HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

New Home Market

25- year High for Housing Starts Expected, New Record for Singles

In 2005, total housing starts in the Calgary Census Metropolitan Area (CMA) surpassed 13,000 units for an unprecedented fourth consecutive year. Local builders started 13,667 units of all types, a modest two per cent decline from 2004. While the market recorded a decline last year, readers can be assured that it was not caused by weaker demand. Rather, frigid weather at the start of the year and record rainfall in the summer months hampered builder's ability to satisfy demand.

While the rest of the nation experiences a modest decline in new home construction in 2006, Calgary will buck the trend by posting an impressive 10 per cent gain to 15,000 starts. This will represent the best performance since 1981 and third best year on record. As was the case in previous years, low mortgage rates will maintain demand in 2006. However, Calgary's red-hot economy fuelled by elevated energy prices and massive levels of construction deserves most of the credit. A severely tight labour market and high wages will continue to draw migrants to fill full-time positions, in turn boosting new home demand. A shortage of resale listings is also turning buyer's attention to the new home market. Meanwhile, the capacity constraints and poor weather last year has carried forward a multitude of starts into 2006.

Following 8,719 starts in 2005, the single-family builders are expected to start a record 9,750 units in 2006. Meanwhile, multi-family starts, which include semi-detached units, rows, and apartments, are poised for a six 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

Given the pace of single-family construction in the first quarter of 2006, it appears that the market is well on its way to setting a new record. Single-family starts from January to March totalled 2,487 units, representing a 40 per cent gain over the previous year. Unseasonably warm weather enabled higher production in the first quarter of the year, thus observers should not expect the 40 per cent year-over-year gain to prevail by year-end. Given persistent labour shortages, the single-family industry does not have enough capacity to maintain the current rise over the peak building months. Moreover, any shock to the current level of capacity could potentially drop starts below the forecasted level.

With the gain in single-family starts to-date, the number of units under construction continues to escalate. At the end of March, a record 4,873 units were under construction, 33 per cent higher than 2005. As a result, possession dates have been lengthened considerably. Market

CALGARY

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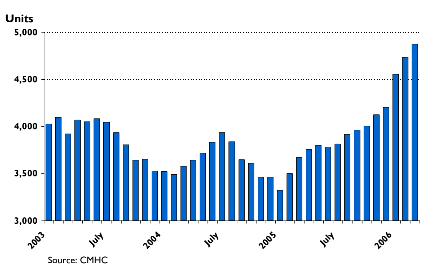
participants indicate that it takes almost twice as long to construct a home as it did 18 months earlier. As a result, builders and buyers will be increasingly exposed to additional price uncertainty.

Capacity constraints have also contributed to a strong decline in the number of single-family spec units in inventory. After climbing to 295 units in January 2005, the number of complete and unabsorbed spec units plummeted to only 122 in March, 56 per cent lower than the previous year and among the lowest levels on record. In an environment of high demand, escalating cost pressures, and shortage of resale listings, the single-family market would stand to benefit from additional spec inventory. However, with the marketplace operating at capacity, it will be difficult for builders to boost spec production over the next 12 months unless they choose to forego presales and can carry the units financially over the construction cycle.

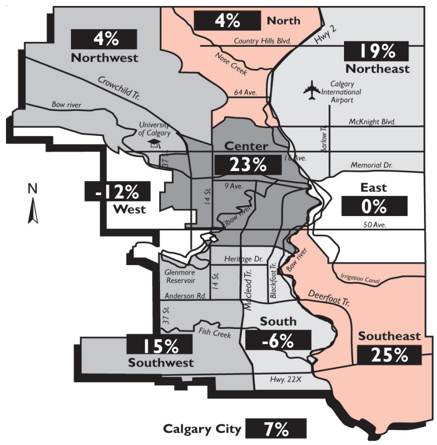
Figure 1
Single-family Units Under Construction



Cost Pressures to Boost New Home Prices

Following a 10.7 per cent increase in 2005, the average single-family absorbed price in the Calgary CMA is on course for a less pronounced gain this year. After climbing more than $30,000 in 2005 to $315,796, the average single-family home has increased less than four per cent in the first three months of 2006, reaching $327,126. By year-end, CMHC expects the average price to reach $345,000 for all absorbed units, nine per cent higher than 2005.

