HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

New Home Market

Weaker Home Construction in 2005 Expected

Despite the second consecutive year-over-year decline, total housing starts in the Calgary Census Metropolitan Area (CMA) in 2004 are on pace for the third best year since 1981. In 2003, total starts fell five per cent from the previous year, reaching 13,642 units. To the end of August, total starts were four per cent lower than the first eight months of 2003. With building permits pointing to a similar pace to close out the year, we can expect 2004 to end with 13,500 new home starts, one per cent below the level recorded last year.

Unlike previous years, strong employment growth and net migration have not been the primary drivers of new home construction. Employment growth in 2003 was the lowest in 10 years, while net migration for the 12-month period ending this April was the weakest in 12 years. Without such factors boosting demand, how has the new construction market performed as well as it has?

Undeniably, low mortgage rates have been the dominant factor fuelling new home demand. At 6.22 per cent this year, the average five-year posted mortgage rate to the end of August was 16 basis points lower than the first eight months of 2003. While this is not a significant departure from the previous year, it does represent the lowest period for mortgage rates since 1956. More importantly, if we consider rate discounting only hit the market in the last 10 years, an average discount of 100 basis points translates into the lowest mortgage rates on record. As a result, it comes as no surprise that the low mortgage rates continued to provide a healthy stream of first-time buyers. They also provided existing owners a tremendous opportunity to move up in the market.

New home construction in the Calgary CMA is expected to moderate in 2005 as a number of factors have shifted out of favour. Though financing costs will remain low by historical standards, higher mortgage rates combined with increased production costs will significantly raise the cost of owning a home (see 'Spotlight on Ownership Costs' below). For current owners, the expected jump in carrying costs may prevent them from upgrading to another home. For first-time buyers, the heightened carrying costs could have them revisit their purchase decision altogether. Meanwhile, other fundamental elements for new home demand will continue to show signs of weakness, at least by Calgary's standards. From 2004 to 2005, net migration is expected to average fewer than 5,000 per year, a considerable departure from the 13,000 per annum average over the preceding five years. Employment growth paints a similar picture, as the recent pace of job creation is just 60 per cent of what it was in previous years.

Other factors taking a bite out of demand include a diminished pool of first-time buyers, weaker demand for investment properties, higher prices, and high debt loads. Rising inventories will also dampen the pace of new construction, as will strong competition from both the resale and rental markets. Currently, active listings in the resale market are at the highest levels in eight years, offering a multitude of product to prospective buyers. The recent spike in rental vacancies has also caused rent reductions and aggressive incentives, an attempt by landlords to reduce the motivation for tenants to move to ownership.

Previous performances will also be to blame for weaker housing starts in 2005. Low mortgage rates and the expectation of future price and rate increases have brought demand forward, inherently stealing activity from future years. Calgary has the highest rate of home ownership in the country, and has persistently recorded the most housing starts per capita among all CMAs. Moreover, the number of housing starts has surpassed the rate of household formation in the past three years and is expected to do the same in 2005. Combined, such factors indicate that much of Calgary's pent-up demand has been satisfied.

CALGARY

FALL 2004

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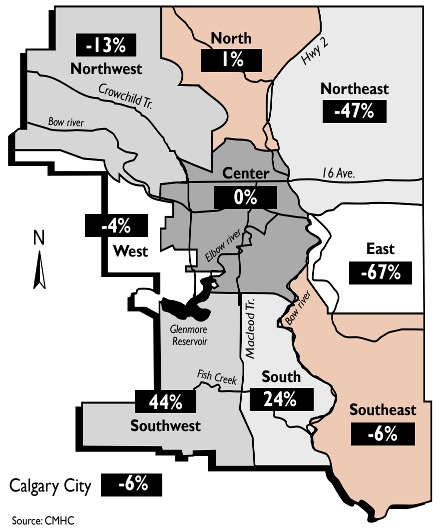
CMHC SCHL

HOME TO CANADIANS

Canada

SINGLE-DETACHED STARTS
January to August (% chg 2004/2003)



Source: CMHC

Following an 8,100-unit performance in 2004, single-detached starts are expected to fall nine per cent in 2005 to 7,400 units. Multi-family construction, including semi-detached, row, and apartment units, is expected to total 4,800 starts next year, following 5,400 in 2004. Combined, overall housing starts will reach 12,200 units in 2005, down from 13,500 in 2004. While this represents a ten per cent decline from 2004 activity, next year's housing starts will be 1,000 units higher than the previous 10-year average and the fifth highest total since 1981.

Single-family Starts Return to Historical Average

In 2005, single-family starts will fall for the third consecutive year. At first glance, one could argue that the single-family construction market is on a downward slide. While this may be true in absolute terms, the bar has been raised by some exceptional performances in the past making current comparisons increasingly painful. Builders are coming off a record two year stretch in 2002 and 2003, a period when most of the economic and demographic factors were aligned in their favour. As current conditions are not as positive, 2002 and 2003 are perhaps not the most appropriate years for benchmarking single-family construction.

