HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

CALGARY
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IN THIS ISSUE:

New Home Market

Higher Starts Expected in 2006, but Capacity Constraints Will Limit Production

Despite a modest year-over-year decline, total housing starts in the Calgary Census Metropolitan Area (CMA) are on pace to surpass 13,000 units for an unprecedented fourth consecutive year. In 2004, total starts increased three per cent over the previous year, as record condominium construction boosted total starts to 14,008 units. So far in 2005, the situation has reversed. To the end of August, total housing starts are six per cent lower than the first eight months of 2004. Record rainfall in the summer months has constrained single-family activity, while concerns over elevated supply levels in the multi-family market have cut production. Building permits point to a strong finish for both markets, but with each facing capacity constraints, a number of starts will be pushed forward to 2006. As a result, CMHC expects a total of 13,500 units to be started by year-end, four per cent below 2004 levels.

The solid housing starts performance in 2005 has been fuelled by a multitude of factors, the most prominent being low financing costs, a recovery in net migration, strong full-time job gains, and record earnings growth. In the first eight months of the year, the five-year posted mortgage rate averaged 5.96 per cent, 26 basis points lower than its 2004 equivalent. Combined with competitive mortgage markets offering generous discounts, home buyers have thus far enjoyed one of the lowest mortgage rate environments on record. Undoubtedly, this has provided a continued stream of first-time buyers, while offering existing owners an opportunity to move up in the market. A tremendous rebound in net migration has also fueled new housing demand. The 13,677 net migrants reported in the 2005 civic census represents a five-fold gain over the previous year, making up for much of 2004's paltry performance. Meanwhile, the oil and gas and supporting sectors have been prime contributors to job growth in the last eight months, most of which have been full-time with high rates of pay. Combined with severely tight labour markets, strong income gains, heightened energy prices, and record profits in the oil patch, it is easy to understand why Calgary's home builders do so well relative to the rest of Canada. Over the past few years, Calgary has led all CMAs in terms of having the highest number of housing starts relative to the size of its population.

While the rest of the nation experiences a seven per cent decline in new home construction in 2006, Calgary will buck the trend by posting a modest improvement to 13,750 starts. As a result, Calgary will continue to enjoy the strongest new housing market in Canada. Local builders will be insulated from a slowing national housing market next year, thanks to a red-hot economy fuelled by elevated energy prices and massive levels of construction. Meanwhile, a severely tight labour market and high wages will continue to draw migrants to fill full-time positions, in turn sustaining

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the level of new home demand. Current capacity constraints will also result in the carry-over of a number of starts from 2005. However, such capacity constraints will also prevent the market from achieving a stronger year than is forecast.

As was the case in previous years, low mortgage rates will also be a dominant force fuelling demand in 2006. However, outperforming 2005 by a strong margin will prove increasingly difficult given the projected increase in mortgage rates and recent escalation of house prices. While mortgage rates will remain accommodative, it must be recognized that they have bottomed out and modest increases are expected over the forecast period. As a result, mortgage rates will no longer cushion the impact of rising prices, a phenomenon that occurred in the previous four years. Thankfully, some of the impact will be countered by strong income growth. It must also be recognized that Calgary has a multitude of customers who pay no attention to mortgage rates, as they have the capacity to pay cash for their home. Nonetheless, for a number of buyers the gains in income will not offset the rise in mortgage carrying costs. This will be especially true for many first-timers who in turn will shift their attention to a less expensive condominium. At least for move-up buyers, the erosion in affordability will be offset by equity gains from previous years.

Following 8,500-units in 2005, the single-family market is expected to record a repeat performance next year. Meanwhile, multi-family starts, which include semi-detached units, rows, and apartments, are poised for a five per cent improvement in 2006, totaling 5,250 units. This will represent the third best year for multi-family construction since 1982.

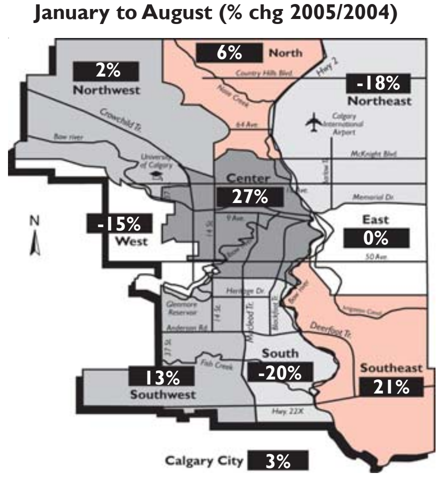
Single-family Market Operating at Capacity

To the end of August, single-family starts have totaled 5,680 units in the Calgary CMA, 1.6 per cent ahead of the pace set in 2004. With building permits pointing to strong activity over the duration of 2005, CMHC expects the market to record 8,500 starts this year, three per cent more than 2004. While the gain in starts will be modest, it will represent the first year-over-year increase for Calgary's single-family market since 2002.

In addition to factors mentioned above, a number of others continue to fuel single-family demand. Imminent price growth and the prospect of higher mortgage rates have created a sense of urgency among buyers, prompting many to get into the market as soon as possible. Meanwhile, Calgary's single-family market has and will continue to benefit from record sales in the existing home market. The level of resale activity is allowing sellers to upgrade to a new and more expensive home, while they capitalize on equity gains from their existing unit. Record profits in the energy sector have also resulted in huge bonuses in the oil patch. This has provided an additional boost to demand, as has the Imperial Oil head office move. Meanwhile, a number of new subdivisions have been introduced this year, offering buyers a variety of new product and areas to choose from.

