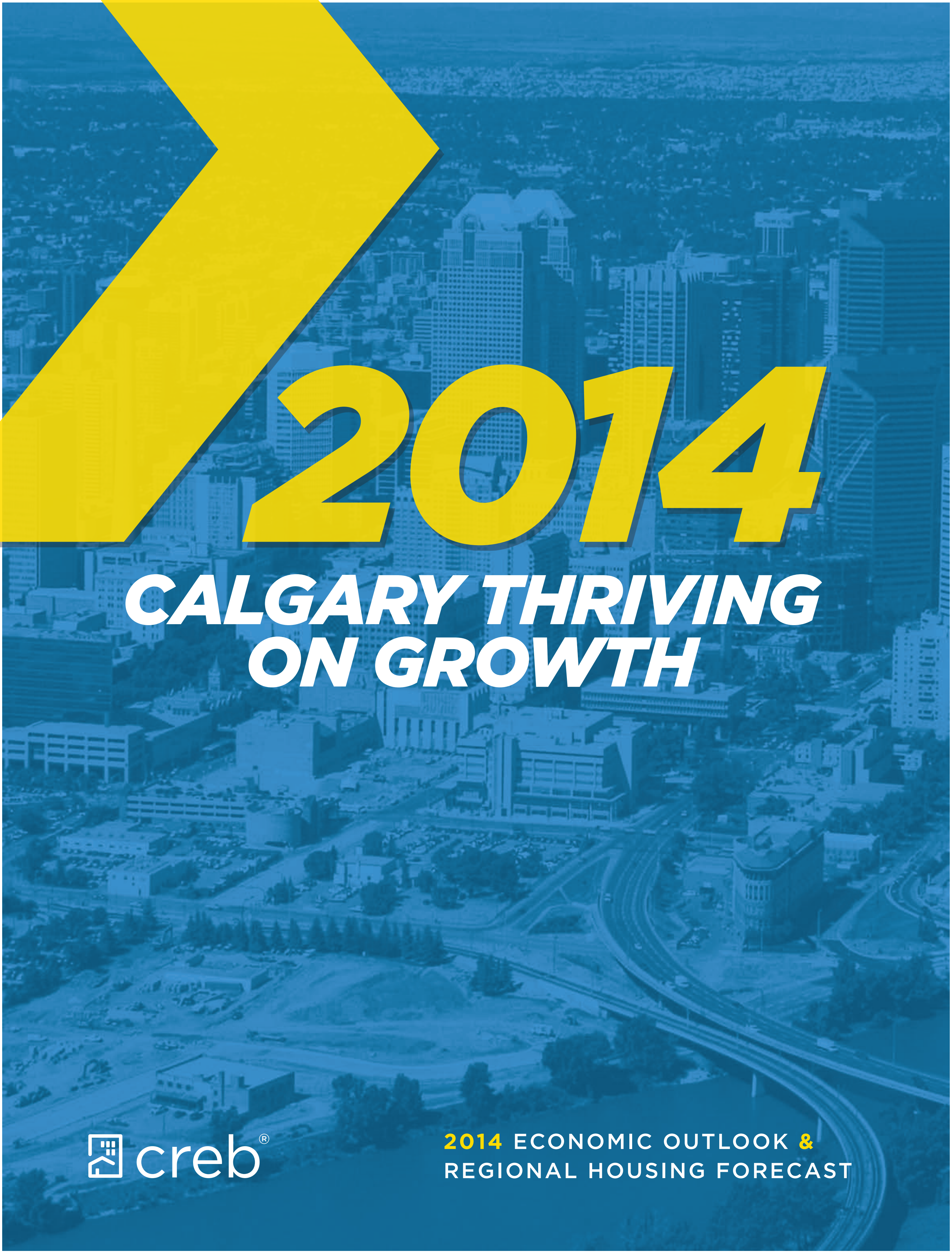

# 2014

# CALGARY THRIVING ON GROWTH

creb®

**2014** ECONOMIC OUTLOOK & REGIONAL HOUSING FORECAST

The forecasts included in this document are based on information available as of December 2013.
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# INTRODUCTION

The year 2013 turned out to be stronger than forecast, with growth in sales volume in the city of Calgary of 11 per cent and an average annual benchmark price increase of 7.9 per cent over the previous year. The strong performance was driven by two consecutive years of net migration, combined with an improving job outlook and confidence over long-term economic prospects. Market conditions also favoured the seller for much of the year. Overall, the market is positioned well going into this year.

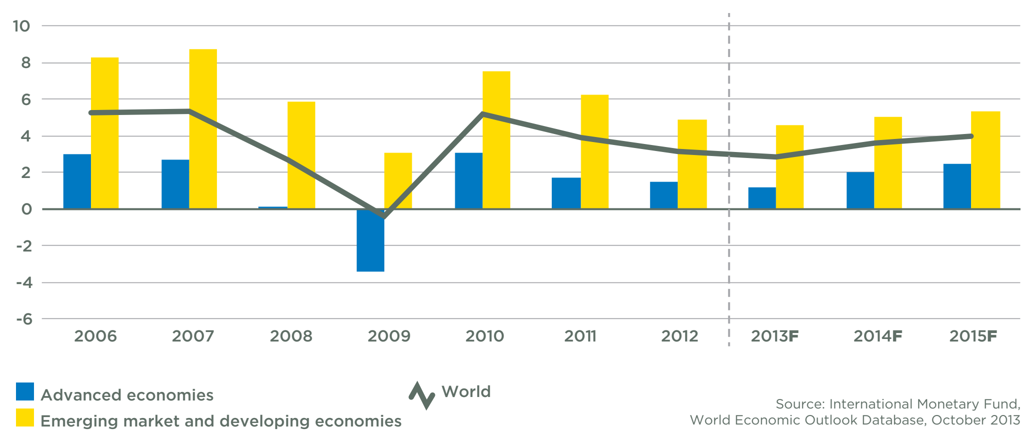
The 2014 CREB® forecast is based on the most current data available from a broad array of sources. Among other things, it weighs the health of macro and local economies, net migration, employment and numerous other factors to project how the resale housing market will perform this year. It concludes with an inventory of risks, both upside and downside, which could affect the forecast trends.

# GLOBAL ECONOMY

## SUMMARY

Global economic conditions often influence commodity prices and economic growth for commodity-rich countries, such as Canada. In 2013, global economic growth was expected to reach 2.8 per cent (Bank of Canada), which is lower than levels recorded in 2012 and below expectations formulated in 2013. Although there is some disappointment in the rate of growth, the downside risk has eased. While emerging markets remain the main contributor to growth, advanced economies have recently been gaining speed while emerging market economies have slowed under tightening financial conditions. This year, economists expect global growth will gain momentum to an annual rate of more than three per cent. The acceleration is based on improvements in the advanced economies, led by the economic recovery in the United States.

### REAL GDP GROWTH



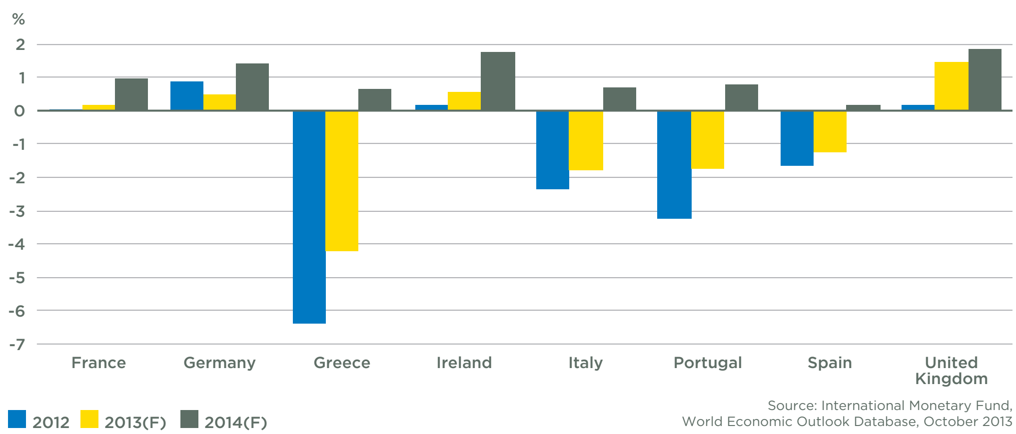

Source: International Monetary Fund, World Economic Outlook Database, October 2013

# GLOBAL ECONOMY
## EUROPE

In the second quarter of 2013, the Euro area posted real Gross Domestic Product (GDP) growth of 1.1 per cent, marking an end to six quarters of recession (International Monetary Fund). While growth prospects remain weak at best, the GDP growth could represent some stabilization in the region. Challenges remain in the Euro area, including differences in economic health between the core Euro area and periphery countries. Many of the peripheral areas remain in recessionary territory, with high unemployment rates. Overall, economic growth is expected to be extremely slow for an extended period of time, as fiscal consolidation continues amidst tight credit conditions and depressed labour markets (IMF).

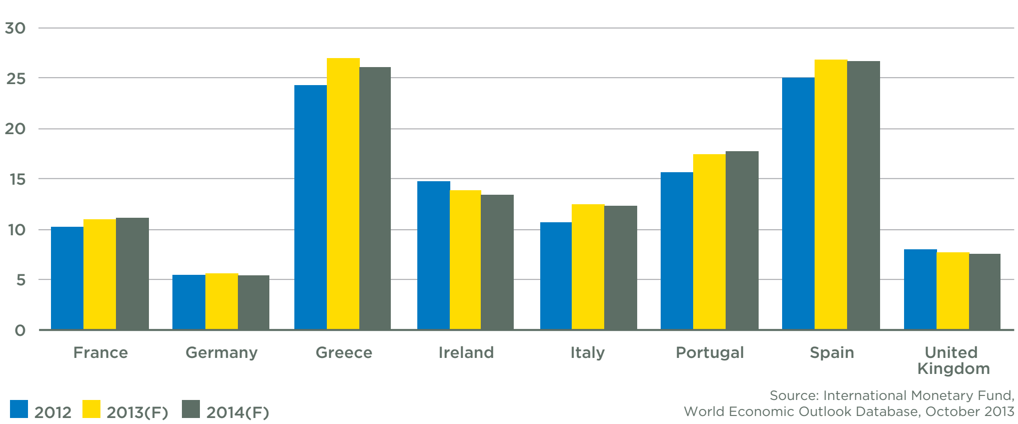
Downside risk persists as the area's financial system remains vulnerable to any economic shock. Furthermore, substantial recovery will require progress in both fiscal and banking reforms. On the upside, the level of risk has eased somewhat, as there is less fear of a Euro area crisis (Toronto Dominion).

### GDP GROWTH EUROPE




Source: International Monetary Fund,
World Economic Outlook Database, October 2013

### UNEMPLOYMENT RATE




Source: International Monetary Fund,
World Economic Outlook Database, October 2013

# GLOBAL ECONOMY

## CHINA & EMERGING MARKETS

China's economic growth has been slowing since the double-digit pace of 2010, in line with targets set by authorities there. Policymakers have refrained from stimulating growth, preferring to ensure financial stability and move the economy to a more balanced and sustainable growth path. China's growth has been affected by weaker demand for its exports from weakened economies, particularly Europe. In 2013, economic growth was estimated at 7.6 per cent with further easing this year to 7.3 per cent (IMF).

