

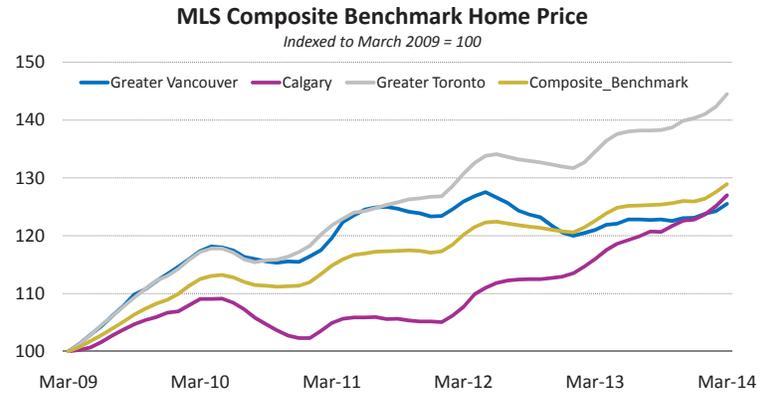
Housing Review

Calgary's Real Estate Market Continues to Flourish

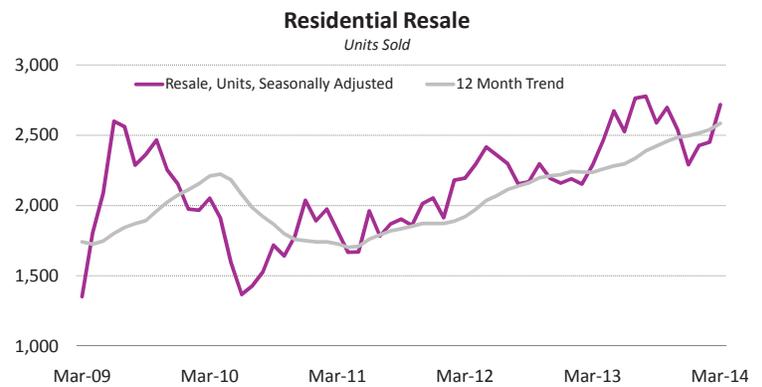
Like many other facets of the economy, Calgary's real estate market has unbinged itself from the rest of the country. Indeed, it is erroneous to assume there is a 'national' market, as residential property is an immobile product whose value hinges largely on local factors. While major markets such as Toronto and Vancouver rebounded sharply after hitting their recession-lows in early 2009, Calgary's house prices struggled to produce a meaningful recovery and remained relatively flat for the following three years. In the summer of 2012 the market began to heat up again, and in late-2013 the MLS composite benchmark home price finally returned to, and surpassed, its pre-recession peak.

In March residential real estate prices continued to climb at an impressive clip. The MLS benchmark Calgary home price rose 9.5 per cent year-over-year to \$431,100. As a result of the healthy state of the economy, solid labour market, and strong wage gains we anticipate that real estate prices will continue their upward trajectory in the short term, particularly over the spring and summer. Unlike other large Canadian cities such as Toronto and Vancouver, homeownership in Calgary remains comparably affordable.

Although Calgary remains substantially more affordable than other major Canadian cities, conditions have been tightening in recent months. This is not only because of rising home prices, but also as a result of a small pullback in wage inflation and rising energy costs. Average weekly wages in Calgary rose 0.6 per cent month-over-month in March, but were down 2.4 per cent compared with the same time last year. Meanwhile, harsh winter weather continued to drive costs for natural gas and electricity upwards, leading to an



Sources: CREA, Corporate Economics



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Calgary's Housing Market - March 2014

	Mar-14	Feb-14	Jan-14	Mar-13	Annual Change (%)	YTD	2013
Building Permits (Units)	714	857	1,173	1,281	-44.3	915	1,150
Single-family (Units)	430	248	466	414	3.9	381	409
Housing Starts (Units)	1,219	1,063	1,131	617	97.6	1,138	782
Single-family (Units)	316	404	341	360	-12.2	354	391
MLS Benchmark Home Price (\$000s)	431.1	424.8	419.9	393.8	9.5	425	404
Single-family (\$000s)	472.8	465.5	459.5	432.9	9.2	465.9	443.4
Apartment (\$000s)	285.9	282.2	279.4	256.6	11.4	282.5	265.3
Resales (Units)	3,170	2,363	1,802	2,631	20.5	2,445	2,496
Sales:Listings Ratio (Dimensionless)	0.72	0.67	0.57	0.62		0.65	0.73
5-Year Mortgage Rate (%)	4.99	5.24	5.24	5.14		5.16	5.24
Average Weekly Wage Rate (\$)	1,093.45	1,087.39	1,077.66	1,120.08	-2.4	1086.17	1101.35

Source: Statistics Canada, CREA, CMHC, Corporate Economics, April 2014

Housing Review

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increased cost of homeownership. Fortunately, these factors should subside in the coming months. The onset of spring will lead to a pullback in energy prices, while recent employment gains should result in a renewed upward trajectory for weekly earnings.

