HOUSING MARKET OUTLOOK
Edmonton CMA

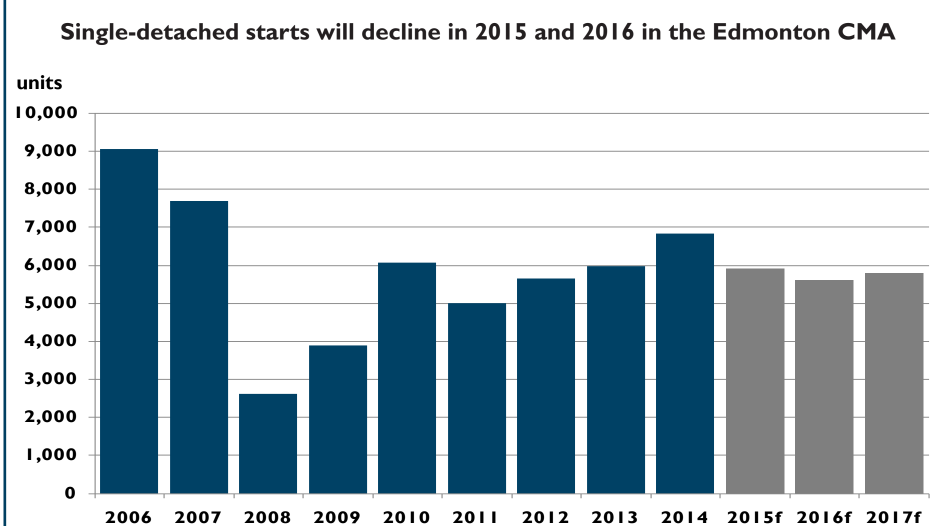
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2015

Highlights[1]

- Single-detached housing starts will move lower in 2016 and rise in 2017
- Multi-family housing starts will increase in 2015 before declining in 2016 and 2017
- MLS®[2] sales will decrease in 2015 and post modest gains in 2016 and 2017
- Edmonton's apartment vacancy rate will rise

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 September 28, 2015.

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

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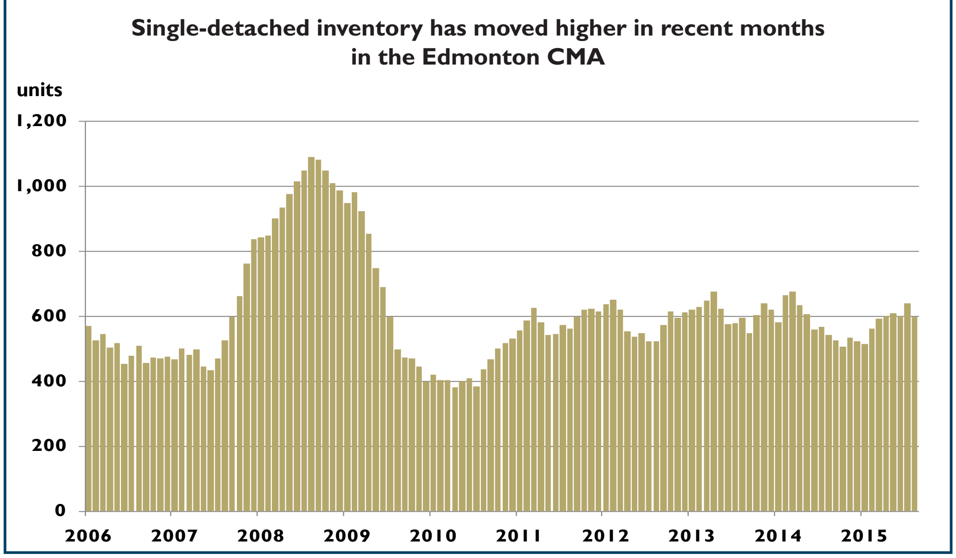
New Home Market: Total housing starts lower in 2016 and 2017

Strength across the multi-family sector will push total housing starts in 2015 18 per cent higher than the previous year in the Edmonton Census Metropolitan Area (CMA). However, this strength will dissipate in the closing months of 2015, and throughout 2016 as slower economic growth and reduced net migration lead to softer housing demand in 2016. By 2017, rising inventory on the multi-family market will lead to a further reduction in total housing starts. Overall, total housing starts are forecast at 16,400 for 2015, 11,100 for 2016 and 10,800 for 2017.