Despite the expected nine per cent decline next year, the 7,400 single-family starts will still represent the seventh best year on record. This may not sound like a notable feat, though readers should keep in mind that each of the six stronger years benefited from much higher migration and employment growth. Next year's single-family starts will be in line with the preceding 10-year average of 7,508 units.

For some, the continued decline may come as good news. Following over 10 per cent average price growth in 2003, the weaker starts should alleviate some of the price pressures facing the market. With the weather uncooperative to builders and developers through most of 2004, stronger demand could have resulted in a shortage of serviced lots and prolonged possession dates.

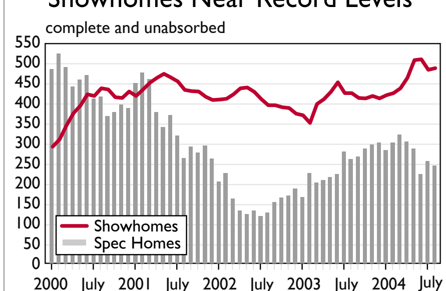
Showhomes Boost Single-family Inventories

After reaching a 34-month high of 799 units in May, the number of complete and unabsorbed single-family homes recorded a welcome decline. At the end of August, the number of singles in inventory fell to 736 units, representing the lowest total in six months. Despite the decline, August's single-family inventory was still seven per cent higher than the previous year. In fact, for each month since February 2003, single-family inventories were higher on a year-over-year basis.

Counter to what occurred in 2003, showhomes are currently responsible for the rise in single-family inventory. The number of showhomes in Calgary has marched upward in the first six months of 2004, reaching a record 511 units in June. Assuming a conservative average of $281,000 per home, this represents almost $145 million in tied-up capital. While this sounds like an exorbitant figure, showhomes remain a necessary marketing tool given the competitiveness among builders and number of active subdivisions in the CMA. More recently, Calgary has seen the number of showhomes slip downward. Despite the decline from June's record, however, the 489 showhomes in August still exceeded the previous year by 15 per cent. The northwest and southeast sectors dominate the showhome count, each with 89 units in August.

Like showhomes, spec units, the other component of inventory, have recorded a decline in recent months. After reaching a 31-month high of 324 units in March, the number of specs at the end of August declined to 247, six per cent fewer than the previous year. Moving forward, spec units should move upward as builders boost fall production to avoid future cost increases and other winter-related overheads. Some builders report sales could benefit from additional specs, though they must recognize that certain factors are shifting out of favour rendering sizeable future additions to inventory unnecessary.

Chart 1
New Single-family Inventory
Showhomes Near Record Levels



Source: CMHC

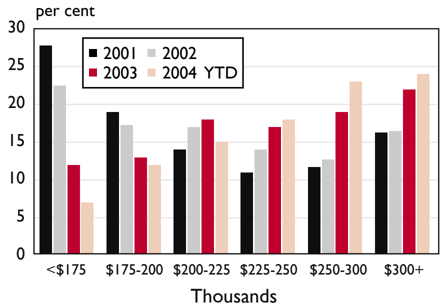
Modest Price Increases Over Forecast Period

Following a 10.2 per cent jump in 2003, Calgary's average new house price is on pace for a more subdued gain this year. After climbing almost $25,000 to $267,104 in 2003, average prices in the single-family market have increased only 4.7 per cent in the first eight months of 2004, reaching $279,673. While the slower pace of price growth may come as welcome news for homebuyers, it does not accurately reflect the various price pressures in today's marketplace.

Average price growth in 2004 has been artificially suppressed by compositional factors. Record low mortgage rates have resulted in a flurry of first-time buying activity and as a result, the share of homes at the lower end of the market has not fallen as fast as it had in previous years. In 2003, the share of homes priced under $200,000 fell 15 percentage points from the previous year, from 40 to 25 per cent of the market. At that time, declining mortgage rates allowed buyers to purchase a more expensive home with little change to their monthly carrying costs. Intense upward cost pressures for labour, land, and building materials also meant constructing a home in that price range was more difficult. Though the share of units under $200,000 slipped further in 2004, it fell by only five percentage points from 2003, declining to 20 per cent of the market.

Calgary's new house price index (NHPI) removes the compositional factors identified above. Rather than the average price of all units absorbed, the NHPI tracks prices at which builders sell homes with a constant quality over time, defined in terms of location, size, and set of features. After seven months of 2004, Calgary's NHPI increased 5.8 per cent from the previous year, representing the highest year-over-year gain since 1998. Unlike previous years, the majority of the gain cannot be attributed to labour pressure. Rather, the increase reflects higher costs for both building materials and land. Framing packages have dominated price gains for building materials this year, due to strong North American demand and lack of production capacity. Meanwhile, the average lot price per front foot has increased

Chart 2
Single-family Absorptions by Price Range
Dwellings below $175k becoming the exception



Source: CMHC *YTD August

5.8 per cent, on par with the increase in NHPI. Other less tangible inputs have also increased for builders, such as insurance, safety, and security-related costs.

