HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2010

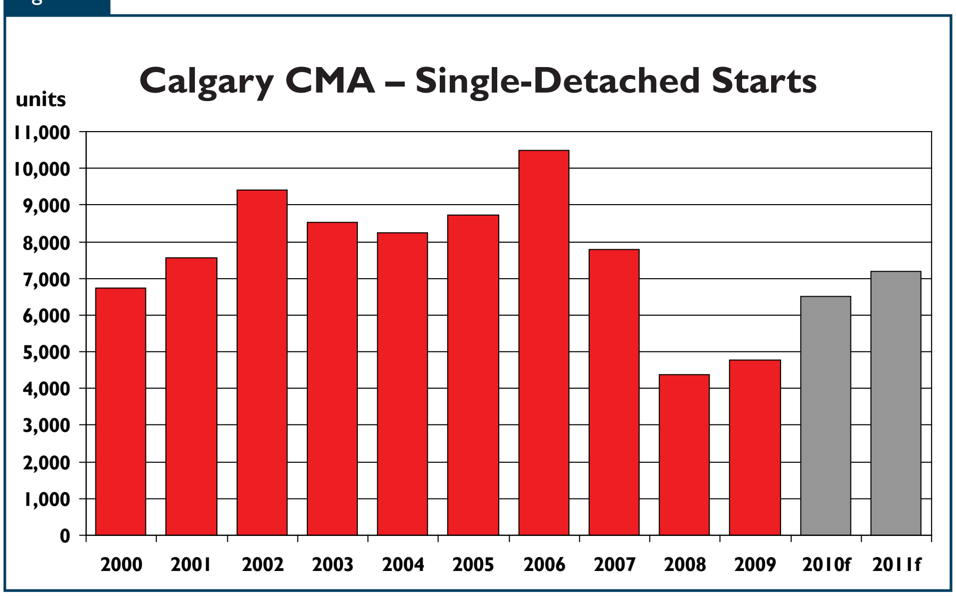
Table of Contents

NEW HOME MARKET

Total Housing Starts on Pace to Rise in 2010

Following a year when total housing starts declined 45 per cent, new construction activity in Calgary in 2010 is forecast to increase 39 per cent to 8,800 units. The increase in production can be attributed to an overall improvement in economic and housing market conditions, as well as relatively low financing costs. The gain will be most pronounced for single-detached builders, as multi-family builders continue to experience rising apartment inventories. New construction is expected to strengthen in 2011, with 10,300 units breaking ground, up 17 per cent from 2010. Despite the rise in production, total housing starts throughout the forecast period will remain below the 2000-2009 ten year average of 12,641 units.

Figure 1



Source: CMHC, CMHC Forecast (f)

1 The forecasts included in this document are based on information available as of April 23, 2010.

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at **www.cmhc.ca/housingmarketinformation.** View, print, download or subscribe to get market information e-mailed to you on the day it is released. CMHC's electronic suite of national standardized products is available for free.

Lower Inventory Levels Support Single Starts

Housing market conditions for single-detached builders have been much more favourable at the beginning of 2010 compared to the previous year. Builders have been facing stronger demand conditions and lower inventory levels, which have contributed to higher starts. In the first quarter, single starts were up nearly three-fold, increasing from 559 units in 2009 to 1,528 units in 2010. Production is starting to move closer in line with historical norms. To the end of March, new construction was just shy of the 2000-2009 average of 1,603 units. New construction of single-detached homes is expected to rise 36 per cent above 2009 levels, reaching 6,500 starts. In 2011, single-detached builders will further benefit from stronger economic conditions and start another 7,200 units, representing an 11 per cent increase year-over-year.