Weaker economic conditions and a well-supplied resale home market will continue to weigh down the new single-detached housing market in Edmonton. Strength in the early months of 2015 has dissipated, and single-detached housing starts through August were down six per cent year-over-year. Through the final months of 2015, single-detached starts will be compared against relatively strong numbers in 2014, leading to a decline of 14 per cent by year's end. In 2016, lower migration, coupled with relatively high inventory on the existing home market, will lead to a further contraction in single-detached housing starts. In 2017, a slight improvement on the economic front should support some modest growth in housing demand and lead to a small increase in the number of single-detached housing starts. Overall, single-detached housing starts will total 5,900 in 2015, 5,600 in 2016 and 5,800 in 2017.

Figure 2



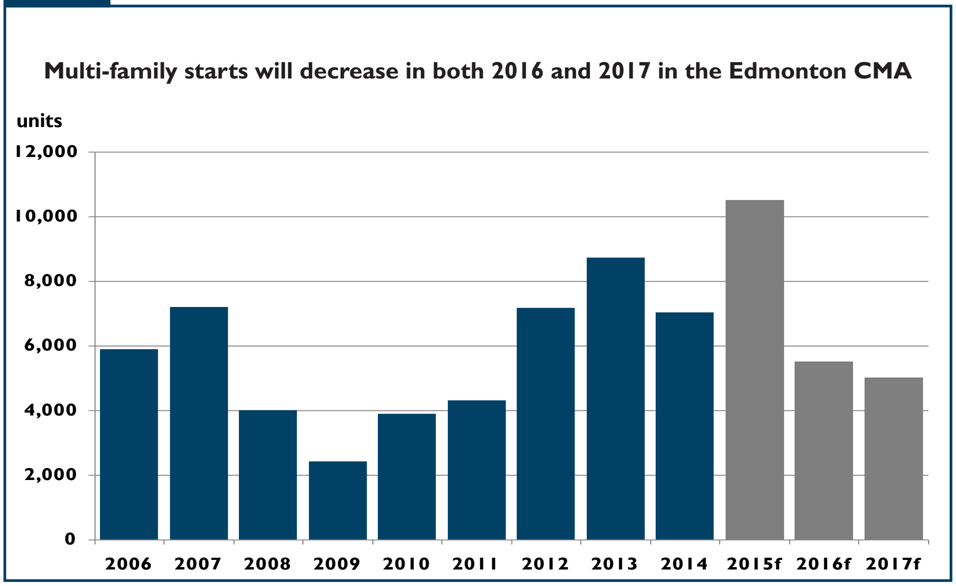
Source: CMHC

Single-detached starts have declined on a year-over-year basis for three consecutive months, beginning in June 2015. The recent pull-back can, in part, be attributed to rising inventory levels. As of August 2015, there were 599 new completed and unabsorbed single-detached homes in inventory, up 11 per cent from the same month of 2014. The increase was a result of both higher number of show homes and spec homes. Slower starts in the past three months have pushed the number of units under construction down five per cent year-over-year, with 4,030 single-detached homes underway in August. The lower pace of construction activity in recent months should prevent inventory from rising too quickly through the end of 2015, which will help subdue the decline in single-detached starts in 2016. However, even with supply down year-over-year for the first time in August, demand for single-detached housing starts is expected to be soft in 2016, translating into a further reduction. By 2017, a modest increase can be expected as improving economic conditions and employment translate into a pick-up in demand. However, this is predicated on inventory levels not increasing too quickly in 2016 and remaining at manageable levels moving into 2017.

Compositional factors will drive the average absorbed price for a new single-detached home to $600,000 in 2015, up from $568,676 in 2014. As of August 2015, homes priced above $700,000 accounted for 19 per cent of sales, up from 12 per cent in 2014. In 2016, higher inventory on both the new and existing home market will lead to slower price growth, with higher input prices contributing to price increases. By 2017, a modest pick-up in demand will lead to a small increase in the pace of price growth. Overall, the average absorbed price will be $609,000 in 2017 and $621,000 in 2017.

