HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Edmonton CMA

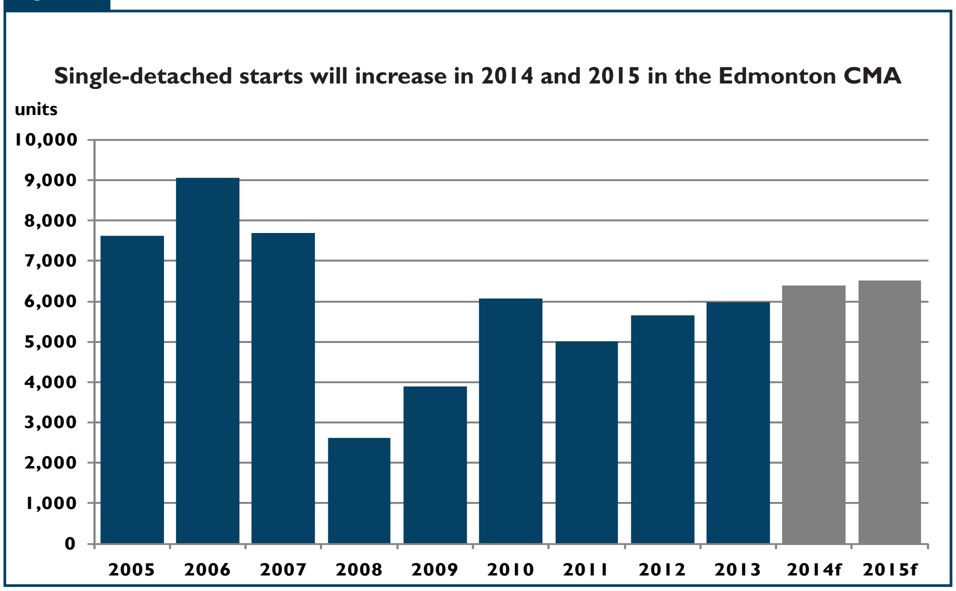
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights[1]

- Single-detached housing starts are forecast to rise in 2014 and 2015
- Multi-family housing starts will moderate in 2014 and 2015
- MLS®[2] sales will increase slightly as Edmonton's resale market remains balanced
- Edmonton's apartment vacancy rate forecast to move up slightly

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 30, 2014.

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

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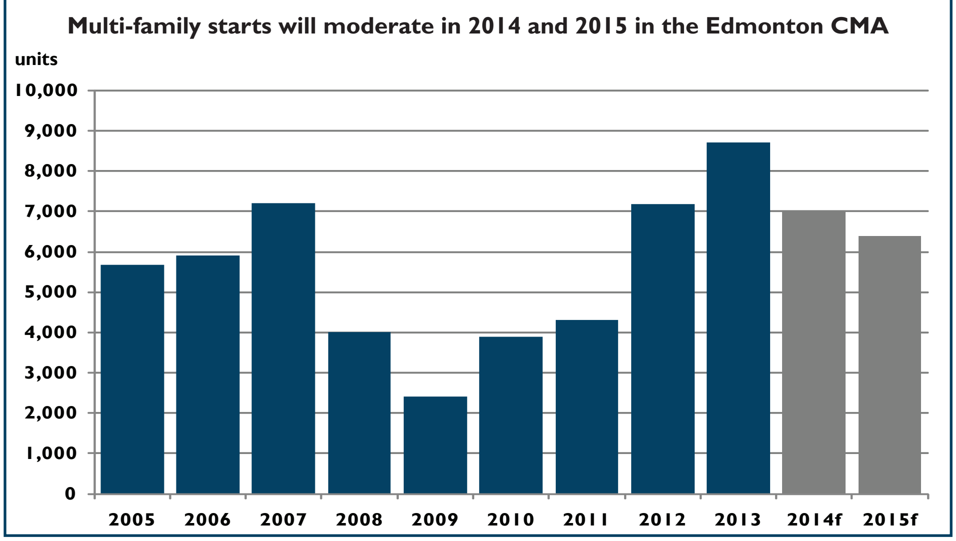
New Home Market: Housing starts will moderate in 2014 and 2015

Strong employment growth, elevated migration, and low mortgage rates helped bolster demand for new homes in the Edmonton Census Metropolitan Area (CMA) in 2013. In the multi-family segment, housing starts reached 8,719 units, the highest level since 1978 and the second highest total on record. With a growth rate of almost six per cent, single-detached housing starts also experienced solid growth.

