

NEW HOMES

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BORDER CROSSING
Concerns over housing industry spreads.



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SHOW HOMES OF THE WEEK
From Evergreen to Carseland, find your ideal abode.

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BROTHERLY BOND
Brothers combine talents to create home-building company.

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It ain't over...

MARTY HOPE and KATHY McCORMICK
CALGARY HERALD

It was bound to happen, but that didn't make it any easier to accept.

The shock that followed in the wake of the seemingly overnight turnaround in Alberta's housebuilding industry has given way to acceptance and resignation — and more recently to restrained optimism about what lies ahead.

"We have just come through three of the most unbelievable years ever; at least it was something I haven't seen in my 30 years in the industry," says Tom Mauro, founder and chairman of Calgary-based Albi Homes. "And, you know what, we got used to it."

For about three years prior to this one, construction records were being broken almost monthly, sales volumes were shooting straight up, and prices were constantly increasing. Then suddenly, somebody slammed the door.

It wasn't a case of the provincial economy crashing. The growing international demand for Alberta's oil and gas made sure of that. Net migration fell off, job creation slowed, the resale

Turnaround predicted for building industry in 2009

market reached record inventory levels, and builders found themselves in the unenviable situation of having to reduce staff due to the falloff in demand.

But, says Mauro, everything will be all right.

"I wish I could predict when it will happen, it won't be that long, but the market will turn again," he says. "In the meantime, this downturn has been good for the industry and good for consumers."

Builders have had the opportunity to streamline their operations, make adjustments to their internal systems, make further improvements to the quality of homes being built and learn to be better, wiser business operators. As for consumers, they will benefit from improved quality, more timely construction schedules and the fact that "builders are willing to move inventory," says Mauro.

For now, though, builders of single-detached homes are fighting their way through a year that will see 16,000 construction starts — the lowest in a dozen years,

according to Canada Mortgage and Housing Corp. in its latest Housing Market Outlook.

But when you look at housing starts of all kinds, the decline will continue through 2009, CMHC says. From 48,336 in 2007, this year's final tally will tumble to 32,750 and then slip again to 29,000 by the end of next year.

"Builders are coping with weaker net migration, an overhang of unoccupied new units, and relentless competition from an over-supplied resale market," says Richard Corriveau, CMHC's Calgary-based Prairie region economist. "Rapid price growth from previous years will also cut into demand."

When all is said and done, the 2008 year-end construction total will be down 43 per cent from 2007 and the weakest showing in a dozen years. In 2009, a bit of good news: builders will start work on 17,000 detached homes, which will be a three per cent rise from 2008.

"Next year's modest rise in starts is dependent on a decline in inventories in both the new and resale markets," says Corriveau. "A lack of price growth should also spur additional demand."

SEE DEMAND, PAGE 13



Calgary Herald Archive

The construction slowdown is good for consumers with quality and building timeline improvements.

HOME SHORTS

Detectors recalled

Carbon monoxide detector manufacturer Maple Chase recently announced the voluntary recall of the following FireX branded 10000 and 12000 alarms: 10000, 12000, 12000C, 12000-6, 12200, 12220, 12400, 12400C, which were manufactured between June 1, 2007 and Feb. 1, 2008. If this affects you, call Maple Chase toll-free at (888) 879-3906 between 7 a.m. and 5 p.m. Monday through Friday. To return and arrange free comparable replacement of alarms, log onto www.firexsafety.com. Consumers should not take the alarms out of service until they receive the replacement alarm.

— Kathy McCormick

Eco program takes off

Canada Mortgage and Housing Corp.'s (CMHC) EQUilibrium Sustainable Housing Demonstration Initiative recently unveiled its second demonstration home that uses cutting-edge energy-efficient features to reduce the consumption of power.

