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Central Alberta Housing Market – Outlook 2009

Some Factors Which Will Influence the Market

1) Oil & Gas Industry

The 2008 year ended with the price per barrel around \$40 – a huge drop from it's peak of around \$140 in the summer. Apparently, the shortage of world supply and the high demand from China and India was not as thought. I blame the Wall Street Rascals for creating Artificial Inflation and thus a False Pricing Structure, which raised havoc and generated huge outcries for more energy efficiencies in everything from homes to vehicles. Those people responsible for this fiasco should be given a "whippin" out behind the barn, or something. I do think that \$40 per barrel is a bit too low for our Ft. McMurray industry to make a go of it though. I think that by Spring we'll see the price back around \$75, which will hopefully be sufficient to keep Alberta's Energy Sector going, albeit at a slower pace. If not, we'll see further economic downturns in the Province as result.

2) Industrial/Commercial Growth

Don't look for much to happen here for at least 6 months. After that, some activity will be generated as result of the Federal and Provincial Stimulus Packages towards Infrastructure, Medical and Educational Facilities, and Tax Concessions to help the Hiring Freeze and Create Jobs.

3) Federal Budget – January 26/09

I expect the Federal Government to dole out between \$30B and \$100B during 2009; and the Provincial Arm to follow suit and Increase Spending/Stimulus by \$4B to \$7B or so. While the announcements will be welcome news to the ailing economy, it will take some time for agreements to be worked out and activity to begin. In the meantime, there will still be Industry Cutbacks, Layoffs and Shutdowns as Restructuring Plans will take time to be implemented. The recession is likely to continue through most of the year at best. I am hopeful that we will see some signs of recovery by the 3rd Quarter, but do not expect much before then.

4) Bank of Canada and Lending Rates

Look for a couple more reductions before we get out of this economic tank. I think we'll see a half point early in the year, followed by another half point before spring. After that, the Stimulus should start to take effect and rates should remain flat for the remainder of the year.

5) Jobs

I am really hopeful that the Stimulus Packages will include the Requirement to Create New Jobs and Increase Employment; thereby giving more people the ability to go out and purchase things. If people stop spending, or cut back significantly, the economy will still suffer and we will not be much better off. I believe that economies revolve around the abilities of people to find good jobs.

6) New Residential Construction

Slow pace for at least 6 months. Builders will not start many specs, nor purchase a large number of lots until it looks like the market is improving. Holding inventory is not a wise move in a slow market, due to the cost involved. Consequently, those Buyers wishing a New Home will have less to choose from or must be prepared to wait the time it takes to build one for them.

7) Property Taxes

Most Municipalities will try to keep any increases to moderate levels, say 3% to 5%, in view of the Current Economies. They do however, really need to get a handle on their expenses, especially when it comes to new developments and service upgrades. I am concerned about the City of Red Deer's massive spending in facilities and the relevant costs that have come to light. Council must not keep approving projects expecting that the taxpayers will be able to keep dishing out substantial increased funds through property taxes. If we face another 8% to 10% tax hike in 2009, the Citizens had better react swiftly. It's time for fiscal responsibility.

8) Population Growth?

I am projecting a growth of LESS than 1% for the year, throughout the Region. It does not appear that we are poised for any significant new Industry, or growth of what we already have. It takes new jobs to grow a population, and I don't see much coming our way for the next while. In fact, it might be reasonable to expect Negative Growth.

9) Retail Revenues

It looks like a tough year ahead for this consumer based industry. As people now start to scale back spending, non-essential type items will be put on hold. Central Alberta is not immune to a National or Global Recession. While the Province is in very good financial shape compared to the rest of the Country, we have also become one of the most

expensive places to live, despite no Provincial Sales Tax, and Lower corporate and personal tax rates. The impact will become evident with the first quarter results. On a brighter side, we should see some pretty good sales and prices for the next 6 months or so, on these non-essential type items. I don't, however, expect much relief in the cost of utilities, groceries, or other essential goods.

10) The General Economy

We ended 2008 in a Deep Recession. While Alberta and Canada seem to be better off than many other countries, we still rely on those countries to purchase our commodities. Our Political Leaders and Economists have stated that we are in the worst recession since the Great Depression. Stimulus packages have been announced in both the U.S and Canada. Canada's Budget is due January 26th, while U.S President Obama takes office on January 20th. All Leaders have placed the economy as the priority. There will be more bail-outs and Government injections throughout the year, in an effort to prop up the economies. The real question will be whether Corporations will retain their employees and expand, and whether Consumers will borrow and spend. I think we can look toward a recovery, but it will be slow and painful.

2009 Forecast for Residential Real Estate

1st Quarter

The Buyer's Market will continue, and there will continue to be some very good deals offered. Sales will remain sluggish, keeping with the fourth quarter '08 trend. It will continue to be a Great Time for the move-up market, as higher end properties (over \$400K) will have lots of competition. The more active range of \$250K to \$300K should hold, and I don't expect lots of price reductions here. It will be a good time to purchase an apartment condo, as there will be plenty of competition amongst the high inventory, albeit that Condo fees are becoming a problem in deriving affordability. I am projecting the total number of sales to be up by 20% when compared to the 4th Quarter of 2008; but in stating that, it is important to realize the number would still be 30% below the 1st Quarter of 2008. Look for the Median Price of a Single Family Detached to be down an average of 3%, compared to the 4th Quarter '08.

2nd Quarter

I expect that inventories will increase substantially. There is a pent-up "Ghost Inventory" out there, waiting for some sign of improved market conditions. Once that happens, more people will again attempt to sell. Housing usually does better in the Spring and we will begin to see the effects of the Governments stimulus and tax packages. I don't expect sales to reach those achieved in 2007/08, but I do think we will be somewhere around the 2006 numbers. Prices will have stabilized as we begin to see a "light at the end of the tunnel". The median price of a SFD will be down 8% from the 2nd Quarter '08.

3rd Quarter

I expect this to be the best quarter of the year. It won't set any new high records, but it will be a good, solid market. Confidence in the Economy will begin to restore, albeit cautiously. I expect the number of sales to be down proportionately to that of 2006, with the Median Price of a SFD down 7% from the 3rd Quarter 2008.

4th Quarter

Better than the sour 4th Quarter of 2008 in Numbers of sales and about on par with the Median Prices. If correct, this would mean that while the economy was successful in stabilizing the Housing Market, the Median Price would still be 10% lower than the peak of 2008, and about 15% below the record set in the spring of 2007. The values realized would still be about 5% Higher than 2006, and about 55% Higher than the values in 2005.

Summary:-

IF, my assumptions and analysis are correct, then those people who purchased their homes prior to the 3rd Quarter of 2006, still have gained substantially on their investment/property value. For those who purchased between the 3rd Quarter 2006 and the 3rd Quarter 2008, there is an average devaluation of up to 15%. Those who have purchased during the 4th Quarter '08 will see their values hold within 5% for the next year, and those purchasing in 2009 should be fine under the "Adjusted Market Values".