Although demand for new homes will remain strong in 2014, the pace of total housing starts will moderate. Higher single-detached starts will be more than offset by a decline in the multi-family sector. With 9,310 multi-family units under construction as of March 2014, builders will scale back production in 2014 to ensure that inventory levels remain manageable. In 2015, many of the multi-family units currently under construction will be completed which will lead to higher inventory levels. As inventory levels trend higher, multi-family housing starts will moderate further next year. Overall, total housing starts are forecast at 13,400 for 2014 and 12,900 for 2015.

Supported by rising incomes, employment growth, and a reduced selection of homes on the competing resale market, single-detached housing starts will continue to grow in both 2014 and 2015. After the first three months of 2014, foundations have been poured on 1,309 single-detached homes in the Capital region, a 16 per cent increase over the first quarter of 2013. Low inventory levels on the competing resale market have caused some perspective buyers to look to the new home market to purchase their home. This has supported growth in the single-detached housing segment. Overall, single-detached housing starts are expected to increase to 6,400 units in 2014, up from 5,970 in 2013. In 2015, single-detached housing starts will increase further to 6,500 units.

Figure 2



Source: CMHC, CMHC Forecast (f)

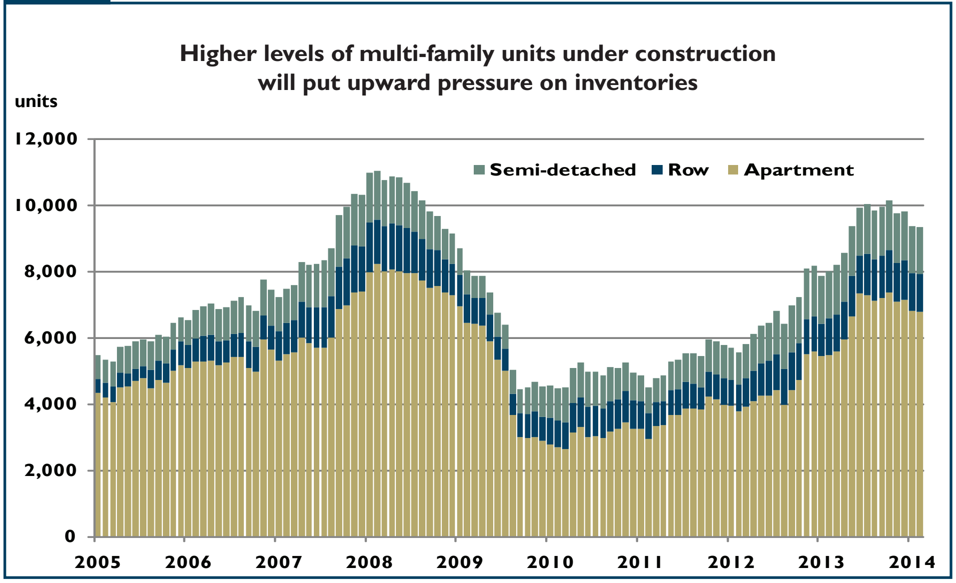
The number of new single-detached homes in inventory has been trending higher over the past few months, though it is not high enough to warrant a reduction in starts. At the end of the first quarter of 2014, there were 674 single-detached homes in ownership inventory, up slightly from 646 one year prior. Both show homes and spec homes increased on a year-over-year basis, rising five per cent and four per cent, respectively.

