Alberta Market Economic Update

- Snapshot Summary -

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Alberta Market Economic Update:
Snapshot Summary

What follows is just a very brief summary of some of the information at my fingertips, a summary of why Real Estate and particularly Alberta Real Estate is a solid long term investment choice.

Alberta Job & Economic Fundamentals Updates:

- The construction jobs are a coming!
- The forecast for construction jobs in 2010 for proposed capital projects are 37,000.
- Current project construction jobs now are at approximately 17,000. This is an increase of more than 100%, over the next 3- 5 years, and currently the Alberta labor market is already the tightest in Canada. This is a good indication of the housing demand, as more people are coming to Alberta for work. Each of these people will require a place to live and rent.
  - See graph below (the colorful one). This outlines the upcoming construction projects in Alberta, and the estimated construction jobs needed to complete them. This is one of the biggest reasons why I will continue to buy and hold more Real Estate for at least the next 3 – 5 years.
- To top things off Alberta still has the lowest unemployment rate in the country.

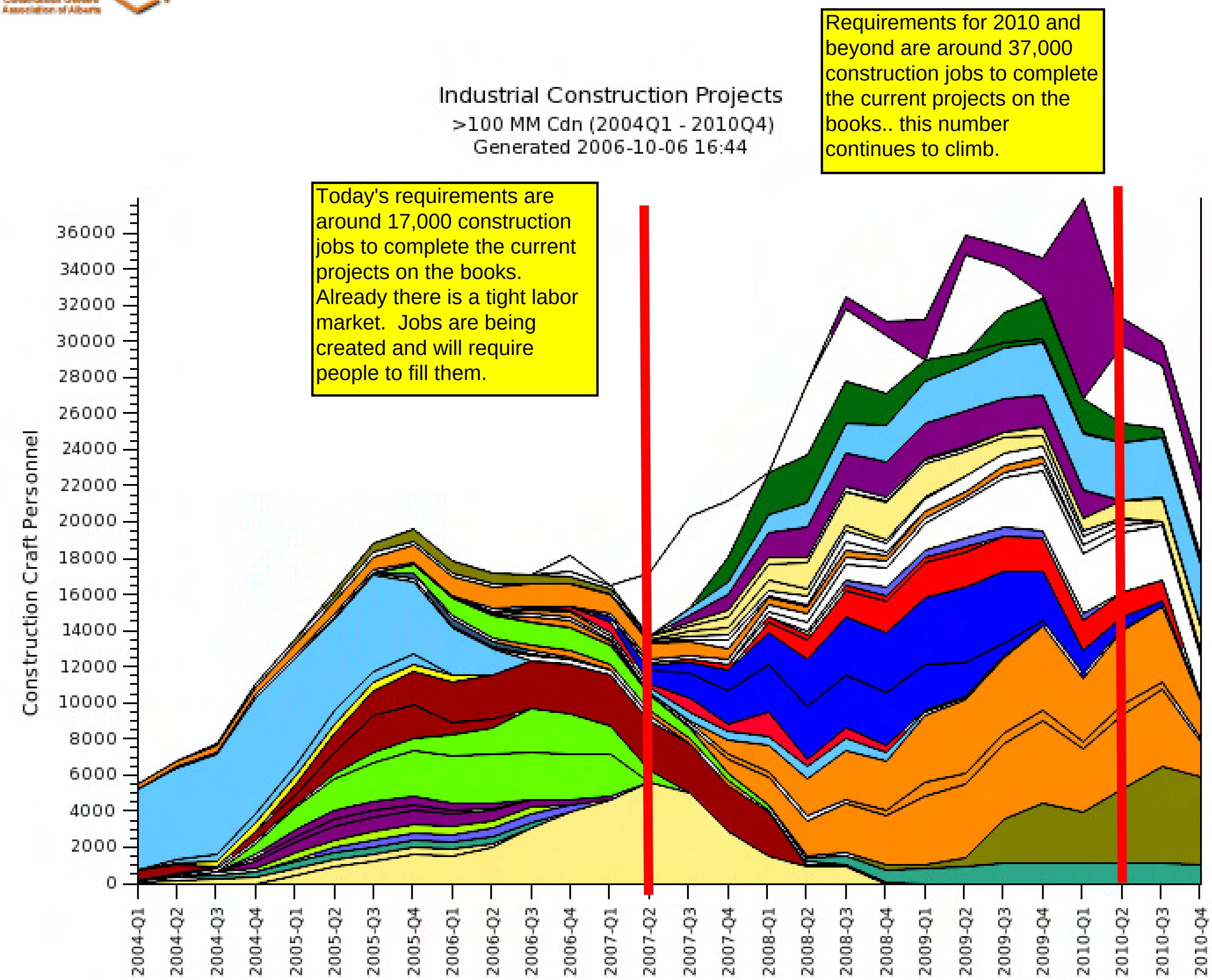
Alberta Industrial Heartland Presentation:

- Attached are a few summary slides from a presentation by the Alberta Industrial Heartland updating the economic impact coming to the region just outside of Edmonton, and Alberta as a whole. A couple of highlights include:
  - Alberta has the 2nd highest reserves of recoverable oil in the world.
  - Currently $173 Billion of capital projects are scheduled for Alberta.
  - The proposed peak expenditure is scheduled for 2010 – 2012, and this timeline is potentially moving out further, due to the current shortages of labor.
  - Pipeline and Oil upgrader projects are numerous and will attract multi billion dollar investments.
  - Currently there are at least 7 oil upgraders proposed on the books and each one of these is forecasted to have at least 3,000 – 5,000 jobs. To put this in perspective, building the Hoover Dam in Nevada required approximately 4,500 construction jobs. Currently there are over 7 'Hoover Dam sized' projects forecasted to be built just outside of Edmonton.
- See attached presentation for further details… some of these numbers are staggering.

US Subprime Mortgage Collapse:

- In the news you have been hearing a lot about the US sub-prime mortgage collapse and how that is affecting the stock market.
  - A couple of observations: (for all the details read the attached article Titled "Mortgage Risk, Canada vs. US"):
    - Comparing the US and Canada mortgage markets are like comparing apples to oranges, for example:
      - US- sub-prime (high risk) market represents over 20% of all mortgages.
      - US- interest only mortgages (high risk) too are over 20% of the mortgages.
      - Canada's Subprime mortgages are still below 4% of all mortgages.
      - Canada's interest only mortgages are below 2% of total mortgages.
  - As well, if there is some turmoil in the stock markets, many investors will want to be looking towards a more stable asset class for returns on their money… and Real Estate is a fantastic asset class for great longer term solid returns. This will help with the already strong demand for housing.

All of these economic fundamentals (just a few of many I could have included) indicate that people are coming to Alberta and the fundamentals are all pointing towards strong long term demand for Real Estate.



This graph was generated by the Construction Sector Council (CSC) Labour Market Information (LMI) forecasting website in partnership with the Construction Owners Association of Alberta (COAA) and is based in part on information not within the control of thee CSC/COAA. CSC/COAA has not made an analysis, verified, or rendered an independent judgement of the validity of the information obtained from outside sources. CSC/COAA does not guarantee the accuracy of this graph and use or reliance upon this graph for any reason by any party shall constitute a release and agreement by such party to defend and indemnify CSC/COAA against any liability (including but not limited to liability for special, indirect, consequential damages) in connection with such use whether arising in contract, tort, strict liability, or other theory of legal liability to the maximum extent, scope or amount allowable by law. Notwithstanding the foregoing, neither the graph nor any portion of the graph nor any information contained therein may be used in connection with any proxy, proxy statement, proxy soliciting material, prospectus, Securities Registration Statement or similar document without the express written consent of CSC, except as may be required by law. In no event shall the name of CSC be used without CSC’s prior written consent.

