

H

OUSING MARKET

OUTLOOK

Canada Mortgage and Housing Corporation

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NEW HOME MARKET

New Home Construction to Remain at High levels

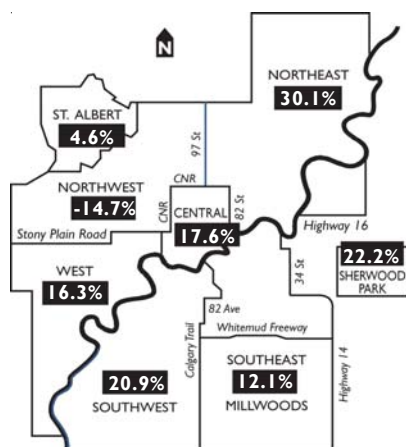
The current boom in Greater Edmonton's residential construction industry shows no sign of abating during the summer of 2006. Total housing starts to the end of August were almost 16 per cent ahead of activity in the first eight months of 2005. Strong in-migration, a robust economy and a severe shortage of existing homes for sale have combined to heighten demand for new housing and bolster the confidence of the house building industry. While mortgage rates moved higher during

the fourth quarter of 2005 and the early months of this year, they have remained fairly stable since the spring. Meanwhile, employment and income growth have strengthened this year, helping to increase household formation. With a projected 15,000 total housing starts across the region, 2006 will represent the second best year on record for the new housing industry and the best year ever for single-detached housing. In 2007, demand will remain very strong thanks to the continued economic expansion and high in-migration. However, total starts will ease slightly due to affordability constraints and industry capacity issues, but overall volumes will still represent the third best year on record.

Record-Level Single-Detached Starts in '06

Despite setting a new benchmark for production levels in 2005, single-detached home builders were 24 per cent ahead of last year's activity to the end of August. Even if this pace was not maintained during the remaining four months of 2006, builders would still easily eclipse last year's record of 7,623 single-detached starts. This year will represent the fifth in a row that single starts have exceeded the 6,000

GROWTH IN SINGLE-DETACHED STARTS UNEVEN ACROSS EDMONTON
January to August (% change 2005/2006)



Source: CMHC

EDMONTON

DATE RELEASED:
FALL 2006

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Total housing starts will reach a 28-year high of 15,000 units this year and back-off slightly to 14,500 units in '07.

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New records for sales and prices will be set in 2006. In 2007, price increases moderate on improved inventories, while sales pull back slightly as some entry-level buyers remain on the sidelines.

Rental Market 4

Apartment vacancies will tumble in 2006 and inch lower in 2007 as demand outpaces new rental construction. Rents respond with double-digit (%) increases fueled by the supply shortage and soaring costs of new units.

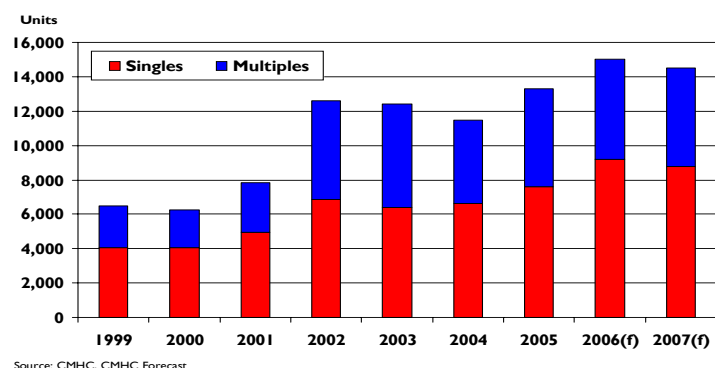
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Economic growth remains vigorous thanks to high levels of energy sector investment and infrastructure spending. Labour shortages will continue to draw migrants into the region.

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unit mark, unparalleled in the history of the region. While units under construction sat at record levels this summer, there are few signs of a slowdown on the horizon. Builders' order books are full and this year's

Figure 1
Total Housing Starts



momentum is expected to carry over into 2007. Look for a slight pull-back in starts next year, but this will have more to do with capacity constraints and tighter lot supplies in some sectors of Edmonton City. Improved inventories in the existing market and some consumer resistance to price escalation will also hinder sales, but overall volumes will come close to this year's levels.