### REAL GDP GROWTH


Source: International Monetary Fund, World Economic Outlook Database, October 2013

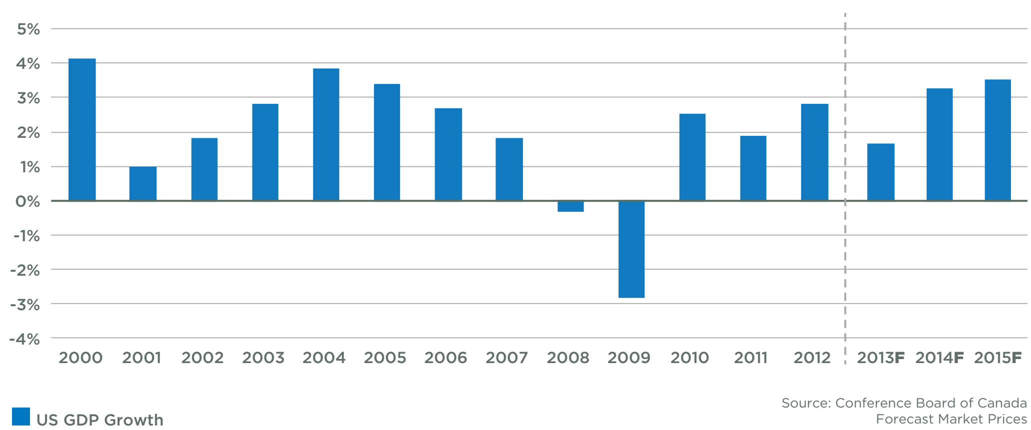
Slower growth in China and advanced economies is having ripple effects across emerging markets, particularly those in developing Asia. In addition, it is placing downward pressure on commodity prices as demand eases. Despite the near-term challenges, 2014-2015 growth is expected to pick up modestly as credit conditions stabilize, progress is reached on structural reports and demand strengthens from advanced economies (Bank of Canada).

# GLOBAL ECONOMY

## *UNITED STATES*

The year 2013 saw disappointing economic growth in the United States. While government cuts were expected to place a drag on growth, wage and employment growth were slower than expected in the first half of the year. In addition, speculation over the U.S. Federal Reserve tapering its stimulative policy pushed mortgage rates up by 95 basis points, slowing housing activity. The weaker domestic demand resulted in slower-than-expected business investment growth. Combined with political infighting, a government shutdown and shaken confidence, 2013 growth is estimated to total 1.5 per cent, well below the two-plus per cent expansion expected (Bank of Canada).

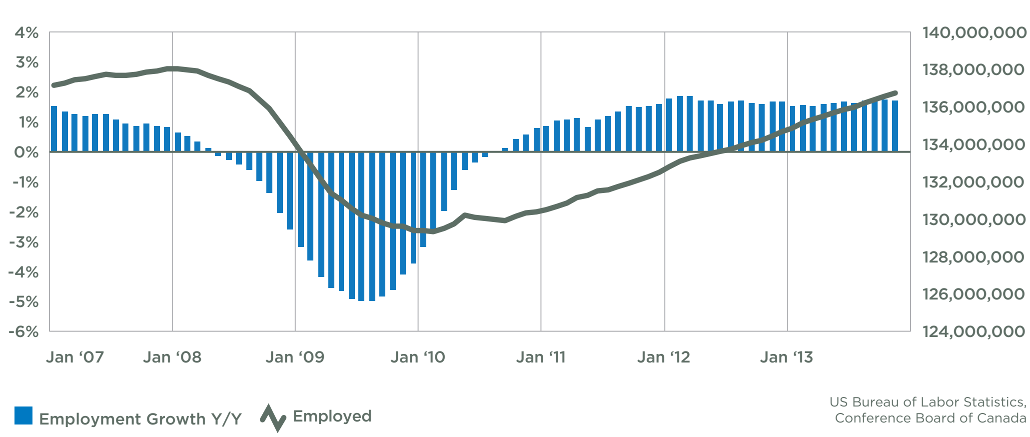
### *US GROWTH*




Source: Conference Board of Canada
Forecast Market Prices

Despite turbulence in 2013, fundamentals in the U.S. economy are far better today than what they were one year ago. Excess supply in the housing market has been declining, consumers and businesses are in better financial shape, the federal government has reduced its deficit, financial companies are willing to loan again and the delinquency rate is declining.

### *US EMPLOYMENT*




US Bureau of Labor Statistics,
Conference Board of Canada

# GLOBAL ECONOMY

## UNITED STATES CONTINUED

### NOTE: U.S. YIELDS

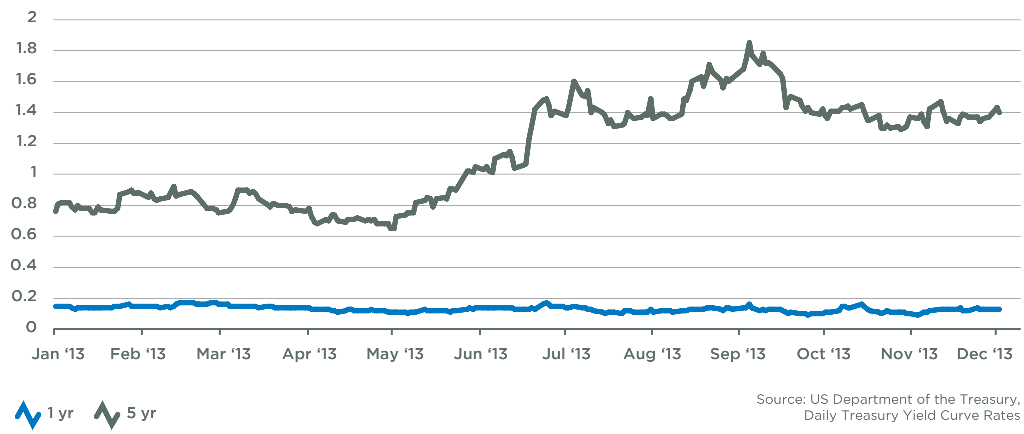
The Federal Reserve has been providing monetary stimulus to the U.S. economy through its asset-purchase program (quantitative easing) to place downward pressure on long-term yields or interest rates. This has been a successful strategy. However, with improving economic indicators, the U.S. Fed indicated it would begin reducing the stimulus. In anticipation of this move, longer-term interest rates have risen. The Federal Reserve backed away from its decision, indicating it would delay the tapering of the stimulus until further evidence of economic improvement is found. This reversal came as a surprise, but did not result in a full retraction of the earlier rise in the yields. Markets expect higher future yields as the economy improves and quantitative easing comes to an end.

### NOTE: GROWTH HINGING ON THE U.S. AND EUROPE

Global economic growth is expected to pick up this year and in 2015, as the world's largest economy –the U.S. – gains momentum, and the Euro zone recession ends. As advanced markets improve, this should also support export markets in emerging economies, including China. While economic conditions are far from what was recorded before the recent recession, the momentum shift is movement in the right direction. However, growth in Europe and the U.S. could falter if there is deterioration of financial conditions and/or renewed political uncertainty.

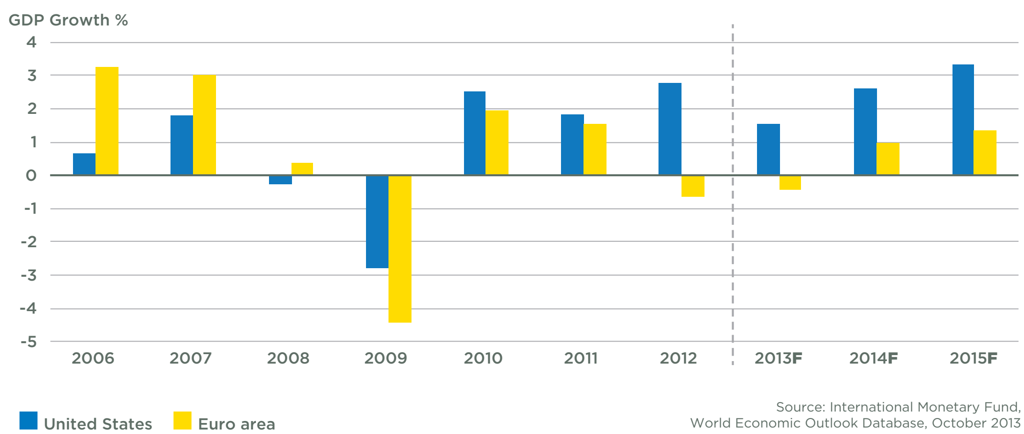
U.S. economic growth is expected to accelerate to 2.5 per cent this year and 3.3 per cent in 2015. With consumers in better shape, increased consumption should boost business investment and labour market conditions. Further, household formation is expected to rebound, supporting continued growth in housing. The U.S. export market is supported by improved competiveness brought about by sustained gains in productivity and lower energy costs. Overseas oil imports are expected to fall, reflecting the expansion in domestic supply. Non-oil imports are expected to increase steadily, driven by stronger domestic demand (Bank of Canada).

### US TREASURY YIELD CURVE




Source: US Department of the Treasury, Daily Treasury Yield Curve Rates

### GROSS DOMESTIC PRODUCT GROWTH




Source: International Monetary Fund, World Economic Outlook Database, October 2013

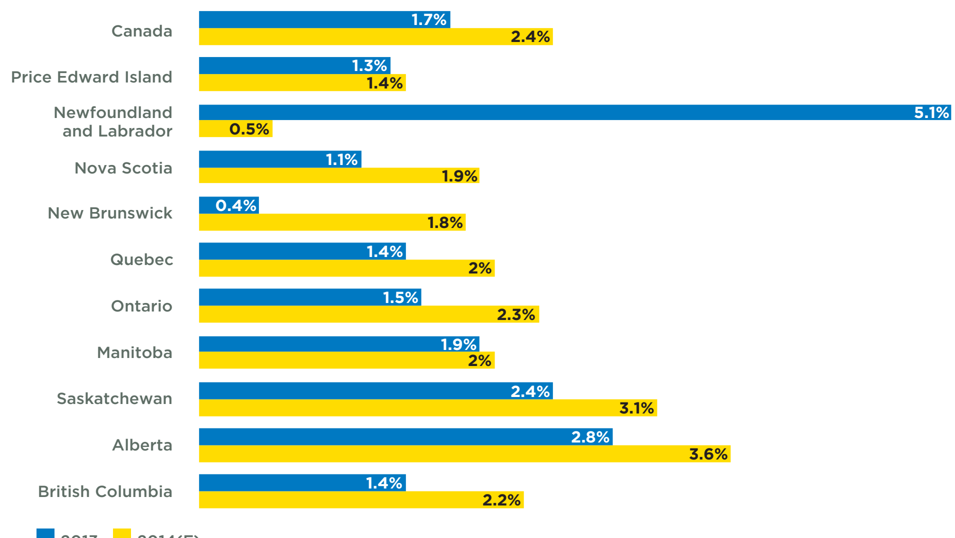
# DOMESTIC ECONOMIC ENVIRONMENT
## CANADA

The 2013 forecast for GDP growth of 1.7 per cent (TD) in the Canadian economy fell short of expectations, due to lacklustre performance in business investment and exports. Weaker-than-expected performance and demand from the U.S. market limited growth on most of our exports and curbed business investment. Flooding in Alberta and a labour strike in Quebec temporarily weakened second-quarter growth.

