HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

CALGARY
FALL 2002

New Home Market

Starts To Surpass 12,000 Units in 2003

Housing starts in the Calgary Census Metropolitan Area (CMA) are on track for the best performance since 1981. Both single- and multi-family starts will surpass 2001's totals this year, thanks to a variety of factors working in favour of new housing demand. Due to the lagged effect of employment growth on housing starts, the strong job gains in the second half of 2001 have translated into higher construction this year. Demand has also been buoyed by an unexpected surge in net migration, the second highest total since 1982. On the supply side, a shortage of active listings in the resale market has prompted many buyers to consider a new home. In an attempt to avoid a bidding war for existing units, buyers are increasingly flocking to the new home market to meet their housing needs.

Credit must also be given to mortgage rates, which have been among the lowest in almost 40 years. To the end of August, the one-year mortgage rate has averaged 5.2 per cent, 157 basis points lower than 2001. Combined with competitive mortgage markets offering up to 125 basis points off the published rate, buyers are enjoying one of the best rate environments since 1965. This has provided relief for new home buyers who continue to face price increases due to cost pressures from material, land and labour. Interestingly, such increases have provided an added stimulus for the new housing market as buyers scramble to take advantage of low borrowing costs before rates and prices rise further. Nonetheless, while this is providing a boom to this year's housing market, it will also translate into weaker activity next year. Besides a 'sensational year' for new home construction, 2002 will also be remembered as prematurely stealing activity away from 2003.

While historically low mortgage rates, low resale selection, and a healthy economy will keep single-family demand buoyant in 2003, Calgary's home builders will fail to surpass CMHC's forecast of 9,200 units for this year. The lagged impact of slower job creation in 2002 will translate into weaker starts next year, as will reduced, albeit strong, net migration. Other factors tempering new single-family starts include rising mortgage rates and higher house prices. Both will adversely impact affordability, resulting in weaker demand from first-time buyers over the forecast period. Meanwhile, additional listings in the resale market will provide more choices for prospective buyers. Single-detached starts are expected to total 8,250 units in 2003, representing the fourth highest total on record.

With serviced land shortages, a lack of skilled trades, record low inventories, and prolonged possession dates, a strong and steady market rather than one operating beyond capacity will provide welcome relief for single-family builders and buyers in 2003. Currently, possession dates have been stretched beyond six months, as builders prudently postpone possessions in favour of maintaining quality. The slowdown in 2003 will also allow builders to replenish the depleted inventory of spec homes available for immediate occupancy.

Meanwhile, multiple-unit construction, including semi-detached, row, and apartment units, is expected to total 4,400 units this year, up 16 per cent from the 3,790 units started in 2001. With inventories returning to acceptable levels, low mortgage rates and lack of resale selection have resulted in robust demand for entry- to mid-priced condominiums. Meanwhile, lifestyle factors and volatile equity markets are increasingly adding to multi-family demand. With prolonged weakness in the stock market, the lack of performance has encouraged a look at the condominium market as an alternative avenue for personal capital.

In 2003, expect multi-family construction to return to 2001 levels, as much of the pent up demand brought on by low mortgage rates becomes satisfied. Other inhibiting factors in 2003 include rising mortgage rates, weaker net migration, and further delays in the East Village and General Hospital site developments. That said, the multi-family market will record a healthy 3,850 starts in 2003, 38 per cent higher than the previous ten-year average.

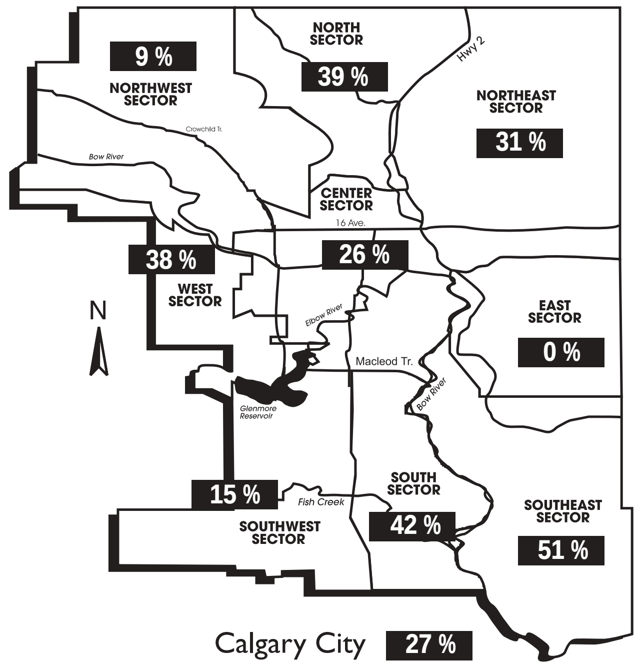
IN THIS ISSUE:

CMHC SCHL

HOME TO CANADIANS

Canada

Single Detached Starts
Annual % Change Jan - Aug (% chg 02/01)



Source:CMHC

Single-Family Starts Reaching Record Levels

Only once in history has there been a stronger first eight months of the year for single-family construction. Single-family housing starts from January to August totaled 6,364 units, 28 per cent more than the first eight months of 2001. However, readers should not expect a 28 per cent increase to prevail by year-end. Builders will be competing with comparatively stronger numbers from September to December, as much of the strength in 2001 occurred in the latter half of the year. As a result, the year-over-year increase will be limited to 22 per cent by year-end, reaching 9,200 units. This will represent one of the best years in history for single-family builders, second only to 1998's 9,219 unit performance.