Following a 5.2 per cent gain in 2004, expect average single-family prices to increase by a comparable amount in 2005, reaching $296,000. With the third consecutive decline in starts, the upward pressure on labour costs will be moderate compared to previous years. However, other factors including lots and building materials will maintain upward price pressure. There are concerns with the availability of serviced lots due to the poor weather in 2004. Exacerbating this further is the high cost of raw land and the possibility of additional lot levies in 2005. High oil and natural gas prices will also add to lot production costs, boosting prices for asphalt, concrete, and fuel.

Additionally, heightened energy costs will add to building material prices for glass, vinyl windows, and plastic pipe. Elevated prices for framing materials will also be maintained due to continued supply-side constraints and strong demand. The same will hold true for steel prices, as the sector contends with shortages caused by demand in Asia. This will boost prices for steel doors, fasteners, and posts, as well as plumbing and heating products. More stringent safety regulations will also add to production costs, as will insurance and various security measures.

Multi-family Market Remains Vibrant

Following a 22-year high of 5,116 starts in 2003, it appears that multi-family construction in the Calgary CMA is on pace for another 5,400 units this year. This represents only the second year since 1982 that multi-family starts surpassed the 5,000-unit mark, and surpasses the previous 10-year average by an impressive 67 per cent. The multi-family market also represents an increasing share of total new construction. Multi-family starts as a share of total construction has increased from 23 per cent 10 years ago to almost 39 per cent in the first eight months of 2004.

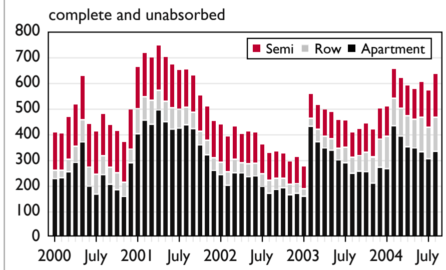
Multi-family demand continues to be buoyed by a number of factors, including low mortgage rates and the relative price advantage to a single-family home. Persistently low mortgage rates continue to deliver a stream of first-time buyers eager to get out of rental and into home ownership. For those seeking a lower-priced unit, the multi-family market continues to be a natural alternative to a single-family home. To the end of August, the average single-family home was almost $100,000 more expensive than the average row and apartment condominium. Other factors boosting demand include location. As new single-family and resale homes close to the downtown core are cost prohibitive for most buyers, location continues to be a critical success factor in the multi-family market. In 2000, only 31 per cent of all multi-family starts were in the central sector of Calgary. That proportion has jumped to 45 per cent in the first eight months of 2004, offering a multitude of product to buyers seeking a short commute and an inner-city lifestyle. Such factors will continue to fuel demand in 2005.

Strong Upside Risk for Multi-family Starts in 2005

Moving forward, there are a multitude of projects in the pipeline, creating potential for multi-family ownership starts to set a new record in 2005. Major projects have been proposed, announced, or approved in many central locations such as the beltline, Victoria Park, The Bridges, and east of Eau Claire. If all begin construction in 2005, next year's multi-family could easily approach 5,500 units. However, a number of factors, both on the demand and supply side, do not support such a strong performance. As a result, CMHC expects developers will act prudently by cutting production 11 per cent next year to 4,800 units.

On the demand side, Calgary is coming off of two weak years of employment growth and net migration. Given the lag from job creation and migration to home ownership demand, the softer performances should translate into weaker demand moving forward. Higher home ownership costs in 2005 will also take a bite out of demand. Over the last six years, low mortgage rates helped offset rising house prices. In 2005, however, mortgage rates will post their highest gain since 1999. Combined with further price increases, some buyers will face affordability constraints, in turn tempering ownership demand. Rental property owners are also doing their share to trim ownership demand, as renters are enjoying lower rental rates and other incentives for the first time in years.

Chart 3
Multi-family Inventory
Inventory up on year-over-year basis



Source: CMHC

Another component for multi-family demand continues to fade. 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, apartment vacancies have been climbing in tandem with the decline in mortgage rates, sending many renters into home ownership. The subsequent drop in the rental demand pool combined with high rental vacancies imply that many such investors may only be successful if they cut rents. As a result, existing owners will sell their units on the resale market and re-inject their capital elsewhere. Prospective condo investors will also shy away, as many will see a substantial opportunity cost if their capital is tied up in a vacant condominium.

On the supply side, the sale of such investor units will boost competition for condo developers. In essence, they will be competing with the product they produced just a few years ago. Meanwhile, concerns over rising inventories should also warrant caution moving into 2005. Evidence of rising inventory is already occurring, as the number of complete and unabsorbed units continues to surpass the previous year. At the end of August, 637 multi-family units sat in inventory, 56 per cent higher than 2003. With August's 5,310 units under construction close to a 22-year high and an average absorption rate of 77 per cent upon completion, expect to see further inventory gains once current projects reach completion.

