HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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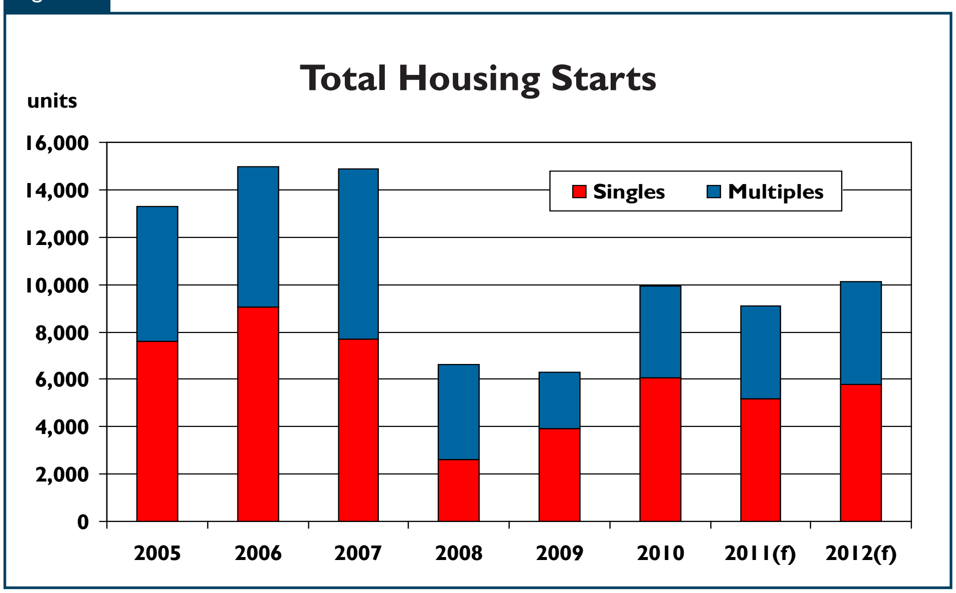
NEW HOME MARKET

Housing Starts to Improve in 2012

Total housing starts in the Edmonton Census Metropolitan Area (CMA) are on pace to reach 9,100 units in 2011, representing a nine per cent decrease from 2010. Production this year has been held down by a slower performance from single-detached builders in the first half of the year. However, strong full-time job creation this year, combined with persistently low mortgage rates and continued economic growth going forward, should bolster demand for homeownership in 2012. Housing starts next year are forecast to increase by 11 per cent over 2011 activity to 10,100 units, for the best performance since 2007. Improvements in 2012 will also be reliant upon rising net migration, continued income growth, lower

Figure 1



Source: CMHC, CMHC Forecast (f)

[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 5, 2011, except for the addition of new information regarding the British Columbia and Nova Scotia shipbuilding contracts of October 19th, 2011.

[2]Multiple Listing Service ® (MLS ®) is a registered trademark owned by the Canadian Real Estate Association.

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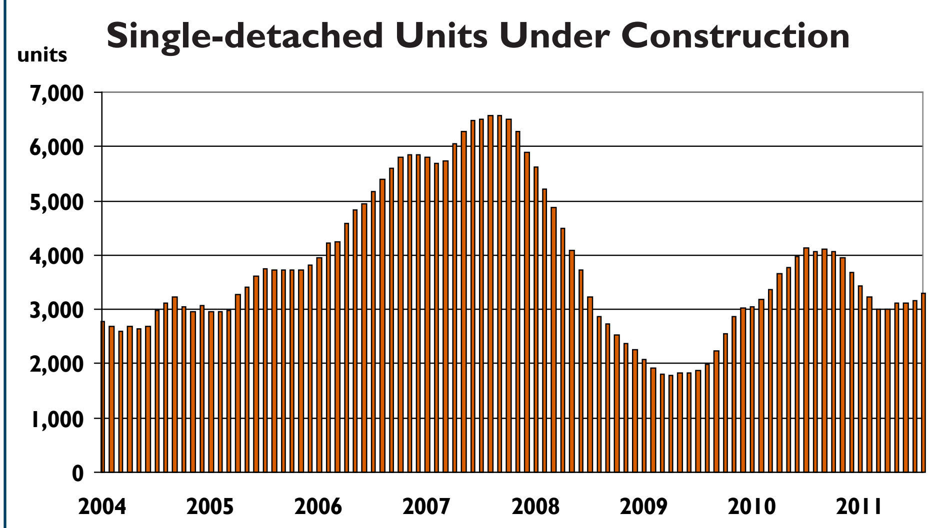
new home inventories and a more balanced existing home market.