1. CNRL
Horizons Project Phase 1

2. CNRL
Primrose North Plant, Pipelines, Pads 31, 54-54

3. Conoco Phillips
Surmont Phase 1

4. Devon Canada Corporation
Devon Jackfish SAGD Project

5. Husky Energy Ltd.
Tucker Thermal Project

6. Imperial Oil
Cold Lake Expansion (14-16)

7. Imperial Oil
Cold Lake Expansion (9-10)

8. Imperial Oil
Prism ULSD

9. OPTI Canada/Nexen
Long Lake Commercial SAGD

10. OPTI Canada/Nexen
Opti Canada Inc. - Long Upgrader Project

11. Petro Canada
Edmonton Diesel Desulphurization

12. Petro Canada
RCP 1.1

13. Petro Canada
SIG - Sulfer & Gasoline Requirement

14. Shell
Ultra Low Sulphur Diesel (ULSD)

15. Syncrude
Southwest Quadrant Replacement Project

16. Syncrude
Upgrading Expansion - 1

17. Terasen Pipelines (Trans Mountain) Inc.
Trans Mountain Pump Station Expansion

18. TransCanada
Edson Gas Storage

19. Ainswoth Lumber Co. Ltd.
G.P.2 OSL Project

20. Suncor
Suncor Firebag Expansion

21. BA Energy
Heartland Upgrader

22. Conoco Phillips
Surmont Phase 2

23. Petro-Canada, UTS, Teck Cominco
Fort Hills Oil Sands Project

24. Suncor
Firebag Program

25. Suncor
Mining and Extraction

26. Suncor
Voyageur Phase 1

27. Syncrude
Syncrude Emission Reduction project

28. Terasen Pipelines Inc.
Corridor Pipeline Expansion

29. Albian Sands-Shell/Chevron/Western Oil Sands
AOSP Jackpine Mine Expansion

30. Albian Sands-Shell/Chevron/Western Oil Sands
AOSP-Downstream Expansion

31. CNRL
Wolf Lake Expansion, Wolf Lake Pad Z11, Wolf Lake 4

32. Connacher Oil and Gas Limited
Great Divide

33. DCEL
Joslyn North Mine Project

34. DCEL
Joslyn Project SAGD Phase III

35. Devon Canada Corporation
Devon Jackfish 2 SAGD Project

36. Imperial Oil
Oilsands Mine Project

37. North American Oil Sands Corporation
NAOSC Kai Kos Dehseh Project

38. Suncor
Upgrading Projects

39. Terasen Pipelines (Trans Mountain) Inc.
Trans Mountain Expansion Phase 1 (Anchor Loop)

40. TransAlta/EPCOR
Keephills 3

41. CNRL
CNRL Thermal Projects

42. CNRL
Horizons Project Phase 2

43. CNRL
Horizons Project Phase 3

44. CNRL
Primrose East Plant, Pipelines, Pads

45. Encana
Foster Creek SAGD - Phase 1C

46. Encana
Foster Creek SAGD - Phase 2

47. North West Upgrading Inc.
North West Upgrader

48. Suncor
Voyageur Phase 2

49. Syncrude
Stage 3 Debottleneck

50. Synenco Energy Inc.
Northern Lights Project Phase 1

51. Synenco Energy Inc.
Northern Lights Project Phase 2

52. TransCanada
Dickins Lake and Vardie River Pipelines

53. TransCanada
Fort McKay Area Pipeline Projects

55. Various owners across the Province
ROSE Committee Maintenance Shutdowns

56. Imperial Oil
Mackenzie Gas Project

The Globe and Mail, Wednesday, May 30, 2007

BUILDING BOOM

Under construction: Alberta

BY DAWN WALTON CALGARY
AND KATHERINE HARDING EDMONTON

With price increases and economic growth outpacing expectations, the Bank of Canada warned yesterday that it might hike interest rates to keep the reins on inflation.

At the same time, the central bank said robust economies outside North America have created a "global demand for, and high prices of, many commodities produced in Canada." That, in turn, has caused the Canadian dollar to soar – yesterday above 93 cents (U.S.) for the first time in almost three decades – well beyond bank expectations.

Now, Toronto-Dominion Bank chief economist Don Drummond has called for a hike to interest rates to curb all this "pervasive inflation pressure" and strong economic growth.

But raising the rate above 4.25 per cent, where it has sat for more than a year, may be premature, according to some, including Scotiabank's deputy chief economist, who pointed out that both inflation and growth are largely a western and, specifically, Alberta trend.

But, to borrow Mr. Drummond's language, inflation is no more pervasive than it is in Alberta, which is benefiting from world demand for oil and gas – the province's bread and butter. The inflationary effect is perhaps most tangible in the construction industry. But it's a building boom that no other economy should necessarily envy.

On a recent cool spring morning, a dozen or so men, some carrying tool belts, most wearing steel-toed boots, idle on the sidewalk at Calgary's Cash Corner.

One by one, trucks pull up. The drivers offer work – generally construction or landscaping – and negotiate a price, usually around $12 to $14 an hour. Then the men pile in to head for a job site where they will be handed cash by day's end.

For the past five decades or so, Cash Corner has been a magnet for transient labourers to meet employers. Few people here want to provide their full names, since many fail to fess up to their casual income at tax time. But amid a crippling labour shortage and flurry of construction, they say business here is booming.

"You get a lot of fly-by-nighters, but you get the big guys in here, too," said Bill, who, at 38, pulled up stakes from his home in Trenton, Ont., and came to Alberta six months ago to cash in on a white-hot economy.

But Cash Corner is about to become the victim of progress. A billboard near the sidewalk promotes the future home of an office and retail complex, as this glum Beltline neighbourhood undergoes a makeover. Cash Corner will be forced to move.

In fact, Alberta seems to have become a never-ending construction site. Everywhere you look, something is being built.

From roads to houses to skyscrapers, billions are being spent as the energy-fuelled boom literally transforms the province. According to recent government figures, about $162-billion worth of major industrial projects are under way around Alberta, with 62 per cent of those being oilsands-related.

Alberta is sucking construction materials and workers from job sites all across the country, but there never seems to be enough help and supplies to keep up with the unprecedented demand. Skyrocketing construction costs, now among the highest in Canada, are also a constant headache for builders and governments trying to keep up.

But despite all the challenges, the province and municipal governments are still planning on spending record amounts on public infrastructure.

The demand for help is so high that some projects are tendered without receiving a single bid. Everybody is working full out.

In this year's provincial budget, Alberta earmarked a record $18.2-billion over three years for infrastructure projects, averaging more than $6-billion a year, up from $1-billion a year over 1993 to 1999. To cope with cost escalations, the government even built a special $1.3-billion cushion into the current capital budget. The cost of the proposed new hospital for south Calgary has ballooned to more than $1.12-billion – more than double the $500-million estimate in 2003.

Wayne Ayling knows about unexpected cost escalations. As mayor of Grande Prairie, he has not only seen his community's population double since 1991 to more than 54,000, but also the price of many infrastructure projects.

For example, he said that two years ago the city, located 450 kilometres northwest of Edmonton, decided to build a 40-unit, affordable-housing complex for slightly less than $4-million. The project went to tender this year and will now cost $8.8-million.

Despite the record amounts of money being spent on public infrastructure, Mr. Ayling said, the demand for more seems insatiable. "We've never invested this much in roads before, but this spring there were more complaints about poor quality roads than in the 5½ years I've been mayor," he said. "It is a real challenging time."

Glenn Tolkacz moved to Edmonton from Toronto in April and said there is so much construction work around the province that he's planning on staying until he retires at 65. The veteran road construction worker is 42.

He said one downside of the province's construction boom is that it has attracted all types of workers. "Some guys are so green, it's scary. I came across one guy who didn't even know how to hold a shovel. That's not safe."

Indeed, nervous talk about the pace of construction is common on Alberta streets. And with good reason in some cases.

The Better Business Bureau for central and northern Alberta received 74 complaints from customers about new home builders in the 12 months ending April 30, 2006. About 91 per cent of those complaints were resolved to the customer's satisfaction.

A year later – during the 12 months ending April 30, 2007 – the number of complaints rose slightly to 77; however, only 68 per cent of cases were rectified.

"Because of the labour situation, things are not being addressed in a timely fashion," said Chris Lawrence, the bureau's chief executive officer. "Companies are so understaffed and so overwhelmed they are not getting around to it."

Her office is handing out more unsatisfactory ratings to businesses than ever before, and it is having trouble even getting responses from companies that are facing complaints.

To get a handle on all the demand and keep costs down, the Alberta Construction Association is helping municipalities and the province co-ordinate its projects so that everybody isn't building simultaneously.

"We don't want them to start and end at the same time," said Ken Gibson, the association's executive director. "We are trying to spread them out."

He said forecasts until 2015 indicate that the province's construction boom is showing no signs of slowing because it is largely driven by high oil and gas prices.

"Unless we've got a brand new energy source that seems economical, then we will be on this path for a number of years," he said.

Mr. Gibson said that everybody is trying to figure out where all the needed workers will come from, and he expects there will be more reliance on temporary foreign workers and immigrants in coming years.

