HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

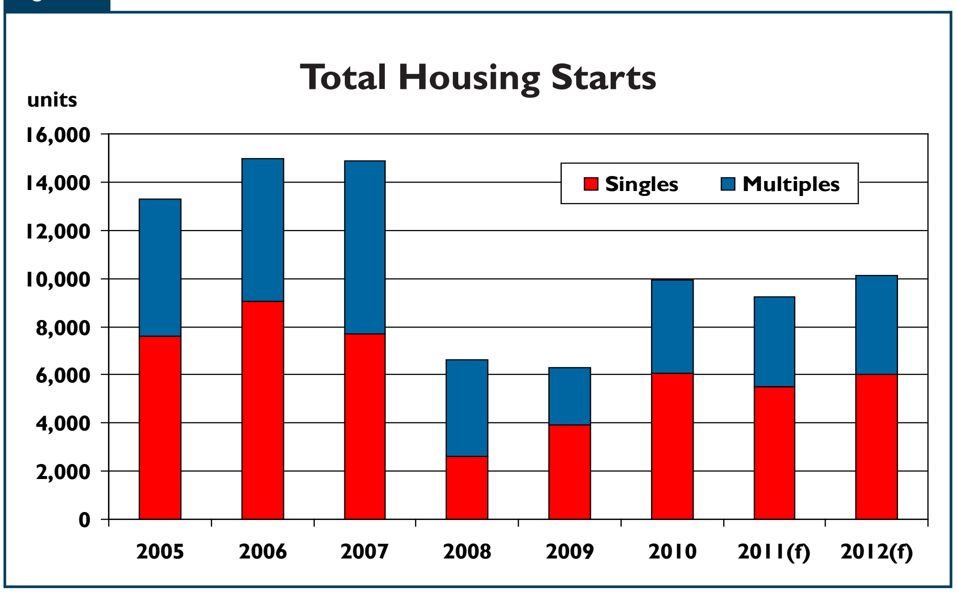
Date Released: Spring 2011

NEW HOME MARKET

Housing Starts Moderate in 2011

Following a 58 per cent increase in 2010, total housing starts across the Edmonton Census Metropolitan Area (CMA) will moderate by seven per cent this year to 9,250 units. New housing activity began 2010 with considerable strength which faded as the year progressed due to inventory concerns in both the new and resale markets. So far this year, builders fell short of 2010's first quarter volumes due to higher than average snowfalls, a continued slow resale market, and adequate new unit supply levels. Production this year should improve in the months ahead but will nonetheless fall short of 2010 totals. In 2012, improved economic growth and stronger net migration will lift housing starts to 10,100 units, for a gain of 9.2 per cent. Next year's

Figure 1



Source: CMHC, CMHC Forecast (f)

The forecasts included in this document are based on information available as of April 28, 2011.

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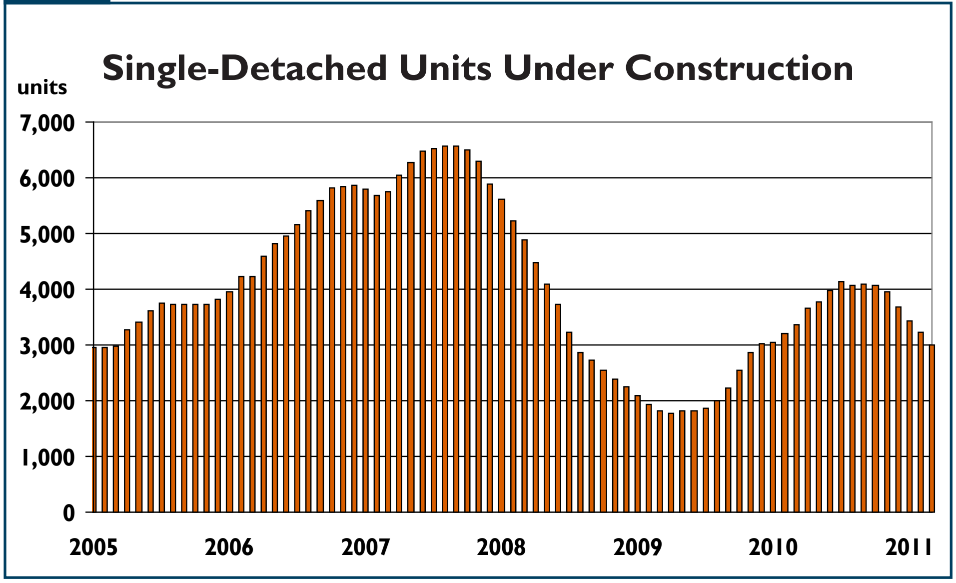
performance will represent the best year for the home building industry since 2007.

