

HOUSING MARKET OUTLOOK

Calgary CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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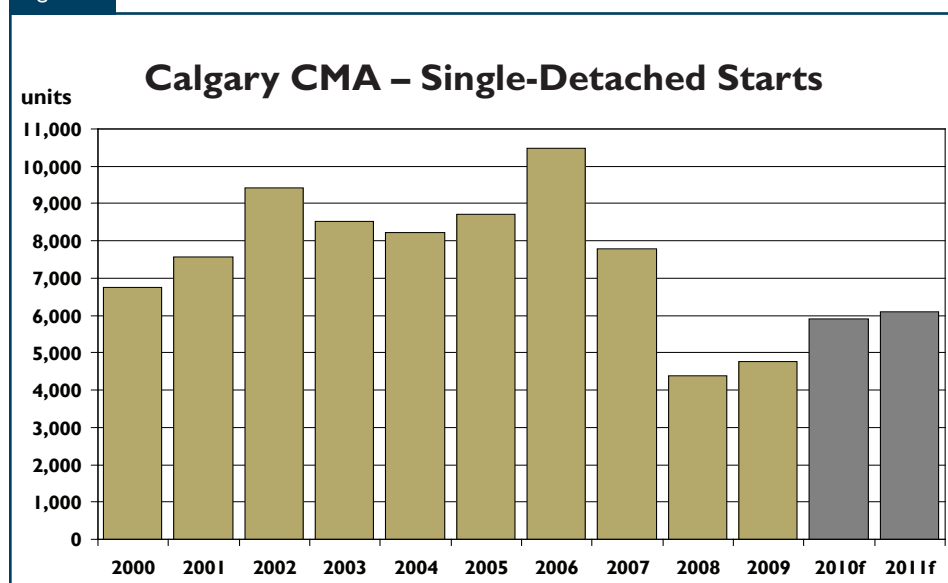
NEW HOME MARKET

Total Housing Starts Expected to Moderate in 2011

Housing starts in the Calgary Census Metropolitan Area (CMA) in 2010 have quickly rebounded from 2009's low level. To the end of August, builders have initiated 6,641 units,

more than double the pace set one year earlier. In fact, there were more housing starts in the first eight months of 2010 than in all of 2009. Despite the strong pace earlier in the year, new home construction is showing signs of slowing during the remaining months. Accordingly, total housing starts in 2010 are forecast to reach 9,100 units, up 44 per cent from the previous year. Home builders are forecast to start 8,900 units in 2011, slightly lower than 2010. The decline in total starts in 2011 can be

Figure 1



Source: CMHC, CMHC Forecast (f)

† The forecasts included in this document are based on information available as of October 08, 2010.

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attributed to fewer multi-family units breaking ground in response to an elevated inventory of complete and unsold units.

Pace of Single-detached Starts to Improve as 2011 Progresses

Following a brisk start in the first half of the year, the pace of production towards the end of 2010 has moderated as builders adjust to a slowdown in new home sales and elevated competition from the resale market. Despite activity cooling, single-detached starts are on pace to increase 24 per cent to 5,900 units in 2010. In 2011, new construction will increase at a modest rate as the economy gradually improves, supporting growth in employment and net migration. New home construction will initially be held back by an elevated level of active listings in the competing resale market that are expected to persist into the first quarter of 2011. However, activity will pick up in the latter half of the year as the market becomes more balanced and the economy gains more traction. Calgary home builders are forecast to start 6,100 single-detached units in 2011, up three per cent from a year earlier.

As builders contend with heightened competition from the resale market and slowing demand, new home inventories have been kept at relatively low levels so far this year. From 2000 to 2009, the inventory of complete and unabsorbed singles averaged 636 units per month. By comparison, in the first eight months of 2010 there was an average of only 384 units in inventory per month. Upward pressure on inventories has been relatively light as absorptions have kept pace with completions. This

is partly due to homes in Calgary typically being pre-sold prior to construction. In addition, builders have been cautious starting spec units given concerns that demand is moderating. With 347 units at the end of August, the number of complete and unabsorbed singles was 25 per cent lower than the previous year.

