

# Housing Review

Chidi Osuji, Senior Corporate Economist | Patrick Walters, City Economist

October 20, 2016

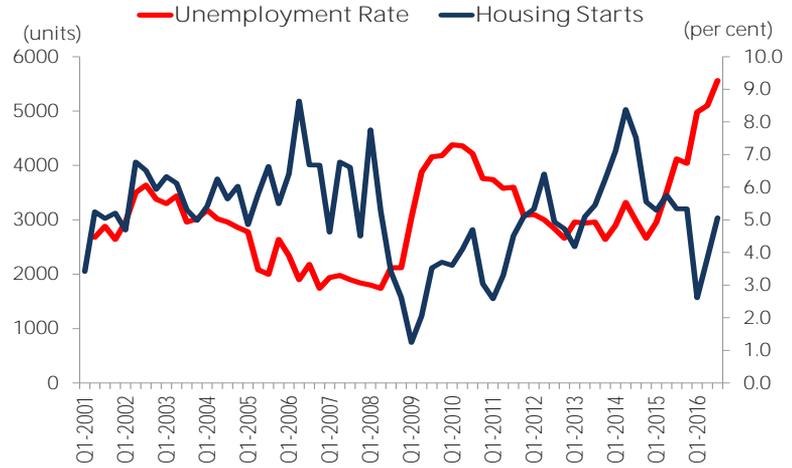
House prices in Calgary in 2016 continue to exhibit relative stability despite a significant slowing in economic activity. Building construction Investment in 2016 for the City of Calgary is expected to fall at least \$2 billion short from a year ago.

Alberta's high unemployment rate, relative to the rest of Canada, continues to weigh on net migration and weaken the demand for new housing and depress house prices. With the new changes to mortgage rules which require an increase in down payment of 10 per cent rather than 5 per cent for houses priced at \$500,000 and over, home purchases in that category are expected to be adversely affected. In addition, house price appreciation, of at least single family homes over \$500,000, should be relatively subdued. However, it is expected that increased demand for houses in the under \$500,000 should experience price appreciation in the short term. We also expect further downward pressures in apartment vacancy rate going forward given the new mortgage rule changes, which have been introduced to enable banks and households reduce their risk of exposure to potential mortgage default.

The new mortgage rules are also intended to calm the very hot markets in Vancouver and Toronto which have exceptionally strong house price appreciation and slower housing stock growth. These regional markets are particularly susceptible to market speculation and thus making it difficult for young families to realise their dream of home ownership. We expect that an attempt to obtain data regarding who is buying and what is owned in these big cities will be a significant area of research for policy makers and other research based outfits.

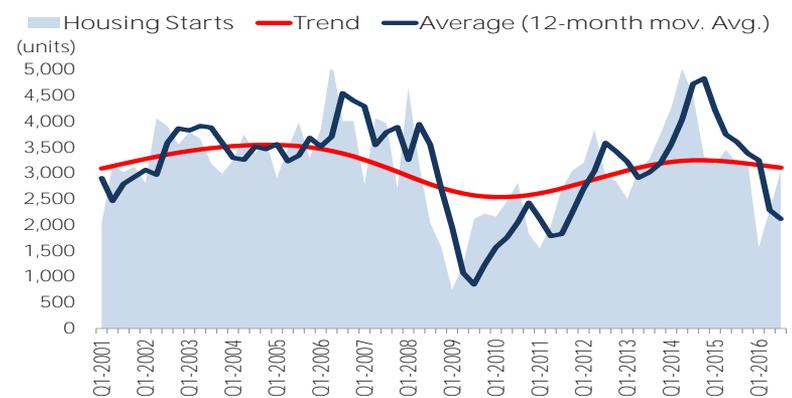
As Calgary remains a major headquarter to oil and gas industries, the recent upward trend in oil prices bodes well for consumer and business confidence. In the near term investment spending should strengthen and drive job creation and draw in more interprovincial migration, and this is expected to put some upward pressure on housing demand for all categories. As consumer and business confidence grow the fourth quarter may see more economic activity in terms of house purchases and retail sales.