Multi-family starts, including semi-detached, row, and apartment units began 2015 at a record setting pace in the first quarter. Through the first

Figure 3



Source: CMHC, CMHC Forecast (f)

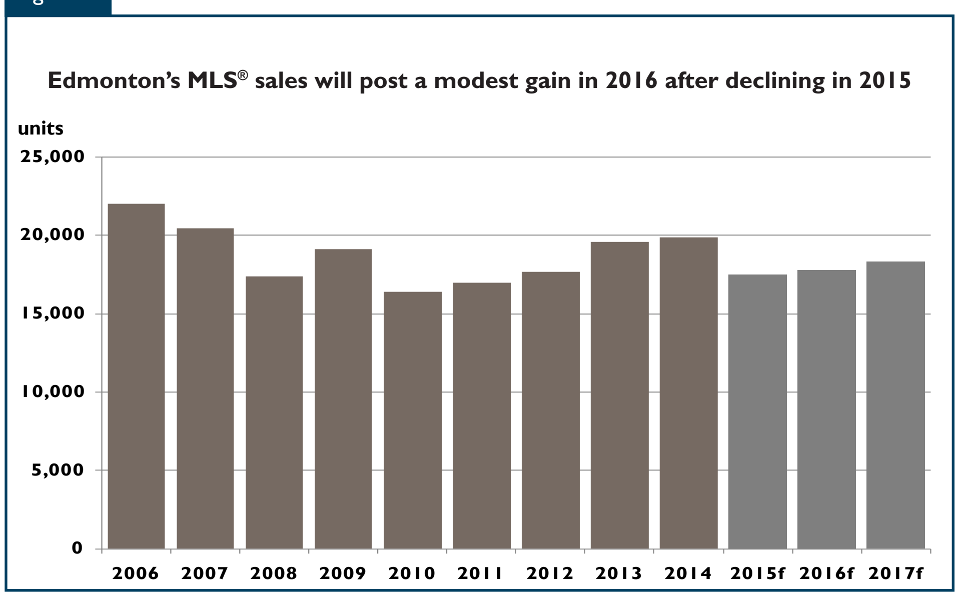
eight months of 2015, multi-family housing starts reached 8,310 units, up 88 per cent over the same period of 2014. Strength in this market was driven by higher row and apartment starts, while semi-detached activity was in-line with 2014 levels. A tight rental market with rising rents drew builders to increase rental apartment starts, while relatively low inventory on the ownership market led to higher condo apartment and row starts. However, this trend is not expected to continue. Slower employment growth this year, lower migration and a higher vacancy rate will slow demand in the multi-family segment of the market. Also, a higher number of completed and unabsorbed units is expected as a result of stronger activity over the past two years, and this will lead to a sharp decline in multi-family housing starts in the Edmonton CMA in 2016, followed by a more modest reduction in 2017. Overall, multi-family housing starts are forecast at 10,500 in 2015, 5,500 in 2016 and 5,000 in 2017.

The elevated pace of new construction in the multi-family market has started to decline. The number of multi-family housing starts has trended down from its peak and this is expected to continue into 2016 and 2017. As of August, there were 12,218 multi-family units under construction, a near record high level. With economic conditions expected to remain weak through much of 2016, demand for multi-family units in both the ownership and rental market is expected to wane. Both the number of semi-detached and row units in inventory has started to increase which should temper production of these units in the coming months. Apartment ownership inventory is still relatively low, but as units under construction move to completion, inventory levels will rise. This will, in turn, slow the pace of apartment construction in 2016 and 2017.

