HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

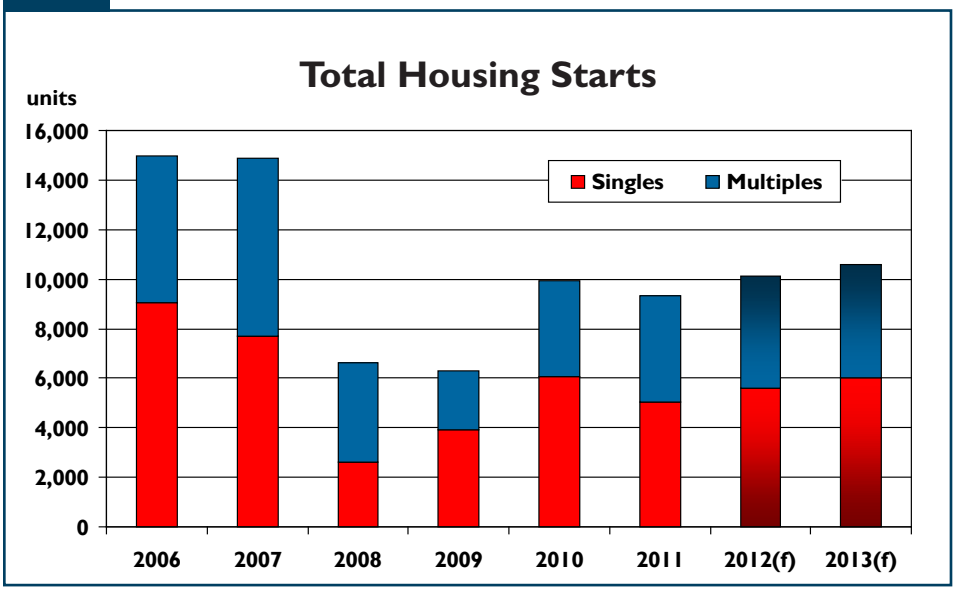
Date Released: Spring 2012

NEW HOME MARKET

Housing starts increase in 2012 and 2013

After a six per cent decrease in 2011, total housing starts across the Edmonton Census Metropolitan Area (CMA) will strengthen by eight per cent this year to 10,100 units. While this will represent the best year for the region's homebuilders since 2007, it will be below the 10-year average of near 11,200 units started from 2002 to 2011. A growing economy characterized by strong job gains, rising incomes, increased net migration, and continued low mortgage rates will help to bolster demand. Gains this year will be conditional on lower new home inventories and a more balanced existing home market. Economic conditions will support a further expansion in 2013, with total housing

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 April 27, 2012.

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

Table of Contents

Canada

Housing market intelligence you can count on

CMHC SCHL
HOME TO CANADIANS

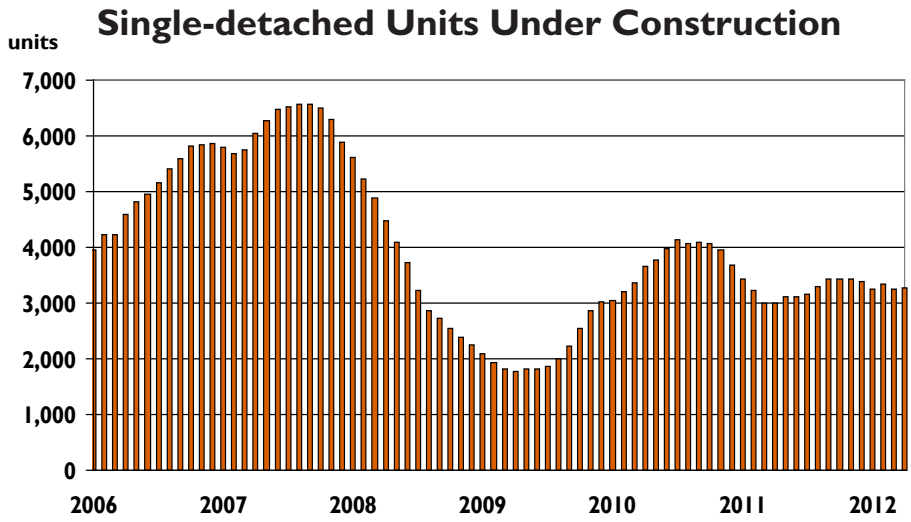
starts anticipated near 10,600 units, representing a five per cent gain over 2012 volumes.