While the gain in starts is a welcome improvement, single-family builders would have exceeded 8,500 units if the summer weather cooperated. Record rainfall in June added to the pressures of an already hot market, as builders and developers lost almost a month of work. Given persistent labour shortages, the single-family industry will continue to play catch-up over the duration of the year and through 2006. The delivery of serviced lots has been postponed, while possession dates for buyers have been pushed back a few months. Some starts will even be pushed forward to 2006 and if capacity constraints persist, into 2007. Building permit levels support this hypothesis, as single-family permits to the end of August are up 13 per cent over corresponding levels in 2004.

SINGLE-DETACHED STARTS
January to August (% chg 2005/2004)



Source: CMHC

Single-family Inventory Declining

After reaching a three-year high of 799 units in May 2004, the number of complete and unabsorbed single-family units has since been on a steady decline. At the end of August 2005, the number of single-family units in inventory fell to 638 units, the lowest since April 2003 and 13 per cent lower than August 2004. Some of the decline in inventory can be attributed to the number of showhomes in the Calgary CMA. At 466 units in August, the number of showhomes was five per cent lower than the previous year. The majority of the decline can be attributed to the Northwest sector, where showhomes were down 22 per cent from August 2004.

While showhomes are responsible for some of the decline in inventory, spec, or non-showhome, units have played a more dominant role. Thanks to strong levels of demand, the number of spec units in inventory is currently at its lowest level since January 2003. At 172 units in August, spec inventories were 30 per cent below the previous year. In an environment of high demand and declining resale listings, the single-family could stand to benefit from additional spec inventory moving forward. However, with the marketplace operating at capacity, it will be difficult for builders to boost spec production over the next 12 months. A decline in resale active listings will also ensure spec inventory remains low, as realtors are turning their clients toward new product.

New Home Prices Continue to Rise

Following a 6.8 per cent increase in 2004, the average single-family price in the Calgary CMA is on course for a more pronounced gain this year. After climbing more than $18,000 in 2004 to $285,250, the average single-family home has jumped 10.8 per cent in the first eight months of 2005, reaching $309,740. By year-end, CMHC expects the average price to reach $315,000 for all absorbed units, 10 per cent higher than 2004. This will be the strongest rate of price growth since 1990 and will be the highest annual gain in absolute terms on record, at almost $30,000.

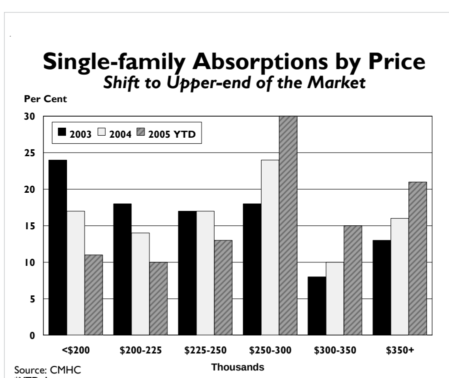
Labour, land, materials, and consumer preferences, are all responsible for boosting prices in 2005. The new home, renovation, and non-residential construction sectors are all operating at or near capacity, and are competing fiercely for Calgary's finite pool of labour. Many trades are commanding higher wages, especially framers and transferable trades such as drywallers, plumbers, and electricians. Exacerbating this further is heightened demand for labour outside of Calgary. As many trades tend to be young and mobile, some are being drawn to Fort McMurray and centres in British Columbia where builders are offering comparatively attractive compensation packages.

Unlike 2004, lumber has yet to dominate price gains for inputs in 2005. Rather, with crude oil and natural gas prices near record levels, any inputs derived from, produced by, or transported using oil or gas have experienced further price pressures. PVC windows and pipe, vinyl siding, concrete, drywall, and asphalt shingles, have all seen higher prices this year. Steel products such as doors, fasteners, rebar, and posts, have also faced continued price hikes. Perhaps a larger concern, however, is the recent gain in lot prices. Heightened costs for raw land have added to other development costs, boosting the average lot within city limits by nearly nine per cent in the first half of 2005. At this pace, the year-over-year gain in lot prices will be the strongest since 1999.

In 2006, CMHC expects the average absorbed price to reach $342,000, an increase of 8.6 per cent over 2005. Record construction activity will keep labour in short supply, adding to the upward pressure on wages experienced in 2005. Meanwhile, cost pressures on lot prices will also persist in 2006. Due to the poor weather this summer, there could be concern over serviced lot availability next spring unless developers make up lost ground over the balance of this year. Exacerbating this further is the high cost of raw land and the possibility of additional lot levies. Heightened energy prices will also add to lot production costs, as they did in 2005.

Unfortunately, builders will also be faced with further price increases for building materials in 2006. The hurricanes in the southern United States came at an inopportune time, as Calgary's single-family market was already facing strong upward price pressure. Before Katrina hit, lumber prices subsided from the spike they experienced in 2004. Moving forward, the rebuilding of 250,000-plus homes in the United States will result in renewed pressure on lumber prices. The same can be said for materials such as concrete, rebar, and structural steel, inputs already facing increases due to heightened energy prices and strong demand. The impact of gasoline prices will also have a short-term impact, as higher transportation costs for materials filter their way into wholesale prices.

