HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

CALGARY
SPRING 2004

New Home Market

Conditions Point to Weaker Starts in 2004, but Still Expect a Great Year

In a year when the economy was hit by a number of unwelcome surprises such as Mad Cow disease and SARS, residential construction remained one of the good news stories of 2003. Though homebuilders in the Calgary Census Metropolitan Area (CMA) saw starts decline by five per cent from 2002, the year's performance was the second best since 1981. Total housing starts reached 13,642 in 2003, thanks to an impressive 8,526 single-family starts and a 21-year high for multi-family construction of 5,116 units. Considering net migration fell substantially and employment growth was the lowest since 1994, the 13,642 starts in 2003 were a remarkable feat.

As was the case in the 2002, low mortgage rates last year were one of the dominant factors fuelling new home demand. At 6.39 per cent, the average five-year mortgage rate was 63 basis points lower than its 2002 equivalent. Combined with competitive mortgage markets offering approximately 100 basis points off the published rate, buyers enjoyed the best rate environment since the 1950s. This produced a flurry of first-time buying activity, a trend that took off shortly after 9-11 when the Bank of Canada dropped rates ten consecutive times. The low mortgage rates also afforded buyers the opportunity to buy a more expensive home. Meanwhile, for those looking to move up in the market, the strong equity gains experienced in previous years provided an additional bonus. The continued escalation of house prices, combined with a persistently tight labour market and strong consumer confidence, also reduced the fear of incurring more debt.

In addition to low mortgage rates, housing starts have been buoyed by a number of other factors. In 2002 and 2003, housing starts benefited from the cumulative impact of job gains and migration from the preceding five years. From 1997 to 2001, the Calgary economy created 23,400 jobs per year, attracting an average of 15,500 net migrants on an annual basis. Meanwhile, the sharp decline in resale listings in 2002 prompted buyers to turn to the new home market. This, along with continued investment demand, translated into steady housing starts through much of 2003.

Calgary's new home market will continue to be dominated by low mortgage rates driving demand. In the first few months of 2004, the Bank of Canada has cut rates three consecutive times in an effort to ensure that consumer and business spending continues to offset the damaging impact of the strong Canadian dollar on exports. For 2004, expect the published five-year mortgage rate to average 20 basis points lower than 2003. Considering rate discounting only hit the market in the last 10 years, an average discount of 75 to 100 basis points will result in the lowest mortgage rates in recorded history.

Despite the advantage of lower mortgage rates in 2004, they will be insufficient to counter competing factors. Fundamental elements for new home demand continue to be population, employment, and income growth, all of which have experienced recent weakness. Following an impressive migration performance in 2002, the latest civic census results showed a 57 per cent decline in 2003 to fewer than 9,000 net migrants, certainly a disappointment by Calgary standards. Meanwhile, after a weak performance in 2002, employment growth fell further in 2003, delivering the slowest job creation in ten years. On the income front, high-paying job losses and corporate belt-tightening have stifled income growth for the average Calgary resident. Without a substantial improvement for these factors in 2004, a decline in new housing demand will be inevitable.

Ironically, low mortgage rates may also be to blame for a further moderation in activity this year. Low mortgage rates, which were an ally of buyers over the past two years, have pulled some demand forward, inherently stealing activity from future years. Calgary has led housing starts per capita in all of Canada's CMAs for the last five years, suggesting much of the pent up demand brought on by low mortgage rates and population gains of previous years has been satisfied. In fact,

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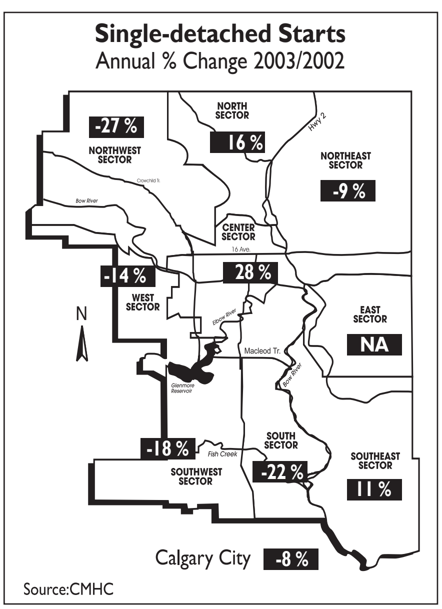
housing starts have far surpassed the rate of household formation in the last few years.

Other factors that will take further steam out of local housing markets include a dwindling supply of first-time buyers, weaker investment demand, further gains in house prices, and hefty competition from resale units. As evidenced by the recent spike in rental vacancies, low mortgage rates in the last 24 months have already pulled a large contingent of first-time buyers into home ownership. In response, some landlords have aggressively been cutting rents and providing rental incentives to keep vacancies from escalating further. High vacancies, meanwhile, combined with a celebrated stock market recovery, will reduce investor interest in the condominium market from levels enjoyed in the previous two years. Meanwhile, despite modestly lower mortgage rates in 2004, the decline will be insufficient to counter the more than five per cent jump in house prices. A rising level of inventory in both the single- and multi-family markets is also expected to dampen the pace of new home construction, as is increased competition from the resale market. In the first few months of 2004, active listings in the resale market have averaged 66 per cent higher than in 2002, providing plenty of selection for buyers seeking a quick occupancy.