Despite the industry operating at historically high levels, inventories of unsold new units have fallen in the past year. In August, the stock of unsold new single-detached units was 10 per cent below the number of unabsorbed

singles in August 2005. The show home count across the region has remained close to the longer-term average of 300 units this summer. However, the volume of spec units on hand has dropped below 200 since May this year, representing the lowest levels since the early months of 2003. Some inventory replenishment should occur in the fall and winter months as completions increase and absorptions hit a seasonal slowdown. However, Metro-wide supplies of unsold units will remain relatively tight going into 2007 due to the low (albeit improved) number of existing homes for sale and continued strong demand from newcomers.

New House Prices Escalate in 2007

New house prices jumped substantially in August, indicative of the rising land, labour and materials prices faced by builders. The cost of a typical single-family home absorbed in Greater Edmonton reached a record-high average price of \$318,503, representing a 19 per cent increase over the average reported in August 2005. For the year-to-date ending in August, price increases have been weaker than expected, up by 11.5 per cent from the first eight months of 2005. However, as CMHC's monthly absorption survey captures prices at completion, readers should keep in mind that current prices reflect sales that occurred 9 to 12 months earlier. As such, we anticipate stronger price growth in the months ahead, as recent increases in builder costs start to show up in the absorbed prices moving forward.

Multiple Dwelling Starts Remain At High Levels

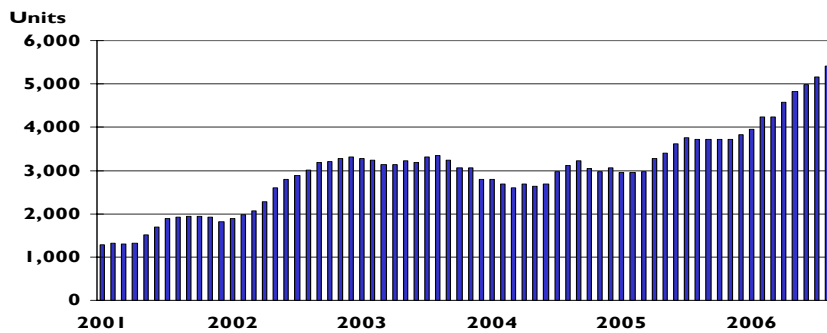
Total multiple unit starts, which include semi-detached, row, and apartment units, will remain close to 2005 numbers over the forecast period.

Table I
New Single-Family Absorptions by Area
January - August (% chg 2005/2006)

	Sales			Average Price (\$)			Median Price (\$)		
	2005	2006	%chg	2005	2006	%chg	2005	2006	%chg
North Central	38	55	44.7	251,476	395,611	57.3	231,300	265,000	14.6
Northeast	338	498	47.3	251,865	264,551	5.0	245,450	257,500	4.9
Northwest	596	539	-9.6	259,342	279,285	7.7	254,250	275,000	8.2
South Central	32	36	12.5	364,763	409,347	12.2	334,150	338,300	1.2
Southeast	462	523	13.2	239,710	269,626	12.5	221,550	245,900	11.0
Southwest	890	1,027	15.4	281,117	311,414	10.8	255,200	285,600	11.9
West	416	415	-0.2	257,937	295,079	14.4	240,100	270,400	12.6
Total Edmonton City	2,772	3,093	11.6	263,048	291,649	10.9	247,500	270,200	9.2
Fort Saskatchewan City	60	102	70.0	238,096	295,501	22.5	227,650	279,450	22.8
Leduc City	84	112	33.3	239,824	265,087	10.5	236,200	249,900	5.8
Parkland County	136	84	-38.2	269,555	304,950	13.1	253,698	315,828	24.5
Spruce Grove City	156	190	21.8	216,021	232,794	7.8	212,500	224,031	5.4
St. Albert City	230	202	-12.2	320,539	370,470	15.6	294,000	347,900	18.3
Stony Plain Town	105	70	-33.3	204,178	256,819	25.8	195,272	238,215	22.0
Strathcona County	486	376	-22.6	303,607	337,080	11.0	257,000	298,500	16.1
Total Rural Municipalities	1,655	1,590	-3.9	265,011	296,479	11.9	237,900	271,501	14.1
Grand Total	4,427	4,683	5.8	263,782	293,289	11.2	244,500	270,500	10.6

Source: CMHC

Figure 2
Single-Detached Homes Under Construction



Source: CMHC, Aug. 2006

Medium- and high-density condominiums represent an affordable alternative to single-detached housing, particularly for entry-level buyers. Look for total multi-family starts of close to 5,800 units both this year and in 2007. Multi-family starts to the end of August were five per cent ahead of construction reported in the first eight months of 2005, largely on the strength of a 41 per cent gain by semi-detached builders. Row and apartment starts combined have slipped by six per cent during the same time frame. Semi-detached homes continue to gain popularity with builders and consumers alike due to their cost advantage vis-à-vis new single-detached homes.