Unlike 2001, the single-family market within city limits has failed to outperform other centres comprising the CMA. To the end of August, the City of Calgary has experienced a 27 per cent jump in construction over the previous year, a modest increase when compared to other centres. Cochrane has seen starts jump 74 per cent during the same period, while Chestermere Lake and Airdrie have witnessed gains of 67 and 59 per cent, respectively.

Single-family 'Spec' Inventories Plummet to Lowest Levels in Five Years

With the continued strength of single-family starts, the number of units under construction has spiked to 4,092 units by the end of August, 37 per cent higher than August 2001 and the highest total on record. Thanks to the following factors, the risk of an inventory build-up typically associated with construction spikes is currently non-existent. Demand continues to be robust, with year-to-date absorptions 25 per cent higher than the previous year. Additional gains are expected in the coming months. Meanwhile, spec (non-showhome) inventories have been plummeting since mid-2001, thanks to low selection in the resale market and continued strong demand. At the end of August, there were only 131 spec units in the Calgary CMA, 51 per cent lower than August 2001 and the third lowest total in over five years.

The lack of spec inventories represents a lost opportunity for the single-family market. Low resale selection is turning buyers seeking quick occupancies toward new units, only to find selection more limited. With builders operating at full capacity to satisfy existing clients, additions to inventory in the short-term are improbable. Looking into 2003, the modest decline in new single-family demand will provide a much-needed opportunity for builders to replenish their inventories.

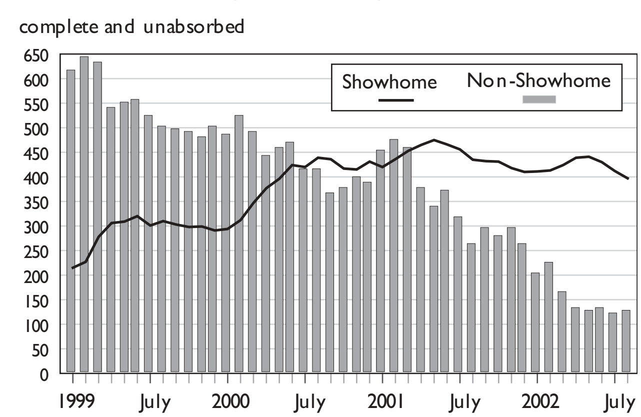
While the number of 'spec' units has plummeted in the last 18 months, the showhome tally has remained relatively constant. Through the first eight months 2002, the Calgary CMA averaged 421 showhomes, only 30 fewer than the corresponding period one year earlier. While the overall count remains high from a historical perspective, the current total is deemed appropriate. In the face of strong demand, significant product differentiation, and a rising number of active neighborhoods and subdivisions, buyers require increasing awareness of the various product offerings available.

Average New House Prices Flat, but Costs Rising

For the first time since 1996, new single-family prices have declined. Following a six per cent gain in 2001 to $239,437, prices have fallen by almost one per cent in the first eight months of 2002. Readers should be cautious not to conclude that overall prices are declining. Rather, the decline in average price reflects a shift in product mix toward the low end of the market. The lack of quality inexpensive resale listings combined with low mortgage rates has created more first-time demand in the market. Single-family builders responded to this opportunity, confirmed by the share of homes sold below $175,000. In 1999, 39 per cent of all single-family homes were absorbed below $175,000. By 2001, that share fell to 29 per cent due to rising construction costs and shifting consumer preferences. In the first eight months of 2002, the market share in the lower price range was relatively unchanged as builders responded to first-time buyer demand.

Despite little change to average prices, CMHC expects the cost of a 'typical' single-family home will increase up to seven per cent this year. With housing starts near record levels, every input into the production process is facing increasing cost pressure. While rising building material prices continue to add to the cost of a home, the biggest concern for builders rests with a lack of skilled labour. Trades are being pushed to their limit and are commanding higher wages as a result. With shortages experienced across the province, Calgary's builders are increasingly competing for labour with other hot centres such as Edmonton and Fort McMurray. Unfortunately for buyers, this tight market for labour translates into more expensive homes. Evidence of this appears in Calgary's New House Price Index (NHPI), an indicator that has recently posted the highest jump since 1998.

New Single-family Inventory
Sharp Decline in 'Spec' Units



Source: CMHC

Rising material and labour costs are not the only factors adding to the cost of a new home. Poor weather and stronger than expected demand has caught developers off-guard with an insufficient supply of land. As a result, staff and their equipment have been working overtime to satisfy the heightened need for serviced lots. This, in turn, has boosted average lot prices which, to the end of June, have increased by five per cent to $61,416. This represents a notable change considering the average frontage declined by 2.8 feet from the first half of 2001.

