HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

EDMONTON

FALL 2003

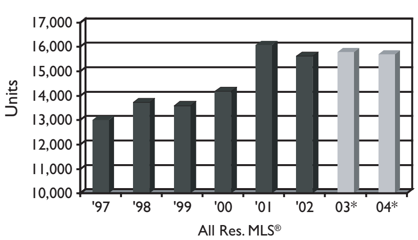
Resale Market

Improved Supply Leads To Balanced Market

Thanks to a much-improved supply of active listings, Edmonton's resale market has returned to a more balanced position going into the fall of 2003. For prospective buyers, this is a welcome turn of events compared with the hot, and in some cases overheated, resale home market that prevailed over the previous 12-18 months. Thanks to the improved supply in both the new and resale home markets, we anticipate a continuation of more balanced market conditions going forward into 2004.

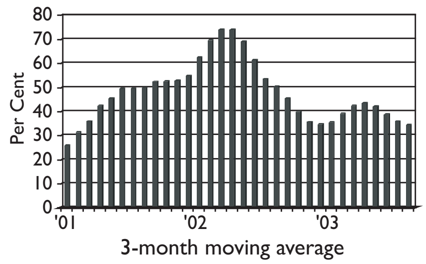
Throughout much of 2002, tight supplies and firm demand resulted in double-digit price increases on the MLS®. During the first eight months of 2003, sales for all dwelling types combined remained close to 2002 levels across the region. The big change, however, occurred on the supply side - with 70 per cent more homes on the market this August than was the case a year earlier. Record-level single-detached housing starts last year have created an influx of resale listings in 2003, as those purchasing new homes have placed their existing units on the market. The rapid equity accumulation that occurred last year has also encouraged a number of existing homeowners to trade up, particularly while mortgage rates remain low. As such, new MLS® listings grew by over 24 per cent during January-to-August. This represented more than 3,400 additional resale units coming onto the market compared with the same period in 2002. Add to this equation a sharp rise in the number of new spec homes for sale by builders. With more selection, price increases have moderated and listing periods have grown; all to the benefit of the potential buyer.

Chart 1
Home Sales Inch Lower in 2004



Source: EREB
*Forecast: CMHC

Chart 2
Sales-To-Active Listings Ratio



Source: EREB, Aug. '03

Chart 2 provides the trend line for the MLS® sales-to-active listings ratio (SALR) released monthly by the Edmonton Real Estate Board (EREB). After topping out at over 70 per cent during the second quarter of 2002, this index has trended downward throughout the past year, sitting at just over 30 per cent in August. At CMHC, we consider the 30 per cent marker to be one indicator of when balanced market begins to favour the seller. As we move into the new year, we expect the SALR index to remain close to this 30 per cent threshold. Months of supply, which is the number of active listings divided by the number of sales each month, has moved from of low of 1.3 in April 2002 back up to over 3.2 months in August. As with SALR, CMHC considers three months of supply to be the borderline where a sellers market gives way to more balanced conditions in Edmonton.

IN THIS ISSUE:

CMHC SCHL

HOME TO CANADIANS

Canada

With improved selection this year, listing periods have grown and price pressures have eased. After hitting a record low of 25 days in April and May of last year, average days on the market have grown to 41 days in August, representing an increase of 17 per cent from the same month in 2002. As homes take longer to sell, vendors have moderated their price expectations accordingly, with year-over-year price gains dropping below the double-digit levels recorded last year.

Single-Detached Sales Remain Strong

In 2002, a shortage of listings and spiraling prices caused sales to throttle-back from the record levels achieved in 2001. This year, Realtors are chalking up higher sales thanks to an improved inventory, slower price growth and a continued easing of mortgage rates. In 2004, the lagged effect of this year's strong labour market should uphold demand and a slight uptick in mortgage rates in the spring will pull some fence-sitters into the market as well. However, higher mortgage rates will also boost the cost of home ownership as the year progresses and sales will again fail to eclipse the benchmark set in 2001.

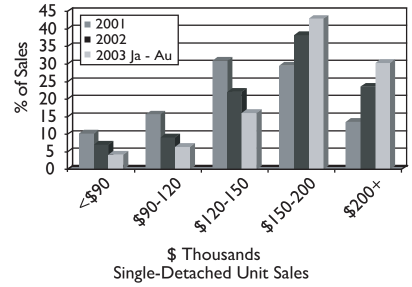
Table 1 displays MLS® sales and price data for the first seven months of 2003 for Edmonton submarkets and some of the larger suburban markets within Metro. Our Fall 2002 report showed lower sales in almost all areas due to supply shortages and soaring prices, with some districts falling more than others. Sales are generally higher this year, but improvements have also not been uniform year-over-year across the region. While inventory has been less a factor than in 2002, active listings this August showed some communities better supplied than others. Within Edmonton City, for example, all areas showed higher active listings in August, but districts such as Central and Northeast showed weaker than average growth in inventories.