Single-Detached Starts to Improve in 2012

Following a robust performance in the first nine months of 2010, single-detached starts cooled during the fourth quarter and the slowdown continued into the early months of this year. While activity levels are expected to firm up going forward, total volumes will fail to eclipse last year's tally. Single-detached starts in 2011 will decrease by nine per cent to 5,500 units. A more balanced resale market in 2012 will support modest price gains for existing homes, and this will encourage more trade-up activity. Look for single-detached starts to approach the 6,000 unit mark in 2012, similar to levels witnessed in 2010 but somewhat below the ten-year average of 6,177 units started between 2001 and 2010.

Compared with the first three months of 2010, single-detached starts decreased by 43 per cent in the first quarter of 2011 as builders responded to rising new unit inventories and a resale market still favouring buyers. The inventory of complete and unabsorbed units, including show homes, was up by 55 per cent year-over-year in March, representing the highest level since June 2009. However, total supply levels for single-detached units, which include inventory plus units under construction, decreased year-over-year in March for the first time since November 2009. With units under construction in March down by 11 per cent from a year prior, completion levels will begin to moderate in the coming months and this will help reverse the inventory accumulation that began last fall. As inventories move lower, builders will begin to ramp up production to have sufficient inventory on hand for the 2012 spring selling season.

Figure 2



Source: CMHC

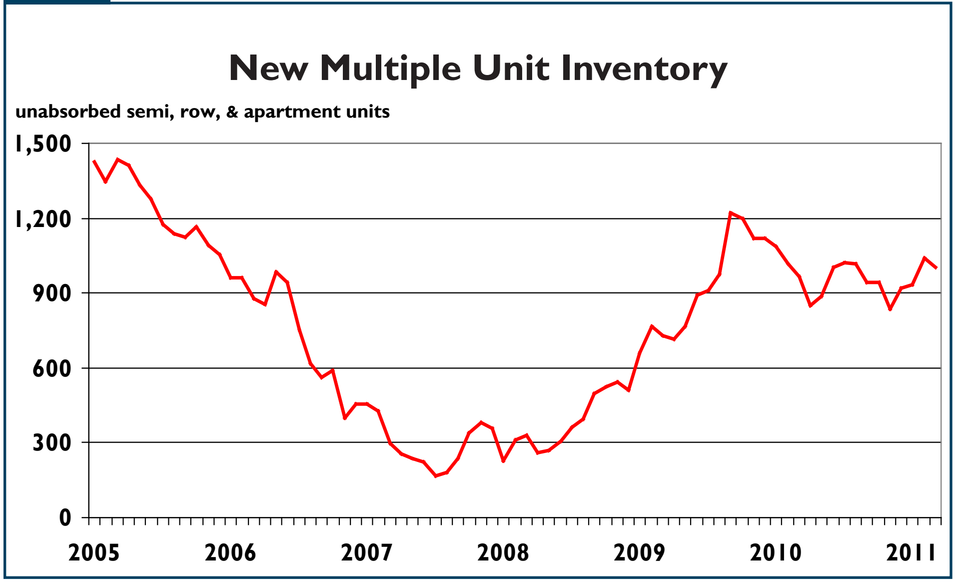
Single-detached Prices Show Gradual Improvement

To the end of March, average single-detached absorbed prices across Metro increased by over seven per cent from the first quarter of 2010 to $502,140. These gains arose partially due to compositional shifts in the sales mix, with fewer units being absorbed at prices below $450,000 compared with the first three months of last year. While monthly median values have been increasing on a year-over-year basis since the fourth quarter of 2010, they remain well below the peak levels reported in the first quarter of 2009. CMHC's outlook for absorbed average prices for 2011 calls for only modest growth of one per cent, in line with the minimal gains seen in Statistics Canada's New House Price Index (NHPI) in recent months. In 2012, the average absorbed price will increase by 1.8 per cent to around $504,000.

