

## Update on Alberta's Housing Market

### Summary

Alberta's housing market is beginning to show signs of recovery. Housing starts have rebounded from March lows and activity in the resale market continues to pick up. House prices are also stabilizing due to more balanced market conditions. Lower house prices and mortgage interest rates have now brought Alberta's housing affordability in line with its long-term average. As the economic recovery in Canada and the globe strengthens, strong population growth and relatively high incomes in Alberta suggest that fundamentals are in place for a sustained recovery in the housing market.

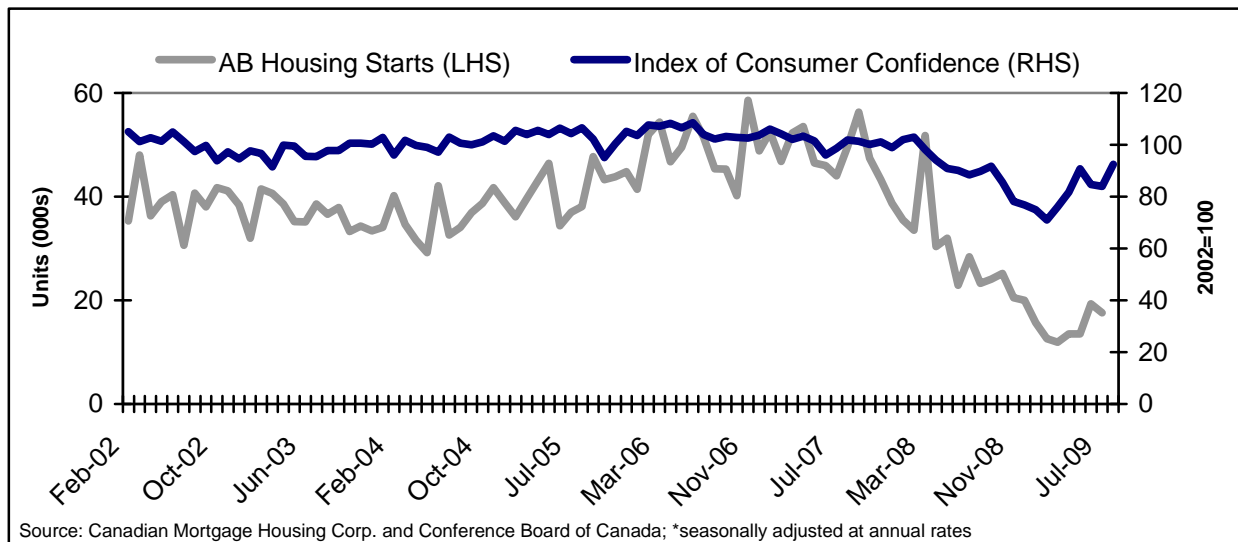
### Assessment of Current Market Conditions:

#### *Housing starts recover from multi-year lows...*

Alberta's new housing market is beginning to show signs of recovery. After bottoming at 11,900 units in March 2009, housing starts surged 47.9% to a seasonally adjusted annual rate of 17,600 units in July. While this level is below long term demographic requirements, it will take time to work off the excess building undertaken in the recent boom.

The combination of rising consumer confidence (Chart 1) and improving housing affordability (see Chart 8 on page 4) is driving the recent recovery in housing starts.

**Chart 1: Alberta Housing Starts\* and Index of Consumer Confidence (Prairie Region)**



Most of the correction in Alberta's housing market last year occurred in the single-detached market. As a result, the recent improvement in housing starts has mainly come from this housing segment. In the first seven months of 2009, actual single-detached starts fell 27% compared to the same period last year (See Table 1), an

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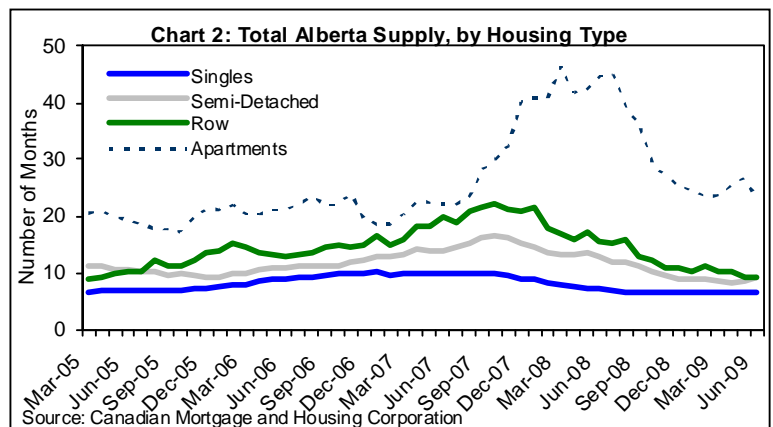
improvement from the decline of 49.6% in the whole of 2008. In July 2009, single-detached starts grew by 3.3% year-over-year, up from a year-over-year decline of 57.4% in March 2009.