Single-detached Starts Increase in 2012

Single-detached starts in Greater Edmonton will decrease this year by 14 per cent from 2010 levels to 5,200 units. Builders lagged last year's pace during the first eight months of 2011, hampered by a softer resale market, higher spec home inventories, and a wet spring that impeded construction. Next year, production is expected to improve by 11.5 per cent to 5,800 units, still below the ten-year average of just under 6,200 units started between 2001 and 2010. This rebound is contingent on a more balanced resale market in 2012 that will help to firm-up prices for existing homes, which in turn should promote more trade-up activity. Modest new home price increases, strong job growth and improved net migration, as well as persistently low mortgage rates, will also support the increase in production next year.

Inventory levels, including show homes, averaged well above 2010 levels during the first eight months of this year. The number of completed and unabsorbed units on hand in August was 29 per cent above a year prior. However, with units under construction in August down by 19 per cent from this time last year, look for both completions and inventories to be reduced in the latter months of 2011. As the stock of non-show home units in inventory trends downward in the fourth quarter, builders will need to bolster production to ensure adequate inventory for prospective buyers in the important spring selling season.

Figure 2



Source: CMHC

New Single-detached Home Prices Rising

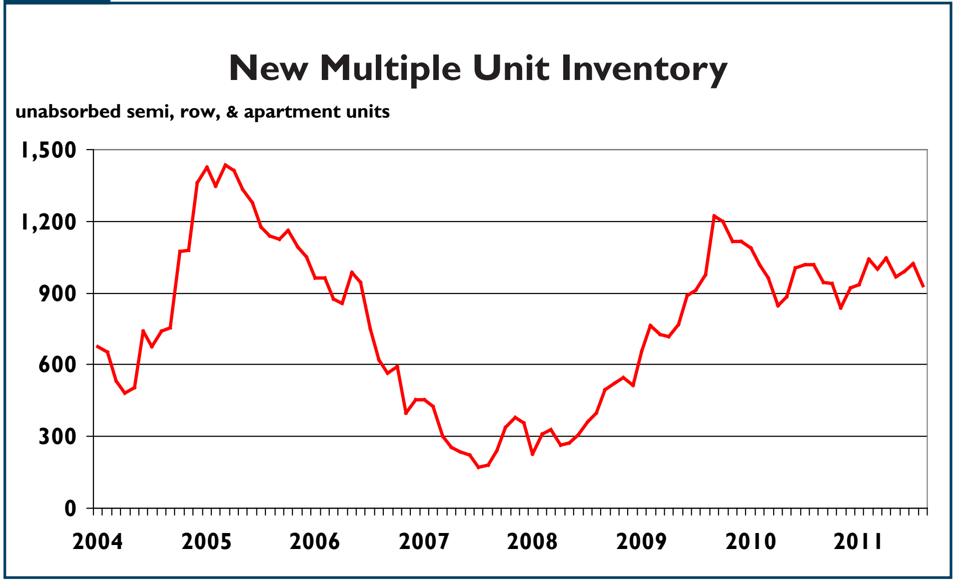
The average single-detached price for units absorbed across the Capital region to the end of August increased by over seven per cent from the first eight months of 2010 to $516,841. Average and median absorbed prices have in general been improving on a year-over-year basis since the fall of last year, largely due to compositional shifts in the product mix. The proportion of homes absorbed for under $450,000 has decreased so far this year in favour of more higher-priced units. Going forward into 2012, we look for these year-over-year changes in average absorbed price to narrow.

Statistics Canada's New House Price Index (NHPI), which measures contractor selling prices in units where specifications remain the same between two periods, has seen only modest gains in recent months and is expected to rise by only one per cent this year. The outlook for single-detached absorbed average prices in 2012 calls for more moderate growth, in line with the increases seen in the NHPI this year. Look for an average absorbed price in 2012 of close to $520,000. The NHPI will rise next year by closer to two per cent as builders see rising prices for land, labour, and building components. This should translate into higher absorbed home prices in the following year.