Table 1 also shows that average and median price growth has also varied substantially across the city so far this year. Areas such as Edmonton's Central and Northeast were able to sustain the double-digit price increases throughout much of 2002. Housing is generally more affordable in these parts of Edmonton, as much of the stock is older and is priced below the Metro-wide average. Prices in these areas have been driven higher this year due to the depletion of listings in the lower price ranges.

House Price Growth Moderates

The average price of a single-detached home sold on Edmonton's MLS® will increase by 7.2 per cent this year to a record $184,000. This comes on the heels of a rise of just under 14 per cent in 2002, when a shortage of listings caused rampant price inflation across the entire region. Price increases this year have moderated thanks to improved supplies and this trend will continue into 2004. Next year, the resale market for single-detached units will see a supply-demand relationship that is largely balanced and, as such, price increases will ease to the five per cent range.

Chart 3
Few Homes Selling For <$120,000



Source: EREB

Chart 3 displays the proportion of single-detached sales occurring in different price ranges so far this year compared with 2001 and 2002. What stands out is the steady erosion of sales priced below the $150,000 price point. Units selling for more than $150,000 cornered 73 per cent of the market in the first eight months of 2003, up from 62 per cent in 2002 and 43 per cent in all of 2001. On the flip side, singles sold on the MLS® for under $120,000 have seen their market share tumble from 26 per cent in 2001 to under 11 per cent so far this year.

High Prices Rein-In Condo Demand

Condominium sales on the MLS® experienced double-digit growth in 2001 and 2002, as many renters sought an affordable option to the rapidly increasing rental rates. However, this strong demand fueled substantial price increases which outpaced other property types. For example, in 2000

Table 1
MLS® Single-Detached Units
January - July (% chg 2002/2003)

	Sales			Average Price ($)			Median Price ($)		
	2002	2003	%chg	2002	2003	%chg	2002	2003	%chg
Northwest	244	242	-0.8	142,386	154,861	8.8	139,950	153,000	9.3
North Central	797	970	21.7	164,711	179,287	8.8	159,000	172,000	8.2
Northeast	361	375	3.9	135,432	153,643	13.4	136,000	149,900	10.2
Central	369	337	-8.7	105,028	117,017	11.4	97,000	112,000	15.5
West	689	790	14.7	203,076	208,389	2.6	182,000	194,000	6.6
Southwest	720	736	2.2	235,470	251,437	6.8	214,250	229,700	7.2
Southeast	938	980	4.5	161,608	177,441	9.8	157,000	170,000	8.3
St. Albert	502	565	12.5	208,935	216,895	3.8	194,950	204,000	4.6
Sherwood Park	500	535	7.0	201,095	215,737	7.3	190,750	206,000	8.0
Leduc	151	156	3.3	163,548	165,908	1.4	155,900	158,000	1.3
Spruce Grove	172	184	7.0	158,650	172,147	8.5	154,000	167,250	8.6
Ft. Saskatchewan	105	122	16.2	152,539	163,406	7.1	146,200	154,950	6.0
All EREB areas	**6,587**	**6,844**	**3.9**	**171,288**	**184,264**	**7.6**	**162,000**	**174,000**	**7.4**

Source: EREB

more than half of existing condominiums sold for under $80,000. To date, this lower-end market segment has contracted to just over 11 per cent of all sales. A typical resale condominium is now priced close to $123,000 and entry-level buyers are having an increasingly difficult time finding product priced below the cost of new units - which typically begin at around $110,000 for a one-bedroom apartment. Despite an improvement in market balance due to an influx of new listings, moderately-priced units are still hard to find, and sales have flattened out this year.

Turning to 2004, we expect MLS® condo sales remain near current levels. For many buyers, single-detached homes are no longer affordable so the condo market provides their most attractive avenue for home ownership. However, sales growth will again be tempered by a plentiful supply of newly-constructed units, the majority of which don't show up in the MLS® numbers. Rising vacancy rates in the rental market will put as brake on rent increases and this will ease slightly the movement into home ownership as well. Price increases will moderate to the 5-6 per cent range, under more balanced market conditions. Rising rental apartment vacancies should also spur an increase in condominium conversion and a number of warehouse and office conversions to residential will also help to bolster the supply of apartments for sale in the downtown.

