H O U S I N G   M A R K E T   I N F O R M A T I O N

HOUSING MARKET OUTLOOK

Calgary CMA

Canada Mortgage and Housing Corporation

Date Released: Spring 2009

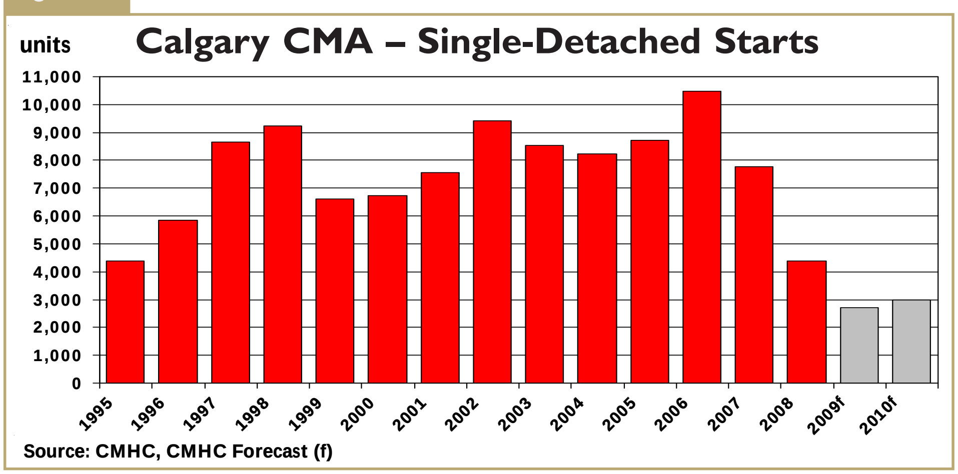
NEW HOME MARKET

Housing starts decline in 2009, growth returns in 2010

New home construction in the Calgary Census Metropolitan Area (CMA) will decline for the third consecutive year in 2009 before improving next year. Elevated construction costs, a rising inventory of complete and unabsorbed units, contributed toward lower construction activity this year. Economic uncertainty, job losses and competition from the resale market have also impacted the demand for new housing.

This year's decline in housing starts will be most prevalent in the multi-family sector, though there will also be a reduction in single-detached starts. Overall, total housing starts are projected to decline from 11,438 units in 2008 to 3,700 units in 2009, representing a reduction of more than two thirds. New home starts

Figure 1



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are expected to improve in 2010 as the economy begins to expand again and inventories are absorbed. Under these conditions, total housing starts are forecast to rise to 4,200 units in 2010, up 14 per cent from this year. However this will be well below the annual average of 13,000 units for the 1999 to 2008 period, which was the strongest decade on record for housing starts. Stronger economic growth, higher gains from migration, and a return to balanced conditions in the resale and new home markets will be needed prior to total annual starts rebounding to long term historical averages.

Single-detached starts lower in 2009, increase 11 per cent in 2010

An oversupplied housing market that was expected to work itself out this year was broadsided by a slumping economy and a reduced level of demand. The rapid economic slowdown that began in the fourth quarter of 2008 has continued into 2009, resulting in a number of job losses and rising unemployment. With mounting full-time job losses reducing demand and persistently heightened competition from the resale market, single-detached starts will retreat from 4,387 units in 2008 to 2,700 units in 2009. The rebound in single-detached starts that was previously expected in 2009 will be delayed until the economy expands and inventories decline. Economic expansion and job growth in 2010 will provide a lift to construction with single-detached starts projected to rise by 11 per cent to 3,000 units. Construction in 2010 should represent the beginning of an expansionary phase. Nonetheless, activity will be relatively low by historical standards, at about 40 per cent of the average production experienced in the past decade.

To the end of the first quarter, there have been a total of 559 single-detached starts, down 48 per cent compared to the same period last year. The lower level of single starts this year has reduced the number of units under construction to 2,131 units, down 45 per cent from last March. The number of homes being built in the Calgary CMA has trended down since October 2006 when there were over 6,500 single-detached houses being built.