Exports may also have been hurt by shifts in trade linkages that have been difficult to capture and by ongoing competiveness challenges. There appears to be a gap between the historical relationship between growth rates of exports and foreign demand. Many believe this historical relationship will reassert itself, but the current gap is a risk to the Canadian economy. Firms are addressing this by improving their performance and expanding their markets, but many firms are waiting to see sustained increase in demand before they commit to investment expansion (Royal Bank).

Anticipated growth in the U.S. economy over the next two years is expected to fuel a rise in Canadian export growth. This year, export growth is expected to be driven by crude oil exports and other non-energy commodities, such as metals and forestry products. Meanwhile, non-commodity exports, such as machinery and equipment, will gradually strengthen, but at a slower pace (Bank of Canada).

With housing and consumption growth expected to remain at similar levels this year compared to 2013, the pickup in Canadian GDP growth hinges on growth in exports and business investment. GDP growth is forecast to rise to 2.4 per cent this year and 2.6 per cent in 2015 (Conference Board of Canada).




Source: Forecast by TD Economics as at October, 2013

**NOTE: INTEREST RATES**

Overall unemployment remains high, with oversupply of workers preventing a significant push on incomes and wages. This limits inflationary pressures. With inflation below target and expected to remain so until at least 2015, it is likely the Bank of Canada will maintain stimulative monetary policy. Tightening in monetary policy on both sides of the border is expected in the future, as economic conditions improve. This will drive up long-term yields, translating into some upward push in long-term lending rates. In 2013, markets reacted to discussion of future tightening in policy and the five-year rate climbed. Despite the simulative monetary policy in place, it is estimated that Canadian five-year bond yields could rise by another 50 basis points by the end of this year and another 70 basis points through 2015. (TD Bank).

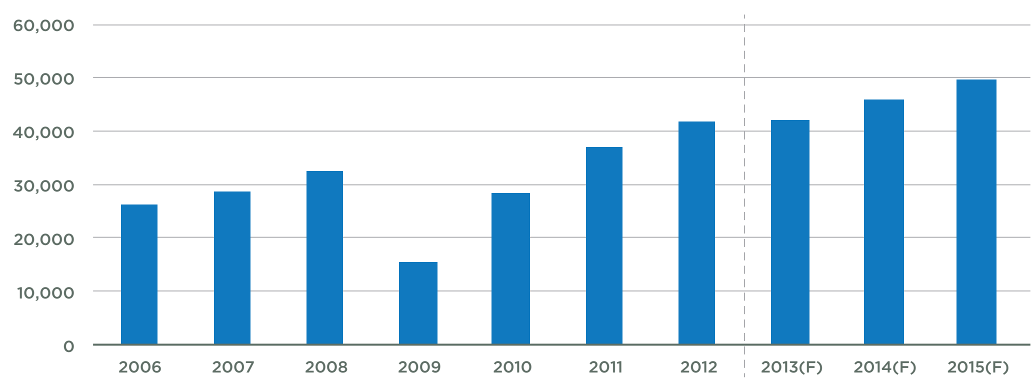
# DOMESTIC ECONOMIC ENVIRONMENT
## *ALBERTA*

Alberta is one of the top performing provinces in terms of economic growth, employment opportunities, income and population growth. Much of this prosperity is rooted in energy investment, which spills over into other sectors. While the June floods is expected to affect 2013 GDP growth figures, it is expected to quickly rebound as a result of rebuilding efforts. Furthermore, investment in the energy sector and rising energy exports should remain a source of economic growth (Conference Board of Canada).

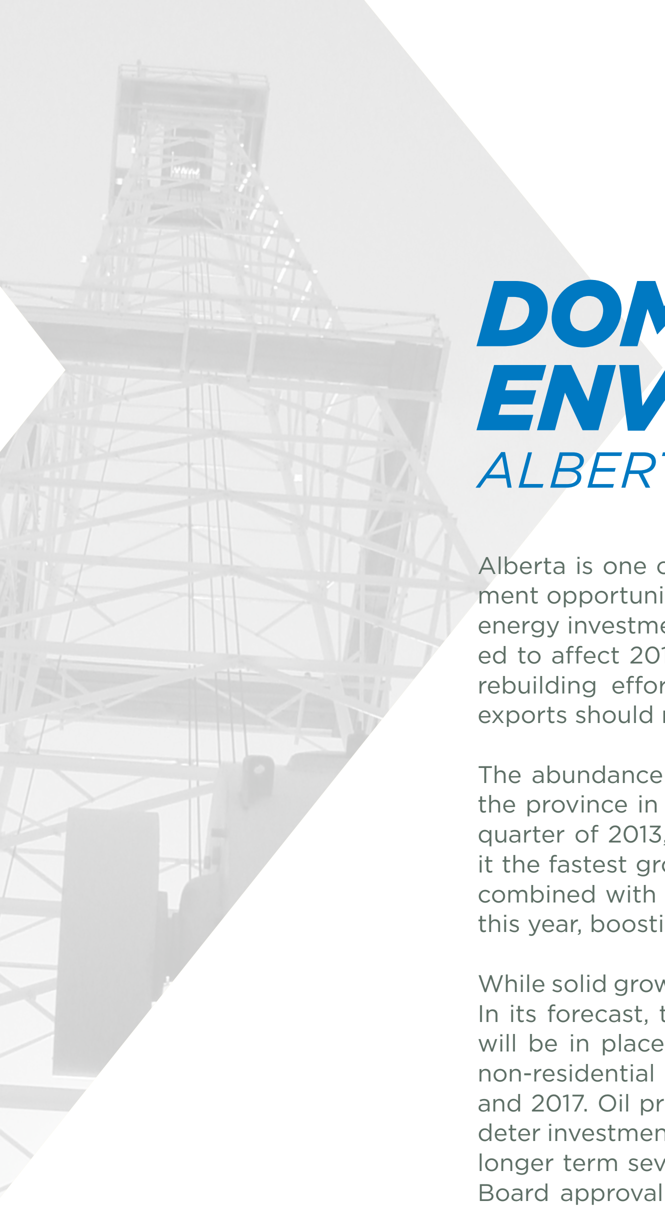
The abundance of jobs and strong economy has attracted a large influx of people to the province in 2013. Alberta's population reached more than four million by the third quarter of 2013, representing a year-over-year growth rate of 3.5 per cent. That made it the fastest growing population in Canada (Statistics Canada). This rise in population, combined with the rebuilding effort, will keep the construction industry busy well into this year, boosting Alberta's housing market.

While solid growth is expected to continue, Alberta' economy also faces significant risks. In its forecast, the Conference Board of Canada assumes the necessary infrastructure will be in place to accommodate production as it comes online. It also assumes real non-residential investment will increase by nearly five per cent annually between 2013 and 2017. Oil production could be slowed by limits in pipeline capacity, and that could deter investment activity and employment growth. Rail has helped get oil to market, and longer term several pipeline projects have been proposed. The recent National Energy Board approval of the Northern Gateway Pipeline does not guarantee it will be constructed, as it still faces several political hurdles and social opposition.

**_NOMINAL INVESTMENT SPENDING ENERGY ALBERTA (ANNUAL)_**




Source: Conference Board of Canada

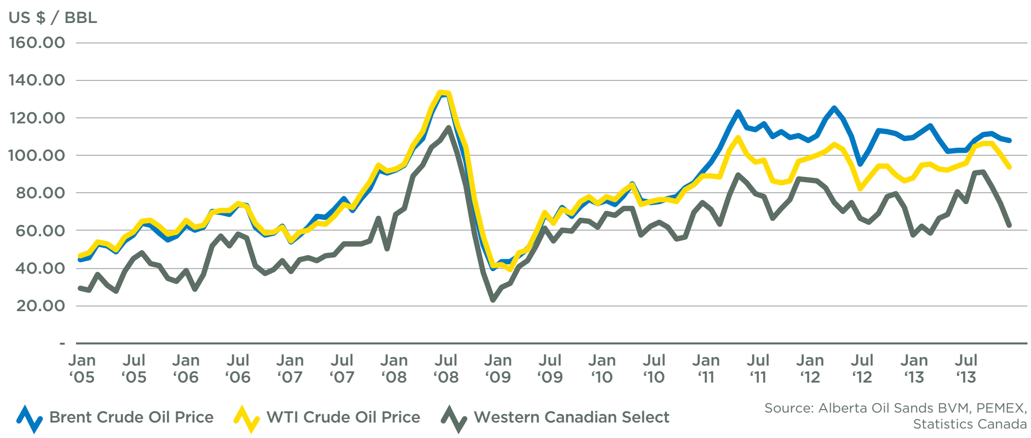


# DOMESTIC ECONOMIC ENVIRONMENT

## ENERGY | CRUDE OIL

Investment in oil sands mining, upgrading and in-situ bitumen projects have been driving growth in Albert's energy production, export growth and the overall Alberta economy. The larger spread between the North American West Texas Intermediate (WTI) price and the heavy oil price (what Alberta producers receive) has been volatile. While that volatility will continue, ongoing refinery conversions, increased transportation through crude and a number of pipeline capacity improvements and expansion projects should help narrow the spread this year (Baytex Energy Corp).

### CRUDE OIL PRICE (MONTHLY)




Source: Alberta Oil Sands BVM, PEMEX, Statistics Canada

With production expected to grow, it is increasingly important to have the infrastructure in place to ensure Canadian product can reach diversified markets, including Eastern Canada, the U.S. Gulf Coast and Asian markets.

Enhanced drilling programs have resulted in a substantial increase in U.S. production, displacing foreign imports of light crude oil. However, Canada mostly exports heavy crude oil to the U.S., not competing with domestic U.S. production.