Following a negligible change in 2002, expect average house prices to increase by 3.5 per cent in 2003, reaching $248,000. In the face of rising mortgage rates and resulting loss of affordability, builders will strive to maintain the share of sales below $175,000. Their success, however, will be hampered by further price increases for land, labour, and materials. A five per cent jump in lot prices is expected into 2003, as development costs escalate due to stringent environmental regulations and continued labour pressure. Meanwhile, the trend toward narrow and less expensive lots will diminish as the inventory of starter lots faces severe shortages over the forecast period. In addition to land and labour, price increases for building materials will continue to add to the cost of new construction.

The 3.5 per cent increase in single-family home prices will appear modest by historical standards, which have averaged six per cent annually since 1997. Weaker starts in 2003 will provide some, albeit moderate, relief from rising labour costs. Meanwhile, continued focus on affordable units coupled with conservative purchases at the top end of the market will restrict overall price growth. Builders can blame fewer 'big-ticket' purchases on the poor stock market performance, high-tech bust, higher mortgage rates, and recent mergers in the oil sector.

Multi-family Market Given Clean Bill of Health

Past concerns of a saturated multi-family market have been eradicated. Following an 18-year high of 4,344 starts in 2000, multi-family inventories spiked in early 2001 as demand failed to keep pace with the number of units completed. Builders responded appropriately in the following months by pulling back on the number of units constructed. Multi-family starts, including semi-detached, row, and apartment units, fell to 3,790 in 2001, 13 per cent lower than the previous year.

To the end of August 2002, work has begun on 3,090 multi-family units, 34 per cent ahead of the pace set in 2001. Apartments are leading the charge, with starts up 59 per cent. During the same time, row construction has posted a 13 per cent gain, while semi-detached starts have fallen by 10 per cent. Through the balance of 2002, multi-family starts will be competing with comparatively strong numbers in the last four months of 2001. As a result, expect the year-over-year increase to moderate to 16 per cent, reaching 4,400 units for the year.

Affordability and location are, and will continue to be, key to the success of the multi-family market. To the end of August, 50 per cent of row and apartments were absorbed below $160,000. With low mortgage rates and a lack of listings in the resale market, new multi-family construction is providing much-needed supply for buyers seeking an affordable unit, especially first-timers. Meanwhile, volatile equity markets continue to encourage condominium investments as an alternative avenue for personal capital. Anecdotal evidence suggests that up to 25 per cent of all condominiums are purchased by investors to rent out. Pension funds are also getting in on the action, recently purchasing a new rental apartment tower for their portfolio.

With single-family prices in the inner city beyond the reach of most buyers, centrally located multis are greatly in demand. At the end of August, 46 per cent of the 3,917 multis under construction in Calgary were in the central sector of the city, providing plenty of options for those seeking an inner-city residence. With increasing traffic woes and a high percentage of Calgary's workforce in the inner city, many young professionals and maturing baby-boomers are looking toward the core to meet their housing needs. While both demographics are attracted by the inner-city lifestyle, the elder cohort is less attracted by multi-family's relative affordability. For young professionals wanting to escape high parking fees while living close to work, nightlife, and friends who rent, an inner-city condominium is often their only option.

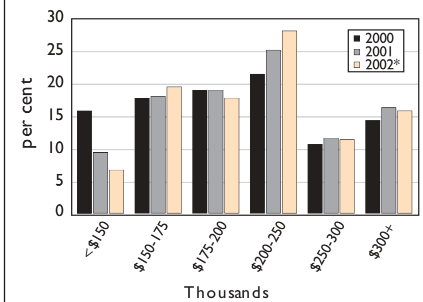
Cautious Optimism for 2003

Current indicators point to a vibrant, yet modestly weaker, multi-family market over the forecast period. In six of the first eight months, multi-family absorptions exceeded completions, drawing down the number of units in inventory. At 329 units in August, the number of complete and unabsorbed multis was 50 per cent lower than the previous year and the lowest total in 35 months. It also represents a welcome departure from the 17-year high of 748 units in April 2001.

To the end of August, multi-family absorptions were two per cent ahead of last year's pace, somewhat low considering starts are up 34 per cent. However, the comparatively weaker pace of absorptions should not concern developers

Single Absorptions by Price Range

Market Below $175k Maintains Market Share



Source: CMHC
*YTD August

at this time. With many of August's 4,264 units under construction nearing completion, expect a corresponding surge in absorptions in the coming months. Be that as it may, will demand keep pace with the number of units completed?

With only 82 per cent of multi-family units absorbed upon completion and over 4,200 units under construction, it is likely inventories will rise over the forecast period. With apartment starts up 59 per cent to the end of August, expect the majority of the increases to occur in this segment of the market. Despite the rise, a panic from the market place would be unwarranted. With lack of selection in the entry-level resale and new single-family markets, new migrants and buyers seeking affordable units will absorb any additions to inventory in a reasonable period of time. This should be achieved without generous incentives from builders, a tactic employed to trim inventories in 2001.