**Table 1: Preliminary Housing Starts, January to July 2009 vs. same period 2008**

	Single –Detached		Multiple –Family		Total	
	Level	% Change	Level	% Change	Level	% Change
<b>Calgary CMA</b>	2,050	-25.7	686	-88.4	2,736	-68.5
<b>Edmonton CMA</b>	1,390	-10.5	973	-67.5	2,363	-48.0
<b>Wood Buffalo CA</b>	206	-47.8	380	-19.0	586	-32.2
<b>Grande Prairie CA</b>	207	-31.5	30	-44.4	237	-33.4
<b>Lethbridge CA</b>	294	-41.3	99	47.8	393	-30.8
<b>Medicine Hat CA</b>	80	-70.7	73	-48.2	153	-63.0
<b>Red Deer CA</b>	147	-28.3	56	-66.3	203	-45.3
<b>TOTAL</b>	<b>4,374</b>	<b>-27.0</b>	<b>2,297</b>	<b>-76.6</b>	<b>6,671</b>	<b>-57.8</b>

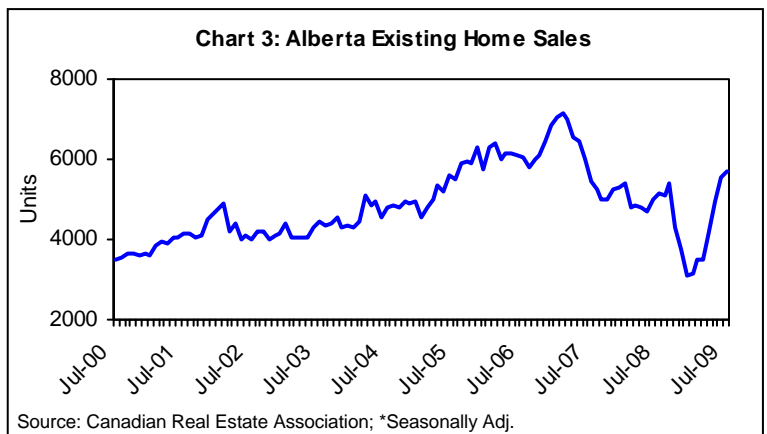
Source: Canadian Mortgage Housing Corporation; Actual \* Total consists of Calgary CMA, Edmonton CMA and the five CAs.

Much of the weakness in housing starts is now concentrated in the multiple-family segment, which reflects significant overbuilding in recent years. As depicted in Figure 2, the supply of both singles and multiples (which include semi-detached, rows and apartments) began to rise in late 2007 but increased the most for apartment condominiums. While builders were quick to reduce construction of single, semi-detached and row houses last year, it was not the case for apartments. Given elevated inventories of apartments and the intensification of the global credit crisis, multi-family starts began to fall sharply in the latter part of last year. Actual multiple starts fell by 68% year-over-year in the final quarter of 2008, a sharp deterioration from the year-over-year growth of 7.6% in the first seven months of 2008. The Canadian Home Builders' Association reported that many new home builders are still finding it difficult to access credit, particularly for high-rise condo developers. This has resulted in several projects being cancelled or put on hold. Year-to-date, multiples were down 76.6%, much worse than the decline of 22.3% in 2008. Multiple starts are not expected to rebound strongly in the near term as several projects that were halted last year have been resumed and will lead to more inventories in the market in the coming months.