While inventories have moderated, the volume of units under construction has escalated. With 3,471 units under construction in August, up 51 per cent from the previous year, inventories are expected to experience a modest lift in the months ahead.

New Home Prices Rise

Following a nearly seven per cent decline in 2009, Calgary's New House Price Index (NHPI) has recorded modest gains in 2010. The NHPI measures the price increase of homes where the specifications remain the same between two consecutive periods. The NHPI in July 2010 was up 2.7 per cent from the previous year, a considerable turnaround compared to July 2009 when the NHPI was down 7.3 per cent year-over-year. This year, the gains have been attributed to a more than four per cent increase in the house only component, as the rebound in housing starts has put modest upward pressure on labour and building materials.

Despite year-over-year gains in the last several months, the NHPI is showing no upward movement since March. A wider selection of homes available and slowing sales has eased price pressures. Builders have had to compete more for potential buyers, sometimes resulting in price adjustments or incentives. Although the index has levelled recently, the

gains achieved earlier in the year will help the NHPI finish up 1.8 per cent from 2009. In 2011, the pace of growth will be more modest with the NHPI rising 0.9 per cent.

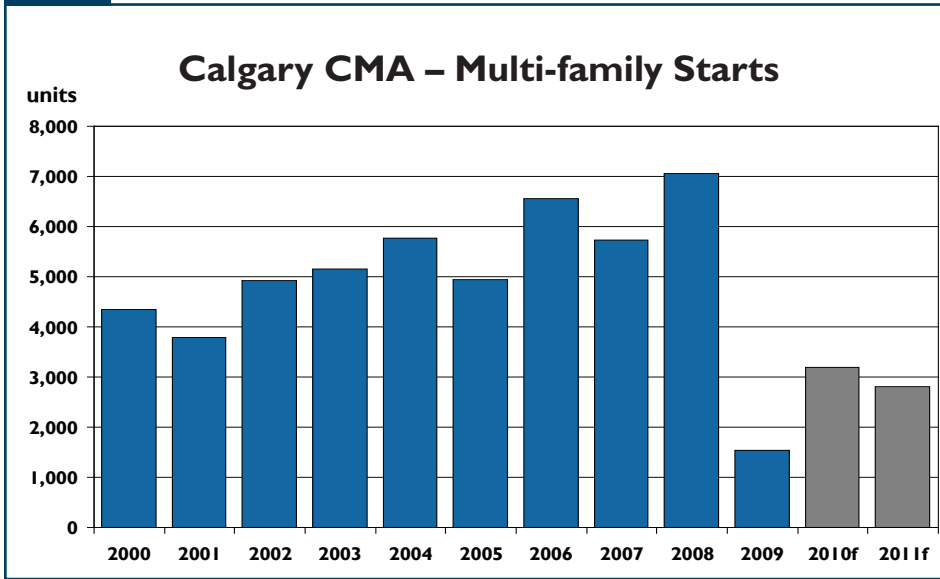
The absorbed price, which tends to be a lagging indicator of price pressures, has started to reflect the gain in NHPI experienced in the beginning of 2010. On a year-to-date basis, the median absorbed single-detached price, which is less influenced than the average by extreme values, had increased from \$410,800 in March to \$428,151 in August. For 2010, the median price is forecast to reach \$430,000, down 4.5 per cent from 2009. In 2011, following two consecutive years of decline, the median price is forecast to increase 1.7 per cent to \$437,500. Readers should note that these absorbed prices reflect units absorbed at or after completion in a given month, which is not necessarily the month when the price was negotiated.