In 2003, multi-family starts are expected to fall to 3,850 units. Unlike 2001, rising inventories will receive little blame for the decline. Rather, the 12 per cent drop will be attributed to weaker migration, higher mortgage rates and various supply considerations. Currently, a number of questions surround the development of the old General Hospital site and East Village. While there exists plenty of demand for units on the old General Hospital site, CMHC expects few, if any, to begin construction in 2003 as the required infrastructure will not be in place in time for construction.

Meanwhile, the East Village development continues to carry the burden of political challenges before it moves further. Though pressure exists from developers to move the project forward, it will face further delays while the City re-examines the Area Redevelopment Plan (ARP), the policy document governing land use and development. At best, expect only a few hundred units to begin construction in the East Village in 2002. Thankfully, the west end of downtown will fill some of the void left by the East Village, as no fewer than six towers representing 925 units are currently under construction.

Resale Market

2002 Sales to Eclipse Record Set in 2001, But Will Slip Back in 2003

MLS® PRICE GROWTH BY SECTOR

Highest Selling Neighbourhoods 2002 January - June (% chg 2002/2001)

		AVERAGE PRICE		SALES	
Sector	*Neighbourhood*	*2002*	*% chg '02/'01*	*2002*	*% chg '02/'01*
Northwest	Edgemont	$263,027	7.4	170	21.4
	Citadel	$215,869	9.1	135	-11.2
North	Hidden Valley	$198,058	10.4	188	5.6
	Coventry Hills	$182,455	10.8	178	17.9
Northeast	Martindale	$155,157	9.3	235	31.3
	Temple	$159,165	10.0	133	22.0
West	Strathcona Park	$266,190	7.5	71	-5.3
	Signal Hill	$340,022	7.7	60	66.7
Centre	West Hillhurst	$302,730	18.4	86	50.9
	Altadore	$256,963	14.7	69	32.7
East	Erin Woods	$148,426	9.5	101	13.5
	Penbrooke	$135,704	5.3	86	45.8
South	Sundance	$223,699	-3.8	120	4.3
	Chapparal	$242,767	15.5	80	17.6
Southeast	McKenzie Lake	$235,279	-0.1	266	23.7
	Riverbend	$189,175	4.1	110	-14.1
Southwest	Bridlewood	$187,620	9.6	128	34.7
	Somerset	$198,893	12.1	121	10.0

Source: Calgary Real Estate Board

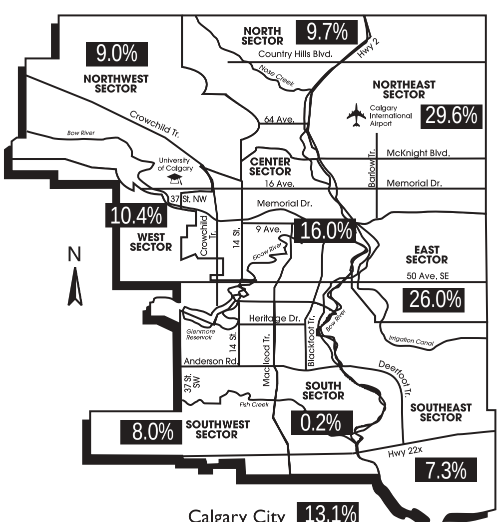
Despite a shortage of quality listings, a number of factors continue to favour existing home demand. Favourable mortgage rates, 2001's strong job creation, and a surge in net migration have all provided a boost to Calgary's resale market this year. At 18,158 units, sales to the end of August were 17 per cent higher than the corresponding period one year ago. As such activity represents the best January to August period in history, Calgary's resale market is on pace to eclipse the record 22,512 sales in 2001. By the end of 2002, sales are expected to jump 12 per cent to 25,100 units. The 17 per cent increase to date will deteriorate over the duration of the year, as the market competes with comparatively stronger numbers from September to December 2001.

Current market dynamics are notably different from those prevailing in 2001. Then, a healthy supply of listings mitigated the negative impact of weaker migration. Despite migration reaching a six-year low, prospective buyers faced an average of 5,021 active listings last year, 17 per cent higher than the previous 4-year average. Meanwhile, 40-year low mortgage rates created a sense of urgency, encouraging buyers to get into the market before rates and prices rose further.

Low mortgage rates continue to be a force behind the strength of the existing home market. Currently, however, the market is also benefiting from other factors. Net migration recorded a 160 per cent jump over the previous year, adding over 8,000 new households to the Calgary CMA in need of a residence. Meanwhile, though active listings have been low through the first eight months of the year, the lack of selection failed to impact sales adversely. Few rental vacancies combined with low inventories of newly constructed units meant buyers had limited options beyond the resale market. Those seeking to upgrade were forced to make quick decisions in order to capitalize on recent equity gains and lower borrowing costs. For renter households, the combined impact of rent increases and low mortgage rates pushed many out of rental into homeownership.

Following a record 25,100 transactions this year, expect sales to slip by more than nine per cent in 2003. With higher prices and rising mortgage rates throughout the forecast period, affordability constraints will begin to hinder sales. For first-time buyers, the situation will be aggravated by a severe shortage of listings at the low end of the market. Sales will also be reigned-in by a decline in net migration and weaker job creation this year. Despite the decline, next year's performance will represent the second strongest year on record.