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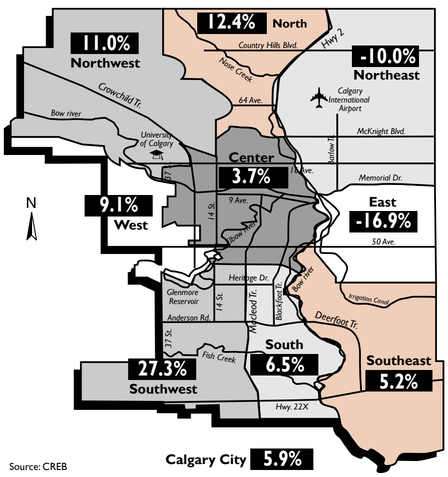
Resale Market

Sales to Set New Record in 2004, but Down Five Per Cent in 2005

MLS® SINGLE-FAMILY SALES BY SECTOR
January to June (% chg 2004/2003)



Early in 2004, it appeared that Calgary's resale market would decline for the second consecutive year. At 1,495 units, January sales were the lowest in three years and were nine per cent below 2003's activity. This came as no surprise, as softer migration and weaker employment growth were expected to cut into sales this year. Since January, however, residential transactions through the Calgary Real Estate Board have defied expectations. To the end of August, existing home sales totalled 18,697 units, more than eight per cent above corresponding levels in 2003. As this represents the strongest January to August period on record, we can safely expect sales to post a new high of 25,700 units this year, six per cent above 2003's activity. This will also represent a three per cent gain over the previous record of 25,054 sales in 2002.

While the new record in 2004 will resemble sales from two years earlier, the supporting factors differ considerably. In 2002, the market was strongly supported by demographic and labour market fundamentals. The previous year had created 23,850 jobs, while net migration for the 12-month period ending April 2002 reached 20,962, the second highest total on record. This year, such fundamentals have not been as favourable, since supporting job growth is down by half and net migration has posted a 12-year low. Given that, one would suspect that the current pace of sales is defying logic. However, a number of other supporting factors have been acting in the market's favour. Low mortgage rates have been seen as a once in a lifetime opportunity for many, resulting in increased demand from first-time and move-up buyers. Meanwhile, supply conditions have also been favourable, as an increasing pool of active listings provided buyers with an abundance of homes to choose from.

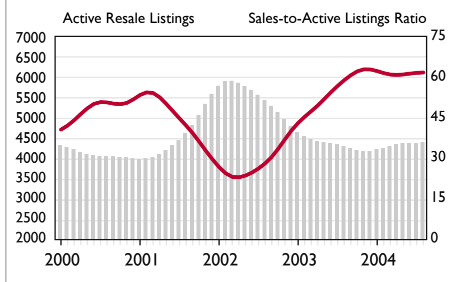
In 2005, resale demand will continue to be buoyed by low mortgage rates and strong resale selection. However, low financing rates will not be as effective in stimulating demand as they were in 2004, as modestly higher rates combined with higher prices will push a portion of buyers out of the market. Compounding this factor will be weaker first-time demand and slower move-up activity. With the rental vacancy rate the highest in 10 years, rent reductions and other incentives are being employed by landlords to maintain and build their tenant base. Another concern is the declining pool of first-time buyers, as low mortgage rates have already pushed many into their first home. A similar story can be said for those looking to move up in the market. Meanwhile, the cumulative impact of weaker migration and employment growth will further soften the pool of prospective buyers. As a result, expect sales to slip from this year's record of 25,700 units to 24,400 in 2005, a decrease of five per cent. While single-family sales will fall by over five per cent, the decline in condominiums will not be as pronounced. Price-sensitive buyers and a huge selection of condominium listings will maintain condo sales at 6,400 units, following a record of 6,700 sales in 2004.

Balanced Market Conditions Prevail

CMHC tracks the sales-to-active listings ratio to evaluate the balance between demand and supply. During the first eight months of 2004, this indicator averaged 37 per cent, two percentage points lower than the same period last year. As was the case in 2003, the current drop in the sales-to-active listings ratio is attributed to a continued rise in active listings. Total active listings through the Calgary Real Estate Board (CREB) averaged 6,227 units to the end of August, 12 per cent higher than 2003 and 64 per cent higher than 2002. This also represents the highest resale selection since 1996.

Much of the rise in listings can be attributed to a surge in move-up buying. Since 1996, the average resale unit has appreciated 65 per cent, resulting in hefty equity gains for existing homeowners. Recently, many move up buyers have chosen a new home for their next purchase. Since most had to wait for it to be completed before taking possession, the increase in active listings over the last 18 months has preceded a corresponding increase in new home completions.

