 per cent of all potential homebuyers are looking for a home priced between $200,000 and $300,000. A larger share of households in the 55-64 year old age group (37%) intend to buy homes priced above $300,000.

The survey asked respondents what steps they have taken toward purchasing a home. The top response from potential homebuyers was to obtain a pre-approved mortgage (69%), while 62 per cent of potential homebuyers read housing related publications. Only 19 per cent of potential homebuyers who are currently owners had listed their current home for sale at the time of the survey. ■





Mortgage Rate Outlook

A tightening of monetary policy is expected to continue in the U.S. and to a lesser extent in Canada in 2005-06. U.S. short-term rates are expected to increase by 100-125 basis points in 2005 and 50-75 basis points next year. Longer-term interest rates in the U.S. are forecast to increase by 25-50 basis points this year and next.

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 expected to rise as interest rates head up in 2005-06.

In Canada, interest rates will follow the U.S. lead, but rate increases will be less pronounced. Canadian short-term rates are expected to increase by 50-75 basis points annually in 2005 and 2006. Longer-term interest rates in Canada are forecast to increase by 25-50 basis points this year and next. Mortgage rates are expected to remain low in 2005 and 2006, rising by 25-75 basis points annually this year and next. One and five-year mortgage rates are forecast to be in the 4.75-5.50 and 6.00-6.75 per cent range respectively in 2005.

While manufacturing will continue to adjust to a higher exchange rate, low mortgage rates will help the construction industry to remain vibrant. A moderating pace of consumer spending, exports, and business investment will keep a lid on the national economy this year.

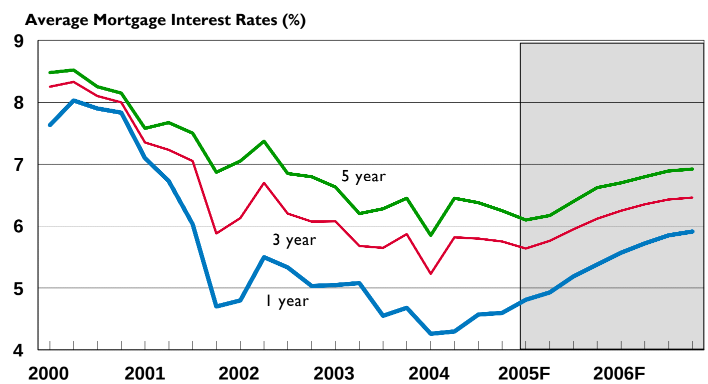
Canada's economic expansion began to ease in September 2004 and moved closer to its estimated potential annual growth rate of 3.0 per cent by October. Economic growth is forecast to remain close to 3.0 per cent this year and next.

Easing crude oil prices will continue to contribute to lower gasoline prices and a lower overall inflation rate in the coming months. The inflation rate in Canada will remain in the Bank of Canada's 1.0-3.0 per cent target range and will continue to be lower than in the U.S. in 2005. A lower inflation rate at home will allow for a less aggressive tightening of monetary policy and more moderate interest rate increases in Canada than in the U.S. in 2005-06.

A combination of robust demand for commodities and strong commodity prices, sizable merchandise trade and government budget surpluses, and positive, though declining, Canada-U.S. interest rate differentials will keep the Canadian dollar close to 82 cents U.S. in 2005.