Stronger single-detached starts in 2012 and 2013

Single-detached starts in 2012 will increase by 12 per cent to 5,600 units, following a 17 per cent reduction from the previous year. In 2011, builders were hampered by buyers' market conditions in the resale market that held back price growth and discouraged trade-up activity. Concerns over inventory in both then new and resale markets hindered construction in the first half of the year. A key component of this year's improvements will be a return to more balanced resale conditions this spring. CMHC is anticipating modest resale price gains for existing homes this year and this will give confidence to more trade-up activity among existing homeowners. In 2013, look for production levels to approach 6,000 units across the region which is more in line with historical averages.

Single-detached starts increased by 35 per cent in the first three months of 2012 compared with a relatively slow first quarter of 2011. As this year progresses, activity levels will be compared against 2011, a year that grew stronger going into the summer months. As such, we look for the gap between this year and 2011 to narrow in the months ahead. While builders traditionally look to have adequate inventory on hand for the important spring selling season, they also need to watch total supply levels to avoid elevated inventories. CMHC records supply as units under construction plus standing inventory including show homes. Supply levels for single-detached units at the end of March were seven per cent above the count 12 months earlier and this should dampen some spec building during the second quarter. However, as the resale market moves into a more balanced position and existing home prices strengthen, the industry is likely to increase production in the summer months to prevent new inventory depletion during the second half of the year.

Figure 2



Source: CMHC

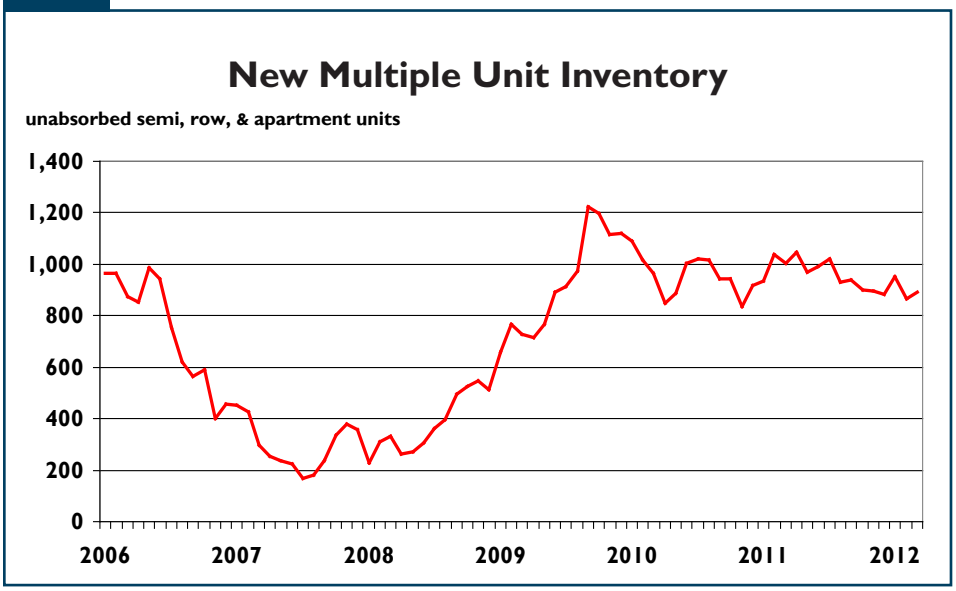
Single-detached prices continue to rise in 2012

To the end of March, average single-detached absorbed prices increased by two per cent from the first quarter of 2011 to $512,399. Compared with the first three months of last year, more units were absorbed in price points above $450,000. However, the year-to-date change in median price, which is less impacted by extreme values, has been substantially less and more in line with gains seen in Statistics Canada's New House Price Index (NHPI). CMHC's outlook for absorbed average prices for 2012 calls for only modest growth of one per cent, in line with the changes seen in the NHPI in recent months. While rising input costs will put some upward pressure on contractor selling prices, the market will remain highly competitive and this will help to restrain price growth. An average single-detached home in the Edmonton region will sell for close to $513,000 this year compared with an average of $509,059 in 2011. In 2013, the average absorbed price will increase by 1.5 per cent to around $520,500.

Multi-family starts to remain strong in 2012

Multi-family starts, consisting of semi-detached, row, and apartment units, will amount to 4,500 units in Greater Edmonton this year, representing a four per cent increase from the 4,315 units started in 2011. Multiple starts last year increased by 11 per cent from 2010 volumes and represented the best year since 2007. A strong uptick in rental activity helped to offset a moderate pull-back in condominium starts. In 2013, CMHC expects multiple dwelling starts to remain close to current levels thanks to continued strong demand

Figure 3



Source: CMHC

for entry-level new housing and a more balanced resale condominium market. A tightening rental market will also provide some opportunities for developers looking to add to the region's stock of rental units.

