VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

Fall 2005

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New Home Market

The new home market continues to benefit from robust consumer demand. Builders and developers are working flat out to satisfy demand for housing in Greater Vancouver. However, there are two reasons why the new home market is different today from what was two years ago. While the first reason is a welcome event, the second reason the market has changed is proving a considerable challenge to the industry.

The provincial economy is surging ahead. Job growth, rising wages and continuing low mortgage rates have put the housing market on a firm footing, indeed. The 2002-04 housing market upswing was led by pent-up consumer demand. In 2005, however, the market shifted and is now being fuelled by solid economic fundamentals. This is goods news for the new home market because pent-up demand on its own suggests there is only so much coal for the fire. Today, there is a steady stream of households, beneficiaries of our strong economy, who are in the market for a new home. To put it another way, a new supply of coal is arriving before the scuttle is empty.

However, one shouldn't jump to the conclusion that today's market conditions will last forever. The economy moves in cycles just like the housing market, and housing demand will surely wane before the next cycle begins. That being said, this current housing market cycle is expected to be the longest one on record.

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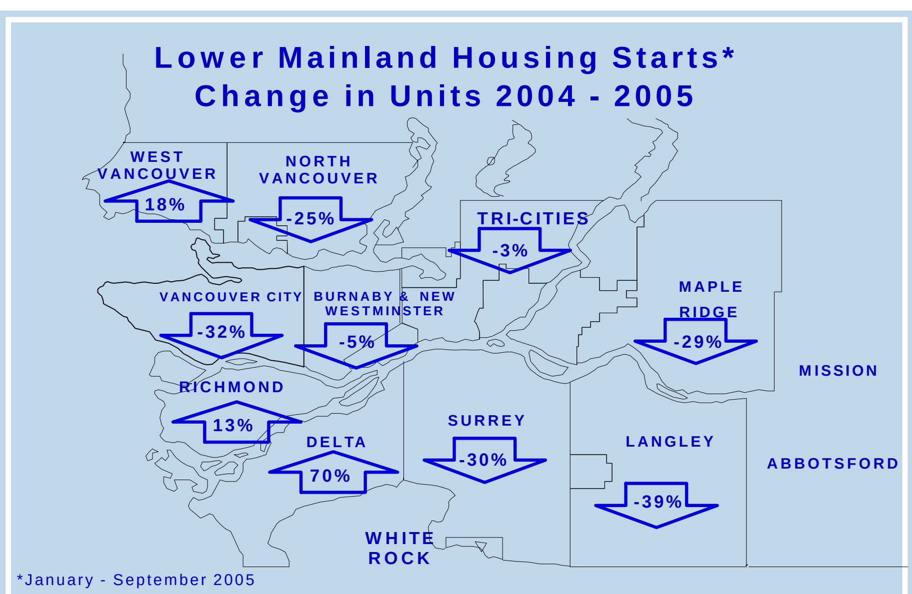
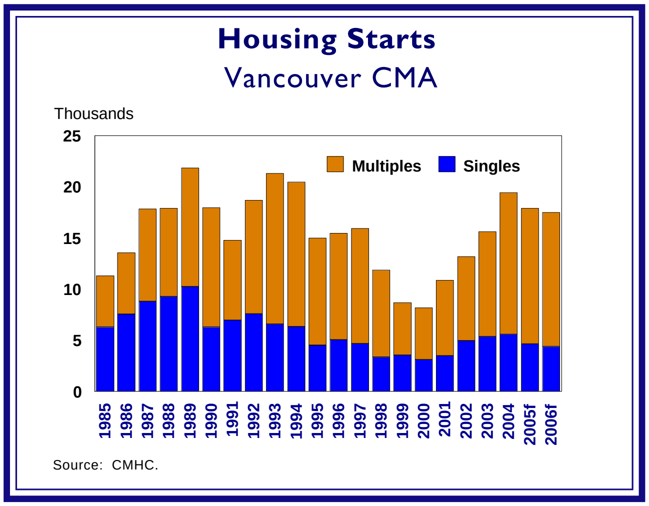
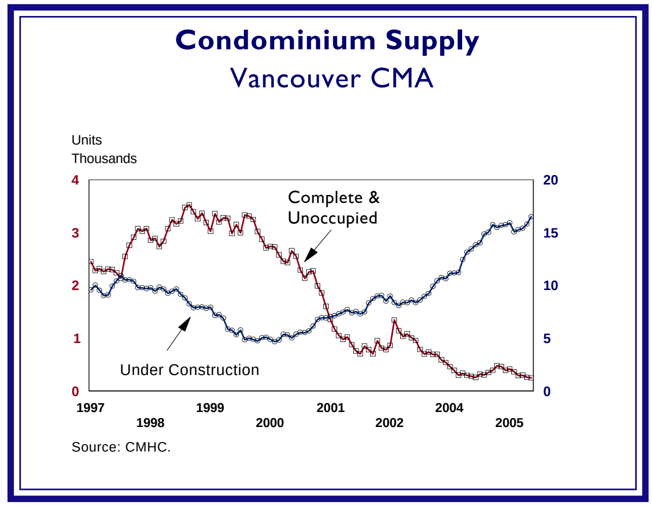