New homes priced lower

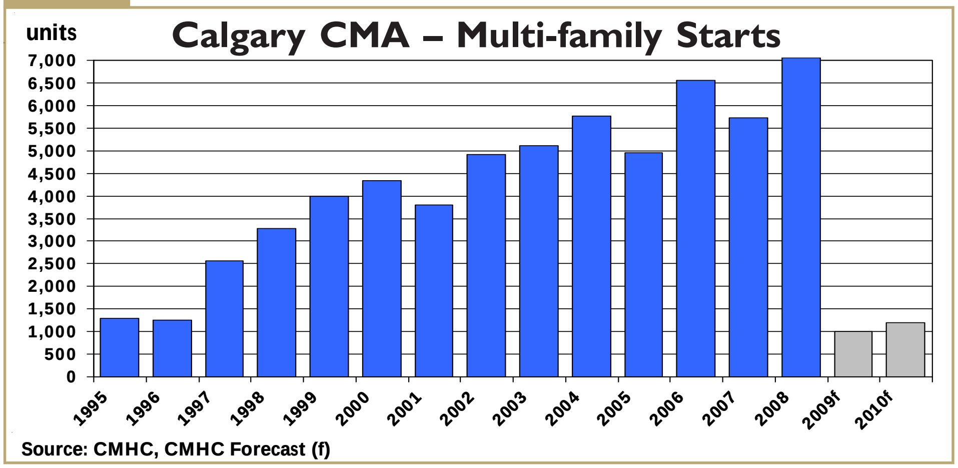
High cost producers will be challenged in 2009 as competition for new home sales will be very aggressive. The industry is currently going through some restructuring. With excess capacity in the industry, new home buyers will experience a much quicker turnaround time from start to completion. It is not uncommon to see a house built in four or five months, less than half the time needed for construction when there were labour shortages not that long ago. New home prices will also be effectively lower, as builders offer incentives to entice buyers and pass on lower construction costs. Consumers that re-engage in the new home purchase process will find that the same amount of money this year will buy more house than it would have a year earlier.

New home pricing has been under downward pressure from the resale market and competition amongst builders. The average absorbed price of a single-detached house is projected to decline by 5.5 per cent to $550,000 this year. A further decline of 2.7 per cent in 2010 will take the absorbed average price to $535,000. The average absorbed single-detached price was $561,445 in March 2009, almost unchanged from a year earlier. It should be noted that this average absorbed price reflects homes that were completed and absorbed in March, which is not necessarily the month when the price was negotiated. Assuming the average home was sold prior to initiating construction, the negotiated price was likely agreed upon many months in advance. For the month of February 2009, contractors' selling prices of new residential homes with similar specifications was 7.1 per cent lower than in February 2008, according to Statistics Canada's New House Price Index.

Single-detached inventory declining

A lower demand environment has caused builders to manage inventory and reduce the number of speculative (not pre-sold) units under construction. Less than five per cent of the single-detached units under construction at the end of March 2009 were speculative. A year earlier, spec activity represented closer to 14 per cent of all units under construction. The reduced spec activity has assisted in reducing the standing inventory of completed and not absorbed units. Completions amounted to 309 units in March, while 331 units were absorbed. Thus, the inventory of

Figure 2



completed and not absorbed was reduced by 22 to 731 units. The inventory was composed of 370 show homes and 361 spec (non-show home) units. Speculative inventory in March 2009 was 49 per cent higher than a year earlier but off the peak of 396 units in January 2009. Speculative inventory will likely continue to decrease this year as builders reduce their exposure to the market and position for the expansionary phase of the next housing cycle.

Adjustment continues in multi-family market in 2009

Multi-family starts reached 7,051 units in 2008, the highest level since 1981. This large ramp-up in supply was not met by a commensurate increase in demand. In 2009, multi-family starts are forecasted to drop by 86 per cent to 1,000 units. In 2010, there is potential for some modest recovery and multi-family starts are projected to rise to 1,200 units.