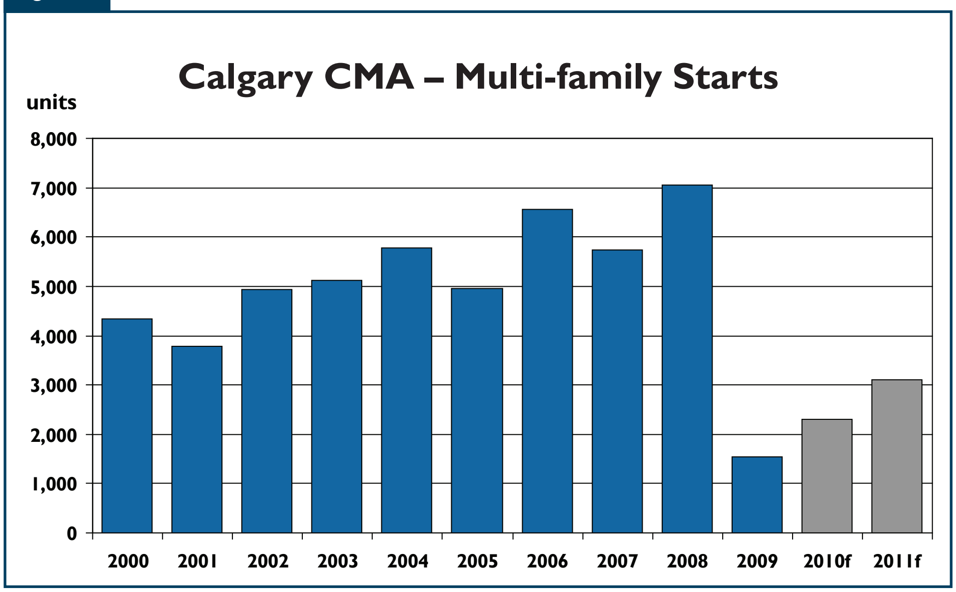
In addition to stronger demand conditions, single-detached inventories which include show homes and spec units have remained relatively low, setting the stage for builders to increase production in 2010. In the first three months of 2010, inventories averaged 385 units per month, down 48 per cent from the previous year and 39 per cent below the 2000-2009 average of 636 units per month. The upward pressure on inventories has been relatively light as a high proportion of units reaching completion were being immediately absorbed. From October 2009 to March 2010, the number of units absorbed at completion was over 93 per cent. Builders have also experienced a strong decline in spec units while show homes have remained fairly steady. Throughout most of 2009 and into 2010, active listings in the resale market have also been down year-over-year. With fewer existing homes listed on the market, some potential home buyers who were originally looking to the resale market started to turn their attention to the new home market, contributing to the demand for spec units. In the first quarter, spec units were down on average of 61 per cent from a year earlier.

New House Prices Rising

The New House Price Index (NHPI) is continuing to strengthen in 2010 as home values started to rebound in the summer of 2009. In February 2010, the NHPI rose 0.4 per cent from the previous year, representing the first year-over-year increase since June 2008. Due to an increase in new construction activity, builders are facing higher input costs for labour and materials. The house component of the NHPI in February was up two per cent from a year earlier. Land values, on the other hand, were down three per cent compared to the previous year, but have started to stabilize. With new construction activity anticipated to remain active throughout the forecast period, new home prices will continue to see upward pressure. The NHPI is expected to increase 2.7 and 3.4 per cent in 2010 and 2011, respectively.

After declining for the last several months, the median absorbed price which is less influenced by extreme values, has started to level out at around $405,000. In March, the median absorbed price reached $405,122, down 12 per cent from the previous year. Readers should note that the absorbed price reflects units absorbed at or after completion in a given month, which is not necessarily the month when the price was negotiated. The absorbed price, which tends to be a lagging indicator of price pressures, is anticipated to rise and reflect the gain in prices that started in the summer of 2009. Despite the month-over-month gains projected for 2010, the steady increase will not be enough to push the yearly median above 2009 levels. In 2010, the median absorbed price will reach $420,000, down seven per cent from a year earlier.