Affordability Slides in 2004

Despite a slow down in the rising price of existing homes in Edmonton next year, the cost of financing that home will climb by double this year's increase due to higher mortgage rates. In 2002, the carrying costs (PIT) on a "typical" MLS® house rose by 7.3 per cent. While the price of this so-called average house rose by almost twice this rate, financing costs were moderated by a drop in mortgage rates that year. In 2003, the story has been much the same so far. While house price increases should average close to 7.2 per cent, carrying costs will rise by only 2.2 per cent courtesy of lower interest rates this year.

In 2004, we expect the long run in mortgage rate declines to come to an end. Just as falling mortgage rates help to counter the impacts of rising prices, higher rates do the opposite - they magnify the affects of climbing prices. As such, although the price of a typical single-family homes is expected to rise by just under five per cent next year, the increase in monthly carrying costs will jump by almost seven per cent as mortgage rates rise throughout the year.

New Home Market

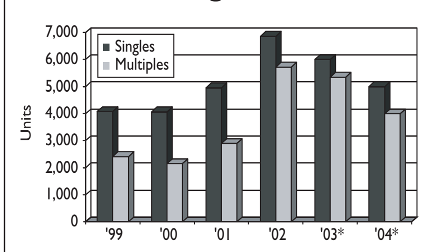
Fewer Housing Starts In 2004

After hitting the highest level in over two decades in 2002, new housing activity across Metro Edmonton will decline by 10 per cent this year 11,350 units. This will nonetheless be the second best year for housing starts since 1981. A strong labour market, low interest rates and sustained levels of in-migration have helped to support demand for new homes across the region. Next year, however, starts will fall by a further 21 per cent to 9,000 units, as builders react to rising new home inventories, higher apartment vacancy rates and sustained competition from resale homes.

After eight months in 2003, total housing starts have exceeded last year's tally, particularly on the multiple unit side. But in the months ahead, production levels will pull back amid growing concerns about a mounting supply of unabsorbed new units. In August of 2002, inventories of both single-detached and multi-unit dwelling were down by 27 per cent from the previous year, as builders failed to keep pace with burgeoning demand. The industry has remained in high gear for the past twelve months and completion levels have outpaced demand since the first quarter. With inventory levels now replenished, the industry will need to throttle-back this fall and winter or risk carrying a glut of unabsorbed product into the key spring selling season. Rising apartment vacancy rates will make financing new buildings a tougher sell to lenders and this will put a damper on rental apartment construction going into 2004.

Chart 4

Fewer Housing Starts In 2004

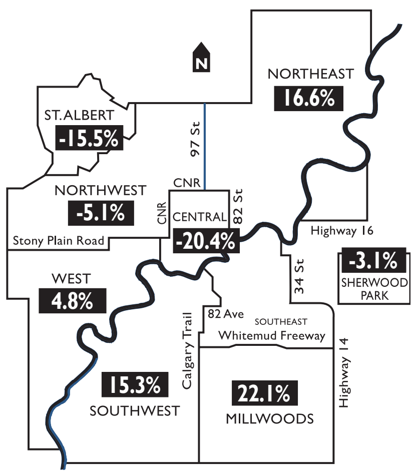


Source/*Forecast: CMHC

New Singles Retreat from 2002's Record

In 2002, builders began work on the highest number of single-detached homes ever witnessed in the Capital region, surpassing the previous record of 6,202 units set back

SINGLE STARTS
Single Starts Remain Strong In Many Locations
January - July (% chg 2002/2003)



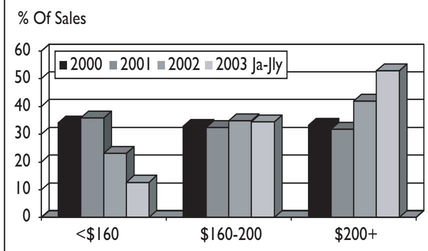
Source: CMHC

in 1978 by over 650 units. To the end of August this year, single starts managed to exceed last year's pace by two per cent but this margin will be erased in the months ahead. Builders will need to adjust their production levels to better match absorption rates. Growing competition from both a larger pool of resale listings and an expanding inventory of unsold spec homes will prevent builders from matching the sizzling pace they set in the last four months of 2002. Single-family starts will end the year close to 6,000 units, representing a 12.5 per cent drop from the benchmark set in 2002. This will still be the third best year on record for single starts.

In 2004, we look for single-detached starts to decline by another 17 per cent to 5,000 units. Builders will need to adjust to a more balanced resale market with higher inventories than were seen in the first half of 2003 and also slower price growth. Rising mortgage rates will put downward pressure on demand as potential buyers seek more affordable options. Higher spec inventories this fall will also force builders to budget for a cut back this winter. Increased costs for lumber associated with the forest fires in BC are squeezing margins in an environment where the price gap between the average new and resale home has been growing since the end of 2002. Balance sheets will be under siege in the new year as financing costs head higher and builders will be looking to keep inventories manageable.