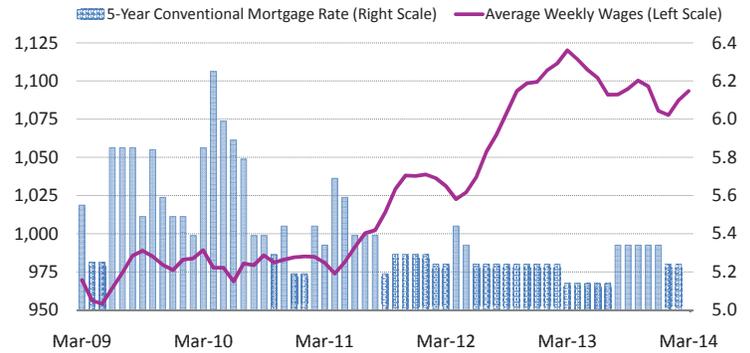
This, along with continually elevated levels of migration, should help insure that property prices remain elevated. However, it is unrealistic to expect such robust leaps in home values for an extended period of time. Eventually they're liable to cool off and rise at a more modest pace that is in line with wage gains and consumer price inflation.

Significantly less punishing winter weather in March was accompanied by a leap in resale activity. The number of units sold climbed to 3,170, up from 2,363 in February. Meanwhile, the ratio of sales-to-new-listings advanced to 0.72, pushing Calgary to the edge of sellers' market territory. Going forward, improvements in energy market conditions and warmer weather should lend themselves to further advances in resale activity. There is little doubt that Calgary will officially be a sellers' market by the time summer comes to a close.

Residential construction in Calgary remains on a solid upward trajectory. At 1,219 units, housing starts in March were up nearly 15 per cent from February and essentially doubled year-over-year. Moreover, the six-month moving average cracked 1,000 units for the first time since August 2008. The increase was entirely a result of a jump in multi-family homes, which rose from 659 dwellings in February to 903 units in March. Conversely, single-family starts edged down from 404 to 316 units following two consecutive monthly advances. The multi-family segment has a tendency towards a greater level of volatility, but has continually outpaced single-family starts since fall 2013. As home prices continue to rise, it is expected that consumers will substitute towards comparatively cheaper multi-family dwellings.

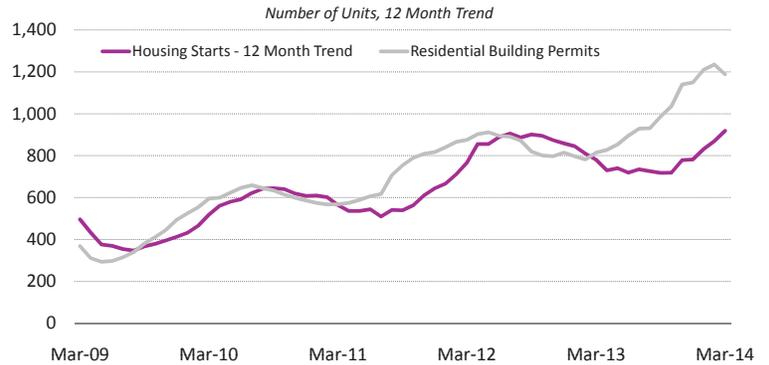
Our short term expectations for housing starts are generally informed by the most recent building permit figures. Although some builders may allow permits to expire unused, they are typically a reliable leading indicator for future construction activity. In February the number of residential building permits issued by the city slipped to 714 as construction intentions for multi-family dwellings waned, counterbalancing a solid gain in single-family permits. However, building intentions have been generally trending higher since early 2013, suggesting further strength in housing starts in the coming months. The bulk of the growth has been from the multi-family dwellings side, while the single-family home component has been relatively stable. Going forward we can anticipate continual strength in residential construction as a booming economy lends itself to further population growth.

Housing Affordability Factors



Sources: Statistics Canada, Corporate Economics

Residential Construction



Sources: Statistics Canada, CMHC, Corporate Economics

In late March the Bank of Montreal began gearing up for the spring selling season by joining several of its peers and slashing its five year mortgage rate to 2.99 per cent. In March of last year BMO made a similar move, only to be chided by then-Finance Minister Jim Flaherty. The late Minister Flaherty's replacement, Joe Oliver, does not seem as eager to interject. He has remained mum on the topic of whether mortgage rates are considered to be precariously low by the federal government, and stated that the government is seeking to reduce its involvement in the mortgage market. Consequently, mortgage rates are liable to remain low until bond yields begin creeping up in the coming months as a result of the U.S. Federal Reserve's move to taper its quantitative easing program. At any rate, with the cost of financing a home remaining extremely attractive relative to historical norms, it is unlikely that incremental mortgage rate cuts will do much to sway prospective homebuyers one way or another.

Next update: May 29, 2014