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



Source: CMHC

The modest gain in prices to-date inaccurately captures the cost pressures currently facing the Calgary market. As CMHC records prices once units are completed and absorbed, the first quarter gain reflects costs from 2005. A more accurate reflection of the current price pressures comes via the New House Price Index (NHPI), where current costs are captured and detailed home specifications remain the same over time. Calgary's latest New House Price Index rose 23 per cent on a year-over-year basis, the highest gain in the country and second highest gain on record. By comparison, the corresponding increase one year earlier was 4.1 per cent.

Labour, land, and materials are all responsible for the jump in the NHPI. With the entire construction sector operating at capacity, the residential industry is competing fiercely for Calgary's finite pool of labour. Trades are commanding higher wages, especially framers, finishers, and other transferable labour. Meanwhile, elevated energy prices are boosting inputs derived from oil or gas. Heightened costs for raw land have also added to lot prices, which have yet to include the lot levies announced in April. All of these cost pressures will be captured later in the year and into 2007 when units currently under construction reach completion.

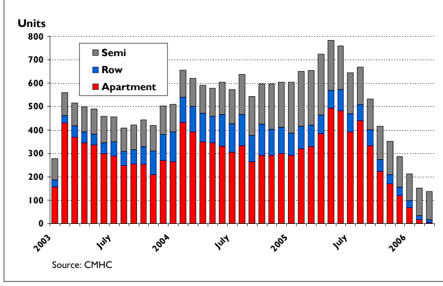
Multi-family Starts to Increase in 2006

In 2005, multi-family starts recorded a 14 per cent decline as developers responded to concerns over elevated supply levels. A total of 4,948 units were started in 2005, down from the 22-year high of 5,775 units in 2004. Indeed, the decline was warranted, as it allowed for inventories to decline from their highest level in 21 years. At the end of May 2005, inventories had climbed to 783 units, the highest total since July 1984.

Since last summer, inventories have been on a steady decline as new migrants and investors have been quickly snapping up remaining units. As a result, complete and unabsorbed units have fallen to 136 units in March 2006, the lowest total in eight years and 79 per cent lower than March 2005. Apartments have been responsible for much of the decline. At only four units in March, complete and unabsorbed apartments were 99 per cent lower than the previous year.

It's no surprise that the decline in inventory alleviates any of the concerns that existed one year ago. As a result, construction should resume at a higher pace than 2005. However, as the multi-family market is also experiencing capacity constrains and elevated cost pressures, the year-over-year gain will be limited to six per cent. Expect the largest gain in starts to occur in inner-city apartment condominiums.

Figure 2
Multi-family Inventory



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, location and lifestyle considerations, as well as investment demand. For those finding a single-family unit cost-prohibitive, the multi-family market is the less expensive alternative as prices are typically two-thirds of the average single-family home. A continued wave of first-time buying will also promote multi-family demand, albeit at a lesser pace than previous years as carrying costs escalate.

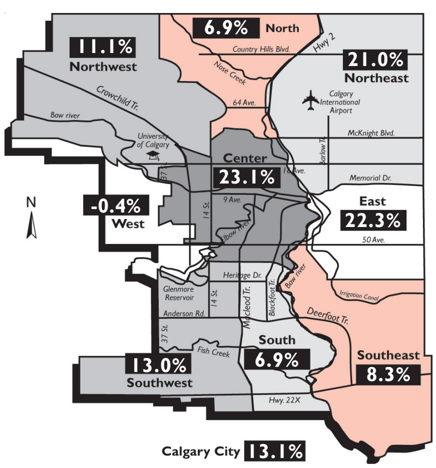
RESALE MARKET

Record MLS Sales in 2006 Despite Severe Listings Shortages

For the second consecutive year, Calgary's resale market in 2005 posted records for sales and average prices. The number of residential sales through the Calgary Real Estate Board (CREB) totalled 31,567 units, 19 per cent higher than the previous record set in 2004. As was the case for the new home market, mortgage rates at record lows must be seen as a dominant factor fuelling demand. However, rising net migration, solid income gains, healthy move-up buying, and first-time demand also contributed strongly to the new record. The prospect of higher prices and mortgage rates in the future has created a sense of urgency for first-time buyers, prompting many of them to make a purchase. This also holds true for move-up buyers, who have the additional advantage of equity gains from previous years.