Figure 2



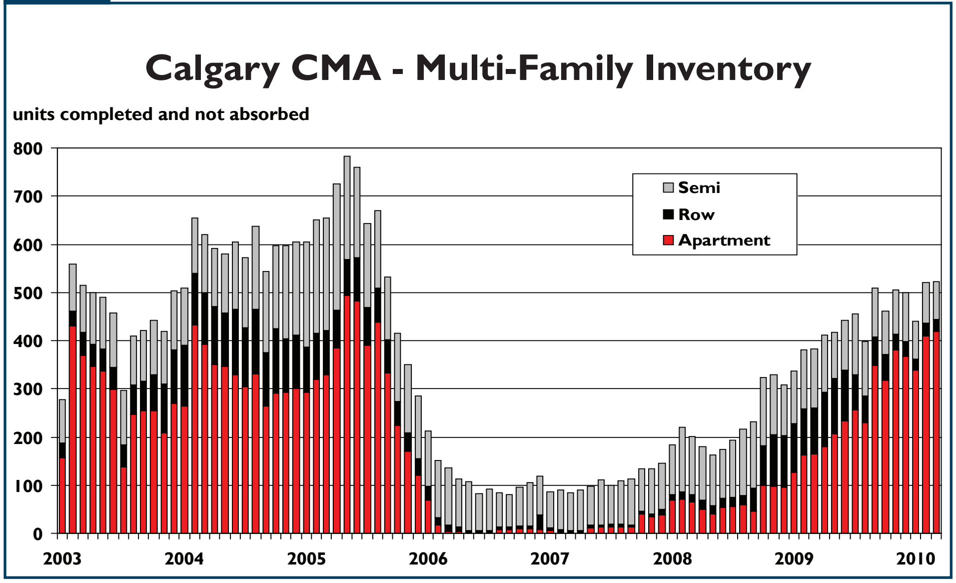
Source: CMHC, CMHC Forecast (f)

Semi-Detached and Row Starts will Dominate Multi-Family Starts

Calgary's multi-family builders scaled back production to 1,543 units in 2009, as inventories escalated throughout the year. This represented the lowest level of production since 1996 and a decline of 70 per cent compared to the 1999-2008 average of 5,223 units. Although inventories remain elevated for apartment units, multi-family builders will start more units in 2010 compared to 2009, as more semi-detached and row units are produced. However, total multi-family activity will still remain below historical norms. To the end of March, 633 units have already broken ground, up from 187 units a year earlier but down from the 2000-2009 average of 1,307 units. New multi-family construction is expected reach 2,300 units in 2010, an increase of 49 per cent from the previous year. As the economy improves and inventories decline, multi-family production is forecast to increase 35 per cent in 2011, to 3,100 units.

The adjustment to multi-family production is primarily due to the substantial number of apartment units started in recent years. From 1999 to 2008, an average of 3,420 apartment units was started per year, with a record 5,703 units breaking ground in 2008. The large ramp-up in production coupled with rapidly rising condominium prices was not met with a commensurate increase in demand as economic activity began to slow and the percentage of units absorbed at completion began to decline. The percent absorbed at completion declined from an average of 98 per cent during the 2006-2008 period to 50 per cent in the fourth quarter of 2009. As a result, apartment

Figure 3



Source: CMHC

inventories have been rising and have yet to peak. In March, there were 419 units completed and unabsorbed, up from the 165 units in March 2009 and reaching its highest level since August 2005.

Upward pressure on apartment inventories is anticipated to moderate over the forecast period, providing builders an opportunity to modestly increase production. With fewer apartment starts, the number of units under construction declined 35 per cent year-over-year in March, from 6,661 units in 2009 to 4,341 in 2010. In addition, the rate of units absorbed at completion has shown improvement. In the first three months of 2010, 83 per cent of units were absorbed at completion compared to 50 per cent in the fourth quarter of 2009. Although the rise in inventories is expected to moderate, there are still 1,000 apartment units that were previously started but construction has halted, pending further improvements in market conditions. Many of the apartment projects currently under construction or halted will likely need to be completed and absorbed before any significant increases in production will be seen.