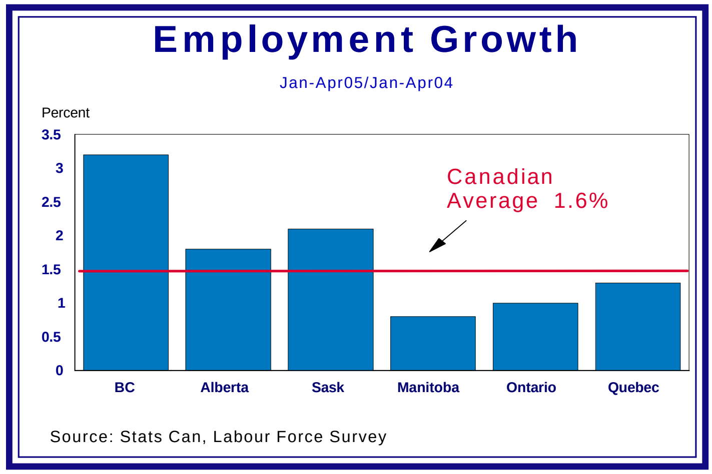
However, rising posted mortgage rates will not necessarily lead to higher mortgage rates negotiated between borrowers and lenders. Spreads between mortgage rates and comparable bond yields have remained at 2.00-2.50 per cent in the last few years, providing lenders with some room to negotiate discounts ranging 0.50 to 1.50 per cent from the posted rates. These spreads and discounts are likely to persist in the near term. ■

Mortgage Rates



Source: Statistics Canada, CMHC Forecast

Economic Outlook



Finally, the BC economy is firing on all cylinders. Provincial economic output grew 3.9 per cent last year, the highest in the country. Strong domestic consumption and improving export activity is providing a solid foundation for the housing market. While the strong Canadian dollar has had a negative impact on the central Canadian economy, raising the relative prices of manufactured goods, BC has benefitted from its reliance on the resource sector, with rising commodity prices offsetting the dollar's impact.

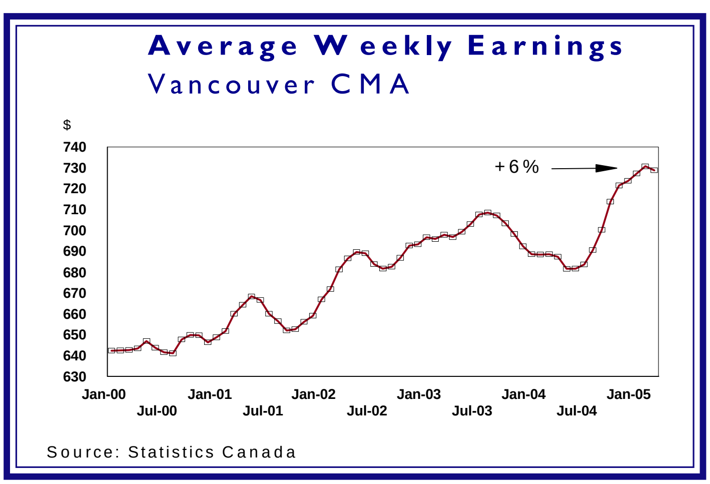
Total exports originating from BC are up nearly 14 per cent in the first two months of the year. Manufactured shipments have also climbed 12 per cent, while total non-durables were up 7 per cent. Strong consumer confidence has been responsible for a 7.5 per cent increase in retail sales. All this increased economic activity has had the noteworthy benefit of creating jobs.

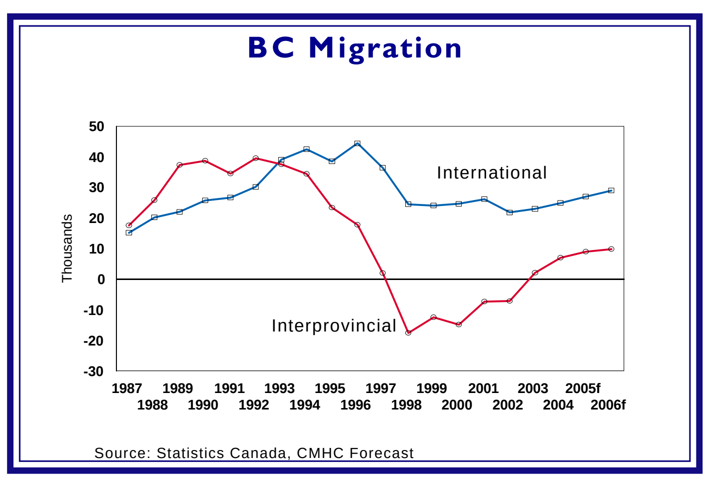
Employment in the province during the first four months this year was up 3.2 per cent, the highest in the country when you exclude tiny PEI. The labour force in BC has grown by only 2 per cent, and as a result the unemployment rate in BC has fallen from 8 to 7 per cent. The shift from part-time work toward full-time work is also continuing, with full-time employment increasing 4.5 per cent at the expense of part-time employment, which fell 2 per cent since the beginning of the year. The construction sector is leading the employment surge. Fully 60 per cent of provincial employment growth is attributable to the 38,000 jobs created in the construction sector.