Elevated Inventories Inhibit Multi-Family Production in 2011

Following a year when multi-family construction declined to its lowest level since 1996, multiple starts, which include semi-detached units, rows, and apartments, are on pace to reach 3,200 units in 2010, up from 1,543 units in 2009. Higher starts for all three multi-family dwelling types in 2010, in particular apartment units, will contribute to the rise. To the end of August, apartment production posted the strongest year-over-year gains compared to semi-detached and row units, despite apartment inventories reaching a record high.

With apartment inventories expected to remain elevated moving into 2011, apartment builders will look to reduce their inventory levels and increase

Figure 2



Source: CMHC, CMHC Forecast (f)

their presales prior to starting major projects. Semi-detached and row units will likely dominate multi-family production in 2011. As a result, multi-family starts in 2011 are expected to decline 13 per cent from 3,200 units in 2010 to 2,800 in 2011.

Semi-detached and row builders have been facing more favourable conditions compared to apartment builders. Inventories for semi-detached and row units have been more manageable, providing builders the opportunity to increase production. In August 2010, there were a combined total of 97 semi-detached and row units in inventory, down from 169 units in 2009. For most of the year, these inventories have been sitting around 100 units. Monthly absorptions of semi-detached and row units have kept up and at times surpassed completions in 2010, keeping inventories level. To the end of August, semi-detached and row units have accounted for 58 per cent of total multi-family production and collectively, starts were 85 per cent higher than the previous year. These types of housing have been attractive

options for home buyers as they are typically larger than apartment units and priced lower than single-detached units.

Apartment inventories, on the other hand, have steadily risen throughout 2010 reaching a record level of 710 units in August, up from 229 units in the previous year. New apartment units are taking longer to be absorbed

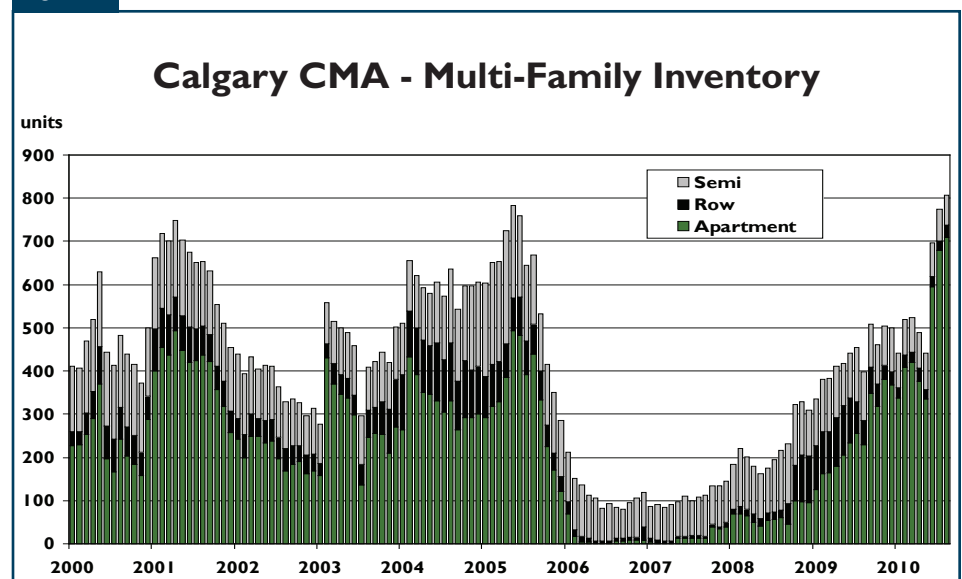
as they are also competing against units in the resale market. In the first eight months of 2010, completions (excluding social housing units) exceeded absorptions by 343 units. In the months ahead, the upward pressure on apartment inventories is expected to ease as the number of units under construction has been declining. In August, there were 3,442 units under construction, down 39 per cent from the previous year. That said, it must also be recognized that several projects in the beltline are on hold, representing future supply once construction resumes. With over 3,000 units currently in the construction phase, apartment inventories may experience a gradual lift before declining.