Multiple unit inventories across Greater Edmonton stood at 893 units in March, representing an 11 per cent decrease from the third month of last year. However, units under construction were up 21 per cent year-over-year in March to 5,800 units. Total new multi-family supply, which includes unabsorbed inventory plus units under construction, stood at 6,693 units in March compared with 5,792 units a year prior. Multiple unit supply hit a cyclical peak of 6,860 units in October of last year and has since been moving downward.

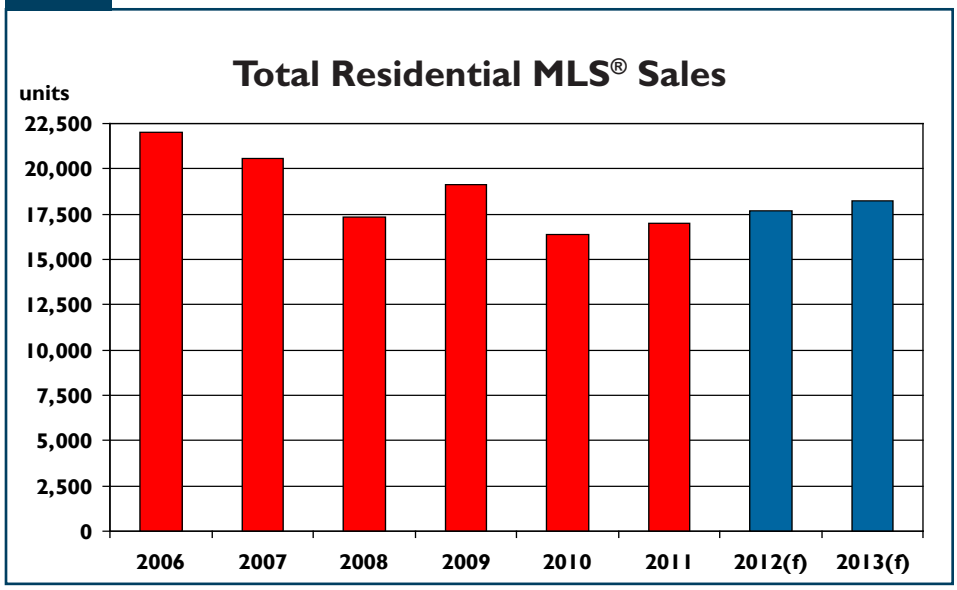
While inventories in the new condominium market across Metro Edmonton have decreased moderately in recent months, the market for new high-rise apartment units in the Downtown and medium-rise apartments in suburban areas such as West and Southwest Edmonton remain highly competitive and price-sensitive. With the existing market for resale condominiums expected to improve in 2012, prices for existing units should begin to firm-up. This will provide some incentive for developers to get new projects underway for occupancy in 2013. However, presales for pending projects remain a challenge due to adequate new and resale supply levels in many districts. In addition, some previously stalled-out condominium projects will return to active status this year, tempering the number of starts as many were counted previously and represent current supply.

RESALE MARKET

Demand for existing home sales to increase

Total residential MLS® sales in the Edmonton region will increase by over four per cent in 2012 to 17,700 units. This follows a three per cent increase in the previous year. Increased in-migration, continued job creation, a tighter rental market and persistently low mortgage rates will help bolster demand. As markets become more balanced, rising prices and the prospects of higher financing costs in 2013 will also encourage some fence-sitters to make a move into the market. In 2013, resale activity will continue to strengthen, with total MLS® sales increasing by just under three per cent to 18,200 units, which

Figure 4



Source: RAE, CMHC Forecast (f)

is close to the ten-year annual average reported between 2002 and 2011. The slight moderation in growth will occur due to higher carrying costs associated with firming prices and higher mortgage rates.

Residential MLS® sales in the first quarter of 2012 increased by seven per cent from the first three months of 2011. When looking at the sales trend on a seasonally adjusted basis, sales have been improving very gradually since the second quarter of last year. Meanwhile, sales have generally outpaced new listings in recent months and inventory levels have been edging downward. The sales-to-active listings ratio (SALR) stood at 22 per cent in March, unchanged from a year prior. The ratio has been slowly trending upward since the end of 2011, from the buyers' market range and should move toward balanced market terrain during the second quarter.

