HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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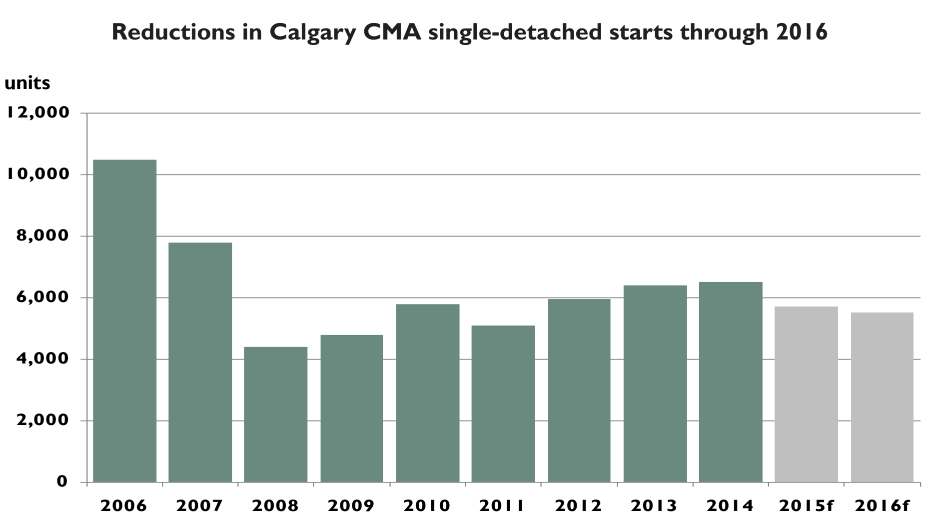
Highlights[1]

- Slower pace of single-detached production through 2016
- Fewer multi-family starts over the forecast period, particularly apartments
- MLS®[2] residential sales will decline in 2015, followed by a modest uptick
- Employment growth and net migration to moderate through 2016

Figure 1



Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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

Table of Contents

New home market: Starts will decline in 2015 and 2016

Following a record high in 2014, total housing starts in the Calgary Census Metropolitan Area (CMA) will decline in 2015. While reductions are forecast for both single-detached and multi-family starts, the decline will be most pronounced in the multi-family segment. Positive net migration and low mortgage rates will continue to support housing demand in the Calgary region. However, upward pressure on housing demand in recent years will be diminished by increased economic uncertainty brought on by low oil prices and subsequent announcements of layoffs in the energy sector. In addition, rising supply on the existing home market will offer buyers more options, which will compete with the new home market. In 2015, housing starts will decline 23 per cent year-over-year to 13,200 units.

In 2016, in-flows of migrants are expected to slow further, while employment growth will also continue to moderate from the previous year. In addition, the inventory of complete and unabsorbed units will rise over the forecast period. This, coupled with elevated supply on the resale market competing with new home sales, will hold back production levels. Upward pressure will be more evident in the new multi-family market which will, in turn, experience a more significant decline than the single-detached segment. Given this, total housing starts will decline further in 2016 to 11,500 units.

Single-detached construction in 2014 edged 1.4 per cent higher year-over-year to 6,494 units. In 2015 and 2016, the pace of production will slow to 5,700 and 5,500 units, respectively. Competition from elevated supply in the existing home market will be a contributor to the decline in starts over the next two years. This will hold particularly true should a large price differential remain between an existing and new single-detached home. Where previously, the supply of land and input cost pressures were large contributing factors in the expected slowdown of single-detached production, in the short term, these factors will not be as dominant as the economic uncertainty that is currently weighing down on overall housing demand.