Multi-unit inventories have trended downward throughout much of 2006, as absorptions have outpaced completions so far this year. Inventories stood at 619 units in August, representing the lowest level since May 2004 and a 46 per cent drop from the same time last year. The largest declines have occurred in condo apartments, where the inventory on hand has fallen by 58 per cent year-over-year in August to 247 units.

Condo Sector Bolsters Multiple Starts

Continued strength in demand for new condominiums has upheld multiple starts this year amid a major retrenchment in new rental activity. For example, apartment condo starts in the first eight months of 2006 were up by 19 per cent while rental starts fell by 82 per cent. Next year, condos will remain the dominant feature in the multi-unit market. Some new rental activity will occur, but the overall volumes will remain modest by historic standards. Meanwhile, soaring construction costs will result in hefty price hikes for new condos, with units priced over \$250,000 grabbing an ever-increasing slice of the overall market. New condos priced under

\$140,000 have become scarce in 2006 and will largely disappear next year.

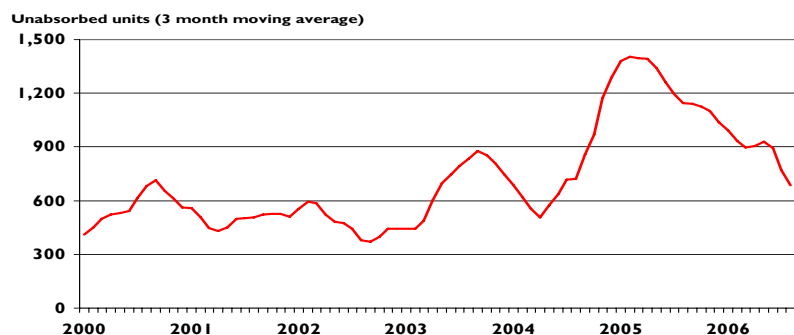
RESALE MARKET

Following Record-Setting 2006, Existing Home Sales to Remain Hot Next Year

Edmonton's residential resale market has experienced extraordinary price growth in 2006 due to a combination of robust demand and shortage of inventory. Many of the forces that have bolstered sales and prices in the new home market this year, such as strong income growth, stable mortgage rates and surging in-migration, have produced similar results in the existing market. Sales on the MLS® will achieve a record 21,100 units this year despite a chronic shortage of listings. In 2007, sales will pull back slightly due to some consumer resistance to recent price hikes. However, the expected 20,300 sales will still represent the second-best year on record.

As shown on page 5, the ratio of sales-to-active listings began to move into uncharted territory during the first quarter and has remained at near record-high levels during the summer months. Panic buying has resulted in unprecedented price increases, as many prospective buyers were

Figure 3
New Multiple Unit Inventory



Source: CMHC, Aug. 2006

Table 2

	2005	2006	%chg	2005	2006	%chg	2005	2006	%chg
Northwest	311	330	6.1	185372	244129	31.7	173000	233250	34.8
North Central	1,317	1,564	18.8	208,998	268,438	28.4	200,000	259,000	29.5
Northeast	433	482	11.3	172,795	227,549	31.7	167,000	212,250	27.1
Central	385	498	29.4	142,502	178,241	25.1	131,000	163,250	24.6
West	850	813	-4.4	263,484	334,442	26.9	229,000	305,000	33.2
Southwest	1,145	1,246	8.8	291,751	377,957	29.5	262,000	345,000	31.7
Southeast	1,264	1,395	10.4	206,662	271,331	31.3	197,000	265,000	34.5
St. Albert	705	768	8.9	253,817	326,212	28.5	235,000	305,000	29.8
Sherwood Park	704	629	-10.7	253,369	333,150	31.5	242,000	313,900	29.7
Leduc	217	176	-18.9	196,768	251,771	28.0	183,000	246,250	36.6
Spruce Grove	252	304	20.6	200,507	262,037	30.7	191,000	249,950	30.9
Stony Plain	152	175	15.1	213,765	259,137	21.2	209,000	249,900	19.6
Ft. Saskatchewan	164	148	-9.8	203,018	277,368	36.6	189,600	263,750	39.1
All EREB areas	9,045	9,849	8.9	219,308	278,920	27.2	206,000	265,000	28.6

increasingly concerned about being priced out of the market. While the outlook on the demand side remains positive, the rapid run-up in prices this year will temper activity among some entry-level buyers in the months ahead. Supply levels should improve as new home completions pick up in the fall and increasing numbers of trade-up buyers put their existing units on the market. The improved supply of listings will moderate price gains in the new year, although those looking for a decline in prices in 2007 will be disappointed.

