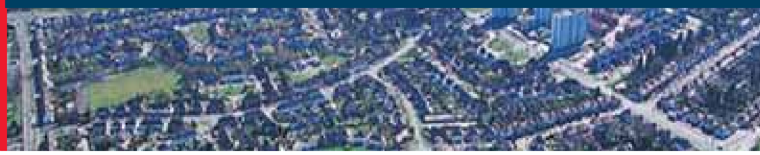
HOUSING MARKET OUTLOOK

Edmonton CMA



Canada Mortgage and Housing Corporation

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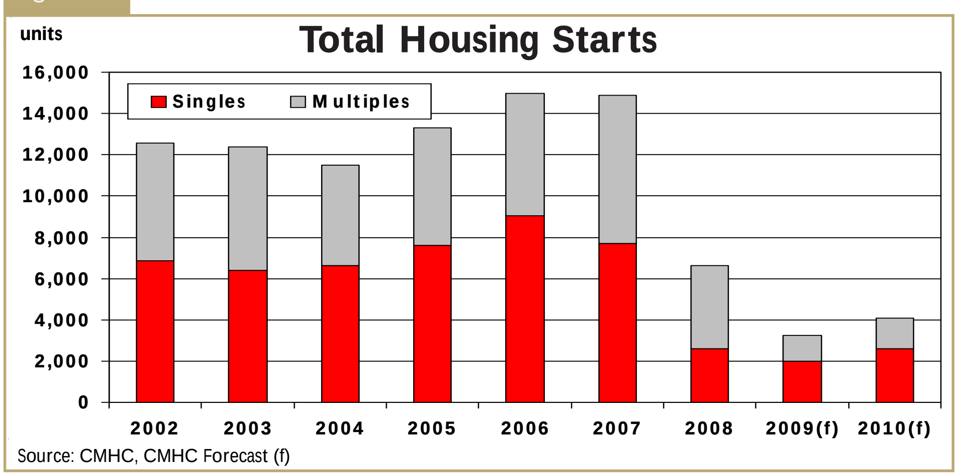
NEW HOME MARKET

Starts decline in 2009, growth returns in 2010

After exceeding 11,000 units for five successive years from 2002 to 2007, total housing starts across the Edmonton Census Metropolitan Area (CMA) declined by nearly 56 per cent in 2008. Housing starts across Metro are forecast to decline by 51 per cent this year to 3,250 units. Last year, single-detached house builders bore the brunt of the downturn as the industry struggled to contain the rise in spec home inventories. In contrast, most of the decline this year will occur in multi-family where inventories continue to mount. A weakened economy impacted by job losses, rising unemployment and slower in-migration will account for the continued downward adjustment this year. In 2010, a gradual turnaround in the economy of the Capital region will result in a 26 per cent improvement in housing starts to 4,100 units.

Figure 1



Source: CMHC, CMHC Forecast (f)

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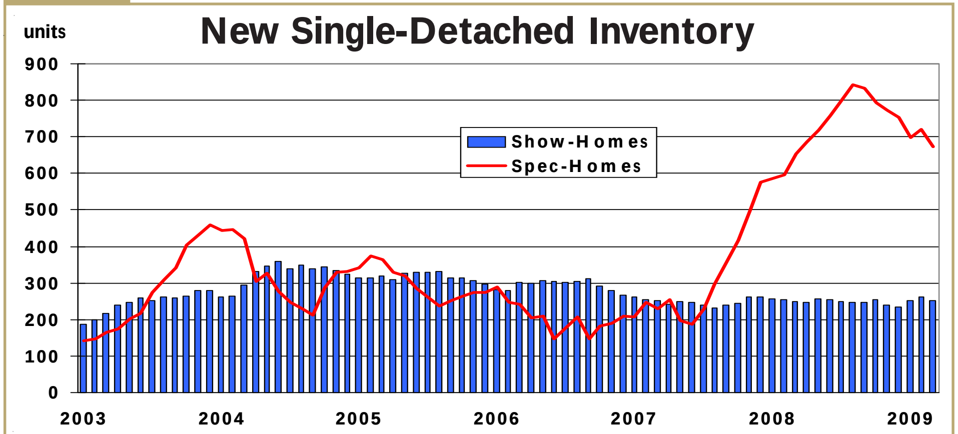


Source: CMHC, March 2009

The turning point in single starts should occur this year provided certain conditions are in place. Total supply, which is units in inventory plus those under construction, began to decline in the first quarter of 2008 and continues to move lower in 2009 due to the major slowdown in construction that began in earnest in the fall of 2007. New house inventory stood at a record level in August 2008 but has generally been receding since then. These trends will need to be sustained in the coming months so that house builders feel confident this fall that inventory replenishment is justified to prepare them for the important spring selling season.