MLS® Sales by Sector
January to June (% chg 2002/2001)



Source: CREB

Sellers' Market Conditions Prevail

As a gauge of resale activity, CMHC tracks the sales-to-active listings ratio to evaluate imbalances between supply and demand. During the first eight months of 2002, this indicator averaged 60 per cent, up significantly from the 35 per cent average during the same period one year earlier. Market participants were quick to learn that sellers held the advantage, as the record pace of demand far exceeded the supply of listings. To the end of August, active listings through the Calgary Real Estate Board (CREB) averaged 3,801 units, 31 per cent lower than 2001. This also represents the lowest resale selection since 1998.

With demand outstripping supply, astute buyers found it necessary to be pre-approved and ready to present a quick offer. In fact, a number of bidding wars have been reported this year. Anecdotal evidence from CREB suggests that up to 10 per cent of transactions so far this year have been at or above the list price, as buyers compete for relatively few listings. Prospective buyers can expect some relief in the coming months thanks to an anticipated increase in listings. With possessions pushed beyond six months in the new home market, many new buyers are reluctant to list their existing home until their possession date nears. With a likely surge of completions in the months ahead, more new listings will enter the market offering buyers more selection then they have been accustomed to this year.

Any increase in listings will be welcome news for buyers, especially first-timers who have been frantically competing for the few lower-priced listings. In the first eight months of 2002, the percentage of single-family listings below $175,000 fell to 23 per cent of the market, considerably less than the 37 and 31 per cent shares in 2000 and 2001, respectively. With rising mortgage rates and only a modest improvement in listings expected, buyers will still have to do their homework while conducting their search, especially for lower-priced units. For most, a quality agent will be mandatory, as will pre-approval and the willingness to put down an offer quickly. For some, the lack of modestly priced single-family listings will force buyers adamant on home ownership directly into the condominium market.

Resale Prices Surge Forward

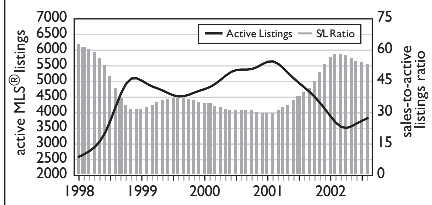
The record pace of sales has boosted prices considerably. Following gains of 6.1 and 3.3 per cent in 2000 and 2001, respectively, average prices have jumped nearly eight per cent. To the end of August, resale prices have averaged $196,448, up from $182,098 during the first eight months of 2001. The 7.9 per cent increase to-date represents the strongest price growth since 1998, a year that reported a 10 per cent gain.

Price levels are surging in response to the persistent imbalance between supply and demand. A lack of quality listings, especially at the low end of the market, meant sellers often faced competing offers from the numerous buyers ready to purchase their home. Meanwhile, for those experiencing difficulty finding a unit in their preferred price range, many had no choice but to upgrade to a more expensive residence. Luckily, low mortgage rates continue to be an enabling factor, as the cheap borrowing costs allowed buyers to purchase a higher priced unit with minimal increase to their monthly payments (see Spotlight on Affordability).

Price growth has also been boosted by zealous pricing strategies. With active listings averaging 3,801 units to the end of August, sellers became increasingly aware that they held the upper hand. For some vendors, their price expectations were unrealistic and their listings were ignored. For most, however, their high price expectations were justified, confirmed by unusual brief selling durations through the first eight months of 2002. Last year, the average single-family home took 64 days to sell, six fewer than the average condominium. To the end of August 2002, the time on the market for the average single-family home fell by 21 days compared to the previous year. During the same time, 20 days were chopped off the average time to sell a condominium.

Following a gain of 7.4 per cent in 2002, resale price growth is expected to moderate. An increase in active listings coupled with slowing sales will result in fewer multiple offers. Realistic pricing strategies will return, as sellers contend with increased competition and weaker demand. Meanwhile, higher mortgage rates and persistently weak stock market performances will result in more conservative transactions. Given this, CMHC expects the rate of price growth to slow to 4.4 per cent in 2003. The average selling price of an existing single-family home is expected to increase 4.5 per cent next year, reaching $219,000. Meanwhile, condominium prices are expected to rise 3.7 per cent in 2003 to $152,500, up from the average $147,000 this year. Risks to the 2003 forecast are tilted to the upside. Stronger migration coupled with weaker growth in listings would result in higher price growth than our forecast.

Shortage of Resale Listings,
Sales-to-Active Listings Ratio Up



Source: Calgary Real Estate Board, Seasonally Adjusted Data

For more information, contact:

Richard Corriveau

Senior Market Analyst

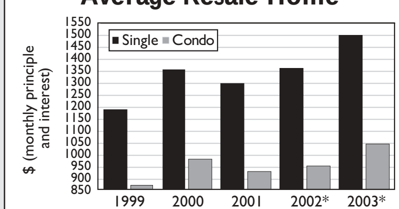
Telephone : (403) 515-3005
Fax: (403) 515-3036
E-mail: rcorrive@cmhc-schl.gc.ca

Spotlight on Affordability

Despite continued price increases in Calgary's resale market in 2001, declining borrowing costs have pushed average monthly mortgage payments lower than the previous year. Though single-family prices jumped 3.5 per cent, lower mortgage rates reduced the average monthly payment (P&I) by over four per cent compared to 2000. Currently, low mortgage rates continue to soften the impact of rising prices. Thanks to persistently low mortgage rates, the average monthly payment for a single-family resale is expected to increase by only 4.5 per cent in 2002, comparatively less than the eight per cent hike in average prices. At $1,362 per month, the average monthly mortgage payment this year will return to the 2000 level.