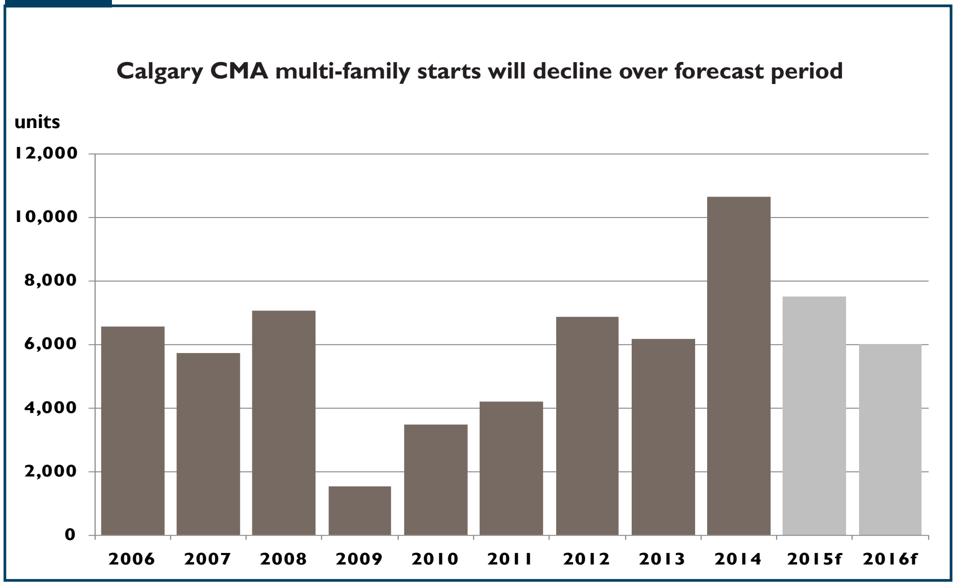
In March 2015, the number of complete and unabsorbed single-detached units in inventory declined 10 per cent year-over-year to 382 homes. Of these units, there were 203 show homes and 179 spec units. With the exception of April 2014, the show home count has consistently moved lower year-over-year and was at its lowest level on record in March. In contrast, the number of spec units was 31 per cent higher in March compared to the previous year. The spec home count is not expected to rise significantly over the forecast period, particularly as the pace of production slows. Similarly, under construction levels will not rise substantially through 2016, which will contribute to manageable supply levels.

Statistics Canada's New Housing Price Index (NHPI) is forecast to increase two per cent in 2015 after a seven per cent gain in 2014. In 2014, both the land and house components rose and elevated input cost pressures drove the house component to record the largest gain between the two. Moving forward, with reduced labour pressures, growth in input costs are expected to ease somewhat. Material cost pressures will still remain, especially for imported materials such as fixtures, considering the low exchange rate for the Canadian dollar. However, with housing starts forecast to moderate, the land component will take a more prevalent role in price growth moving forward. As such, the NHPI is forecast to rise by 2.1 per cent in 2016.

The single-detached average absorbed price in the Calgary CMA is forecast to increase 4.7 per cent to $665,000 in 2015, following a gain of eight per cent in 2014. While lower starts will moderate the upward cost pressures on price growth, the composition of absorptions towards higher-priced units is expected to lift the average price above the forecast growth rate for the NHPI in 2015. Move-up buyers from 2014 taking possession of their new and larger homes in 2015 will contribute to a lift in the absorbed price, which has already made substantial gains over the first quarter of 2015. This is not expected to continue for the balance of the year though, as increases to supply in the existing home market will offer buyers more selection, which will reduce the pace of absorptions and production. As such, in 2016, the new single-detached absorbed price will average $672,000 in 2016, a gain of 1.1 per cent year-over-year.

Following a record-setting year, multi-family starts, which include semi-detached, row, and apartment units, will decline 30 per cent in 2015 to 7,500 units. Elevated supply, particularly for units under construction, along with moderating economic conditions, will hold starts back from surpassing the record 10,637 units in 2014. Apartment production is expected to experience the strongest pullback given the heightened level of units under construction. As these units reach completion, inventory levels will rise, further inhibiting the initiation of new

Figure 2



Source: CMHC, CMHC Forecast (f)

multi-family projects. In 2016, multi-family starts will decline further to 6,000 units.