Multi-family Starts Steady in 2011, up in 2012

Multi-family starts, which include semi-detached, row, and apartment units will total 3,900 units in the Edmonton CMA in 2011, largely unchanged from 2010. Stronger apartment activity, including an upsurge of rental units, will counter slower semi-detached and townhouse (row) construction. In 2012, multiple dwelling starts are projected to exceed 4,000 units for the first time since 2008, as declining condominium inventories bolster the presales needed to finance new buildings. However, next year's production will remain below the ten-year annual average of 4,858 units started between 2001 and 2010.

Figure 3



Source: CMHC

Multiple dwelling inventories stood at 930 units in August, down nine per cent from a year prior. The lion's share of this inventory was condominium apartments, with the heaviest concentration found in Edmonton's North Central district. Inventories in August were at their lowest level across the region since December of last year. Total supply, however, which includes both units under construction and those sitting in inventory, remained above the levels reported this time last year due to a 14 per cent year-over-year increase in units under construction. Multi-unit supply stood at 6,466 units in August, down moderately from the previous month but almost 10 per cent above a year prior. Despite this uptick, the months-of-supply estimate this summer was nonetheless fairly close to longer-term values.

As noted above, the tighter supply conditions anticipated next year combined with the expanding economy should contribute to an upturn of just over 10 per cent in total multiple starts in 2012. One precondition for resurgence in condominium starts will be an improvement in the existing market. Resale price growth has been elusive in 2011, with the market balance favouring buyers. Going into 2012, developers will be looking for a more balanced resale market with firmer prices as an indicator that the market is ready for more new product.

RESALE MARKET

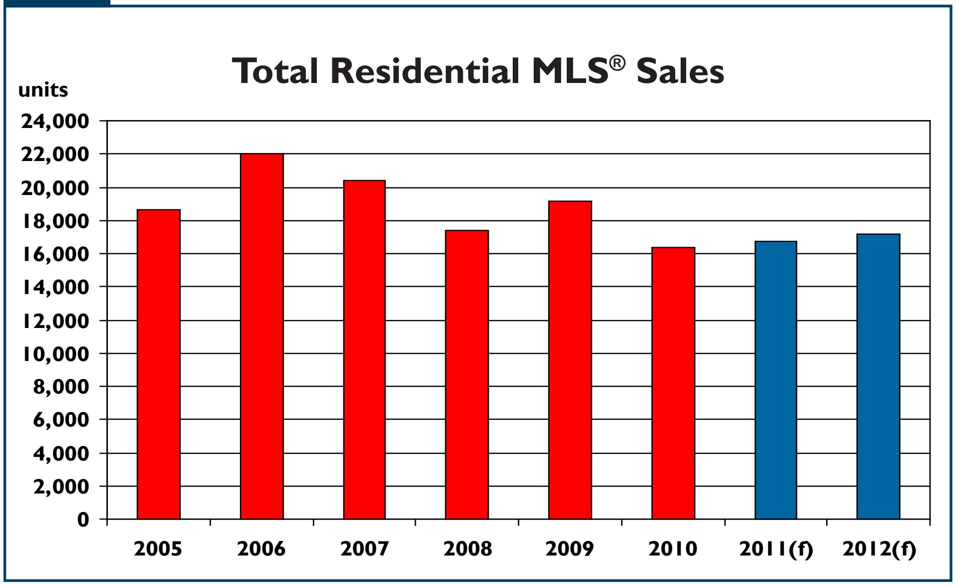
Existing Home Sales Rise in 2012

Residential MLS®[2] sales in the Edmonton region this year will experience modest gains over 2010 and the improving economy will support continued growth in 2012. Despite a slow beginning to this year, sales picked up during the summer months with strong year-over-year gains reported. Sales activity in 2011 should reach 16,700 units, for an increase of two per cent over the 16,403 sales recorded in 2010. Given persistently low mortgage rates, strong job growth, and increased net migration, the upswing will continue in 2012. Expect sales to increase three per cent in 2012 to 17,200 units, slightly below the ten-year annual average of close to 18,000 units.

Active MLS® listings in August were down by five per cent from August 2010 due to a slight uptick in sales so far this year and a moderate decrease in new listings. However, the overall market balance this summer continued to favour buyers. On a seasonally adjusted basis, the sales-to-active listings ratio (SALR) so far this year has yet to exceed the 18 per cent mark, which means that fewer than one in five homes on the market sell in any particular month. The average listing period in the first eight months of 2011 was close to 54 days which is near the boundary of the levels typically associated between buyers' and balanced markets.