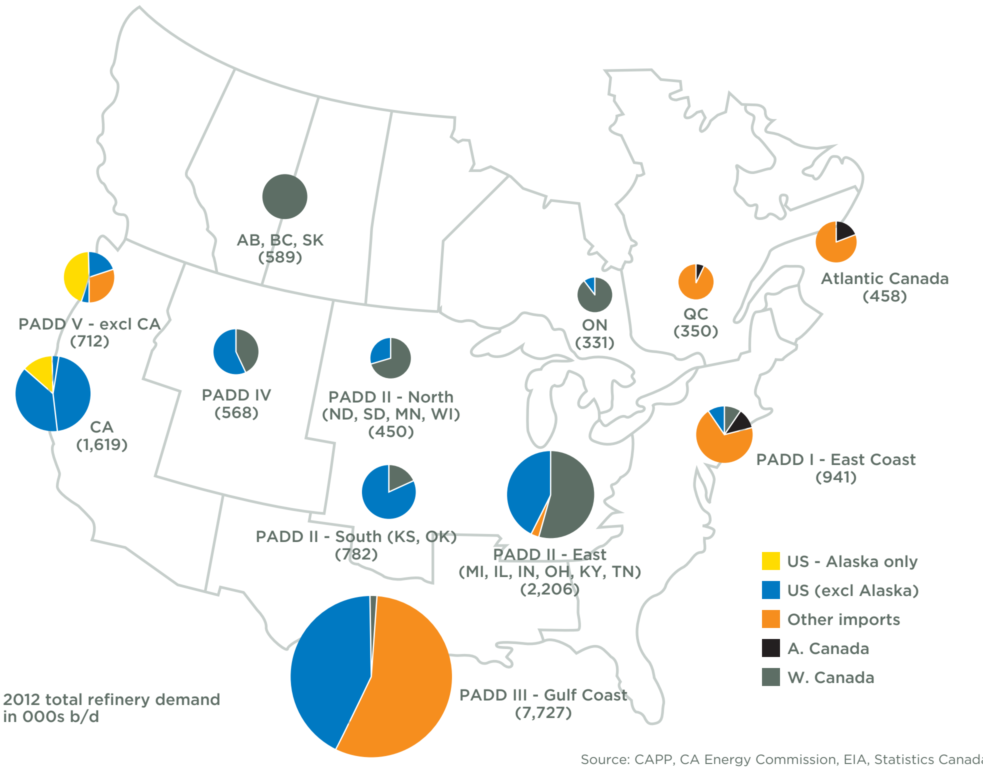
The U.S. Midwest is Canada's largest export market, and refinery conversion projects are anticipated to increase demand in the region. However, there is potential for significant growth if access to the U.S. gulf coast refineries could be achieved. The Keystone XL pipeline would increase the ability to process heavy crude and give Canadian producers access to a large market. Crude oil demand in the U.S. Gulf Coast is almost eight million barrels per day. However, Canada only supplies 100,000 barrels per day to this market. By 2020, Canadian producers could supply 1.1 million barrels per day to this market, displacing some of the volume from sources such as Venezuela (CAPP).

Producers are also looking to eastern Canada. Refineries in Quebec and Atlantic Canada import 86 per cent of their requirements, providing potential domestic growth of 700,000 b/d (CAPP).

# DOMESTIC ECONOMIC ENVIRONMENT

## ENERGY | CRUDE OIL CONTINUED

### 2012 CANADA AND US CRUDE OIL DEMAND BY MARKET REGION




Source: CAPP, CA Energy Commission, EIA, Statistics Canada

### NOTE: ENERGY PRICES

The increase in crude oil production in North America has contributed to the discount in price the North American WTI experiences compared to the World (Brent) price. Multistage fracturing technology is being used to access crude oil in reservoirs previously considered uneconomic, resulting in a substantial increase in U.S. production. Heavy oil prices are further discounted because the product requires dillutants so it can be transported. Recent restricted capacity in pipelines feeding refineries and unscheduled maintenance also widened the price spreads (Energy Resources Conservation Board). Increased supply, combined with easing geopolitical tensions, will dampen prices this year. This year, prices are expected to average $95 per barrel (U.S. Energy Information Administration).

Most global energy producers are focusing on the fastest growth demand countries in Asia. Without access to tidewater, Western Canadian oil producers have limited access to these markets. If proposed pipelines proceed, 2017 is the earliest we could reach these markets. Continued delays, however, could result in lost opportunities.

Most growth forecasts for Alberta and Calgary assume there are no infrastructure constraints in the oil sector. While pipeline expansion is possible, the current state remains the main downside risk for our outlook.

# DOMESTIC ECONOMIC ENVIRONMENT

## ENERGY | NATURAL GAS

An abundance of natural gas is expected to keep prices low this year. Low North American prices relative to the world price provides an opportunity for liquid natural gas (LNG) exports to Asian markets. New LNG export terminals have been proposed in both the U.S. and Canada. While domestic demand is expected to be driven by oil sands growth and conversion from coal to gas-fired electrical generation, supply growth is expected to outpace demand, keeping Henry Hub prices below $4 per MMBtu this year.

### HENRY HUB NAT GAS PRICE

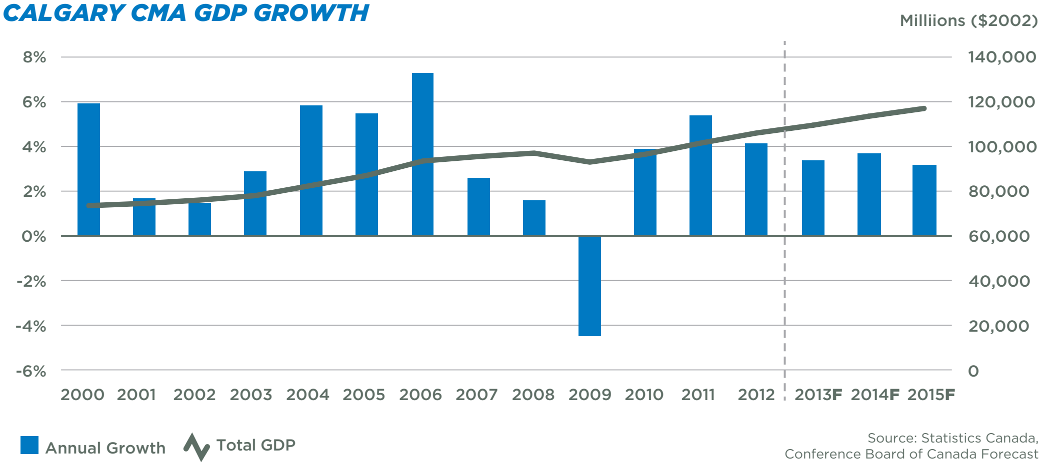

Source: US Energy Information Administration

# CALGARY ECONOMY

## GDP

Following two years of growth in Calgary's census metropolitan area (CMA) that was double nationwide figures (Conference Board of Canada), the city's economic growth was estimated to fall 3.4 per cent in 2013 and rise to 3.7 per cent this year. Weaker-than-expected global growth affected investment as well, as did the temporary shutdown caused by severe flooding in southern Alberta.

### CALGARY CMA GDP GROWTH



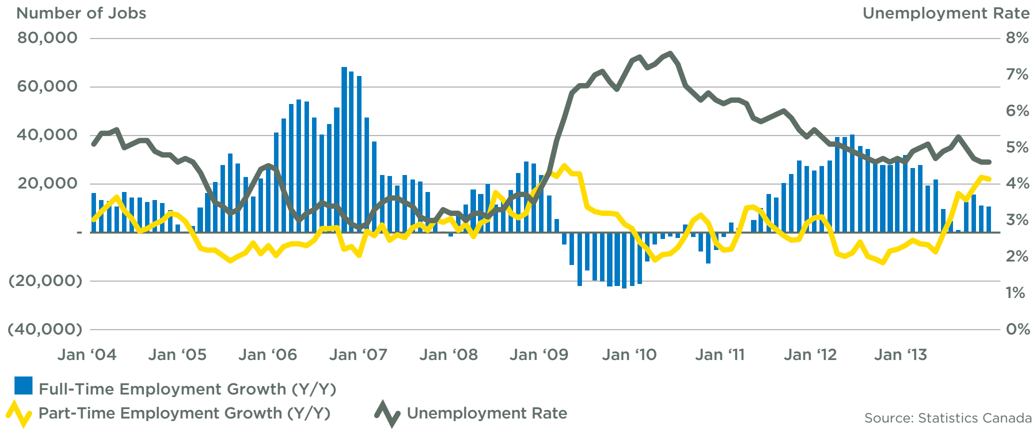

Source: Statistics Canada, Conference Board of Canada Forecast

As the city recovers from that natural disaster, this year's GDP growth will be boosted through additional construction and retail trade activity. Most of the growth, however, is the result of robust underlying economic conditions. Stronger global growth is expected to support energy sector investment and ultimately boost manufacturing and growth in the business service sector. In addition, strong gains in population and incomes will support demand growth for consumer goods – including residential housing and personal services – this year.

# CALGARY ECONOMY
## EMPLOYMENT

Calgary has benefited from strong employment growth since 2011. We have had significant gains in full-time positions and have witnessed a decline in unemployment rates. The employment growth has supported gains in migration, driving our vibrant housing market.

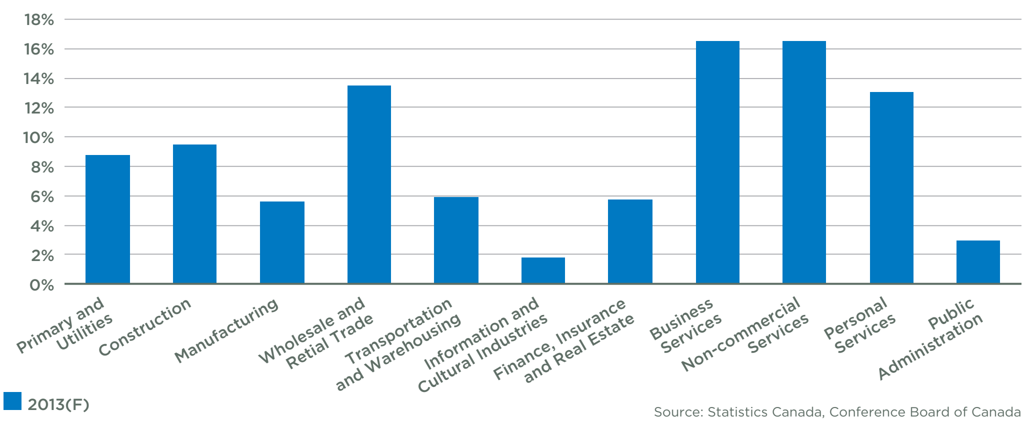
### CALGARY CMA FULL AND PART TIME EMPLOYMENT



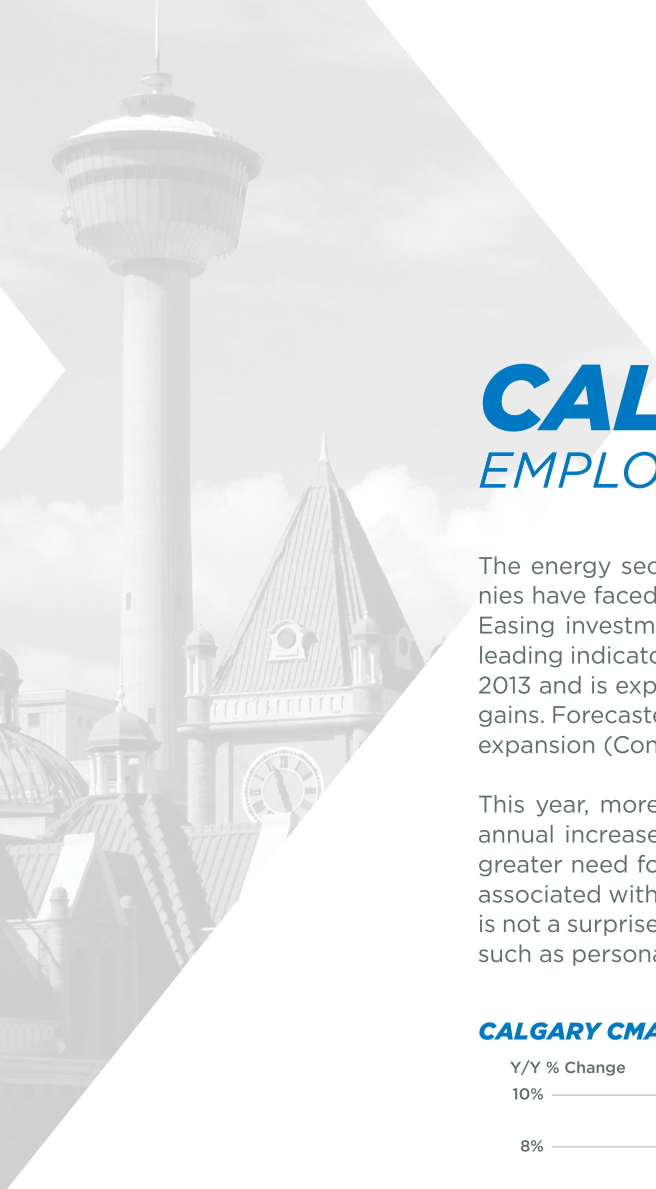
Source: Statistics Canada

Employment growth eased from 3.73 per cent in 2012 to 2.8 per cent in 2013 – a result of work disruption caused by the flood and reduced investment spending in the Alberta economy (City of Calgary). However, employment and wage growth levels remain the envy of many other cities. In 2013, it is estimated the majority of gains were in the business services sector and non-commercial service employment growth (including health care and education).

