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Year 2008 in Review

The first half of the year performed well, with a stable marketplace and a housing industry poised to end with a solid second place finish to the record established in 2007. Early in the summer we learned more and more about the US Economic Woes that went beyond the housing mortgage meltdown, to major Financial Institutions and Corporations. With this Negative Impact, the troublesome financial picture of many other Countries in the World became prevalent. Stock Markets went into a downward spiral and all media focused on the Negative aspects and problems of the Global Economy. The general public saw Retirement Funds diminish and a tightening of credit policies from the Lenders. Fear and Uncertainty took hold and people commenced pulling back from major expenditures and business expansion. Unemployment Numbers Rose.

It would take until the 4th Quarter to see what impact this would have on the Central Alberta Housing Industry – the results of which were the lowest in numbers of sales in recent years.

What is interesting is that oil prices and consequently gas costs at the pump dropped by 50% from the peak, mortgage rates declined thus making housing more affordable and home prices also declined due to the Lack of Buyers, Unstable Economies and Employment Fears. A Buyers Market was Obvious. When it is a Buyers Market, it IS TIME FOR BUYERS TO BUY! Yet, many who could afford to buy a home or move up from their existing home were afraid or decided to wait in anticipation that prices would fall further. Once fear or uncertainty sets in, activity slows – demonstrated by the 4th Quarter results.

The following comments are supplemented by FIVE years worth of quarterly graphs for the major centers within the Central Alberta Region, using Single Family Detached Homes (SFD) as the Market Benchmark:-

Red Deer City – Total Number of SFD Sales was 1,312 – the Second Highest of the past 5 years, surpassed only by the 2007 record of 1,399. The Median Price (believed to be more accurate than average price) of a SFD was \$324K – also the Second highest on record, comparing to the \$330K price set in 2007. For information, the median price in 2006 was \$278K with 1,242 sales; 2005 at \$213K with 1,193 sales and \$175K with 1,111 sales in 2004.

Other Centers – SFD Numbers of Sales did not do as well in other towns within the Region, but median prices held. Blackfalds turned in a 113 sales with a Median Price of

\$324K – the Second Lowest number of sales in the past 5 years, yet the highest Median Price on Record. Innisfail had 111 sales (lowest in 5 years) but turned in the Second Highest Median Price at \$270K. Lacombe followed suit – sales of 147 were the lowest in 5 years, yet the median price of \$314K was the highest. Ponoka achieved the same result – sales of 79 were the lowest in 5 years, while the median price of \$245K was the highest. Similar events occurred in Rocky Mountain House – sales of 87 homes were the fourth lowest while the median price of \$291K was the highest. In Stettler, 88 SFD homes were sold giving this number 3rd place ranking in 5 years, while the median price of \$210K was the Second highest. Sylvan Lake recorded 296 SFD sales – the 3rd highest in 5 years, and the median price of \$349K was the highest.

Summary:-

In changing housing markets the following usually happens:-

Supply and Demand drives pricing either way – up or down. Industry and consequently Jobs drive the Demand. When the demand is high and the supply is low, prices increase, and thus the smaller/surrounding towns to the major centre, benefits. As prices move upward in the major center, buyers look to more affordable housing in the towns, choosing to commute if/as necessary. When prices decline, the major center becomes more affordable and surrounding communities do not receive the would-be “commuter type” buyer.

In October, 2008, the Government placed restrictions on mortgage lending removing BOTH the popular 40 year mortgage and the zero down feature. Based on a median price of \$300K, this means that buyers would now need a Minimum of \$15K down plus the closing costs. This eliminated many buyers from the Marketplace, either due to qualifying abilities or the lack of cash in the bank for the down payment. In addition, lending criteria changed in line with the general tightening of credit availability – many would be buyers could no longer qualify. Depending who one talks to, it is estimated that the 0 down and/or 40 year mortgage represented between 5% and 10% of the Buyer Market. Coupled with the economy and job fears mentioned above, we ended up with a poor 4th Quarter.

Economies of all aspects depend on buyers. Whether it's a new TV, Fridge, Car or Home; if consumers stop or slow down on buying, Industries cut back or go broke, jobs suffer, and the resultant cost to the entire country escalates, while tax revenues decrease. Thus, Government Stimulus Packages or “injections of cash” to Industry and its Population have become a mechanism to “starve off” a depression, stimulate the economy through freeing up funds available to borrow, tax incentives or reductions to encourage people to spend by freeing up disposable funds available. This, in turn helps keep Industry going and People Employed. When Industry expands and more people are employed, the Governments Own Income Increases through taxation revenues.

The City of Red Deer Real Estate Market peaked in May with a Median Price of a Single Family Detached property at \$338,125. The lowest value was in December - \$305,000 – A decline of \$33,125 or 9.8% from the peak to the bottom. The TSX dropped 35% from peak to bottom for the year. It is reasonable to believe that if the Stock Markets increase so will the value of Housing. When we look at the Median Price of a SFD Home in May of 2004, we see a value of \$180,000 and in 1998 - \$141,500. **Historically, it is demonstrated that buying a Home is one of the Best and Secure major investments one**

can make over a period of time. And especially when it is a Buyers Market - Buyers Should Be Buying!