There is a downside risk to these price gains, insofar that consumers could resist the increases and shift their preferences. Rising prices may cause buyers to re-evaluate their purchase decisions, with some choosing more modest homes with fewer upgrades. Others who prefer to retain their wish-list of upgrades could maintain affordability by simply building a smaller unit. Those who find a single-family home cost-prohibitive will simply look to the less expensive multi-family market.



Decline in Multi-family Starts Temporary…

One year ago, CMHC expressed caution that elevated supply levels should warrant a double-digit percentage decline in multi-family construction in 2005. Heeding those concerns, Calgary's multi-family developers have cut production in the first eight months of this year. After reaching a 22-year high of 5,775 units in 2004, the pace of construction for semi-detached, row, and apartment units, has fallen 18 per cent to the end of August. Apartments are responsible for the majority of the decline to-date, as starts have seen a reversal from last year's strong 3,915-unit performance, the best since 1982. After eight months of 2005, total apartment starts have recorded a 34 per cent drop from the previous year. Much of this decline has occurred in the Centre and North West sectors of Calgary, where year-over-year apartment starts have fallen 65 per cent in each area.

As mentioned, the recent decline in multi-family construction can be attributed to concerns over heightened inventories and the number of units under construction. Calgary's under construction count for multi-family units escalated through 2004 and the first few months of 2005, reaching a 23-year high of 5,931 units this March. This was met with some unease among developers as the percentage of units absorbed at completion was also declining. Inventories simultaneously escalated, reaching a 21-year high of 783 units in May of this year. As almost 500 of these were in the apartment sector, the response of apartment builders to cut production was a measured one.

For all of 2005, CMHC expects 5,000 multi-family units to begin construction, 13 per cent fewer than the previous year. The vast majority should be for ownership tenure. In the face of heightened rental vacancies and strong investor demand, starts for rental tenure will be minimal, if any. After starting 463 units for rental tenure in 2004, none have begun construction in the first eight months of this year. Despite the decline in multi-family construction this year, the expected 5,000 units will still be the third best year since 1982, and the second best on record for ownership tenure.

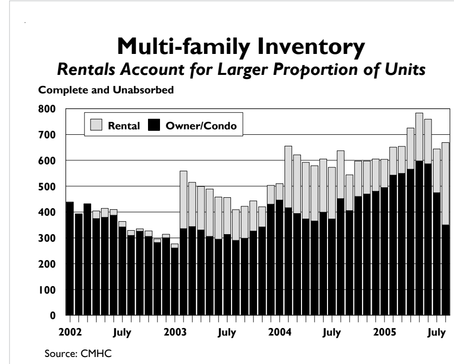
The decline in multi-family construction is expected to be temporary, as starts are forecast to post a five per cent gain in 2006 to 5,250 units. The multi-family market's strength will be fuelled by a number of factors, the most dominant being the relative price advantage to a single-family home, lifestyle factors, and continued gains in market acceptance. Population gains through migration, the aging of baby-boomers, and attractive floor plans and amenities, will continue to elevate the acceptance of condominium living. Meanwhile, for those finding a single-family unit cost-prohibitive, the multi-family market is the less expensive alternative. In the first eight months of 2005, the average new single-family home in the Calgary CMA was over $115,000 more than the average row and apartment condominium. A continued wave of first-time buying will also promote multi-family ownership demand, albeit at a lesser pace than previous years. Many first-time buyers have already made their move to homeownership, while landlords are offering a variety of incentives to maintain current renters. Nonetheless, persistently low mortgage rates will continue enticing renters toward their first home purchase. Many see low mortgage rates as a prime opportunity to get into ownership and will look to capitalize on market appreciation in future years.

Much of the gain in starts in 2006 will be attributed to a surge in inner-city apartment condominiums. A multitude of projects are already approved and are currently conducting presales test. If priced and located properly, the majority will do well. Elevated single-family prices in the inner-city will undoubtedly prompt buyers to focus on the condominium market, as their relative affordability plays a dominant role in the buyer's decision. The average single-family home in many inner-city neighborhoods is cost prohibitive for the majority of buyers and if they are affordable, likely require a substantial renovation. With an average price of $234,564 in the first eight months of 2005, an inner-city apartment condominium is an affordable option. Lifestyle factors will also maintain inner-city demand. Lengthy commutes do not represent an attractive lifestyle for many prospective buyers and consequently, many prefer to be closer to work. Across Canada, Calgary has the highest percentage of its workforce employed in the central sector. With all the recent construction and amenities such as the arts, restaurants and nightlife, it is an increasingly attractive location for many to live.

... but Risks to the Multi-family Forecast Remain

On average, presales for the majority of multi-family projects are reported to be healthy with many enjoying high absorption rates at completion. In specific market segments, however, there continues to be a risk of saturation and heightened inventory levels. At 5,494 units in August, the number of multi-family dwellings under construction remains at elevated levels. Once many reach completion, it is likely we will see further additions to the number of complete and unabsorbed units.

At the end of August, a total of 669 multi-family units were complete and unabsorbed, five per cent more than the previous year. Fortunately, semi-detached and row inventories are in healthy positions, as the number of complete and unabsorbed units are down seven and 47 per cent year-over-year, respectively. Apartment inventories were responsible for the overall gain in inventory, as 439 apartment units were complete and unabsorbed at the end of August, 32 per cent more than 2004 and the highest total in over four years. By tenure, 222 of the apartments in inventory were condominiums. While this represents a



47 per cent gain over August 2004, condominium apartment inventories remain in a relatively healthy position with no zones reporting more than 37 units.