As the economy accelerates and interest rates rise, mortgage rates will no longer act as a cushion for rising house prices. Though price growth in Calgary's single-family resale market will be restricted to 4.5 per cent in 2003, higher borrowing costs rates will result in a 10 per cent jump to monthly mortgage payments. Similar payment increases are expected in the condominium market, despite comparatively modest price growth of 3.7 per cent. Such changes will undoubtedly hamper demand in 2003, especially among first-time homebuyers.

Monthly Mortgage Payment for Average Resale Home



Source: Bank of Canada, CREB, *CMHC Forecast
Assume: 10% down payment, 5-year term, 25-year amortization, taxes at 1% of value

Rental Market

Vacancies to Record Modest Increase

Following a 1.2 per cent vacancy rate in October 2001, CMHC expects apartment vacancies will ease slightly to 2.7 per cent in 2002 before tightening to 2.3 per cent in 2003. Thanks to 40-year low mortgage rates and rising rental costs, many property owners will experience an exodus of renters into home ownership, especially in 2002. Other forces come via an indirect increase in rental supply through investors buying condominiums to rent out. With prolonged weakness in the stock market, many are turning to condominium purchases as an alternative investment channel. Despite these factors, other indicators point to continued tightness in Calgary's rental market. Solid net migration among younger households will maintain rental demand. Meanwhile, a limited selection of affordable units for home ownership will offer potential homeowners few options.

Universe Erodes Despite Additions Via New Construction

Though an exodus of renters into home ownership points to higher vacancies, two compensating factors should maintain a vacancy rate below three per cent. Despite a recent strengthening of rental construction, the focus for multi-family developers continues to be for ownership tenure. Out of 3,790 multi-family starts in 2001, only 463 were for rental tenure. While this represents the highest total since 1989, more than half of these are senior's residences. To the end of August 2002, another 289 rental units have been started. However, it is likely only few of these units will be completed this year.

A second factor maintaining low vacancies is the habitual removal of units from the rental universe. Though more than 500 new units will be added to the rental stock over the forecast period, they will be insufficient to counter the losses through condo conversions. Since 1998, the number of conversions from rental to condominium has averaged 915 units per year. While the number of conversions will likely trail the preceding 5-year average, they will probably outnumber new additions to the rental stock via new construction.

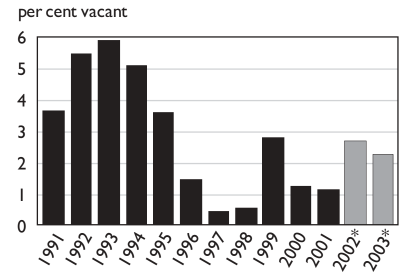
A more appropriate analysis would examine the number of rental units per capita. Interestingly, Calgary has one of the lowest rental universes per capita among Canada's 28 CMAs. In 1989, there were 73 rental units per 1,000 residents in the Calgary CMA. With the continued trend of condo conversions and steady stream of new migrants, the number of rentals per 1,000 population will fall below 50 in 2002. Given the unlikely reversal of this trend in the near future, landlords should be confident that vacancies will remain low.

Moderate Rent Increases over Forecast Period

With modestly higher vacancies over the forecast period, the pace of rental rate increases is expected to subside. Following a 5.8 per cent increase in 2001 to $783 per month, tenants will see average two-bedroom rents rise by only three per cent during the 12-month period ending October 2002. Despite a continued focus on renovations, landlords will be increasingly reluctant to boost rents to hedge the risk of higher vacancies. With continued low mortgage rates and ample selection in the new condominium market, landlords will want to remove any incentive for their tenants to consider home ownership. Another factor curbing rent increases is the lack of pressure from heightened energy costs, a primary push behind the rental rate increases in 2001.

In 2003, average rents are expected to increase by 4.5 per cent. Unfortunately for renters, the new additions to the rental stock will fail to restrict rent increases. In fact, the opposite is true, as the high costs associated with constructing new rentals will result in higher than average rents.

Vacancy Rates
Rental Apartment Structures Six Units and Over



* Forecast: CMHC

Mortgage Rate Outlook

While open and variable rate mortgages generally track lenders' prime rate, fixed rate mortgages move in tandem with the bond market. As the prime rate, money market and short-term bond yields are expected to increase, so should short-term mortgage rates. Given the continued economic growth and the concern on the part of financial markets regarding inflation and expected monetary tightening, bond and mortgage rates should also trend upward.