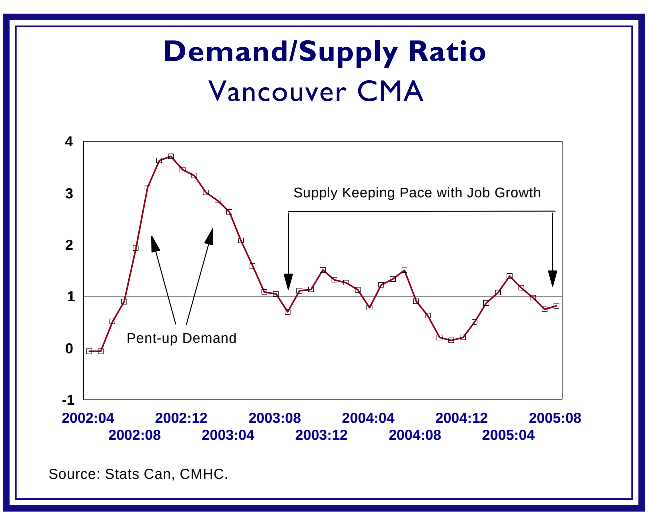
Housing cycles in Vancouver tend to last about five years from beginning to end. Anyone who has a calendar can quickly tell you that our five years is about up. However, this is not a typical market cycle.

Generally, the housing market moves in tandem with a strong economy and affordable mortgage rates. Both of these factors are positive today. However, our robust economy has been a fairly recent event, which suggests that housing demand should stay strong right alongside provincial economic fortunes. The only difference between the current housing market cycle and previous cycles is that this one was preceded by a period of unleashed pent-up demand. Thus, when you fit together yesterday's pent-up demand led market with today's market led by strong economic fundamentals, it is easy to understand why five years after the current cycle began, consumer demand is not letting up.

Now for the second reason today's market is different from two years ago. Quite simply, builders and developers are finding it difficult to increase the rate of new home construction. Housing starts will fall in 2005 to 18,000 units, 7 per cent less than last year's total of 19,430 units. The decline will not be a result of falling demand. Rather, it will be a by-product of a number of supply related constraints.

The availability of developable land is an issue in every jurisdiction, circumscribed by natural or legal barriers. One needs only to look at the City of Vancouver's downtown core to realize that future development, whether it be in Gastown, Chinatown, of South-east false Creek, will be smaller in scale than the tall condominium towers now imbricated along the Burrard Pennisula. This means that going forward, housing development will require more resources to produce the same number of units built in previous years. The amount of time between conception and completion of 200 apartment units, for example, will lengthen.

The current impetus of local and regional government toward increased density goes a long way to provide land for housing through infill development. However, the asking price for many these lands 'slated for development' is proving too high for many developers who are concerned about rising construction costs and the price-points they must achieve to successfully market the project to consumers.



Construction costs can be broken down into two components. First is the cost of the materials themselves. Rising commodity prices have been a boon for the BC economy. However, many of those same materials go into the production of housing. The price of dimensional lumber, plywood, structural steel, cement, and even carpeting and paint have increased substantially over the last 24 months. Considering that large condominium projects now take 2-3 years to complete, rising material costs can dig deep into a developer's margins when most of the units are sold prior to construction.