Conversely, the number of complete and unabsorbed rental apartments should yield limited construction at above market rents in 2006. At the end of August, 316 apartment rentals were complete and unabsorbed, the highest total in over 20 years and 75 per cent higher than August 2004. Though these figures may not appear excessive, the concern becomes evident once put into perspective. August's apartment rental inventories surpass those for condominium tenure by 42 per cent, though rental apartment starts since the beginning of 2004 are less than one-tenth of those for condominium tenure.

Other downside risks for multi-family starts in 2006 include the following. If conversions from rental to condominium continue at the pace experienced in the last five years, 5,250 multi-family units may not be required to meet current levels of demand. That said, it is expected that the pace of conversions moving forward will diminish as the stock of rentals suitable for conversion is being eroded. Meanwhile, project delays could occur as lengthened presale tests, labour shortages, and heightened costs push back production.

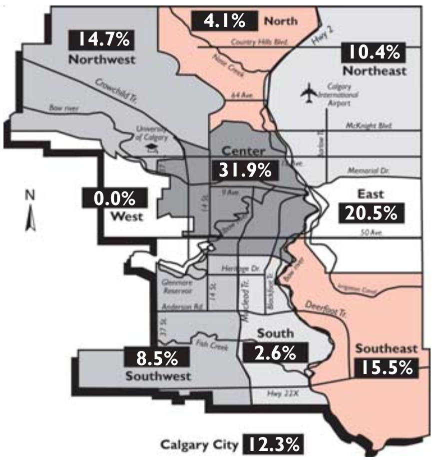
RESALE MARKET

2005's Record MLS Sales Will Be Hard to Surpass in 2006

As 2005 progressed, it became increasingly evident that a new record for resale home transactions would be achieved. In each of the first eight months of 2005, sales surpassed the previous year's performances by healthy margins, with some months up as much as 25 per cent. This pushed the number of residential transactions through the Calgary Real Estate Board (CREB) to 21,842 units for the first eight months of the year, 17 per cent higher than corresponding levels in 2004. By year-end, CMHC expects a total of 30,750 transactions to be completed, representing a 16 per cent gain over the previous record of 26,512 in 2004. Single-family units are on track for a 14 per cent gain, reaching 22,250 units for the year. Condominiums, meanwhile, will jump more than 20 per cent from 2004, totaling 8,500. With prices escalating for the average single-family home and condominium starts setting records over the last few years, resale condominiums have been a natural alternative for the price-conscious first-time buyer.

To set a new record by such a healthy margin is an amazing achievement. Among factors fuelling this new benchmark, record low mortgage rates, a recovery in net migration, a healthy selection of active listings, and strong consumer confidence stand out as the most dominant. Secondary factors such as new home sales by realtors and a sense of urgency among buyers are also adding to activity. Record-low mortgage rates are seen as a once in a lifetime opportunity for buyers, boosting demand among first-time and move-up buyers. Given healthy price growth in the past and expected gains for the future, first-time buyers are increasingly aware that each year they postpone a purchase results in a lost opportunity. By waiting, they risk paying elevated prices at higher mortgage rates, while losing a year of appreciation. The same holds true for move-up buyers, though they have the advantage of upgrading with equity gains from previous years. Another, perhaps less tangible, factor is the rapid growth of our population and housing stock. Barring a huge shock, sales activity in Calgary's resale market is beginning to be self-sustaining. With almost 120,000 housing starts in the last 10 years, the overall housing stock in Calgary has witnessed tremendous gains. Combined with a population expansion to nearly one million residents, there are simply more homes that can change hands among the gain in households.

MLS® SINGLE-FAMILY SALES BY SECTOR
January to June (% chg 2005/2004)



Source: Calgary Real Estate Board

Calgary's resale market appears poised for another great year in 2006, though setting another record could prove difficult. Migration will continue at healthy levels, while full-time job growth and solid income gains will keep demand high. Moreover, resale demand will continue to be fuelled by historically low mortgage rates. However, what is critical moving forward is that mortgage rates have bottomed-out and hence will no longer cushion the impact of escalating prices (see *Price Gains to Erode Affordability* below). This will ease overall demand, especially in the single-family market where prices are almost 50 per cent higher than the average condominium. Condominium sales should hold firm in 2006, as price-sensitive buyers turn their attention to a less expensive units.

Another factor constraining sales will be a declining pool of active listings. If buyers can not find suitable product, some may look to the new home market to meet their needs, while others might forego their purchase decision altogether. Meanwhile, with declining active listings maintaining sellers' market conditions, some sellers will attempt to list their home without the services of a realtor. As a result, an increasing number of residential transactions in 2006 may not occur via the MLS system. However, this will be countered to some extent by the sale of newly constructed units. With the decline in active resale listings, realtors are increasingly turning their clients to the new home industry, in turn boosting MLS transactions.

Due to the above reasons, CMHC expects total sales to slip by a few percentage points in 2006, reaching 30,200 units. Despite the decline, 2006 will be a hugely successful year for Calgary's resale market. Next year's performance will represent the second best year on record and surpass the previous 10-year average by an impressive 32 per cent.