Single-Detached Sales Eclipse 2005's Record

To the end of August, single-detached sales on the MLS® were almost nine

per cent above the 9,045 unit sales reported in the first eight months of 2005. This occurred despite a nine per cent drop in new listings during the same time frame and substantial increases in prices. This year's sales will easily surpass 2005's record-setting performance but should throttle-back somewhat in 2007 as price "sticker-shock" keeps some first-time buyers in rental accommodation.

House Price Increases to Slow in 2007

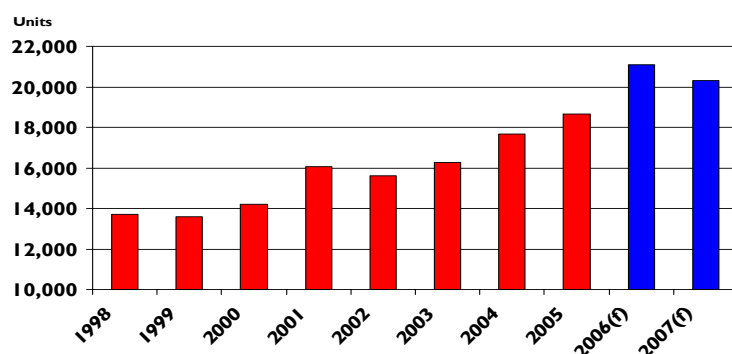
In 2006, single-family house prices have risen faster than any time in history due to a chronic shortage of listings relative to demand. During the first eight months of the year, the average resale price rose by 27 per

cent or just under \$60,000 to \$278,920. These levels of price acceleration are typically unsustainable, since house values are rapidly outdistancing income growth and the consumer's ability to pay. While strong in-migration will keep demand at healthy levels, improved supply should help to temper these unprecedented price gains. This said, the market balance will still favour sellers in 2007, and resale house price increases will still exceed the overall rate of inflation.

Carrying Costs Soar in 2006

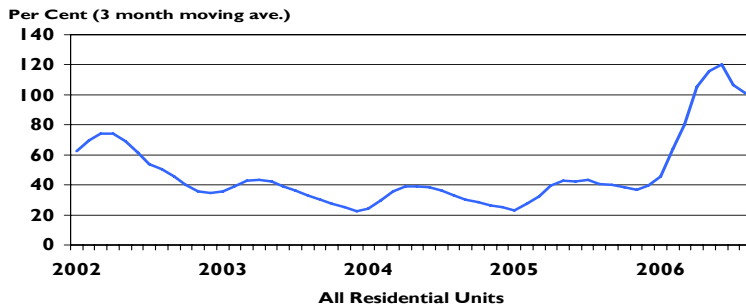
This year's surging resale prices combined with a bump-up in mortgage rates over the past year have resulted in a rapid escalation in the costs to finance a typical resale house. An expected 30 per cent increase in the average price for a single-detached resale home will translate into a 35 per cent rise in carrying costs (PI) thanks to higher interest charges. In 2007, the increase will be less severe as the mortgage rate environment becomes more benign. Expect the anticipated 8.9 per cent price gain to result in a similar per cent rise in monthly payments for principle and interest. While Edmonton still remains relatively affordable compared with

Figure 4



Source: FRFB, CMHC Forecast.

Figure 5
Sales-To-Active-Listings Ratio



Source: EREB, Aug. 2006

other major cities in Canada, this year's rapid growth in qualifying incomes has outstripped the overall increase in average weekly earnings by a substantial margin. A growing number of households at the margin will have a harder time qualifying for home purchase financing and this will have an impact on demand going forward.

Resale Condos Gain Market Share

Demand for condominiums has surged across the Capital Region in 2006, as price-sensitive buyers look for accommodations they can afford. To the end of August, condo sales on the MLS® rose by 30 per cent over the 3,571 sales reported during January-to-August of 2005. This occurred despite a seven per cent drop in new listings and the resulting 23 per cent rise in average resale price. With the sales-to-active listings ratio averaging well over 100 per cent this summer, units have been selling rapidly and often above list price. A typical condo unit sold for \$171,722 during the first eight months of this year, representing a 23 per cent hike over the corresponding average last year. In 2007, look for little change in sales as consumers continue to seek out homeownership opportunities priced under \$200,000. Supplies will be bolstered by a surge of new units

entering the market as well as an improved supply of existing units put up for sale by owners trading up. Price gains will remain strong but should moderate from current levels as the supply/demand balance improves. This said, sellers will still hold the upper hand in 2007 and price increases will average in the 5 to 10 per cent range depending on location and unit type.