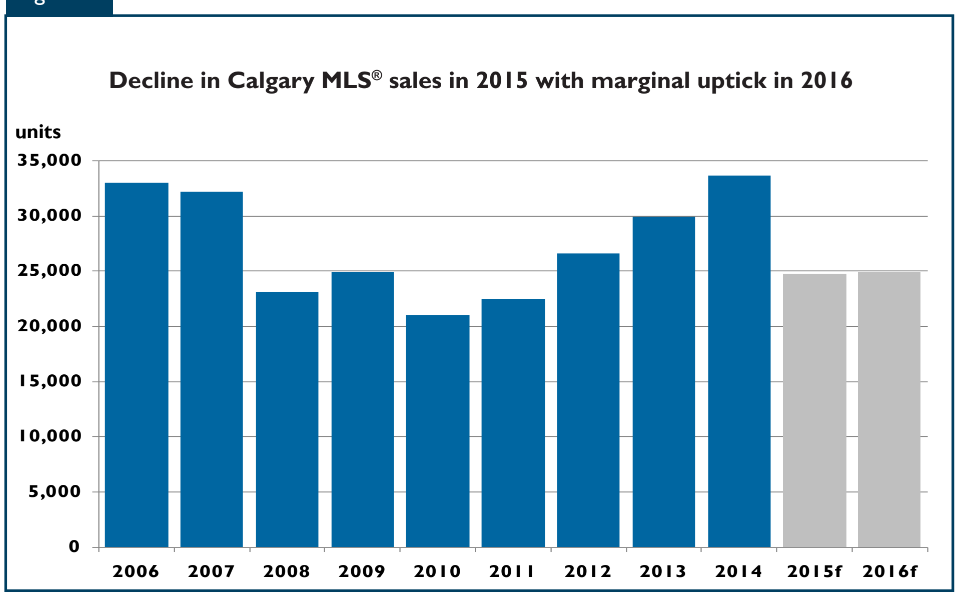
With one exception, monthly inventory levels for multi-family units in the ownership market had consistently recorded year-over-year declines in the period between mid 2011 and February 2015. However, in March, the number of complete and unabsorbed units for ownership more than doubled the previous year to 172. Inventory across all unit types increased, though the gain was most evident for apartments. Further inventory growth is expected over the forecast horizon as the number of units under construction remains elevated.

Under construction levels have been higher year-over-year since the tail end of 2013. However, gains were more pronounced towards the latter half of 2014, particularly given the record number of starts achieved that year. There were 11,970 units under construction in March 2015, up 37 per cent from the same month in 2014. Although elevated, the number has moved down from its peak of 12,140 in January 2015. As units currently under construction reach completion, inventory levels will experience upward pressure. This pressure will be more pronounced for apartments, where the under construction count was 47 per cent higher year-over-year in March. This segment also accounts for the largest proportion of total units under construction. Given the elevated level of units underway, coupled with rising supply on the existing home market, multi-family starts will experience further reductions through 2016.

Existing Home Market: Existing home sales to decline in 2015 with marginal uptick in 2016