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The second component of construction cost is labour. The resurgence in non-residential construction activity has drawn down the supply of skilled trades workers. This not only means that labour costs are rising as contractors bid against each other for their services, it can also result in lengthening of the construction period as the skilled trades people themselves reach their capacity.

Indeed, the prominent factors in today's housing market are different than they were just a few years ago. The strong economy is keeping consumer demand at full steam, for now. While supply-side constraints are inhibiting builders and developers from increasing the rate of production, there is a silver lining. It is becoming increasingly unlikely that over-building will occur in Greater Vancouver and that slower demand will force widespread price reductions in order to liquidate inventories. The flip side is that in the short-term, consumers will continue to face upward pressure on new home prices.

Housing starts in Greater Vancouver are forecast to decline 8 per cent to 18,000 units in 2005. The sharpest decline will occur in single detached starts. A reduced supply of building lots, high prices, and a continuing trend toward high-density development will reduce single detached starts 17 per cent to 4,650 units this year. Multi-family starts will experience a 3 per cent decline to 13,350 units in 2005.

Next year, Greater Vancouver housing starts are forecast to dip a further 3 per cent to 17,500 units. Single detached housing starts will fall 5 per cent to 4,400 units while multi-family housing starts are expected to decline 2 per cent to 13,100 units. As mentioned above, declining housing starts will be a function of supply-side constraints rather than falling consumer demand.

New single detached home prices are forecast to climb more rapidly in 2005 than any other structure category. The average absorbed price of a new single detached home will reach $625,000 in 2005, a 13 per cent increase over 2004. Next year, a further 6 per cent increase is expected with the average absorbed price hitting $660,000 as an annual average. In contrast, slower price growth is forecast in the new apartment condominium market as absorbed prices in this market segment generally reflect the pre-sale price negotiated before a project was started or while it was under construction. Thus, absorbed prices for new apartment condominiums tend to reflect market prices 12-24 months earlier.

The average price of a newly absorbed apartment condominium is forecast to increase 2 per cent to $320,000 in 2005, but by the end of 2006 the average absorbed price is expected to climb 9 per cent to $350,000. The average absorbed townhouse price is forecast to increase 7 per cent in 2005 to $325,000 and 9 per cent in 2006 to $355,000. ■

The Resale Market

The resale market is now experiencing a second wave of consumer demand. The first wave began in 2002, initiated by plunging mortgage rates and pent-up demand. The steam of the first wave began to run out in 2004 resulting in higher inventories and less upward pressure on prices. In 2005, solid economic fundamentals took over the housing market driver's seat.

Today, the resale market is yet again in strong sellers' market conditions. Strong consumer demand has depleted the inventory of resale homes in most Lower Mainland markets. Low inventory and strong demand are the key factors contributing to a forecasted double-digit increase in average prices during 2005. Single detached homes are expected to climb 11 per cent to $585,000 this year. Both townhouse and apartment average prices are forecast to increase 14 per cent in 2005, compared to 2004. On average, during 2005, townhouse prices will reach $358,000, while apartment prices will grow to $295,000.