Our map shows the relative change in single-family starts among the Edmonton city sectors and the two major suburban communities during the first seven months of 2003 compared with the sa me time frame last year. The largest increase in starts occurred in the city's Southeast, followed by the Northeast and the Southwest. Declines were heaviest in the Central city and St. Albert, where lots were less available in configurations most sought by builders. The Southwest overtook the Northwest

Chart 5
New Single-Detached Absorptions By Price Range



Source: CMHC

as the top spot for new single-family housing across Metro, with Strathcona County coming in third in terms of total units started during January-to-July.

Cost Pressures Boost New House Prices

Table 2 presents single-detached absorptions and price statistics for the first seven months of 2003 compared with the same period last year. The record-high starts of 2002 have led to a surge in both completions and absorptions this year. Price gains year-over-year have averaged near 12 per cent, but vary widely among communities. These variations are largely the result of shifts in the product mix offered in each community.

Overall, the price of a typical new single-detached home increased by 12 per cent during the first seven months of this year

Table 2
New Single-Family Absorptions by Area
January - July (% chg 2002/2003)

	Sales			Average Price ($)			Median Price ($)		
	2002	**2003**	**%chg**	**2002**	**2003**	**%chg**	**2002**	**2003**	**%chg**
North Central	77	57	-26.0	183,881	213,654	16.2	157,500	221,300	40.5
Northeast	155	153	-1.3	171,852	205,700	19.7	163,900	195,000	19.0
Northwest	471	670	42.3	181,718	207,969	14.4	173,500	199,900	15.2
South Central	19	20	5.3	262,726	299,174	13.9	229,500	297,950	29.8
Southeast	247	460	86.2	188,102	197,546	5.0	171,600	184,000	7.2
Southwest	363	548	51.0	233,577	255,336	9.3	216,300	232,450	7.5
West	307	323	5.2	205,054	234,820	14.5	184,400	218,900	18.7
Total Edmonton City	**1,639**	**2233**	**36.2**	**198,612**	**222,150**	**11.9**	**179,900**	**205,100**	**14.0**
Fort Saskatchewan City	38	45	18.4	203,573	221,000	8.6	193,050	215,200	11.5
Leduc City	55	66	20.0	178,718	196,100	9.7	179,900	190,000	5.6
Parkland County	112	133	18.8	161,344	193,001	19.6	145,228	175,004	20.5
Spruce Grove City	86	121	40.7	152,009	189,514	24.7	143,922	188,586	31.0
St. Albert City	191	181	-5.2	237,401	271,780	14.5	213,200	247,200	15.9
Strathcona County	293	455	55.3	211,284	229,925	8.8	199,000	210,000	5.5
Total Rural	**1,042**	**1,368**	**31.3**	**193,379**	**216,729**	**12.1**	**181,000**	**199,000**	**9.9**
Edmonton CMA	**2,681**	**3,601**	**34.3**	**196,575**	**220,091**	**12.0**	**180,000**	**203,057**	**12.8**

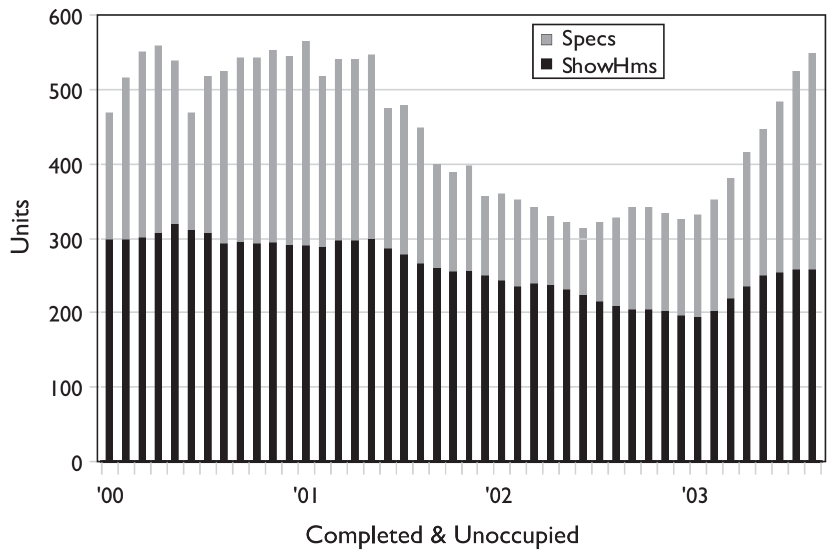
Source: EREB

to just over $220,000. As shown in Chart 5, new units priced under $160,000 are now a very small proportion of the total market while units priced over $200,000 are now well over half the market. As noted in our Land Supply section (below), the rising cost of a typical single-family lot has added to the upward momentum in prices, along with increased costs for labour and materials. Houses have also gotten larger this year, up by 2.4 per cent from the first half of '02 to 1,741 square feet. On a per square foot basis, a typical new house including land increased in price by 8.7 per cent during January-to-June. When land cost was excluded, the average structure price increase was just under eight per cent from the same period last year to $89 per square foot.