However, next year's output will represent less than 40 per cent of homes built on average during the 1999 to 2008 period which represents the strongest decade for housing starts on record across Greater Edmonton. 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 the longer term average of between 6,000 to 7,000 units.

Single-Detached Starts to Improve in 2010

Single-detached home builders across Metro Edmonton started 2,613 units in 2008, representing a 66 per cent drop from the previous year and the weakest performance since 1995. Activity to the end of March suggests that 2009's production will fail to match 2008. Nonetheless, downward trends in the new home inventory combined with the lowest number of units under construction in March since 2002 sets the table for a modest turnaround at some point in 2009. CMHC's view is that year-over-year improvements will occur during the second half 2009 but will not arrive in time to lift this year's numbers above 2008 levels. Single starts in 2009 will decline another 24 per cent to 2,000 units before improving to near the 2,600 unit mark in 2010. While representing a healthy 30 per cent gain over the current year, 2010's outlook represents about one-third the number of homes started annually between 1999 and 2008.

Another key condition for a turnaround in the new singles market will be price stability in the resale market which CMHC also anticipates later this year. Firmer prices for resale homes will give prospective new house buyers more confidence that the time is right for them to trade up to a new unit. Economic conditions will also play an important role, since buyer sentiment will be impacted by

Table 1
New Single-Family Absorptions by Area
January - December (% chg 2007/2008)

	Absorptions			Average Price ($)		
	2007	2008	%chg	2007	2008	%chg
North Central	68	74	8.8	500,137	566,023	13.2
Northeast	684	333	-51.3	386,230	463,627	20.0
Northwest	551	477	-13.4	416,222	456,585	9.7
South Central	44	51	15.9	594,216	753,898	26.9
Southeast	794	669	-15.7	476,684	473,480	-0.7
Southwest	1,305	947	-27.4	434,833	590,261	35.7
West	710	442	-37.7	458,282	570,189	24.4
Total Edmonton City	**4,156**	**2,993**	**-28.0**	**439,092**	**527,919**	**20.2**
Fort Saskatchewan City	156	214	37.2	494,574	482,720	-2.4
Leduc City	375	374	-0.3	394,710	458,995	16.3
Parkland County	271	229	-15.5	352,664	507,683	44.0
Spruce Grove City	396	437	10.4	287,980	386,481	34.2
St. Albert City	260	237	-8.8	628,597	642,326	2.2
Stony Plain Town	171	155	-9.4	309,689	344,859	11.4
Strathcona County	669	584	-12.7	558,939	633,571	13.4
Total Rural Municipalities	**3,123**	**3,083**	**-1.3**	**438,567**	**496,545**	**13.2**
Grand Total	**7,279**	**6,076**	**-16.5**	**438,866**	**511,989**	**16.7**

Source: CMHC

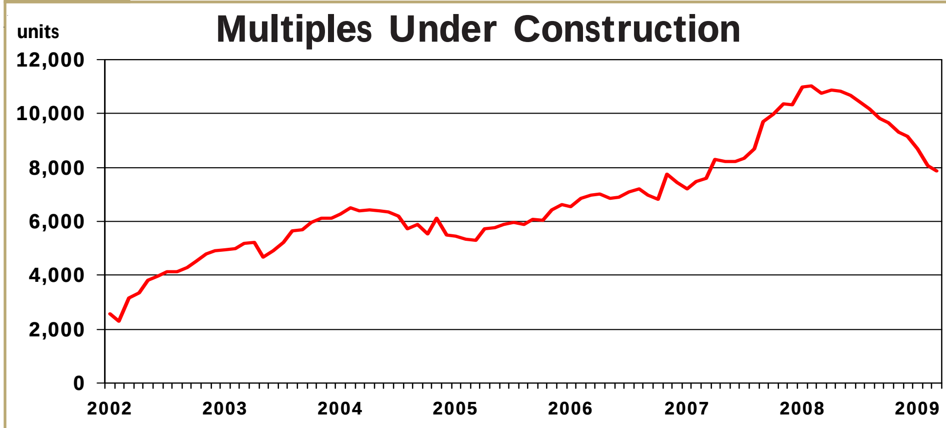
the outlook for job creation and unemployment in the coming year.