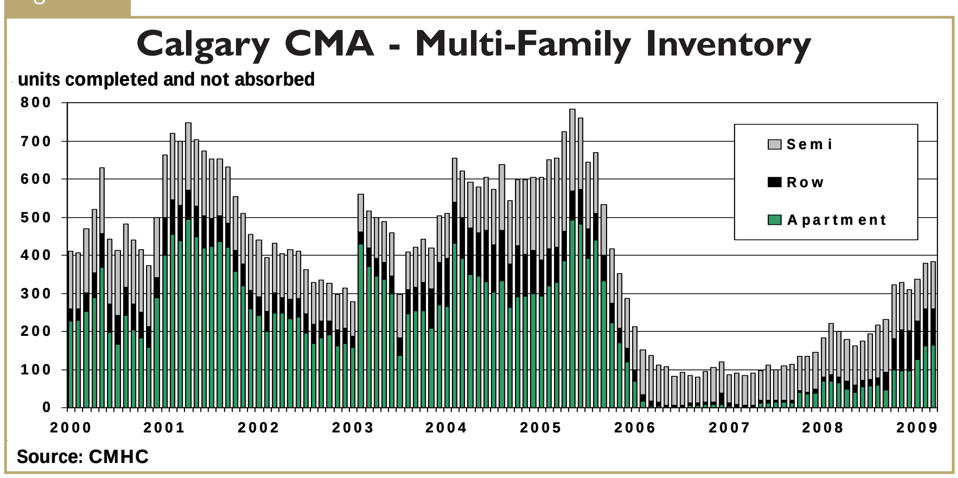
Multi-family starts, which include semi-detached, row, and apartments amounted to 187 units in the first quarter of 2009, down 95 per cent as compared to the 3,589 units started in the same period for 2008. The record condominium starts in 2008 will keep multi-family starts low over the forecast period. Annual activity will be roughly 20 per cent of the ten-year annual average production of about 5,000 units.

A higher level of multi-family completions relative to starts this year has reduced the number of multi-family units under construction in March 2009 to 7,807, down 31 per cent from a year earlier but still elevated from a historical perspective. In spite of the decrease this year, the number of multi-family units under construction was still about 33 per cent higher than the average annual production of the past decade. With inventories expected to mount in the months ahead, construction activity in this market will continue to decrease this year.

Multi-family inventory trending up

There were 358 completions and 355 absorptions in March 2009, thus the inventory of completed and unabsorbed rose by three to 383 units, up 91 per cent year-over-year. As more projects are completed, we will likely see inventory levels rise. In the first quarter 2009, the multi-family average absorption rate at completion was just over 80 per cent, about a 10 percentage point decrease from the annual average in 2008. Given the high level of multi-family units under construction and

Figure 3

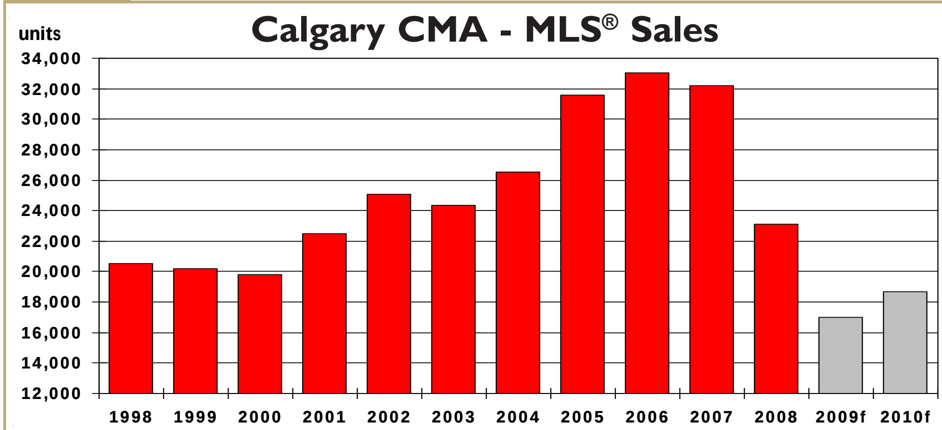


the current absorption rate, it appears possible that inventory levels will eventually exceed the last inventory peak of 783 units set in May 2005, the highest level on record going back to 1992.

The build-up of inventory has already held back some new construction. Many of the projects currently under construction will need to be completed and absorbed before we are likely to see any large up tick in high-rise condominium starts. The focus this year will be on selling those units already started before completion. There is some uncertainty to what extent investor owned units will be listed for sale at completion rather than rented. Those that bought early in the process prior to the escalation in construction cost may still be able to do so at a profit but this will put added downward pressure on the price of those units that were not pre-sold.