Despite a severe shortage of listings, residential sales through CREB are on pace for another new record. In the first quarter, the number of residential transactions through CREB totalled 8,965 units, 32 per cent higher than the pace set in 2005. To the end of March, single-family sales have totalled 6,431 units, representing a 28 per cent gain over the first quarter of 2005. Condominium sales meanwhile, have reported a 41 per cent increase to-date, reaching 2,534 units. While this torrid pace is expected to moderate over the duration of the year, CMHC expects a new record will be easily attained. A total of 36,000 residential transactions are expected in 2006, representing an increase of 14 per cent from 2005.

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



Source: Calgary Real Estate Board

While the market continues to be fuelled by persistently low mortgage rates and heightened levels of migration, anxious buyers are fuelling demand as they rush to get into the market before mortgage rates rise and prices escalate further. A number of other factors will also contribute to a new record in 2006. To some extent, sales in Calgary's resale market are self-sustaining. With over 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 over one million residents, there are simply more homes that can change hands among the gain in households. Meanwhile, with the market experiencing tremendous price growth, a number of units are being sold more than once in a given year as residents attempt to capitalize on Calgary's red-hot housing market.

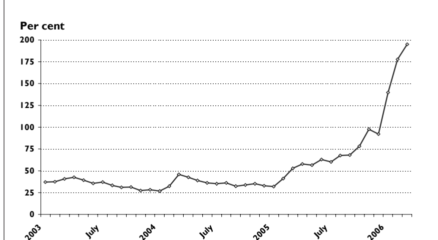
Resale Price Growth Strongest on Record

A number of conditions are contributing to the highest rate of resale price growth on record. Total active listings are facing severe shortages, as the first quarter average was a record-low 1,746 units, 67 per cent lower than the previous year. With the severe shortage of listings and record pace of sales, the sales-to-active listings ratio continued to escalate, surpassing the 100 barrier for the first time in history. In fact, the sales-to-active listings ratio reached a record high of 195 per cent in March 2006. By comparison, the corresponding ratio was 53 per cent one year earlier. This has created an environment of short listing durations, multiple offers, bidding wars, and a multitude of sales in excess of list price. The end result has been hefty price growth.

In the first quarter of 2006, the resale price for all units averaged $308,576, an increase of 26 per cent over the previous year. This represents the highest rate of price growth since the first quarter of 1990. Single-family resale homes were the big gainers in the first quarter of 2006, jumping 28 per cent to an average of $343,256. The average condominium in the first quarter increased 23 per cent year-over-year, reaching $220,563. While price growth in the single-family market has been fuelled by record demand and declining supply levels, it is also being skewed upward by sales in the extreme high price ranges. After three months months, the number of single-family sales exceeding $900,000 totalled 50 units, up more than three-fold from 16 in 2005. 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 resale price to rise 25 per cent for all units, reaching $314,300. With new units under construction at

Figure 3
MLS® Sales-to-Active Listings Ratio



Source: CREB, CMHC Calculation

record levels, a number of buyers are waiting to list their current home until they get closer to their possession date. Once that occurs and others attempt to capitalize on the hefty price gains to-date, active listings will recover to more reasonable levels. This will slow the number of multiple offers and sales above list price, in turn moderating the rate of overall price growth. By year-end, expect single-family and condominium units to increase around 25 per cent, reaching $348,500 and $230,000, respectively.

The escalation of house prices will have a considerable impact on monthly carrying costs in 2006. At prevailing mortgage rates and a 10 per cent down payment, our analysis indicates that the monthly principle and interest for the average resale unit will jump 31 per cent in 2006 to $1,905, the highest year-over-year gain in carrying costs on record.

RENTAL MARKET

Following a substantial decline to from 4.3 per cent in 2004 to 1.6 per cent in 2005, CMHC expects Calgary's apartment vacancy rate will tighten further in 2006.

The return to strong levels of net migration will boost demand for units vacated by tenants moving to home ownership. A severe shortage of active resale listings, low new home inventories, and extended construction durations will also maintain rental demand. Meanwhile, the pool of first-time buyers will diminish as escalating prices and modestly higher mortgage rates push ownership for some out of reach. A few years ago, the average price of a resale condominium was under $170,000, translating into a $165 per month premium for home ownership (principal and interest minus average two-bedroom rent). With prices escalating in 2006, what used to be $165 per month premium will now triple. Many renters will find such a jump unacceptable and simply elect to remain in their rental accommodations.