But despite the seemingly insatiable need for construction workers, some are being left out in the cold. At Cash Corner, the men complain about Alberta's high rents and cost of living.

Alberta churns out 12,000 jobs

frantic pace seen at the end of 2006

Labour-market activity hottest in Edmonton

EDMONTON JOURNAL

FRIDAY, JUNE 1, 2007

Capital city gaining ground on Calgary

CanWest News Service

Edmonton is gaining ground on Calgary in economic momentum, according to a report by CIBC Worlds Markets.

In its semi-annual Metro Monitor, CIBC says Calgary topped the list of 24 of the most populated areas in Canada.

Calgary was assigned a score of 33.2, which was based on indicators such as employment, housing and bankruptcy rates. Edmonton was a close second with 31.4.

"The strong performance of Calgary is not a big surprise given the booming Albertan economy," the report says.

"But perhaps a more interesting observation is the fact that Edmonton is closing the performance gap with Calgary.

"Edmonton is ranked second in our index, reflecting strong population growth (second only to Calgary), and a labour market that is, in fact, hotter than that of Calgary. The housing market in Edmonton is also strong with average price rising the fastest among all cities," the report says.

> "Everybody's looking at Calgary, but the labour market in Edmonton is actually hotter."
>
> Benjamin Tal, CIBC World Markets

Calgary was the top area in terms of population growth and the proportion of jobs that are full-time, and it had the lowest level of consumer bankruptcy.

"Everybody's looking at Calgary, but the labour market in Edmonton is actually hotter," said Benjamin Tal, a senior economist with CIBC World Markets. "If you look at the housing market, (Edmonton's) stronger (than Calgary). If you look at population growth, (Edmonton's) second only to Calgary."

Rounding out the top five spots were Canada's three largest cities, Vancouver, Montreal and Toronto, in that order in terms of economic momentum.

The report says that while "Vancouver did not excel in any of our sub-categories, it was able to perform above average in many of them."

Montreal was said to have a "notable improvement in labour-market activity," but still lagging in non-residential building permits and housing starts.

Saskatchewan's two biggest cities were listed high, with Saskatoon at No. 6 and Regina at No. 7. Saskatoon was cited as having the best job market and resale housing market in the country.

Ottawa-Gatineau was in the middle of the pack this time in the No. 12 spot. Tal said the national capital region's momentum has declined due to a slowing housing market, less robust technology industry and struggling manufacturing sector. Windsor, Ont., was near the bottom of the list at 22nd with a score of 3.4. Tal said the city was hurt by the state of the automotive sector, manufacturing in general and the struggling U.S. economy it borders on.

Two areas — Thunder Bay, Ont., and Saguenay, Que. — were assigned negative scores, minus-0.9 and minus-2.9, respectively. The high-valued Canadian dollar and struggling manufacturing industries were cited as factors in each case.

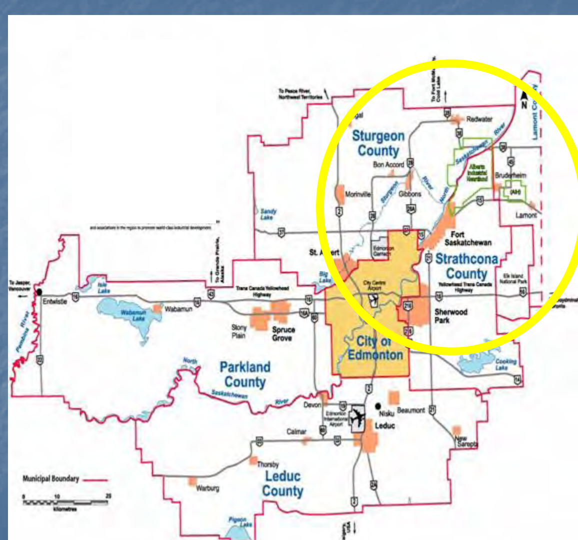
Conspicuous by its absence in the survey was Winnipeg, which was left out because officials there were unwilling to disclose necessary information.

Alberta's Industrial Heartland Oilsands 101 Update

Summary Presentation

Edmonton, Alberta
June 23, 2007

Metro Edmonton Location



What is an Upgrader?

- An Upgrader processes the bitumen into vacuum gas oil and light synthetic crude oil
- There are generally two types of upgraders: hydro conversion process and traditional coking process
- Hydro conversion process breaks down the heavy bitumen into smaller molecules by adding hydrogen in presence of a catalyst, heat and pressure
- Sulphur and nitrogen are removed

Alberta's Industrial Heartland

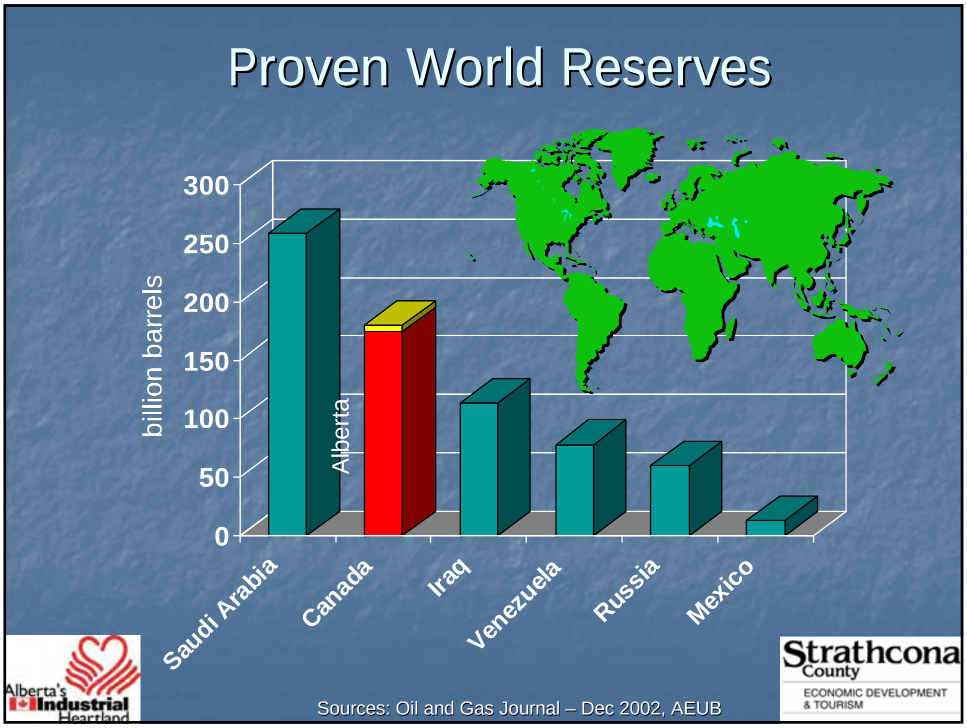
Strathcona County ECONOMIC DEVELOPMENT & TOURISM

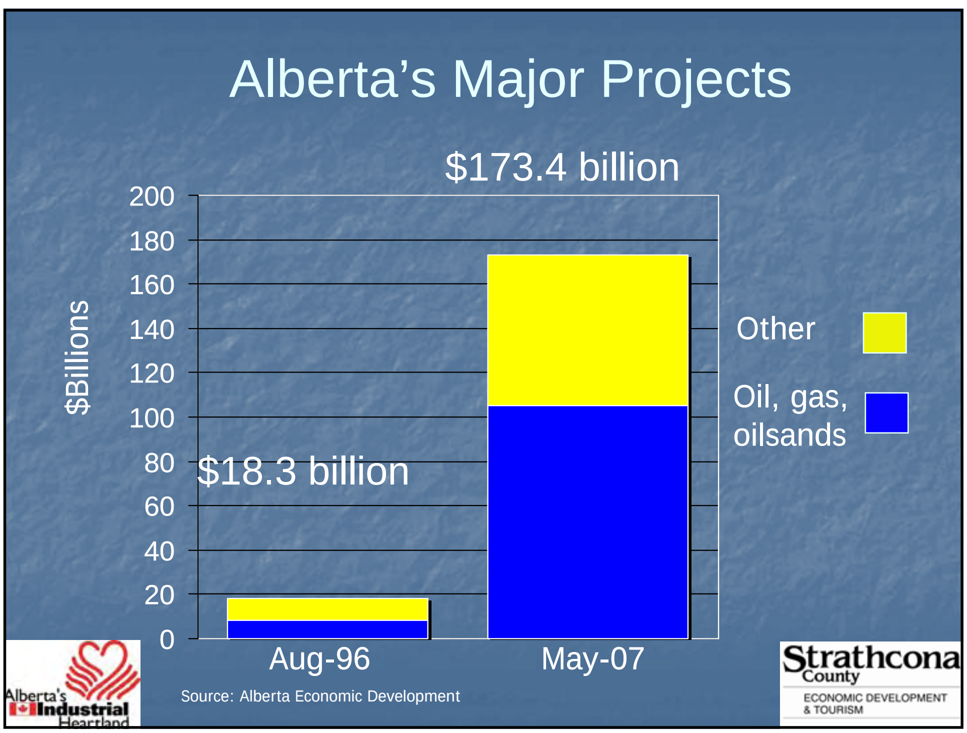
The Oil Sands Resources

- 174 billion barrels of proven reserves with an ultimate potential of over 300 billion barrels
- Over 400 years of supply available at current production rates
- Production based on current mining and *in-situ* techniques
- Marketed to Canadian and US refineries (primarily Midwest US)