Favourable mortgage rates along with resale prices that have largely moved sideways in recent months have combined to keep the cost of homeownership relatively stable this summer. On a year-over-year basis, carrying costs (monthly principle and interest) for an average priced home are actually lower. As such, there has been little in the way of urgency in the resale market. Many prospective buyers may be sitting on the fence awaiting a clearer indication about economic prospects or signs that the costs of ownership are about to rise. The SALR will need to move closer to the 25 per cent mark before home prices begin to firm up across the Edmonton region. More balanced conditions are anticipated this fall which should produce some moderate upward pressure on prices. As we move into 2012, continued growth in the economy combined with a tighter rental market should lift demand for home ownership. Firming prices will provide some incentive for fence-

Figure 4



Source: RAE, CMHC Forecast (f)

sitters to make a move, particularly if an improving global economy next year brings with it suggestions of higher financing costs sooner rather than later.

Resale Home Prices Move Upward in 2012

With market conditions largely favouring buyers, the average MLS® residential resale price this year will decrease marginally to $328,000, down from the $328,803 annual average recorded in 2010. This outlook implies that conditions begin to firm up during the later months of 2011 so that prices begin to rise on a month-over-month basis going into the new year. In 2012, a more balanced market will provide some moderate upward momentum for home prices, with the annual average expected to reach $336,000, representing an increase of 2.4 per cent above the current year. Increased trade-up buying will bolster the proportion of units sold for over $350,000, and this will contribute to the rise in average sale price next year.

As noted above, carrying costs this year have experienced a slight decline from 2010 levels due to slightly lower average prices and a reduction in mortgage rates compared with the annual average for 2010. Despite mortgage rates remaining favourable in 2012, the typical cost of homeownership will rise moderately due to the impacts of higher prices.

Carrying costs next year will nonetheless remain well below the peak levels witnessed in 2007 and 2008 when both interest rates and home prices were higher.

RENTAL MARKET

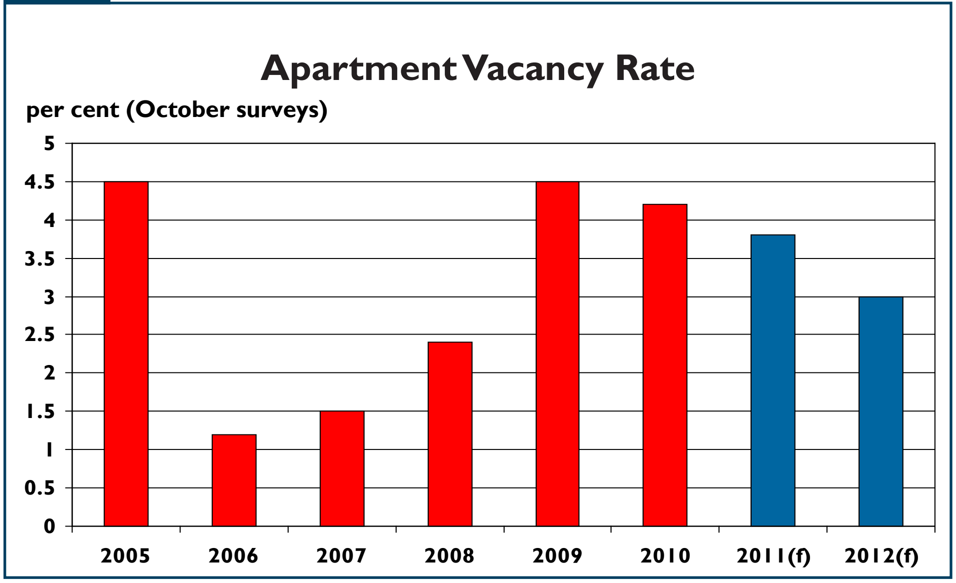
Vacancies Continue to Decrease in 2012

Apartment vacancy rates across the Edmonton region will continue to decline this year due to a stronger economy and an improving labour market. Further tightening is expected in 2012, with demand driven by stronger job creation and increased in-migration. CMHC's April 2011 Rental Market Survey reported an apartment vacancy rate of 4.7 per cent compared with 5.2 per cent in April 2010. This came on the heels of a 0.3 percentage point downward movement recorded in the October 2010 survey. CMHC anticipates a vacancy rate this October of close to 3.8 per cent compared with 4.2 per cent in October 2010. Despite an uptick in rental apartment

Figure 5

Source: RAE, CMHC Forecast (f)

Figure 6



Source: CMHC, CMHC Forecast (f)

construction this year, vacancies will continue to decrease in 2012 to around three per cent.