Multiple Unit Starts to Pull Back in 2011

Multi-family starts, consisting of semi-detached, rows, and apartment units, will reach 3,750 units in the Alberta Capital region in 2011, representing a four per cent decrease from last year's count of 3,897 units. In 2010, multiple starts increased by 61 per cent from the previous year, with new apartment activity more than doubling the volumes reported in 2009. However, production levels this year will fall short of 2010 levels due to elevated inventories this spring and a resale market that will not reach balanced conditions until the summer at the earliest. As inventories begin to trend downward this year, developers will be able to increase the presales they need to finance new projects. Lower land prices are also improving the economics of new rental housing, and this activity should improve albeit modestly. In 2012, multiple starts will approach 4,100 units, for an increase

Figure 3



Source: CMHC

of nine per cent over 2011. Next year's production will remain below the ten-year annual average of 4,858 units that were recorded between the years 2001 and 2010.

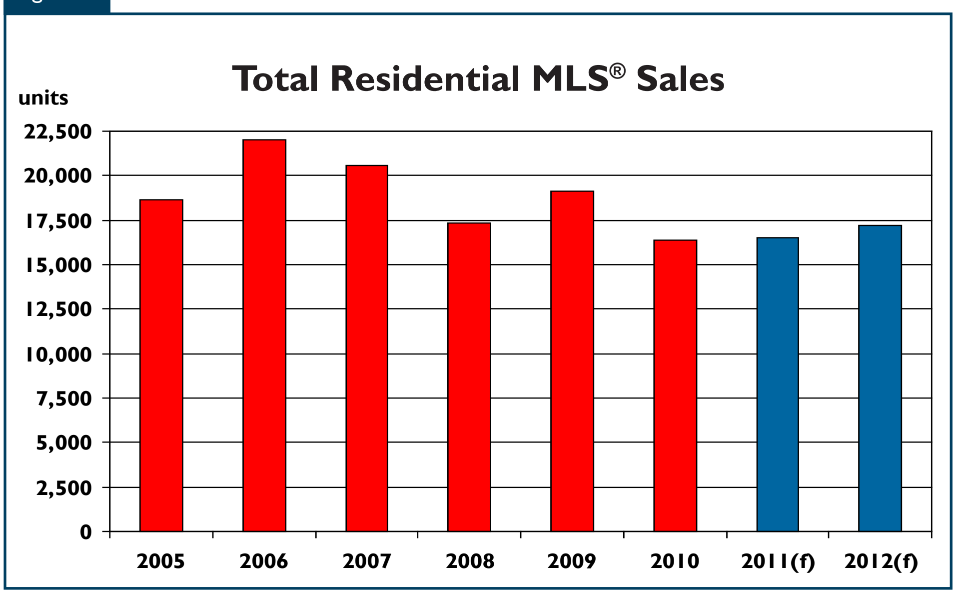
Multi-unit starts were up by 20 per cent year-over-year in the first quarter but this momentum over last year should narrow as the year progresses. While the overall outlook for new multi-family construction is improving in 2011, a number of challenges confront the industry. In the new condominium market, inventories in Greater Edmonton remain elevated, with an ample supply of completed and unoccupied high-rise apartment units in the Downtown and medium-rise apartments in suburban areas such as West and Southwest Edmonton. The existing market for resale condominiums has been favouring buyers for the past year, with prices trending downward on a month-over-month basis. At 1,002 units, the inventory of completed and unoccupied multiple units at the end of March was four per cent higher than this time last year. With units under construction in March up by six per cent from a year earlier, the prospects for a quick reduction in multiple unit inventory seems unlikely. Absorption rates in the first quarter trail this time last year, although they should improve going forward as the resale market becomes more balanced and an improving economy spurs demand. Meanwhile, months of supply estimates are close to historical longer-term values. With developers anticipating tighter conditions in 2012, this should also encourage the planning of new projects in the months ahead.