This year's rapid growth in the price of a new home creates a new set of challenges for builders now that mortgage rates have hit bottom and the resale market is more balanced. In 2002, the gap in average price between a typical new and existing single-family home declined by 12 per cent or $4,625. Resale price growth that year outpaced new house price increases due to the strong sellers' market. Falling mortgage rates also helped buffer the affordability impacts of builders' price hikes. This year, the price gap will widen by over 27 per cent due to the combined impacts of slower price appreciation in resale homes and stronger price growth for new houses. This gulf between a typical new and existing house will jump from an average of $33,322 in 2002 to $42,500 on average this year. In 2004, CMHC expects the gap to grow by another 10 per cent to $47,000. In an environment of rising mortgage rates and eroding affordability, builders will see their competitive position undermined by this rising price gap. Their margins will be under greater pressure as suppliers keep pushing for price increases but their competitors will be looking to hold down price increases in order to maintain sales. The resulting decline in cash flow together with rising financing costs will force many builders into retrenchment mode in the new year.

Chart 6 shows the trend line for completed and unoccupied new single-family homes. After bottoming out in the summer of 2002, inventory levels have now moved back up to the previous peak in the cycle which occurred in late 2000 and early 2001. During that time, inventory averaged close to 550 units of which approximately 300 were show homes. This summer's inventory is more heavily weighted toward spec homes. During the past year, total inventory has increased by 70 per cent from August 2002 but the number of unoccupied spec homes has risen by 140 per cent. This abrupt increase in the spec inventory will also undermine starts in the months ahead as builders attempt to limit their carrying costs going into the new year.

Chart 6
Rising Spec-Home Inventory



Source: CMHC, Aug. 03

Adequate Land Supplies

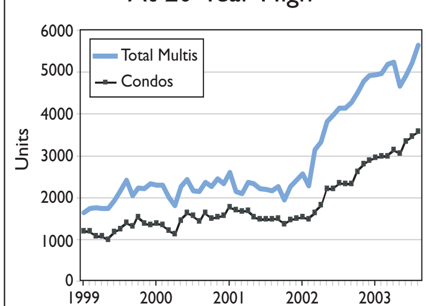
The higher year-end lot supply identified in our Spring 2003 report has been carried through to mid-year despite the robust demand from builders. According to the Doesburg Report, produced quarterly for Edmonton Urban Development Institute (UDI), there were 5,608 vacant single-family lots across the Capital region at the end of the second quarter, representing a 37 per cent increase from the 4,091 vacant lots reported in June 2002. Despite the increased supply, prices have continued to head higher. During the first half of 2003, the price of a standard-sized lot for a new a single-detached home increased by over 13 per cent from the same period last year to $63,970. This is based on 2,399 absorptions recorded by CMHC in Edmonton City, St. Albert and Sherwood Park. Higher costs for replacement land, labour, materials, and development fees have all contributed to the double-digit rise in lot prices. Doesburg's report suggests that lot inventories will remain high going into 2004 and this should put a brake on price growth.

Multiple Unit Starts At Turning Point

In 2002, Metro Edmonton's multi-unit starts hit a twenty-year high thanks to a tight rental market and strong demand for new condominium units. This momentum has been maintained to the end of August 2003 but the signs ahead point to a slowdown. Vacancies in rental apartments are on the rise, as is the inventory of completed and unoccupied new multiples. The resale market for condominiums is also more balanced this year thanks to a flat sales and a 28 per cent increase in new listings to the end of August. In the months ahead, look for multi-unit starts to moderate, particularly rental apartments which will be in good supply in the upper rent ranges where new construction is economically feasible.

Multiple unit starts should end 2003 near the 5,350 unit mark, representing a decrease of 6.5 per cent. This will nonetheless be the second-best year for new multiples since 1982. In 2004, look for multiple starts to fall by over 25 per cent to 4,000 units, allowing developers to trim excess inventories.