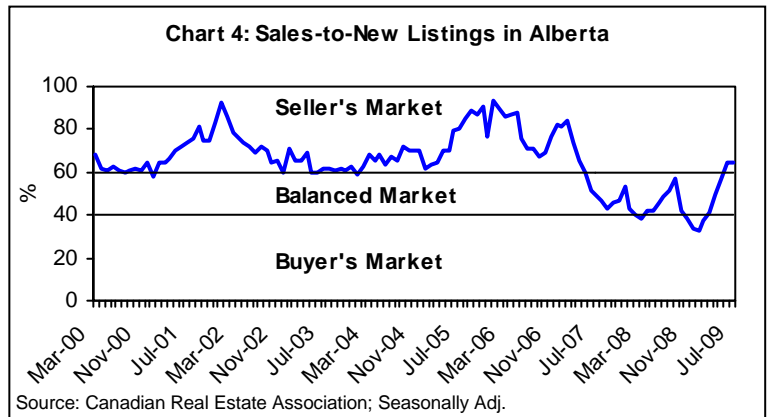
### Activity in resale market continues to pick up...

Resale market activity in the province has also been picking up on a monthly basis since the start of this year (See Chart 3). The volume of existing home sales jumped 81.9% from 3,143 units in January to 5,716 units in July 2009 (seasonally adjusted). The rebound in sales activity and decline in overall inventories have resulted in more balanced market conditions in recent months (See Chart 4 on next page). The sales-to-new listings ratio in Alberta stood at



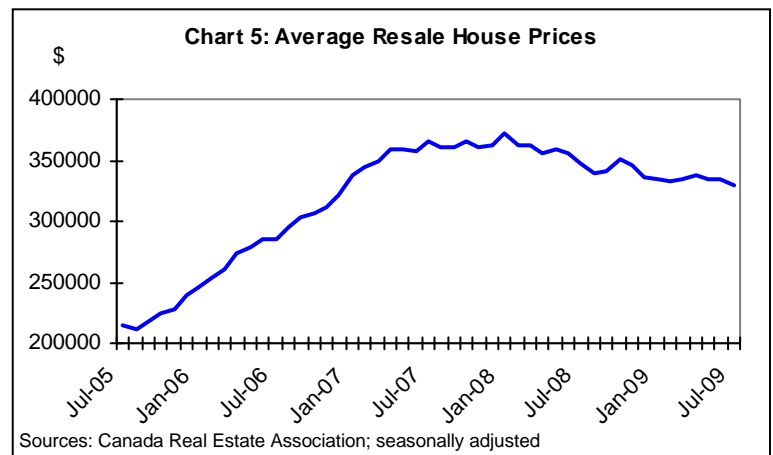
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64% in July 2009 (seasonally adjusted), unchanged from the previous month but up from 33% recorded in January. Sales-to-new listing ratios have also risen in most markets in the province, but was the most notable in Edmonton and Calgary where existing home sales have surged 71.1% and 127.6% between January and July 2009, respectively. As a result, sales-to-new listings ratios have more than doubled in these markets during this period.

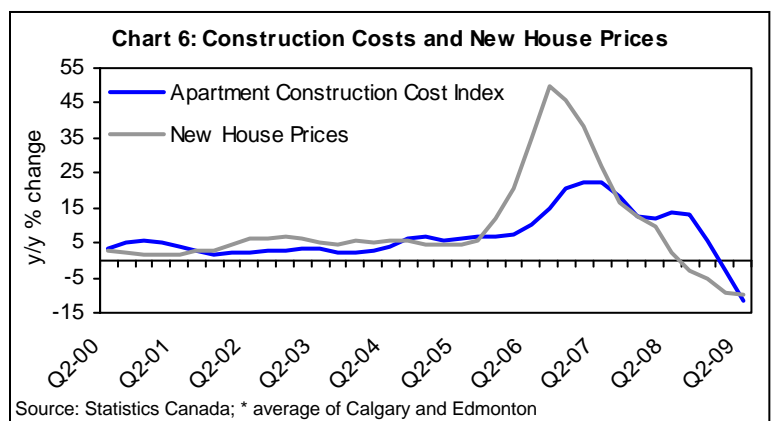


### *House prices continue to stabilize...*

While average resale house prices are still down from its year-ago levels, they have stabilized in recent months (see Chart 5). Alberta's resale house prices averaged \$335,128 in the second quarter of 2009, down 6.1% from the same quarter of last year but up 0.4% from the first quarter of 2009. On a regional basis, prices in most markets in the province are stabilizing. Average resale prices in Edmonton and Calgary were down 3.1% and 5.2% year-over-year in July, respectively; an improvement from the annual decrease of 7.8% and 11.2% posted in the first quarter.