With average listing periods also edging lower in the first quarter, buyers should see a less competitive environment for homes this spring as their advantage over sellers slowly fades. The average home sold in the first three months of 2012 took 57 days to sell, one fewer than the previous year.

Rising resale home prices in 2012

Following a one per cent decrease in 2011, the average MLS® price will rise this year by close to three per cent to $334,000. Buyers' market conditions prevailed throughout 2011, putting downward pressure on home prices. A well-supplied new home market also provided competition in the upper price points typically sought by move-up buyers. With a return to more balanced market conditions expected this spring, look for month-over-month gains in resale prices. Increased trade-up buying will bolster the number of units sold for over $350,000, and this will also be a factor in elevating average sale prices. In 2013, a balanced market will provide additional upward movement in home prices, with the annual average forecasted at $344,000, for a gain of near three per cent above the current year. By 2013, average home prices will have exceeded the previous peak level reported in 2007.

Figure 5

Source: RAE, CMHC Forecast (f)

Home ownership costs to increase in 2013

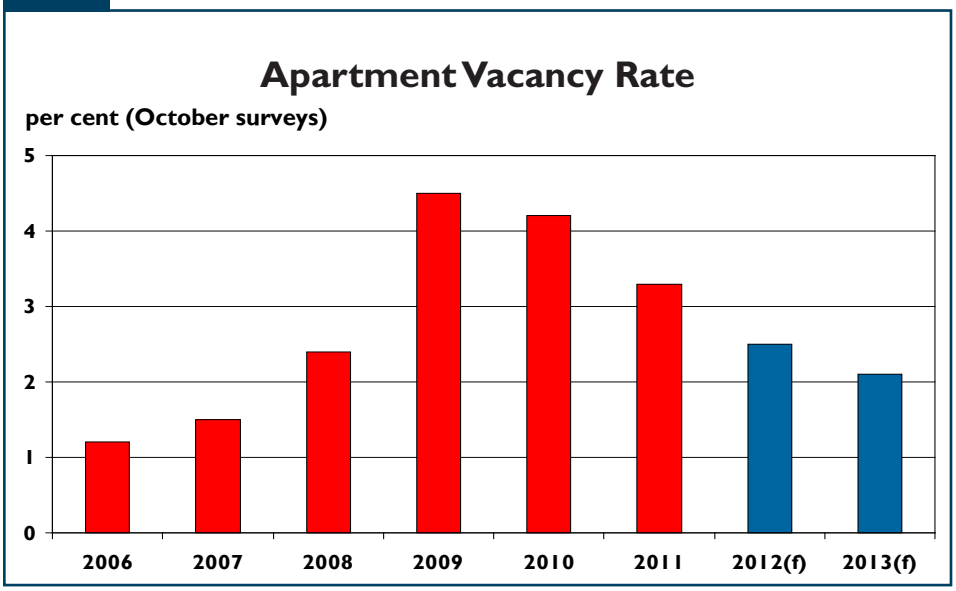
The average carrying cost to purchase a typical MLS® home in Edmonton decreased in 2011 due to a combination of lower mortgage rates and moderating prices. Mortgage servicing costs on the average resale home, based on a 25 year amortization and a 10 per cent down payment, declined in 2011 by three per cent to $1,777 per month. Carrying costs this year will rise by less than one per cent from 2011 levels, with higher annual average prices buffered by mortgage rates averaging slightly below last year's levels. In 2013, the typical cost of homeownership will rise by over six 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 vacancies in the Edmonton CMA continued to decline last year. The apartment vacancy rate decreased to 3.3 per cent in October 2011 from 4.2 per cent a year prior. Demand for rental accommodation was driven by increased job creation and a growing number of newcomers to the region. While rental unit completions will rise this year, the new units coming on-stream will be insufficient to meet the anticipated growth in demand. By this October,

Figure 6



Source: CMHC, CMHC Forecast (f)

vacancies in rental apartments will have decreased to around 2.5 per cent with further reductions to near 2.1 per cent anticipated by the fall of 2013. This would represent the lowest fall vacancy rate since 2007.

Another factor contributing to our outlook for lower vacancies in rental apartments this year is an expectation that conditions will also continue to tighten in the secondary rental market, notably investor-owned and rented condominiums. For example, the vacancy rate in rental condominium apartments across the Edmonton CMA was 3.7 per cent in October 2011 compared to a vacancy rate was 5.2 per cent in October 2010. As demand for homeownership increases this year, some of the investor-owned units currently being rented will revert back to the homeowner market and reduce the supply of condominiums available for rent.