With condominium prices past their peak in this current cycle, there will not be a price surge to immunize high cost projects. A number of financially challenged projects have already been halted, some that have already been started and others yet to begin construction. Other condominium projects have become less ambitious and consolidated their sales to one structure or provided refunds on deposits. Some others are being redefined to make them viable, such as changing the intended tenure from condominium to rental units or a combination of both. Scattered in the downtown area are vacant lots targeted for development but currently postponed. Many of these planned projects are likely on

Figure 4



Source: CREB, CMHC Forecast (f)

hold until market conditions improve as expected later in 2010 and beyond. In the meantime, the condominium market adjustment that began in the second half of 2008 will continue throughout this year and into 2010.

RESALE MARKET

Moving towards balanced conditions

A weakening economy and resulting job losses will reduce resale activity this year. In 2009, residential MLS® sales are expected to reach 17,000 units, a projected decrease of 27 per cent from the 23,136 sales in 2008. Low mortgage rates and an expanding economy next year will improve employment opportunities in 2010. With full-time job growth supporting demand and prices stabilizing, MLS® sales are projected to rise by 10 per cent to 18,700 units in 2010.

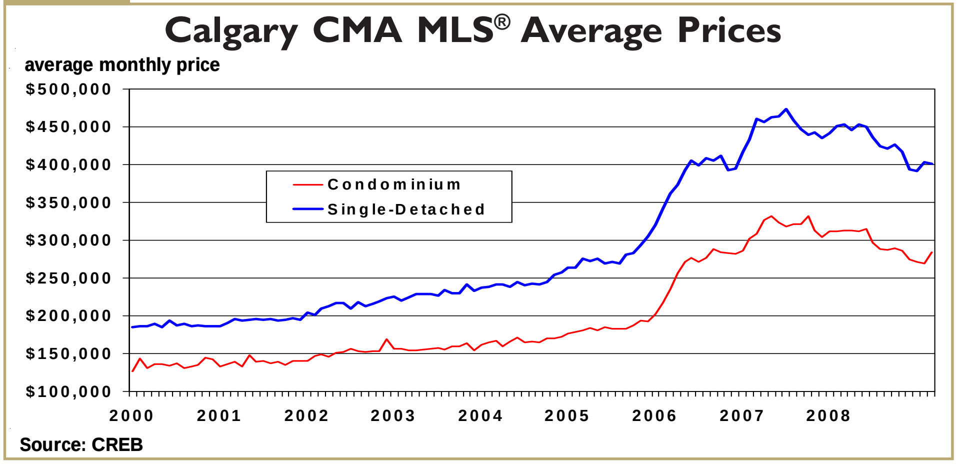
In 2009, the total residential average MLS® price is projected to move lower by eight per cent year-over-year from $405,267 to $372,000. This represents the second consecutive year that the average annual price has declined. As supply levels come down, prices are expected to stabilize and towards the end of this year, the average price is expected to show some monthly year-over-year gains. As the economy improves, an up-tick in demand and more balanced market conditions will lift housing prices by 2.7 per cent to an average of $382,000 in 2010.

New listings declining

Resale market conditions that favoured the buyer in 2008 continued to favour the buyer during the first quarter of 2009, but there are signs that the market is transitioning toward balanced conditions. Supply to the market place is significantly lower. First-quarter new listings dropped by one-third compared with the first quarter of 2008. As a result, two market balance indicators, months-of-supply and sales-to-new listing ratios, have both improved during the first quarter. The months-of-supply, defined as active listings divided by sales, was at nine months in January but fell to five months by March and headed towards the threshold of balanced conditions at 3.5 months. The sales-to-new listing ratio has also improved from 25 per cent in January to 47 per cent in March, an important condition to support a balanced market.

Because of improved market balance, resale prices are beginning to show some signs of stabilizing. After declining through much of 2008, the total residential average price bottomed-out at $362,143 in January 2009. Since then, the average price has increased in February and again moved higher to $372,114 in March. It may be too early to determine a price bottom in this cycle, but the signs of improvement are promising. The year-over-year monthly comparison of average price is still negative but this is expected to turn positive before year-end.