Existing Home Market: Modest growth expected in 2016

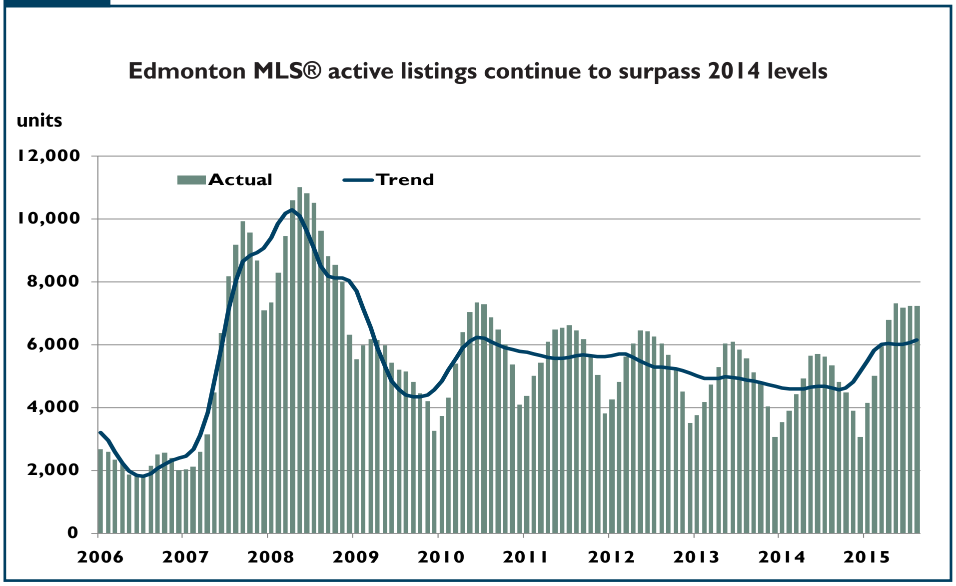
Slower economic activity, which has moderated employment growth and migration, coupled with lower consumer confidence will lead to a reduction in the number of MLS® sales in the Edmonton CMA in 2015. In 2016, much of the same economic factors will keep demand growth in check, particularly through the first half of the year. By 2017 improving economic conditions should support

Figure 4



Source: CREA, CMHC Forecast (f)

Figure 5



Source: RAE, Trended by CMHC

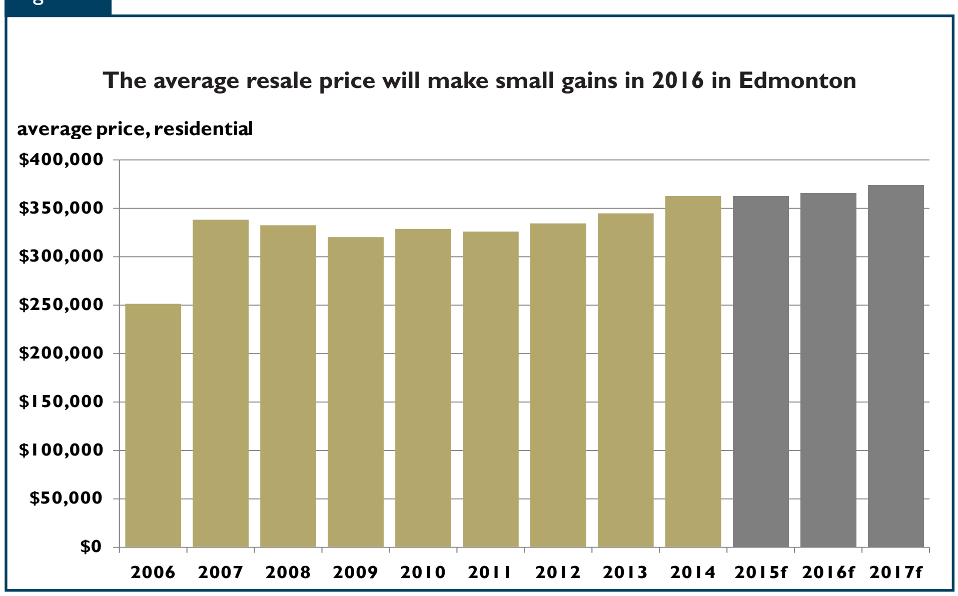
growth in demand for resale homes in Edmonton, but with the economy in a recovery phase, growth will be modest compared to the gains posted in 2013. All in, MLS® sales will decline by 12 per cent in 2015 to 17,500, before posting a modest gain to 17,800 in 2016. Sales are expected to grow 2.8 per cent in 2017 to reach 18,300.

