



CENTRAL ALBERTA HOUSING MARKET – OUTLOOK 2011

Some Factors Which Will Influence the Market

1) Jobs. – *(Slight Improvement)*

Interestingly enough, when I reviewed my 2009 & 2010 Outlook(s), I spoke at some length about Jobs being one of the main factors which would influence the market one way or another. Now, for the Third Consecutive Year, I find myself saying the same thing – and it really doesn't appear that the situation will improve much in 2011. As the Fed's Stimulus Pkg is set to expire this Spring, it will be interesting to see what that does to the recent modest decline in the Unemployment rate. As Municipal, Provincial & the Federal Governments try to grapple with Managing Deficits, it seems to me they always look to "Hiring Freezes" or "Staff Reductions" which in turn, adds to more Unemployment. There will be some tax increases. In North America, it has become more and more evident each year that we are not able to compete well (with the exception of selling our raw materials) in the manufacturing/production of Export Goods. While I could go on for many pages about my thoughts on why this situation exists, I will just summarize by saying – "Red Tape, Regulations and Standards of Living" --- and so, we either don't create jobs or we Outsource them to "Developing Countries & China". I see the Unemployment Rate sticking around the 5.5% in Alberta and around 8.0% Nationally, on average over the year.

2) Interest Rates. – *(Stable)*

I do not see any increase in the Bank of Canada rate for at least the first 6 months of 2011. Should we be fortunate enough to start to pull ahead on the Job Front, then I'm sure the Fed's will jump on raising the rate to "Cool things Down". Fixed Term Mortgage Rates are more tied to the Bond Markets, so if that strengthens then we could see increases as well. I think there is enough competition in the Mortgage Lending Market to still dish out some pretty good deals throughout the year. It really pays to shop around when looking for a Mortgage these days, though --- seems like even the Massive, Wealthy Financial Institutions are out to get every buck they can get away with, so make sure you are Professionally Informed so you can make a wise decision – In particular, watch those "payout penalties" --- they've been a real headache the past couple years, when homeowners decided to sell.

3) Provincial Government Initiatives. – *(Moderate, Declining)*

Our Alberta Government seems to be getting less popular by the week, and rightfully so. Prior to the Recession, Alberta was the most "wealthy" Province in the Country. Two years later, we are in the bottom tier. Part of the problem, is that we are mostly dependent on One Industry – Oil & Gas (with natural gas prices continuing to be in the tank); but more importantly, our Government has done nothing effective to Promote Alberta and/or Stimulate Growth & Development. They have a Health Care Fiasco on their hands, Environmental Issues to deal with up at the Oil Sands, they are cutting program funding (more cost for the average Albertan to bear), and continue with their "Hiring Freeze" (not even summer jobs for needy students). For the THIRD Consecutive year – I give our Provincial Government an "F".



4) Federal Government Initiatives. – *(Moderate, Declining)*

We have been told that the Fed Stimulus will expire this Spring. As our Economy didn't bounce back like many thought, it will now take an extra couple years to "Balance the Budget". I think the 2011 Federal Budget will be very Lean, and I think that one way or another, on one type of service or other(s), the Average Canadian will pay more in taxes and get less breaks on incentives or "carrots". I think there will be cutbacks to the Provinces, and the end result being that the Average Canadian will be paying More in taxes – "one way or another". – No help for the Housing Industry Here.

5) Export Markets/Manufacturing. – *(Slight Improvement)*

Our Country is "starting to see the light" when it comes to Export Dependence – which historically has largely been the United States. Looks like we have been warming up to China a lot. We just cannot seem to compete well with Manufactured Goods and are now even losing our edge on Technology. There is a high demand for our Raw Materials, though. It still bewilders me why we can sell our raw materials to a "Foreigner", it can be shipped half way around the world, turned/manufactured into a consumer product and then sold back to us at "Less Cost" than we could make and sell it ourselves. With the Loonie around par U.S, it seems to make things even more difficult. I believe we will continue to see manufacturing type employment erode away, consequently, I'm not expecting any improvement here (perhaps even some decline from 2010).

6) New Residential Construction. – *(Slight Improvement)*

Just like our re-sale Housing Market, it has been equally tough on the New Home Industry. While the average cost of Materials and Labour have virtually remained unchanged, the costs of Land Development and Municipal Levies have been Increasing at substantial rates (Higher Lot Prices). I think the Average Lot Cost for a New Home will Increase by about 5% in 2011, the Average New Home Price will Increase by 3%, but the Number of Sales will Decrease by 5%.