As was the case in previous years, declining rental competition should also contribute to low vacancies over the forecast period. Units converted from rental to condominium will continue to surpass new construction, resulting in further declines in the rental market universe. Calgary's rental market universe will remain the lowest per capita among the 28 CMAs, and will continue to decline due to persistent population gains and conversions surpassing the rate of new rental construction.

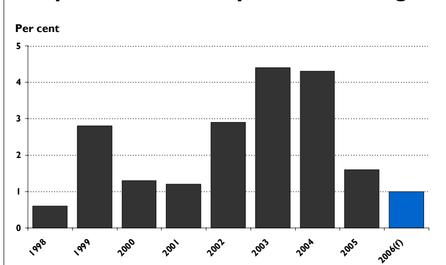
Strong Rent Increases Expected in 2006

Recently, Calgary's apartment vacancy rate has been among the highest level in 10 years. As a result, landlords held rents flat over the last three years to reduce the incentive for tenants to jump to home ownership. In addition to holding rents stable, landlords reintroduced a number of incentives such as paid utilities and a free month rent with lease. While such incentives have promoted tenant retention and helped attract new ones, they have also cut into net operating incomes.

With vacancies tightening in 2006, the incentives introduced in previous years will become non-existent. Moreover, tightening vacancies should result in the strongest average rent increases since 1998. Following negligible gains in the previous three years, tenants can expect rents to increase by ten per cent this year. Such increases will translate into an $81 per month increase for a two-bedroom unit, reaching $889. Property owners will find much of the increase necessary as they face heightened operating costs, including higher natural gas prices, insurance and property taxes.

Figure 4

Apartment Vacancy Rate Declining



Source: CMHC

MORTGAGE RATE OUTLOOK

The monetary tightening cycle will continue at a moderate pace in the U.S. and Canada for the rest of 2006. Both short and long-term interest rates are expected to increase by 25-50 basis points in Canada and the U.S. during the remaining months of this year. While still low by historical standards, Canadian mortgage rates are expected to rise in line with corresponding interest rates in 2006. One and five-year mortgage rates are forecast to be in the 5.75-6.75 and 6.25-7.25 per cent range respectively in 2006.

ECONOMIC OVERVIEW

2006 Job Growth Fuelled by Strong Population Gains

In 2005, the Calgary CMA recorded the weakest job growth since 1993. A total of 7,150 jobs were created in 2005, a considerable departure from the previous 10-year average of 19,500 new positions. While the decline in job creation presented a concern, the apparent weakness was not a result of a softening labour market. In fact, the opposite remains true. Calgary continues to face severe labour shortages, as evidenced by its record low unemployment rate and the highest rate of labour force participation in the country. As a result, overall job gains in 2005 were constrained by inadequate additions to the labour force.

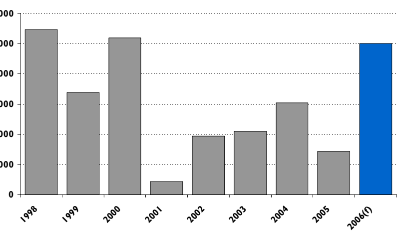
Given Calgary's labour shortages, the economy has been cutting part-time jobs in favor of full-time positions. In 2005, 15,600 full-time positions were created, all at the expense of 8,400 part-time jobs. The fact that full-time job creation surpassed the overall rate of job growth is further testament to Calgary's vibrant labour market. Never before has the rate of full-time job growth surpassed overall job creation to that extent. The majority of the gains were attributed to the oil and gas, professional, scientific and technical services, education, and health care sectors. The construction sector recorded little change in employment last year, a concern considering our current labour shortages and the 50 per cent gain in total building permit values in 2005.

While not alleviating all of the skilled labour shortages, a forecasted jump in net migration and gain in the rate of labour force participation will enable employment to expand by 4.1 per cent in 2006, representing 25,000 new positions. In the first quarter of 2006, the Calgary CMA had 42,000 more people employed than it did in the corresponding period in 2005. As this compares to an uncharacteristically weak period, observers should not expect the current gain to prevail by year-end. Nonetheless, the 25,000 jobs expected will represent the strongest job creation in six years. As was the case in 2005, expect the majority of these gains to be full-time positions.

High commodity prices and record profits in the oil and gas sector will reinforce investment decisions by Calgary-based companies. Current and proposed energy-related projects in Alberta are topping $96 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.