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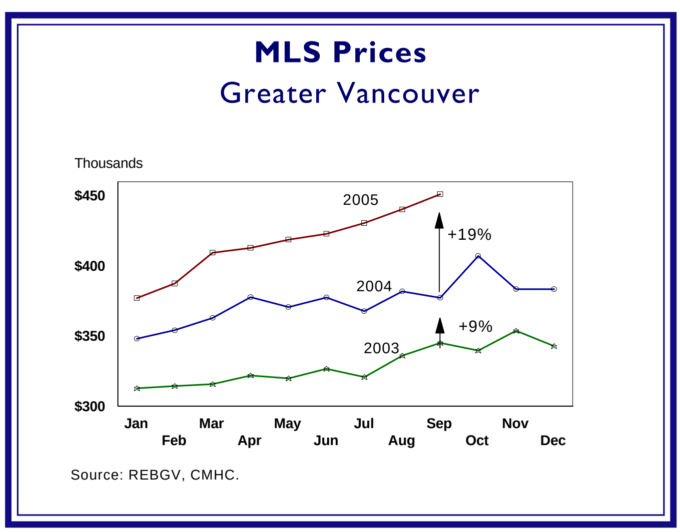
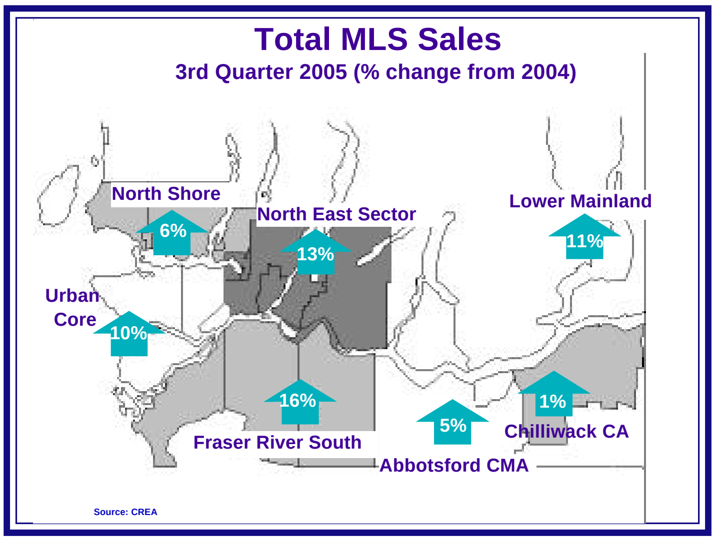
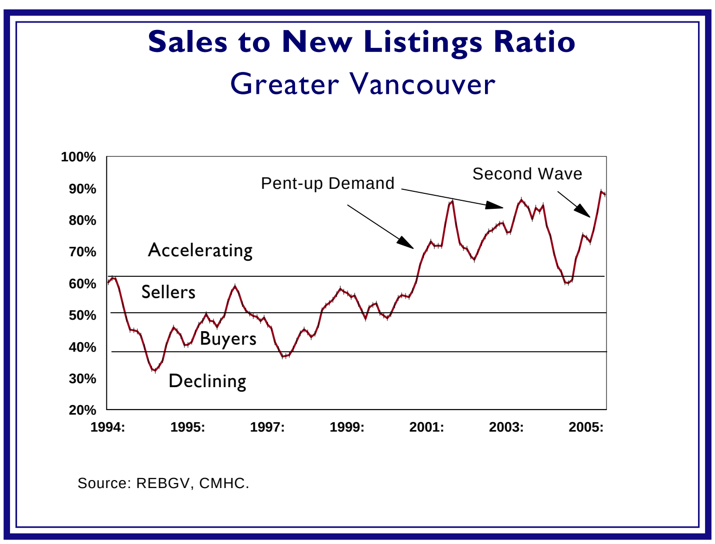


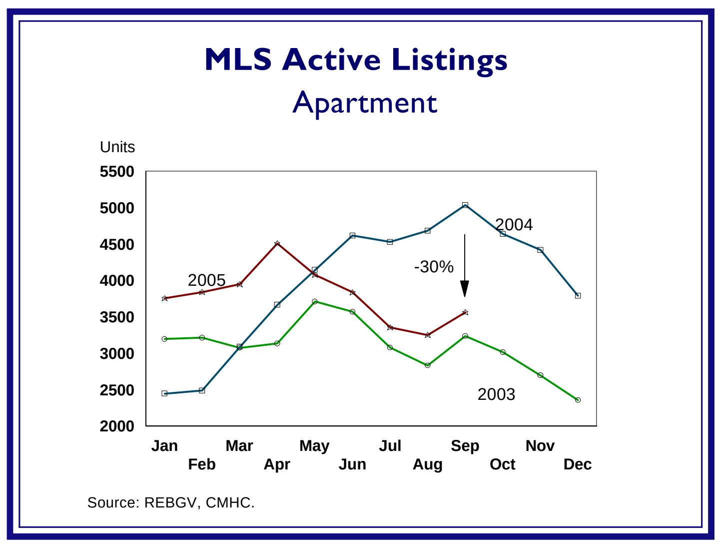
a 9 per cent increase over 2005. The average townhouse price is expected to also climb 9 per cent to $390,000, while the average apartment price will increase 10 per cent to $325,000. Smaller price increases in 2006 will be the result of declining affordability beginning to erode consumer demand. Condominium apartments, long considered an affordable housing option, will have increased 50 per cent in the 2003-06 period, with a gain in nominal value of more than $100,000 on average. Record high prices combined with gradually rising mortgage rates will begin to put the brakes on house prices by the end of next year.

