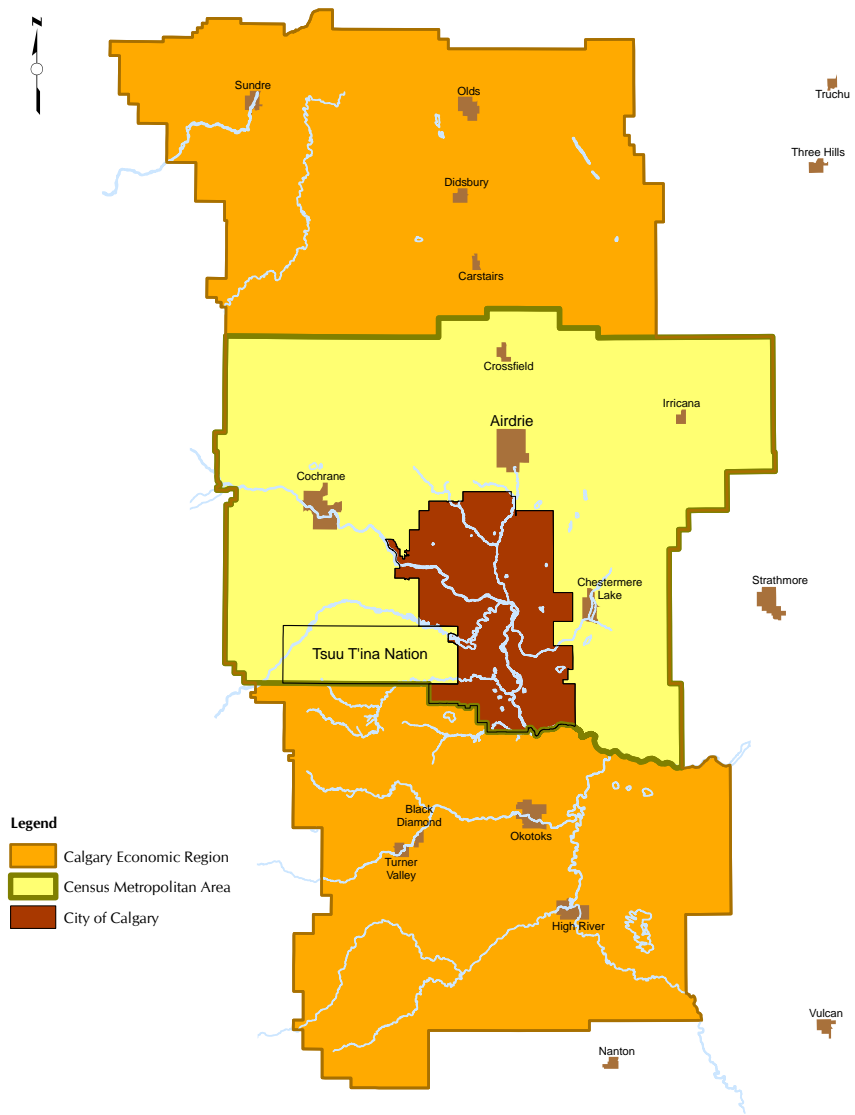


# Calgary Housing Review 2003 – 2013

## Purpose

The purpose of this analysis was to explain the changes in various indicators and how they influenced the real estate market within the 2003-2013 period. The shifts in the Calgary real estate market during the 2003-2013 period can be explained by changes in four factors: industry growth, employment, population, and mortgage rates. This analysis provides a brief explanation of how these variables individually and collectively affected the real estate market in Calgary.