The first demonstration home, the EcoTerra in Eastman, Que., opened its doors to the public last October, and it was recently joined by the Minto ecohome in Ottawa, which will be open to the public for touring within the next six months. Other EQUilibrium homes are currently under construction in Red Deer, Edmonton, Hudson, Que., and Toronto. The initiative brings together the private and public sectors to develop homes and communities that are healthy, comfortable, energy-efficient, environmentally friendly, resource-conserving and affordable to both operate and maintain. A total of 72 teams responded to the CMHC challenge for demonstration home proposals, 12 of which were given the green light to build. CMHC gave the winning teams technical, marketing and financial support for their projects.

CMHC will be expanding the program to include British Columbia, Atlantic Canada and the North.

— CMHC

THIS WEEK'S MORTGAGE RATE: 6.65 %

Base rate for a one-year closed mortgage, as reported by the Bank of Canada. Lending institutions may set their own rates. Arrow indicates an increase, decrease or unchanged from one week ago.

See complete rate table, page 14

SHOW HOME MAP: PAGE 17



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FROM II DEMAND: Market to 'normalize'

The latest CMHC outlook says, with the sharp decline in construction this year, there has been a strong pullback in the level of growth of the New House Price Index.

Alberta's latest index figures reveal a mere 1.6 per cent gain over the previous year, a considerable departure from the 28 per cent climb a year earlier.

Vince Laberge, president of the Canadian Home Builders' Association-Alberta, says while all statistics show sales and construction activity have slowed significantly it will help bring the market to more normal levels.

Figures from the past two or three years were not considered sustainable, he says.

"This market normalization was necessary for all of us," adds Laberge, who is also president of Edmonton-based WendyLynn Custom Homes.

Echoing comments by Mauro, Laberge says builders are now taking advantage of the slower pace to improve their corporate systems and get construction cycles down to more reasonable lengths.

He also spoke optimistically of the future.

"While there is no doubt we could not maintain the pace of 2006-2007, virtually stopping land development and housing starts the past several months may actually lead to another round of bigger than normal demands in the near future," he says.

While it is expected single-detached construction will bottom out this year and start moving up in 2009, the opposite is true for the multi-family sector, according to CMHC.

For the first time in 26 years, multi-family starts in the province will surpass activity in the detached market in 2008, followed by a drop in 2009, says Corriveau. Expect 16,750 units to begin construction by the end of this year, followed by a 28 per cent drop to 12,000 units in 2009.

"Calgary will be responsible for much of the pull-back next year as this year's surge in apartment starts will necessitate a sharp cut in production come 2009," he adds.

By the end of June this year, condo starts had already exceeded the annual production of 2007, and by year-end are forecast to reach 7,000 units. The federal housing agency has called for starts in 2009 to fall all the way back to 3,000 units — the weakest performance since 1997.

In Edmonton, multi-family construction fell by 15 per cent year over year from January to June, totalling 2,788 units, on its way to a total of 4,500 units by year-end — down 38 per cent from 2007, and the lowest output since 2001.

"Inventories of unoccupied new units are expected to rise during the second half of this year, putting a damper on new construction as developers struggle to reach pre-sale targets required for project financing," says Corriveau, adding 2009 will see a further decline of 500 units from the final 2008 total.

As for the resale sector, seen by many as the main culprit in the decline of new home activity across the province, MLS sales are expected to

plunge 20 per cent this year, the sharpest decline since 1982.

Despite the current softening in house prices, demand is being cut by the hefty jump in mortgage-carrying costs from earlier years. Negligible price growth is also removing the speculative component of demand.

Sales are expected to stabilize in 2009 once buyers gain confidence that price growth is restored. For now, they are being told prices have declined on a year-over year basis so are delaying their purchase until prices bottom out.

With confidence of price growth restored, expect a modest increase to 58,500 units in 2009 after the 20 per cent drop to 57,000 units this year.

After the unsustainable gains of 31 per cent in 2006 and 25 per cent in 2007, the average resale price in Alberta is expected to advance by only one per cent this year and three per cent in 2009.

“Calgary will be responsible for much of the pull-back next year”

RICHARD CORRIVEAU, CMHC



The average housing price in Alberta is expected to grow by three per cent in 2009.