Sellers' Market Conditions Fuel Additional Price Growth

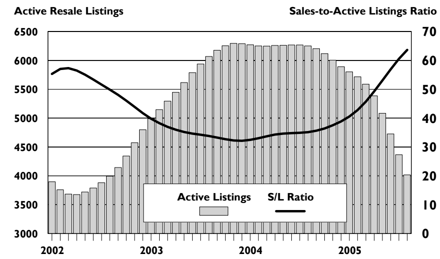
Heightened sales combined with a decline in the number of active listings pushed Calgary's resale market into sellers' market territory early in 2005. In February, the sales-to-active listings ratio surpassed the 40 per cent barrier for the first time in almost a year. Since then, it escalated to 68 per cent in August, the highest sales-to-active listings ratio recorded since April 2002. This means that at the prevailing level of sales, it will take approximately 1.5 months to deplete the existing supply of listings. Undoubtedly, record sales have boosted the sales-to-active-ratio in the upward direction. However, the persistent decline in active listings is playing a more active role. While year-to-date sales are up an impressive 17 per cent, the year-

back to TOC

to-date average number of active listings is down by a greater margin. As recently as August, active listings totalled 4,117, representing a decline of 37 per cent from the previous year.

With a deeper pool of buyers competing for a declining stock of listings, multiple offers have become increasingly frequent. As a result, the average time to sell a home has declined from previous years while price growth has jumped considerably. In August 2005, the average single-family home took 37 days to sell, a full week less than 2004. During the same period, the average condominium took 10 fewer days to sell. Meanwhile, year-over-year price growth sits at over 11 per cent after eight months, representing the highest gain since 1990. At $181,917, the average condominium price to the end of August is 10 per cent higher than 2004. The average single-family price, meanwhile, is up an impressive 12.5 per cent during the same period, reaching $270,825. While price growth in the single-family market has been fuelled by

Resale Active Listings Declining, Sales-to-Active Listings Climbs



Source: Calgary Real Estate Board, Seasonally Adjusted by CMHC

record demand and declining supply levels, it is also being skewed upward by sales in the extreme high price ranges. After eight months, the number of single-family sales exceeding $900,000 totalled 120 units, up three-fold from 41 in 2004. Much of this gain can be attributed to the oil and gas sector, where record profits are resulting in sizeable bonuses and stock options.

By year-end, CMHC expects the average MLS price to rise 11.6 per cent for all units, reaching $248,800. Price growth in the single-family market will surpass that of condominiums, as sales in the upper price ranges provide an additional boost. In 2006, the average price is expected to increase by 8.4 per cent in Calgary's resale market, reaching $269,800 for all units. Though this represents a three percentage point drop from 2005's growth rate, it will still be above the previous 10-year average. Sellers' market conditions will maintain price gains well beyond the rate of inflation. However, modest gains in mortgage rates will inhibit growth. Nonetheless, an upside risk could be persistent strength at the upper-end of the market, a factor that skewed the average price upward in 2005. Expect single-family and condominium units to both increase by seven per cent in 2006, reaching $298,000 and $200,000, respectively. As the overall market is expected to increase by a smaller percentage, such gains may appear counterintuitive. However, the weaker price growth for all units will be due to an increasing share of condominiums in the market.

Price Gains to Erode Affordability

Regardless of the market, three critical factors influence a household's ability to carry a mortgage: mortgage rates, income growth, and average home prices. Based on these, affordability in Calgary improved from the second quarter of 2002 to the first quarter of 2005, inclusive. The primary factor boosting affordability during that period was declining mortgage rates. They started their descent in 2000 and marched to record lows as recent as this summer. In fact, the drop in mortgage rates more than compensated for the strong house price increases and modest income gains in the last few years. From 2002 to 2004 inclusive, the average resale house price increased by seven per cent annually, considerably higher than the preceding 10-year average of only 3.7 per cent. In the new home market, single-family prices increased an average of six per cent from 2002 to 2004, also double the rate of growth in the preceding 10-years. At the same time, average weekly earnings only increased 1.2 per cent per year, as consolidation in the energy sector cut average earnings growth to one of the lowest rates on record.

This summer, housing affordability in Calgary declined for the first time since the second quarter of 2002. Mortgage rates have essentially bottomed-out and are now heading in an upward direction, albeit slowly. Nonetheless, the fact that they are no longer declining is playing a critical role in preventing further affordability gains. Thankfully, average weekly earnings have jumped by more than 11 per cent in the first eight months of 2005, as record profits in the oil patch and a robust construction sector are expanding payrolls in the higher income-earning industries. Despite these strong gains in earnings, however, they are insufficient to compensate for further house price increases.

Higher prices are predominantly to blame for the recent and future declines in affordability in Calgary's homeownership markets. In the first eight months of 2005, the average price in Calgary's resale market jumped 11 per cent year-over-year. In the single-family market, the increase has been even more pronounced, with the average price climbing 12.5 per cent year-over-year. The last time resale price growth was sustained at these levels was back in 1990. Similar gains have been experienced in Calgary's new home market. To the end of August, the average new house price has experienced a year-over-year gain of nearly 11 per cent. Similar to the resale market, the last time price growth was experienced like this was in 1990, when prices jumped 18 per cent to $170,474.