Average and Median Price of New Single Detached Homes to Remain Stable

Prices for new single-detached homes have been softening across the Edmonton region. Statistics Canada's New House Price Index (NHPI) has been declining on a year-over-year basis since July 2008 and is forecasted by CMHC to decease by eight per cent this year. In 2008, the average absorbed price increased by almost 17 per cent to $511,989 and continued upward by another 22 per cent year-over-year in the first quarter of 2009. Readers should note that average absorbed price in CMHC's surveys reflect homes absorbed in the current month but likely negotiated and priced before construction began.

Look for the growth rate of absorbed home prices to moderate in the coming months to reflect recent softening in sale prices last fall. However, changes to product mix may disguise price changes at the transaction level. For example, homes priced over $600,000 have grabbed a much larger share of the proportion of units absorbed across Greater Edmonton so far this year while the market share of units absorbed for under $400,000 has faltered. This may reflect a shift in product mix as many builders move their entry-level offerings into the semi-detached and townhouse lines with single-detached units concentrating more on the move-up buyer.

Figure 3



Source: CMHC, March 2009

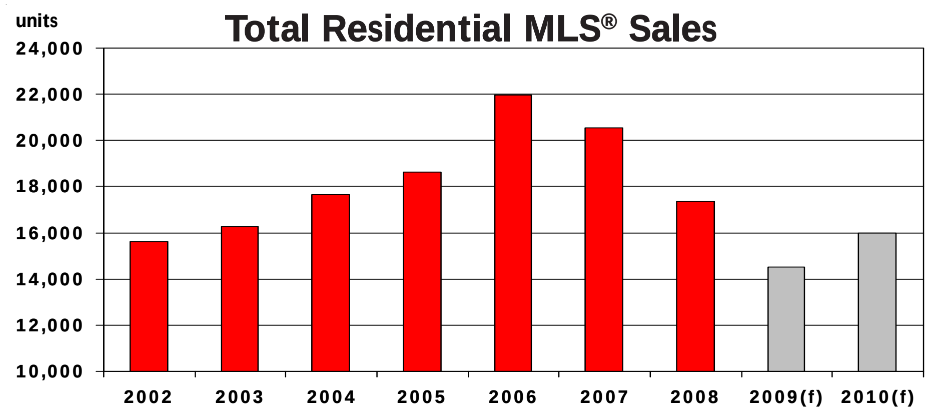
Multiple Dwelling Starts Lower This Year

Multiple dwelling starts fell by 44 per cent in 2008 to 4,002 units amid growing concerns of an inventory accumulation arising from the 25-year high in multi starts reported in 2007. With inventories still on the rise this spring, new multi-family activity this year will post the weakest performance in over a decade with total starts dropping below 1,300 units for the first time since 1997. Moderate gains are expected in 2010 but overall numbers will remain low compared with averages for the previous decade.

Multi-family supply across Metro, which includes units in inventory and those under construction, peaked in February 2008 at 11,343 units. At the end of March 2009, total supply was down by 22.5 per cent due to the reduction in starts since the summer of 2008. While units under construction were down by 27 per cent year-over-year in March, inventories were up by 121 per cent compared with the same time last year. Unlike the new singles market, inventories of new multiples, especially condominium apartments downtown, are predicted to keep rising during much of 2009. Absorption rates are not expected to keep pace with completions in the coming months and inventories will test the previous peak which occurred in March 2005 when there were 1,433 completed and unoccupied multiples on the market.