	2007	2008*	2009*
TOTAL HOUSING STARTS			
Alberta	48,336	32,750	29,000
Calgary	13,505	12,200	8,400
Edmonton	14,888	7,750	8,000
TOTAL MLS SALES			
Alberta	71,430	57,000	58,500
Calgary	32,176	24,000	24,700
Edmonton	20,427	16,500	17,000
AVERAGE MLS PRICE			
Alberta	\$356,235	\$360,000	\$370,000
Calgary	\$414,066	\$418,000	\$430,000
Edmonton	\$338,636	\$340,000	\$352,000

* Projected
Source: Canada Mortgage and Housing Corp.

Edmonton starts cut in half

KATHY MCCORMICK
CALGARY HERALD

Three times more homes were started in Edmonton last month compared to the year earlier, leading to a drop of year-to-date housing starts of close to 50 per cent, according to the Canada Mortgage and Housing Corporation's Edmonton branch.

"Last month's activity represented the worst July performance since 1986 when only 195 basements were poured," says Richard Goatcher, senior market analyst for CMHC. "If the current pace of activity continues to year-end, 2008 will represent the worst year for the region's single-detached builders since the previous low recorded in 1995."



Richard Goatcher

The drop follows the 45 per cent year-over-year decline in the first half of 2008. So far this year, 4,547 total housing units have been started, compared to 8,782 for the first seven months of last year.

"For the 13th consecutive month, single-detached completions outpaced absorptions across the metro Edmonton area," says Goatcher. Just 199 homes were started in July, compared to 682 in the same period last year.

On the multi-family side, starts also fell short of production levels reported in July 2007, with 208 units started last month, compared to 559 for the same month last year.

"Similar to singles, multiple-unit com-

pletions exceeded absorptions in July resulting in the third month-over-month increase in unabsorbed inventory," Goatcher says. "Unlike singles, however, the number of multiple units under construction in July was well ahead of the same time last year."

Add on the number of resale homes listed, and the inventory is even higher, although there are some positive signs on that side.

According to the latest Realtors Association of Edmonton market report, residential resales in July were up 14 per cent compared to the same month last year.

"As a result, the unusually high inventory level dropped to 10,501 properties as of July 31, 2008," the release reports.

Burke Perry, president of Burke Perry Master Builder and president of the Alberta New Home Warranty Program, says, "several builder members report that the slowdown in housing starts is a result of a build-up of inventory in a wide range of available housing stock, but the good news is that this inventory is starting to reduce."

Even so, Lewis Nakatsui, president of Lincolnberg Homes and founder of Man-Cap Group, says sales likely won't recover, at least in the new homes sector, this year — and the condo market has been even more of a question mark.

"There is more uncertainty than ever. The world and U.S. economies are in a bit of turmoil; and closer to home, we don't think we have seen the impact of the over-supply of condo units."

On the positive side, Reza Nessari, president of the Landmark Group, says, "the only revision we are preparing for is more user sales, and not so much investors or speculators, which means costs and prices will be tighter than the last three years."

Concern spreads across border

Calgary's multi-family housing is dealing with a lot of uncertainty as it enters the second half of this year.

Financing is getting tougher to lock up. And on the supply side, development of units is running more than 84 per cent ahead of 2007 at a time when demand for new product is slacking off in the face of increased competition from the resale side and a reduction in net migration.

To the end of July, work had already started on nearly 6,000 apartments, townhouses and semi-detached units — compared with 3,200 for the same period last year, according to the Canada Mortgage and Housing Corp.

And figures from the City of Calgary show in July, building permits were approved for just 57 units — compared to 876 units a year ago. On a year-to-date basis, permits have been OK'd for less than 3,400 units — compared with more than 4,800 for the January-July 2007 period.

Industry players are having to deal with several different issues, none of which are good.

The investors/speculators are still out there, says one developer. They bought units for investment before the boom really took hold — and when the market "plateaued" they were caught.



MARTY HOPE

SEE HOPE, PAGE I6

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