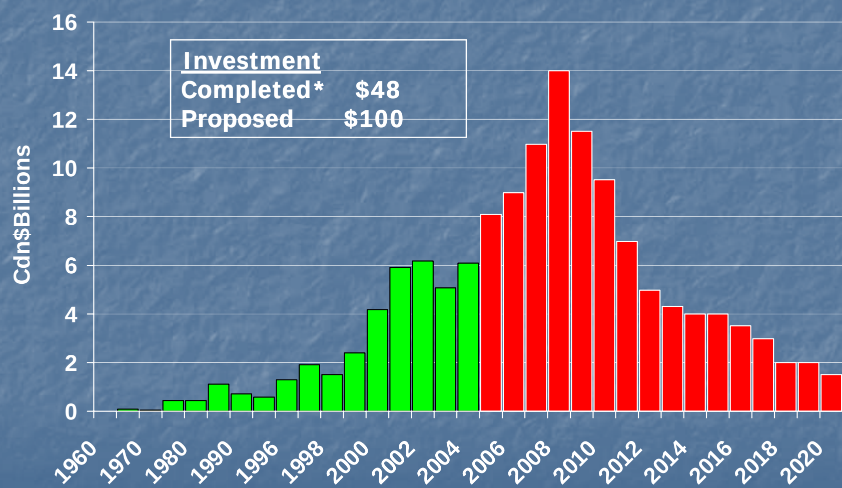
Alberta's Industrial Heartland

Strathcona County ECONOMIC DEVELOPMENT & TOURISM


Proven World Reserves
300
250
200
150
100
50
0
billion barrels
Alberta
Saudi Arabia
Canada
Iraq
Venezuela
Russia
Mexico
Alberta's Industrial Heartland
Strathcona County
ECONOMIC DEVELOPMENT & TOURISM
Sources: Oil and Gas Journal – Dec 2002, AEUB


Alberta's Major Projects
$173.4 billion
200
180
160
140
120
100
80
60
40
20
0
$Billions
$18.3 billion
Other
Oil, gas, oilsands
Aug-96
May-07
Alberta's Industrial Heartland
Strathcona County
ECONOMIC DEVELOPMENT & TOURISM
Source: Alberta Economic Development

Investment in Alberta's Oil Sands



AIH AREA ANNOUNCED PIPELINE DEVELOPMENTS

PROJECT	SPONSOR	INVESTMENT
Access Pipeline	Devon Energy/ Meg Energy	$200+ Million
Corridor Pipeline	Terasen Pipelines (Kinder Morgan)	$600 Million
Waupisoo Pipeline	Enbridge Pipelines	Unknown
Gateway Pipeline	Enbridge Pipelines	$3 Billion
Stonefell Terminal	Enbridge Pipelines	Unknown
Heartland Terminal	Terasen Pipelines (Kinder Morgan)	$200 Million

Alberta's Industrial Heartland

Strathcona County ECONOMIC DEVELOPMENT & TOURISM

AIH AREA OIL SANDS RELATED ANNOUNCED DEVELOPMENTS

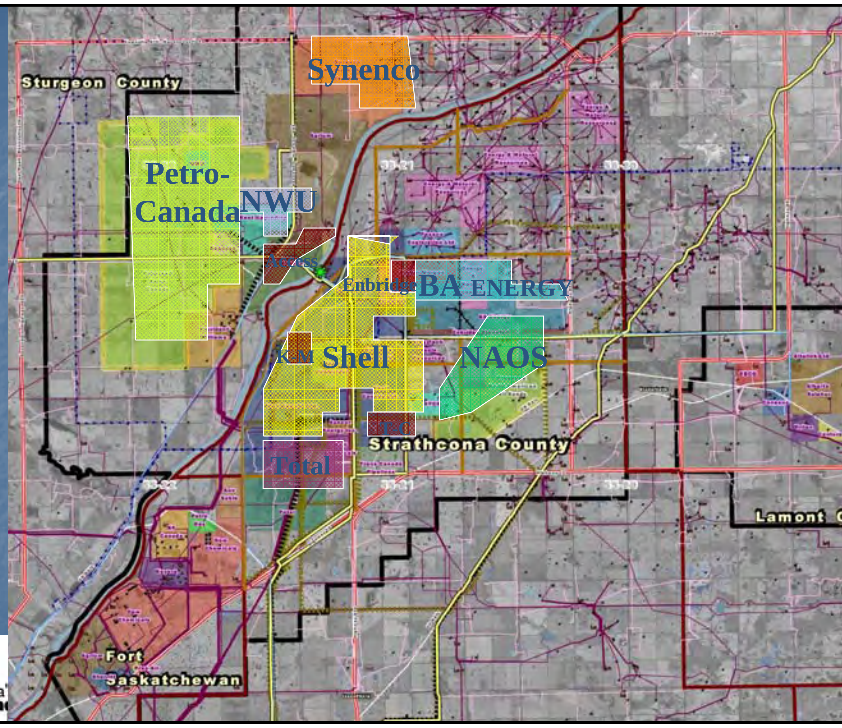
PROJECT	SPONSOR	INVESTMENT
Refinery Conversion Project	Petro-Canada	$1.6 Billion
Heartland Upgrader	BA Energy	$1 Billion
Petro Canada Upgrader Project	Petro-Canada, Tech,	$5.0 Billion
Scotford Upgrader Expansion	Shell, Chevron, Western	$12.8 Billion Mine and Upgrader
Northwest Upgrader	North West Upgrading Inc.	$1.3 Billion
Heartland Offgas Project	Aux Sable	$35 Million 2007 $100 Million (2012)
Northern Lights Upgrader	Synenco Energy	$3 Billion
2-phase hydrogen production plants.	Air Products	$230 Million

AIH AREA OIL SANDS RELATED ANNOUNCED DEVELOPMENTS cont'd

PROJECT	SPONSOR	INVESTMENT
Spent Catalyst Recovery Facility	Gulf Chemicals	
Sulphur forming and pastille storage facility	HAZCO Environmental	$30 M
Heartland Offgas Project	Aux Sable	$35 Million 2007 $100 Million (2012)
Truck and rail terminalling facility.	Petrogas	Unknown
Oil and Gas Logistics Centre	CN	$50 M
Rail off-loading and terminalling services for condensate	Provident Energy/EnCana	$50 M