In 2003, the one-year mortgage rate will average near 6.3 per cent compared with an average of 5.2 per cent for the current year. Five-year mortgages will begin 2003 near 7.1 per cent and end the year close to 8.5 per cent. Expect the five-year mortgage rate to average 7.75 per cent in 2003, up from 7.1 per cent this year.

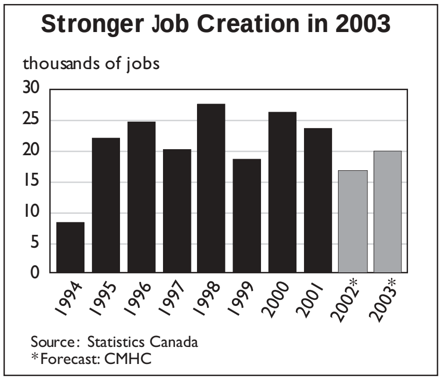
Economic Overview

Solid Pace of Job Creation in 2003

Though job creation is expected to moderate this year, Calgary will maintain its status as an employment growth leader in the country. The Calgary economy managed to create 20,300 jobs to the end of August, ten per cent behind the pace set in 2001 when 23,800 jobs were produced. Because some of the increase is seasonal, the pace of job creation will abate somewhat over the duration of the year. Nonetheless, we expect Calgary to gain roughly 17,000 jobs by year-end, representing a healthy employment expansion of three per cent over 2001.

Despite poor job performance in a number of sectors, the local economy has gained momentum from strong consumer demand. Low borrowing costs and healthy wage gains have translated into record resale transactions and near-record housing starts. Automobile sales are also on a record setting pace, while retail sales surge forward. In fact, retail employment has been the prime beneficiary of the bullish consumer activity. According to Statistics Canada, the retail sector has led all industries in job creation to the end of August, expanding payrolls by 12,900 positions. Unfortunately for housing markets, the retail sector is one of the lowest paying industries in the Calgary economy.

Also benefiting from the bullish consumer is the construction sector, where employment increased by an average 3,300 positions to the end of August. This represents a sizeable gain,



Stronger Job Creation in 2003

Source: Statistics Canada
*Forecast: CMHC

considering the sector lost 3,400 positions during the same period last year. Credit goes to the hot housing sector and retail development, though renewed spending on infrastructure projects deserve some thanks. In the March 2002 provincial budget, $631 million in capital projects were initially deferred due to declining oil revenues. Thankfully, higher than expected energy prices have reversed this decision resulting in a welcome stream of infrastructure spending.

While the retail and construction sectors are enjoying healthy employment gains, other sectors have not been as fortunate. Due to a persistent slowdown in demand south of the border, the beleaguered manufacturing sector has shed 1,000 positions to the end of August on top of the 3,100 losses last year. Meanwhile, the high-technology sector, once argued to be the diversifying conduit for Calgary's energy-based economy, has languished. Solectron has closed their wireless operations, eliminating 500 permanent full-time positions by September. Meanwhile, Panasonic will eliminate up to 75 jobs. Elsewhere, the severe downturn in the world's telecommunications sector will result in 1,000 job losses at Telus and further unspecified layoffs at Nortel.

Other notable changes have occurred in the oil and gas and professional, scientific, and technical services sectors. Both sectors prominently led employment growth in 2001, with payrolls expanding by 8,000 and 11,000, respectively. So far this year, the story is vastly different. Employment in the oil and gas sector has increased by a comparatively weak 3,000 jobs to the end of August, a result of weaker energy prices, conservative budgeting in 2001, and a spate of mergers. Meanwhile, the professional, scientific, and technical services sector has lost almost 5,000 positions in the first eight months of the year. The majority of these positions were full-time, an important prerequisite for buying a new home. More important for housing markets is the fact these industries pay the highest wages among all sectors in the Calgary economy. Indeed, 2001's strong gains in these sectors are boosting current new home demand, thanks to the lagged impact of employment growth on housing starts. Undoubtedly, the poor performance of these sectors in 2002 will adversely impact new home starts in the coming year. Given the loss of such high-paying positions, it will also result in more conservative purchases.

There is positive news for labour markets in the coming year. After plummeting since the start of 2001, the help wanted index has shown a welcome increase from its 64-month low in May 2002, pointing to further job gains in the coming months. Given the current shortage of skilled labour, expect the trend of full-time job creation to continue into 2003, as businesses promote part-time employees into full-time positions. In 2003, employment growth in the Calgary CMA will improve to 3.4 per cent, or 20,000 new positions.

With energy prices exceeding expectations this year, expect a significant boost to corporate earnings for oil producers. This should result in renewed employment gains in the oil and gas sector throughout the forecast period. However, a tempering factor will be the recent mergers and acquisitions in the energy sector. Such activity will reduce the likelihood of a jump in professional, scientific, and technical services employment in the next five quarters. The recent trend of mergers and acquisitions in the energy industry has also caused a glut of office space in the downtown core, reducing the prospect of additional office tower construction.