## Calgary Economic Region Map



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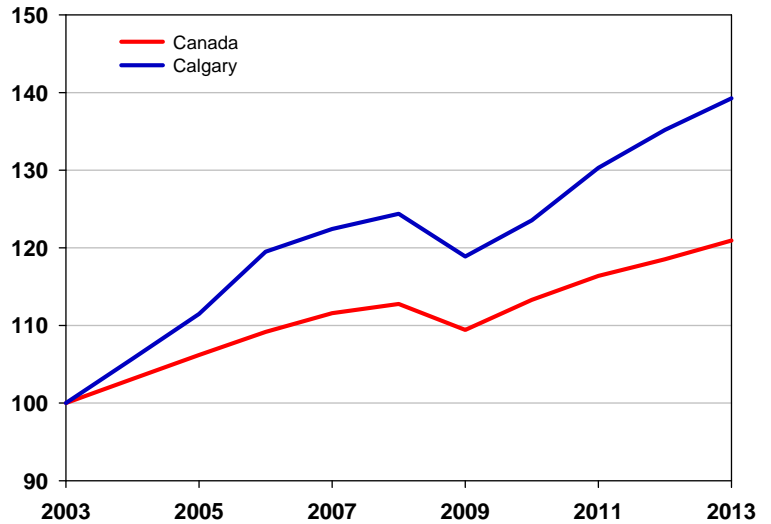


## Briefing Note

Over the past decade, Calgary saw many changes in its economy, which is illustrated by growth in indicators such as gross domestic product (GDP), employment, and population. On their own, the factors above do not provide a well rounded explanation of the changes experienced in the real estate market, but when combined offer a more holistic approach to the analysis.

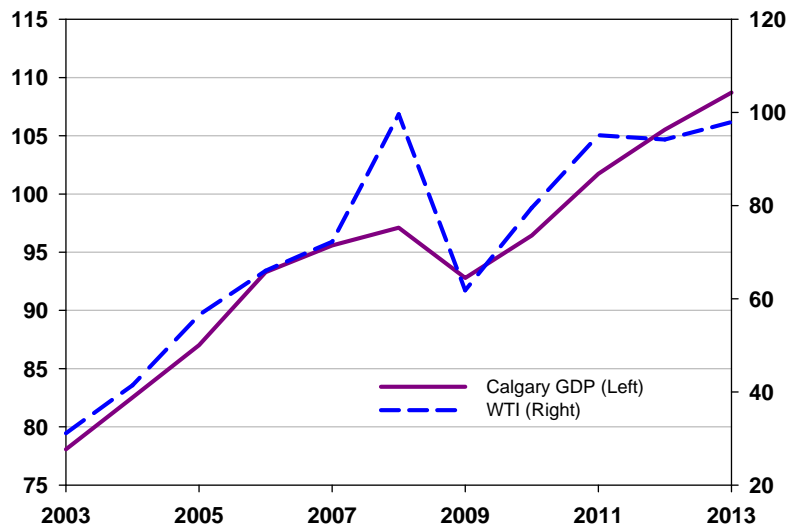
Industry growth is an important factor in regards to the housing market, not because it has a large direct impact, but because industry growth can spur additional changes in employment and population. During the time frame, real GDP in the Calgary Census Metropolitan Area (CMA) grew by an average of 3.5 per cent per year. The above-average growth (the national average was 1.9 per cent) in real GDP can be attributed to the high demand for energy products coming out of Alberta. Though Calgary is not directly involved in the energy extraction industry, its economy is built around the supporting industries. That being said, the Calgary economy is heavily influenced by global energy demand and world fuel prices.