Chart 4
Resale Active Listings High
Sales-to-Active Listings Ratio Flat



Source: Calgary Real Estate Board, Seasonally Adjusted by CMHC

Other factors adding to supply levels include the following. Sellers have listed their homes on a speculative basis, testing out the market to determine how much their equity has grown. Meanwhile, with the market firmly exhibiting balanced conditions, sellers, who over a year go may have attempted to sell on their own, are now employing a realtor to ensure their home is marketed to the masses and sells in a reasonable period of time. Condominium listings have also increased, in part, because units owned by investors were unable to achieve the rent required for an acceptable return on investment.

As speculative listings decline and the move-up market and housing starts become less active, active listings are expected to moderate by seven per cent in 2005 to an average of 5,700 units. Condominium listings will remain firm if investors continue to experience difficulty securing required rents.

Price Growth Continues to Moderate

As balanced market conditions took a grip on 2003, price growth in Calgary's resale market moderated from almost nine per cent in 2002 to 6.6 per cent last year. Despite the record pace of sales in 2004, a healthy supply of active listings among other factors has reduced the rate of price growth further. After surpassing $220,000 for the first time in March, average prices have increased 5.6 per cent in the first eight moths of 2004, reaching $221,464. By the end of the year, the average price for all units is expected to increase by 5.1 per cent, reaching $221,900.

Despite the decline in 2004, the rate of overall price growth in the Calgary resale market remains healthy, well beyond the rate of inflation. Interestingly, price growth in both the single-family and condominium markets will surpass the overall total. Prices in the single-family market are expected to rise 5.5 per cent in 2004, while condominiums are poised for a nearly six per cent increase. While this may appear counterintuitive, the weaker price growth for all units combined is due to an increasing share of condominium sales in the market. Since 1999, the share of condominium to total sales has been on a steady incline, rising from 20 per cent of the market to a high of 26 per cent this year.

Modestly weaker demand combined with a high number of active listings will reduce upward price pressure in 2005. Rising mortgage rates will also inhibit price growth, as the corresponding rise in ownership costs will force many to look to a less expensive unit. As a result, average prices are expected to rise 4.6 per cent in 2005, reaching $232,000 for all units. Price growth is expected to be strongest in the condominium market, as demand for less expensive units remains firm. A lack of modestly priced single-family listings will maintain demand for condominiums, while the pool of active condominium listings will include newer and hence more expensive product.

Spotlight on Ownership Costs

Home ownership costs will head upward in 2005 in the face of rising mortgage rates and higher house prices. Over the last six years, low mortgage rates helped offset rising prices in both the new and existing home markets. In 2005, however, mortgage rates will post their highest gain since 1999. Combined with further average price increases for new and existing homes, some buyers will face affordability constraints, in turn tempering ownership demand.

Thanks to persistently low mortgage rates, the average monthly carrying costs (principle, interest, taxes) will increase 6.3 per cent by the end of 2004, only one percentage point beyond the gain in average prices. In 2005, the tables will turn, as low mortgage rates no longer cushion the impact of rising prices. Despite modest price growth of 4.7 per cent in 2005, higher mortgage rates will boost the monthly carrying costs by 11.3 per cent next year. The expected increase to carrying costs in 2005 is more than double the growth rate in average prices, and represents the highest jump in monthly carrying costs since 1999. Undoubtedly, this financial commitment will push some buyers out of the market, or at least turn them toward a less expensive unit.

The loss in affordability comes at an inopportune time for Calgary's ownership housing markets, as consumer-spending patterns are shifting toward a more conservative position. The latest decline in Alberta passenger vehicle sales is one such example. After a nine per cent decline in 2003, buyers have purchased two per cent fewer cars in the first six months of 2004. In the face of heightened debt-loads, this example demonstrates that the pent-up demand has been satisfied as a result of low financing rates. The same will hold true for housing markets moving forward.

Table 1

Ownership Costs Jump as Rates and Prices Rise

	2003	Chg.	2004	Chg.	2005	% Chg.
5-Year Mortgage Rate	6.45%	- 35 b.p.	6.59%	+ 14 b.p.	7.37%	+ 78 b.p.
Purchase Price	$241,432	8.7%	$253,804	5.1%	$265,838	4.7%
Required Gross Income*	$64,876	5.5%	$68,776	6.0%	$76,211	10.8%
Mo. Payment (P.I.T.)*	$1,650	5.8%	$1,754	6.3%	$1,952	11.3%

Source: CMHC, CREB, weighted average price (new and resale singles)
*Assume: 10% down payment, taxes at 1% of value, 4th quarter mortgage rate

Rental Market

Rental Vacancies Highest in 11 Years, Expect Little Relief in 2005

Given the recent weakness in job creation and net migration, over 13,000 housing starts and almost 26,000 resale transactions would appear to defy logic. In 2004 however, such a prospect is feasible thanks to the continued exodus of renters leaving in favour of home ownership. As a result, vacancies are expected to increase for the third consecutive year. Following a 4.4 per cent vacancy rate in 2003, apartment vacancies are forecast to rise to 5.2 per cent in October 2004. This will represent the highest vacancy rate in Calgary since 1993 when 5.9 per cent of units were found vacant.