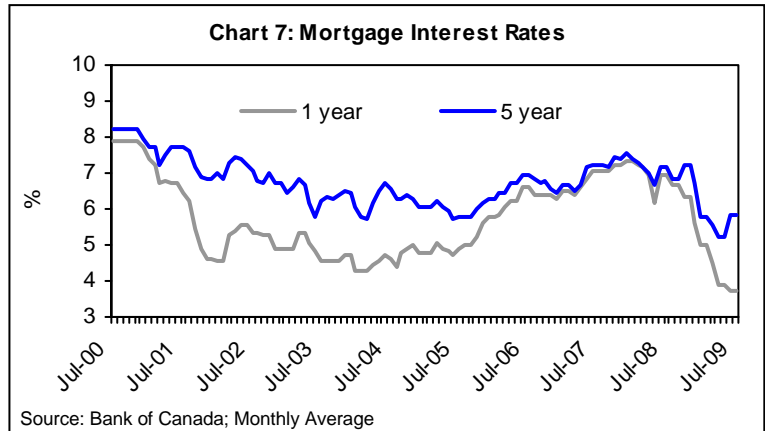
The decline in new house prices has also slowed in recent months (see Chart 6). The year-over-year decline in new house prices slowed from 4.8% in the first quarter of 2009 to 2.7% in the second quarter. Lower costs arising from a slowdown in construction activity in the province have largely contributed to lower new house prices so far this year. After increasing at double-digit rates from the second quarter of 2006 to the third quarter of 2008, Alberta's apartment construction cost index fell 11.3% year-over-year in the second quarter of this year.



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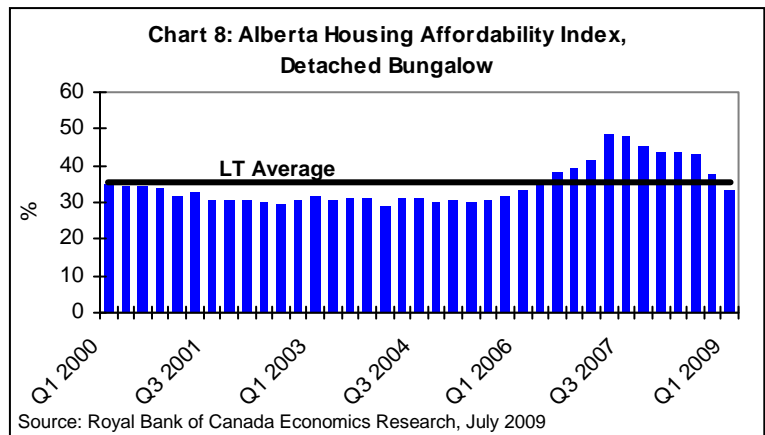
### *Mortgage rates remain near historical lows...*

With the Bank of Canada's policy rate at its lowest level ever and credit market conditions improving significantly in recent months, mortgage rates remain near historical lows (see Chart 7). The one-year conventional mortgage rate fell from an average of 4.5% in March 2009 to an all-time low of 3.75% in July. Meanwhile, the five-year conventional mortgage rate increased slightly from its record low of 5.25% in April to 5.85% in July.

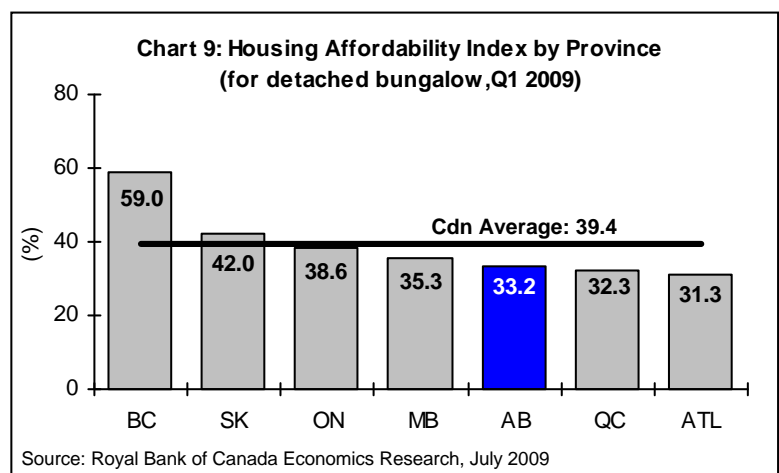


### *Housing affordability now in line with long-term averages...*

Housing affordability in Alberta is now in line with long-term averages on the back of lower house prices and mortgage interest rates (see Chart 8). In the first quarter of 2009, the Royal Bank of Canada's Housing Affordability Index (which is the proportion of pre-tax household income needed to service home ownership costs such as mortgage, property taxes, and utilities) for a detached bungalow stood at 33.2%, down 15.2 percentage points from its peak of 48.4% in the second quarter of 2007. While housing affordability has improved significantly across all housing segments in the province, the improvement has been most notable for single-family homes (i.e., detached bungalow and standard two-storey).