7) Re-sale Inventories. – *(Moderate Increase)*

This category has much more to do with the Value of a Property than most Homeowners, Buyers, and Sellers, realize. **The Rule of Supply and Demand.** When Inventories (number of Homes For Sale) are high and Demand (Number of Buyers) is Low, Prices are Lower or will Drop. When Inventories are Low, and Demand is High, Prices are Higher or will Increase. Over the past two years, it has been a "Buyer's Market" – Inventories too high for demand. I believe that it will Continue to be a Buyer's Market throughout 2011. Our Region saw a pile of listings Expire at the end of December, resulting in Inventory Levels dropping significantly to kick off the 2011 year. Make no mistake about it – most of these will again appear over the course of the next several weeks, and Inventory Levels will be back up to that 700+ range for Red Deer City, and around the 3,000+ for the rest of the Central Alberta Region. A "Balanced Market" would be 500 and 2,000 respectively.



8) Population Growth. – (Stable)

Less than 1% for Central Alberta – Most growth will come from Babies, not jobs. As mentioned, it takes Population Growth to create expansion. Population Growth comes from Industry and Jobs. While the “oil Patch” has been cooking since the 4th Qtr’ 10; it needs to prove that can/will sustain some sort of a reliable growth trend before people will have **confidence** in it as an economic staple of Stable Employment. As one client put it to me “I don’t know why they can’t drill 250 wells per year consistently; rather than none for a year and a half, then 500 all at once” --- then they complain that they can’t find “properly trained employees” when they do start to hire. Over the years, Oil & Gas seems to have always been a “Feast or Famine – Boom or Bust” Industry, and as result not very dependable for the Employment situation. It has, however, made a lot of people Gazillionaires in the Good Times. --- But as for Population Growth – the Employees may very well be from other parts of the County, and not likely to re-locate to Alberta without some longer term assurances. I’m really happy that the “Patch” is again busy, even if it is short lived – every bit helps.

9) Property Taxation. – (Higher)

One Word for Central Alberta – **HIGHER**. I applaud those Municipalities who have managed to budget zero tax increase for 2011 – few and far between as they are. I really think that the average homeowner is getting more and more frustrated with Municipal Leadership and Increasing Costs every year. Here’s a fact for my readers – property taxes on my own home in the year 2000 = \$1,838.74 – in the year 2010 = \$2,827.23; **an Increase of 53%**. Leaders will tell us that it’s because our property values have gone up. Really??? What does that have to do with City Costs – they certainly don’t look after the maintenance of my home, they haven’t replaced my front sidewalk or street, so I find that excuse ridiculous. Fact is, the \$250 or \$300 per month tax bill is starting to take a big bite out of Home Buyers ability to qualify for a mortgage. I expect that the City of Red Deer will increase property taxes by around 3.5% for 2011 (and they will think they are hero’s for keeping it so low, in a time of a poor economy and high unemployment). Maybe we should send them a box of chocolates !!

10) The World Economy in General. – (Slight Improvement)

Sometimes, I think we get too much World News, Too Quickly. And then, we need to try to understand what is “Political Posturing”, or “Media Spin”, or “the News Significance as it would relate to the Normal Situation”. From what I can see out there, it seems to me that we are in the process of re-aligning what is “Normal”, and I think that new “Norm” will be Less Fortunate than the last 10 or 20 years. Our expectations must be realigned, we will generally have less disposable incomes. The General Public in the G7 will pay more in taxes and get less in return. Essential Elements of Living – Food, Utilities, Transportation, Health Care, Education, will be more expensive and offer less. As the World Financial Markets have become more inter-dependent; as the “Made at Home” consumer products have given way to, and are now dependent on “Made Elsewhere and Imported” ; as Major World Corporations gobble up smaller competitors; and as Governments become Larger, More Expensive, and Less Efficient (due in part, to a lot of Legal Challenges/Rulings), as Organized Crime continues to build momentum/strength and as the Debts of Countries continue to increase; we must ask ourselves – “What Impact will the World Economy have on Me, My Family and My Job?” I think the most noticeable impact for us in Central Alberta will be a continuing separation gap between the Wealthy and the “Middle Class”. Just as a reference, one of our Main Producers in Central Alberta (the Joffre Plant) was recently



sold out to the United Arab Emirates, Our Travel Aire Manufacturing Plant in Red Deer closed in favour of its headquarters at their U.S. Main facility, and I suppose there are others as well. It is interesting to look at the foreign ownership of our Oil Sands, and for that manner any other Major Corporation in Canada. What impact do World Economies have on Housing in Central Alberta? Well, when Wall Street crumbled over 2 years ago, the effect was Global, Including the Job and Housing Market in our small neck of the woods.