MLS® sales pulled back quickly in the early months of 2015. In the first quarter, sales were down 14 per cent year-over-year. Since then activity has picked-up, but has still lagged behind last year's levels in all but one month of 2015. Through August 2015, sales were down eight per cent from the first eight months of 2014. Moving forward, a weaker economic front will keep the pace of sales near its current levels into 2016. Mortgage rates are expected to remain low in 2016, which will support sales activity. However, some potential homebuyers will choose to wait until economic conditions firm up before entering into the market. Others, who have an existing home to sell, will need to delay their purchase as the time to sell on the resale market has lengthened.

Supply on the resale market remains elevated. New listings were up 13 per cent in the first eight months of 2015, compared to the same period of 2014. This has pushed overall selection on the market up, with the average number of active listings on the market 30 per cent higher than 2014 levels in the first eight months of 2015. This has led to a longer selling period, with the average days on the market reaching 54 days in August, up from 49 in the same period of last year. Both new and active listings are expected to decline in 2016 and 2017, but will remain above 2014 levels throughout the forecast horizon. Slightly higher sales activity will support the decline in active listings, as will fewer new listings as potential home sellers wait for market conditions to firm up before listing their home. Active listings will average about 6,100 units in 2015, 5,800 units in 2016 and 5,500 units in 2017.

A larger selection of homes and lower demand will temper price growth in Edmonton in 2015. The average resale price is forecast at $363,000 for 2015, relatively unchanged from the $362,657 recorded in 2014. After eight months of 2015, the average MLS® price was $371,235, up 2.7 per cent from the same period of 2014. The forecast calls for the average price to moderate somewhat in the remaining months of 2015, as higher supply and lower demand lead to small price declines. In 2016, price

Figure 6

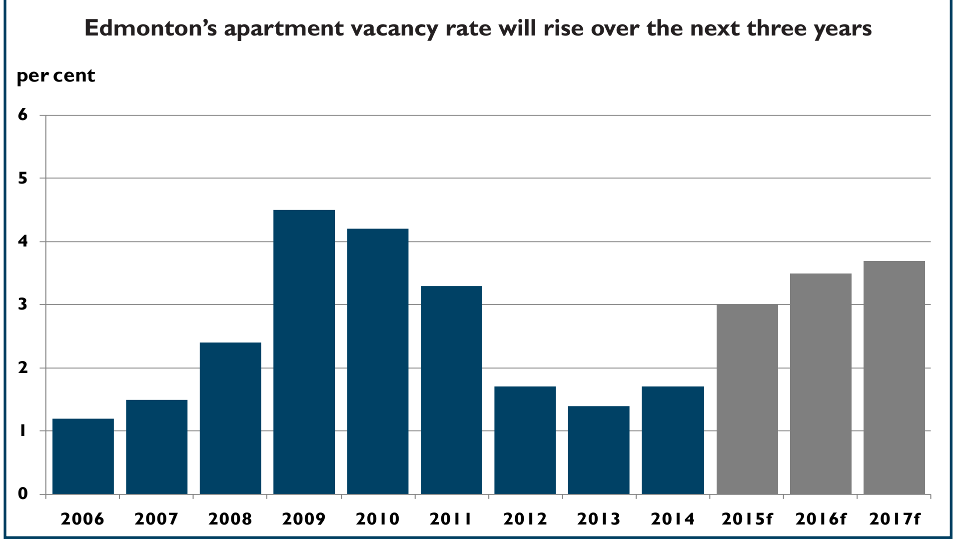


Source: CREA, CMHC Forecast (f)

pressures will be weak through much of the year. Although supply is expected to contract modestly, demand will remain soft as low oil prices continue to weigh down employment growth and migration. This will lead to an average resale price of $366,000. By 2017, improving economic conditions will support price gains more in line with inflation. The average resale price is expected to rise 2.2 per cent to $374,000.