Chart 7
Multi-Units Under Construction
At 20-Year High



Source: CMHC

While multi-unit absorptions increased by an impressive 35 per cent in the first eight months of the year, completions increased by 70 per cent during the same time frame. As a result, the inventory of completed and unoccupied multiple units has more than doubled since the beginning of the year. With units under construction ahead of this time last year by 36 per cent, expect inventories to remain high as we enter 2004. Rising interest rates will increase developer financing costs and also reduce the amount of money that has been flowing into real estate as other investment vehicles start to attract more attention. Rising vacancy rates will also boost investor apprehension, making it tougher for developers to raise capital for new projects next year.

New Condo Market Remains Active

As prices of single-family homes continue to rise, more people are turning to the condominium market. Row and apartment condominium starts reached 2,365 units following the first eight months of 2003, a 62 per cent increase over the same period in the previous year. At the end of August, row and apartment condominiums under construction were more than double the units in progress a year earlier. Inventory levels in August were 65 per cent higher than the previous year, but overall they remain in line with levels recorded in 2001 and 2000. While concerns exist over rising inventories in the face of large amounts of units under construction, condominiums absorbed at completion have maintained a healthy ratio of near 80 per cent in recent months. While we also expect condominium starts to pull back in 2004, the biggest declines forecast for multiple unit starts will come on the rental side.

New condo developers in Greater Edmonton continue to move their product mix up-market. In 2002, about 53 per cent of row and apartment condos sold for over $140,000 while approximately 23 per cent were priced below $120,000. So far this year, units priced over $140,000 have captured 65 per cent of sales while only nine per cent have sold for less than $120,000.

For more information, contact:

Richard Goatcher

Senior Market Analyst

Telephone: (780) 423-8729
Toll Free: 1-877-722-2642
Fax: (780) 423-8702
E-mail: rgoatche@cmhc-schl.gc.ca

Rental Market

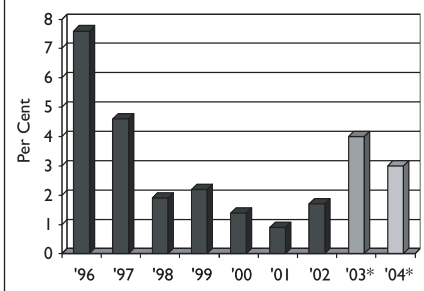
Higher Vacancies Help Moderate Rent Increases

The recent surge in rental apartment construction has resulted in a strong increase in the supply of new units on the market. For example, the number of rental apartment completions so far this year has increased by over 170 per cent from January-to-August 2002. In excess of 1,450 new rental apartments have come onto the Greater Edmonton market since year-end 2002. The unabsorbed rental apartment inventory stood at 644 units in August, representing a 204 per cent increase from the same month in 2002. Rental apartments now account for 70 per cent of Metro's inventory of unabsorbed new multiple units. This growing supply of unoccupied new rental apartments is putting upward pressure on vacancies in existing buildings as well. These higher vacancies will act as a disincentive to additional new rental apartment construction in the months ahead.

Vacancies have increased across the region this summer in the existing rental market in response to the influx of new rental buildings. An annual survey by CB Richard Ellis (CBRE) found a Metro-wide vacancy of 4.3 per cent - the highest since 1997. This compares with a 1.9 per cent vacancy rate reported by CMHC in October 2002 and a 1.1 per cent reported by CBRE in June 2002. The higher vacancies have hit rental incomes and landlords are increasingly offering incentives and holding down rent increments. CMHC expects it's October 2003 survey to show apartment vacancies near the four per cent range, with rent increases moderating from the past two years. By our October 2004 survey, vacancies will be closer to three per cent as the supply of new rentals entering the market starts to slow due to fewer starts in the months ahead.

Chart 8

Higher Apartment Vacancies



Source* Forecast : CMHC

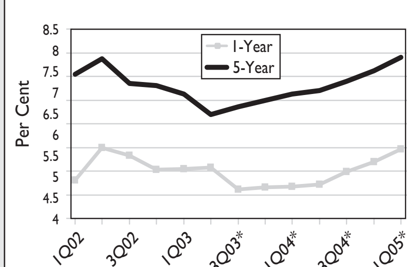
Mortgage Rate Outlook

Rapidly decelerating inflation and lingering health, trade, and geopolitical risks will keep Canadian interest and mortgage rates low in the near future. 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 market. Therefore, low rates in those markets call for posted mortgage rates to remain low over the duration of the year. As the U.S. economy improves and interest rates south of the border begin to climb in 2004, Canadian interest rates will also rise in an effort to keep inflation stable and preserve the value of the Canadian currency.