MLS sales through the Real Estate Board of Greater Vancouver are forecast to reach 41,000 units this year. This will break the previous record of 39,000 sales set in 2003. However, sales in 2006 are expected to decline to 38,000 units. While a reduction in MLS sales is forecast, housing sales next year will still be high compared to historical averages.

Single detached home sales are forecast to reach 16,800 units this year; a 13 per cent increase over 2004. In 2006, a reduction of 8 per cent to 15,500 units is expected. Townhouse sales will increase 16 per cent to 6,800 units this year, before falling 4 per cent to 6,500 units in 2006. Sales of apartments are forecast to grow 12 per cent to 16,900 units this year and decline 5 per cent to 16,000 units next year.







Don't forget 2005 CMHC Housing Outlook Conference
FAST FORWARD: CHALLENGE THE FUTURE
November 2, 2005
Hyatt Regency Hotel
Vancouver, BC

Focus: Is Vancouver Experiencing a Housing Bubble?

There is increasing conjecture that the Vancouver Housing market is spiralling out of control. This inevitably leads to the conclusion that a dreaded housing bubble is poised to burst, sucking out the equity of many home owners right along with it. Typically, a housing bubble occurs when home prices increase far beyond any historical norms for a prolonged period of time. A key driver of over-inflated home prices is rampant speculation in the marketplace.

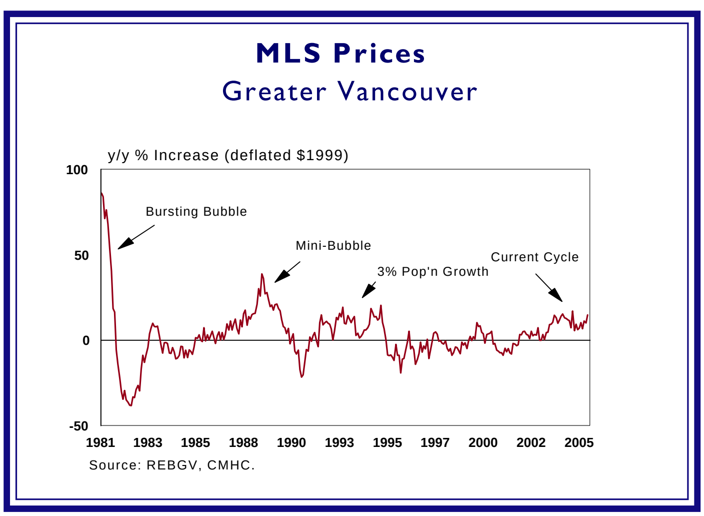
When tackling the housing bubble problem it is prudent to look at market factors during known bubbles. A classic housing bubble occurred in the 1980-81 period. At that time, a housing bubble developed at a national scale. At its peak, during the summer of 1981, nearly half of all home sales in the City of Vancouver were held less than twelve months. That was the most speculative housing market experienced to date.

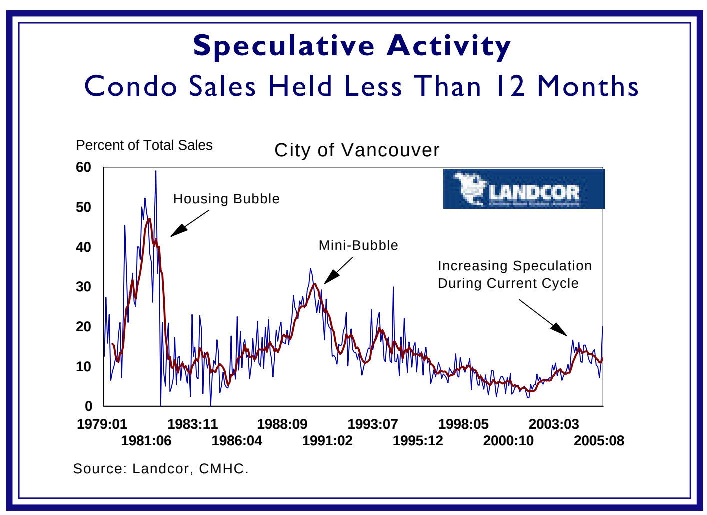
While a definite housing bubble occurred in 1980-81, the 1988-89 market can be characterized as a mini-bubble. Rapidly rising home prices were again being driven by speculation in the market. A the height of the speculative activity, approximately 30 per cent of home sales in the City of Vancouver were held less than twelve months. There is a clear case to label both 1981-82 and 1988-89 markets as bubbly.