Moving forward, higher mortgage rates and continued gains in house prices will erode affordability further. To combat such losses in affordability, the average buyer has some options. One is to go to a short-term mortgage rate, which will allow one to carry a more expensive home with reduced impact on monthly carrying costs. Of course, this was an easier decision for households in the past few years while mortgage rates were declining. However, in the face of future mortgage rate increases, this decision moving forward may prove difficult for some households. Another natural option in the face of eroding affordability is to re-evaluate one's expectations in what they can afford. Given the affordability erosion moving forward, households will likely have to give up a few of the bells and whistles that they would have been able to afford had they made their purchase earlier.

RENTAL MARKET

Slight Reduction in Vacancies over Forecast Period

Based on our October 2004 Rental Market Survey, average apartment rents in the Calgary CMA declined for the first time in over 10 years. Combined with generous rental incentives and a 909-unit decrease in the apartment rental universe, the modest rent reductions prevented a further escalation in vacancies. After climbing to 4.4 per cent in 2003, the highest rate since 1994, Calgary's apartment vacancy rate recorded a marginal decline to 4.3 per cent in 2004. As was the case in 2003, low mortgage rates continued to pose a threat toward higher vacancies, fuelling another wave of first-time buying activity. At the same time, a 12-year low of net migration in 2004 reduced the number of replacement households who typically backfill those leaving rental in favour of home ownership.

Following a 4.3 per cent vacancy rate in 2004, CMHC expects apartment vacancies will tighten to 3.2 per cent in 2005 and 3.0 per cent in 2006. Moving forward, the return to strong levels of net migration will help backfill a number of vacant units. Meanwhile, the supply of first-time buyers will erode as rising prices and modestly higher mortgage rates push ownership beyond the reach of some renters. Moreover, much first-time demand has been brought forward from previous years. The continuation of rental incentives and lack of rental rate increases will also slow the move to home ownership.

Declining rental competition should also result in lower vacancies over the forecast period. Good news for landlords, at least for the short-term, is a student housing renovation on SAIT campus displacing 400 students requiring accommodation elsewhere. The renovation began this summer, finishing in September 2006. Meanwhile, the number of conversions from rental to condominium will continue to surpass new construction, resulting in a continued decline in the rental market universe. Calgary's rental market universe is the lowest per capita among the 28 CMAs, and continues to decline due to persistent population gains and conversions surpassing new rental construction. With vacancies exceeding the previous 10-year average and heightened inventories of newly completed rentals, little rental construction should be expected moving forward.

Meanwhile, landlords will face more modest competition from the condominium investment market. In 2001 and 2002, investors looked to rental condominiums as an alternative investment channel. It was a great strategy at the time, as the stock market was performing poorly and rental vacancies were low. Since then, however, vacancies have increased. Consequently, investors encountering difficulty finding tenants for their units may seek to sell their units on the resale market and re-inject their capital elsewhere. Prospective condominium investors may also shy away, as many will see a substantial opportunity cost if their capital is tied up in a vacant condominium.

Despite the expected decline in vacancies over the forecast period, a return to the low vacancies experienced from 1996 to 2002 is unlikely. While mortgage rates will rise over the forecast period, they will still be low by historical standards. As a result, first-time buying will continue to be healthy, just at a lesser pace than previous years. The new condominium market will continue to target renters by producing a multitude of affordable home ownership options.

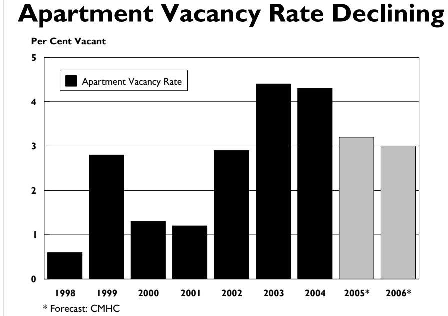
Modest Rent Increases Expected

With vacancies among their highest levels since 1994, tenants have been enjoying renter's market conditions. In 2003, average two-bedroom rents failed to record an increase over the previous year, the only such occurrence in eight years. A similar scenario occurred in 2004 as landlords hedged the risk of higher vacancies. In addition to holding rents stable in 2004, landlords reintroduced a number of incentives such as paid utilities and a free month rent with lease.

In 2005 and 2006, tenants can expect the first notable increase in average rents in three years. With vacancies recording consecutive declines, property owners will attempt to support their bottom lines with a two per cent gain in rents each year. Such increases will translate into a $16 per month increase for a two-bedroom unit, reaching $822 in 2005 and $838 in 2006. Many property owners will find the increase necessary as they face heightened operating costs. These include higher natural gas prices as well as increased insurance and property taxes.

Overall rent increases are unlikely to exceed the rate of inflation. However, an upside risk to average rental rates comes from the completion of some newly constructed units, as they typically command higher than average rents. In the first eight months of 2005, a total of 463 rental units were completed, about half of which are eligible for 2005's survey. That said, such pressure toward higher rents will be mitigated by weak increases in the upper rent ranges, since vacancies will continue to be highest among the older and more expensive units.

Apartment Vacancy Rate Declining



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ECONOMIC OVERVIEW

Calgary's Red-Hot Economy Contending with Labour Shortages

While Calgary's economy continues to benefit from soaring oil and gas prices, its ability to expand payrolls at levels experienced in the late 1990's is restrained by modest levels of net migration. In the late 1990's, Calgary benefited from other province's misfortune, as their relatively weaker labour markets pushed residents toward our numerous job opportunities. Annual totals in excess of 20,000 new jobs were the norm in the late 1990's, a feat only made possible by huge levels of net migration. Currently, the story is somewhat different. Though our employment prospects have arguably improved, competing labour markets have recovered (*see Net Migration below*). As a result, it has become increasingly difficult for Calgary to attract the labour force necessary to fill all of the current job openings.