### EMPLOYMENT SHARE BY INDUSTRY CALGARY CMA



Source: Statistics Canada, Conference Board of Canada



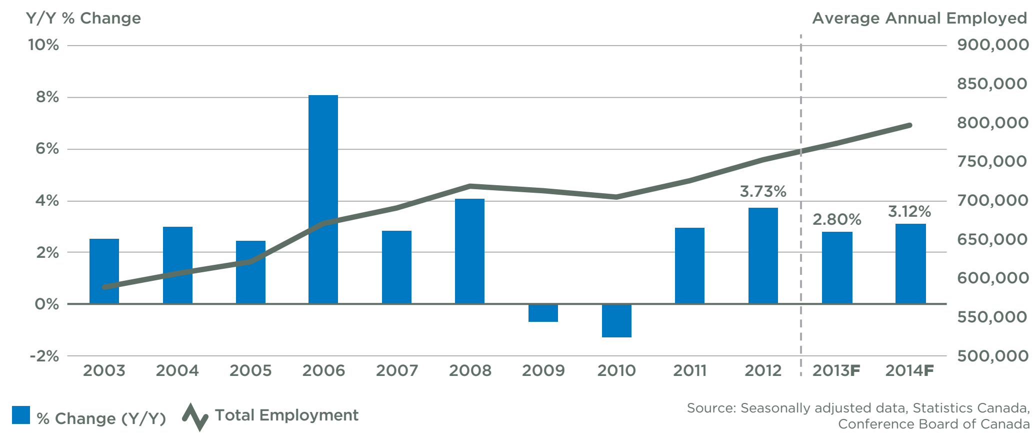
# CALGARY ECONOMY

## EMPLOYMENT CONTINUED

The energy sector represents a large source of employment in the city. Energy companies have faced more difficulty raising capital and this challenge has limited their growth. Easing investment growth in the energy sector will also limit employment growth. One leading indicator of this is the office vacancy rate in the city, which has been pushing up in 2013 and is expected to rise this year. However, this trend is not a full reversal of previous gains. Forecasters anticipate the existing investment in the oil patch will support moderate expansion (Conference Board of Canada).

This year, more than 24,000 additional positions are expected to be generated, for an annual increase of three per cent. More migrants moving into the city has resulted in a greater need for personal services, consumer goods and housing. Given the rising needs associated with a growing population and the reconstruction needs caused by flooding, it is not a surprise that much of the employment gains this year will be centered in industries such as personal services, wholesale and retail trade and construction.

### CALGARY CMA EMPLOYMENT GROWTH



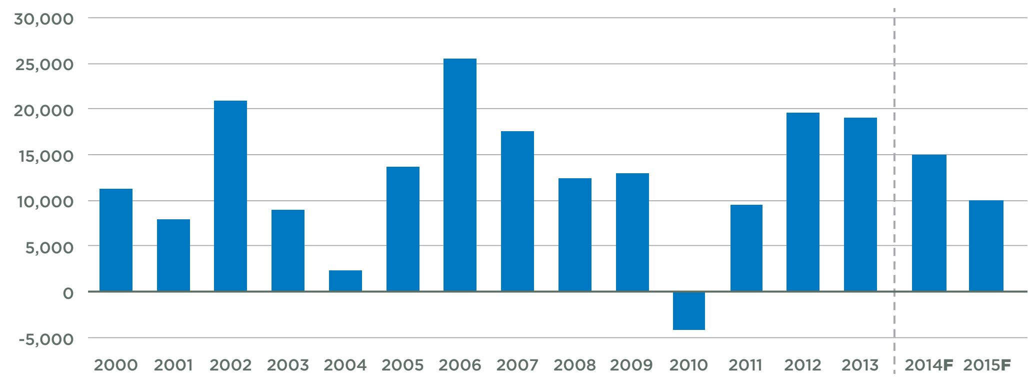

Source: Seasonally adjusted data, Statistics Canada, Conference Board of Canada

# CALGARY ECONOMY
## NET MIGRATION

The city of Calgary population grew by nearly 30,000 people by April 2013 versus the same month in 2012, reaching a total population of nearly 1.15 million (City of Calgary census). The majority of the growth was from over 19,000 migrants coming to the city.

While it is no surprise that the surge of migrants for the past two years have contributed to the rise in demand for residential housing, the number of people entering the city this year far exceeded expectations. Previous estimates called for 4,000 fewer migrants than the number recorded in the city census. These people are drawn by the robust economic and employment growth, combined with relatively weak economic conditions in other centres in Canada and internationally.

### CITY OF CALGARY NET MIGRATION




Source: City of Calgary Census, City of Calgary Forecast

This year, improving global economic conditions are expected to make it harder to attract the same number of people to the city; migration levels are expected to decline to 15,000 (City of Calgary). Despite the slower population growth, the rise in net migration is strong enough to support housing sector growth.

**NOTE: DEMOGRAPHIC SHIFTS**

An aging population has the potential to significantly affect housing requirements. While Calgary remains a relatively young city, the age distribution of Calgary's population is expected to shift by 2018. The largest population increase will be in the age 60-64 and 35-39 cohorts. The increase in the 60-64 group represents aging of the Baby Boomers, while growth in the 35-39 category comes from migrants to the city (City of Calgary). Overall, the number of households will increase, driving up demand for additional housing units and the need for services. However, as the working age population growth rate eases over the next decade, we may see a shift in the type of housing demanded.

# CALGARY HOUSING

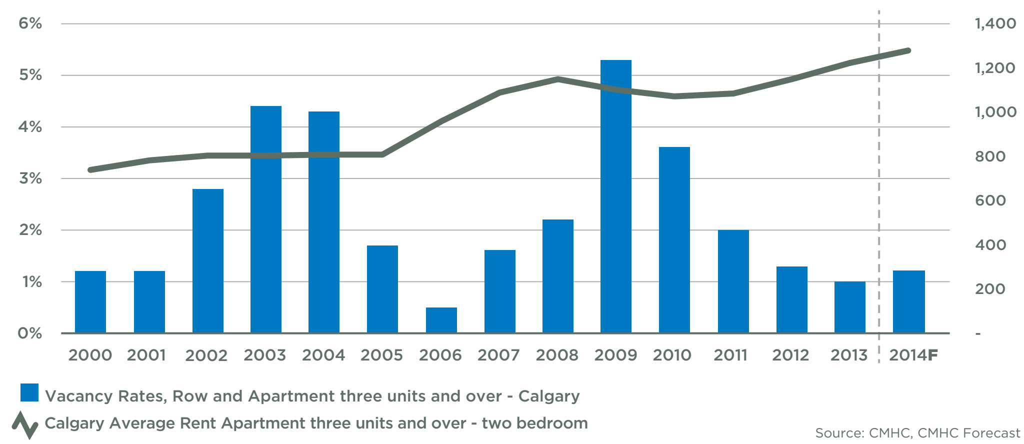
## RENTAL

Strong net migration has resulted in a short supply of rental product. Based on the CMHC survey, apartment vacancy rates in October 2013 fell to 1.0 per cent. Vacancy rates were falling well before the June floods, and the situation became even more difficult for renters following that event. The undersupplied rental market has placed upward pressure on rental rates. Two-bedroom apartment rents average $1,224 per month in October 2013, a six per cent increase over the previous year.

Tight rental market conditions have encouraged some growth in purpose-built rental starts. This should help add to supply this year. As rental rates increase, so does supply from the smaller investor market. Investors may find it more enticing to purchase or reposition current assets as rental product, adding to the supply in the market.

While supply additions are expected to place some upward pressure on vacancy levels this year, it will likely not be high enough to prevent further gains in rental prices. Concerns over rising rental rates and limited choice in the rental market, combined with a still relatively affordable housing market, can encourage consumers who qualify to consider home ownership, supporting additional growth in housing demand.

### CALGARY CMA RENTAL MARKET




Source: CMHC, CMHC Forecast

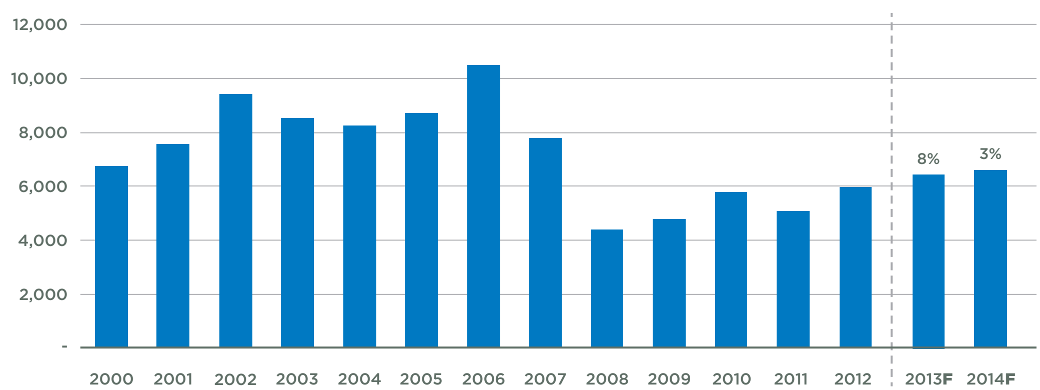
# CALGARY HOUSING
## NEW HOME

Total housing starts are on pace to decline in 2013, due to a decline in multiple-family starts. Meanwhile, single-family starts are expected to increase by eight per cent by the end of 2013 (Conference Board of Canada). Dwindling single-family supply in the resale market encourage consumers to consider new home options.

Multiple-family starts were projected to decline by 18 per cent in 2013 as construction in the apartment sector eased. However, new starts in 2012 were the second highest on record. Even with the decline in 2013, multiple-family starts remain relatively strong.