The average proportion of home sales held less than twelve months in the City of Vancouver during the last 25 years is 14 per cent. This includes the two speculative markets periods mentioned above. So where are we now? Over the first eight months of 2005 the average proportion of home sales held less than twelve month was 12 per cent. Despite the fact that the Vancouver housing market is in a strong growth cycle and speculative activity is at it's highest in 10 years, to-date, speculative activity is below the 25-year average. Hardly housing bubble territory.

Let us now examine home prices in an historical context. In order to level the field, real home prices (discounting inflation) will enable us to compare our two previous housing bubbles to the current market. Again, rapid growth in real prices was a characteristic of the 1980-81 and 1988-89 markets. Even in the mid-1990s significant price growth occurred as a result demographic led demand. However, while the current market cycle has generated sustained real price increases, the rate of growth is considerably less than our previous housing bubble markets.

The Greater Vancouver housing market is backed by solid economic fundamentals. Speculative activity, though rising, is still less than the historic average. Real home prices are more characteristic of a healthy market than one about to implode. The housing market moves in cycles. Sales and prices will surely wane before the next cycle begins. Let us not confuse this truism with a dreaded housing bubble. ■





2005 BC SENIORS' HOUSING MARKET SURVEY REPORT

Find out more about the growing seniors' housing market in BC. - number of housing units/beds, vacancies and rental rates in care facilities and independent living residences. To pre-order your copy please contact: Lisa Preston @ (604) 737-4088.

Interest and Mortgage Rate Outlook

While net exports have slowed economic growth in Canada since the mid-point of 2004, robust domestic demand has propelled the economy forward, albeit at a slower pace. Continued strong domestic demand and some improvement in net exports are expected to boost economic growth through the second half of 2005. The pace of economic growth is expected to average 2.8 per cent this year, slightly less than the 2.9 per cent recorded in 2004. Look for a rebound in 2006 when the Canadian economy will edge above the 3 per cent level.

Despite increasing energy costs putting upward pressure on inflation, the overall inflation rate remained low during the first half of 2005. However, the impact of rising energy costs on the core inflation rate tends to lag as products requiring high amounts of energy to produce take some time to work there way along distribution channels to the store shelves. Nevertheless, the inflation rate in Canada should remain within the Bank of Canada's 1-3 per cent target range and will continue to be lower than in the US in 2005-06. A relatively lower inflation rate in Canada will generate more moderate increases in the interest rate than in the US through 2006.

The growing trade and budget deficits in the US will dampen the Greenback against most world currencies over the next eighteen months. While the negative yield spreads between the Canadian and US dollar provide some downward pressure on the Loonie, a combination of robust commodity demand and rising commodity prices will help keep the Canadian dollar in the 80 cents US range.

The US Federal Reserve Board elevated the Fed Funds rate by 100 basis points during the first half of 2005. However the Bank of Canada left its overnight rate unchanged due to a combination of low inflation, slower economic growth, and an appreciating dollar. US short-term rates are expected to increase by 50-75 basis points through 2006. Longer-term interest rates in the US are forecast to increase by 25-50 basis points over the same period. Canadian short-term rates are forecast to increase by 25-50 basis points in the second half of 2005 and 50-75 basis points in 2006. Longer-term interest rates in Canada are expected to increase 25-50 basis points through 2006.