The one-, three-, and five-year posted mortgage rates are expected to be in the 4.25-5.25, 5.25-6.25, and 6.00-6.75 per cent range, respectively, this year. Mortgage rates are forecast to rise by 0.50-0.75 percentage points in 2004. Spreads between mortgage rates and comparable bond yields have recently remained at 150-250 basis points, providing lenders with some room to negotiate discounts ranging from 50-150 basis points from the posted rates. These spreads and discounts are likely to persist over the forecast period.

Chart 9

Higher Mortgage Rates In 2004



Source/* Forecast : CMHC

Economic Overview

Outlook Remains Upbeat

After falling below the national average in 2002, Alberta once again is poised to lead the provinces in terms of economic growth. Increased spending in energy sector will help the provincial economy expand by 3.3 per cent in 2003 and 3.5 per cent in 2004. With oil and gas prices high, for example, drilling activity this year could approach the record 18,000 wells drilled in 2001. With the economy expected to remain on a firm footing, housing markets are expected to perform well over the forecast period.

Despite the optimistic outlook, pockets of weakness exist in the Alberta economy. Lumber producers are being impacted negatively from the softwood lumber dispute with the United States. Meanwhile, restrictions on beef exports due to concerns over mad cow disease (BSE) have caused extensive hardship across the entire industry as over 40 per cent of Alberta's beef is marketed outside of Canada. During the second quarter of 2003, provincial farm cash receipts fell by 14 per cent in Alberta compared with the same period in 2002, representing the largest decline among provinces. The high dollar is also taking a bite out of the prospects for wheat exports as are this year's grasshopper infestations and dry conditions in some areas.

On the plus side, higher than expected oil and gas revenues have aided the Alberta government fiscal position despite higher anticipated expenditures on mad cow relief and forest fires. To the end of June (1st qtr of fiscal year), the revenue forecast is almost $1.7 billion higher than expected. The province says about $470 million will be funneled into programs aimed at producers hurt by the BSE crisis - $172 million of which will come from Federal transfers. Another $75 million has been set aside to deal with forest fires.

Investment spending in the province's energy sector will remain the driving force behind economic growth in Greater Edmonton over the forecast period. Petro-Canada plans to invest $5 billion on a two-phase make-over to convert its Strathcona County refinery from light crude to bitumen by the beginning of the next decade. This is part of a $7 billion integrated oil sands production strategy. Assuming the project goes ahead, it will employ roughly 3,000 workers at peak construction in 2004 or 2005. A final decision on this project has be delayed due to the spiraling costs of completing a mega-project of this size and these higher costs threaten the economic viability of the project. Petro-Canada also continues to boost production at MacKay River, its $300 million SAGD project which is expected to deliver 30,000 barrels of bitumen per day by early 2004. Meadow Creek, Petro-Can's second project, will cost about $800 million and will deliver another 80,000 barrels per day of heavy oil by 2007 when the first phase of the refinery conversion is slated for completion.

Meanwhile, Suncor is slated to spend $3 billion to expand its Fort McMurray operations from 225,000 barrels per day to 330,000 by 2007. This project will have positive impacts on Edmonton for the next few years and will generate almost 4,000 construction jobs at its peak. Syncrude will also boost its production from 250,000 barrels per day to 360,000 by 2005. EnCana Corp has also announced plans to spend over $400 million on it's Foster Creek oilsands operation in Northern Alberta. This will boost the company's output to 50,000 barrels per day. Regulatory approval is expected by year-end 2003.

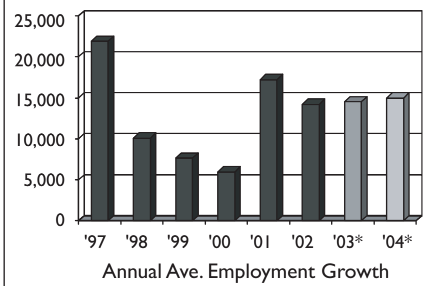
Opti Canada Inc. and Nexen Canada Inc. have also received regulatory approval for their $3 billion Long Lake oilsands project located 40 kilometers SE of Ft. McMurray. Construction of the project could begin by the late summer of 2004. The project would create between 2-3,000 jobs during construction and about 300 operators when the mine and plant are running.