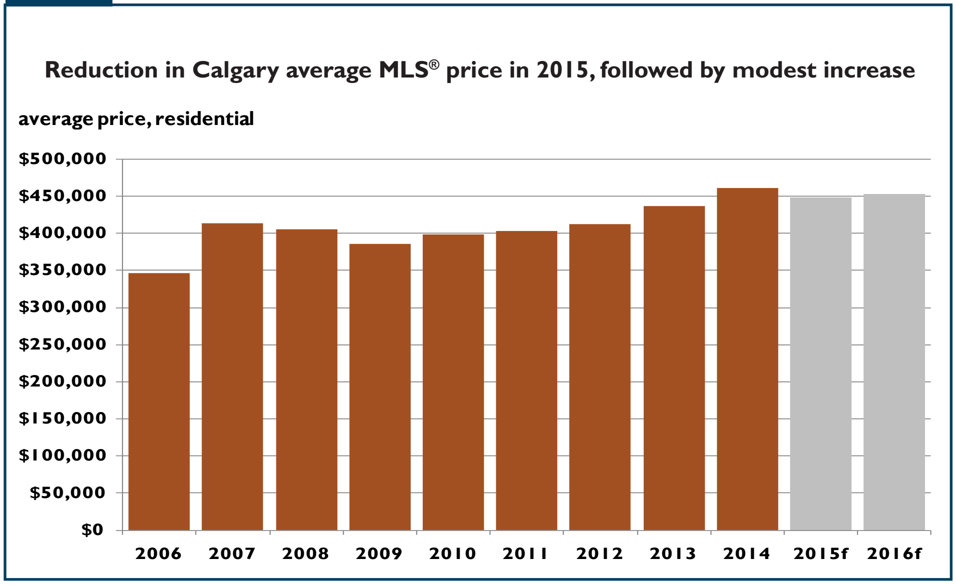
After reaching a record high in 2014, MLS® residential sales in Calgary will decline in 2015. Weaker economic conditions brought on by low oil prices will slow employment growth with job losses expected in the energy sector and some spinoff industries. In addition, net migration will moderate as changes to the Temporary Foreign Worker policy, along with improving economic conditions in other parts of the country, will have a dampening effect on non-permanent and interprovincial migration. Sales in 2015 will decline by 27 per cent to 24,700 transactions. In 2016, assuming oil prices either reach stable ground or experience some upward pressure,

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

sales should edge marginally higher and total 24,900.

Active listings have reported year-over-year gains since July 2014, with significant double-digit increases since December 2014. The pronounced upward movement in recent months has been attributed to the shock of low oil prices, with consumer confidence taking a step back. Despite the recent large increases, supply remains below the record levels reached in 2008. The upward trend in supply is expected to continue throughout the forecast period, however at a more reduced rate than what occurred between December 2014 and March 2015. Active listings in 2015 are forecast to average 7,700 per month, an increase of 14 per cent from 2014. In 2016, with a marginal gain in sales and more moderate growth rates in new listings, active listings will decline four per cent to average 7,400.

The recent large gains in existing home supply have been attributed to slower sales and pronounced increases in new listings. New listings in Calgary will increase four per cent over the course of 2015 to 50,000 units. Contributing to the gains will be move-up buyers along with empty-nester homeowners looking to downsize. The pace of growth in new listings will decline in 2016 as elevated supply levels will ease price pressures, which will reduce the incentive for some homeowners to list their existing homes. New listings in 2016 will total 48,000, a decline of four per cent from 2015.

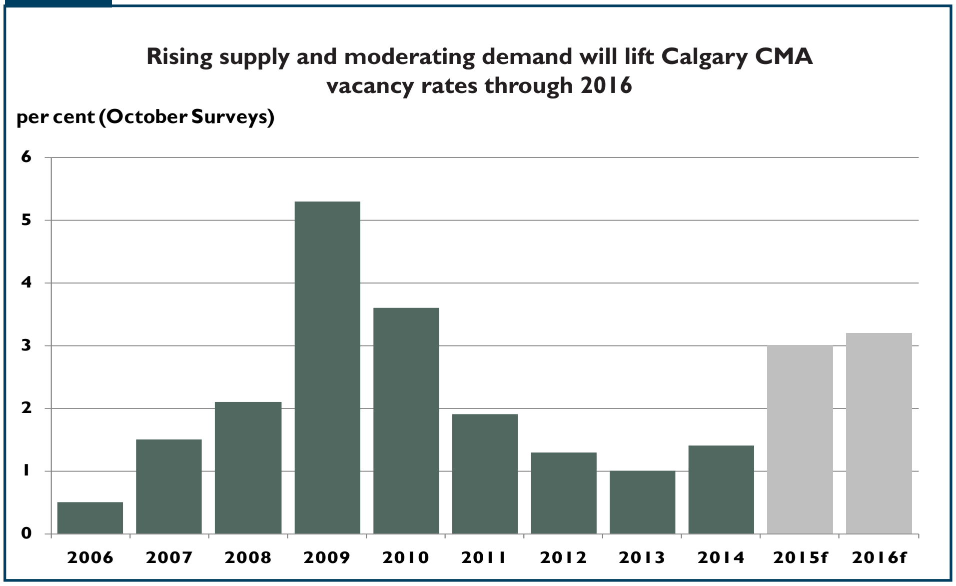
The MLS® average residential price in 2015 will decline by 2.7 per cent year-over-year to $448,000. Rising supply, coupled with declining sales, has weakened price pressures. Since the last quarter of 2014, existing home market conditions have shifted, with buyers in a more advantageous position compared to sellers. In addition, the impact of a compositional shift to lower-priced units catered to first-time buyers will hold back prices from recording a gain over 2014. Within city limits, average prices for all unit types have already recorded declines, though the rate of reduction will temper as the year progresses. In 2016, with expectations of slightly firmer market conditions, the average price will increase 1.1 per cent to $453,000.