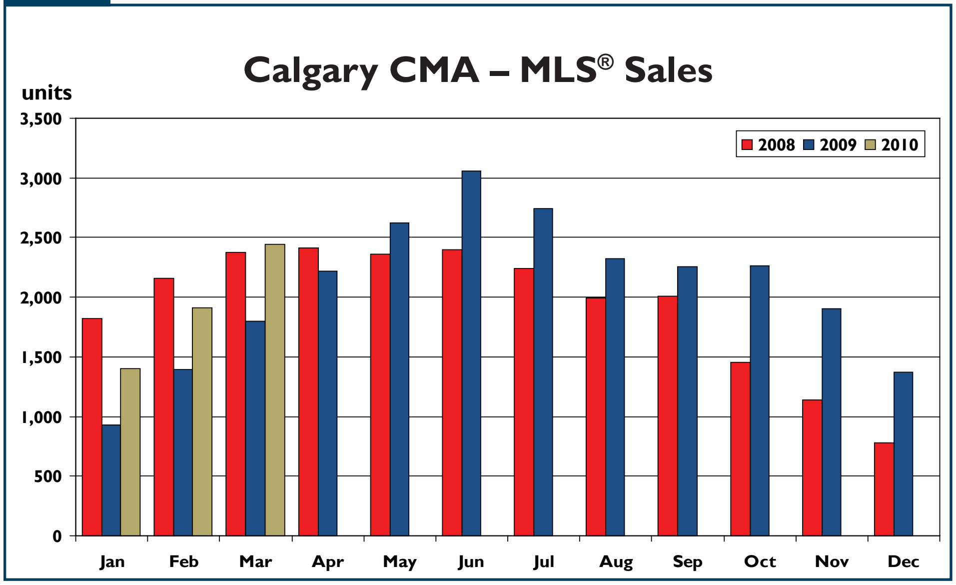
With apartment inventories rising, multi-family builders have shifted focus to semi-detached and row housing. In the first quarter, 61 per cent of multi-family permits issued were for semi-detached and row units. Not only are these dwelling types attracting buyers, these inventories have also moved to lower levels. In March, there were 104 semi-detached and row units in inventory, down 52 per cent from the previous year. For the balance of 2010, semi-detached and row units are expected to dominate multi-family production.

RESALE MARKET

Resale Activity Moderating

The trend in resale activity has moderated in 2010 from the heightened pace experienced toward the end of last year. Historically low mortgage rates, which helped fuel the rebound in sales in the latter half of 2009, have started to rise and are