RESALE MARKET

Resale Activity Expected to Rise in 2011

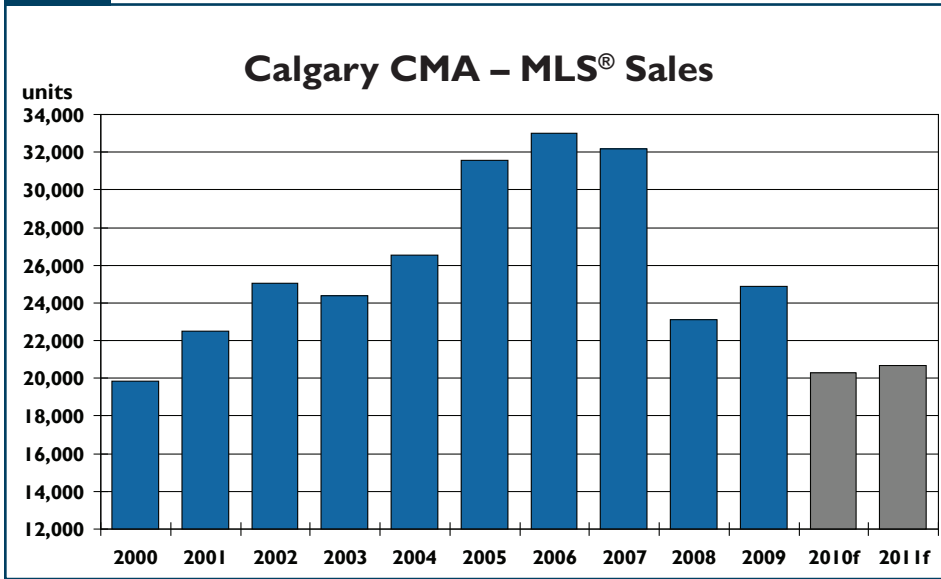
After starting the year up 40 per cent in the first quarter, sales to the end of August were down 11 per cent from the previous year. Earlier in the year,

Figure 3



Source: CMHC

Figure 4



Source: CREB, CMHC Forecast (f)

sales were boosted by demand that was brought forward due to an anticipated rise in mortgage rates. As pent-up demand began to ease and changes to mortgage qualifying criteria came into effect, sales started to moderate. Combined sales from June to August reached its lowest level since 1996. The decline in activity expected for the latter months of the year will offset the gains made in the first half of the year. MLS® residential sales in 2010 are forecast to decline 18 per cent year-over-year to 20,300 units. Resale activity is expected to gradually improve in 2011. Stronger growth in employment and net migration will help support demand for housing. The growth in sales will be modest as the economy steadily improves. Sales in 2011 are expected to reach 20,700 units, up two per cent from 2010.

Prospective buyers are enjoying a generous selection of homes. Slowing sales and more new listings have pushed active listings to elevated levels. In August, active listings surpassed 10,000 units, representing a 39 per cent increase from the

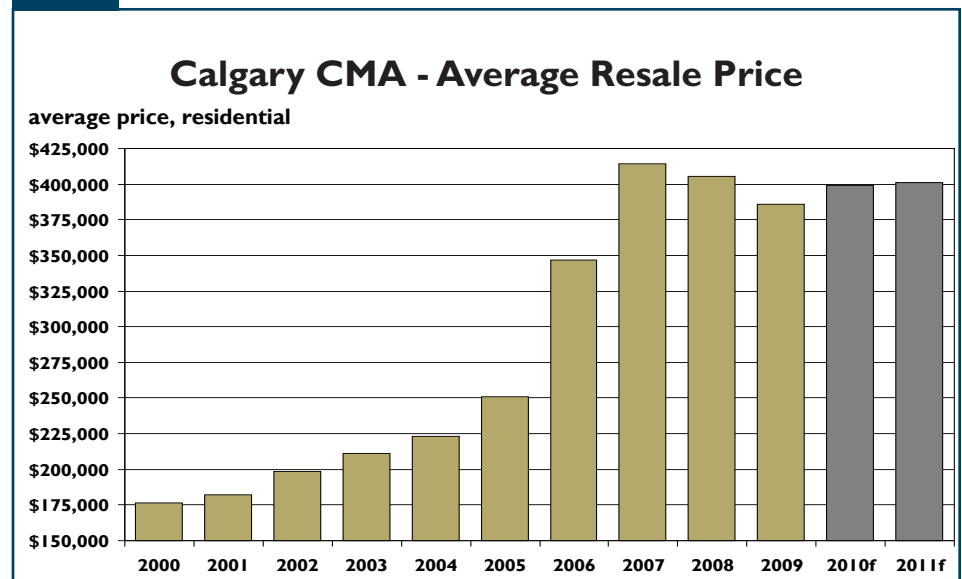
previous year. In the late spring, resale conditions began to ease and favour the buyer. From June to August, the sale-to-active listings ratio was below 16 per cent, indicative of buyers' market conditions. Under these conditions, consumers have more homes to choose from, more time to decide whether to make an offer, and also an increased opportunity to