Despite a lack of downtown office construction in 2003, additional job gains should be experienced in the construction sector. Though high-rise commercial labour is often unsuitable for new home construction, employment prospects will be found in the number of high-rise residential towers under construction downtown. Meanwhile, other commercial and infrastructure developments will fuel the demand for construction labour. Two new schools were re-approved, including a public High School in the South and a Catholic High for the North. In addition, the new $200-million Alberta Children's Hospital on the U of C Campus is scheduled to begin construction shortly. Elsewhere, improvements to Calgary's Airport continue, as is major work to our roadways, interchanges, and LRT lines. In total, upwards of $2.3 billion in non-residential projects will start or continue construction in 2003.

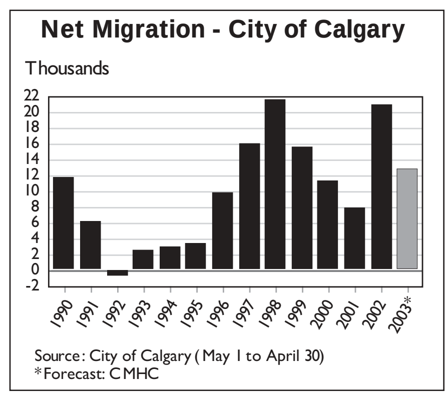
Other winners for job creation in 2003 will be the manufacturing sector, thanks to an expected recovery in the U.S. and stronger domestic demand. Gains will also be experienced in the health care, retail, and transportation and warehousing sectors.

Net Migration to Slow Following Huge Surge

Following three consecutive years of decline, the City of Calgary has experienced an unexpected but welcome spike in net migration. According to the latest city census figures, the City of Calgary recorded 20,962 new residents during the 12-month period ending April 30, 2002. This represents a 162 per cent increase from 2001, and the second strongest gain since 1982.

In the wake of September 11th's terrorist attacks, layoffs were experienced in a number of sectors across the country. In Ontario, manufacturing jobs were eliminated as producers scaled back output to draw down inventories. Around the same time, Saskatchewan and Manitoba were reeling from poor crop conditions, while B.C.'s stumbling forestry sector left people without employment in that province. Many turned their attention to Alberta, continuing a trend that began in 1996. With Calgary's reputation as a 'job-making machine', the city was the prime beneficiary of migrants seeking high-paying and secure employment opportunities.

For the 12-month period ending April 30, 2003, we expect net migration to decline to 12,000. While our vibrant economy will continue to draw migrants, our magnetic power will be reduced due to modestly higher unemployment rates and weaker employment growth in the second half of this year. Meanwhile, with economic conditions improving in the rest of Canada, employment prospects outside of Alberta are rapidly returning. The combination of tight labour markets and improved economies elsewhere will translate into reduced net migration into the Calgary region. Exacerbating this downturn will be the continued strength of Edmonton and Fort McMurray, which will draw inter-provincial and inter-city migrants away from Calgary.



Net Migration - City of Calgary

Source: City of Calgary (May 1 to April 30)
*Forecast: CMHC

FORECAST SUMMARY

CALGARY HOUSING MARKET OUTLOOK

SEPTEMBER 2002

	2000	2001	% Chg	2002*	% Chg	2003*	% Chg
RESALE MARKET							
MLS® (1)active listings (Annual Avg.)	5,214	5,021	-3.7%	3,700	-26.3%	**4,200**	**13.5%**
MLS® SALES							
Total	19,828	22,512	13.5%	25,100	11.5%	**22,800**	**-9.2%**
Single-family	15,541	17,616	13.4%	19,500	10.7%	**17,750**	**-9.0%**
Condominium	4,287	4,896	14.2%	5,600	14.4%	**5,050**	**-9.8%**
MLS® PRICE ($)							
Total	176,305	182,090	3.3%	195,600	7.4%	**204,300**	**4.4%**
Single-family	187,463	194,116	3.5%	209,500	7.9%	**219,000**	**4.5%**
Condominium	135,860	138,818	2.2%	147,000	5.9%	**152,500**	**3.7%**
NEW HOME MARKET							
STARTS							
Total	11,093	11,349	2.3%	13,600	19.8%	**12,100**	**-11.0%**
Single-family	6,749	7,559	12.0%	9,200	21.7%	**8,250**	**-10.3%**
Multiple-family	4,344	3,790	-12.8%	4,400	16.1%	**3,850**	**-12.5%**
AVERAGE NEW HOUSE PRICE							
Single-family	225,996	239,437	5.9%	239,500	0.0%	**248,000**	**3.5%**
RENTAL MARKET							
Vacancy rate (Oct)	1.3	1.2		2.7		**2.3**	
Rental rate (Annual % Change)	0.1	5.8		3.0		**4.5**	
ECONOMIC OVERVIEW							
Mortgage rate (3 yr term)	8.17	6.88	-1.3	6.36	-0.5	**7.22**	**0.9**
Mortgage rate (5 yr term)	8.35	7.41	-0.9	7.07	-0.3	**7.75**	**0.7**
Employed	543,400	567,200	4.4%	584,200	3.0%	**604,200**	**3.4%**
Employment growth (# jobs)	26,400	23,800		17,000		**20,000**	
Net-migration (Census Year 2)	11,317	7,991		20,962		**12,000**	

** 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.

2 May 1 to April 31 period