Strong labour demand has contributed to recent gains in workers' incomes. After experiencing flat wage growth in 2004, the average weekly wage in BC has grown 3.4 per cent January through April compared to the same period last year. Wages in the service sector climbed 3.6 per cent on average, pulled along by transportation & warehousing (+11.3%), professional, scientific & technical services (+9.6%), and accommodation, food & beverage (+7.3%). The goods producing sector saw wages increase 2.4 per cent, led by agriculture (+10%) and construction (+3%).

Job growth and higher wages are a main reason for expected strong retail sales this year. Low interest rates are inducing many BC households to purchase big-ticket items like automobiles and consumer durables. The sale of goods complementary to housing, such as furniture and appliances will continue to be strong through 2005, as homebuyers add amenity to their homes.

Provincial GDP growth in 2005 will again exceed the national average. Increasing employment and rising wages will continue to lure interprovincial migrants to BC. Net interprovincial migration to BC rose to more than 7,000 in 2004, and is expected to crest 9,000 in 2005. These market fundamentals are both strong and enduring, and will form the foundation to a continued robust housing market this year. ■





Forecast Summary

	2003	2004	%CH	2005	%CH	2006	%CH
RESALE MARKET FORECASTS							
MLS - GREATER VANCOUVER							
Single Detached	17,216	14,885	-13.5%	14,000	-6%	13800	-1%
Townhouse	5,842	5,842	0.0%	5,700	-2%	5600	-2%
Apartment	15,101	16,028	6.1%	16,300	8%	15600	-4%
MLS - FRASER VALLEY							
Single Detached	10,231	9,600	-6.2%	9,100	-5%	8800	-3%
Condo	5,538	6,148	11.0%	6,400	4%	6300	-2%
MLS - TOTAL SALES	53,928	52,503	-2.6%	51,500	-2%	50,100	-3%
Single Detached	27,447	24,485	-10.8%	23,100	-6%	22,600	-2%
Condo	26,481	28,018	5.8%	28,400	1%	27,500	-3%
AVERAGE MLS PRICE - GVA							
Single Detached	$449,905	$526,798	17.1%	$565,000	7%	600000	6%
Townhouse	$270,414	$315,295	16.6%	$348,000	10%	375000	8%
Apartment	$216,169	$258,936	19.8%	$285,000	10%	310000	9%
MLS - FRASER VALLEY							
Single Detached	$301,690	$348,974	15.7%	$380,000	9%	405000	7%
Condo	$153,408	$173,571	13.1%	$190,000	9%	205000	8%
NEW HOUSING FORECASTS							
STARTS							
VANCOUVER CMA							
Total	15,626	19,435	24.4%	19,400	0%	18500	-5%
Single-Detached	5,382	5,619	4.4%	4,800	-15%	4500	-6%
Multi-Family	10,244	13,816	34.9%	14,600	6%	14000	-4%
ABBOTSFORD CMA							
Total	1,056	1,083	2.6%	950	-12%	910	-4%
Single-Detached	634	607	-4.3%	525	-14%	500	-5%
Multi-family	422	476	12.8%	425	-11%	410	-4%
AVERAGE PRICE							
VANCOUVER CMA							
Single-Detached	$499,778	$553,459	11%	$595,000	8%	625000	5%
Townhouse	$263,535	$302,793	15%	$325,000	7%	340000	5%
Apartment	$255,307	$314,016	23%	$345,000	10%	360000	4%
ABBOTSFORD CMA							
Single Detached	$316,054	$341,016	8%	$365,000	7%	375000	3%
Townhouse	$234,939	$243,401	4%	$255,000	5%	265000	4%