Despite an expected decline, the moderation in housing starts will represent a return to solid long-term growth. In 2004, single-detached starts are expected to total 7,750 units, representing a decline of nine per cent from 8,526 units in 2003. Multi-family construction, including semi-detached, row, and apartment units, is expected to total 4,700 units in 2004, following a 21-year high of 5,116 in the previous year. Combined, overall housing starts will reach 12,450 units in 2004, down from 13,642 in 2003. This will represent the fourth highest total since 1981 and seventh best year on record.



Single-Family Starts Continue to Moderate

Given the pace of single-family construction in the first three months of 2004, it appears the market will record its second annual decline in as many years. Single-family housing starts from January to March totalled 1,804 units, eight per cent fewer than the previous year. As 2004 progresses, starts are predicted to maintain a similar pace, albeit slightly weaker. Therefore, expect to see a nine per cent year-over-year decline by the end of 2004, reaching 7,750 single-family units for the year.

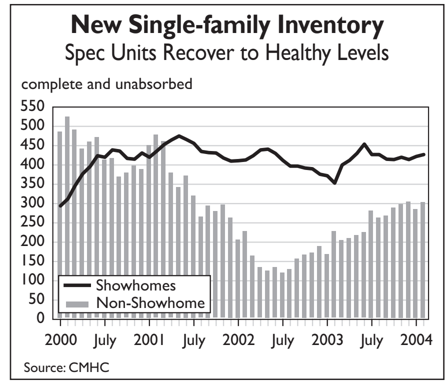
The moderation in single-family construction represents a return to sustainable activity rather than a marked slowdown. Builders are coming off a record two-year stretch when most of the economic and demographic factors were in the market's favour. Single-family housing starts in 2004 will still represent the fifth best year on record and be on par with the preceding five-year average of 7,772 units. The decline in starts will ease the upward pressure evidenced by the more than 10 per cent gain in average price in 2003. Weaker starts will also draw possession dates closer for consumers, something builders saw extended through 2002 and part of 2003. In addition, the moderation in activity will allow builders to continue replenishing their spec inventory from the five-year low in mid-2002. However, builders should be careful to not see them escalate too quickly.

Single-family Spec Inventories in a Healthy Position… For Now

After reaching a 53-month low of 528 units in August of 2002, the number of complete and unabsorbed single-family units has recorded a strong comeback. At 763 units at the end of March, single-family inventories are currently the highest total since July 2001 and 26 per cent above levels recorded one year ago. The increase can not be attributed to a rising showhome total, as they remained relatively constant over the last 12 months. Rather, a rise in spec units is responsible for the jump in inventory, as they reached one of the highest totals in 31 months in February 2004, reaching 304 units.

By all accounts, the recent escalation of spec inventory is not representative of a rapidly declining market. Through much of 2002, spec inventory was very low, thanks to a severe shortage of resale listings and record new home demand. At the end of July 2002, the 121 spec units in the Calgary CMA represented the lowest total in over five years. Recognizing a lost opportunity, builders actively promoted their spec programs to provide options for buyers seeking quick occupancies.

Certainly, an increase in the number of spec units was justified. However, builders must

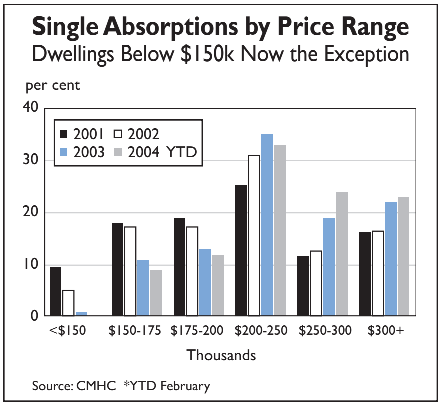


recognize that a number of factors are shifting out of favour, rendering a continued escalation of spec inventory unnecessary. Indeed, such was the case in 1999 when specs climbed to record levels, averaging 546 units for the year. Recall that the previous record of 9,219 single-family starts was achieved in 1998, only to see a 28 per cent drop in the next 12 months. Surely, weaker employment growth, softer migration, and higher resale listings in 1999 all contributed to the sizeable drop in starts that year, but so too did the spike in spec inventory. Currently, many market conditions mirror those existing in 1999. As indicated below, Calgary is experiencing a modest pace of job creation, softer net migration, and persistently high resale listings. Given that, a further run-up in spec inventory could result in a more than nine per cent decline in single-family starts in 2004.