Conclusion – Central Alberta Housing Market Forecast

It is difficult to project that 2011 would turn in worse results than 2010; but I do think that 2010 set the “New Norm” for our Marketplace. Despite my analysis (which for the most part is pretty negative), I think we will start to dig our way out of the “quagmire” of the past couple years, during 2011. A positive effect will be felt first within the City of Red Deer, and then gradually spread out to the remainder of our Region.

I like that the Oil Industry has now been busy for several months, and I expect that to continue until Spring Breakup. I expect Interest Rates to hold until at least June/11, and the Stock Markets to settle at 3% above pre-recession values. Agricultural produce and livestock values should hold reasonably well. Inflation will likely be around 2.5%, but largely due to the necessities of life such as food, transportation, utilities, health care and education costs, rather than Economic Growth. The Governments will extend their plans to balance the budgets by a couple more years, but taxes (both directly and indirectly) will increase. Disposable Incomes will continue to shrink, and the job market will open up a bit. The Unemployment rates will decrease slightly, but will remain well above pre-recession levels, as “Hiring Freezes” will continue throughout the year for most major employers and the Governments.

I expect the 1st half of the year to resemble 2010, but I do think we’ll start to see some encouraging signs by the 3rd Quarter.

I expect modest change in both the Total Number of Sales and the Median Prices, for Central Alberta. I project that the Total Number of Sales for the City of Red Deer will Increase to 1,420 – (Up 2.3%), while the remainder of our Region will see a slight Increase to 2,050 - (Up 0.4%); when compared to 2010.

For the most part, I think prices will hold – turning in Median Values around the 2010 levels, Plus 1% to 2% overall.

In conclusion, I really hope my projections are way too low, and that things get a lot better than I expect. If this happens, I will most happily accept that my projections were “out to lunch” this year.

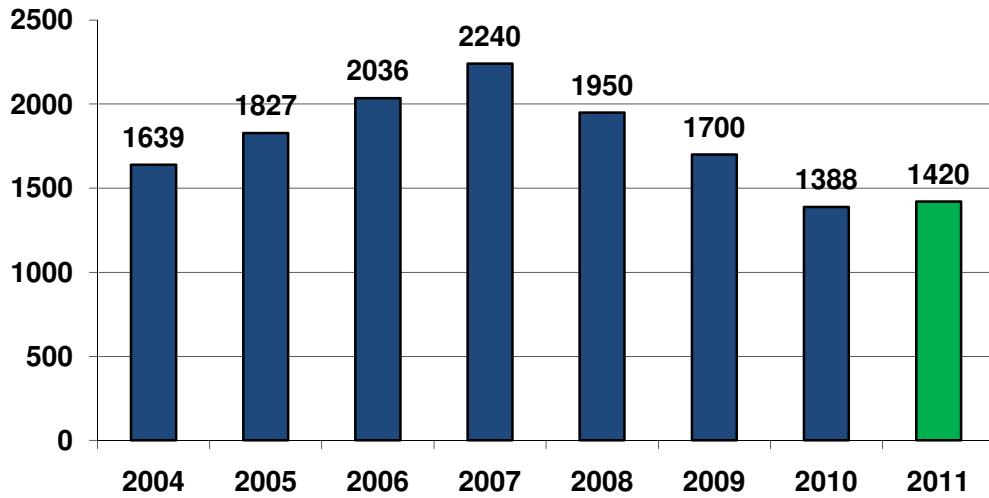
Thank you for reading.

*Randy Weins, Broker
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Sales Processed – Red Deer City/Total Region
 Data Compiled from Central Alberta Realtors Ass'n Database
 Multiple Listing Service
Projected - 2011

Red Deer City - "MLS" (R)
Total # Residential Sales



Central Alberta Region - "MLS" (R)
Total # Residential Sales

