



Housing Demand

Impact of new mortgage rule

The new mortgage rule continue to weigh on the housing market throughout Canada. Under the new rule, home buyers with a down payment of 20 per cent or more are tested to ensure they can afford their mortgage payments if interest rates increase. This has sparked housing price competition in the Calgary region.

Many prospective buyers looking to avoid rejected mortgage applications, under more stringent rules, have prioritized housing affordability. These prospective home buyers, especially for single family units, seem to have expanded their search to relatively cheaper communities in the Calgary region that are outside of the city.

Moving away from the market for single family units to the market for multi-family units, there is a lot of inventory in the city. Prospective buyers of multi-family units may find themselves better off in the city's housing market. Prices are comparable with elsewhere in the region and there are benefits from savings on transportation costs.

Market conditions

The Calgary region's job market improved this second quarter of 2018. The unemployment rate in the Calgary Economic Region decreased by 0.4 percentage points to 7.3 per cent. This is good news because the unemployment rate increased slightly by 0.1 percentage points in the previous quarter. Nevertheless, the unemployment rate was above the provincial and national averages making this good news but not great news.

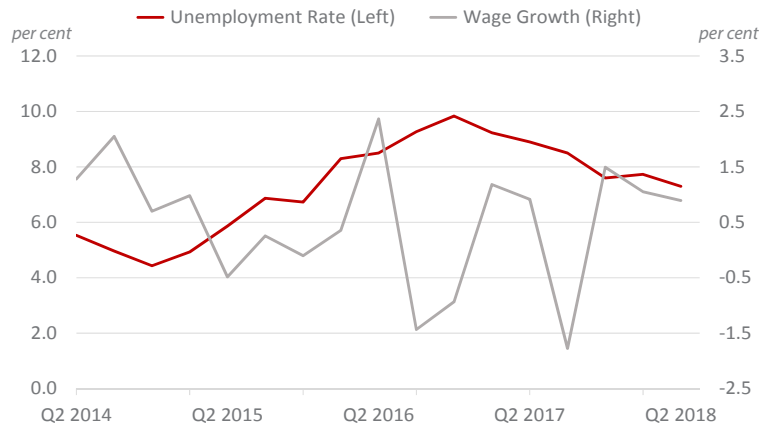
Beginning in the first quarter of 2017 through to the second quarter of 2018, there has been positive nominal wage growth for five of the six quarters. The only quarter with negative wage growth was the third quarter of 2017. While wages continue to rise, they are doing so at a slower clip. Annual wage inflation through to the end of the second quarter of 2018 was 0.89 per cent, compared with 1.49 per cent for all of 2017.

Together, the falling unemployment rate and a continuation of wage growth provide support for attracting workers to Calgary and increasing the demand for housing units and housing related services.

Regional Demographic and Labour Market Shifts

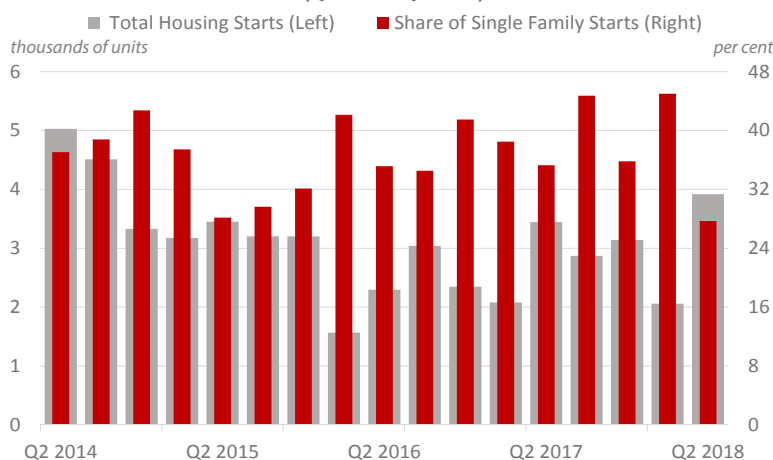
As the "baby boomer" generation (born 1946 through to 1965) continue their exit from the labour market, mainly