A number of factors point to persistent labour shortages in Calgary, the most prominent being our unemployment rate. As recent as July, Calgary's unemployment rate fell to a record low of 3.1 per cent, essentially what is considered full employment. Calgary's tight labour market is also putting upward pressure on our labour force participation rate, which, at 75 per cent, is among the highest in Canada. Meanwhile, the tight labour market is fuelling an earnings spike in Calgary, a critical factor which will soften the gain in house prices. To the end of August, average weekly earnings in Calgary have increased by more than 11 per cent from the previous year, representing the largest gain ever recorded.

Undoubtedly, the recent jump in earnings is reflective of the quality and not quantity of the positions being created. To the end of August, average employment in the Calgary CMA has increased by only 5,000 positions over the previous year, the poorest performance since 1993. However, it is critical to note that all of these positions and many more have been full-time. In fact, the current tightness in the labour market has rendered the promotion of part-time positions to full-time jobs necessary. To the end of August, an impressive 12,300 full-time jobs have been created in the Calgary CMA, while part-time employment has fallen by 7,300 positions. The last time full-time job growth surpassed the overall rate of job creation was back in 2000. This should hold true for the duration of the forecast period.

Solid employment gains in high-paid sectors are also adding to the current wage growth. Heightened energy prices, record corporate profits, and the transfer of Imperial Oil's head office have expanded payrolls in Calgary's oil and gas sector by 4,150 jobs in the first eight months of 2005, good news for housing markets since it is the highest paid sector in our economy. During the same time, strong housing starts and a flurry of commercial, infrastructure, and institutional projects expanded construction payrolls by 2,250 positions. Huge provincial surpluses also boosted employment in the education and health care sectors by over 5,000 positions each. Other industries benefiting from Calgary's hot economy include the trade, transportation and warehousing, and finance, insurance, and real estate sectors, where employment grew by 4,290, 5,460, and 3,730 jobs respectively.

Unfortunately, not all sectors have experienced gains in employment in 2005. As reported by Statistics Canada, the manufacturing sector shed thousands of positions in the first eight months of 2005, negating some of the gains experienced in other sectors. The same can be said for the accommodation and food service sector, though many of these losses represent people moving to higher paid positions. All combined, the Calgary CMA will record only 10,000 new jobs in 2005, the weakest performance in three years. Despite this, full-time job growth should be among the strongest in four years.

MORTGAGE RATE OUTLOOK

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Posted mortgage rates are forecast to rise moderately as interest rates head up in 2005 and 2006. However, tame inflation, a strong Canadian dollar vis-à-vis the U.S. dollar, and slower economic growth in Canada will restrain the size and speed of Canadian interest and mortgage rates increases in the next two years.

Mortgage rates are expected to remain low, rising by about 25 basis points over the second half of 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 range respectively in 2005 and 2006. However, rising posted mortgage rates may not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.

Key risks to the forecast are continued strength in the Canadian dollar against the U.S. currency and sustained upward pressure on oil prices. A strong Canadian dollar adversely impacts exports and output, while heightened energy prices will weaken economic growth globally. This could delay the tightening of monetary conditions, especially in the U.S. where they deal with the fallout of Hurricane Katrina.

In 2006, CMHC expects total employment growth to reach 12,500 positions. However, as was the case for 2005, downside risks to the outlook remain prevalent. An unemployment rate below four per cent, a high rate of labour force participation, and competing labour markets elsewhere could collectively stifle job growth below forecasted levels. That said, the majority of growth in 2006 will undoubtedly be in full-time and highly paid positions.

High commodity prices and record profits in the oil and gas sector will also continue to expand payrolls in 2006. Crude oil prices accelerated to new highs recently, with the futures contract reaching a record $70 US per barrel, $12 more than the previous high recorded six months earlier. In the wake of Hurricane Katrina, initial expectations were that oil prices would escalate even

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further. However, as industrialized countries released 60 billion barrels of crude from strategic stockpiles, the upward pressure on prices has since subsided. Nonetheless, the long term effect of Katrina's damage will likely hamper refineries' ability to meet demand for fuel and other oil byproducts, hence maintaining prices at high levels. With the break-even point for most oil sands projects in the $14 to $18 U.S. range, heightened oil prices will reinforce the investment decisions by many Calgary-based companies. Current and proposed energy-related projects in Alberta are topping $69 billion, and though much of the labour requirements will be in Northern Alberta, the management and planning of these projects will further boost payrolls locally.

Source: Statistics Canada
* Forecast: CMHC

Major non-residential and infrastructure projects will add to construction employment in 2006. Currently, Calgary has a record $12.5-billion in projects that are proposed, announced, or under construction, an impressive 35 per cent gain from the previous year. Increased spending by provincial and municipal governments continue to fuel a number of institutional and infrastructure projects. Current projects under construction include seven new schools, $220-million in education-related projects at the University of Calgary, the $220-million Children's Hospital, and the $70-million health research lab at the Foothills Medical Centre. The $500-million South Calgary hospital should also commence shortly. Once completed, these projects will boost employment in the education and health care sectors. Other projects under construction include the $300-million courthouse downtown, the $500-million Deerfoot Meadows retail project, $800-million in improvements at Calgary's airport, and over $1billion in roadway, interchange, and LRT improvements. Future projects include the $100-million Bow Valley Campus redevelopment and a $300-million Hunt Power gas-fired power plant south of Crossfield.