Buyers continue to have the upper hand in Edmonton's resale market. The sales-to-active listings ratio was at 20 per cent in August, down from 32 per cent in the same month of 2014. Buyers' conditions will prevail through the end of 2015 and into 2016 as a result of higher supply and lower demand. Conditions will become more balanced near the end of 2016 and into 2017 as an improving economic environment supports higher demand.

Figure 7



Source: CMHC, CMHC Forecast (f), October Survey

Rental Market: Vacancy rates will rise over the forecast horizon

Edmonton's vacancy rate will rise over the next three years as growth in supply surpasses that of demand. The rental vacancy rate in the Edmonton CMA increased to 1.7 per cent in October 2014, after reaching a low of 1.4 per cent in 2013. From July 2014 to June 2015 2,120 new rental units were completed. These units will increase the overall rental universe in Edmonton for the 2015 survey. In 2016 and 2017, an elevated number of rental units currently under construction will lead to further expansion of rental supply. In addition to a rising supply, lower migration and slower employment growth this year has eased rental demand, adding additional upward pressure on the vacancy rate. Edmonton's primary rental market will also face continued competition from the secondary rental market, particularly condominium apartments which, in the face of easing demand, will also push the vacancy rate up. The vacancy rate in the Edmonton CMA will increase to 3.0 per cent in 2015, 3.5 per cent in 2016 and 3.7 per cent in 2017.

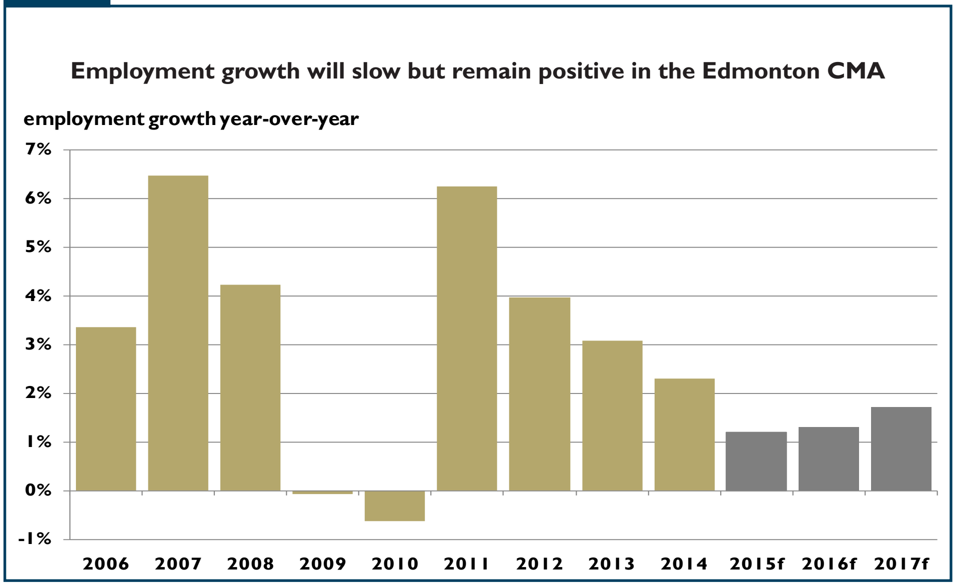
Although the vacancy rate in Edmonton will move higher over the next three years, average rents are expected to continue to increase. However, the pace of growth will slow and growth will not be a result of higher demand, but rather the result of changes in the type of units for rent. New units, which typically rent for an above-average price, will push average rents higher over the next three years. On the demand side, as the vacancy rate moves higher rent pressures for existing units will ease, partially offsetting the increase from new rental units. Overall, the average rent for a two-bedroom apartment will rise to $1,265 in 2015, $1,295 in 2016 and $1,320 in 2017.

The number of apartments in Edmonton's primary rental market is expected to continue to move higher over the next three years. The pace of rental construction has been elevated since 2012. As of August 2015, there were 2,936 market rental apartments under construction, 15 per cent higher than the same month of 2014, and almost double the preceding five-year average. These units will be added to the universe as they complete in 2016 and 2017, putting upward pressure on both the vacancy rate and average rent. However, as vacancy rates increase and rent growth slows, builders will reduce the pace of new rental construction.