Figure 4



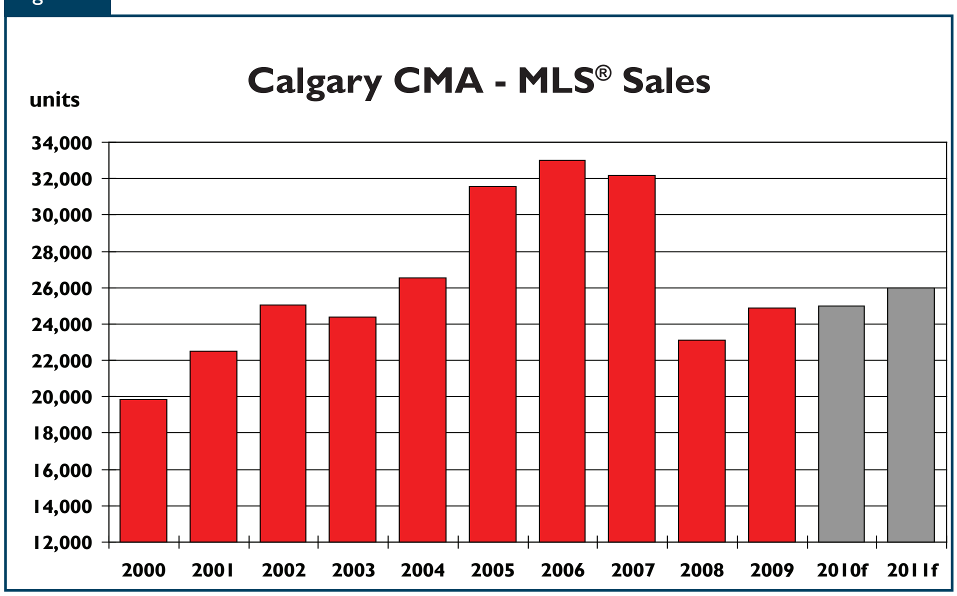
Source: CREB

forecast to continue to move higher through 2011. The lift in mortgage rates coupled with higher home values will push monthly carrying costs up, tempering demand for home ownership. Despite the moderation in demand, resale activity is anticipated to inch past 2009 levels and move closer toward the 2000-2009 average of 26,305 transactions. In 2010, CMHC forecasts MLS® residential sales to reach 25,000 units, slightly up from the previous year. As employment, income, and net migration gain more traction and cushion some of the effects of higher monthly carrying costs, sales in 2011 are expected to rise another four per cent to 26,000 units.

To the end of March, resales increased 40 per cent from 4,117 units in 2009 to 5,757 in 2010. This represents a considerable turnaround from the first three months of 2009 when sales were down 35 per cent year-over-year. Improvements in affordability, driven mainly by low mortgage rates, helped boost sales activity in the beginning of 2010 compared to the first quarter of 2009. Despite the pronounced year-over-year rise in 2010, the pace of sales so far is still slightly below historical norms. From 2000 to 2009, the average number of sales in the first quarter was 6,424 transactions.

Demand for home ownership in 2010 will gradually shift away from first-time home buyers and lean more towards move-up buyers. The equity of existing homeowners has been improving, better positioning them to trade up. In the first quarter, the proportion of single-detached units that sold for more than $600,000 increased from 10 per cent in 2009 to 15 per cent in 2010. Similarly, the proportion of condominium units in the first quarter that sold for more than $400,000 increased from seven per cent in 2009 to 11 per cent in 2010. Homes in the lower price points will still attract a bulk of the demand however a greater proportion of homes will be sold in the higher price points compared to 2009.

Figure 5

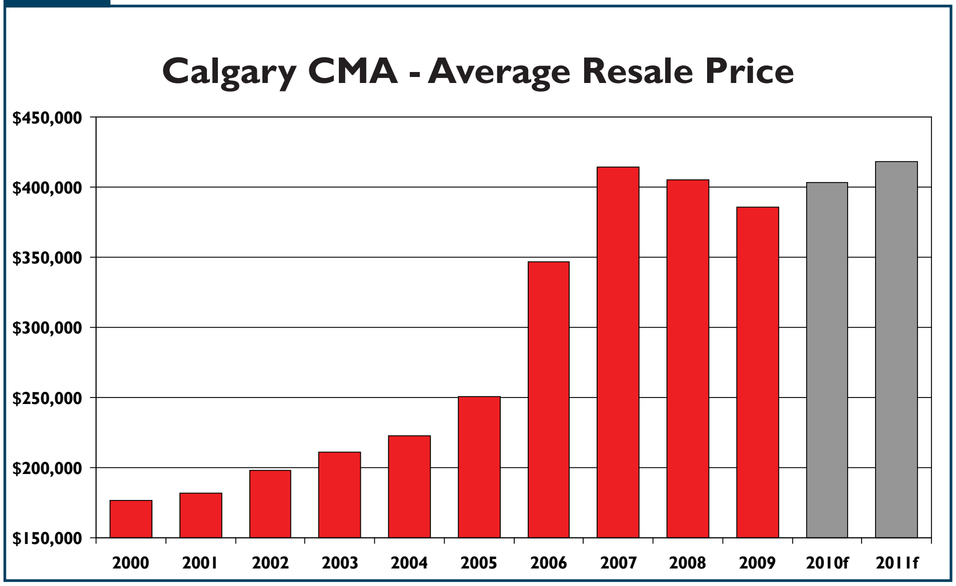


Source: CREB, CMHC forecast (f)

Average Price to Rebound in 2010

The average price is expected to increase year-over-year in 2010, following two consecutive years of declines. In the first quarter, the average resale price was $394,463, an increase of seven per cent from the same period in 2009. Despite the impressive year-over-year gain, growth in the average price is expected to moderate as the sales-to-active listings ratio continues to trend downward.