RESALE MARKET

Existing Home Sales to Improve in 2012

Following a 14 per cent decline in 2010, total residential MLS® sales in Greater Edmonton will remain largely stable this year at 16,500 units. Despite a slow first quarter, look for demand to improve as the year progresses due to an improving economy and a slightly tighter rental market which will encourage more newcomers to consider homeownership. Firming resale prices and the growing likelihood of an up-tick in mortgage rates in the second half of the year will also pull some prospective buyers off the fence. In 2012, the upward trend will continue with total MLS® sales increasing by over four per cent to 17,200 units. While this approaches the sales

Figure 4



Source: RAE, CMHC Forecast (f)

reported in 2008, activity levels will fall short of the ten-year annual average of close to 17,950 units reported between 2001 and 2010.

Residential MLS® sales in the first three months of 2011 decreased from a relatively strong first quarter in 2010 by nine per cent. On a seasonally adjusted basis, the trend in recent months has been relatively flat although modest gains were starting to emerge in February and March. Active listings, meanwhile, were largely unchanged year-over-year in March with higher listings for single-detached units being countered by fewer condominiums listed for sale. The sales-to-active listings ratio stood at 22 per cent in March 2011, down slightly from this time last year. The ratio has been slowly trending upward from buyers' market territory and appears poised to move into the balanced market range during the second quarter. However, average listing periods remain elevated by historic standards and demand will need to improve this spring if the market is to become more balanced and provide support for price growth.

Figure 5

Source: RAE, CMHC Forecast (f)

Resale Home Prices to Increase in 2012

Despite some price softening in the fourth quarter, the average MLS® residential resale price for 2010 rose by 2.6 per cent from the previous year to $328,803. This followed two consecutive decreases in annual average prices in 2008 and 2009. Buyers' market conditions during the first quarter of 2011 put additional downward pressure on prices. The average resale price fell year-over-year by 2.6 per cent in the first three months of 2011 to $319,314. A return to more balanced market conditions is expected in the months ahead and month-over-month price growth will lift this year's annual average to near the 2010 level. The average residential price reported on the MLS® will increase by 0.1 per cent to $329,000 in 2011, with most of the gains reported in the second half of the year. In 2012, a more balanced market will provide some moderate upward momentum for home prices, with the annual average expected to reach $337,000, representing an increase of 2.4 per cent above the current year.

Home Ownership Costs to Increase in 2012

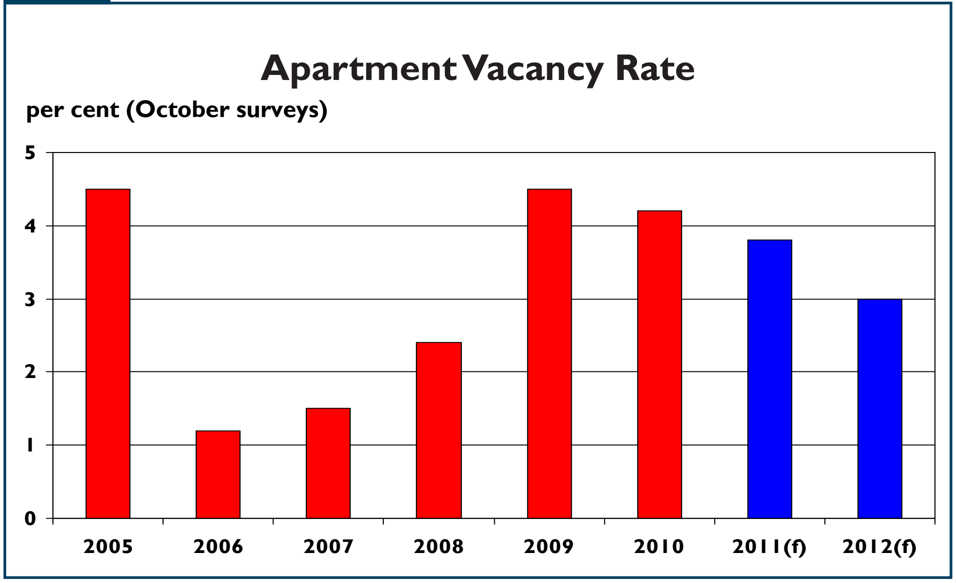
Despite a modest decline in mortgage rates last year, higher average prices in 2010 increased the carrying costs to purchase a typical MLS® home in Edmonton. Based on a 25 year amortization and a ten per cent down payment, mortgage servicing costs on the average resale home rose by 2.2 per cent in 2010 to $1,833 per month. Carrying costs this year will experience a moderate decline from 2010 levels of near 1.3 per cent as the annual average price remains relatively stable and mortgage rates average below 2010 levels. In 2012, the typical cost of homeownership will rise by close to seven per cent due to the combined impacts of higher prices and upward trending interest rates. However, average carrying costs next year will remain well below the peak levels reported in 2007 and 2008.