Economic Overview: Job growth will be slow in 2015 and 2016

The decline in oil prices has contributed to weaker economic conditions in Edmonton, which will continue into 2016. Layoffs in the energy sector and supporting industries have continued in recent months. After four years of strong

Figure 8



Source: Statistics Canada, CMHC Forecast (f)

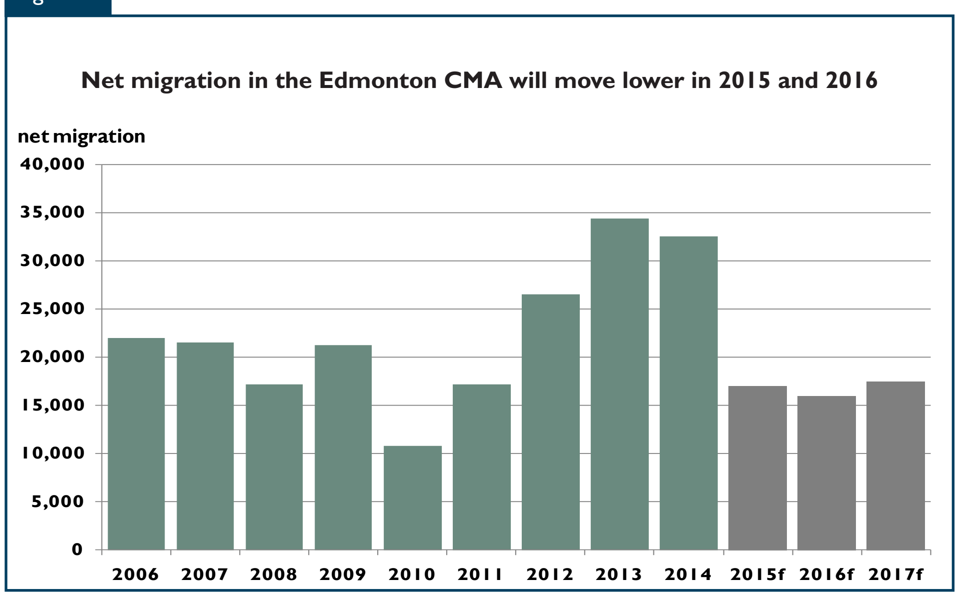
growth, the pace of employment growth in 2015, although positive, is much lower than what had become the norm. Countering fewer prospects in the energy sector is Edmonton's construction sector. Elevated construction in the multi-family sector and increased work in Edmonton's new ICE District have become the bright spots in the current economy. This work is expected to support employment over the next two years.

Although lower oil prices have dampened growth in the energy sector, employment growth in Edmonton has continued, albeit as at a slower pace. After eight months of 2015, employment was up 1.2 per cent in the Edmonton CMA, with the economy adding 8,800 new positions. The majority of these positions were full-time positions, accounting for 7,300 of the job gains. The construction sector, supported by strong gains in multi-family housing starts, and the finance, insurance and real estate sector posted the largest employment gains, while the trade sector posted the largest decline. Employment growth is expected to hold at 1.2 per cent for 2015. In 2016, low oil prices will keep employment growth modest, at 1.3 per cent. As the pace of economic growth picks up in 2017, employment growth will rise to 1.7 per cent.

Modest job creation, together with lower migration, has kept the unemployment rate in the Edmonton CMA relatively low. As of August 2015, the seasonally adjusted unemployment rate was 5.5 per cent. The rate peaked in May at 6.3 per cent, but has since fallen. Moving forward, employment gains will be modest in the remaining months of 2015 and in 2016, putting upward pressure on the unemployment rate. Even though migration is expected to decline, the labour force will expand at a faster clip than job creation pushing the unemployment rate up. By 2017, the unemployment rate will move down slightly as the pace of job growth moves slightly higher. Overall, the unemployment rate will average 5.8 per cent in 2015, 6.2 per cent in 2016 and 6.0 per cent in 2017,

After declining on a year-over-year basis for the first four months of 2015, growth in average weekly earnings has returned. Through August, weekly earnings averaged $1,087, up 1.7 per cent from the same period of 2014. The increase in earnings can be partly attributed to the creation of more full-time jobs than part-time jobs, which put upward pressure on the average. Wage growth is expected to remain modest over the next two

Figure 9



Source: Statistics Canada, July to June, CMHC Forecast (f) years as a higher unemployment rate reduces labour market pressures.