Figure 6



Source: CREB, CMHC Forecast (f)

On a seasonally adjusted basis, the sales-to-active listings ratio averaged 37 and 36 per cent in the third and fourth quarters of 2009, respectively. In the first three months of 2010, the sales-to-active listings ratio declined to an average of 26 per cent, but still within balanced territory. With higher listings relative to demand, the average price is forecast to increase 4.4 per cent in 2010 reaching $403,000. Balanced conditions are expected to continue into 2011, when the average price is forecast to rise 3.7 per cent to $418,000.

With the resurgence of new listings entering the market and pace of sales slowing, active listings have been trending up and contributing to the decline in the sales-to-active listings ratio. There were 12,971 new listings in the first quarter of 2010, up 16 per cent from 11,221 in 2009. Sellers have been more eager to list their homes on the market as home values have been strengthening since the spring of 2009. This trend is expected to continue for the balance of the year as new listings are forecast to increase 15 per cent from 2009 to 2010.

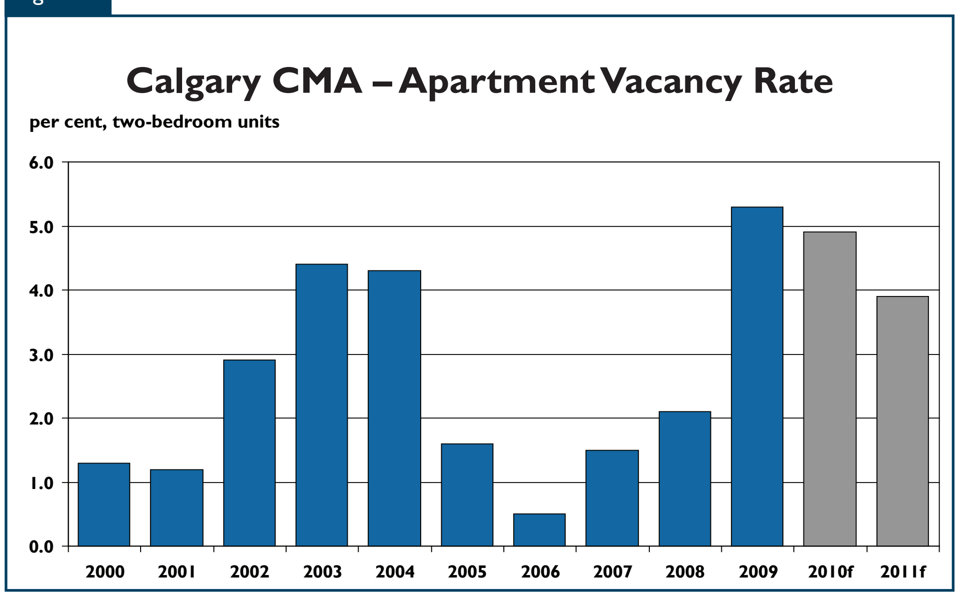
RENTAL MARKET

Average Rent to Stabilize in 2010

The rental market in 2010 is expected to strengthen from 2009 when the average vacancy rate reached 5.3 per cent. With the prospect of improving labour markets throughout the forecast period and higher levels of net migration, demand for rental accommodations is expected to pick-up. In addition, rising home values and higher interest rates will push monthly carrying costs upward, increasing the gap between average monthly rent and mortgage payment (principle and interest). This will reduce the incentive to move into home ownership. The vacancy rate is forecast to decline to 4.9 per cent in October 2010 and 3.9 per cent in 2011.