As was the case in the previous two years, low mortgage rates have been the dominant factor driving vacancies upward. With discounted rates reaching record lows, first-time buyers have been leaving the rental market in droves. In previous years, this exodus of renters would have been replaced by an influx of new residents. Unfortunately, migration has recently posted a 12-year low, resulting in few newer households to take up the vacant units.

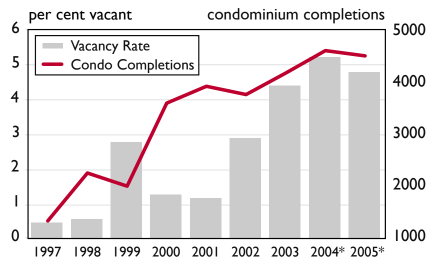
A multitude of affordable home ownership options have also caused landlords difficulty. In Calgary's resale market, active condominium listings have set new records. Meanwhile, on the heels of record condominium construction in 2003, new apartment condominium absorptions have remained near historical highs. With an average price of just over $160,000, the average new apartment condominium requires a monthly mortgage payment (principle and interest) of $865, only $61 more than the average two-bedroom rental. While property taxes and condominium fees add to the monthly carrying costs, many renters have seen this as an acceptable premium to get into home ownership.

While vacancies will remain high in 2005, property owners can expect a modest improvement to 4.8 per cent. Moving forward, the supply of first-time buyers will diminish as much of the demand has been brought forward from previous years. As indicated above, declines in affordability brought on by higher mortgage rates and further price gains will push ownership beyond the reach of some renters. Meanwhile, the reintroduction of rental incentives and lack of rental rate increases will slow the move to home ownership.

Declining rental competition should also result in lower vacancies moving forward. The number of conversions from rental to condominium will continue to surpass new construction, resulting in a continued decline in the rental market universe. Meanwhile, landlords will face weaker competition from the condominium investment market. With escalating vacancies, many condominium investors are unable to secure their required rents to cover monthly carrying costs. As a result, many are selling their units to inject their capital in other investment sources.

Chart 5

Vacancy Rates vs. Condomimium Completions



* Forecast: CMHC

Slight Rent Increases Expected

With vacancies reaching their highest point since 1994, renters have been enjoying tenant'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. Expect a similar scenario in 2004, as landlords continue to hedge the risk of higher vacancies. In addition to holding rents stable this year, landlords have reintroduced a number of incentives such as paid utilities and a free month rent with lease. While such incentives will promote tenant retention and help attract new ones, they will also cut into net operating incomes.

In 2005, tenants can expect the first increase to average rents in three years. With vacancies declining for the first time in four years, property owners will attempt to support their bottom lines with a two per cent increase in rents. Such increases will translate into a $16 per month increase for a two-bedroom unit, reaching $820. 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.

Mortgage Rate Outlook

On September 8, the Bank of Canada raised its overnight rate, their administered policy interest rate, for the first time since April 2003. The bank raised the overnight rate 25 basis points, arguing strong economic growth is resulting in upward inflationary pressure. With the economy operating close to its capacity over the duration of the year, monetary stimulus will need to be further reduced to avoid additional inflationary pressure. As a result, we expect the Bank of Canada to respond by raising interest rates further, with the increases totaling 50-75 basis points for the year. In 2005, the improving economic environment will mean that the Bank will need to move the overnight rate to higher levels, increasing it by another 100 basis points or more.

The one, three, and five-year posted closed mortgage rates are expected to remain relatively flat to slightly higher for the remainder of 2004, having already followed the rise in bond yields earlier in the year. Next year, these rates will begin to increase by 50-100 basis points and are expected to be in the 4.75-6.00, 6.00-7.00, and 6.75-7.75 per cent range, respectively.

Economic Overview

Job Growth Recovers from Nine-Year Low

For first time in five years, Calgary's rate of job creation will surpass that of the previous year. Following a nine-year low of 12,200 new jobs in 2003, the local economy is on track to expand payrolls by 17,000 positions this year. While this is a healthy and welcome gain, the corresponding 2.9 per cent annual growth rate still pales in comparison to the preceding 10-year average of 4.2 per cent.

To the end of August, the Calgary economy has created 19,000 new positions, double the level recorded in the first eight months of 2003. While impressive, what is more critical for the performance of Calgary's housing markets is the rate of full-time job creation, as it is an important prerequisite to buying a home. In 2003, just over one-third of all jobs created were full-time, the poorest ratio of full-time to total job growth since 1992. Thankfully for housing markets, mortgage rates in the last 18 months continued to fall toward record lows, negating much of the impact of weaker full-time job growth and net migration. Moving forward, such factors are expected to move in opposite directions. As indicated above, mortgage rates are expected to rise, though to some extent the impact will be offset by increased net migration and full-time job growth. To the end of August, full-time job creation has accounted for 83 per cent of all employment growth, more closely aligned with historical averages.