Alberta's Industrial Heartland

Strathcona County
ECONOMIC DEVELOPMENT & TOURISM



BA Energy

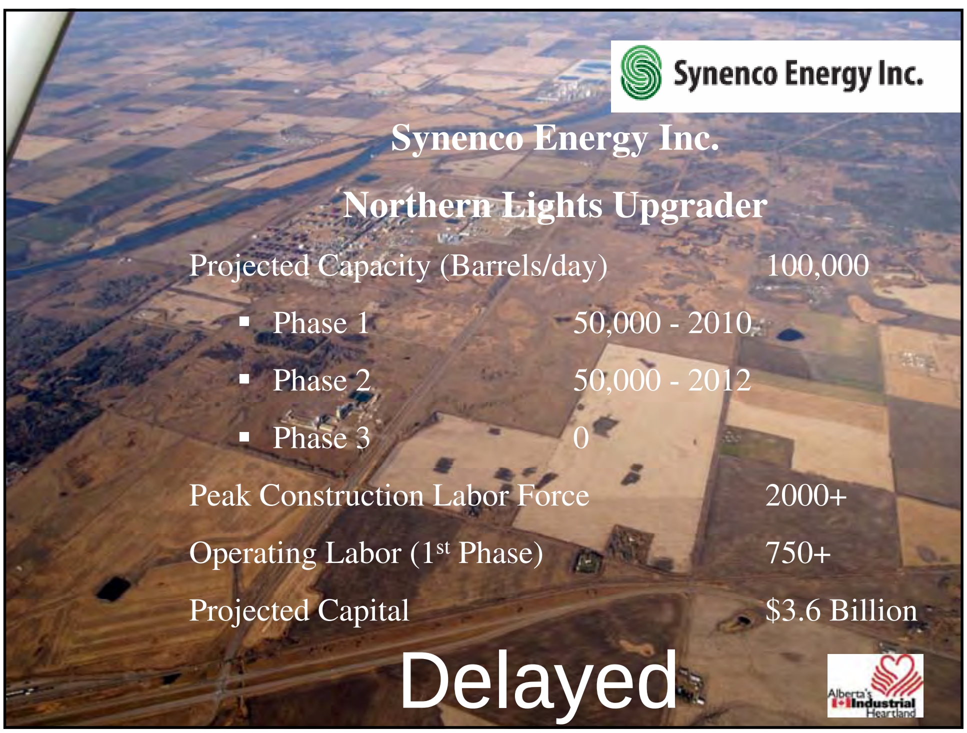
Heartland Upgrader

Projected Capacity (Barrels/day)	163,200
▪ Phase 1	54,400 - 2008
▪ Phase 2	54,400 - 2010
▪ Phase 3	54,400 - 2012
Peak Construction Labor Force	1600
Operating Labor (1st Phase)	100+
Projected Capital	$1.8 Billion


North West Upgrading
North West Upgrading
Projected Capacity (Barrels/day) 150,000
Phase 1 50,000 - 2010
Phase 2 50,000 - 2013
Phase 3 50,000 - 2016
Peak Construction Labor Force 2000
Operating Labor (1st Phase) 200+
Projected Capital $2.5 Billion
Alberta's Industrial Heartland


PETRO-CANADA
Petro-Canada
Sturgeon Fort Hills Upgrader
Projected Capacity (Barrels/day) 400,000
Phase 1 170,000 - 2011
Phase 2 200,000 - 2015
Phase 3 (as above)
Peak Construction Labor Force 6000
Operating Labor (1st Phase) 500+
Projected Capital $6.0 Billion
Alberta's Industrial Heartland


Shell Canada Limited
Scotford Upgrader
Projected Capacity (Barrels/day) 290,000 (700,000)
Phase 1 155,000 - 2006
Phase 2 45,000 - 2008
Phase 3 90,000 - 2009
Peak Construction Labor Force 6000
Operating Labor (1st Phase) 175+
Projected Capital $12.8 Billion


Synenco Energy Inc.
Synenco Energy Inc.
Northern Lights Upgrader
Projected Capacity (Barrels/day) 100,000
Phase 1 50,000 - 2010
Phase 2 50,000 - 2012
Phase 3 0
Peak Construction Labor Force 2000+
Operating Labor (1st Phase) 750+
Projected Capital $3.6 Billion
Delayed


North American Oil Sands
NORTH AMERICAN OIL SANDS CORPORATION
STATOIL
Projected Capacity (Barrels/day) 250,000
▪ Phase 1 70,000 - 2011
▪ Phase 2 180,000 -2014
Peak Const Labor Force 2000-3000
Operating Labor (1st Phase) 300+
Projected Capital $4.0 Billion


Total E&P Canada Ltd.
TOTAL
Projected Capacity (Barrels/day) 200,000
Phase One – 130,000 bpd
Phase Two – 70,000 bpd
Current Lands
Peak Construction Labor Force 4,000
Operating Labor (1st Phase) 400
Projected Capital $6.0 billion +
Alberta's Industrial Heartland
ECONOMIC DEVELOPMENT & TOURISM

AIH Upgrader Summary

- Total Projected Capacity (b/d) 1,463,000
- Total Peak Construction Labor 2010-2012 20,100
- Total 2012 $23 Billion

AIH Upgrader Summary

Company/Years	BPD	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
BA Energy	163,200			54,400		54,400		54,400			
North West Upgrading	150,000					50,000		50,000			50,000
Petro-Canada	400,000						170,000				*230,000
Shell Scotford	290,000	*155,000		45,000	90,000			!!!			!!!
Synenco - Delayed	100,000					50,000		50,000			
North American Oil Sands	250,000						70,000				160,000
Total E & P –	200,000								130,00		200,00 50,000

Economic Impacts of Oil Sands

"Central Scenario" Findings:

- Investment of just over $100 billion to 2020
- Increase in GDP of $885 billion
  - $789 billion in Canada; $96 billion in other countries
- Approximately 6.6 million person years of employment generated
  - 5.4 million in Canada; 1.1 million in other countries
- Total government revenue of $123 billion
  - Federal - $51 billion (41%)
  - Alberta - $44 billion (35%)
  - Others - $29 billion (24%)

Alberta's Industrial Heartland

Strathcona County ECONOMIC DEVELOPMENT & TOURISM

Call to action:

- Based upon conservative estimates, there will be over 20,000 construction jobs within the next 8-10 years
- Based upon current data, there will be over 3200 full time jobs after the upgraders are built
- There will be around 800-1000 permanent contractor jobs created around every upgrader
- It is estimated by Alberta EII that there are 4 other jobs created for every full time job created in the oilsands upgraders

Alberta's Industrial Heartland

Strathcona County ECONOMIC DEVELOPMENT & TOURISM

CIBC World Markets

Economics & Strategy
http://research.cibcwm.com/res/Eco/EcoResearch.html

Consumer Watch Canada

March 16, 2007

Jeffrey Rubin	Avery Shenfeld	Benjamin Tal	Peter Buchanan	Warren Lovely	David Bezic
(416) 594-7357	(416 594-7356	(416) 956-3698	(416) 594-7354	(416) 594-7359	(416) 956-3219

Mortgage Risk — Canada vs. US

Benjamin Tal

The US housing market is in recession. The news from the US mortgage market is getting worse by the day, and it is starting to affect the economic mood well beyond the housing market. The key message here is that things can, and do change dramatically almost overnight, with gloom quickly taking over exuberance.

Is the Canadian mortgage market at risk? So far, there are no indications that the Canadian market is facing any major difficulties. But given the speed at which prospects have changed south of the border, it is important to look beyond the headline numbers in search for any clouds in the horizon — using the recent US experience as a benchmark and a guide.

Accordingly, the following discussion examines some key credit and mortgage market indicators — zooming in on the relative performance of Canada vs. the US. While aggregate numbers such as the ratio of debt to income in both economies are necessary for such an analysis, they are clearly insufficient. Those indicators must be supplemented by a closer micro look at the distribution and the characteristics of the different sub-segments of the mortgage market.

Debt to income ratio — This commonly used indicator measures the level of total household debt in the economy as a share of disposable income. The absolute level of this measure is almost meaningless since it compares the stock of debt to the flow of income. But the rate of the increase of this ratio provides us with some information about the relative speed at which debt rises vs. income. As illustrated in Chart 1, the increase in the Canadian ratio over the past twenty years has been relatively linear, while the American ratio was more volatile. More specifically, the debt to income ratio in the US has accelerated notably since 2002 to surpass the Canadian ratio in 2004. The gap between the two ratios reflects similar income growth between the two countries since 2002, but a significantly faster pace of debt accumulation in the US. Total American household debt rose by just under 70% over the past four years, notably faster than the 40% increase seen in Canada.