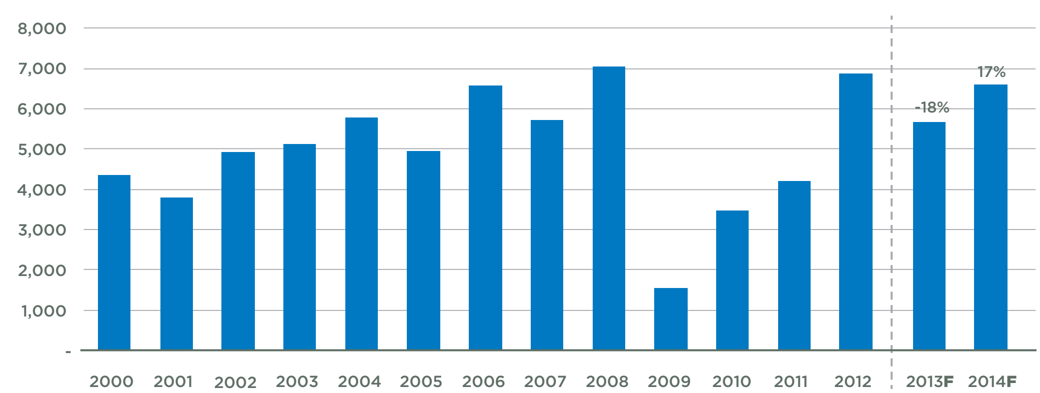
This year, starts activity is forecast to improve in both the single-family and multi-family sectors. Population gains and improving economic conditions will support demand growth in the entire housing market. However, this may have a larger impact on the new home sector. As resale home prices rise, there will be more opportunities for move-up buyers, many of whom will consider a new single-family home. Alternatively, tight rental market conditions and rising rents will increase demand for more affordable multiple-family product. Overall housing starts are expected to increase by nine per cent over 2013 levels (Conference Board of Canada).

### CALGARY CMA HOUSING STARTS SINGLE FAMILY




Source: CMHC, Conference Board of Canada Forecast

### CALGARY CMA HOUSING STARTS MULTI FAMILY




Source: CMHC, Conference Board of Canada Forecast

**NOTE: INCREASE COSTS**

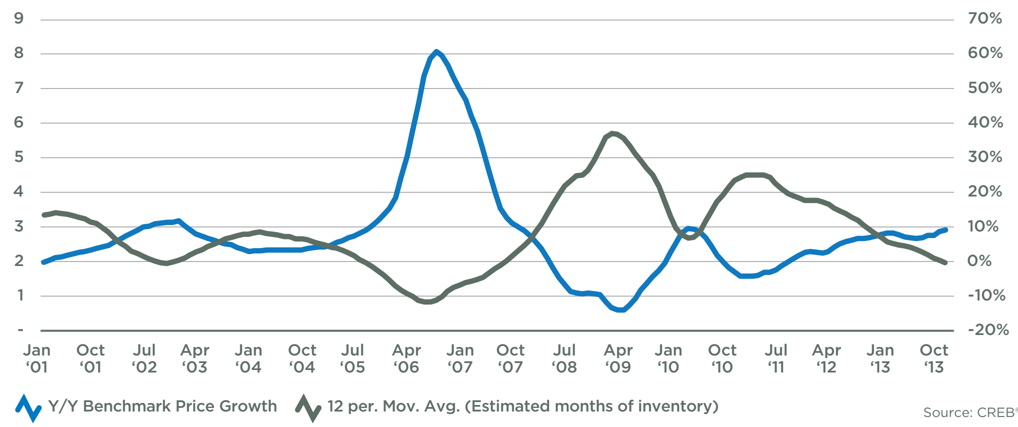
Population increases have pushed up demand for both residential and non-residential construction projects. Meanwhile, demand from the post flood reconstruction efforts is expected to place additional strain on Calgary's labour market. Higher demand for labour is expected to push up costs, causing increases in new home prices.

# CALGARY HOUSING
## RESALE MARKET SUMMARY

For the second year in a row, city of Calgary sales growth reached double digits. However, 2013 is the first time since the recession of 2008 that sales activity rose above long-term trends. A bustling energy sector supported employment growth and ultimately attracted more people to the city. Migration levels were far stronger than anticipated and this contributed to the higher-than-expected rise in housing demand. Meanwhile, strained rental markets faced added pressure following the floods in June. Limited options in the rental market, combined with population gains and favourable ownership conditions, supported growth in demand for ownership properties.

Following three consecutive years of improved sales and mostly declining new listings, excess supply in the housing stock depleted. With moderate additions in the new home sector, resale housing market conditions tightened and that pushed the market into sellers' territory.

### CITY OF CALGARY MONTHS OF SUPPLY AND PRICE GROWTH



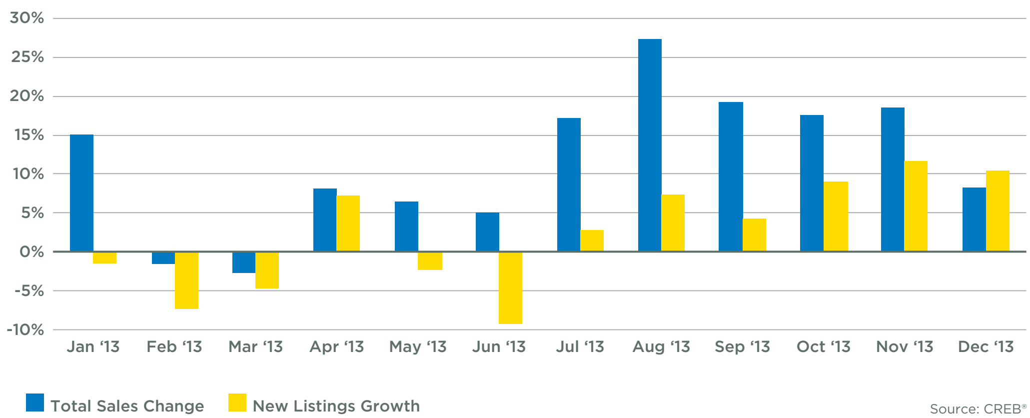

Source: CREB®

Sales activity was far stronger in the second half of 2013 than the first. Adding to the boost in sales was the psychological effect from increasing longer term rates. Those who had pre-approvals at lower rates likely moved more quickly to complete their transactions. Others were motivated by concerns over impending increases in rates and prices to speed up their decisions.

The other factor supporting sales growth, particularly in the second half of the year, was the rise in new listings. The number of listing had been mostly declining over the past three years and that has limited choice for potential buyers. However, as prices improved, existing homeowners were motivated to upgrade and that pushed up the level of new listings in the market.

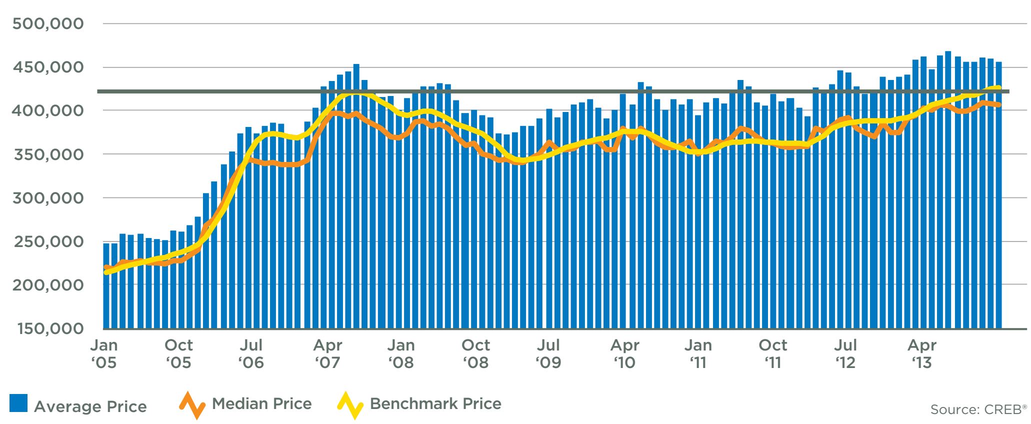
# CALGARY HOUSING
## RESALE MARKET SUMMARY CONTINUED

### CITY OF CALGARY YEAR OVER YEAR SALES AND NEW LISTINGS GROWTH




With market conditions tight for most of 2013, prices were on the rise all year. The benchmark price averaged $411,417 for the entire year, nearly eight per cent higher than last year. Meanwhile, the average and median prices totaled $456,703 and $401,000 respectively. When considering annual averages, the unadjusted benchmark price (i.e. unadjusted for inflation and seasonal factors) has risen above the 2007 highs, driven by the gains in the single family sector.

### CALGARY RESIDENTIAL PRICES




**NOTE: NATIONAL HOUSING CORRECTION?**

There has been much speculation on a soft landing for the national housing market. Certain analysts predict sales activity is expected to decline modestly and condominium prices decline as construction exceeds market demand. Most of the adjustment is expected to occur in 2015. National figures are heavily influenced by the housing markets of Toronto, Vancouver and Montreal. Regardless of this speculation, this same group of analysts consistently do not see any softening in the Alberta housing market. Alberta is among the healthiest housing markets in Canada, with growth supported by economic fundamentals.

# CALGARY HOUSING

## RESALE MARKET SUMMARY CONTINUED

Easing net migration this year should help ease some of the housing demand pressure. Despite this trend, stability in the employment sector and economic growth that is a spinoff of a growing population will likely support moderate demand growth in the housing sector. Overall city sales are forecast to total 24,335 units this year, for an annual increase of 3.6 per cent.

In terms of supply, it is clear that levels in the city have been on the decline in the resale market, reducing stockpiles of inventory. As the variance between household formation and new home starts narrow, this should help alleviate the decline in total housing supply in the city.

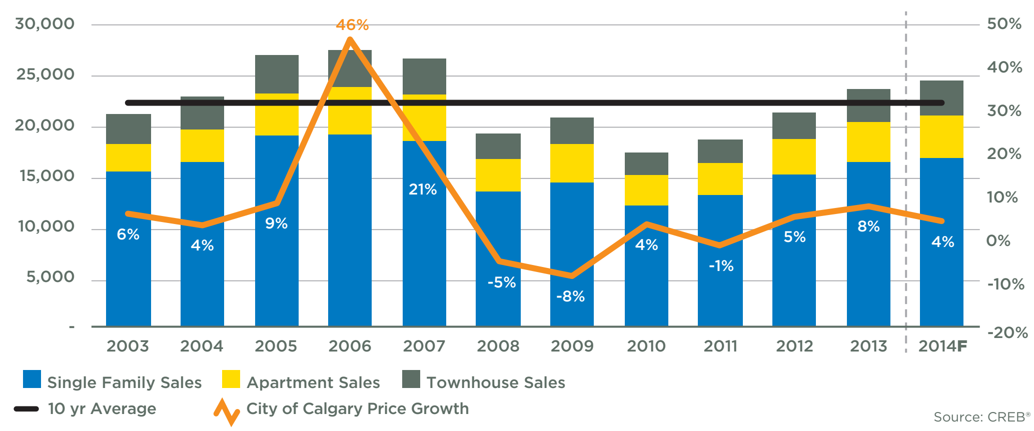
Additional new home supply, an expected rise in resale listings and slower demand growth should push the market towards more balanced conditions. This will place less upward pressure on prices. Meanwhile, rising wages will help offset the impact of any potential increases in long-term lending rates. Higher rates will likely also have a dampening effect of the price growth. Overall, the pace of resale price growth in the city of Calgary is forecast to ease to 4.3 per cent this year.