Complicating efforts to measure new supply are the projects that were previously counted as under construction but are not active. These units were counted as starts but have become temporarily inactive and have consequently reduced CMHC's tally of units under construction. Once activity resumes, the under construction count will be adjusted upward. There are also buildings that were pending con-

Figure 4



Source: RAE, CMHC Forecast (f)

struction last fall, featuring sales centres and some site work, but have yet to get underway. As such, the exact number of stalled condo projects is difficult to pinpoint but they are indicative of a market place where presales have become more difficult to achieve, particularly as inventories rise and the resale market continues to favour buyers. A significant decline new multi-family inventories and a return to more balanced conditions in the resale market will be needed prior to a rebound in multi-family starts to levels that are more in line with historical averages.

RESALE MARKET

Existing Home Sales to Recover in 2010

Following a 15 per cent decline in 2008, existing home sales will fall by another 16.5 per cent this year before staging a moderate come back in 2010. Residential sales on the MLS® reported by the Realtors Association of Edmonton (RAE) will reach 14,500 units in 2009, representing the slowest year since 2000. Sales in 2010 should approach 16,000 units which equates to a 10 per cent improvement over this year. During the 10-year period from 1999 to 2008, MLS® residential sales averaged close to 17,200 units.

Sales during the first three months of 2009 were 25 per cent below the activity levels reported during the first quarter of last year. CMHC's expectation for an improvement in the coming months assumes that the low mortgage rate environment coupled with recent price reductions will help to spur buying activity in the second half of the year. The outlook is also conditional on more balanced market conditions that should create some level of price stability. This in turn will give some consumers a reason to jump off the fence they have been sitting on while prices have weakened.

Supply levels on the MLS® have dropped on a year-over-year basis in recent months but not due to improved sales. Rather, a strong reduction in the number of new listings entering the market compared with this time last year has occurred. Active listings in March were down by 21 per cent from March 2008 but the overall numbers remain high relative to demand. The sales-to-active listings ratio (SALR) has languished below the 20 per cent range since mid-2007, indicative of a prolonged buyers market. The SALR needs to move above the 20 per cent line into balanced market range before the market witnesses support for prices.

Figure 5

Source: RAE, CMHC Forecast (f)

MLS SALES - SINGLE-DETACHED UNITS
January - December (% chg 2007/2008)

	Sales			Average Price ($)		
	2007	2008	%chg	2007	2008	%chg
Northwest	385	366	-4.9	356,632	330,534	-7.3
North Central	1,673	1,498	-10.5	393,376	360,032	-8.5
Northeast	520	428	-17.7	334,223	305,830	-8.5
Central	470	306	-34.9	279,579	267,369	-4.4
West	1,023	1,073	4.9	478,467	424,021	-11.4
Southwest	1,392	1,475	6.0	527,345	475,499	-9.8
Southeast	1,730	1,607	-7.1	395,442	362,403	-8.4
St. Albert	793	794	0.1	484,601	440,849	-9.0
Sherwood Park	794	914	15.1	459,641	423,143	-7.9
Leduc	308	308	0.0	371,622	352,979	-5.0
Spruce Grove	329	430	30.7	386,847	364,928	-5.7
Stony Plain	186	181	-2.7	387,778	367,721	-5.2
Ft. Saskatchewan	227	244	7.5	400,165	383,829	-4.1
All EREB areas	**11,765**	**11,284**	**-4.1**	**400,304**	**375,952**	**-6.1**

Source: Realtors Assoc. of Edmonton

The single-detached resale market should achieve balance this year before the resale condominium market. Sales have not fallen as much for singles in the first quarter, compared with condos, and there will be reduced competition from new homes due to the drop in completions anticipated this year. In contrast, the condominium segment is expected to remain in buyers' terrain longer than singles due to the excess supplies coming from the new market. Buyers are also more hesitant about condominiums since prices appear weaker compared with singles.