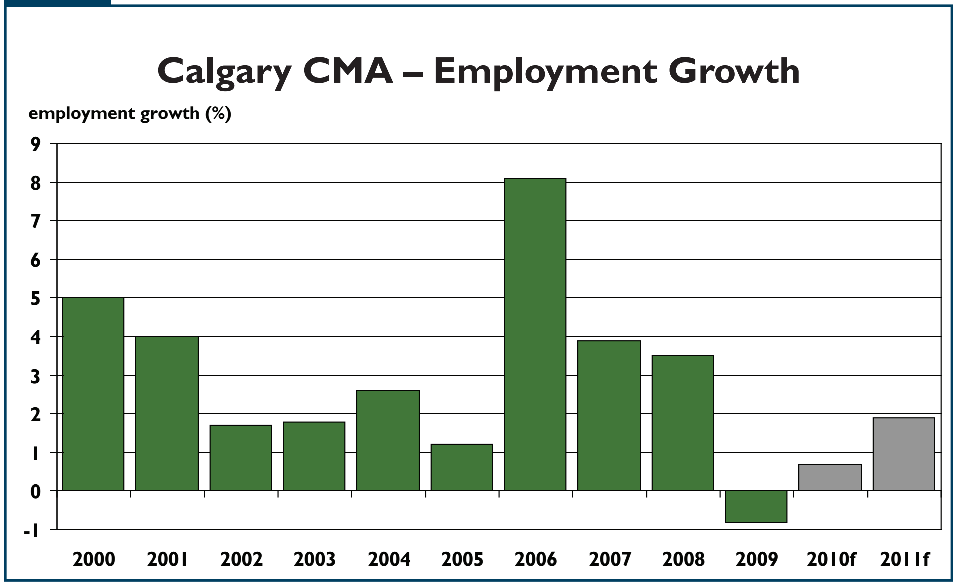
Though demand for rental accommodations is expected to improve somewhat in 2010, the elevated vacancy rate will inhibit rent increases. Accordingly, the average rent for a two-bedroom apartment unit is forecast to slip from $1,099 per month in October 2009 to $1,090 per month in October 2010. The average rent is not anticipated to increase until 2011 when vacancy rates further decline and fewer incentives are offered. In 2011, the average two-bedroom rent is forecast to reach $1,120 per month.

Figure 7



Source: CMHC, CMHC Forecast (f)

Figure 8



Source: Statistics Canada, CMHC Forecast (f)

Renters have noticed that the upgraded cost to get into homeownership has been widening over the last 12 months. The differential between average two-bedroom monthly rent and the mortgage payment (principle and interest) for an average resale condominium increased to over $550 in October 2009, after sitting below $400 in the spring of 2009. The upward trend in carrying costs is expected to continue as interest rates and home prices rise. In March, the average carrying cost for a resale condominium, amortized for 25 years with a 10 per cent down payment, was $1,696 per month, up eight per cent from the previous year. With the average rent not expected to increase in 2010 and only modestly rise in 2011, the gap between renting and owning is anticipated to widen, putting additional downward pressure on rental vacancies.

To the end of the first quarter, 130 purpose built rental units broke ground following a year when only 20 units were started. Despite the lift in rental starts thus far, activity for the balance of 2010 is expected to remain low. With elevated vacancy rates and apartment inventories rising, competition from the secondary rental market will keep market rental construction low.

ECONOMIC OVERVIEW

Net migration to rebound in 2010 and 2011

Thanks to a recovering economy, employment in Calgary is showing signs of stabilizing. On a seasonally adjusted basis, the year-over-year declines in employment have been shrinking. Seasonally adjusted employment in March was down only one per cent from the previous year, a considerable improvement from the over two per cent decline a few months earlier. Moving forward, employment is expected to post positive month-over-month gains by the second half of 2010. The unemployment rate has also levelled out at just above seven per cent in the first quarter of 2010, after increasing from 5.8 per cent in March 2009. As the economy further improves and more jobs are created, employment levels are anticipated to rise and lower the unemployment rate. Employment growth in 2010 is forecast to experience a modest lift of 0.7 per cent year-over-year, and another 1.9 per cent in 2011 as the economy continues to strengthen.