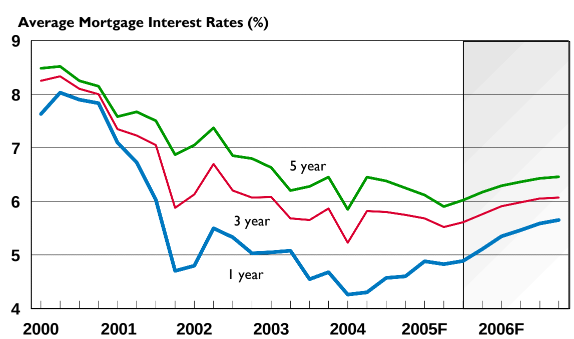
Short-term mortgage rates move in consort with the prime rate, while longer-term mortgage rates vary in response to the cost of raising funds in the bond markets. Posted mortgage rates are forecast to increase moderately as interest rates edge up in 2005-06. However, low inflation, a relatively strong Canadian dollar, and slower economic growth in Canada will restrain the speed and magnitude of Canadian interest and mortgage rate increases in 2005-06.

As a result, mortgage rates are expected to remain low, rising by about 25 basis points this year and 50 basis points in 2006. One, three, and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges, respectively, through 2005-06. However, rising posted mortgage rates will not necessarily lead to higher negotiated rates for consumers. Increasing competition amongst lenders has increased the spread between posted rates and negotiated rates over the last few years. This trend is expected to continue.

A key risk to the forecast is continued strength of the Canadian dollar against the US currency. This could adversely affect Canadian exports and reduce the need for short-term interest rate hikes. Another risk would be sustained upward pressure on oil prices, which would not only impact Canada but also economic growth globally.

There is also a risk that the Canadian economy could grow more rapidly than expected. Given that the Canadian economy is already operated near full capacity, faster economic growth could lead to higher than expect inflation. In addition, the lag effect of higher energy prices could also be stronger than expected and push inflation above the Bank of Canada's target range. ■

Mortgage Rates



Source: Statistics Canada, CMHC Forecast

Economic Outlook

The British Columbia economy continues to surge ahead. Provincial GDP is on track to grow by 3.5 per cent this year, second only to Alberta's expected 3.8 per cent increase, and well above the National average of 3.0 per cent. The total value of BC exports was up 4 per cent through July led by an astonishing 30 per cent increase in crude oil exports. However, both lumber and pulp exports have dipped 18 and 8 per cent respectively so far this year.

Strong economic activity has propelled employment growth in the province to the highest in the country. As of the end of August, more than 66,000 new jobs were created and by year-end BC's employment growth will reach 3.1 per cent, more than twice the national average of 1.4 per cent. Growth in provincial employment has been entirely in full-time jobs at the expense of approximately 5,000 part-time jobs. A decline in part-time employment is a common side effect of an improving economy as many part-time jobs are rolled-over into full-time employment.

The goods producing sector has experienced the strongest job growth. While the total number of jobs created year-to-date was split evenly between the goods producing sector and the service sector, the goods producing sector consists of less than 25 per cent of all jobs in the province. As a result, employment in the goods producing sector has climbed 7 per cent through the first eight months of the year.

Leaders of this sector include mining (+34%) and construction (+24%). In fact, on a net basis, employment growth in the construction sector accounts for nearly all the new jobs created in the goods sector. While residential construction continues at a torrid pace, it is non-residential construction that has posted the largest gains this year. Building permit values in industrial, commercial, and institutional development have increased by 21, 58, and 158 per cent, respectively, over the first eight months of the year.

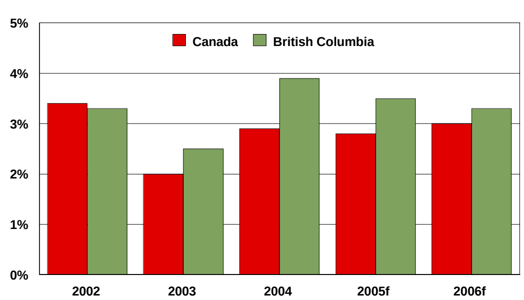
Strong employment growth has reduced the provincial unemployment rate to just 5.8 per cent in August. The tighter labour market is now pushing wages higher as employers compete for workers. As a result, the average weekly wage in the province is expected to climb in the 3.2 per cent range through 2005, good news for many potential homebuyers in the face of rapidly rising home prices. Significant wage growth has occurred in some areas of the service sector during the first eight months of the year, especially professional, scientific and professional services (+11%), transportation and warehousing (+9%), and in the hospitality services (+7%).