Resale Home Prices Continue to Soften in 2009

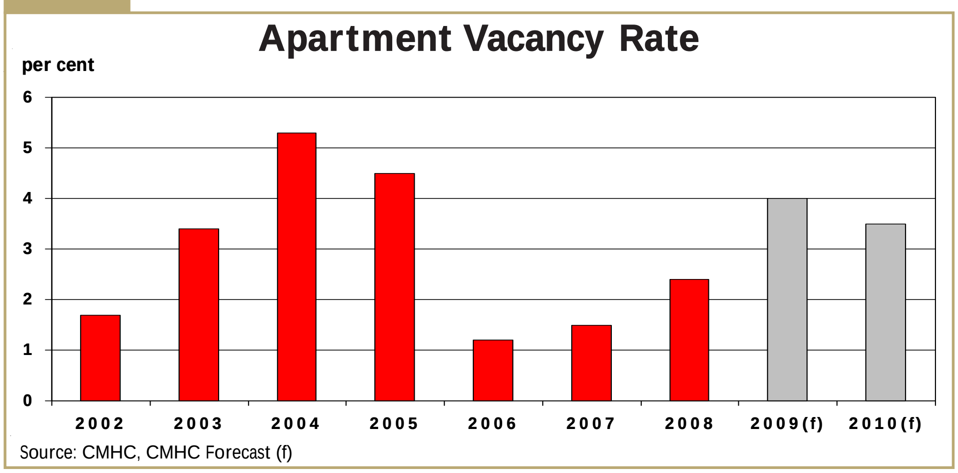
Following a 1.5 per cent overall reduction in 2008, the average annual MLS® resale price for Greater Edmonton will fall by seven per cent this year to $310.000. Average resale prices across Metro have been trending downward on a month-over-month basis since the fourth quarter of 2007. Much of the softening has occurred at the upper end of the price scale since the competition for homes priced over $500,000 is stronger as this is where much of the new inventory is priced. Prices should begin to stabilize in the coming months provided the market becomes more balanced. Singles should see price stability first as the supply coming from the new market is dipping fast compared with multi-family. The condominium market will experience price softness throughout 2009 and won't see much stability until the following year. Overall, resale prices in 2010 should see a moderate recovery under balanced market conditions. Prices should rise modestly throughout the year, with the annual average reaching $318,500 for a gain of 2.7 per cent.

RENTAL MARKET

Higher Vacancies Restrain Rent Increases and Boost Incentives

Edmonton's rental apartment vacancies will trend higher in 2009 despite few rental starts. CMHC's fall 2009 Rental Market Survey is expected to find an overall vacancy rate across the Edmonton region of close to four per cent compared with an average 2.4 per cent reading in the October 2008 survey. New rental supply is arriving in the secondary market rather than from traditional sources of purpose-built apartment units. Supply in the secondary market is coming from investors who have decided to rent out their units rather than sell them at reduced profits (or losses). As well, fewer units are expected to be lost from

Figure 6



the rental universe to condominium conversion due to the continued softness in resale and new condominium markets. Competition will be elevated among units renting for over $1,200 per month, since this is the price range where newer condominiums are rented. There will also be increased use of incentives this year as landlords attempt to manage turnovers and limit rent reductions. Vacancies should begin to trend lower in 2010 to near 3.5 per cent, as a growing economy spurs demand and the number of new condominium completions starts to head downward.

Rent increases in the commercial rental market will be held back this year due to the increased competition spilling over from the secondary rental market. Following increases of $76 per month for an average two-bedroom unit between October 2007 and October 2008, rents will remain largely unchanged this year. Look for an average two-bedroom rent of close to $1,035 Metro-wide this October. Much of the retrenchment is occurring at the upper end of the rent scale while landlords priced below the average rental rate may have some opportunity to increase rents. Average rent increases will return in 2010 provided an improved economy helps to reduce vacancies. The average two-bedroom unit will rent for close to $1,070 in October 2010, representing an annual increase of around $35 per month.

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.