Price Growth to Moderate

After increasing only 1.2 per cent in 2002, single-family prices jumped 10.2 per cent in 2003, reaching $267,104. For buyers, this represents the strongest year-over-year gain in prices since 1990. Undoubtedly, last year's price growth was a byproduct of the record starts performance in 2002. While the pace of demand at that time placed further upward pressure on materials in 2003, a perceived shortage of skilled labour turned out to be one of the most significant cost pressures builders faced. With 9,413 single-family starts in 2002, many trades were pushed to their limit and commanded higher wages as a result. Developers, too, experienced a similar phenomenon, as 2002's record activity caught them off-guard with an insufficient supply of land heading into 2003. Staff and their equipment worked overtime to satisfy the heightened lot demand. This, combined with the introduction of a $1,400 per lot levy, contributed to a nine per cent gain in lot prices in 2003, reaching $68,640.

Rising material, labour, and lot prices were not the only factors adding to new home prices in 2003. A rash of fires and thefts boosted builders' insurance and security costs significantly. More importantly, however, consumers are also responsible for the higher



average house price in 2003. Low mortgage rates afforded buyers the ability to purchase a more expensive home. The drop in mortgage rates in 2003 meant that buyers could afford a six per cent more expensive home without affecting the monthly mortgage payment.

Following the 10 per cent jump in 2003, expect average single-family house prices to increase by less than six per cent in 2004, reaching $281,000. In the face of weaker starts activity, the upward pressure on labour costs will ease. There is a risk that last year's fires and 2010's Winter Olympics will attract construction labour back to B.C., resulting in a continued labour shortage in local markets. However, that risk should be minor if long-standing trades remain loyal to their local homebuilders. This should come as good news, especially since some skilled trade shortages still exist.

Lot prices are also not expected to rise to the extent they did in 2003. Some serviced lot shortages in the first part of the year will still exist, as an early winter negated some of the headway developers made during the summer and fall of 2003. Any shortages are expected to improve once developers get back to operating at full capacity. Lot price pressures will also be limited as input costs, such as concrete and oil byproducts, are not expected to see increases beyond normal levels.

Perhaps the most significant factor to boost house prices in 2004 will be lumber shortages. Sources have indicated that in the first few months of the year, lumber packages have increased by upwards of 25 per cent, thanks largely to a price spike in oriented-strand board (OSB). The combination of high North American demand and low inventory, coupled with wildfires in Western Canada has driven prices higher. Reports about the U.S. government placing a substantial order of OSB for rebuilding in Iraq also added to the pressure. Unfortunately, little relief from high lumber prices can be expected for buyers in 2004, as a surging U.S. economy maintains healthy construction levels south of the border. With 1.85 million housing starts in the U.S. in 2003 and another 1.8 million expected this year, U.S. demand will continue to keep lumber prices at high levels. Relief will come in 2005 when additional mill capacity comes on stream via new OSB plant openings in Saskatchewan and Quebec.

Weaker Multi-family Starts in 2004

Following a 22-year high of 5,116 units in 2003, multi-family construction, including semi-detached, row, and apartment units, will begin to scale back this year. A total of 4,700 units are expected to begin construction, representing an eight per cent decline from 2003. Despite the decline, however, a 4,700-unit performance will still be impressive by historical standards, as they will surpass the previous 10-year average by 46 per cent. As was the case in 2003, expect very few units to start for rental tenure.

A number of factors boosting construction last year will continue to fuel the market in 2004. Though likely to a lesser extent this year, persistently low mortgage rates will continue to deliver first-time buyers eager to get out of rental and into home ownership. For renters paying the average two-bedroom rent of $804 per month, they would find a similar mortgage payment in a $135,000 condominium with a five per cent down payment. Based on row and apartment condominium absorptions in 2003, the average renter would thus be able to afford 40 per cent of available product.

Other factors fuelling demand will include location, lifestyle, and the relative price advantage to a single-family home. Location will always be key to the success of the multi-family market, as new single-family construction close to the downtown core is cost prohibitive for most buyers. In 2003, more than one-third of all multi-family starts were in the central sector of the city, offering a multitude of product to buyers seeking short commutes and an inner-city lifestyle. The proportion of inner-city starts may even increase in 2004, as the Beltline, downtown, Mission, Stampede Station, and the Bridges will all see plenty of action. Meanwhile, in the face of rising prices in the new and resale single-family markets, a multi-family unit is quickly becoming the only alternative for some buyers. In 2003, the average new and resale single-family home was respectively 62 and 39 per cent more expensive than the average row and apartment condominium.

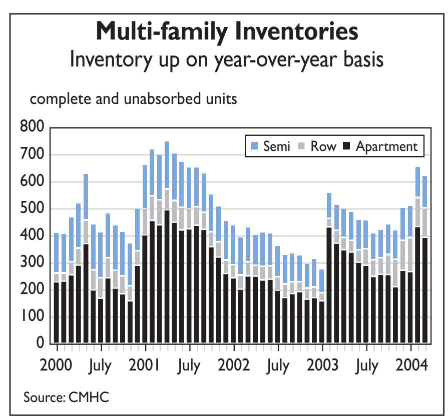
While the multi-family market continues to benefit from a number of positive influences, a number of damaging factors should not be ignored. With migration cut in half from 2002, job creation at the lowest level in 10 years, and resale active listings among the highest volumes on record, the multi-family market can not continue at its 2003 pace. Though multi-family ownership starts are coming off a record year, it must be remembered that most, if not all, of 2003's construction commitments were made in 2001 or 2002, a time when market conditions were more aligned in the market's favour. If decisions for 2004 were based on the activity from the previous year and not the shift in market conditions, then the market could risk overshooting demand resulting in strong additions to inventory down the road.