### NOTE: AFFORDABILITY

Changes in affordability in the market are ultimately dependent on price growth, mortgage rates and income gains. Our market had one of the worst affordability levels in the country back in 2007. However, the recession resulted in declining prices and mortgage rates that outstripped declines in income. This resulted in our market being more affordable today than then. Rising mortgage rates will start to affect affordability, but our expected wage growth will help cushion the rate impact.

While mortgages will become more expensive than in the past few years, the increases in rates will not be significant enough to cause a sharp housing downturn. What may change is the composition of demand, as single-family homes rise out of reach for some, particularly in markets like Toronto and Vancouver (TD Bank).

### CALGARY TOTAL SALES AND PRICE GROWTH




Source: CREB®

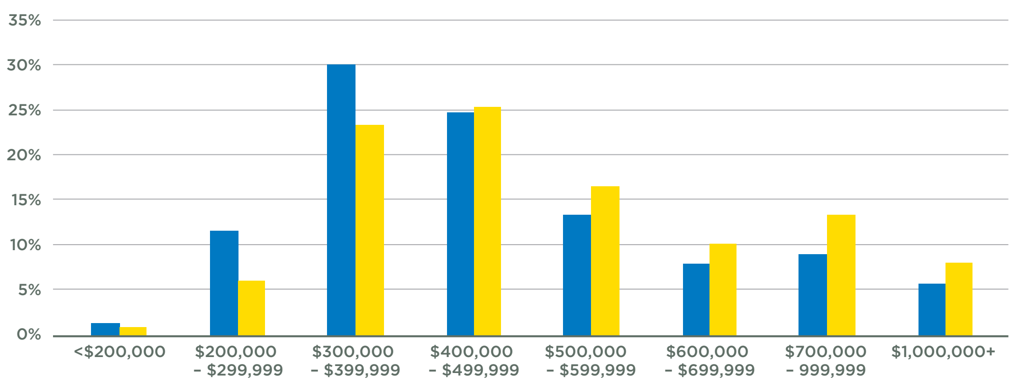
# CALGARY HOUSING
## SINGLE FAMILY

Single family sales activity picked up speed throughout 2013, as the level of new listings started to rise. The lack of choice in the single-family market in the first half of the year resulted in sales activity similar to the previous year. However, as the number of listings increased so did the sales activity. There were double-digit improvements throughout the second half of 2013. Overall, there were 16,302 single family sales transactions in the city of Calgary in 2013, an eight per cent increase over the previous year.

The typical single family home price in 2013 averaged $458,017, up more than seven per cent from 2012. Price gains in the single family sector were strong enough to push it above 2007 peak pricing, on an unadjusted basis.

Notably, there was also movement in the distribution of sales. Following the recession and associated price correction, there was a rise in the number of single-family homes available for less than $300,000. They amounted to nearly 12 per cent of the total new listings in the market in 2011. Availability in this price range has since dropped to six per cent.

### CALGARY SINGLE FAMILY NEW LISTINGS BY PRICE



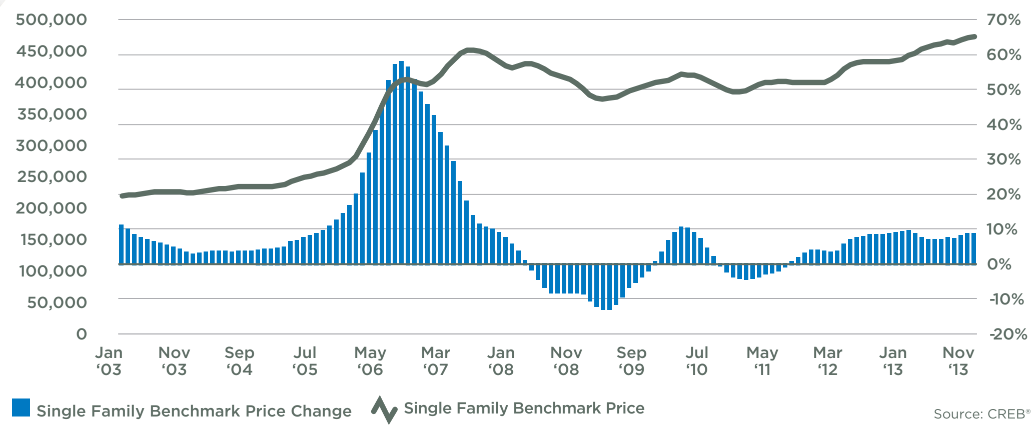

Source: CREB®

While the majority of homes available are priced between $300,000 and $500,000, there has also been a significant rise in the number of higher-priced homes available for purchase. With more choice in the higher end, it is not a surprise that sales activity has been on the rise for higher-priced property, pushing up aggregate prices. While levels of activity vary by community, citywide single-family homes that were priced below $500,000 sold quicker – and at a price closer to their list – than homes priced over $500,000. Moreover, price gains have been higher in the lower end of the market than the higher end, providing opportunity for those looking to upgrade. We anticipated that lower priced single-family homes will remain in short supply, leaving consumers looking for more affordable ownership options to consider condominiums or homes in surrounding towns.

# CALGARY HOUSING

## SINGLE FAMILY CONTINUED

### CALGARY SINGLE FAMILY BENCHMARK PRICE



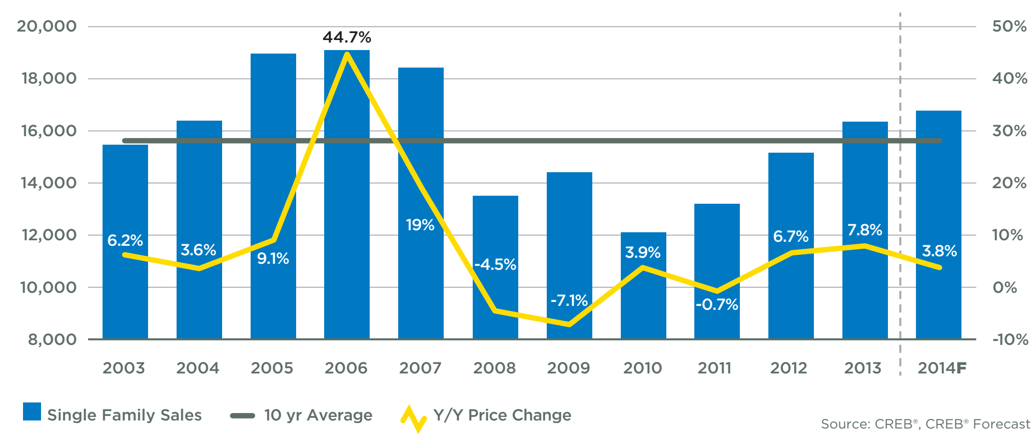

Source: CREB®

Sales activity in the single-family sector is expected to grow this year at a rate of 2.4 per cent, slower than the 2013 growth of eight per cent. While the pace of growth is expected to be slower in line with easing demand conditions, it is important to note the number of resale transactions will remain relatively high. In addition, increasing affordability pressures may cause many buyers to turn to condominiums and surrounding towns for their housing needs.

Price gains will continue to encourage new listings growth. With less lower-priced single family product available and new stock coming in at higher prices, we can expect to see price gains in the single family market. However, easing in market tightness will place less upward pressure on prices this year compared to 2013.

Overall, single-family price growth is expected to ease from nearly eight per cent growth in 2013 to 3.8 per cent this year.

### CALGARY SINGLE FAMILY SALES

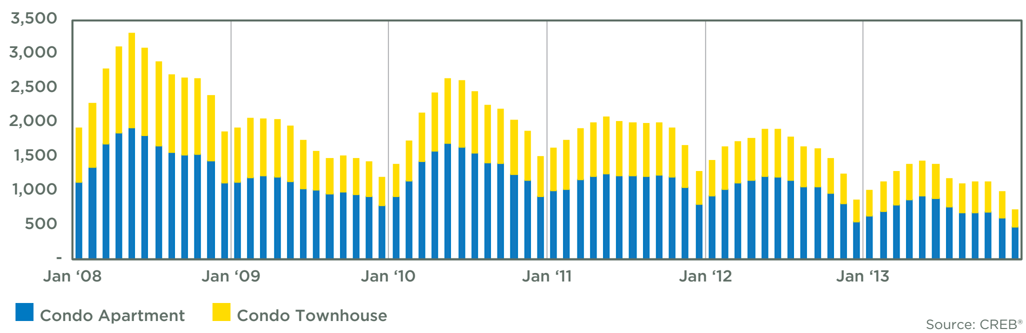



Source: CREB®, CREB® Forecast

# CALGARY HOUSING
## CONDOMINIUM

Rising prices and tightening supply in affordable single-family homes increased the demand for affordable townhouse and apartment style condominiums. The rising demand helped reduce the excess inventory in the condominium market over the past two years. As a result, prices have improved for the second consecutive year. The growth was still not enough to compensate for the significant price declines that occurred in the recession, at a time when weak demand and new construction led to oversupply. As of December 2013, benchmark condominium apartment and townhouse prices remained six per cent below peak levels.

### CALGARY CONDOMINIUM INVENTORY

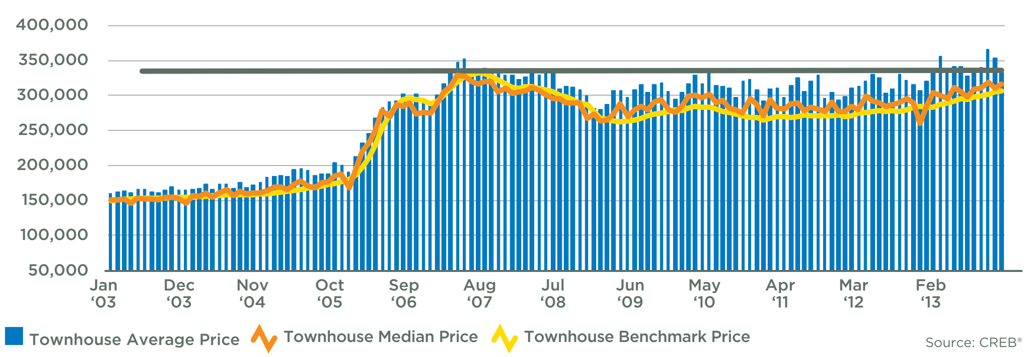



Source: CREB®

### CALGARY 10 YEAR APARTMENT PRICES


Source: CREB®

### CALGARY 10 YEAR TOWNHOUSE PRICES



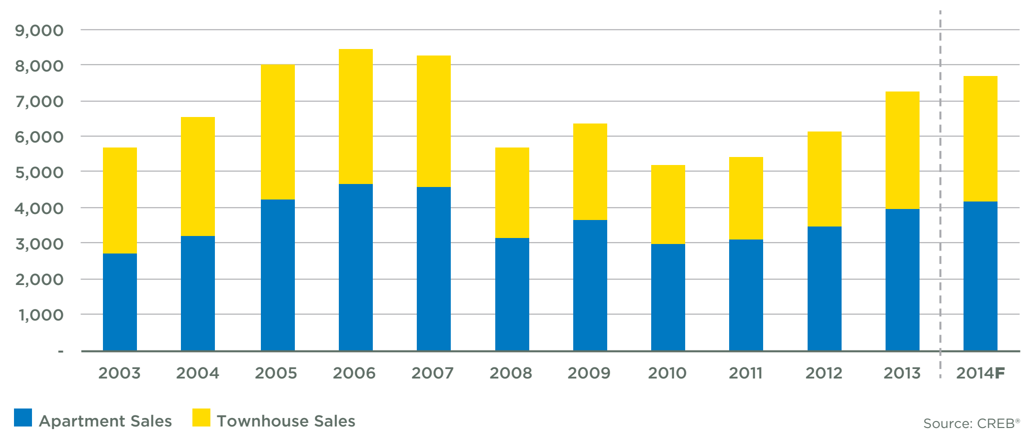

Source: CREB®

# CALGARY HOUSING
## CONDOMINIUM CONTINUED

Both condominium apartment and townhouse sales have been recording year-over-year gains throughout most of 2013. Stronger sales activity in the second half of 2013 can in part be attributed to rising lending costs motivating some to buy sooner than they had planned. In addition, the flood placed added strain on an already undersupplied rental market. As a result, many people moved into ownership sooner. In addition to lifestyle preferences, condominiums appeal to those looking for more affordable ownership options. Some consumers look to low vacancy rates, rising rents and low returns in alternative investments and opt to use condominiums as an investment opportunity. Overall, condominium sales activity total 7,187 units in 2013, an 18 per cent increase over the previous year.