RENTAL MARKET

Vacancies Trending Downward

Apartment vacancy rates across Greater Edmonton decreased in 2010 thanks to improved demand associated with the growing economy. Further reductions are expected over the next two years as the economy continues to improve. The apartment vacancy rate decreased to 4.2 per cent in October 2010 from 4.5 per cent a year prior. Reduced unemployment this year will encourage more newcomers to the region. While rental starts should increase modestly this year, the new supply will not keep pace with the expected rise in demand.

Figure 6



Source: CMHC, CMHC Forecast (f)

By this October, vacancies in rental apartments will have decreased to around 3.8 per cent. Further reductions are anticipated in 2012, despite a modest uptick in rental completions. Apartment vacancies in the 2012 fall survey will approach the three per cent mark, representing the lowest level since the fall of 2008.

One factor adding some uncertainly to the forecast for rental apartment vacancies is the outlook for the secondary rental market, in particular investor-owned and rented condominiums. CMHC's October 2010 secondary rental market survey reported a growing number of condominium apartments identified as rental units which provide additional competition for the commercial rental stock. Despite a reduction in vacancies in the purpose-built commercial rental market in 2010, the vacancy rate in Edmonton's investor-owned and rented condominiums increased last year. With condominium inventories remaining elevated in 2010, some investors chose to rent out their new units rather than sell them at reduced prices. As inventories in both the new and existing condominium homeowner market subside in 2011, some of the investor-owned units currently being rented will revert back to the homeowner market. How fast this happens and the relative volumes involved are risks in the outlook for both the rental and homeowner apartment markets both this year and in 2012.

Rents Rise as Supply Tightens

With apartment vacancies averaging above four per cent last year, rent levels remained relatively stable compared with 2009. In October 2010, an average two-bedroom apartment rented for $1,015 per month, unchanged from a year prior. With apartment vacancies trending downward, rental rates should start firming in the months ahead. A typical two-bedroom unit will rent for close to $1,030 by the fall of 2011, representing a $15 per month average increase over the previous year. CMHC also expects fewer buildings to be offering incentives in 2011 as occupancy levels improve. By the fall of 2012, the average two-bedroom apartment rent will hit an all-time high of $1,060 per month.