Evidence of a rise in inventories is already occurring, as the number of complete and unabsorbed units has recently climbed to a 32-month high. At the end of March, 621 multi-family units sat in inventory, 21 per cent higher than the previous year. With over 4,800 still under construction and an average absorption rate of 73 per cent upon completion, expect to see some further additions to inventory as the year progresses. When this does occur, buyers may look forward to some generous incentives from builders, a tactic employed to trim inventories in 2001.

Condominium Investment Demand has Run its Course

In addition to the factors mentioned above, a recent jump in rental vacancies also warrants a decline in multi-family construction in 2004. Ten-year high vacancies will preclude the need to build new rental product, though some low cost rentals and life-lease product will surface. The biggest impact vacancies will have on the multi-family market, however, is on condominium investment demand.

In the last few years, investors looked to rental condominiums as an alternative investment channel. Unimpressed with the stock market performance in 2001 and 2002, many began buying condo units and putting them up for rent. It was a great strategy at the time, as rental vacancies remained relatively tight. Since then, however, apartment vacancies started climbing in tandem with the declines in mortgage rates, sending many renters into home ownership. Moving forward, the shrinking demand pool and heightened vacancies implies that many such investors will only be successful securing tenants if they cut rents. As a result, expect some to list their units on the resale market and re-inject their capital elsewhere. The recent stock market recovery has been widely celebrated, and investors may see a substantial opportunity cost if their capital is tied up in a vacant condominium.



Resale Market

Sales Experience Marginal Decline in 2003, Trend to Continue This Year

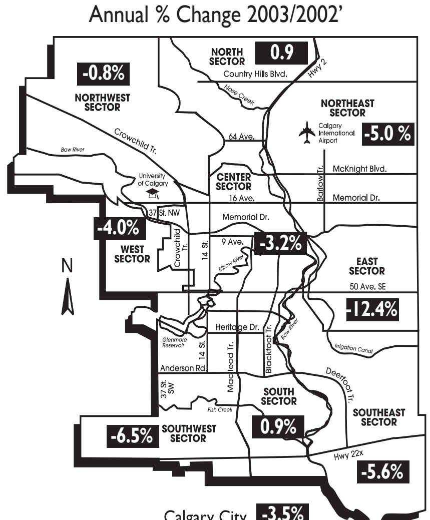
Substantial employment gains, above average net migration, and low mortgage rates were the dominant factors fuelling two consecutive years of record resale transactions in 2001 and 2002. In light of weaker job creation and net migration, further declines in mortgage rates could not propel sales to another new record in 2003. After the first quarter, sales recorded through the Calgary Real Estate Board (CREB) lagged 2002 by 14 per cent. By year-end, the annual deficit had improved to only 2.8 per cent below 2002's record, totalling 24,359 units. Despite the year-over-year decrease, 2003 achieved the second best sales performance on record.

Single-family sales reached 18,319 units in 2003, declining 3.7 per cent from the record set in 2002. Meanwhile, following growth in excess of twenty per cent in 2002, the market for existing condominiums expanded further in 2003. A record 6,040 condominium sales were reported last year, surpassing the previous record set in 2002 by 0.3 per cent.

In 2004, existing home sales will be softened by a combination of factors including, but not limited to, weaker first-time demand and a slower pace of move-up activity. Unlike previous years, rental vacancies have escalated to a 10-year high, leading to a number of incentives, rent reductions, and an excellent selection of rental suites. As a result, renters will not be as eager to jump to home ownership as they were in the previous two years. Perhaps a bigger concern, however, is that the pool of renters who are candidates for home ownership has largely been eroded, as many have already made their purchase. A similar story can be told for buyers looking to move up in the marketplace.

MLS® SINGLE-FAMILY SALES BY SECTOR

Annual % Change 2003/2002'



Source: CREB

Despite the above concerns, respectable employment growth, persistently low mortgage rates, and positive net migration will sustain the demand for resale homes above the previous five-year average. Sales recorded an impressive 11 per cent gain in the first quarter of the year, thanks to a flurry of buyers getting into the market before the anticipated mortgage rate increases. By year-end, however, the negative factors will come into play, resulting in a modest year-over-year decline. Existing home sales in the Calgary CMA are expected to total 23,600 units in 2004, three per cent lower than 2003 but the third best year on record.

Market Conditions Remain Balanced

Sellers' market conditions characterized Calgary's resale market from late 2001 to early 2003. At that time, record demand resulted in a significant drop in active listings, as eager buyers snapped up homes in the wake of the lowest mortgage rates in 50 years. Multiple offers and sales in excess of list price led to nearly double-digit price growth.