**Chart 1 Calgary Unemployment Rate and Housing Starts (Q1 2001 - Q3 2016)**



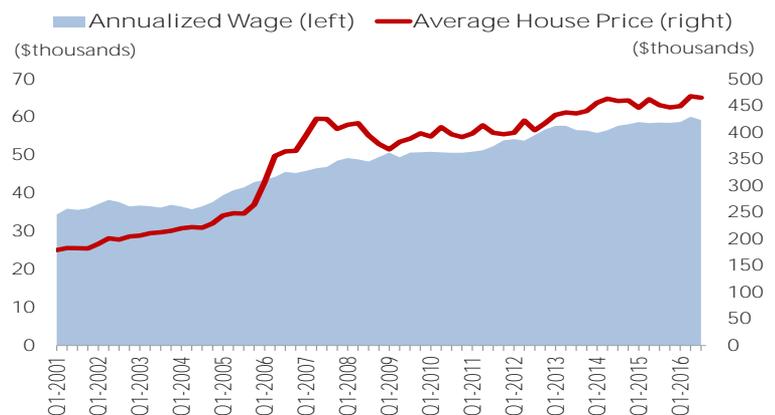
Sources: CREA, Statistics Canada, Corporate Economics

**Chart 2 Calgary CMA Total Housing Starts (Q1 2001 - Q3 2016)**



Sources: Statistics Canada, Corporate Economics

**Chart 3 Average Wage and House Price (Q1 2001 - Q3 2016)**



Sources: Statistics Canada, CMHC, Corporate Economics

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## What we know

Unemployment in Calgary Economic Region increased from 8.5 per cent in the second quarter of 2016 to 9.3 per cent. The sales to new listing ratio remained relatively stable around 0.6 when compared to the previous quarter and with the same period a year ago.

The sales to new listing ratio attempts to capture the nature of the housing market in terms of whether it's a seller's market or buyers market, the sales to listing ratio above 0.5 would indicate that the market is more favorable to sellers than buyers and less than 0.5 would imply a buyer's market. The higher unemployment rate will also contribute to slower housing sales growth and possibly increased new housing listings.

## Resale Market

The average house price in Calgary appreciated by 3.1 per cent in the third quarter of 2016 measured year over year, down marginally, however from \$467,905 dollars in the last quarter to \$465,268 dollars this quarter.

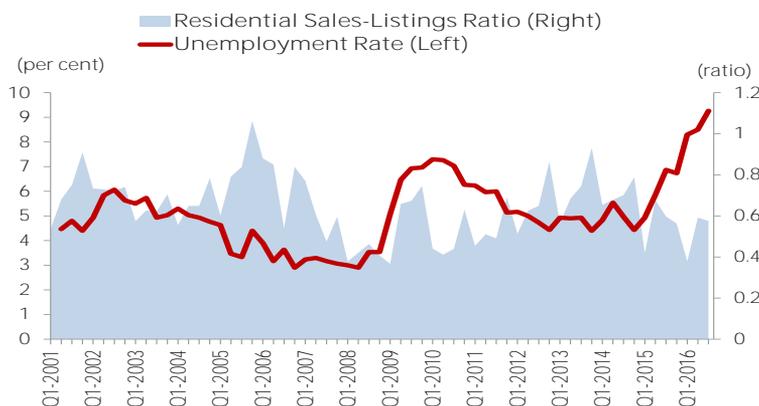
The total units sold this quarter was 6,132 down from 7,246 units sold last quarter, and also down year over year from 6,568 units sold in the third quarter of 2015, a fall of 6.1 per cent units less sold from third quarter of 2015. The fall in total units sold year over year represents a relatively weaker market this year than last.

The total units listed in the third quarter of 2016 was 10,669 units down from last quarter which saw 12,290 units listed and also down from year-over-year of 11,033 units in 2015, a fall of 3.3 per cent listed units from third quarter of 2015.

Year-over-year, sales declined by 6.1 per cent and listings fell by 3.3 per cent. Therefore, the decline in the sales / listing ratio came as a result of listing declining by a smaller percentage than sales. The fall in listing was in reaction to falling prices and the reduction in sales was in response to reduced consumer confidence stemming from significant job losses. In the near term, we can expect to see further erosion in the sales / listings ratio as the market swings to a buyer's market.

The implied reduced absorption suggest that we will continue to see more pressures on the rental housing market for apartments which should reduce vacancy rates, and further is exacerbated by the new mortgage rules which took effect as of October 17<sup>th</sup> 2016. This will continue to increase demand in this market space, which should drive apartment rental rates up.