Rents expected to rise

With apartment vacancies expected to trend downward over the forecast period, rental rates across the Edmonton region will be drawn upward. In October 2011, an average two-bedroom apartment rented for $1,034 per month compared with $1,015 in the previous fall survey. Two-bedroom apartment rents last year matched the previous October survey peak levels reported in 2008. By the fall of this year, a typical two-bedroom unit will rent for close to $1,065, representing a $31 per month average increase over this time in 2011. By October 2013, two-bedroom apartment rents should average near $1,105.

With turnovers decreasing and occupancy levels on the rise, property managers will also require fewer incentives this year. The proportion of structures offering incentives decreased from 25 per cent in October 2010 to 10 per cent in October of last year. Based on historic trends, CMHC expects fewer than five per cent of landlords will be offering any incentives to lure new tenants in the upcoming October rental market survey.

ECONOMIC OUTLOOK

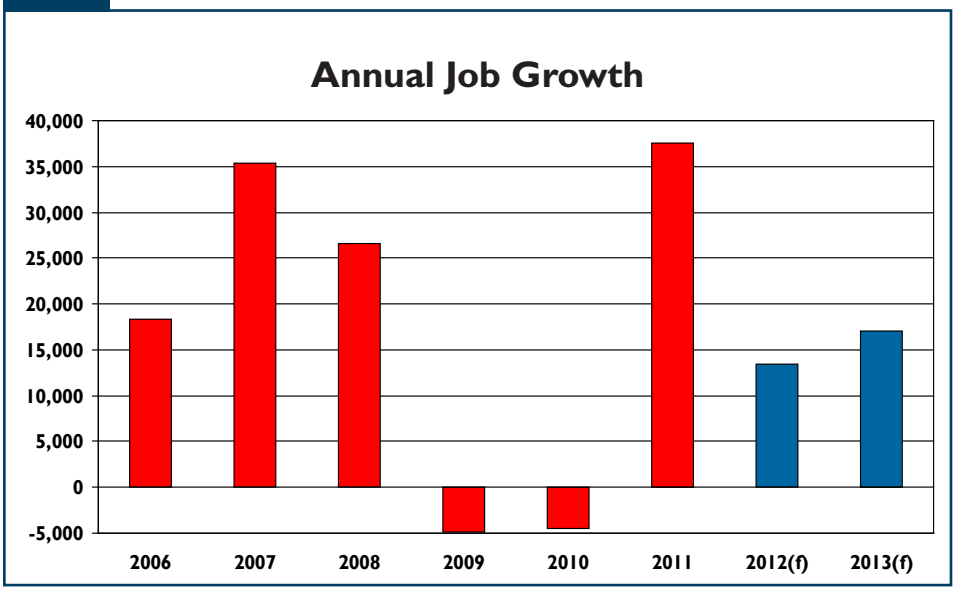
Energy sector continues to drive the economy

The primary factor driving the economic expansion in the northern half of the province has been strong global prices for crude oil. Given the current favourable outlook for world oil prices, investment intentions are on the rise in the energy sector. Since the Edmonton region is the province's foremost service and staging area for the energy extraction industry, the area is well placed to profit from these anticipated expenditures. A relatively strong year in agriculture also bolstered incomes in the communities near the capital region.

Billions of dollars continue to be invested into energy-related infrastructure projects, to the advantage of the region's construction sector. Manufacturing activity in Northern Alberta is also benefiting from the strengthening energy sector, particularly oil sands, heavy oil and conventional drilling. The strong job creation across the region has bolstered disposable incomes and fuelled job creation in the region's wholesale and retail trade sector. The near six per cent job creation in 2011 has set the stage for continued robust domestic demand in 2012. However, the potential downside for the homebuilding industry is increased competition for labour and inflated costs for building materials. Production costs are expected to moderately increase, putting some pressure on the industry's margins and push prices upward.

Despite a major injection of new floor space pushing vacancy rates higher in Edmonton, demand for office

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

space has been relatively strong in the past year. Commercial property markets should enjoy increased activity among various participants in the energy sector although demand from governments is expected to see some restraint. However, government spending on transportation-related infrastructure will continue across the region, in particular further expansions of the Edmonton International airport, the next leg of light-rail transit toward NAIT, and the final northeast section of the Anthony Henday ring road.