Active listings quickly rebounded in 2003, returning Calgary's resale market to balanced conditions. Following 2002's record single-family starts, many owners waited to list their homes until their new units reached completion. Meanwhile, others began listing their units on a speculative basis, expecting that recent price gains and lower mortgage rates would allow them to upgrade to a more expensive home. Condominium listings also increased, in part, as investor-owned units were unable to secure the rent required for an acceptable return on investment. These factors combined to boost active listings to an average of 5,681 units in 2003, 46 per cent higher than the previous year.

In the first three months of 2004, the average number of active listings has climbed further, reaching a seven-year high of 5,752 units, 21 per cent higher than the same period in 2003. Listings have remained in excess of 2003 levels for a number of reasons. Rising vacancies in the rental market and a simultaneous improvement in conventional investments continues to bring a portion of investor-owned properties onto the market. Meanwhile, hoping to capitalize on strong price appreciation, sellers continue to list on a speculative basis. Other factors boosting listings include a shift in marketing strategies away from owners attempting to sell their homes privately. With the market currently exhibiting balanced conditions, sellers, who a year ago may have opted to sell their homes on their own, are now choosing to hire a realtor to expedite the sales process.

The ratio of sales-to-active listings provides a useful gauge of the strength of the market, as it indicates the balance between supply and demand. After peaking at 44 per cent in April 2003, the sales-to-active listings ratio declined through the year, ending in an annual average of 36 per cent. A sales-to-active listings ratio in this range indicates strong balanced conditions, where the market does not favour buyers or sellers.

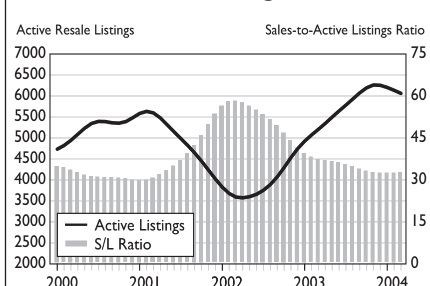
In the first quarter of 2004, the sales-to-active listings ratio among single-family homes averaged 38 per cent, while condominiums reported a ratio of 32 per cent. Higher demand relative to supply in the single-family market demonstrates stronger market conditions than in the condominium sector. Although sales have been fairly stable and listings have increased in both markets, condominium listings have increased to a greater extent than single-family homes. Additional evidence of the relative strength of single-family homes comes from the average days on the market. So far in 2004, the average single-family home has sold in eight fewer days than the average condominium.

Resale Price Growth Continues

The strength of demand relative to supply has led to average price increases beyond inflation for the past several years. In 2003, the average selling price of an existing home in the Calgary CMA rose above $200,000 for the first time ever, reaching $211,155, seven per cent higher than the previous year. For many buyers, low mortgage rates provided them the opportunity to purchase a more expensive home with minimal impact to their monthly carrying costs.

Modestly weaker demand, combined with higher listings, will reduce upward price pressure in 2004. Under balanced market conditions, the average price increase will moderate to five per cent, reaching $221,800 for all units. For many sellers this year, softer

Resale Active Listings High, Sales-to-Active Listings Ratio Down



Source: Calgary Real Estate Board, Seasonally Adjusted Data demand and more competition will force them to re-evaluate their sales strategies. As a result, optimistic price expectations will become less frequent if sellers want to ensure a timely sale.

With a comparatively higher sales-to-active listings ratio in the single-family market, expect single-family price growth to outperform that in the condominium market. Consequently, price growth for the average condominium should be unchanged from 2003 at 3.6 per cent, reaching $162,500. The single-family market will see comparatively stronger price appreciation at 5.4 per cent, jumping to an average of $241,500.

Rental Market

No Improvement for Rental Vacancies in 2004

CMHC's October 2003 survey recorded an apartment vacancy rate of 4.4 per cent in the Calgary CMA, 1.5 percentage points higher than the previous year and the highest rate since 1994. The dominant factor leading to the rise in vacancies was undoubtedly low mortgage rates, which, at 45-year lows, delivered a healthy stream of first-time buyers. Though at a lesser pace, this first-time buyer trend is expected to continue over the forecast period, as mortgage rates faced further declines in the first quarter of this year. Notwithstanding impending ownership demand, the full impact on the rental market is yet to be experienced. With multi-unit ownership starts reaching a record high in 2003, expect to see more renters vacating their suites once their new ownership units reach completion. As a result, expect to see a modest rise in the vacancy rate in 2004, reaching a 10-year high of five per cent in October.

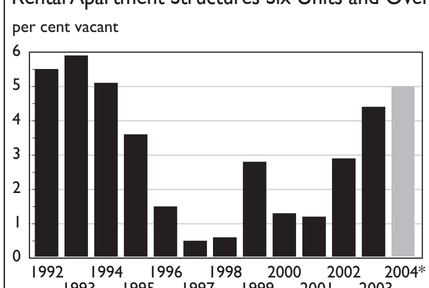
Other factors pointing toward a five per cent vacancy rate continue to include weaker net migration and indirect additions to the rental stock via investment condominiums. With the propensity to rent being high among new migrants, the recent 57 per cent drop in net migration will result in softer rental demand this year. The rental demand pool will also be weaker among upper income renters, as they have the financial capacity to save for a down payment and purchase a home. This will add to the number of vacancies at the upper end of the market, a phenomenon further compounded by new supply in the highest rent ranges. Though new construction for rental tenure continues to be weak, the poor stock market performances in 2001 and 2002 have led investors to purchase condominiums as an alternative investment. Anecdotally, investors have purchased over 1,000 condominiums in the last few years to rent out, some of which have yet to reach completion.