As of March 2014, there were 3,895 single-detached homes under construction, a six per cent increase from the same month of 2013. While up from the previous year, the number of homes under construction has declined from the peak recorded in the fall of 2013. Although inventory of new single-detached homes may rise as these units reach completion, absorption rates have moved higher recently, thus inventory levels should remain relatively stable.

The average absorbed price for a new single-detached home in the first quarter of 2014 was $564,116, an 11 per cent increase over the same quarter of 2013. New single-family homes priced below $450,000 have lost market share recently, while homes priced above $650,000 have accounted for a larger proportion of absorptions. Moving forward, the compositional impact will dissipate as active listings in the competing resale market rise, leading to lower price growth.

Although the average absorbed price for single-detached homes has moved higher in the early months of 2014, Statistics Canada New House Price Index (NHPI) suggests price pressures in the new home market remain modest. The NHPI is on pace to increase only 1.5 per cent in 2014. With a higher number of units under construction in 2015, input

Figure 3



Source: CMHC

price pressures for builders will likely strengthen, pushing the NHPI up 2.0 per cent next year. On balance, the above factors will boost the average absorbed price for a single-detached home to $547,000 in 2014, a 3.2 per cent increase over 2013. In 2015, a further increase to $555,000 is expected.

Multi-family starts, including semi-detached, row, and apartment units, recorded their second highest year on record in 2013, with 8,719 starts. Elevated migration, an expanding economy, and a low rental vacancy rate have led to increased demand for multi-family units. However, given the multitude of units under construction and likelihood of rising inventories moving forward, multi-family housing starts have begun to trend lower. In the first quarter of 2014, multi-family starts were 42 per cent lower than in the same quarter of 2013.

Over the balance of the year, the 42 per cent reduction in multi-family housing starts thus far will dissipate. Overall, 7,000 multi-family housing starts are expected in 2014, a 20 per cent reduction from 2013. In 2015, many of the units currently under construction will reach completion, leading to an uptick in the inventory of new multi-family homes. This will further temper production of multi-family housing to 6,400 starts in 2015.

Apartment starts drove the increase in multi-family construction in 2013 and have now pulled back. After three months of 2014, 362 apartments have been started in the Edmonton CMA, a sizeable decline from the 955 units started in the corresponding period of 2013. Despite the recent pull-back, 6,750 apartments were under construction in March, 21 per cent higher than a year prior. Nearly 40 per cent of those were for rental apartments, as rentals have seen a sizable share of apartment starts over the last few years. A low vacancy rate and elevated migration have spurred demand for rental housing in Edmonton. Moving forward, however, the elevated number of units under construction and expectation of rising vacancies will slow production of rental units.