Rental market: Upward pressure on vacancy rate through 2016

Rental demand in Calgary has been supported by strong net migration in recent years, with a record number of migrants welcomed in 2013. While net migration is expected to remain positive throughout the forecast horizon, the level will moderate. In addition, due to strong rental demand in recent years, the number of purpose-built rental units under construction has risen. As these units reach completion, rental supply will expand, further lifting the vacancy rate. The combination of a decline in net migration and more supply coming on board in the rental market will result in a pronounced increase to the apartment vacancy rate in 2015 to three per cent. Following this, a further reduction in net migration, along with the flow of new supply to the rental universe will result in an uptick to 3.2 per cent in 2016.

Although vacancy rates are forecast to rise in 2015 and 2016, the average two-bedroom apartment rent will also increase, albeit at a more

Figure 5



Source: CMHC, CMHC Forecast (f)

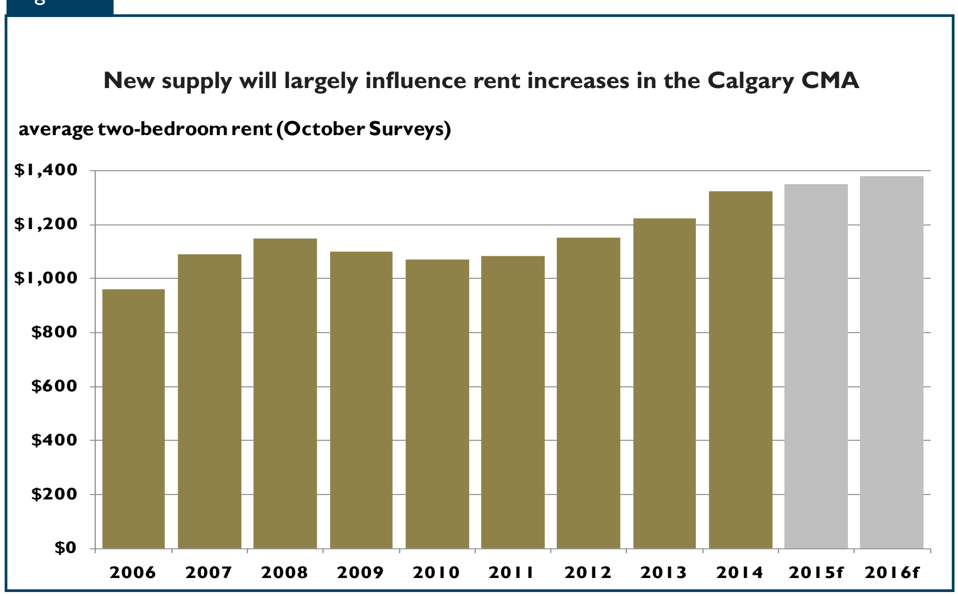
subdued pace than in previous years. Moderating demand will help ease the pronounced upward pressure on rental rates. In addition, some landlords and property owners may refrain from rent increases as tenants may look to other rental units in the purpose-built and secondary rental markets. Instead, the rise in the average rental rates will largely be attributed to newly constructed additions to rental supply as these units typically garner higher rents. In October 2015, the average two-bedroom apartment rent is forecast to rise modestly to $1,330, up from $1,322 in October 2014. In 2016, two-bedroom rents will average $1,340 per month.