Vacancies Should Peak in 2004 With Better News to Come

Following a five per cent vacancy rate in 2004, the threat of a further run-up in vacancies is unlikely in subsequent years. With escalating vacancy rates, many condominium investors have been unable to secure required rents to cover the monthly carrying costs. Electing to think short-term, many are deciding to sell their units to primary owners and re-inject their capital into traditional investment sources. The stock market recovery in 2003 was widely celebrated, and many condominium investors may fear losing out on expected future gains. The continued removal of units from the rental universe via condo conversion will also weaken the threat of added competition. Averaging almost 600 units per year since 1994, conversions from rental to condominium have far surpassed the rate of new rental construction. With that, Calgary's traditional rental market universe - already the lowest among CMAs in the country - will continue to decline as it has for more than 10 consecutive years.

Vacancy Rates

Rental Apartment Structures Six Units and Over



* Forecast: CMHC

The recent surge in first-time ownership demand spurred by low mortgage rates will also soon be satisfied, reducing the prospect of a drastically shrinking rental pool. In coming years, the rental demand pool should enjoy some healthy gains, as evidenced by the recent rise in employment among those aged 15 to 24, the prime source of first-time renters. At 7.9 per cent in 2003, the rate of job growth among Calgarians aged 15 to 24 was the highest among age groups.

Only Modest Rent Increases Expected

With vacancies reaching their highest point since 1994, the pace of rental rate increases will continue to be low. In 2003, tenants enjoyed no increase in average two-bedroom rents, the only such occurrence in eight years. With low mortgage rates pulling renters into home ownership, landlords have been reluctant to boost rents to hedge the risk of higher vacancies. To ensure tenant retention and attract new ones, some owners have also cut rents or provided other incentives, a tendency that will continue in 2004.

While modestly higher vacancies will keep average rent increases at a minimum this year, one factor may result in unavoidable gains. Heightened natural gas prices will undoubtedly add to operating expenses. In most instances, property owners will attempt to recover such increases via rental rate hikes. Rents in 2004 will also be boosted by the addition of some newly constructed units. As a result, renters can expect to see average two-bedroom rents rise by two per cent during the 12-month period ending October 2004, reaching $820 per month.

Mortgage Rate Outlook

The moderate pace of economic growth and inflation means that the Bank of Canada will keep the overnight rate target - its administered policy interest rate - low over much of 2004. As the U.S. and Canadian economies strengthen and interest rates south of the border begin to rise, Canadian interest rates will rise too in an effort to keep inflation stable and preserve the value of the currency. However, this development is not likely to occur until at least the fourth quarter of the year.

The one-, three-, and five-year posted mortgage rates are expected to remain flat for the remainder of this year, perhaps rising 25 basis points by year-end. Next year, these rates will begin to increase by 50 to 75 basis points and are expected to be in the 4.25-5.25, 5.75-6.75, and 6.25-7.25 per cent range, respectively. Spreads between mortgage rates and comparable bond yields have remained at 150-250 basis points in the last few years, providing lenders with some room to negotiate discounts from the posted rates. These spreads and discounts are likely to persist in the near term.

Economic Overview

Weaker Job Growth Will Moderate Housing Demand

Notwithstanding the positive impact of low mortgage rates, two critical factors influencing housing demand in Calgary continue to be employment and population gains. From 1997 to 2001, overall employment growth in the Calgary CMA averaged 23,400 per year, while annual net migration averaged 15,500 during the same time period. The cumulative impacts of these gains contributed to record resale transactions and single-family starts in 2002, as well as record multi-family ownership starts in the following year.

Since 2001, both employment growth and net migration have moderated. Following a 37 per cent drop to 13,150 new positions in 2002, overall employment growth slipped further in 2003. A total of 12,200 new positions were created last year, representing the weakest job performance for the Calgary CMA since 1994. In addition, the latest indicator for annual net migration revealed a 57 per cent decline from the previous year, reaching only 8,965 net migrants in 2003. Given the lag from job creation and migration to existing home sales and housing starts, the weaker performances will translate into reduced new and resale home activity this year. Further compounding this issue is the fact that the majority of last year's job creation was not full-time, an important prerequisite for saving a down payment and purchasing a home.

Of the 12,200 new jobs created in 2003, only 46 per cent of them were full-time positions, a far cry from the preceding five years when full-time job growth accounted for 86 per cent of all employment gains. This relatively poor performance in full-time job creation can, in part, be attributed to losses within Calgary's oil and gas sector and supporting industries. During a period of heightened energy prices and record profits in the oil patch, we expected to see a recovery in oil and gas related employment following weakness in 2002. However, this failed to materialize as an annual net loss of 3,750 oil and gas positions was reported in 2003. The spate of mergers and acquisitions in the energy industry continued to take its toll, as job cuts at Encana, Conoco Phillips, and BP Canada all transpired.