negotiate price. Buyers' market conditions are expected to prevail for the remainder 2010 and into the beginning of 2011, tempering price growth.

Average Price to Remain Relatively Flat in 2011

Resale price growth was impressive in the beginning of 2010. While balanced market conditions encouraged price gains early in 2010, the market began to favour the buyer as demand dissipated, listings rose, and prices started to soften. To the end of August, the average price was up 5.2 per cent year-over-year, after slipping from a 6.8 per cent increase in the first quarter. Price growth is expected to moderate for the balance of the year and into 2011, as buyers and sellers respond to elevated active listings and slower sales. Nonetheless, with the strong gains earlier in the year, the average price in 2010 is expected to reach \$399,000, up three per cent from 2009. This will represent the first year-over-year increase since 2007. Price growth in

Figure 5



Source: CREB, CMHC forecast (f)

early 2011 will be relatively modest as the market begins to transition from buyers to balanced conditions. As conditions improve, the average price will experience modest upward pressure, but more so in the second half of the year. Under these conditions, the average price in 2011 is forecast to increase one per cent to \$401,000.

Within city limits, move-up buyers have been playing a more active role in the market. There has been an increase in the proportion of homes sold in the higher price points compared to 2009. To the end of August, the proportion of single-detached homes that sold for more than \$600,000 increased from 11 per cent in 2009 to 15 per cent in 2010. Similarly, the proportion of condominiums that sold for more than \$400,000 rose from nine per cent in 2009 to 11 per cent in 2010.