Net Wealth as a Share of Disposable Income — An important ratio, probably a better indicator than the debt to income ratio, since it looks at the difference between assets and liabilities as opposed to focusing only on debt. Note that the American ratio is lower than the Canadian ratio — despite a faster pace of growth in asset valuations. The reason for the American under-performance is,

Chart 1

Debt To Income Ratio

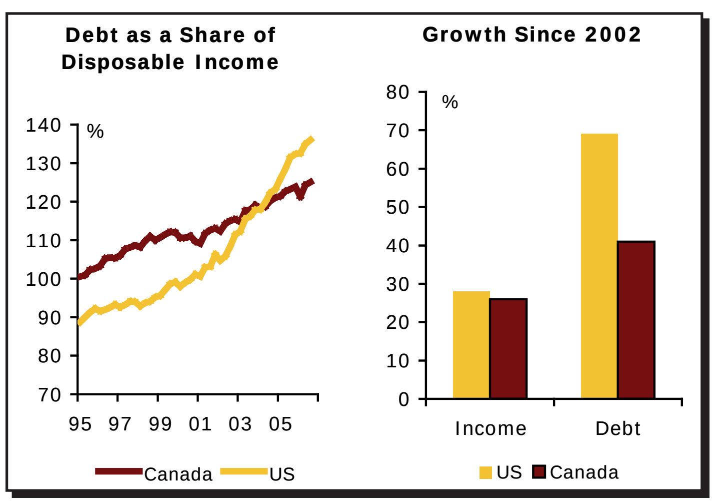
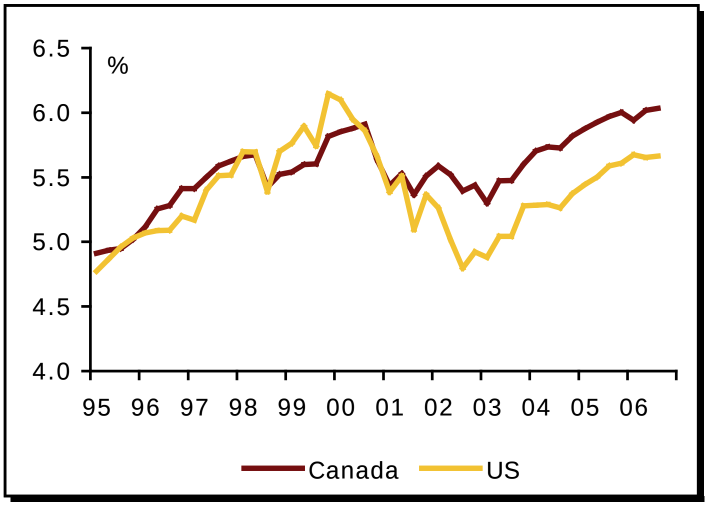


Chart 2

Net Worth To Income Ratio

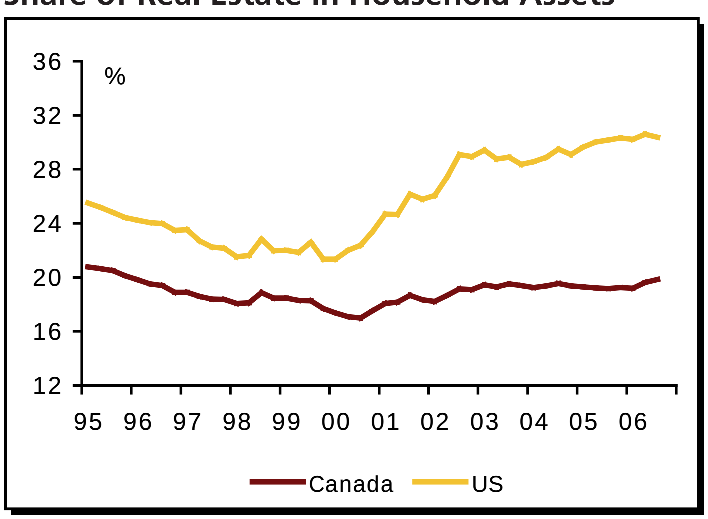


once again, a much faster pace of debt accumulation. Also note that the net worth ratio in Canada has now surpassed the level seen during the 2000 boom, while in the US this ratio is still below that level (Chart 2).

Share of Real Estate in Total Household Assets — As illustrated in Chart 3, the share of real estate holdings in total Canadian household assets is notably lower than in the US — not a big surprise given the tax-deductibility factor south of the border. The key message here is that in 2001, Canada was able to avoid a recession partly due to the fact that relative to the US, it was less exposed to the Information Technology sector. Today, the situation is similar — simply replace IT with Real Estate, which is clearly the catalyst of the current slowing in the US. The lower exposure of Canadian households to real estate is a benefit in such an environment.

Chart 3

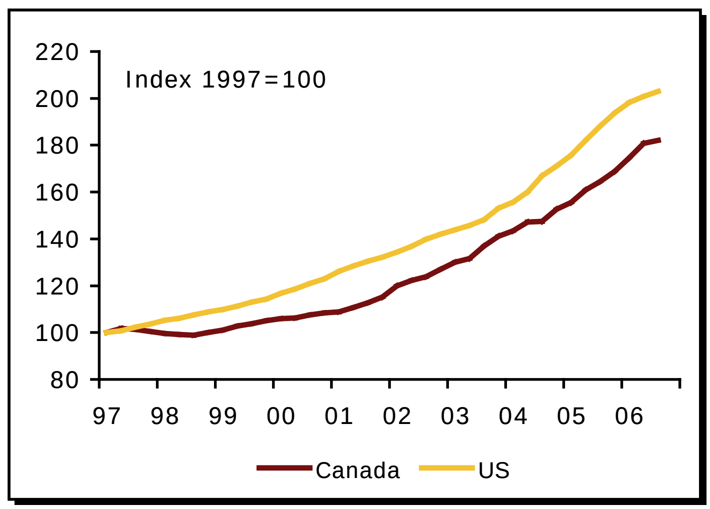
Share of Real Estate in Household Assets



House Prices — Clearly, this is the focus of attention among many observers. It is well known that over the past decade, US house values have risen faster than in Canada. But in the past two years, Canada has been closing the gap, reflecting some slowing in US prices and impressive resiliency in the Canadian housing market, led by Western Canada (Chart 4). Note, however, that the speed of house price appreciation is not necessarily an indicator of troubles ahead. An international perspective shows that the rise in US real estate values paled by comparison to many other countries such as South Africa, the UK and Australia (Chart 5). While those countries experienced a notable slowing in the pace of price appreciation, none of them so far has faced the same difficulties as we are now currently witnessing in the US. (Note, however, that conditions in France and Spain are probably consistent with a housing market bubble.)

Chart 4

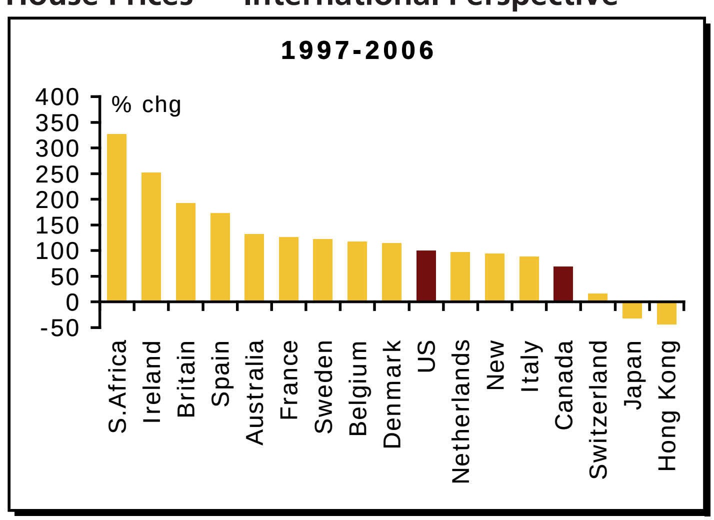
House Prices



Sources: CREA, OFHEO

Chart 5

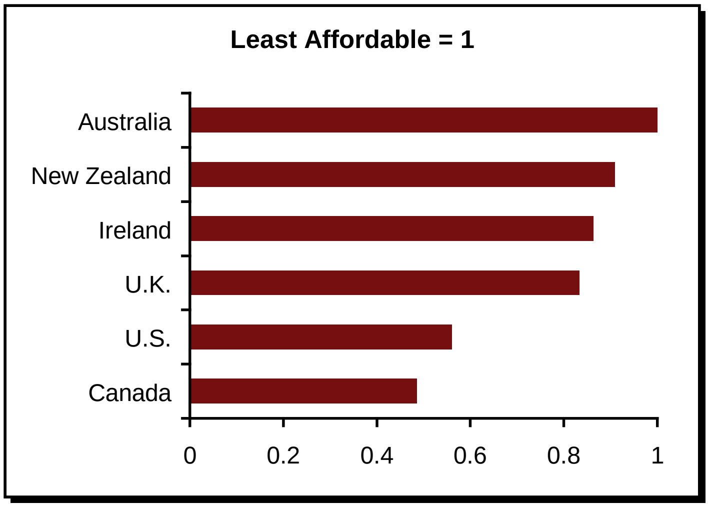
House Prices — International Perspective



Source: The Economist

Affordability — Always an interesting statistics as it measures the cost of carrying a house as a share of income. In Canada, the share is roughly 40% while in the US it is close to 45%. Note, however, that since 2002 the deterioration in the affordability index in the two countries was more or less equivalent. While this statistics is widely used in both counties, it is not a good indicator of troubles ahead. Again, an international comparison reveals that the US market, in aggregate, is much more affordable than many other countries that so far have not faced similar difficulties (Chart.6).