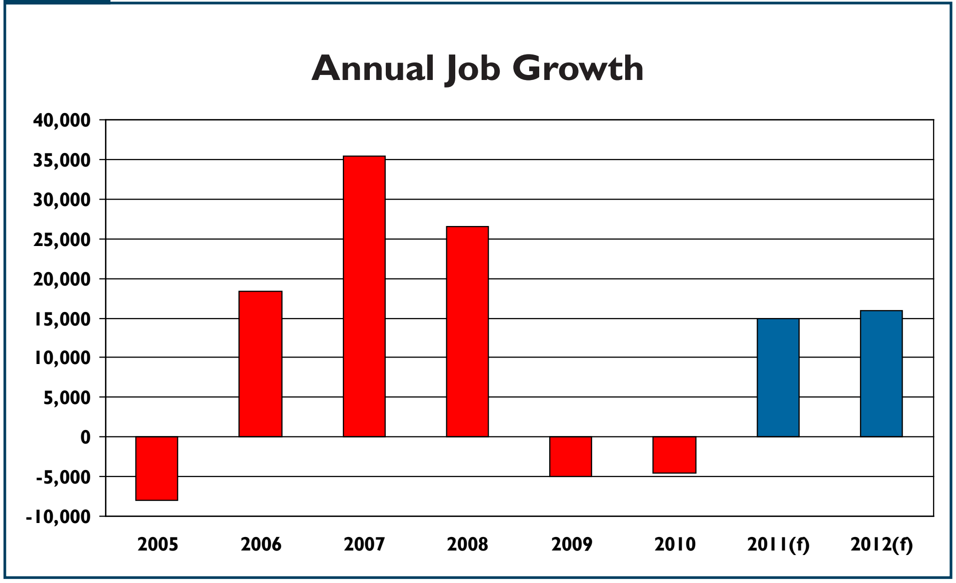
ECONOMIC OUTLOOK

Energy Sector Driving Growth

With elevated world oil prices improving cash flow within the energy sector, increased capital spending is anticipated throughout the forecast period. The global economic downturn delayed a number of oil sands and related projects in the Metro Edmonton area and the North Central parts of the province. However, favourable world oil prices will heighten investment in oil sands and upgrading facilities, bolstering employment in construction, engineering, fabrication and transportation. Heavy oil activity in areas northeast of Edmonton will also bring benefits to the local economy. While natural gas prices have yet to recover, the higher oil prices will also lift drilling activity into 2012 and give the region's oilfield service industries a much-needed boost.

Commercial property markets in the Capital region are also expected to benefit from increased activity among various participants in the energy sector and non-residential construction should remain buoyant both this year and next. Meanwhile, transportation-related infrastructure spending will continue in Edmonton, with further expansion of light-rail transit and the Anthony Henday ring road. However, both labour and material cost pressures are expected to return after a brief hiatus associated with the economic downturn. As such, production costs

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

are expected to creep upward in the construction sector, putting some pressure on builders' margins in an environment of modest price gains.

Following a slight decrease in 2010, employment across Metro is expected to increase this year by 15,000 jobs, representing a gain of 2.4 per cent. Further increases of near 2.5 per cent are anticipated in 2012 as the economic recovery gains traction. Unemployment will average close to 5.7 per cent in 2011, down from the 6.9 per cent annual average reported in 2010. In 2012, unemployment will average close to 5.3 per cent, helping to encourage increased net migration to Greater Edmonton.

Estimated net migration into the Capital region in 2010 totalled 11,055 newcomers, representing a sizable decrease from the 20,284 total net migrants reported in the previous year. Net migration in 2010 was undercut by a larger net outflow of non-permanent residents, most of which were temporary foreign workers. As labour markets improve this year, look for a 9.5 per cent gain in net migration to 12,100 persons. In 2012, total net migration should exceed 13,500 persons for the first time since 2009, helping to underpin stronger demand for housing throughout Metro.

Growth in average weekly earnings moderated across Greater Edmonton in 2010 due to the rising number of job seekers making labour markets more competitive. However, with unemployment levels expected to subside in the months ahead, wage gains will strengthen. In the first quarter of 2011, for example, the stronger demand for labour has already started to push wages upward. Statistics Canada's Average Weekly Earnings for Edmonton rose by 2.8 per cent on average in the first quarter, compared with a modest 0.5 per cent average rise in the first three months of 2010. The anticipated income growth across the region will help to improve consumer spending on goods and services, and bolster demand for housing.

MORTGAGE RATE OUTLOOK

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. 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 in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary
Edmonton CMA
Spring 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	17,369	19,139	16,403	16,500	0.6	17,200	4.2
MLS® New Listings	40,059	30,696	33,131	33,000	-0.4	34,000	3.0
MLS® Average Price ($)	332,852	320,378	328,803	329,000	0.1	337,000	2.4
New Home Market							
Starts:							
Single-Detached	2,613	3,897	6,062	5,500	-9.3	6,000	9.1
Multiples	4,002	2,420	3,897	3,750	-3.8	4,100	9.3
Starts - Total	6,615	6,317	9,959	9,250	-7.1	10,100	9.2
Average Price ($):							
Single-Detached	511,989	543,243	490,128	495,000	1.0	504,000	1.8
Median Price ($):							
Single-Detached	471,850	460,000	429,900	439,000	2.1	445,000	1.4
New Housing Price Index (% chg.)	1.0	-11.2	-0.8	1.0	-	1.9	-
Rental Market							
October Vacancy Rate (%)	2.4	4.5	4.2	3.8	-	3.0	-
Two-bedroom Average Rent (October) ($)	1,034	1,015	1,015	1,030	-	1,060	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	642,900	637,900	633,400	648,400	2.4	664,400	2.5
Employment Growth (%)	4.3	-0.8	-0.7	0.0	-	1.9	-
Unemployment rate (%)	3.7	6.7	6.7	5.7	-	5.3	-
Net Migration	16,438	20,248	11,055	12,100	9.5	13,500	11.6

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 April 28, 2011.

CMHC—HOME TO CANADIANS

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