Wage Growth and Unemployment Rate (CER)
(Q2 2014 - Q2 2018)



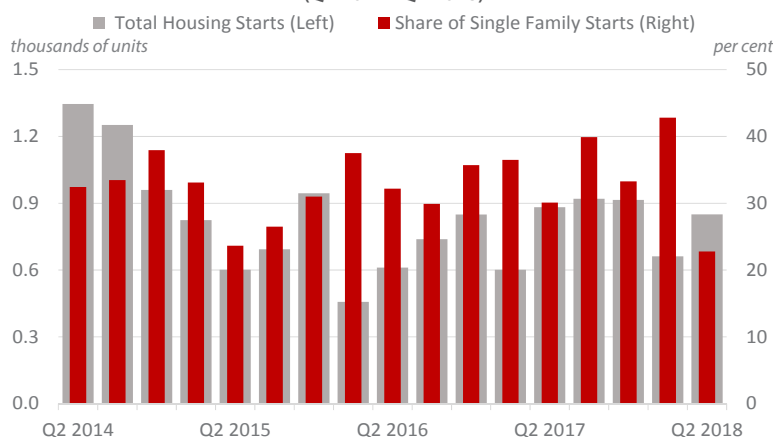
Source: Statistics Canada, Corporate Economics

Share of Single Family Starts and Total Starts (CMA)
(Q2 2014 - Q2 2018)



Source: CREA, Corporate Economics

Share of Single Family Starts and Total Starts (City)
(Q2 2014 - Q2 2018)



Source: CREB, Corporate Economics



due to retirement, a change in housing preferences is expected. Some of the boomers will stay in their current homes to maintain existing social networks, some may find moving into condos with ancillary home maintenance services more attractive, while others will move out of Calgary. The housing decisions of the boomers, given their relatively large share of housing demand, will change the demand for different housing types and lead to a further evolution of local real estate market dynamics.

A plausible outcome is that vacancy rates in single family homes could increase above historical averages. This is because of the combined effect of the more stringent mortgage rule introduced in January 2018 and the change in housing preferences for boomers. The result would be a shift in demand from single family units to multi-family units. The local business community has anticipated and responded to this trend and this is reflected in a rise in inventory of condominiums in Calgary. For the moment, this will create further downward pressure on condo prices. This will make that segment of the real estate market more competitive relative to other market segments throughout the Calgary region.

Real Estate Market Activity

Calgary Census Metropolitan Area (CMA)

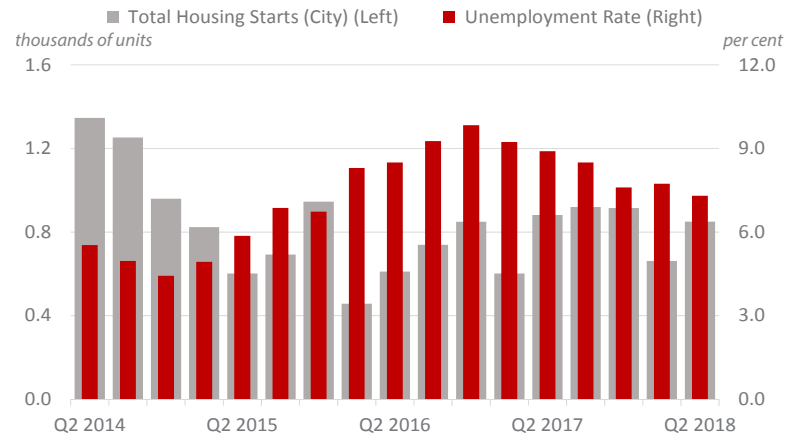
Housing starts are up for Q2 2018 relative to Q1 2018 and Q2 2017. Total Q2 housing starts stood at 3,919 units, which is an increase by 1,860 units from Q1 2017. At the same time, the share of single family units decreased from 45 per cent to 27 per cent. Housing starts are up by 473 units this quarter and 454 units for the first half of this year compared with 2017.