True North Energy Corp. announced earlier this year that is was canceling it's $3.3 billion Fort Hills project. However, this summer the partnering firm (UTS Energy) has said that the project remains active and negotiations continue. Canadian Natural Resources (CNRL) has delayed by one year its $8 billion Horizon development. However, thanks to a strong balance sheet, the company is currently in the road-building mode to the Fort McKay site with plans to begin construction on the project in mid-2004. Next year, Devon Energy also expects to get its $550 million Jackfish heavy-oil project underway south of Fort McMurray

With expansions moving ahead in the Athabaska oilsands region, pipeline capacity needs to be addressed. Pembina Pipeline will spend $200 million to upgrade a pipeline (Alberta Oil Sands Pipeline) carrying product for Syncrude to refineries in Edmonton. Terasen Inc. will make a decision by year-end to develop the Bison Pipeline from Ft. McMurray to Edmonton. The two-year project is expected to begin in 2004 at a cost of between $600-800 million, but its future is dependent on the likelihood of TrueNorth's oil sands venture. Looking further out, planning continues for the $3+ billion Mackenzie Valley gas pipeline which is expected to be constructed over the next five years. This would be the largest construction project ever considered in the North. The economic impacts of this pipeline on Northern Alberta and the Capital region would be considerable.

Chart 10

Job Creation Remains Bright



Source: Statistics Canada

Both public and private dollars are also pouring into infrastructure projects across the region. Work has begun on the first leg of Edmonton's LRT expansion, with $100 million being spent over the next two years to bring the line out of the ground south of the existing university station. The federal government is building the $120 million national Institute for Nanotechnology at the University of Alberta and plans are also moving ahead rapidly for the construction of a $125 million Alberta Heart Institute at the University of Alberta.

Job creation across the Capital region has largely kept pace with the numbers seen in 2002, and we expect this situation to be maintained for the balance of this year and into 2004. To the end of August, there were 15,700 more people working, on average, in Metro than during the same eight month period of 2002. While the lion's share of new jobs have come from the service sector, good-producing industries such as oil and gas, and construction have seen measurable growth. Construction employment has remained strong this year, growing by 2,850 jobs, on average, during the first eight months of the year. To mid-year, total construction permit values in the regions three largest municipalities were up by five per cent over the first half of 2002.

Retail spending in Edmonton grew by over eight per cent in 2002 exceeding $12 billion. While the growth rate has slowed this year, retail sales continue to expand thanks higher incomes, low interest rates, and stronger employment and population growth. Net migration into the region is expected to moderate over the forecast period as economic prospects in neighbouring provinces improve along with the rest of the North American economy.

FORECAST SUMMARY

EDMONTON HOUSING MARKET OUTLOOK

SEPTEMBER 2003

	2001	2002	% Chg	2003	% Chg	2004*	% Chg
RESALE MARKET							
MLS®(1) active listings (June)	3,054	2,415	-20.9%	4,100	69.8%	3,900	-4.9%
MLS® Sales							
Single-family	11,258	10,411	-7.5%	10,600	1.8%	10,500	-0.9%
Condominium	3,792	4,194	10.6%	4,200	0.1%	4,200	0.0%
Total	16,079	15,619	-2.9%	15,800	1.2%	15,700	-0.6%
MLS® Price							
Single-family	150,874	171,599	13.7%	184,000	7.2%	193,000	4.9%
Condominium	92,592	109,726	18.5%	123,000	12.1%	131,000	6.5%
Average	133,441	150,258	12.6%	164,000	9.1%	172,250	5.0%
NEW HOME MARKET							
Complete and unoccupied (Dec)							
Single-family	370	318	-14.1%	600	88.7%	500	-16.7%
Multiple-family(semi,row,apt)	507	453	-10.7%	900	98.7%	600	-33.3%
Start							
Single-family	4,959	6,860	38.3%	6,000	-12.5%	5,000	-16.7%
Multiple-family	2,896	5,721	97.5%	5,350	-6.5%	4,000	-25.2%
Total	7,855	12,581	60.2%	11,350	-9.8%	9,000	-20.7%
Average New House Price							
Single-family	188,821	204,921	8.5%	226,500	10.5%	240,000	6.0%
RENTAL MARKET							
Vacancy rate (Oct)	0.9	1.7		4.0		3.0	
Rental rate, 2 bdrm (yr/yr % chg)	8.8	8.4		3.0		3.0	
FORECAST ASSUMPTIONS							
Mortgage rate (3 yr term)	6.88	6.28	-0.6	5.76	-0.5	6.01	0.3
Mortgage rate (5 yr term)	7.40	7.02	-0.4	6.42	-0.6	6.83	0.4
Employed	505,150	519,350	2.8%	533,850	2.8%	548,850	2.8%
Employment growth (# jobs)	17,200	14,200		14,500		15,000	
Unemployment rate	4.9	5.3		5.5			
Net-migration (May 1-April 30)	7,158	12,485		8,600		8,000	

** CMHC Forecast*

Source: CMHC, Statistics Canada, Edmonton Real Estate Board

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.