Rising oil prices have contributed to increased investment in the energy sector, further stabilizing employment and encouraging job growth. However, the benefits have been more concentrated in the oilsands sector. The price of WTI oil has recently moved above US $80 per barrel and the price for natural gas, although still relatively weak, was sitting above 2009 levels. Various oil sands projects have started moving forward again and drilling activity has also improved. In addition, the Alberta government recently announced changes to the royalty framework which becomes effective January 1, 2011. The lower royalty rates are expected to attract more investment, further promoting employment growth.

To help counter the slowdown in economic activity, government and institutional spending has increased, cushioning the decline of investment in other sectors. To the end of 2009, government and institutional investment was up 80 per cent compared to 2008 levels. Investment in commercial construction has declined in the last two years as corporate downsizing coupled with a number of office buildings nearing completion has contributed to an excess supply of office space. In 2009, commercial construction investment was down 25 per cent from 2008. Investment activity in this sector is anticipated to remain low until office vacancies come down from elevated levels.

Slowing economic conditions in 2009 and elevated unemployment has reduced net migration in Alberta. In 2009, net migration declined from the previous year as interprovincial and non-permanent residents were down 70 and 66 per cent year-over-year, respectively. Although migration from other provinces has slowed, Alberta has still been attracting migrants from other countries. Net international migration in 2009 was up 14 per cent compared to 2008. Reflecting the provincial trends, net migration into the Calgary CMA is estimated to decline from a record of over 27,000 people in 2008 to 16,000 in 2009. Improving economic activity and stronger labour market conditions relative to many other regions in the country will attract migrants to the Calgary CMA. Net migration in 2010 is forecast to rise six per cent reaching 17,000 migrants and increase another nine per cent in 2011.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary
Calgary CMA
Spring 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	32,176	23,136	24,880	25,000	0.5	26,000	4.0
MLS® New Listings	54,202	56,187	41,640	48,000	15.3	49,000	2.1
MLS® Average Price ($)	414,066	405,267	385,882	403,000	4.4	418,000	3.7
New Home Market							
Starts:							
Single-Detached	7,777	4,387	4,775	6,500	36.1	7,200	10.8
Multiples	5,728	7,051	1,543	2,300	49.1	3,100	34.8
Starts - Total	13,505	11,438	6,318	8,800	39.3	10,300	17.0
Average Price ($):							
Single-Detached	474,511	581,800	547,795	520,000	-5.1	549,000	5.6
Median Price ($):							
Single-Detached	417,947	487,141	450,302	420,000	-6.7	444,500	5.8
New Housing Price Index (% chg.)	16.2	0.6	-6.7	2.7	-	3.4	-
Rental Market							
October Vacancy Rate (%)	1.5	2.1	5.3	4.9	-	3.9	-
Two-bedroom Average Rent (October) ($)	1,089	1,148	1,099	1,090	-	1,120	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	680,600	704,100	698,200	703,100	0.7	716,400	1.9
Employment Growth (%)	3.9	3.5	-0.8	0.7	-	1.9	-
Unemployment rate (%)	3.2	3.5	6.6	7.2	-	6.6	-
Net Migration (1)	24,447	27,478	16,000	17,000	6.3	18,500	8.8

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) 2009 migration data is forecasted
The forecasts included in this document are based on information available as of April 23, 2010.

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 60 years.

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

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

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

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

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

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

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

©2010 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the Canadian Housing Information Centre (CHIC) at mailto:chic@cmhc.gc.ca; 613-748-2367 or 1-800-668-2642.

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

Housing market intelligence you can count on

FREE REPORTS AVAILABLE ON-LINE

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

Get the market intelligence you need today!
Click www.cmhc.ca/housingmarketinformation to view, download or subscribe.

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

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

Client e-Update

A monthly e-newsletter that features the latest market insight, housing research and information to help housing finance professionals enhance client relationships and grow their business.

64339_2010_B01