Renters will have more choice in 2015 and 2016 with expected additions to both purpose-built and secondary rental market supply over the forecast period. There were 1,180 purpose-built apartment rental units under construction in March, more than double that of the previous year. At the same time, condominium apartment construction was up 38 per cent year-over-year in March with 7,651 units underway. As both purpose-built rental and condominium units reach completion, renters will have more options. For condominium units, while not all completions will represent additions, some will likely find their way onto the secondary rental market. In CMHC's October 2014 Rental Market Survey, 31 per cent of Calgary's apartment condominium units were rented. The proportion of rented condominiums increased marginally from the previous year and is expected to remain stable over the forecast horizon.

Economic trends: Reduced employment growth and slower net migration will ease housing demand in Calgary

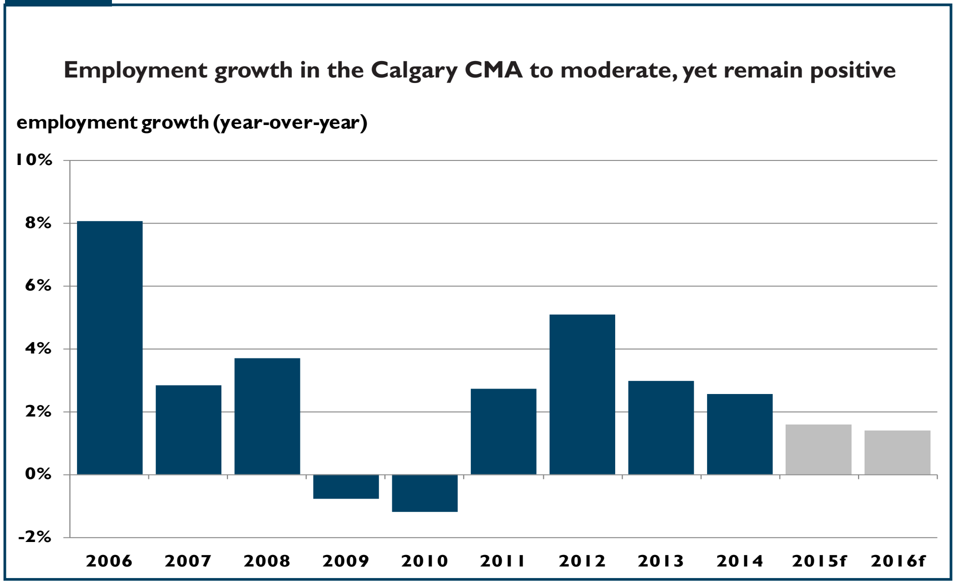
Following growth of 2.6 per cent in 2014, employment growth in Calgary will moderate throughout the forecast period. With recent declines in oil prices, layoffs have been announced in the energy sector, with further impacts expected in spinoff industries. In a low oil price environment, some planned projects in the energy sector have been postponed until prices either stabilize or increase. Along with this, provincial retail demand has waned, with Calgary retail sales likely following suit. Given this, employment growth will not be as robust as in previous years. While some industries

Figure 6



Source: CMHC, CMHC Forecast (f)

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

will benefit as labour competition from the energy sector eases, employment growth will not be as strong as in recent years. Employment in 2015 is forecast to rise 1.6 per cent, followed by a gain of 1.4 per cent in 2016.