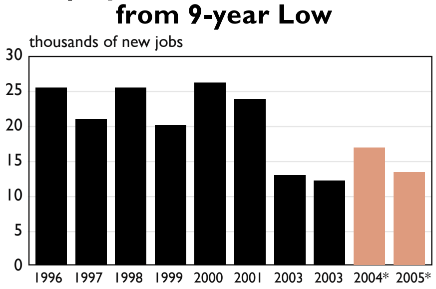
Unlike 2003, the oil and gas and professional, scientific, and technical services sectors have been prime contributors to employment growth this year. With the spate of mergers and acquisitions in 2003, payrolls in the oil and gas sector were cut by 3,750 positions, while the supporting professional, scientific, and technical services sector shed 3,300 jobs. This year, with the mergers and acquisitions a distant memory and heightened commodity prices resulting in record oil and gas profits, the opposite has occurred. After the first eight months of 2004, oil and gas employment has increased by 6,200 jobs. During the same time, payrolls in the professional, scientific, and technical services sector have ballooned by 12,900 positions.

While a number of sectors are boosting the rate of job creation this year, not all have reported gains. Earlier expectations were that the manufacturing sector would be another winner for job creation in 2004, thanks to an expected recovery in the U.S. economy and a modest rebound in the high-tech sector. However, a rapid acceleration of the Canadian dollar heightened competitive concerns for exporters, causing them to focus on gains in productivity. Consequently, there was a net loss of 5,600 manufacturing jobs after eight months. Of those declines, the majority occurred among the machinery and computer and electronic product manufacturing sectors. Moving into 2005, similar losses in the manufacturing sector should not occur, as the Canadian dollar loses strength against the American currency.

The oil and gas and professional, scientific, and technical services sectors will continue to add to job growth in 2005, though to a lesser extent than 2004 as many of the hiring commitments will already have occurred. Crude oil prices have recently marched to new highs, with the November futures contract reaching a record $49.90. This will reinforce the investment decisions made by many Calgary-based companies such as Canadian Natural Resources, Imperial Oil, Shell, and Suncor. Current and announced energy-related projects in Alberta are topping $20 billion, with another $36 billion proposed for the future. While the majority of labour requirements for these projects will be in northern Alberta, the management and planning they require should further expand Calgary payrolls in the above noted sectors. The transfer of 500 Imperial Oil jobs to Calgary in 2005 is one such example, as the company moves their head office from Toronto.

Meanwhile, major non-residential and infrastructure projects will continue to boost construction employment through 2005. The $500-million Deerfoot Meadows retail project is now under construction, future home to many big-box retailers. The construction and operation is expected to create up to 2,000 jobs, many during the construction process and others in the retail sector once phases reach completion. Canadian Tire is also planning a major expansion to their distribution centre, while General Mills is in the process of constructing a 350,000 square foot distribution centre. Unfortunately, downtown office tower construction will remain weak. Though total square footage occupied in the downtown office market reached high levels in the first half of the year, vacancies remain over 10 per cent, rendering an increase in office construction unnecessary. While a number of office towers have been proposed, construction will not commence until an anchor tenant is secured.

Chart 6
Employment Growth Recovers from 9-year Low



Source: Statistics Canada, * Forecast CMHC

In addition to the above-mentioned projects, the construction industry will benefit from a number of institutional and infrastructure projects. Flush with cash from oil and gas revenues, the provincial government is now playing catch-up on some much-needed educational, health, and road infrastructure projects. Calgary school boards are receiving funding to construct seven new schools, including two high schools. On the U of C campus, the faculty of Kinesiology is engaged in a $124-million expansion with another $90 million spent elsewhere. In health care, current and future projects are numerous. Construction will continue on the new $220-million Children's Hospital on the U of C campus, as will the $70-million health research lab at the Foothills Medical Centre. The planning and land acquisition for the new south Calgary hospital represents another $12-million in projects. Elsewhere, the $300-million courthouse downtown will continue in 2005. All this comes in addition to the millions of dollars in roadway and interchange improvements and the on-going $800-million improvement program at Calgary's airport. All combined, $6.6 billion in projects are currently proposed or under construction in Calgary, 34 per cent higher than was reported one year earlier.

Overall, Calgary should look forward to 13,500 new jobs in 2005, on par with the previous 15-year average. With an unemployment rate near five per cent, a labour force participation rate above 75 per cent and modest net migration by historical standards, persistent shortages in skilled positions will still exist. As a result, expect the majority of job gains in 2005 to be full-time.