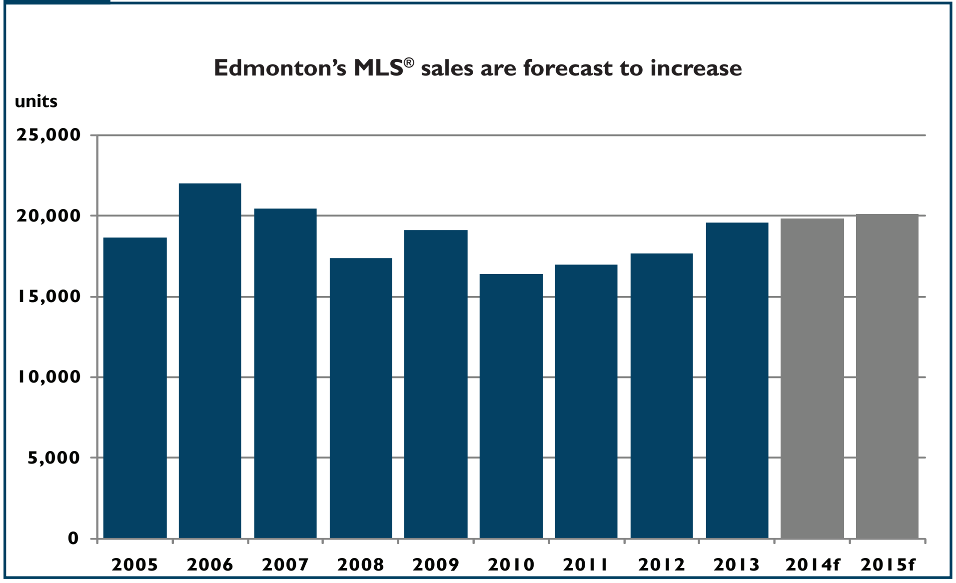
Ownership inventory of multi-family units has been trending down since peaking in 2011. As of March 2014, there were 615 multi-family units in ownership inventory, 24 per cent lower than one year-prior. The number of apartments in ownership inventory was down 39 per cent over the same period, while row units in inventory declined 32 per cent. Contrasting this trend, semi-detached units in inventory were up six per cent. The low ownership inventory of apartments and row units prompted builders to increase production in 2013. As the 9,310 multi-family units under construction in March 2014 move toward completion, inventory is expected to trend higher. This is leading to a moderation in multi-family housing starts which will continue throughout 2014 and 2015.

Existing Home Market: Lower inventory and rising sales will put upward pressure on prices

Supported by rising wages, growing employment, and low mortgage rates, demand for resale homes in Edmonton is expected to remain strong in 2014 and 2015. Overall, sales are expected to increase 1.3 per cent in 2014 to 19,800 units and 1.5 per cent to 20,100 in 2015.

In the first three months of 2014, there were 3,989 MLS® sales in Edmonton, down slightly from the 4,021 reported in the same period of 2013. Relatively low active listings, coupled with bad weather, led to slower sales in January and February. By March, activity had begun to pick up, and sales are expected to continue with this momentum through the spring. Growth will be held back, however, particularly in the first half of the year by lower active listings.

Figure 4



Source: CREA, CMHC Forecast (f)

This will prompt some prospective buyers to turn to the new home market. Recent price growth will lead to higher new listings, offering more inventory later in 2014. This will lead to increased sales in the latter half of 2014 and into 2015.

Active listings on the resale market have been trending lower since mid-2011. This has been the result of both higher sales and a decline in the number of new listings. There were 4,413 active listings at the end of March 2014, seven per cent lower than one year earlier. Moving forward, new listings, and by extension active listings, should increase over the year as sellers attempt to lock in equity gains from previous years. Active listings are forecast to average 4,650 per month in 2014 before rising to 4,900 in 2015.

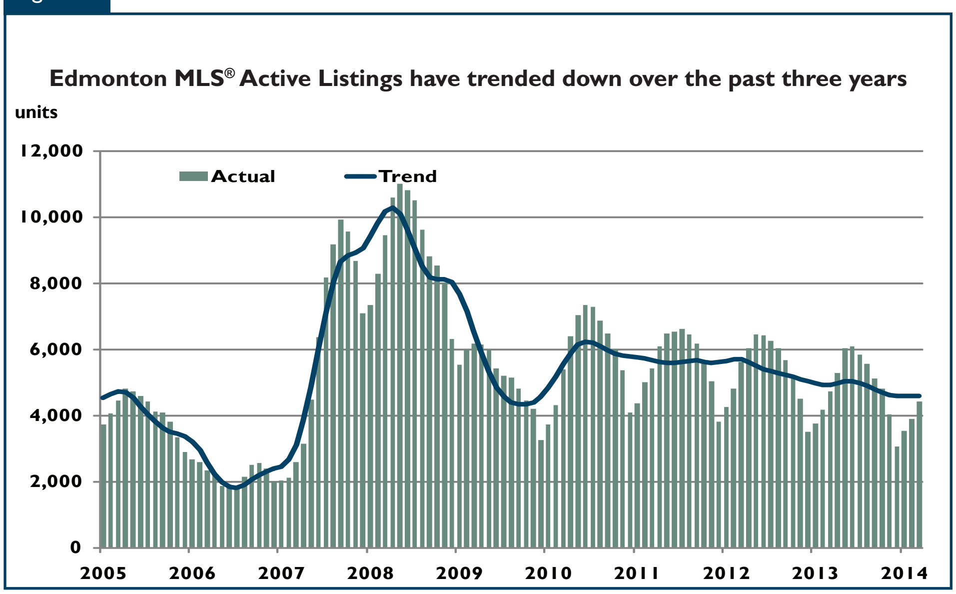
The decline in the number of active listings has led to an increase in the sales-to-active listings ratio. The ratio averaged 31 over the first quarter of 2014, up from 27 in the first three months of 2014. Growth in active listings should outpace that of sales moving forward, putting some downward pressure on the ratio.