Unit sales are up for Q2 2018 relative to Q1 2018, but down relative to Q2 2017. There were 2,080 more units sold in the second quarter than the first quarter of 2018. However, second quarter sales were 1,238 units fewer than second quarter sales for 2017.

Listings are up for Q2 2018 relative to Q1 2018 and Q2 2017. The total number of new listings increased by 4,334 listings relative to the first quarter of 2018 and by 908 listings relative to the second quarter of 2017. The surge in listings from the first quarter to the second quarter of 2018 is higher, by 736 units, than the surge experienced for the same period in 2017.

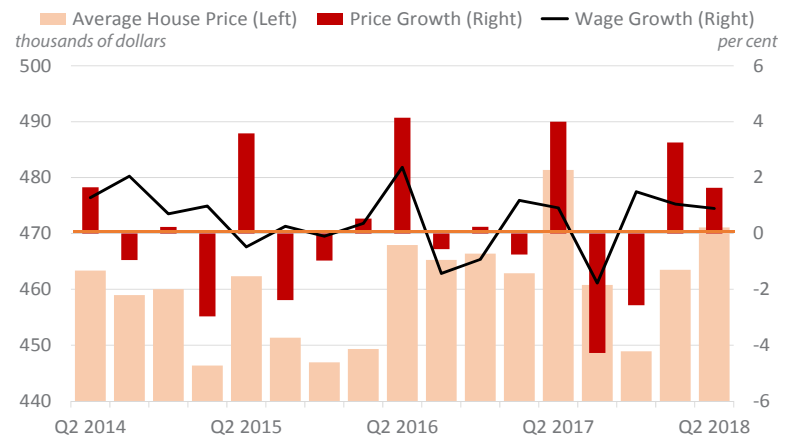
For the first two quarters of 2018, there has been an increase in housing unit supply (736 additional listings) and a decrease in housing unit demand (409 fewer units sold) in the Calgary Census Metropolitan Area relative to the same period for 2017. This change in demand and

Unemployment Rate (CER) and Total Housing Starts (City) (Q2 2014 - Q2 2018)



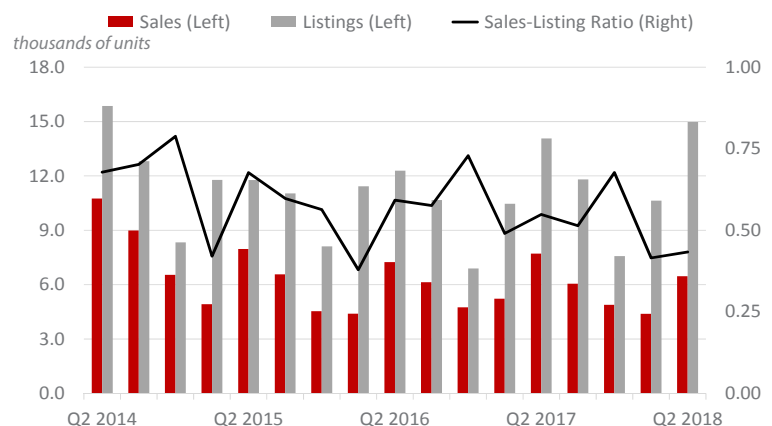
Source: Statistics Canada, CMHC Corporate Economics

House Price Level, Growth (CMA) and Wage Growth (CER) (Q2 2014 - Q2 2018)



Source: CREA, Corporate Economics

Sales, Listings, and Sales-Listings Ratio (CMA) (Q2 2014 - Q2 2018)



Source: CREA, Corporate Economics



supply is summarized by the sales to new listings ratio. In the second quarter of 2017, the ratio was 0.55 reflecting a balanced market. For the second quarter of 2018, the ratio was 0.43. This has tipped the housing market in favor of the prospective home buyer. There is a greater stock of units to choose from and relatively weaker demand for housing. This weakness in demand is reflected in a decrease in the average house price over the same period by \$10,300.