### Real Gross Domestic Product 2003=100



Sources: Conference Board of Canada; Statistics Canada; Corporate Economics

### Real GDP & WTI Oil Price \$ Billions, \$US/bbl

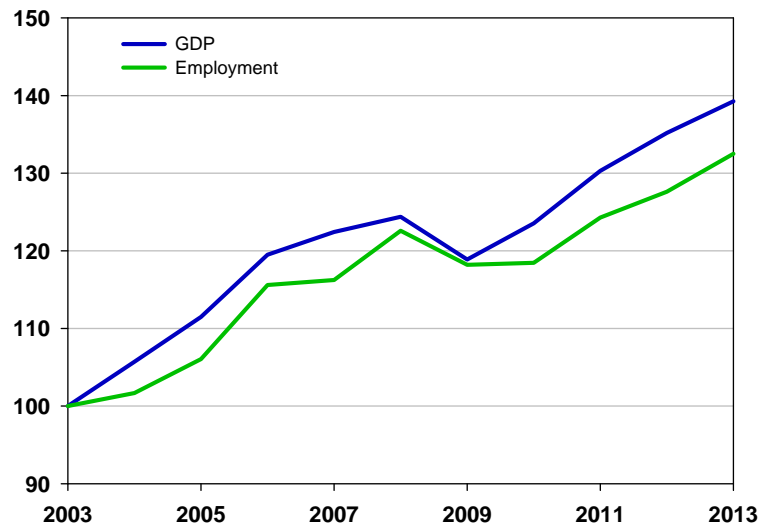


Sources: Conference Board of Canada; GLJ Energy; Corporate Economics

# Briefing Note

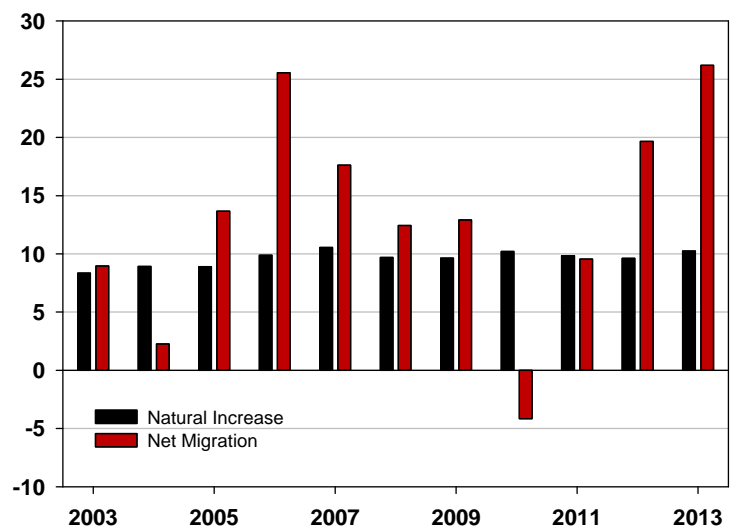
The Calgary economy performed well over the decade, and industry growth drove the demand for labour, creating additional employment opportunities. In the 2003-2013 time horizon, Calgary's economy was adding an average of 18,800 jobs every year, increasing total employment by an average of 2.9 per cent annually. Though industry and employment growth can affect the housing market, the main driver of the real estate market comes from changes in population. Population is comprised of two factors: the natural increase (births-deaths) and net migration. The City of Calgary saw positive natural increase figures every year in the time span, which accounts for an average boost in population by 9,631 persons annually. While the natural population factors play an important role in population growth, the majority of population change in Calgary comes from net migration. In 2013, the City of Calgary alone drew in 26,201 persons from outside its borders, which is more than double the average annual natural increase. In total, the economy experienced a 2.5 per cent average yearly increase in population throughout the period. Ample employment opportunities created an incentive for people to migrate to Calgary from other provinces and internationally. The changes in population had an immense impact on the real estate market, influencing supply and demand functions.

**Calgary: GDP & Employment**  
Index 2003=100



Sources: Conference Board of Canada; Statistics Canada; Corporate Economics

**City of Calgary: Natural Increase & Net Migration**  
Thousands of Persons



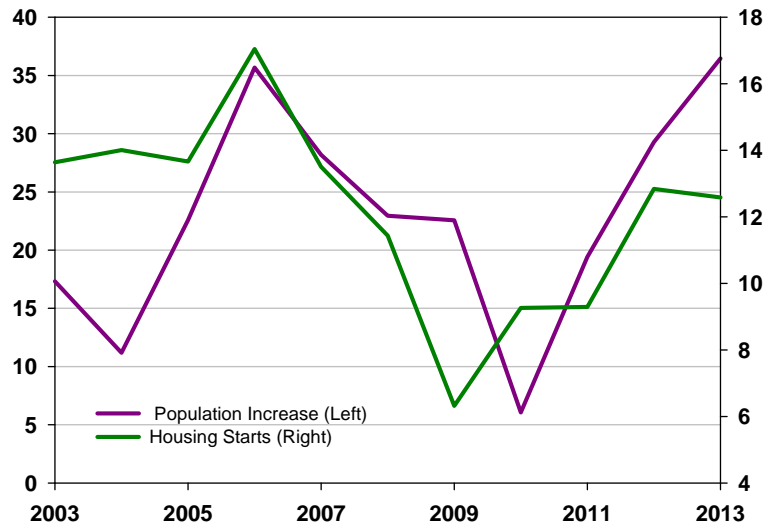
Sources: Calgary Civic Census; Corporate Economics