With fewer jobs being created this year in Edmonton, migration will continue to move lower. In 2014, net migration to the Edmonton CMA declined to 32,507. In 2015, migration will post a larger pullback as the weaker economic environment attracts fewer people into the city. Migration is expected to fall to 17,000 in 2015. Much of the decline will be due to lower numbers of non-permanent residents, including temporary foreign workers, coming into Edmonton; however, interprovincial migration will also decline. In 2016, migration will remain close to its 2015 levels, at 16,000. By 2017, slightly higher employment growth and a lower unemployment rate will lead to a small uptick in migration, to 17,500.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Employment growth will be slower in 2015 leading to a moderation in housing demand.
Income	Earnings growth has been supported by full-time job growth in recent months. However, a higher unemployment rate will ease income growth and slow the pace of housing demand.
Population	Migration to Edmonton will moderate through to 2016, and post a small increase in 2017. This will slow the rate of growth in demand for housing in both the rental and ownership market.
Resale Market	A well-supplied market will continue to provide more competition to the new home market in the remaining months of 2015 and in 2016.
New Home Inventory	Inventory has begun to increase in the single-detached market, and is expected to rise on the multi-family market in the coming months. This will prompt builders to slow production in both markets.

Forecast Risks

This outlook is subject to some risks, including:

- The current forecast is contingent on oil prices remaining at current levels in 2015, and gradually rising in the latter half of 2016 and into 2017. If prices remain at current levels in the longer term, the economy will take longer to recover, and will grow at a slower pace.
- The pace of construction in the multi-family market has been elevated in 2015. If the pace does not slow as anticipated, the multi-family market is at risk of overbuilding. This could lead to downward price pressures and higher inventory in both the ownership and rental market.

Forecast Summary
Edmonton CMA
Fall 2015

	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	5,658	5,970	6,832	5,900	-13.6	5,600	-5.1	5,800	3.6
Multiples	7,179	8,719	7,040	10,500	49.1	5,500	-47.6	5,000	-9.1
Starts - Total	12,837	14,689	13,872	16,400	18.2	11,100	-32.3	10,800	-2.7
Average Price ($):									
Single-Detached	514,259	529,824	568,676	600,000	5.5	609,000	1.5	621,000	2.0
Median Price ($):									
Single-Detached	460,000	461,300	496,051	530,000	6.8	539,000	1.7	549,000	1.9
New Housing Price Index (% chg.)	0.9	0.4	0.1	0.3	-	1.4	-	1.7	-
Resale Market									
MLS® Sales	17,641	19,552	19,857	17,500	-11.9	17,800	1.7	18,300	2.8
MLS® New Listings	31,410	30,011	31,315	34,200	9.2	33,500	-2.0	32,000	-4.5
MLS® Active Listings	5,636	5,397	4,873	6,100	25.2	5,800	-4.9	5,500	-5.2
MLS® Average Price ($)	334,318	344,977	362,657	363,000	0.1	366,000	0.8	374,000	2.2
Rental Market									
October Vacancy Rate (%)	1.7	1.4	1.7	3.0	1.3	3.5	0.5	3.7	0.2
Two-bedroom Average Rent (October) ($)	1,071	1,141	1,227	1,265	3.1	1,295	2.4	1,320	1.9
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	706,400	728,100	744,800	754,000	1.2	764,000	1.3	777,000	1.7
Employment Growth (%)	4.0	3.1	2.3	1.2	-	1.3	-	1.7	-
Unemployment rate (%)	4.7	4.8	5.1	5.8	-	6.2	-	6.0	-
Net Migration (1)	26,541	34,436	32,507	17,000	-47.7	16,000	-5.9	17,500	9.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

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 September 28, 2015.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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