One continuing factor that obscures the outlook for the rental market is the status of the secondary rental market. Unlike the purpose-built commercial rental sector, vacancies in investor-owned and rented condominiums were on the rise in 2010. The number of condominiums identified as rental units in the CMHC fall survey rose from 8,415 in 2009 to 11,244 in 2010. As a result, the proportion of condominium units indentified as investor-owned and rented increased to 28.7 per cent of the total condominium universe, compared with 24.2 per cent in 2009. Meanwhile, inventories in both the new and existing condominium homeowner market have remained elevated this year but are expected to decrease in 2012. It remains uncertain, however, as to the volume of investor-owned units currently being rented that will slip back into the homeowner market in the months ahead as markets become more balanced. As such, the indirect impact of the supply situation in the secondary rental market creates a moderate level of uncertainty for commercial landlords.

Higher Rents in 2012

As apartment vacancies continue to decrease this year, rental rates across the Edmonton CMA will be heading upward. The average two-bedroom unit will rent for close to $1,030 by the fall of 2011, for an increase of $15 per month over the $1,015 average rent recorded in October 2010. Rents for two-bedroom apartments this year will still remain below the previous October survey peak of $1,034 reported in 2008.

In addition to rent increases, landlords will also be offering fewer incentives in 2011 as occupancy levels improve. In last year's October survey, close to one quarter of Edmonton's rental buildings offered some type of incentive, the highest level since 2004. These incentives, typically used to reduce turnovers and entice new tenants, will become less common as property managers are able to push through rent increases in an increasingly tight rental market. By the fall of 2012, the average two-bedroom apartment rent will hit an all-time high of $1,060 per month.

ECONOMIC OUTLOOK

Steady Growth into 2012

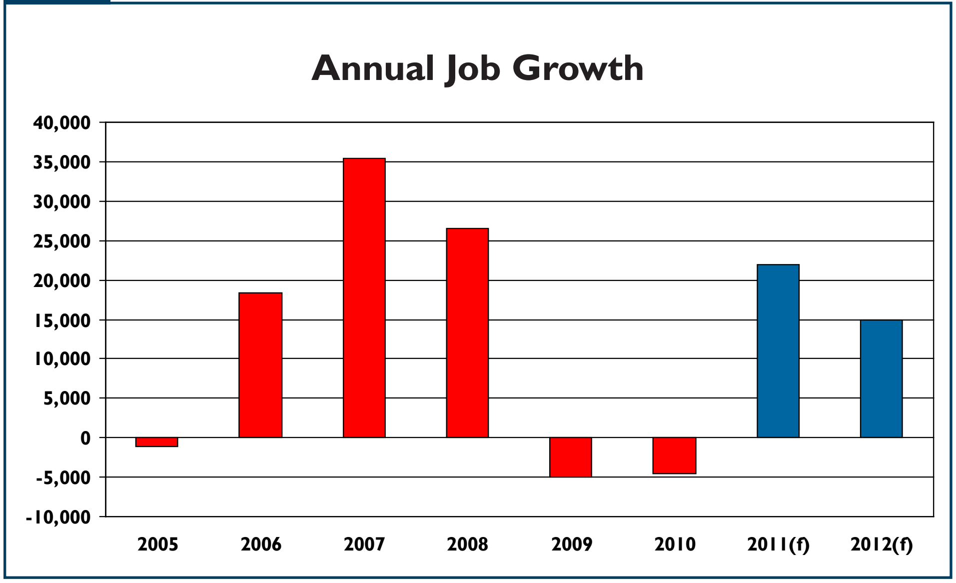
Despite increased concerns about the strength of the global recovery in recent months, the outlook for the Alberta Capital region remains positive for the balance of 2011 and the year to come. Favourable world oil prices, which are being supported by continued strong demand from the emerging economies, will underpin the expansion.