Chart 4 Sales-Listings Ratio and Unemployment (Q1 2001 - Q3 2016)



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

Chart 5 Sales and Listings in Calgary (Q1 2001 - Q3 2016)



Sources: CREA, Corporate Economics

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## Housing Starts and Permit Values for the City of Calgary

Total Housing starts have increased from last quarter to 3,038 units, but down 5.1 per cent year till date. The City of Calgary residential permit values (estimated construction values) rose from last quarter to \$0.66 billion dollars in third quarter of 2016, an increase from last quarter of 11 per cent in construction value. However, year over year we see that permit values decreased by 4.3 per cent. Multifamily permit values increased from last quarter to \$0.37 billion dollars in the third quarter of 2016, an increase of 55 per cent from last quarter and down from 2015 permit values same quarter, a decrease of 7 per cent from last year. The non residential permit values was \$0.52 billion dollars in the third quarter of 2016 up 2.8 per cent from last quarter and also up 20 per cent from a year ago.

The permit values are used to estimate the private construction investment in the City of Calgary. Despite the quarter-over-quarter growth in the permit values for both residential and non residential construction type, the relative weakness in the residential market is evident in the year over year numbers for 2016 thus far.

## Affordability Index

We have provided an affordability index for Calgary which represents an estimate which informs us about the nature of affordability of housing in Calgary. We construct this index by incorporating all associated cost of housing including maintenance. The building block of this index is dependent on the ratio of average annual income and average house price. The average aggregate industry weekly wage rate in Calgary has grown by 1.1 per cent year over year till date while, the average house price in the same period appreciated by 3.0 per cent.

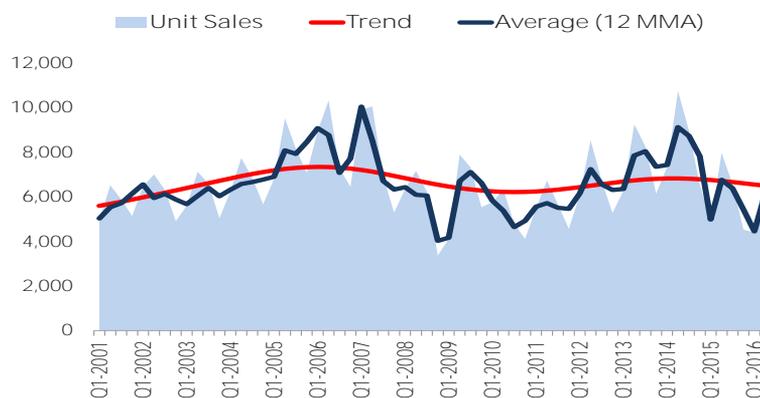
Next release: January 2017

**Chart 8 Affordability Index in Calgary (Q1 2010 - Q3 2016)**



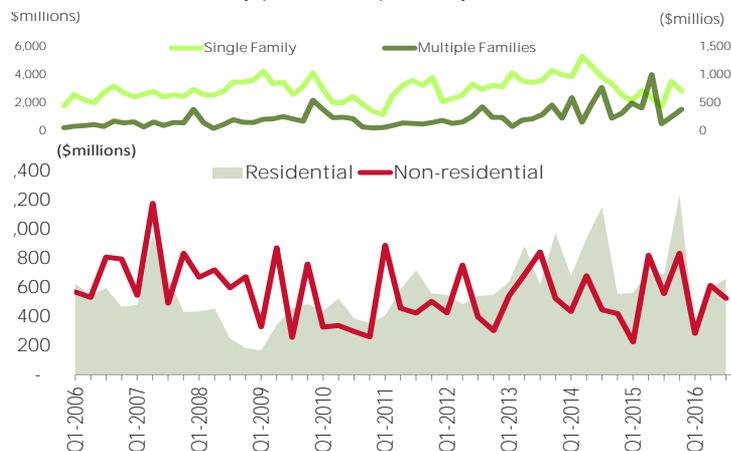
Sources: Corporate Economics

**Chart 6 Residential Sales in Calgary (Q1 2001 - Q3 2016)**



Sources: CREA, Corporate Economics

**Chart 7 Building Permit Values in Calgary (Q1 2006 - Q3 2016)**



Sources: Corporate Economics