Homes were moving off the market faster in the opening months of 2014. The average days on the market was 53 in the first three months of 2014, down from 61 a year prior. Lower inventory has been a key factor in the decline.

Prices in Edmonton's resale market have moved higher. Strong demand, supported by employment gains, elevated migration, and a low rental vacancy rate, together with lower supply levels and shorter listings durations, have firmed up prices in Edmonton. In 2013, the average MLS® price rose 3.2 per cent to $344,977. In the first quarter of 2014, the pace of price growth has increased to 4.8 per cent year-over-year, reaching an average of $354,332. As we move forward in 2014, price growth will continue, but as resale inventory rises, price pressures should ease up. On an annual basis, the average MLS® price is forecast to increase 4.1 per cent in 2014, to $359,000. In 2015, demand and supply pressures should be more balanced, and price growth will slow to around 2.2 per cent.

Average price growth in the Edmonton resale market has also been affected by the type of homes being sold. In the first quarter of 2014, homes priced above $500,000 accounted for 21 per cent of all single-detached home sales, up from 16 per cent in the same period of 2013. This

Figure 5



Source: RAE, Trended by CMHC

shift can likely be attributable to more move-up buying activity, as equity gains are allowing home buyers to upgrade to a more expensive home.

Edmonton's resale market was balanced in 2013 and should remain balanced through the forecast horizon. There is a risk that relatively low listings will tip the scales slightly in favour of the seller over the next few months. However, as prices continue to rise, new listings are expected to pick up. This should keep demand and supply balanced through the end of 2014 and into 2015.

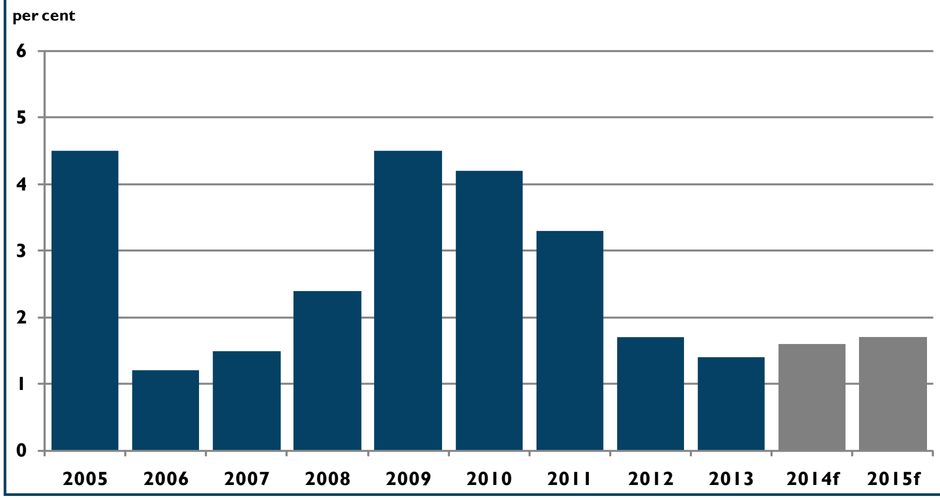
Rental Market: The vacancy rate will move slightly higher while rents increase