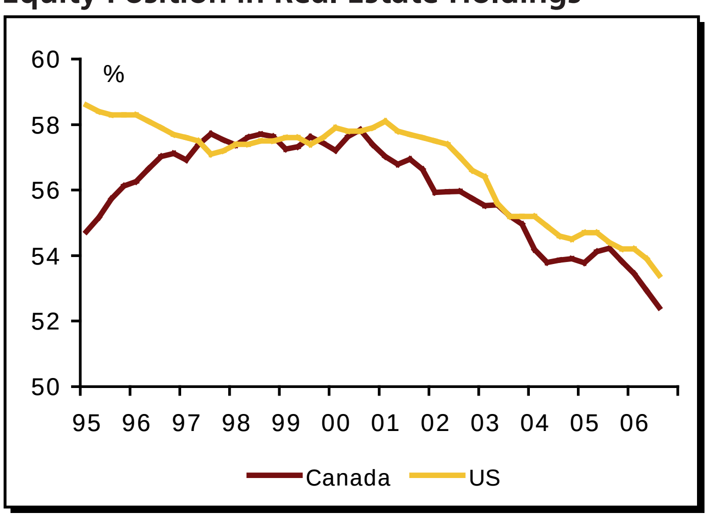
Chart 6
Housing Affordability Rating by Nation



Source: CIBCWM based on Demographia 2007

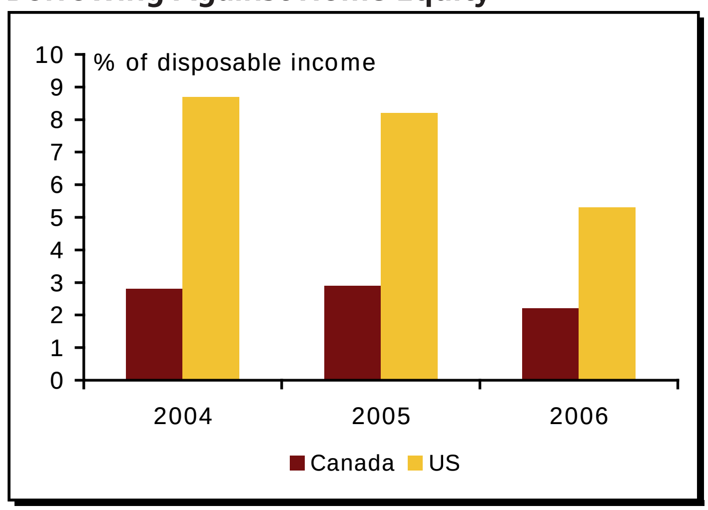
Household Equity Position in Real Estate — That is, how much of total real estate assets held by Canadians is equity and how much is debt. Interestingly, Chart 7 reveals that the situation in the US and Canada is roughly the same. In both countries the equity position fell by 4-5 percentage points since 2001 and as of December 2006, Canadian homeowners had, in fact, marginally lower equity position on their houses compared to American households.

Chart 7
Equity Position in Real Estate Holdings



Borrowing Against Home Equity — An important factor in the US housing saga over the past few years. In both 2004 and 2005, borrowing against home equity mushroomed to a record high of no less than 8% of disposable income. Since then, borrowing has been slowing notably and all indications are that in 2007, the pace of home equity withdrawal will fall back to 1%-2% of disposable income — roughly in line with its long-term average. In Canada, borrowing against home equity also played an important role in overall mortgage market activity, but as illustrated in Chart 8, the relative importance of this factor was roughly half of that seen south of the border.

Chart 8
Borrowing Against Home Equity



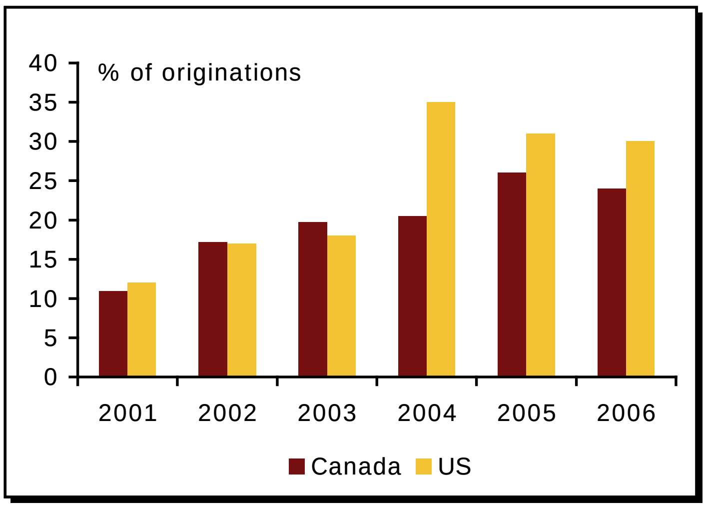
Sources: Federal Reserves, CIBCWM

Liquidity — Since 2001, both countries have seen a significant increase in cash and cash equivalent positions held by households. We estimate that in Canada, households still sit on no less than $45 billion of extra cash while in the US the number is roughly $570 billion. From a macro perspective this amount of cash can be seen as an insurance for potential difficulties in the credit market in both countries. But a closer look at the numbers suggest that most of this extra cash is being held by individuals age 55+ who carry very little debt. In other words, the people with the money are not the same people with the debt. So neither in the US nor in Canada, the liquidity factor provides an additional insurance against credit market problems.

Variable / Fixed Split — From debt service perspective, a high proportion of variable rate mortgages suggests increased vulnerability to higher interest rates. Note that until 2003, the share of variable rate mortgages in Canada was roughly in line with what it was in the US. But since 2004, adjustable rate mortgages in the US rose in popularity and at a much faster pace than in Canada (Chart 9). But before we conclude that it is a negative for the US, we have to investigate the nature of those individuals that took those adjustable rate mortgages. After all, to the extent that those adjustable rate mortgages were taken by low-risk borrowers as a prudent debt management/cash flow practice, then such action is not only reasonable but, in fact, desirable.

Chart 9

Variable Rate Mortgages



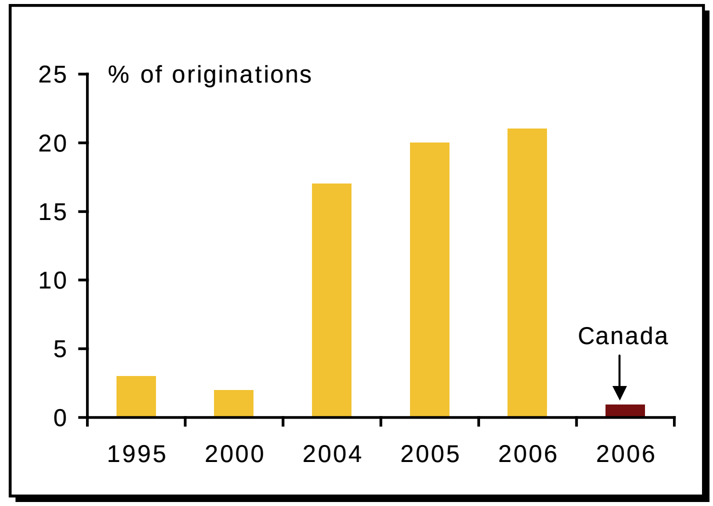
Sources: HHS 2006, MBA, Financial Monitor, CIBCWM

Interest-Only Mortgages — Interest-only mortgages in the US are not something new, they have been around for many years. But in recent years, they reached a record high of no less than 20% of mortgage originations. Furthermore in the US, more than one-third of adjustable rate mortgages originated in 2005 were also interest-only — adding another dimension of risk to this portfolio. In Canada, interest-only loans are just in their infancy. As of 2006, interest-only mortgages accounted for less than 1% of the mortgage originations (Chart 10). No doubt this new product will grow fast in Canada, but for now, it is not a risk issue for the Canadian mortgage market.