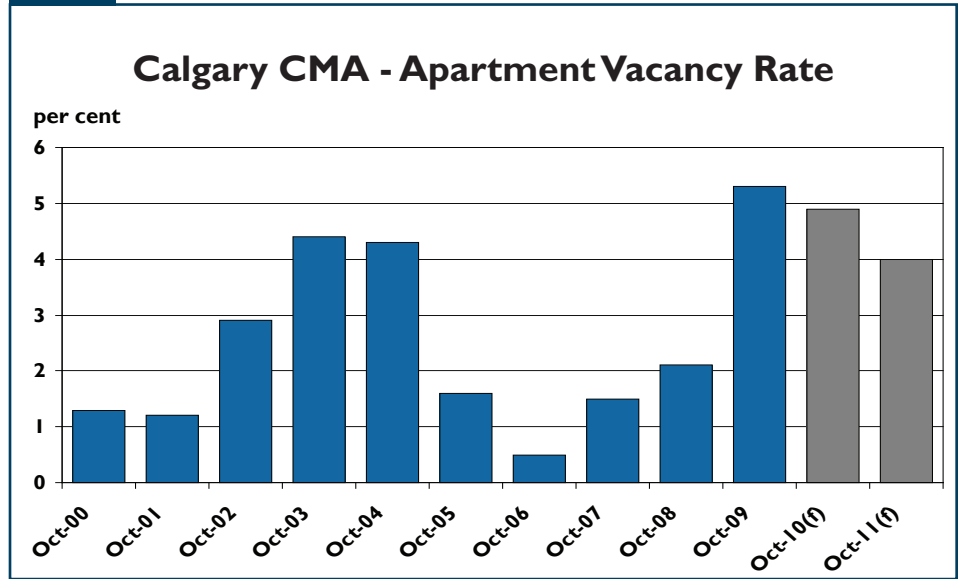
RENTAL MARKET

Vacancy rates to decline

Calgary's rental apartment vacancy rate is forecast to decline from 5.3 per cent in October 2009 to 4.9 per cent in October 2010. Modest improvements in employment and net migration in the latter half of 2010 will help push vacancies downward. However, vacancies will remain elevated as landlords and property owners continue to compete with the secondary rental market. Rental units within the condominium universe increased to 9,425 in October 2009 from 5,939 in October 2008 and with apartment condominium inventories at elevated levels, competition from the secondary rental market has likely not eased.

Economic conditions are expected to further improve in 2011, leading to a

Figure 6



Source: CMHC, CMHC Forecast (f)

more notable change in the vacancy rate. In 2011, the vacancy rate is expected to fall to four per cent. As labour market conditions strengthen and net migration increases, there will be greater demand for rental accommodations.

The average rent in Calgary is expected to decline as vacancy rates, although moving lower, remain elevated. In October 2010, the average two-bedroom rent is forecast to reach \$1,090 per month, nine dollars lower from the previous year. Fewer incentives will also be offered in the market place as demand continues to improve. With vacancies declining in 2011 and fewer incentives being offered, the average two-bedroom rent will rise to \$1,100 per month in October, representing an increase of \$10 per month from 2010.

Renters are not expected to see many new purpose-built rental units this year. As of August, only three rental units were completed. Although 244 purpose-built rental units broke ground this year, representing the highest number of rental starts since

2004, these units are not expected to be available to tenants until 2011 or later.

ECONOMIC OVERVIEW

Employment and Net Migration Expected to Improve

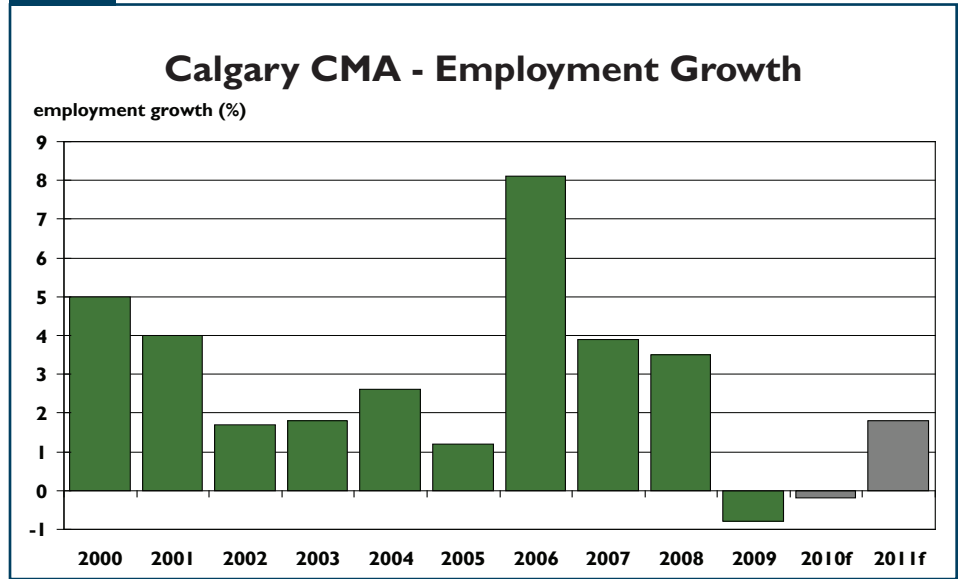
With job creation in the Calgary CMA slow to pick-up at the beginning of the year, annual employment for 2010 is forecast to decline 0.2 per cent from a year earlier. This will occur despite the modest gains expected in the second half of the year. Employment on a seasonally adjusted basis trended downward from January to May before posting positive gains in the summer. In August, employment was up 4.8 per cent on a year-over-year basis, but the losses earlier in the year have resulted in a year-to-date reduction of 0.7 per cent after eight months. Job growth is expected to gradually strengthen into 2011 as economic activity improves. Changes

to the royalty framework and sustained energy prices are expected to attract more investment and support employment growth. In 2011, employment is forecast to rise 1.8 per cent.