The rental apartment vacancy rate in the Edmonton CMA declined to 1.4 per cent in October 2013, down from 1.7 per cent in the same period of 2012. Strong employment gains, rising income and elevated migration led to increased rental demand. In 2014 and 2015, the vacancy rate will increase slightly as migration comes down from its peak level and employment growth slows. Overall, the vacancy rate is forecast to increase to 1.6 per cent in October 2014, and then to 1.7 per cent in October 2015.

High demand for rental accommodation has put upward pressure on rents. In October 2013, the average rent for a two-bedroom apartment was $1,141, up from $1,071 in the corresponding period of 2012. With the vacancy rate expected to increase slightly in 2014 and 2015, average rents will continue to rise, but the pace of growth should ease. The average rent for a two-bedroom apartment is expected to increase to $1,195 in October 2014 and $1,225 in 2015.

Figure 6

Edmonton's apartment vacancy rate forecast to increase slightly in 2014 and 2015



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

Edmonton's rental apartment universe increased for the first time in nine years in 2013. As indicated, construction of rental apartments has picked up over the past two years. There were 2,537 rental apartments under construction in the Edmonton CMA in March 2014, 37 per cent higher than the previous year. As these units move to completion, the additional supply will relieve some of the pressure in the rental market.

Rising rents, a low vacancy rate, and slow price growth for condominiums on the resale market has led to an increase in the number of condominium apartments that make-up a portion of Edmonton's secondary rental market. As of October 2013, almost one-third of condo apartments in the Edmonton CMA were a part of the secondary rental market offering additional competition to the traditional rental market. The vacancy rate for condo apartments was similar to those in the traditional segment, at 1.1 per cent, indicative of strong rental demand for this type of accommodation.

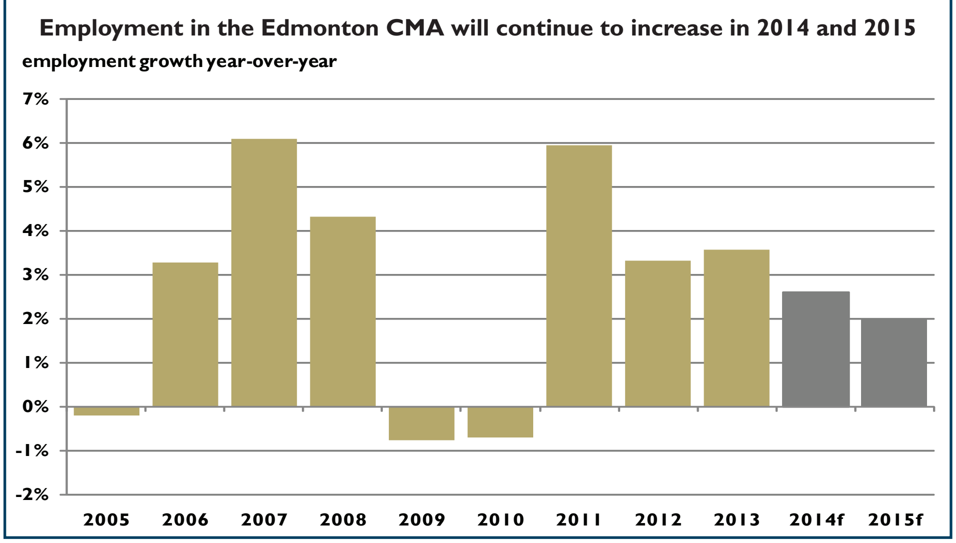
Economic Overview: An expanding economy will support housing demand

Edmonton's economy will continue to grow in 2014 and 2015. With favourable commodity prices, the oil and gas industry is expected to perform well again in 2014 and will act as a driving force in the local economy. Employment gains and wage growth will also lead to increased consumer spending and support growth in the service sector.