With economic activity moderating, the labour force will expand at a faster rate than employment growth. As a result, the unemployment rate will experience some upward pressure. In 2014, the unemployment rate averaged five per cent in the Calgary CMA. Although slightly higher than the provincial unemployment rate, it remained below the national average. In 2015, the unemployment rate will rise to 5.6 per cent, followed by a further increase to 5.8 per cent in 2016. Despite the increase, the unemployment rate will remain below the national average.

In 2014, net migration to the Calgary CMA declined 3.9 per cent as a gain in interprovincial migration was more than offset by a reduction in the net non-permanent component. In 2015 and 2016, migration flows are expected to continue declining with further downward movement in the non-permanent component, which is largely attributed to changes in the Temporary Foreign Worker program. In addition, interprovincial migration will decline as economic conditions in other parts of the country improve relative to Alberta. Though net migration is expected to be lower in 2015 and 2016, it will remain positive and support housing demand. In 2015, net migration will total 22,000, while in 2016, it will decline further, to 20,000.

Mortgage Rate Outlook: Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	Employment growth is expected to moderate in 2015 and 2016, which will ease upward pressure on housing demand.
Income	A modest pace of income growth throughout the forecast period will remain supportive of housing demand.
Population	Population growth will remain supportive of housing demand but will not be as strong as in recent years due largely to expected slowdowns in net migration.
Resale Market	Recent increases in existing home supply will offer buyers more options outside of the new home market and, coupled with weaker demand, diminish price pressures.
New Multi-family Supply	Even though inventory remains low, given the elevated number of units under construction, multi-family inventory is expected to experience upward pressure throughout the forecast period. This will reduce the pace of production through 2016.

Forecast Risks

This outlook is subject to some risks, including:

- If oil prices stay low for a prolonged period of time, employment growth could be lower than expected, further slowing net migration and weakening housing demand.
- Should housing demand move lower than expectations, inventory for multi-family units could rise faster than anticipated. This will contribute to more severe reductions in starts over the forecast period.
- Rental vacancies could rise faster than expected if a higher proportion of condominium units make their way into the secondary rental market, increasing competition to the purpose-built rental market.
- If resale listings continue to rise at faster than anticipated rates, there could be further downward pressure on prices.

Forecast Summary
Calgary CMA
Spring 2015

	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	5,961	6,402	6,494	5,700	-12.2	5,500	-3.5
Multiples	6,880	6,182	10,637	7,500	-29.5	6,000	-20.0
Starts - Total	12,841	12,584	17,131	13,200	-22.9	11,500	-12.9
Average Price ($):							
Single-Detached	580,135	588,179	634,979	665,000	4.7	672,000	1.1
Median Price ($):							
Single-Detached	478,669	486,566	539,332	595,000	10.3	597,000	0.3
New Housing Price Index (% chg.)	1.7	5.3	7.0	2.0	-	2.1	-
Resale Market							
MLS® Sales	26,634	29,954	33,615	24,700	-26.5	24,900	0.8
MLS® New Listings	42,137	42,678	48,078	50,000	4.0	48,000	-4.0
MLS® Active Listings	8,279	6,945	6,775	7,700	13.7	7,400	-3.9
MLS® Average Price ($)	412,315	437,036	460,584	448,000	-2.7	453,000	1.1
Rental Market							
October Vacancy Rate (%)	1.3	1.0	1.4	3.0	1.6	3.2	0.2
Two-bedroom Average Rent (October) ($)	1,150	1,224	1,322	1,330	0.6	1,340	0.8
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	757,100	779,600	799,500	812,290	1.6	823,660	1.4
Employment Growth (%)	5.1	3.0	2.6	1.6	-	1.4	-
Unemployment rate (%)	4.7	4.8	5.0	5.6	-	5.8	-
Net Migration (1)	31,504	37,996	36,521	22,000	-39.8	20,000	-9.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
The forecasts included in this document are based on information available as of April 20, 2015.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 65 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 housing solutions that will continue to create vibrant and healthy communities and cities across the country.

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Outside Canada call 613-748-2003 or fax to 613-748-2016.

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