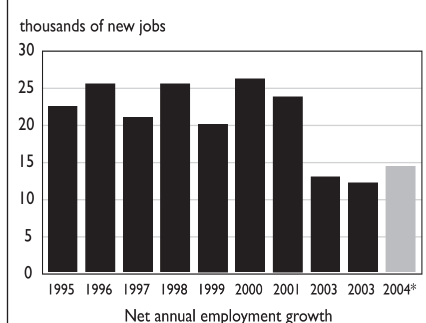
Associated with the oil and gas industry is the professional, scientific, and technology sector, where 3,250 positions were cut from payrolls in 2003. Such losses, combined with those in the oil and gas sector, will continue to hamper housing demand, as the majority are full-time and on average, pay the highest salaries in the Calgary economy. With the losses of these highly paid positions, average weekly earnings in 2003 fell by two per cent from the previous year, the first such decline in recent history.

An additional concern for housing markets is in the apparent shift in consumer spending patterns. The euphoria of the low interest rate environment, resulting in financing big-ticket items, appears to be coming to an end, as evidenced by the nine per cent reduction in Alberta passenger vehicle sales in 2003. Even smaller items are losing steam, as indicated by the negligible change in inflation-adjusted retail sales last year. This points to increased caution among consumers, but also that the pent-up demand induced by low financing rates is showing signs of being satisfied. The same is expected to hold true for Calgary's housing markets, despite further declines in mortgage rates and the introduction of more flexible mortgage insurance products.

While weaker job growth, net migration, and consumer spending paint a gloomy picture for Calgary's housing markets, other favourable indicators provide a somewhat balanced perspective. Other industries reported impressive job gains in 2003, the most notably being in the wholesale trade, construction, and manufacturing sectors. Calgary's increasing prominence as a distribution hub for Western Canada has been confirmed by the addition of Sears, Wal-Mart, Canadian Tire, and Staples distribution centres. These additions helped boost wholesale trade employment by 5,100 positions in 2003. Meanwhile, despite a lack of downtown office construction and modest decline in housing starts, a flurry of infrastructure and retail projects managed to boost construction employment by 3,000 positions. Elsewhere, an economic expansion south of the border and high-tech recovery helped boost manufacturing employment by 3,100 jobs in 2003.

Other sectors adding to payrolls in 2003 include the information, culture, and recreation sector as well as the accommodation and food services industry, where employment gains of 4,100 and 2,500 were recorded, respectively. Unfortunately for housing markets, these industries are among the lowest paid in

Modest Rise in Employment Growth in 2004

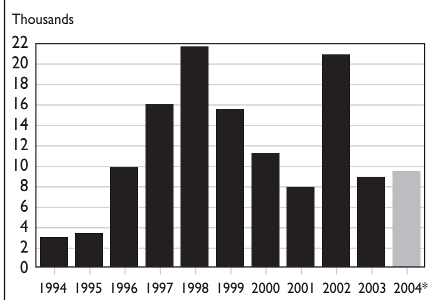


Source: Statistics Canada, * Forecast CMHC the Calgary economy, as many positions are typically part-time in nature. Nonetheless, as many of the gains have occurred in the 15 to 24 age group, it does bode well for rental housing demand moving forward.

While job creation slowed in 2003, there was renewed strength late in the year and in the first few months of 2004. The three-month period ending in February recorded gains in each month, providing a source of optimism for the year. Meanwhile, the news of layoffs that speckled Calgary's business headlines in 2002 and 2003 has lately been sparse, limited only to potential layoffs at Nortel and Air Canada. Additionally, many of the downside risks that existed in 2003, such as SARS, a weak US economy, and Mad Cow disease, are no longer prevalent. As a result, CMHC is confident that employment growth in the Calgary CMA will post a modest improvement in 2004, reaching 14,500 new jobs. With only a modest rise in the unemployment rate, a labour force participation rate persistently at or above 75 per cent, and modest net migration by historical standards, skilled labour shortages will still exist. As a result, expect the majority of job gains in 2004 to be full-time.

Bright spots in 2004 should include the oil and gas sector, where high crude oil and gas prices have resulted in record corporate profits. Certainly, record profits bode well for upper-end housing demand, as many oil and gas executives received extensive bonuses for the 2003 calendar year. For job markets, drilling activity across Alberta has also been elevated by high oil and gas prices in the last 14 months. This should come as good news locally since Calgary is home to many oil and gas servicing companies. Meanwhile, the run of mergers and acquisitions in the last few years is now a mere memory for the industry, as is the U.S. - Iraq war. Combined with persistently high commodity prices, the above factors will enable oil and gas companies to open their wallets in 2004, by not only committing to intensive investments but also by expanding their payrolls. Employment

Net Migration - City of Calgary



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

in the professional, scientific, and technical services sector should also benefit, as will the transportation and communications sector.