Capital spending in the energy sector will be upheld by adequate cash flows from conventional and heavy oil operations as well as bitumen production. Expansions in oil sands, pipeline and upgrading facilities remain an integral part of the forecast. While natural gas prices remain suppressed, increased oil drilling has helped keep the oilfield service sector in reasonable shape.

Long-term infrastructure spending by government will also remain an important segment of the economic recovery. Transportation-related projects around the Edmonton area include the northern leg of the light-rail transit system to NAIT, the Northeast section of Anthony Henday ring road, and the continued expansion at the Edmonton International Airport in Leduc.

Following a modest reduction in 2010, Greater Edmonton has recorded strong job growth so far this year, particularly in full-time positions. Construction and manufacturing along with wholesale and retail trade

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

all reported strong year-over-year increases to the end of August. On a seasonally adjusted basis, employment levels this summer approached the pre-recession peak that occurred late in 2008 and early 2009. Employment across Metro is expected to increase in 2011 by 3.5 per cent or 22,000 jobs, representing the best year for growth since 2008. Next year, job creation should average close to 2.3 per cent, representing a net increase in annual employment of around 15,000 jobs.

After peaking at nearly seven per cent in 2010, the unemployment rate will average close to 5.5 per cent this year and 5.0 per cent in 2012. With a jobless rate well below the anticipated national average, this will encourage more newcomers into Greater Edmonton. With unemployment levels dropping this year, wage gains have also improved. In the first eight months of 2011, Statistics Canada's Average Weekly Earnings for Edmonton rose by 3.2 per cent on average compared with a modest 0.8 per cent average rise during January to August of 2010. The improvements in income growth associated with a tighter labour market will help to underpin demand for housing going into 2012.

Population growth in the Edmonton area is expected to increase both this year and in 2012, largely due to higher net migration. Net migration into the region during the 12-month period ending June 2010 was estimated by Statistics Canada at 11,055 newcomers. This represented a significant reduction from the previous period and was largely the result of a downturn in the number of temporary foreign workers. With labour markets showing considerable improvements in 2011, we look for a 27 per cent gain in net migration to 14,000 persons this year. In 2012, total net migration should reach 16,000 persons.

While the overall economic outlook for the Edmonton CMA and the province of Alberta remains positive this fall, the recent global economic uncertainty presents some increased risks to the forecast. On the upside, mortgage rates should remain favourable throughout the forecast period. This will help sustain demand, since higher rates would otherwise magnify the impact of rising prices on carrying costs next year. A potential downside risk is a slowing economic performance from key trading partners, which would undermine oil and gas exports and discourage energy sector investment.

TRENDS IMPACTING HOUSING

Mortgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Short term mortgage rates and variable mortgage rates are expected to remain at historically low levels. The outlook also assumes that mortgage rates will remain relatively flat until late in 2012. This will continue to support housing demand.

Forecast Summary
Edmonton CMA
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	17,369	19,139	16,403	16,700	1.8	17,200	3.0
MLS® New Listings	40,059	30,696	33,131	32,500	-1.9	31,000	-4.6
MLS® Average Price ($)	332,852	320,378	328,803	328,000	-0.2	336,000	2.4
New Home Market							
Starts:							
Single-Detached	2,613	3,897	6,062	5,200	-14.2	5,800	11.5
Multiples	4,002	2,420	3,897	3,900	0.1	4,300	10.3
Starts - Total	6,615	6,317	9,959	9,100	-8.6	10,100	11.0
Average Price ($):							
Single-Detached	511,989	543,243	490,128	515,000	5.1	520,000	1.0
Median Price ($):							
Single-Detached	471,850	460,000	429,900	451,000	4.9	457,000	1.3
New Housing Price Index (% chg.)	1.0	-11.2	-0.8	1.0	-	1.9	-
Rental Market							
October Vacancy Rate (%)	2.4	4.5	4.2	3.8	-	3.0	-
Two-bedroom Average Rent (October) ($)	1,034	1,015	1,015	1,030	-	1,060	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	642,900	637,900	633,400	655,400	3.5	670,400	2.3
Employment Growth (%)	4.3	-0.8	-0.7	3.5	-	2.3	-
Unemployment rate (%)	3.7	6.7	6.7	5.5	-	5.0	-
Net Migration	16,438	20,248	11,055	14,000	26.6	16,000	14.3

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 5, 2011.

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