City of Calgary

Housing starts and building permits

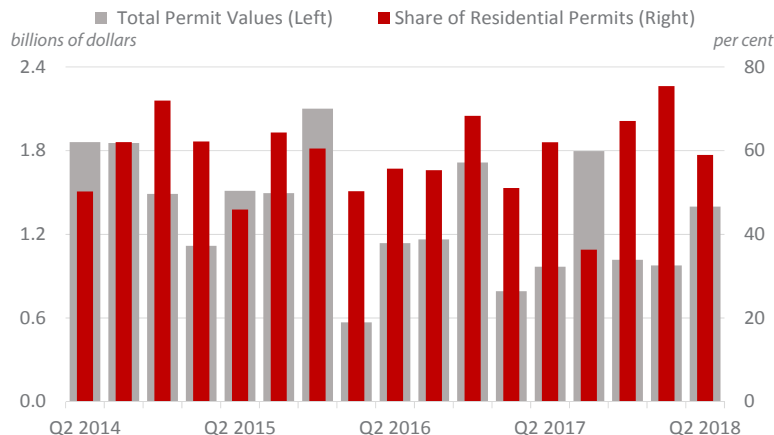
Housing starts are up for Q2 2018 relative to Q1 2018 and Q2 2017. 2,186 additional housing units started in the second quarter of 2018. This is 803 more units than the number of starts recorded for the second quarter of 2017. The total housing starts in the first two quarters of 2018 increased by about 700 units compared to the first two quarters of 2017. At the same time, the share of single family units fell to 29 per cent from 33 per cent.

This quarter, total residential permits increased by 12 per cent relative to Q1 2018 and by 37 per cent relative to Q2 2017. The share of single family residential unit permit values relative to total residential permit values fell from 59 per cent for the first two quarters of 2017 to 37 per cent for the first half of 2018. This is a demonstration of a shift from single family to multi-family units. The last time Calgary experienced a similarly low share for single family residential unit permit values was in 2015 at the start of the most recent economic downturn.

Affordability Index¹

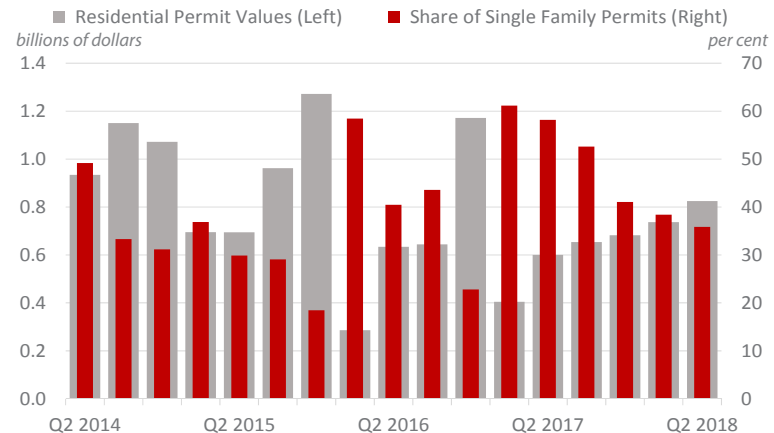
The value for Calgary on the housing affordability index did not change from the last quarter. The longer-term trend is that housing has remained relatively affordable since 2012, when compared with the 2002 to 2011 period. More recently, there has been a balance at work. On one hand, the change in mortgage rules has strained affordability. On the other hand, the weakness in housing demand reflected in limited or non-existent price appreciation coupled with rising wages has improved affordability. The outcome of these divergent forces is that housing has remained relatively affordable in line with the long-term trend.