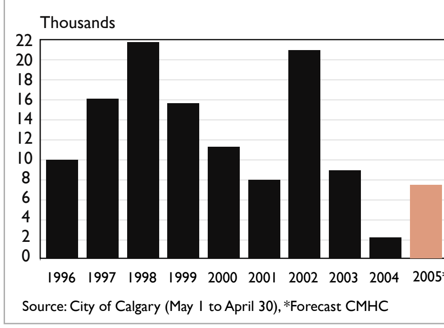
Sharp Decline in Net Migration Temporary

For the second year in succession, the City of Calgary recorded a steep decline in net migration. Following an impressive 20,962 net migrants for the 12-month period ending April 2002, the city suffered a 57 per cent drop in net migration one year later to 8,965. While migration in 2004 was expected to be weak by historical standards, another decline like the one in 2003 was not expected. Calgary's labour market was set to recover from 2003's poor job performance and still enjoyed one of the lowest unemployment rates in the country. Unfortunately though, an increase was not in the cards, as net migration in 2004 fell to only 2,253 people, down 75 per cent from the previous year. This represents the lowest annual total since 1992.

Calgary's nine-year low for job creation in 2003 was predominantly to blame for this continued migration decline. With only 12,300 new jobs created last year, the 2.1 per cent rate of employment growth was far below 4.7 per cent annual average gain in the preceding eight years. While local employment opportunities provide a critical draw for migrants, the strength of our labour market relative to other competing locales remains another determining factor. Within Alberta, Edmonton's job growth surpassed Calgary's for 2002 and 2003, the only such occurrences since 1997. As a result, Edmonton's prominence as a magnet for migrants increased among those looking for employment prospects. Outside of Alberta, the British Columbia job market had also taken flight, posting one of the strongest rates of job growth in the country since 2002.

Once the census results for 2005 are reported, the 2,253-migrant performance in 2004 should be seen as an anomaly. For the 12-month period ending April 30, 2005, CMHC expects net migration to reach 7,500 people, a more than three-fold gain over the migration level reported this year. Despite this increase, the 7,500 net migrants will still appear low by historical standards. Though improved job creation and persistent labour shortages will continue to attract newcomers, our magnetic power will remain suppressed. Within the province, Edmonton should maintain much of its attraction, thanks to massive investments in the energy sector.

Chart 7
Net Migration - City of Calgary



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

In order to provide our clients with essential housing market analysis and information, all CMHC Market Analysis publications will now be delivered electronically to your inbox on the date of release. In addition to receiving information faster, this new delivery method has added interactivity allowing quick access to various sections within the report and includes convenient hotlinks for CMHC event registration and CMHC website connection.

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CMHC FORECAST SUMMARY

Calgary Housing Market Outlook - October 2004

	2002	2003	%Chg	2004*	%Chg	2005*	%Chg
Resale Market							
MLS® (1) active listings (annual average)	3,902	5,681	45.6%	6,100	7.4%	5,700	-6.6%
MLS® Sales							
Total	25,054	24,359	-2.8%	25,700	5.5%	24,400	-5.1%
Single-family	19,031	18,319	-3.7%	19,000	3.7%	18,000	-5.3%
Condominium	6,023	6,040	0.3%	6,700	10.9%	6,400	-4.5%
MLS® Price ($)							
Total	$198,058	$211,155	6.6%	$221,900	5.1%	$232,000	4.6%
Single-family	$212,844	$229,082	7.6%	$241,600	5.5%	$252,600	4.6%
Condominium	$151,337	$156,781	3.6%	$166,000	5.9%	$174,000	4.8%
New Home Market							
Starts							
Total	14,339	13,642	-4.9%	13,500	-1.0%	12,200	-9.6%
Single-family	9,413	8,526	-9.4%	8,100	-5.0%	7,400	-8.6%
Multiple-family	4,926	5,116	3.9%	5,400	5.6%	4,800	-11.1%
Average New House Price							
Single-family	$242,386	$267,104	10.2%	$281,000	5.2%	$296,000	5.3%
Rental Market							
Vacancy rate (October)	2.9	4.4		5.2		4.8	
Rental rate, 2 bedroom (yr/yr % chg)	2.7	0.0		0.0		2.0	
Economic Overview							
Mortgage rate (3 year term)	6.28	5.82	-0.46	5.67	-0.15	6.53	0.86
Mortgage rate (5 year term)	7.02	6.39	-0.63	6.33	-0.06	7.12	0.79
Employed	582,650	594,850	2.1%	611,850	2.9%	625,350	2.2%
Employment growth (# jobs)	13,150	12,200		17,000		13,500	
Net-migration (Census Year (2))	20,962	8,965	-57.2%	2,253	-74.9%	7,500	232.9%

* CMHC Forecast
Source: CMHC, Calgary Real Estate Board, Statistics Canada, City of Calgary
1 Multiple Listing Service (MLSÒ) is a registered certification mark owned by the Canadian Real Estate Association.
2 May 1 to April 31 period

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