Sub-Prime — Until recently this term was known only among mortgage professionals. Now every casual newspapers reader knows very well what a sub-prime mortgage means. The rising delinquency rate in the US sub-prime market is at the heart of the difficulties facing the American mortgage market, with some negative implications for the stock market as a whole. At this point, it is far from clear that the sub-prime problem in the US will filter through to prime businesses and the economy as a whole. But the very existence of such a risk is a clear negative for consumer and business sentiment.

Chart 10

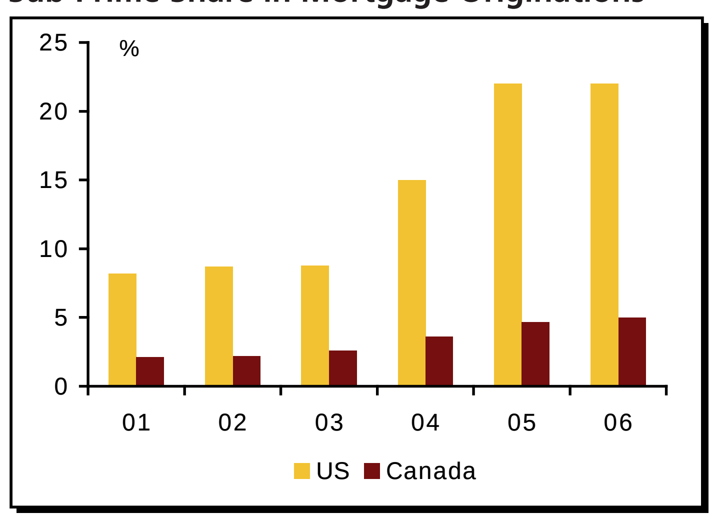
Interest-Only Mortgages (US)



How relevant is this issue for Canada? Our recent research on the topic suggests that the sub-prime market in Canada currently accounts for roughly 5% of total mortgage originations — well below the 22% for the US market (Chart 11). With total mortgage outstanding at an estimated 3%, the Canadian market is also significantly smaller than the 13% share seen in the US. Note that the sub-prime market in Canada, however, is rising fast (roughly 25% on a year-over-year basis) but given its relatively small size, the impact on the market as a whole is still marginal at best.

Chart 11

Sub-Prime Share in Mortgage Originations

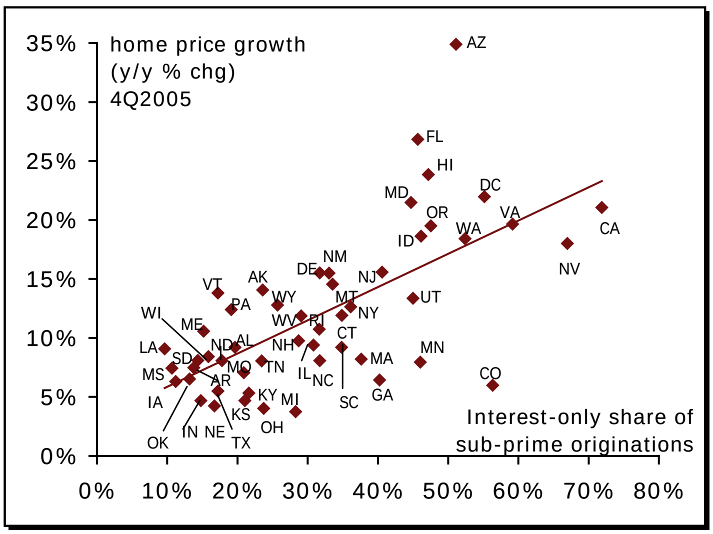


Sources: HHS 2006, MBA, Financial Monitor, CIBCWM

Also note that the characteristics of the sub-prime in Canada are more conservative than the ones seen south of the border. For example, only 22% of sub-prime borrowers in Canada use variable rate mortgages — half the rate seen in the US. As well, as illustrated in Chart 12, there has been a very high correlation between the use of exotic mortgages and the increase in house prices in the US — suggesting that many of those mortgages were largely used for affordability reasons. In Canada so far, there is no evidence pointing to this trend, as sub-prime usage is not highly correlated with house price appreciation (Chart 13).

Chart 12

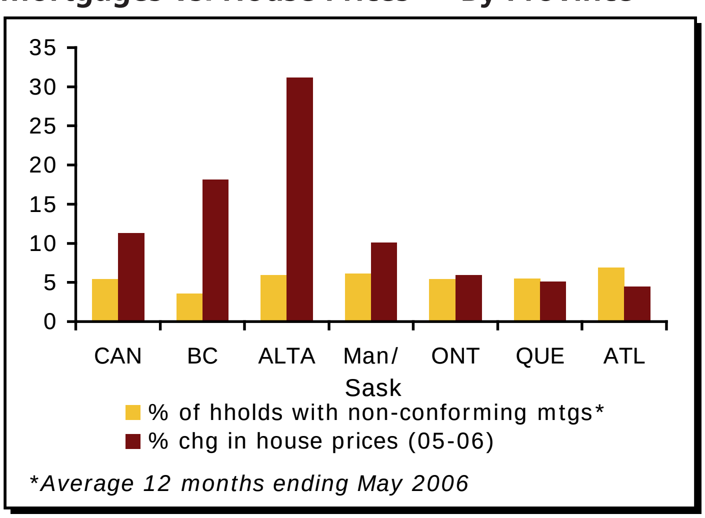
US Exotic Mortgages Most Popular Where Prices Rose Fast



Sources: Loan Performance Corporation, CIBCWM

Chart 13

% of Households with Non-Conforming Mortgages vs. House Prices — By Province

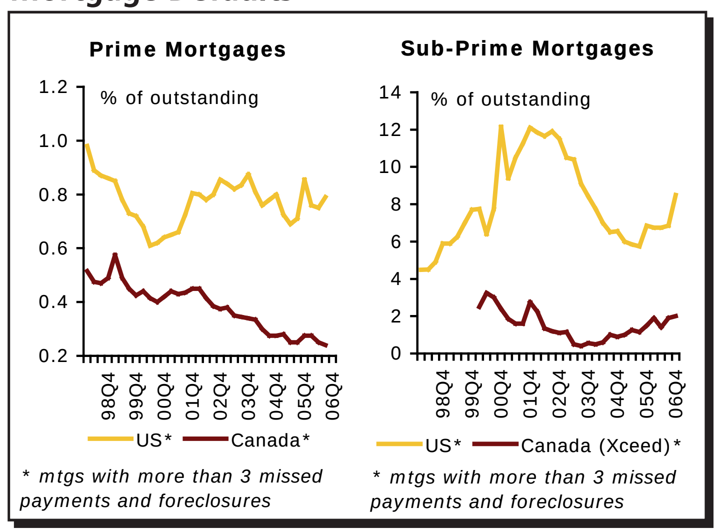


Sources: Financial Monitor, CREA

Loan Defaults — The current focus is on the rapidly rising default rate in the sub-prime category in the US. So far, we have not seen a significant increase in default rates in US prime mortgages but even at their current low level, they are well above the rates seen in Canada for prime mortgages — which are currently at a record low (Chart 14, left). As for the sub-prime default Canada/US comparison, there is no national data available for Canada, but using information obtained from Xceed, one of Canada's largest sub-prime providers, and to the extent that those figures represent the sub-prime industry as a whole, one can learn that so far the Canadian sub-prime market is not experiencing any significant surge in mortgage defaults (Chart 14, right).

Chart 14

Mortgage Defaults



Sources: MBA, XCEED, CIBCWM

Bottom Line

Based on the discussion above (as summarized in Table 1), it appears that the Canadian mortgage market is in a much better shape than the US. Our view is that the price appreciation in the US housing market over the past two years was, in many ways, artificial — boosted by aggressive lending and irresponsible borrowing. The Canadian market by comparison has been much more boring during the housing market boom of the past ten years. Granted, some of those exotic mortgages are now being offered in Canada, but their share in the market is too small to have any material impact. And while we expect housing market activity in Canada to level off in the coming year or two, all the indicators suggest that it will be a relatively soft landing, with limited damage to the quality of the mortgage business as a whole.

Table 1
Mortgage Risk Table

Risk Indicator	Canada More at Risk	US More at Risk	Same Degree of Risk
Debt to income ratio		x	
Net wealth as a share of disposable income		x	
Share of real estate in total household assets		x	
House prices		x	
Affordability			x
Household equity position in real estate			x
Borrowing against home equity		x	
Liquidity			x
Variable / Fixed split		x	
Interest-Only mortgages		x	
Sub-prime		x	
Default Rates		x	