Calgary's unemployment rate peaked at 7.6 per cent in May 2010, reaching its highest level since 1996. Youth employment was particularly impacted with the unemployment rate in the double digits. Although the labour market continues to exhibit some weakness, conditions are slowly improving. Full-time jobs have started to return to the market and the overall unemployment rate on a seasonally adjusted basis declined to 6.7 per cent in August, its lowest level since October 2009. Wages continue to feel the effects of higher unemployment rates. Average weekly earnings through August were \$979, up only 0.8 per cent from the previous year. However, as the unemployment rate moves lower, wage growth is expected to improve. With the economy steadily improving and employment rising, the unemployment rate is forecast to average seven per cent in 2010 and decline to 6.4 per cent in 2011.

Government and institutional spending has been active in 2010, contributing to the economic recovery. After the first two quarters of 2010, government and institutional spending was up 83 per cent from 2009 levels. The rise in government spending has compensated for the declines in other sectors. Commercial non-residential construction, which

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

typically makes up the largest proportion of non-residential investment, has been decreasing since 2008. At mid-year, commercial investment declined by 42 per cent from the previous year. A heightened supply of office space and a number of new projects nearing completion have reduced commercial investment.

Elevated unemployment and slow job growth has impacted migration to Alberta. Across the province, net migration in the first half of 2010 was down 35 per cent from the previous year, due largely to weaker interprovincial migration. Despite the shortfall of net migrants from other provinces, Alberta continues attracting people from other countries. As the labour market strengthens, net migration is expected to rise in Alberta, and the Calgary CMA is anticipated to reflect those same

trends. Net migration for the Calgary CMA is forecast to rise from 14,000 in 2010 to 15,000 in 2011.

MORTGAGE RATE OUTLOOK

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary Calgary CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS [®] Sales	32,176	23,136	24,880	20,300	-18.4	20,700	2.0
MLS [®] New Listings	54,202	56,187	41,640	47,000	12.9	48,000	2.1
MLS [®] Average Price (\$)	414,066	405,267	385,882	399,000	3.4	401,000	0.5
New Home Market							
Starts:							
Single-Detached	7,777	4,387	4,775	5,900	23.6	6,100	3.4
Multiples	5,728	7,051	1,543	3,200	107.4	2,800	-12.5
Starts - Total	13,505	11,438	6,318	9,100	44.0	8,900	-2.2
Average Price (\$):							
Single-Detached	474,511	581,800	547,795	504,000	-8.0	508,000	0.8
Median Price (\$):							
Single-Detached	474,511	581,800	547,795	430,000	-21.5	437,500	1.7
New Housing Price Index (% chg.)	16.2	0.6	-6.7	1.8	-	0.9	-
Rental Market							
October Vacancy Rate (%)	1.5	2.1	5.3	4.9	-	4.0	-
Two-bedroom Average Rent (October) (\$)	1,089	1,148	1,099	1,090	-	1,100	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	680,600	704,100	698,200	697,000	-0.2	709,500	1.8
Employment Growth (%)	3.9	3.5	-0.8	-0.2	-	1.8	-
Unemployment rate (%)	3.2	3.5	6.6	7.0	-	6.4	-
Net Migration ⁽¹⁾	24,447	27,478	16,000	14,000	-12.5	15,000	7.1

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

(1) The 2009 migration data is a forecast

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 08, 2010.

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