Local infrastructure projects will also contribute to economic expansion. Work has begun on the downtown arena project, as well as on the construction of the new Royal Alberta Museum. Other notable projects include the NAIT's new Centre for Applied Technology and continued work on the Anthony Henday roadway.

Employment grew a very respectable 3.6 per cent in the Edmonton CMA in 2013, translating into an additional 24,000 jobs. All of the employment

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

growth was in full-time positions, which increased by an average 32,300 positions over the course of 2013. In the first quarter of 2014 employment gains continued as employment increased five per cent year-over-year. As 2014 continues, employment growth will ease slightly as it will be compared against growth that was stronger in the latter half of 2013, but will continue to support housing demand. Average employment is expected to increase 2.6 per cent in 2014 and 2.0 per cent in 2015.

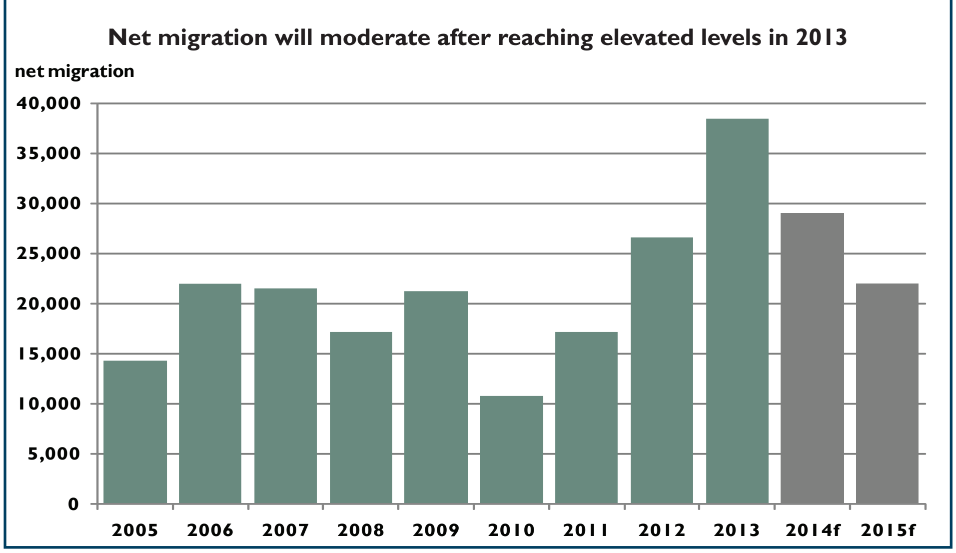
The unemployment rate in Edmonton peaked at a seasonally adjusted rate of 5.5 per cent in the final month of 2013, and remained there in January 2014. Since then, the rate has moved lower and as of March was at 4.8 per cent. Edmonton's labour force participation rate is close to peak levels, and with migration expected to ease over the next two years, the unemployment rate in Edmonton is expected to remain close to its current level. Overall the unemployment rate is forecast to average 4.7 per cent in both 2014 and 2015.

Strong demand for labour in the Edmonton CMA has put upward pressure on wages. Weekly earnings in Edmonton averaged $1,072 in the first quarter of 2014, representing a 3.6 per cent increase over the same quarter of 2013. With employment gains expected to continue and an unemployment rate below the five per cent mark, wages in Edmonton will continue to move higher over the course of 2014. This will support demand for housing in both 2014 and 2015.

Migration has been elevated in the Edmonton CMA over the past two years. From July 1, 2012 to June 30, 2013, Edmonton welcomed a net 38,511 migrants, representing a record high. Employment prospects and rising earnings have attracted migrants from across Canada and around the world. Interprovincial migration has accounted for the largest increase in migration. Migration attributable to non-permanent residents, typically coming in for temporary employment, has also seen an uptick.