RENTAL MARKET

Rents Jump as Market Tightens

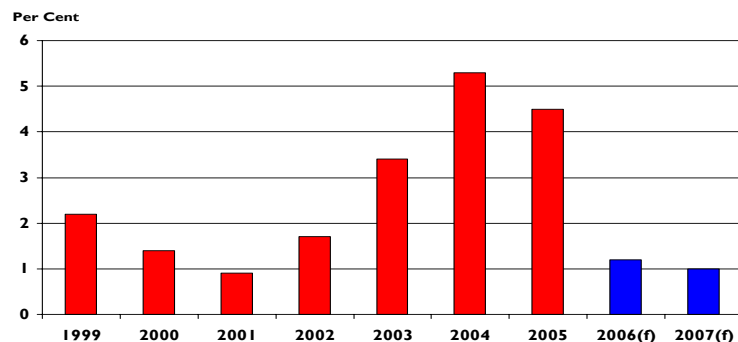
The apartment vacancy rate across the region has tumbled this year due to a combination of strong in-migration, robust income growth and the resulting household formation, and a decline in rental unit completions. Escalating ownership costs have also

forced some prospective buyers to the sidelines. Rental starts have plunged in 2006 as rent increases in previous years failed to keep pace with the soaring costs of construction. As a result, we expect to report a dramatic decline in the vacancy rate across Metro when we release of our annual CMHC October Rental Market Survey results later this fall. CMHC expects a vacancy rate this fall close to 1.2 per cent, representing a drop of 3.3 percentage points from the 4.5 per cent vacancy rate found in rental apartments in the 2005 October survey.

In 2007, look for further tightening as demand for rental accommodation out-strips new supply. Modest relief will come from an expected surge in new condo completions, as some have been purchased by investors for injection into the secondary rental market. However, the soaring price of existing condominiums may encourage a number of rental property owners to convert to condo. This will nullify much, if not all, of the net gain to the rental stock from new condos that were investor purchased and put up for rent.

Tight market conditions will force rents upward, as investors and property managers make the most of the current housing boom that has

Figure 6
Apartment Vacancy Rate



Source: CMHC, CMHC Forecast

driven sale prices to dizzying new heights this year. Expect an average rent increase of around 15 per cent this year, representing a jump of close to \$100 per month for most tenants. In 2007, rents will rise by another 12 per cent as a shortage of rental apartments persists. Despite these increases, the gap between market and economic rents for new construction will remain fairly large, preventing much in the way of new private-sector rental activity until 2008.

ECONOMIC OVERVIEW

Robust Economic Expansion

The Alberta economy is booming, largely due to the unprecedented scale of the expansion in the province's energy sector. These capital investments are being fuelled by high energy prices and surging export earnings, with crude oil and natural gas accounting for the lion's share of goods exported. This is contributing to the strongest and longest period of economic expansion by any province in Canada's history. The Alberta government's inventory of major projects valued over two million dollars stood at a record \$137.1 billion in June, up 26 per cent from the \$109 billion figure reported in June 2005.

As the leading supply, service, fabrication and staging area for extraction industries, the Edmonton Capital Region is caught in the eye of this ever-expanding investment boom. This expansion, which is primarily targeted at the oilsands (bitumen) and heavy oil industries in the northern half of the province, shows no sign of moderating any time soon. The high current and projected world oil prices and recent technological advances make oilsands operations highly profitable. Moreover, the anticipated

growth in the oilsands will spur other forms of investment such as pipelines, upgraders and refinery expansions. Exploration for conventional crude and natural gas will also remain at high levels this coming winter, adding to the robust outlook for local oil field servicing industries.