Major non-residential and infrastructure projects will also add to construction employment in 2006. Currently, Calgary has a record $17.5-billion in projects that are proposed, announced, or under construction, an

Figure 5
Annual Employment Growth



Source: Statistics Canada, CMHC Forecast

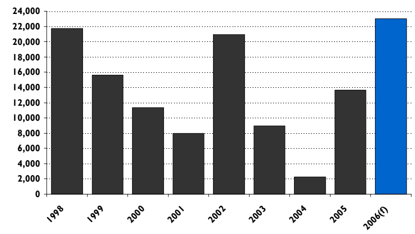
impressive 80 per cent gain over the previous year. With Calgary's office vacancy rate at a 20-year low, the energy sector's thirst for new office space is resulting in a flurry of new office towers. Six are currently under construction, all of which are reported to be pre-leased. These include two towers of Livingstone Place, valued at $250-million combined, the $250-million Homburg-Harris Centre, a $32-million Opus building, and two by Tonko valued at $57-million. Downtown office construction will further escalate when the $540-million Encana tower commences later this year, and over $1-billion in proposed projects by Oxford, Matco, and King Street break ground in future years.

Fiscal expansion by provincial and municipal governments also continue to fuel a number of institutional and infrastructure projects. These include seven new schools, post-secondary educational and medical facilities, as well as the $300-million courthouse downtown. Elsewhere, the $500-million Deerfoot Meadows retail project continues, as does the $800-million expansion of Calgary's airport and over $1billion in roadway, interchange, and LRT improvements.

Net Migration on the Rise

Following a 12-year low of 2,253 migrants in 2004, net migration to the City of Calgary jumped five-fold in 2005 to 13,677 people. For the 12-month period ending in April 2006, CMHC expects net migration to climb further to 23,000 people, representing the best performance for net migration since 1982. 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 from other locales.

Figure 6
Annual Net Migration



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

CMHC FORECAST SUMMARY

Calgary Census Metropolitan Area

Spring 2006

	2003	2004	%Chg	2005	%Chg	2006 (f)	%Chg
RESALE MARKET							
MLS®(1) active listings (Annual Avg.)	5,801	6,178	6.5%	4,396	-28.8%	2,500	-43.1%
MLS® Sales							
Total	24,359	26,512	8.8%	31,567	19.1%	36,000	14.0%
Single-family	18,319	19,513	6.5%	22,764	16.7%	25,600	12.5%
Condominium	6,040	6,999	15.9%	8,803	25.8%	10,400	18.1%
MLS® Price ($)							
Total	$211,155	$222,851	5.5%	$250,789	12.5%	$314,300	25.3%
Single-family	$229,082	$243,059	6.1%	$276,567	13.8%	$348,500	26.0%
Condominium	$156,781	$166,514	6.2%	$184,127	10.6%	$230,000	24.9%
NEW HOME MARKET							
Starts							
Total	13,642	14,008	2.7%	13,667	-2.4%	15,000	9.8%
Single-family	8,526	8,233	-3.4%	8,719	5.9%	9,750	11.8%
Multiple-family	5,116	5,775	12.9%	4,948	-14.3%	5,250	6.1%
Average New House Price:							
Single-family	$267,104	$285,243	6.8%	$315,796	10.7%	$345,000	9.2%
RENTAL MARKET							
Vacancy rate (Oct) - Per Cent	4.4	4.3		1.6		1.0	
2-bedroom Rent (Annual Per Cent Change)	0.0	0.0		0.0		10.0	
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	4.84	4.59	-0.25	5.06	0.47	6.27	1.21
Mortgage rate (5 yr term)	6.39	6.23	-0.16	5.99	-0.24	6.78	0.79
Employed	583,530	598,730	2.6%	605,880	1.2%	630,880	4.1%
Employment growth (# jobs)	10,480	15,200		7,150		25,000	
Net-migration (Census Year [2])	8,965	2,253	-74.9%	13,677	507.1%	23,000	68.2%

Source: CMHC, Calgary Real Estate Board, Statistics Canada, City of Calgary, CMHC Forecast

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

2 May 1 to April 31 period

CMHC – HOME TO CANADIANS

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Together with other housing stakeholders, we help ensure that Canada maintains one of the best housing systems in the world. We are committed to helping Canadians access a wide choice of quality, affordable homes, while making vibrant, healthy communities and cities a reality across the country.

For more information, visit our website at www.cmhc.ca

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