Migration into the Edmonton CMA is expected to slow in 2014, but will still remain above historical averages. As the economies of provinces across the country improve, fewer people will be drawn into Edmonton. Migration will decline to 29,000 in 2014, prior to moderating to 22,000 in 2015.

Figure 8



Source: Statistics Canada, July to June, CMHC Forecast (f)

Mortgage Rate Outlook

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards.
Employment	The expanding labour market and full-time job growth will support housing demand through 2015.
Income	Earnings in the Edmonton CMA continue to increase. This will continue to support housing demand in 2014.
Population	After reaching a record high in 2013, migration is expected to moderate in 2014 and 2015. Despite the moderation, migration will still be relatively high and support demand for housing.
Resale Market	Edmonton's resale market is balanced. However, relatively fewer active listings have led some potential home buyers to look to the new home market.
New Home Inventory	Single-detached inventory has moved higher in recent months but rising demand should allow single-detached housing starts to move higher. Multi-family inventory is expected to trend higher over the next two years and will lead to a moderation in multi-family housing starts in 2014 and 2015.

Forecast Risks

This outlook is subject to some risks, including:

- The oil and gas sector remains a driving force behind Edmonton's economy. If oil prices become soft, there is a risk that the overall economic outlook for the Edmonton region could weaken. This would also lead to lower demand for housing in the Capital region.
- The number of multi-family units under construction has moved higher over the past two years. There is a risk that inventory may rise more drastically if a large number of units are not absorbed upon completion. This would lead to a larger decline in multi-family housing starts.
- Active listings on the resale market have been trending lower over the past three years but are expected to increase this year. If active listings do not move higher there is a potential for more price pressure in the resale market. This could also lead to additional demand in the new home market.

Forecast Summary Edmonton CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	5,017	5,658	5,970	6,400	7.2	6,500	1.6
Multiples	4,315	7,179	8,719	7,000	-19.7	6,400	-8.6
Starts - Total	9,332	12,837	14,689	13,400	-8.8	12,900	-3.7
Average Price ($):							
Single-Detached	509,059	514,259	529,824	547,000	3.2	555,000	1.5
Median Price ($):							
Single-Detached	448,400	460,000	461,300	474,000	2.8	483,000	1.9
New Housing Price Index (% chg.)	0.9	0.9	0.4	1.5	-	2.0	-
Resale Market							
MLS® Sales	16,963	17,641	19,552	19,800	1.3	20,100	1.5
MLS® New Listings	31,719	31,410	30,011	31,000	3.3	31,800	2.6
MLS® Active Listings	5,636	5,397	4,873	4,650	-4.6	4,900	5.4
MLS® Average Price ($)	325,595	334,318	344,977	359,000	4.1	367,000	2.2
Rental Market							
October Vacancy Rate (%)	3.3	1.7	1.4	1.6	-	1.7	-
Two-bedroom Average Rent (October) ($)	1,034	1,071	1,141	1,195	-	1,225	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	671,000	693,200	718,000	736,700	2.6	751,400	2.0
Employment Growth (%)	5.9	3.3	3.6	2.6	-	2.0	-
Unemployment rate (%)	5.4	4.7	4.8	4.7	-	4.7	-
Net Migration (1)	17,167	26,670	38,511	29,000	-24.7	22,000	-24.1

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 April 30, 2014.

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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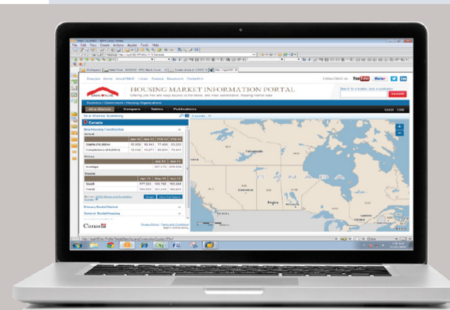

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