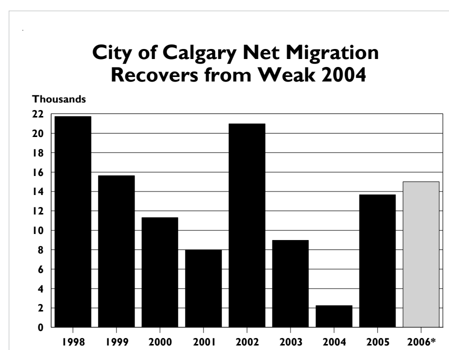
Adding to a robust construction sector is a resurgence of office development downtown. Calgary's office vacancy rate is currently the lowest in 20 years and year-over-year rental rates have jumped in excess of 20 per cent. Combined with the energy sector's thirst for new office space, a flurry of new office towers are already in the works. The first tower of Livingstone Place, valued at $130-million, is well underway, as is the $25-million Opus building. Meanwhile, EnCana recently confirmed its new site to be developed across from the Petro-Canada Centre. Once completed, the $540-million tower is expected to be the highest in Western Canada at 60 stories. Other office towers include the $250-million Homburg-Harris Centre, a $400-million development by Oxford Properties, a $450-million project by Matco, and another by Tonko. With all of these projects on the table, concerns are that persistent labour shortages will lead to project delays and cost overruns. Nonetheless, it is unlikely that all of the proposed towers will start construction until anchor tenants are secured.

Net Migration Recovers from 2004's Poor Performance

The 2005 release of Calgary's civic census numbers should put a smile on the face of homebuilders, realtors, and property owners. For the 12-month period ending this April, net migration into the city (the difference between those moving to Calgary and those leaving) totaled 13,677 people. This represents an impressive five-fold gain over 2004's performance of 2,253, which, by all accounts, will be seen as an anomaly for years to come. The latest net migration figure also surpasses the previous five-year average by 33 per cent. Meanwhile, it eclipses the previous 10-year average by a 15 per cent margin, a period which included two years in excess of 20,000 people.

The 2005 census results were eagerly awaited by market prognosticators, as population growth via net migration is a critical factor fuelling home construction. Such population gains result in the immediate creation of new households, thereby fortifying the demand for housing. Moreover, as there is typically a lag between net migration and housing starts, 2005's jump in net migration undoubtedly bodes well for 2006 housing starts and sales.

For the 12-month period ending in April 2006, CMHC expects net migration to total 15,000 people, the best performance for net migration since 2002. Undoubtedly, the most revealing indicator for the direction of migrants is the relative strength of competing labour markets. Calgary's solid employment prospects, record low unemployment rate, strong income gains, and low taxes will maintain our magnetic draw for migrants. That said, recent tax cuts combined with tightening labour markets in British Columbia and Saskatchewan will result in substantial resistance. Within the province, Fort McMurray and Edmonton will also provide heavy competition for migrants, thanks to the massive investments in the energy sector.



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

CMHC FORECAST SUMMARY

Calgary Housing Market Outlook - October 2005

	2003	2004	%Chg	2005*	%Chg	2006*	%Chg
RESALE MARKET							
MLS® ([1]) active listings (Annual Avg.)	5,801	6,178	6.5%	4,900	-20.7%	4,600	-6.1%
MLS® Sales							
Total	24,359	26,512	8.8%	30,750	16.0%	30,200	-1.8%
Single-family	18,319	19,513	6.5%	22,250	14.0%	21,500	-3.4%
Condominium	6,040	6,999	15.9%	8,500	21.4%	8,700	2.4%
MLS® Price ($)							
Total	$211,155	$222,851	5.5%	$248,800	11.6%	$269,800	8.4%
Single-family	$229,082	$243,059	6.1%	$274,000	12.7%	$298,000	8.8%
Condominium	$156,781	$166,514	6.2%	$183,000	9.9%	$200,000	9.3%
NEW HOME MARKET							
Starts							
Total	13,642	14,008	2.7%	13,500	-3.6%	13,750	1.9%
Single-family	8,526	8,233	-3.4%	8,500	3.2%	8,500	0.0%
Multiple-family	5,116	5,775	12.9%	5,000	-13.4%	5,250	5.0%
Average New House Price: Single-family	$267,104	$285,250	6.8%	$315,000	10.4%	$342,000	8.6%
RENTAL MARKET							
Vacancy rate (Oct)	4.4	4.3		3.2		3.0	
2-bedroom Rent (Annual % Chg)	0.0	0.0		2.0		2.0	
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	4.84	4.59	-0.25	4.93	0.34	5.51	0.58
Mortgage rate (5 yr term)	6.39	6.23	-0.16	6.06	-0.17	6.38	0.32
Employed	583,510	598,280	2.5%	608,280	1.7%	620,780	2.1%
Employment growth (# jobs)	10,880	14,770		10,000		12,500	
Net-migration (Census Year [2])	8,965	2,253	-74.9%	13,677	507.1%	15,000	9.7%

* 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

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