# Briefing Note

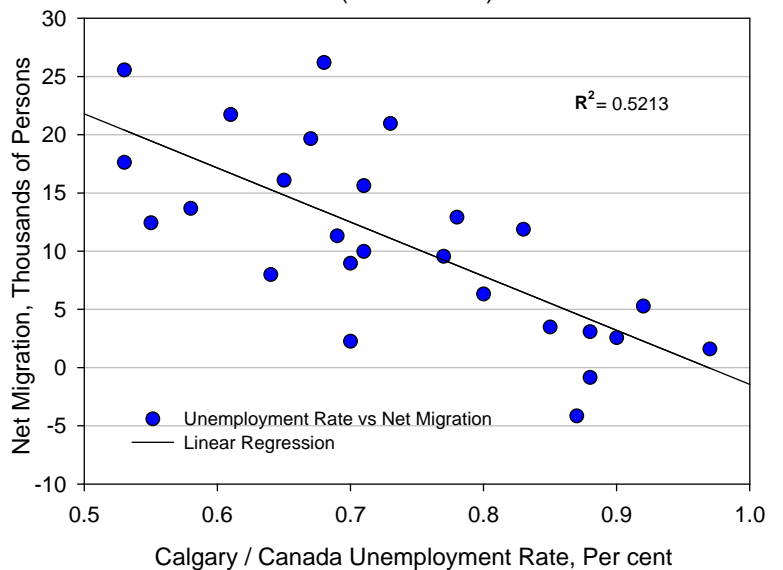
As stated above, the factors within the Calgary real estate market are heavily related to the changes in population during the decade. Using Calgary's housing starts as a measure of residential investment provides an insight into the condition of the real estate market, where an increased amount of housing starts per year suggest a prospering housing sector. The Calgary CMA had over 10,000 housing starts per year for the majority of the time interval. The high number of homes breaking ground every year can be attributed to the increase in employment prospects in the Calgary area, which created a surge in population and a jump in the demand for homes. While Alberta and Saskatchewan had the lowest unemployment rates during the period, it is not surprising that a large portion of migration came from the provinces in Central and Eastern Canada. With unemployment low, a greater portion of the labour force has the ability to earn an income, increasing the number of people able to buy a home. Moreover, the participation rate averaged 75.5 per cent throughout the term, suggesting that a large share of people in the labour force was willing to stay, either employed or unemployed. Furthermore, the average hourly wage rate in Calgary had been among the highest in the country, influencing people's decision to change jobs, move locations, or to stay in the labour force. Having high wages alone does not mean that one place is better than another; the cost of living must be taken into account to determine the standard of living. On that note, Calgary saw rapid population changes over the decade in part because the cost of living in Calgary is relatively low when compared to Canada's other major cities such as Vancouver or Toronto. While the price of homes in Calgary have gone up, the increase in average weekly earnings combined with low mortgage rates had kept the housing market affordable relative to other major metropolitan areas.

### Calgary: Population Increase & Housing Starts Thousands of Persons, Thousands of Units



Sources: Calgary Civic Census; Canada Mortgage and Housing Corporation; Corporate Economics