Total Permit Values and Share of Residential Permits (City) (Q2 2014 - Q2 2018)



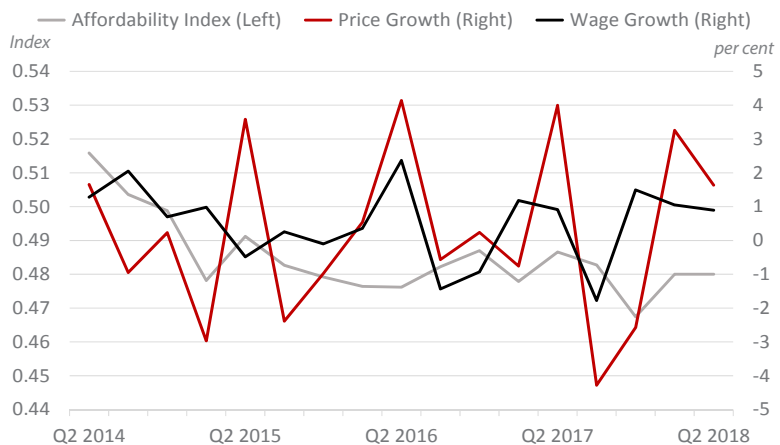
Source: The City of Calgary, Corporate Economics

Residential Permit Values and Share of Single Family (City) (Q2 2014 - Q2 2018)



Source: The City of Calgary, Corporate Economics

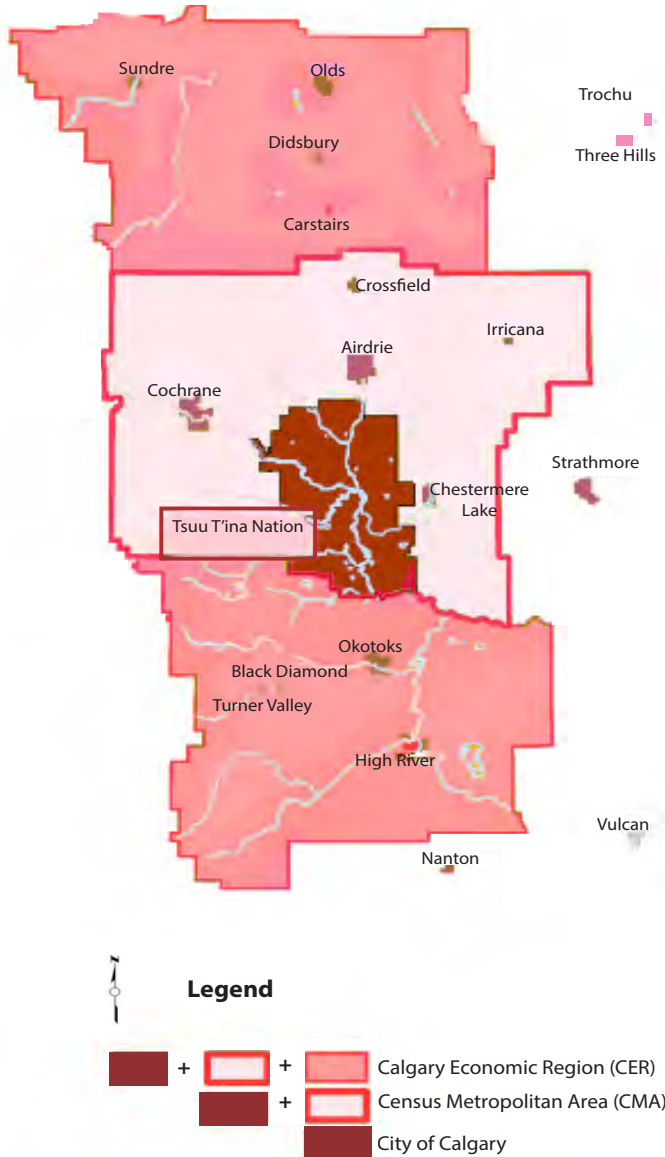
Affordability Index, Wage Growth, and House Price Growth (CMA) (Q2 2014 - Q2 2018)



Source: Statistics Canada, CREA, Corporate Economics

¹ The affordability Index is defined here as sum of average house price and cost of utility divided by labour income in Calgary.

Calgary Economic Region Map



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Sources:
 Statistics Canada, CMHC, CREA, CREB, The City of Calgary, Corporate Economics

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