Figure 5



MLS® sales lower in 2009, move up in 2010

Residential MLS® sales during the first quarter of 2009 amounted to 4,117, down 35 per cent from the same period in 2008. Sales were weaker in each month during the first quarter as compared to the same month a year earlier, although the monthly declines have become less steep. Sales in January and February 2009 were lower by 49 and 36 per cent, respectively. By comparison, MLS® sales of 1,797 in March 2009 recorded a decrease of 24 per cent from March 2008.

The markets for single-detached and condominium units have moved lower in tandem as year-over-year sales during the first quarter have declined for each by 35 and 36 per cent, respectively. At the end of the first quarter, condominium sales represented 24.6 per cent of all residential sales, a proportion similar to the 24.8 per cent share during the same period last year. Condominium sales this year will likely continue to represent approximately one quarter of all residential MLS® sales.

The average price of a condominium was $284,056 in March, down 9.1 per cent from a year earlier. So far this year, 56 per cent of condominium sales have occurred in the $200,000 to $299,000 price range. Condominium units selling for under $350,000 represented 88 per cent of all condominium sales during the first quarter of 2009. In general, the lower priced condominium market is more balanced than the higher-priced market segment, due to lower supplies relative to demand. Supply to the resale market of relatively higher-priced high-rise condominiums will likely remain elevated given conditions in the new multi-family market. The 2007-2008 boom period of condominium starts will result in heightened completions in 2009 and 2010, and some of these units will find their way to the resale market.

In the single-detached market, the average price in March 2009 was $401,184, down 11.4 per cent from March 2008. Sales of single-detached homes under $450,000 represented 73.8 per cent of all sales during the first quarter of 2009. In March, the months of supply of single-detached units was in balanced territory for homes priced under $400,000. As prices rise above $400,000, the supply levels tend to rise and market balance again favours buyers. For example, for homes priced over $1,000,000 there were 20 months of supply in March 2009.

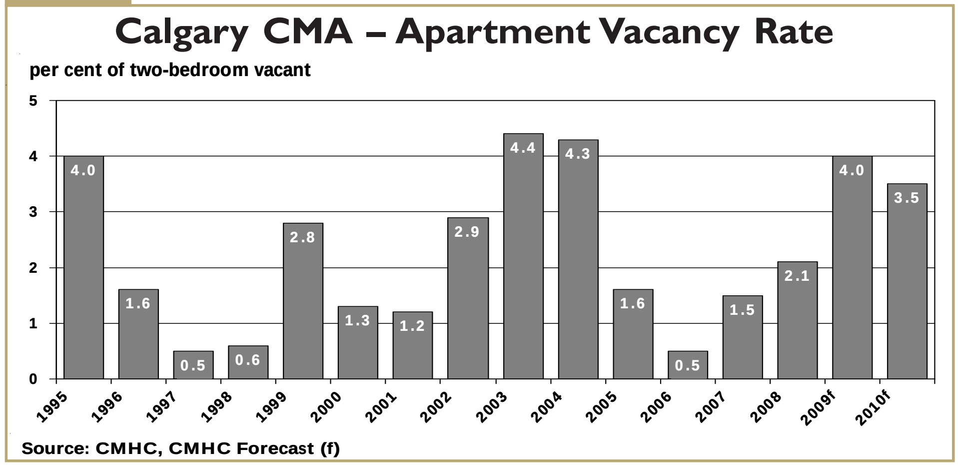
Overall, the single-detached market is more balanced than the condominium market. The number of new single-detached units under construction is low as is speculative construction. This means the supply of vacant new homes on the resale market is on a downward trajectory. At this time, the bulk of condominium units under construction need to be completed and absorbed. Many will be digested by the resale market before the collective condominium market will become balanced.

RENTAL MARKET

Average Vacancy Rate moves higher in 2009, drifts lower in 2010

The average apartment vacancy rate is projected to rise to 4.0 per cent by October 2009, almost doubling the rate experienced in October 2008. The rising vacancy rate will also reduce the average two-bedroom rent from $1,148 to $1,075 per month, the first decrease for this average since the early 1990s. In 2010, economic stability and job growth will support increased household formation and this is expected to lower the vacancy rate to 3.5 per cent. As the vacancy rate begins to tighten, rental rates will move up and the average two-bedroom rent is forecasted to rise to $1,100 per month.