Consumer spending in the province remains robust. Retail sales continue to post new highs, having grown 5.7 per cent over the first seven months of the year. More importantly, wholesale sales have climbed even more rapidly (+9%), a strong signal of continued market confidence on the part of the province's retailers. Continued job growth, rising wages and comparatively low interest rates should keep consumer spending strong through 2006.

Rising employment levels, wage growth, and improving economic prospects will induce increased migration to the province both this year and next. Total net migration to the province is forecast to hit 40,000 persons by the end of this year and increase to 44,000 persons in 2006. Five years ago, total migration was a paltry 14,500. A total of 9,000 net inter-provincial migrants are expected to move to BC this year, with 10,500 forecast to take up residence in the province in 2006. International migration is also on the rise, with 27,000 persons forecast to arrive this year and 29,000 in 2006. ■

BC Economy Outpaces the Country

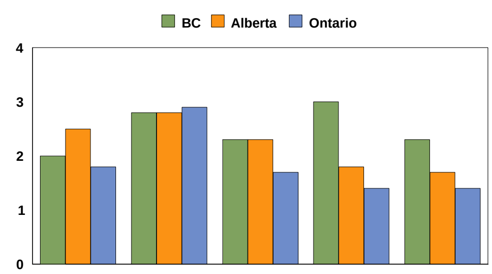
Real GDP Growth



Source: Stats Can, CMHC Forecast

Employment Growth

BC Leading Alberta & Ontario



Source: Stats Can, CMHC Forecast

FORECAST SUMMARY

	2003	2004	%CH	2005	%CH	2006	%CH
RESALE MARKET FORECASTS							
MLS - GREATER VANCOUVER							
Single Detached	17,216	14,885	-13.5%	16,800	13%	15,500	-8%
Townhouse	5,842	5,842	0.0%	6,800	16%	6,500	-4%
Apartment	15,101	16,028	6.1%	16,900	12%	16,000	-5%
MLS - FRASER VALLEY							
Single Detached	10,231	9,600	-6.2%	10,500	9%	10,200	-3%
Condo	5,538	6,148	11.0%	6,800	11%	6,800	0%
MLS - TOTAL SALES	53,928	52,503	-2.6%	57,800	10%	55,000	-5%
Single Detached	27,447	24,485	-10.8%	27,300	11%	25,700	-6%
Condo	26,481	28,018	5.8%	30,500	9%	29,300	-4%
AVERAGE MLS PRICE - GVA							
Single Detached	$449,905	$526,798	17.1%	$585,000	11%	640,000	9%
Townhouse	$270,414	$315,295	16.6%	$358,000	14%	390,000	9%
Apartment	$216,169	$258,936	19.8%	$295,000	14%	325,000	10%
MLS - FRASER VALLEY							
Single Detached	$301,690	$348,974	15.7%	$380,000	9%	405,000	7%
Condo	$153,408	$173,571	13.1%	$190,000	9%	205,000	8%
NEW HOUSING FORECASTS							
STARTS							
VANCOUVER CMA							
Total	15,626	19,435	24.4%	18,000	-7%	17,500	-3%
Single-Detached	5,382	5,619	4.4%	4,650	-17%	4,400	-5%
Multi-Family	10,244	13,816	34.9%	13,350	-3%	13,100	-2%
ABBOTSFORD CMA							
Total	1,056	1,083	2.6%	1,020	-6%	1,000	-2%
Single-Detached	634	607	-4.3%	525	-14%	540	3%
Multi-family	422	476	12.8%	540	13%	460	-15%
AVERAGE PRICE							
VANCOUVER CMA							
Single-Detached	$499,778	$553,459	11%	$625,000	13%	660,000	6%
Townhouse	$263,535	$302,793	15%	$325,000	7%	355,000	9%
Apartment	$255,307	$314,016	23%	$320,000	2%	350,000	9%
ABBOTSFORD CMA							
Single Detached	$316,054	$341,016	8%	$370,000	8%	390,000	5%
Townhouse	$234,939	$243,401	4%	$270,000	11%	295,000	9%