Meanwhile, despite a further decline in new home starts, major non-residential construction and infrastructure projects should add to construction payrolls during the forecast period. Though downtown office construction will remain negligible in 2004, a compensating factor will be the number of major retail projects in the pipeline. Current projects include the $500-million Deerfoot Meadows retail complex, the $90-million expansion of Market Mall, and the $50-million Royal Oak Centre in the Northwest. Elsewhere, there is additional strength in the warehousing and distribution sector, as evidenced by the one million square foot Phase II of Westfair Foods, Rona's new 300,000 square foot distribution centre, and the 120,000 square foot Toromont Process Systems building.

In addition to the above-mentioned projects, work is slated to continue on the numerous roadways, interchanges, and LRT lines, as well as continuation of the $800-million Calgary Airport expansion. This will continue to fuel the demand for construction labour, as will up to eight new schools, including two new high schools. Additions in the health care sector will provide further demands on labour, thanks to the new $192-million Alberta Children's Hospital, the $105-million Health Research Innovation Centre, and upgrades to the Foothills Hospital. Other winners for job creation in 2004 will be the manufacturing sector, thanks to the economic recovery in the U.S.. Meanwhile, following weak performances in 2003, gains will also be experienced in the utilities and high-tech sectors.

After a Weak 2003, Net Migration to Post Only Modest Improvement

Following an impressive spike in 2002, the City of Calgary experienced a larger than expected decline in net migration last year. According to the latest civic census figures, the City of Calgary recorded 8,965 net migrants during the 12-month period ending April 30, 2003. This represents a 57 per cent drop from 2002 when 20,962 net migrants were recorded. It is also the second-lowest total for Calgary net migration since 1995.

In previous years, Calgary has been the prime beneficiary of migrants from other provinces and Alberta centres seeking employment opportunities. Recently, however, Calgary's job prospects have diminished, as evidenced by 2003's poorest job creation performance in nine years. While local employment opportunities provide a critical draw for migrants, the strength of our labour market relative to other locales plays a more important role. Lately, competing areas for migrants have seen their employment prospects improve, drawing migration away from Calgary while creating a disincentive for residents to leave their current locale. A notable example is Edmonton where job creation in both 2002 and 2003 surpassed Calgary's, the only such occurrences since 1997. With oil sands investments averaging $4-billion per year and drilling activity reaching record levels, the resulting spin-off in Edmonton should produce a similar environment in 2004.

For the 12-month period ending April 30, 2004, CMHC expects net migration to reach 9,500, a modest six per cent improvement over 2003 levels. While our economy will continue to draw migrants, our magnetic power will be restrained due to weaker employment gains relative to recent history. Meanwhile, provinces west of Ontario, which provide Calgary with upward of 90 per cent of our net migrants, are poised for healthy job growth in 2004. A similar story can be said for centres within Alberta, the most notable being Edmonton.

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FORECAST SUMMARY

CALGARY HOUSING MARKET OUTLOOK

APRIL 2004

	2001	2002	% Chg	2003	% Chg	2004*	% Chg
RESALE MARKET							
MLS® [1] active listings (Annual Avg.)	5,021	3,902	-22.3%	5,681	45.6%	**5,800**	**2.1%**
MLS® SALES							
Total	22,512	25,054	11.3%	24,359	-2.8%	**23,600**	**-3.1%**
Single-family	17,616	19,031	8.0%	18,319	-3.7%	**17,700**	**-3.4%**
Condominium	4,896	6,023	23.0%	6,040	0.3%	**5,900**	**-2.3%**
MLS® PRICE ($)							
Total	$182,090	$198,058	8.8%	$211,155	6.6%	**$221,800**	**5.0%**
Single-family	$194,116	$212,844	9.6%	$229,082	7.6%	**$241,500**	**5.4%**
Condominium	$138,818	$151,337	9.0%	$156,781	3.6%	**$162,500**	**3.6%**
NEW HOME MARKET							
STARTS							
Total	11,349	14,339	26.3%	13,642	-4.9%	**12,450**	**-8.7%**
Single-family	7,559	9,413	24.5%	8,526	-9.4%	**7,750**	**-9.1%**
Multiple-family	3,790	4,926	30.0%	5,116	3.9%	**4,700**	**-8.1%**
AVERAGE NEW HOUSE PRICE							
Single-family	$239,437	$242,386	1.2%	$267,104	10.2%	**$281,000**	**5.2%**
RENTAL MARKET							
Vacancy rate (Oct)	1.2	2.9		4.4		**5.0**	
Rental rate (Annual % Change)	5.8	2.7		0.0		**2.0**	
ECONOMIC OVERVIEW							
Mortgage rate (3 yr term)	6.88	6.28	-0.6	5.79	-0.5	**5.46**	**-0.3**
Mortgage rate (5 yr term)	7.41	7.02	-0.4	6.39	-0.6	**6.13**	**-0.3**
Employed	569,500	582,650	2.3%	594,850	2.1%	**609,350**	**2.4%**
Employment growth (# jobs)	23,850	13,150		12,200		**14,500**	
Net-migration (Census Year [2])	7,991	20,962	162.3%	8,965	-57.2%	**9,500**	**6.0%**

** 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