Condominium sales growth was strongest in townhouses, mostly because new listings growth has been positive for most of the year. Both the single-family and condominium apartment markets only started to record year-over-year new listings growth in the later portion of 2013. Moreover, nearly 43 per cent on the townhouse new listings were priced under $300,000, while only six per cent of the single-family listings were priced under $300,000.

### CALGARY CONDOMINIUM SALES




Source: CREB®

With affordability expected to erode, we anticipate that demand for condominium apartment and townhouse-style units will improve at a rate greater than in the single-family sector. However, the rise in both starts and completions in the new home segment will limit the upward price growth this year. Overall condominium apartment and townhouse prices are expected to increase by 5.8 and 4.75 per cent respectively this year.

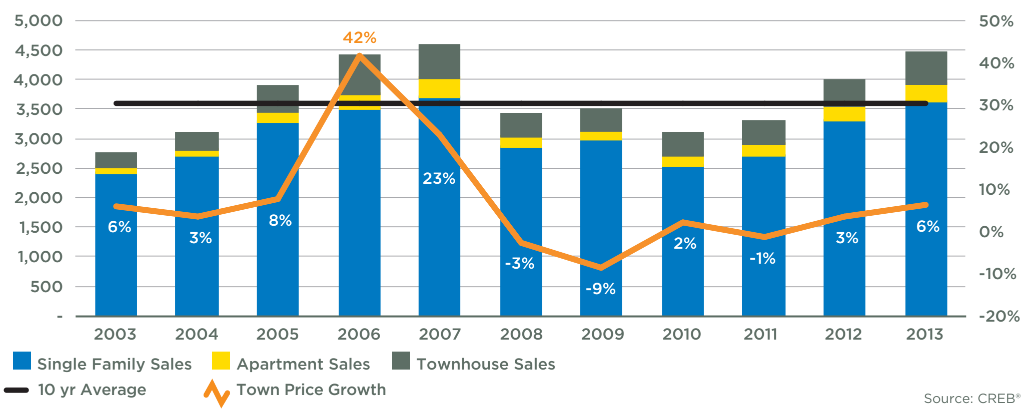
**NOTE: HOUSING COMPOSITION**

Condominium apartment and townhouse sales activity represented 30.6 per cent of total sales activity in 2013. Over the past 20 years, the city of Calgary's population has grown by more than 400,000 people. As the population has increased, so has the share of condominiums as a portion of housing stock. Twenty years ago, apartment style condominiums accounted for four per cent of total resale sales activity; today, they represent 17 per cent. While single-family homes still account for the majority of our housing stock, the share of condominium apartments and, to a lesser extent, condominium townhomes have risen.

# CALGARY HOUSING
## SURROUNDING AREAS

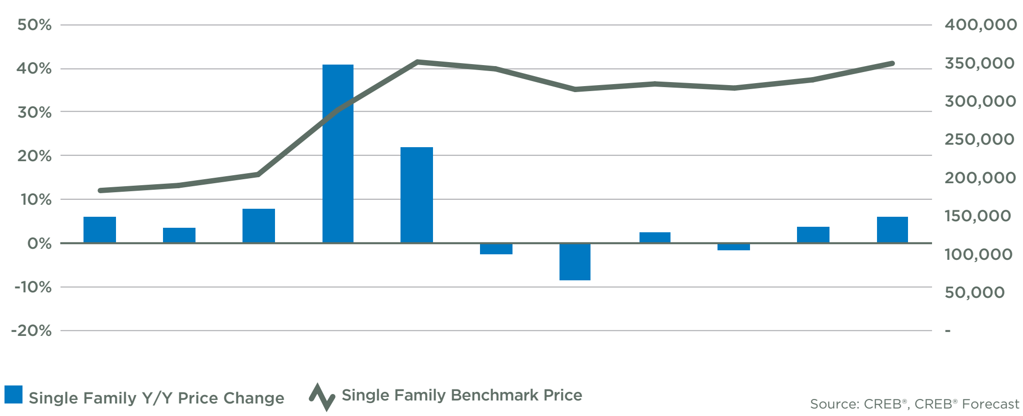
While not all surrounding communities have had the same housing performance, aggregate sales in the areas surrounding the city of Calgary grew by nearly 12 per cent in 2013 for a total of 4,400 units. Unlike city-wide trends, the level of new listings in surrounding areas fell by one per cent in 2013 compared to the previous year. Rising sales activity, combined with a decline in new listings, helped reduce somewhat elevated supply levels.

### SURROUNDING AREA




As market conditions tightened, price growth gained momentum. Over the past six years, typical home prices have mostly been declining. However, a decline in supply levels, particularly in the lower priced single-family homes within the city of Calgary, has supported demand growth for more affordable product offered in surrounding areas. Outside of lifestyle preferences, single-family homes in the surrounding areas typically cost less and are newer and larger than those in the city. The benchmark single-family home price in surrounding areas averaged $348,575 in 2013, significantly lower than the city of Calgary benchmark single-family home price of $458,017.

### TOWNS SINGLE FAMILY PRICE




As supply of affordable single-family homes within the city of Calgary declines, demand in many of the surrounding areas should increase.

**NOTE: HIGH RIVER**

On average, over the past 10 years, High River represented nearly eight per cent of the sales activity in the surrounding towns figure. The southern Alberta flood had a significant impact on this community. Pre-flood sales activity was at a similar pace to the previous year. However, sales levels since the flood have fallen to levels not seen since the 1990s. The share from High River has fallen to four per cent, and this trend will affect total surrounding town activity.

# FORECAST RISKS

Several factors can affect economic conditions in the city and province, translating into upside or downside risks to the housing sector. Severe global risks have waned, including the financial crisis in Europe and the exodus of countries from the Euro, and many of the economic growth assumptions are centered on U.S. economic expansion. Most forecasts have assumed that the energy sector will be able to deliver product to market. Capacity constraints are the largest risk factor in the energy sector, and that has significant implications for industries in Alberta.

**HERE ARE SOME NEAR-TERM RISKS TO THE OUTLOOK ON CALGARY'S HOUSING SECTOR:**

- Market access to alternative markets for Alberta's rising oil sands production will influence economic activity in the province. Significant delays and or rejection of pipeline expansion projects can limit delivery capacity. This would dampen investment activity, employment and wages. Those effects would reduce demand growth for housing, and, depending on the severity, home prices. While spinoff-activity will support our housing market this year, news of further setbacks could shake consumer confidence in the Calgary market. However, approval for pipeline expansion could ease concerns, leading to stronger-than-expected gains in housing activity.

- U.S. economic expansion and, at minimum, stable conditions in Europe are expected to support improvements in global growth and help support export growth in many emerging economies. Weaker than expected growth could result in lower-than-expected commodity prices, cooling investment and exports. This would weigh on all sectors of the Alberta economy.

- Once the U.S. recovery is more entrenched, this could be the catalyst needed to significantly boost domestic demand and business confidence to support expansion.

- Housing supply levels in both the new home and resale market are expected to improve. However, if the rise in demand outpaces supply, price growth could once again exceed expectations.

# FORECAST SUMMARY

| ECONOMIC INDICATORS | 2011 | 2012 | 2013 (F) | 2014 (F) | Forecaster |
|---|---|---|---|---|---|
| Calgary GDP Growth | 5.38% | 4.10% | 3.35% | 3.68% | Conference Board of Canada |
| Calgary Net Migration* | 9,563 | 19,658 | 19,067 | 15,000 | City of Calgary |
| Calgary Employment Growth | 2.96% | 3.73% | 2.80% | 3.12% | Conference Board of Canada |
| Average Residential Mortgage Lending Rate 5 year | 4.57 | 4.24 | 4.07 | 4.88 | Conference Board of Canada |
| Housing Starts: Single Family | 5,084 | 5,931 | 6,454 | 6,625 | Conference Board of Canada |
| Housing Starts: Multiple Family | 4,208 | 6,880 | 5,670 | 6,612 | Conference Board of Canada |
| Apartment Rental Rates** | 1,084 | 1,150 | 1,224 | 1,280 | CMHC |
| Apartment Vacancy Rates** | 2.0% | 1.30% | 1.0% | 1.20% | CMHC |
| WTI Price | 94.86 | 94.12 | 97.64 | 95.00 | U.S. Energy Information Administration |
| Henry Hub Price | 4.12 | 2.83 | 3.81 | 3.90 | U.S. Energy Information Administration |

**Figures based on civic census completed in April, 2013 represent actual figures
**Figures based on October Survey, 2013 represent actual figures

| MLS® RESALE MARKET | 2011 | 2012 | 2013 | 2014 (F) | Forecaster |
|---|---|---|---|---|---|
| **City of Calgary** | | | | | |
| Sales | 18,494 | 21,204 | 23,489 | 24,335 (3.6% ) | CREB® |
| Price Growth | -1.23% | 5.43% | 7.87% | 4.28% (429,025*) | CREB® |
| New Listings | 34,068 | 31,844 | 32,153 | 32,703 (1.7%) | CREB® |
| **City of Calgary Single Family** | | | | | |
| Sales | 13,118 | 15,105 | 16,302 | 16,693 (2.4%) | CREB® |
| Price Growth | -0.68% | 6.65% | 7.85% | 3.8% (475,421*) | CREB® |
| **City of Calgary Condominium Apartment** | | | | | |
| Sales | 3,139 | 3,501 | 4,007 | 4,207 (5.0%) | CREB® |
| Price Growth | -2.48% | 2.16% | 8.72% | 5.8% (281,798) | CREB® |
| **City of Calgary Condominium Townhouse** | | | | | |
| Sales | 2,237 | 2,598 | 3,180 | 3,434 (8.0%) | CREB® |
| Price Growth | -2.63% | 2.70% | 6.32% | 4.75% (308,690*) | CREB® |

*Benchmark Price

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# NOTES

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