Figure 6



A lower level of economic activity reducing employment this year is impacting the rental market. Landlords are responding to rising vacancy rates by providing incentives on units that are taking longer to rent. Higher-priced rental apartment units are also facing competition from newly constructed condominium investment units. The rental market is not homogeneous, however. Units that are desirable, well priced, and rent quickly and units that have not experienced much turnover in the past could achieve some rent increases.

In 2008, there were 20 rentals units started for the purpose built market. A low level of purpose-built market rental construction is expected to continue this year. To the end of March 2009, there have been no market rental units started in the Calgary CMA.

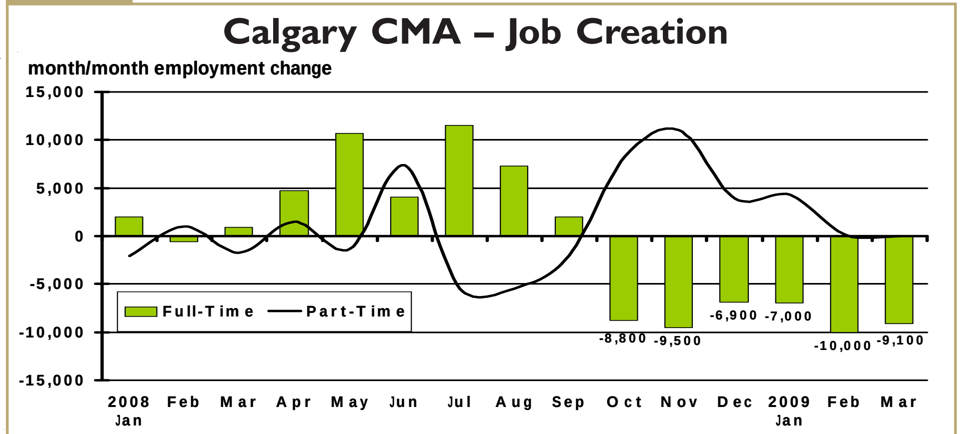
Rental conversions to condominium peaked in 2007 at 1,917 units. In 2008, declining condominium prices and elevated renovation costs reduced the number of conversions to 912 units. Rental conversions to condominium will continue in 2009 but at a much lower level than 2008. In the past, conversions significantly reduced the number of purpose-built units and kept the vacancy rate lower than it otherwise might have been. Conversion activity this year will continue to reduce the purpose-built rental market universe but to a lesser extent than in past years.

Lower levels of migration will also contribute to the rise in vacancies. Calgary's population will continue to grow from newcomers but net migration to the Calgary CMA will be lower in 2009 due to weaker employment prospects. Tight labour markets of the past few years caused some business to seek foreign workers. With unemployment levels rising in 2009, the need for these foreign workers will be reduced. Many of the non-permanent residents on temporary work visas will exit the country when their contracts expire and this will impact rental demand. Another reason for higher vacancies will be the movement to homeownership. The flow of tenants to homeownership will leave some units vacant as the backfilling will be impacted by a lower migration flow.

The delayed household formation that comes with an economic slowdown means vacant units will take longer to fill. Recent graduates and employment seekers will find the labour market is not as receptive as in the past. The longer job search delays household formation and impacts rental demand. Some new renters will also share accommodations to reduce costs.

In the affordable housing market, where rents are below market rates, there were 348 units started in 2008. The 2009 Government of Canada and Alberta provincial budgets have allocated funds for new affordable housing units. These budgets will fund affordable housing construction activity over the next few years and Calgary should experience an increase in affordable housing activity over the forecast period.