ECONOMIC OVERVIEW

Economic Growth Returns in 2010

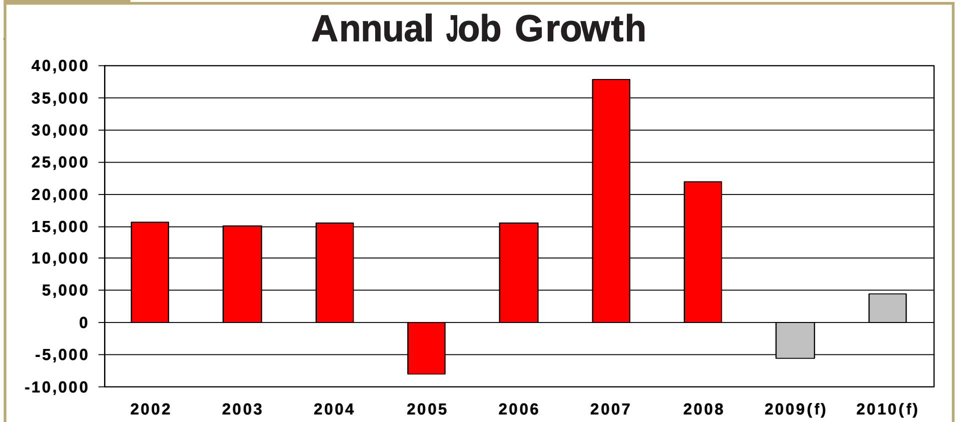
The downturn in the energy sector will impact growth across the Capital region this year and into 2010. Edmonton remains Alberta's foremost supply, service and staging area for the energy sector. With a substantial number of drilling rigs expected to sit idle this year, the impacts of this slowdown will be widespread. Lower global oil prices will reduce the output from the manufacturing sector, particularly the area's petroleum upgraders and refineries. The construction sector will also be held back by low levels of residential activity and a slowdown in non-residential activity as well. A number of large-scale energy-related projects slated for the Alberta Industrial Heartland area have been scaled back or put on hold until the business climate improves.

Statistics Canada's first quarter labour force survey numbers for the Edmonton CMA point to a slowdown in job creation which began province-wide during the fourth quarter of 2008. Despite the recent rise in unemployment, income growth remains encouraging. Average weekly earnings grew by over six per cent in 2008 although growth rates moderated slightly during the first three months of 2009. Following two exceptional years, employment growth will throttle-back in 2009, declining by 0.9 per cent before staging a moderate rebound in 2010.

Unemployment will average near 5.5 per cent across the region this year, a level last seen in 2003. The jobless rate will remain low by national standards and will encourage continued moderate levels of in-migration. Net migration in 2009 will pull back from the pervious year and will fall below the peak years of 2005-2006. The levels expected this year and in 2010 will still compare well with the average witnessed over the previous decade.

While there are still a multitude of industrial projects underway across the region, many will wind-down over the next 12 to 24 months. Infrastructure spending remains the bright spot for the economy. With municipalities reporting a 25 per cent reduction in the cost of projects, many communities may ramp up infrastructure plans in order to benefit from the slowdown in the construction industry. Some of the larger projects include the Edmonton Ring Road (Anthony Henday Drive NW), Southern LRT extensions, University of Alberta Edmonton Clinics, Royal Alberta Museum, Edmonton Remand Centre, and the Edmonton International Airport expansion. These projects alone, most of which are well underway, represent close to $4.64 billion in construction spending.

Figure 7



Source: Statistics Canada, CMHC Forecast

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Forcast Summary
Edmonton CMA
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	21,984	20,427	17,369	14,500	-16.5	16,000	10.3
MLS® New Listings	25,393	40,708	40,059	30,000	-25.1	28,000	-6.7
MLS® Average Price ($)	250,915	338,636	332,852	310,000	-6.9	318,500	2.7
New Home Market							
Starts:							
Single-Detached	9,064	7,682	2,613	2,000	-23.5	2,600	30.0
Multiples	5,906	7,206	4,002	1,250	-68.8	1,500	20.0
Starts - Total	14,970	14,888	6,615	3,250	-50.9	4,100	26.2
Average Price ($):							
Single-Detached	308,726	438,866	511,989	515,000	0.6	510,000	-1.0
Median Price ($):							
Single-Detached	282,500	409,900	471,850	475,000	0.7	470,000	-1.1
New Housing Price Index (% chg.)	28.9	32.1	1.0	-8.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	1.2	1.5	2.4	4.0	-	3.5	-
Two-bedroom Average Rent (October) ($)	808	958	1,034	1,035	-	1,070	-
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	561,300	599,100	621,100	615,650	-0.9	620,150	0.7
Employment Growth (%)	2.8	6.7	3.7	-0.9	-	0.7	-
Unemployment rate (%)	3.9	3.8	3.7	5.5	-	5.0	-
Net Migration (1)	21,584	23,245	17,439	19,000	9.0	12,000	-36.8

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) 2007 migration data is forecasted

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