Following back-to-back years of job losses in 2009 and 2010, the Edmonton region experienced exceptionally strong job creation last year. As indicated above, the average annual employment level in 2011 grew by close to six per cent, representing one of the best performances among all metropolitan areas in Canada. Both the goods-producing industries, such as manufacturing and construction, along with services such as retail trade, reported impressive gains. Crucial to the housing industry, much of last year's job creation was in full-time positions. Unemployment across the region decreased to an average of 5.5 per cent in 2011 compared with 6.9 per cent in 2010. Meanwhile, the tighter labour market resulted in improved earnings growth across the region. Average Weekly Earnings for Edmonton increased on average by 2.5 per cent in 2011, compared with an average 0.6 per cent gain during all of 2010.

Edmonton's labour market will continue to expand in 2012 and 2013, although the growth rates will slow to more sustainable levels compared with the strong rebound year in 2011. Employment growth will average two per cent this year, representing a net increase in employment to around 13,400 jobs. In 2013, the number of people working across the Capital region will rise by close to 2.5 per cent. The unemployment rate will average 5.2 per cent this year and 4.8 per cent in 2013, helping to attract more migrants into Greater Edmonton.

Net migration into Greater Edmonton during the 12-month period ending June 2011 was 12,193 persons, representing a robust gain over the 9,842 net migrants reported in the previous period. The favourable labour market conditions expected over the forecast period will continue to entice more newcomers from parts of the country where economic growth is slower, most notably central and eastern Canada. Rebounding numbers of non-permanent residents, typically temporary foreign workers, along with a growing number of international net migrants will also help boost population growth. CMHC expects total net migration of close to 16,000 persons this year and 16,200 in 2013.

MORTGAGE RATE OUTLOOK

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Edmonton CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	19,139	16,403	16,963	17,700	4.3	18,200	2.8
MLS® New Listings	30,696	33,131	31,719	31,000	-2.3	30,500	-1.6
MLS® Average Price ($)	320,378	328,803	325,595	334,000	2.6	344,000	3.0
New Home Market							
Starts:							
Single-Detached	3,897	6,062	5,017	5,600	11.6	6,000	7.1
Multiples	2,420	3,897	4,315	4,500	4.3	4,600	2.2
Starts - Total	6,317	9,959	9,332	10,100	8.2	10,600	5.0
Average Price ($):							
Single-Detached	543,243	490,128	509,059	513,000	0.8	520,500	1.5
Median Price ($):							
Single-Detached	460,000	429,900	448,400	455,000	1.5	462,000	1.5
New Housing Price Index (% chg.)	-11.2	-0.8	0.9	1.4	-	1.7	-
Rental Market							
October Vacancy Rate (%)	4.5	4.2	3.3	2.5	-	2.1	-
Two-bedroom Average Rent (October) ($)	1,015	1,015	1,034	1,065	-	1,105	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	637,900	633,400	671,000	684,400	2.0	701,500	2.5
Employment Growth (%)	-0.8	-0.7	5.9	2.0	-	2.5	-
Unemployment rate (%)	6.7	6.7	5.4	5.2	-	4.8	-
Net Migration	20,427	9,842	12,193	16,000	31.2	16,200	1.3

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 April 27, 2012.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 years.

Together with other housing stakeholders, we help ensure that the Canadian housing system remains one of the best in the world. We are committed to helping Canadians access a wide choice of quality, environmentally sustainable and affordable housing solutions that will continue to create vibrant and healthy communities and cities across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is available for free on CMHC's website. You can view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of MAC publications, call 1-800-668-2642.

Housing market intelligence you can count on

FREE REPORTS AVAILABLE ON-LINE

- Canadian Housing Statistics
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Highlight Reports – Canada and Regional
- Housing Market Outlook, Major Centres
- Housing Market Tables: Selected South Central Ontario Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Northern Housing Outlook Report
- Preliminary Housing Start Data
- Renovation and Home Purchase Report
- Rental Market Provincial Highlight Reports *Now semi-annual!*
- Rental Market Reports, Major Centres
- Rental Market Statistics *Now semi-annual!*
- Residential Construction Digest, Prairie Centres
- Seniors' Housing Reports

Get the market intelligence you need today!

Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

CMHC's Market Analysis Centre e-reports provide a wealth of detailed local, provincial, regional and national market information.

- **Forecasts and Analysis –** Future-oriented information about local, regional and national housing trends.
- **Statistics and Data –** Information on current housing market activities — starts, rents, vacancy rates and much more.

Are you interested in housing research?

Stay up-to-date with the latest housing research findings and events related to sustainable housing and communities, housing conditions and trends, housing finance and more.

Subscribe Today to CMHC's Housing Research E-Newsletter!

64343_2012_B01