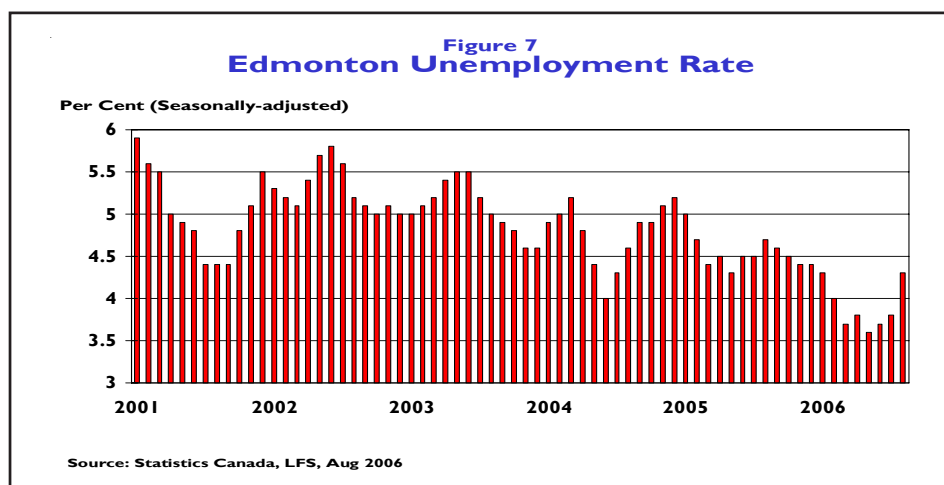
Other sectors of the economy, both across the province and within the region, also continue to benefit from the energy boom. Provincial government coffers are overflowing from energy royalties and a substantial amount of this bonanza is being ploughed into infrastructure investments to keep up with the rapidly growing economy and population. Highly visible signs in Edmonton include the LRT expansion south of the University of Alberta and the Anthony Henday Drive (ring road) extension. While providing an additional boost to the economy, these government-funded construction projects are creating headaches for the housing industry as construction resources become harder to find. Edmonton's population will continue to grow at a rapid pace thanks to strong in-migration and a rising birth rate. The labour market will remain very tight, with an unemployment rate of close to four per cent. Strong in-migration from other provinces should

help to ease the labour crunch and support employment growth of 2.4 and 2.1 per cent, respectively, this year and in 2007. Wage gains have been substantial this year, with average weekly earnings rising by over six per cent from 2005 levels. However, the costs of buying or renting a home will outpace income growth over the forecast period, causing some modest erosion of demand despite the high volume of newcomers.

Mortgage rates have peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.



CMHC FORECAST SUMMARY

Edmonton Census Metropolitan Area

Fall 2006

	2004	2005	%Chg	2006(f)	%Chg	2007(f)	%Chg
RESALE MARKET							
MLS®(I) active listings (Annual Avg.)	4,531	4,082	-9.9%	2,500	-38.8%	3,500	40.0%
MLS® Sales							
Single-detached	12,028	12,504	4.0%	13,600	8.8%	13,000	-4.4%
Condominium	4,661	5,020	7.7%	6,300	25.5%	6,150	-2.4%
Total	17,652	18,634	5.6%	21,100	13.2%	20,300	-3.8%
MLS® Price							
Single-detached	\$201,622	\$220,347	9.3%	\$286,500	30.0%	\$312,000	8.9%
Condominium	\$134,503	\$141,009	4.8%	\$180,000	27.7%	\$195,000	8.3%
Total	\$179,610	\$193,934	8.0%	\$247,500	27.6%	\$268,500	8.5%
NEW HOME MARKET							
Starts							
Single-detached	6,614	7,623	15.3%	9,200	20.7%	8,750	-4.9%
Multiple-family	4,874	5,671	16.4%	5,800	2.3%	5,750	-0.9%
Total	11,488	13,294	15.7%	15,000	12.8%	14,500	-3.3%
Average New Single-Detached Price	\$242,171	\$268,252	10.8%	\$305,000	13.7%	\$360,000	18.0%
RENTAL MARKET							
Vacancy rate (Oct) - Per Cent	5.3	4.5		1.2		1.0	
2-bedroom Rent (Annual Per Cent Change)	1.2	1.4		15.0		12.0	
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	4.59	5.06		6.27		6.0 - 6.25	
Mortgage rate (5 yr term)	6.23	5.99		6.67		6.25 - 6.75	
Employed	556,300	552,300	-0.7%	565,800	2.4%	577,800	2.1%
Employment growth (# jobs)	16,400	-8,000		13,500		12,000	
Unemployment rate	4.8	4.6		4.0		4.3	
Net-migration (Census Year)	6,895	14,417	109.1%	17,000	17.9%	14,500	-14.7%

Source: CMHC, Edmonton Real Estate Board, Statistics Canada, CMHC Forecast

¹ Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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