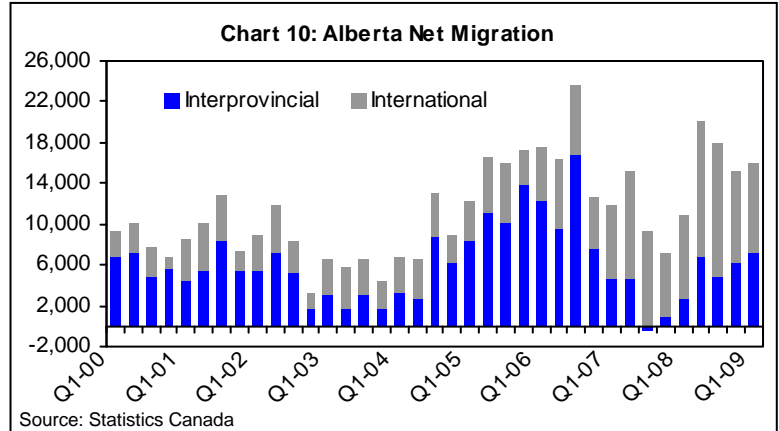
Alberta's housing affordability also fared better than most jurisdictions and the national average across all housing segments. In the first quarter of 2009, Alberta's affordability measure for a detached bungalow was the third lowest among comparator regions (see Chart 9), a dramatic improvement from the peak of the housing boom when Alberta had the second worst affordability index (next to British Columbia).



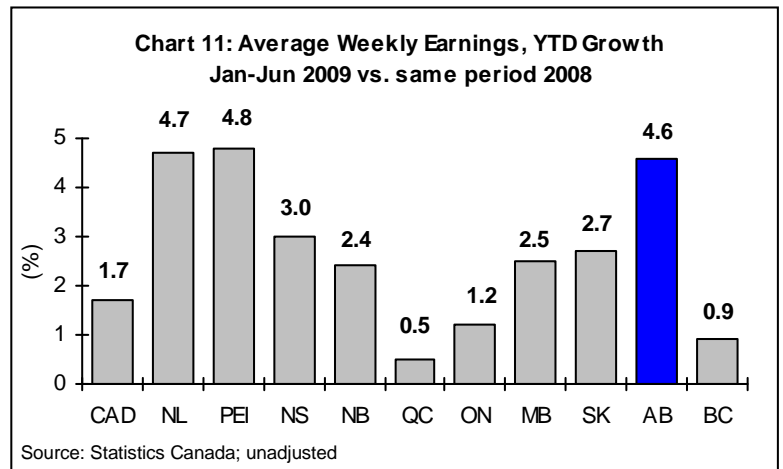
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### *Fundamentals in place for a sustained recovery...*

Despite the slowdown in economic activity, Alberta continued to draw in migrants from other provinces and abroad. In the first three quarters of the current census year (July 1, 2008 to March 31, 2009), Alberta attracted a net of 18,269 people from other provinces, up significantly from 3,280 in the same period of the previous year (see Chart 10). Net international migration has also increased from 12,943 to 13,179 during the same period. As a result, Alberta's annual population growth was 2.7% as of April 1, 2009, the fastest growth among the provinces and more than double the national rate of 1.2%.



Alberta's labour market also remains relatively strong compared to other jurisdictions in Canada and the United States, with job losses relatively modest. In the first seven months of 2009, employment in Alberta fell 0.7% compared to the same period last year, significantly lower than the declines of 1.6% in Canada and 3.6% in the United States. Despite job losses, wage growth in the province also remained quite strong. In the first six months of 2009, average weekly earnings in Alberta averaged \$953.36, the highest among provinces and well above the national average of \$821.40. Year-to-date, average weekly earnings have risen 4.6% compared to the same period last year (see Chart 11), more than double the national rate of 1.7%.



Improved affordability, strong population growth and relatively high incomes in the province are expected to support the recovery in the housing market in the near term.

Prepared by Economics and Statistics.

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