Figure 7



Source: Statistics Canada

ECONOMY

Businesses shed full-time positions in 2009 but job creation expected in 2010

The slowdown in economic activity has resulted in businesses re-sizing and reducing labour costs. The reduction of full-time jobs that began in October 2008 has continued for six consecutive months to March 2009. In the past six months the number of full-time jobs in the Calgary CMA has dropped by 51,300. The job losses have boosted the unemployment rate in March 2009 to 5.8 per cent, up from 3.1 per cent one year earlier. The lower level of employment is affecting demand for housing and decreasing sales of new and existing homes in 2009. Federal and provincial government action plans to stimulate the economy and low interest rates will support economic growth. By 2010, employment levels will begin to start rising again and support housing demand.

A lower level of business activity and rising unemployment in 2009 will affect wages. Average weekly earnings in 2008 rose by 4.9 per cent. Through the first quarter of 2009, wage grow has averaged 3.3 per cent compared to the first quarter of 2008. Aside from the impact of the economic downturn on consumer sentiment, this income growth should continue to support spending. Considering current labour market conditions, however, wage growth will likely flatten out in 2009.

Similar to residential investment, non-residential construction investment will be lower in 2009 as compared to 2008. After one quarter, non-residential investment in the Calgary CMA was $1,183 million, down 8.2 per cent from the same period in 2008. Institutional and government investments are higher so far this year but not enough to offset the lower level of commercial investment. Downsizing in the oil and gas industry has impacted the demand for office space. With rising vacancy rates in office space, a lower level of commercial investment is expected in 2009. Year-to-date February, the value of building permits for commercial development was reduced by more than 50 per cent year-over-year and a lower value will likely occur throughout 2009.

One factor supporting housing demand is low financing costs. Recent interest rate reductions have pushed the five-year fixed mortgage rate to around four per cent. Some variable rates are being offered even lower. The low mortgage rates and lower house prices have both combined to improve housing affordability and this should help increase housing demand moving forward.

Household formation is a fundamental driver of housing demand. The migration pattern being experienced will likely represent increased homeownership and rental demand as the economy improves. Net migration improved for Alberta during the fourth quarter of 2008 as compared to the same period a year earlier. Net inter-provincial migration rose to 6,198 as compared to 864 and international migration was 2.9

per cent higher. Alberta also continued to see strong gains in non-permanent residents as this group of people increased from 2,308 people to 4,870. Overall, total net migration more than doubled in the fourth quarter of 2008 year-over-year, as total net migration grew from 7,154 to 15,165. The City of Calgary's municipal census underway in April will likely reflect these gains to the province. Net migration on an annual basis to the Calgary CMA area is forecasted to decline in 2009 relative to 2008. Nevertheless, positive net migration of 16,000 people this year will help to support housing demand. In 2010, improving economic opportunities will increase net migration to a forecasted 18,500.

MORTGAGE RATE OUTLOOK

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

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Forecast Summary Calgary CMA Spring 2009	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	33,027	32,176	23,136	17,000	-26.5	18,700	10.0
MLS® New Listings	44,725	54,202	56,187	43,000	-23.5	45,000	4.7
MLS® Average Price ($)	346,675	414,066	405,267	372,000	-8.2	382,000	2.7
New Home Market							
Starts:							
Single-Detached	10,482	7,777	4,387	2,700	-38.5	3,000	11.1
Multiples	6,564	5,728	7,051	1,000	-85.8	1,200	20.0
Starts - Total	17,046	13,505	11,438	3,700	-67.7	4,200	13.5
Average Price ($):							
Single-Detached	353,662	474,511	581,800	550,000	-5.5	535,000	-2.7
Median Price ($):							
Single-Detached	310,711	417,947	487,141	455,000	-6.6	445,000	-2.2
New Housing Price Index (% chg.)	43.6	16.2	0.6	-8.5	-	0.0	-
Rental Market							
October Vacancy Rate (%)	0.5	1.5	2.1	4.0	-	3.5	-
Two-bedroom Average Rent (October) ($)	960	1,089	1,148	1,075	-	1,100	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level	655,100	680,600	704,100	691,500	-1.8	695,000	0.5
Employment Growth (%)	8.1	3.9	3.5	-1.8	-	0.5	-
Unemployment rate (%)	3.2	3.2	3.5	6.5	-	6.9	-
Net Migration (1)	29,164	17,905	25,000	16,000	-36.0	18,500	15.6

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
(1) 2008 migration data is forecasted

CMHC—HOME TO CANADIANS

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