### Calgary Net Migration & Relative Unemployment Rate (1988 - 2013)



Sources: Calgary Civic Census; Statistics Canada; Corporate Economics

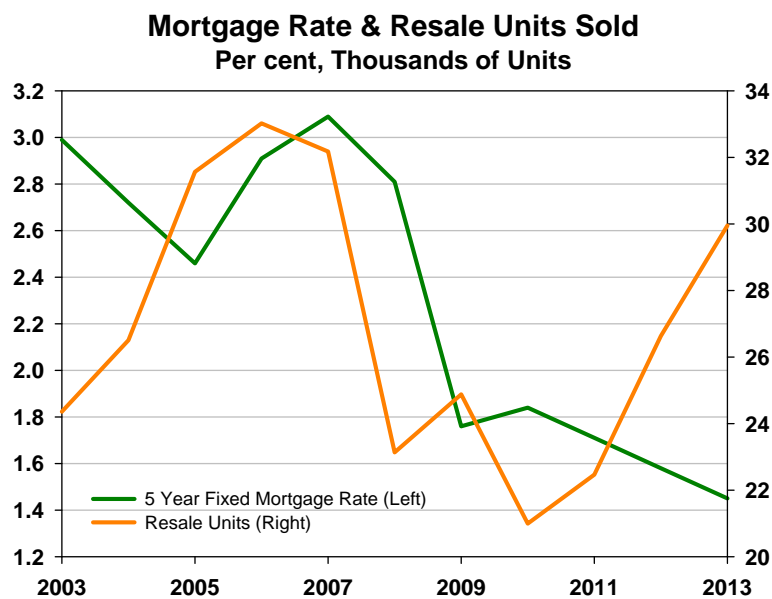
## Briefing Note

The affordability of Calgary’s housing market combined with increased employment opportunities drew people to the Calgary area and increased demand for existing and new homes. The impact of population growth was also reflected in the Calgary resale market, where sales exceeded over 20,000 units in every year of the period. Population growth not only changed demand for owning a home in Calgary, but influenced the rental side of the real estate market as well. The boost in population kept Calgary’s residential vacancy rate under 2.0 per cent for the majority of the term. Consequently, rental rates remained high as they reflected the scarcity in the housing market.

In addition to the affordable nature of Calgary’s house prices, mortgage rates during the timeframe remained low, giving people the opportunity to buy homes they could otherwise not afford. The low mortgage rates in the past decade are a product of the Bank of Canada’s

policies and the condition of the economy<sup>1</sup>. For instance, the global economic recession experienced in late 2008 decreased the demand to borrow money by households and businesses, thus the mortgage rate fell in response to reduced demand for mortgage loans. With mortgage rates being so low following the 2008 recession, the pool of people able to purchase a home expanded, creating an increase in demand for new and resale housing.

<sup>1</sup> The central bank can also indirectly affect the mortgage rate by manipulating key interest rates. The overnight rate is the rate which the Bank of Canada charges to the major financial institutions for borrowing money.



Sources: Statistics Canada; The Canadian Real Estate Association; Corporate Economics



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## Briefing Note

Lastly, changes to the individual sectors within the real estate market can affect the decision to purchase or sell a home, as well as to rent instead of buying. The new housing market, resale market, and rental market are not mutually exclusive, where a change in one sub market can lead to demand shifts in the others. As an example, the Calgary average MLS price in recent months saw a considerable rise, greater than the growth of weekly earnings, making the ability to purchase a home more difficult as time progressed. The increase in the housing price to earnings ratio shifted the demand in the resale market toward the rental market, where the short run costs are lower. A shift of demand toward the rental market lowered the residential vacancy rate, but conversely raised the rental rates. The increase in rental rate may persuade people to invest in a home rather than rent, shifting demand back to the resale market. On the other hand, as the prices of homes are increasing, the decision to build homes will increase, as investors turn to the real estate market as source of investment. The surge in housing stock will create an increase in supply and lower the price of homes. The sub markets will react to shocks like population change or low mortgage rates and eventually the market will correct itself and move toward an equilibrium.

Economic growth drove the demand for workers to the Calgary region. In turn, the growth in employment opportunities in Calgary attracted people from all over Canada and abroad. Consequently, strong population growth propelled the demand and supply for housing.

### Who We Are

Corporate Economics provides services in four areas: forecasting, information provision, policy analysis and consulting. We also monitor the current economic trends which allows us to develop unique insights on how external events are impacting the local economy and the Municipal government. We are experienced at researching different economic topics and have developed reliable methods of forecasting and analysis.

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