



We take a brief glance into the labour market which along with changing demographics generates interesting dynamics of real estate house pricing. In a nutshell, a stronger labor market provides a boost to the housing real estate market and vice versa.

What We Know

Labour Market Activity

In Calgary Economic Region¹, unemployment rate fell marginally, from 8.9 in the second quarter to 8.5 in the third quarter of 2017. However, between first and third quarter, unemployment rate dropped by 0.73 basis points. This bodes well in terms of firming up the housing market.

The average weekly aggregate wage in Calgary Economic Region fell between second and third quarter of 2017 to 1,132 dollars per week, and was also lower than the first quarter of 2017. Likewise, the average weekly aggregate real wage fell between second and third quarter of 2017 was -1.8 per cent, while inflation barely changed, an increase of 0.02 per cent. A positive real wage growth should also contribute to stronger housing demand.

Real Estate Market

Housing Starts

Calgary CMA²

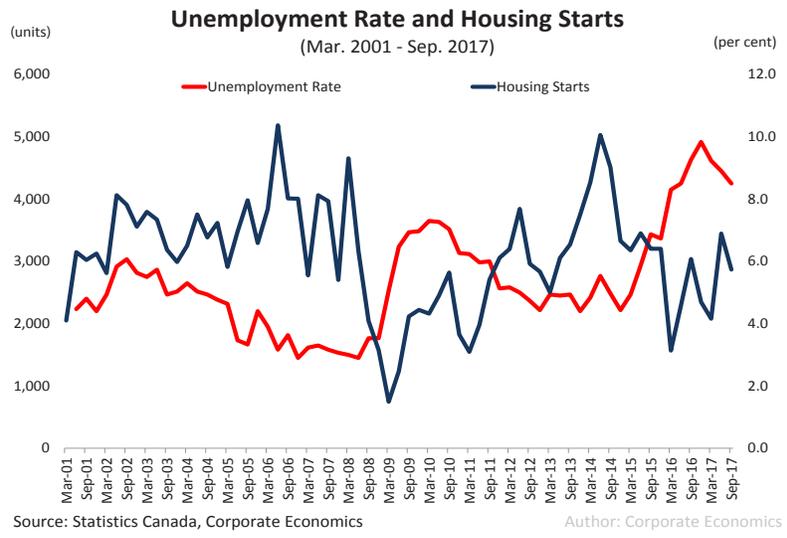
The total housing starts in the third quarter of 2017 was 2,869 units, down 577 units from the second quarter of 2017 and down 169 units from a year ago third quarter. However, total starts year to date 2017, was up by 1,496 units from 2016. This is some encouraging sign for the resale market this year, after three quarters of the year through.

City of Calgary

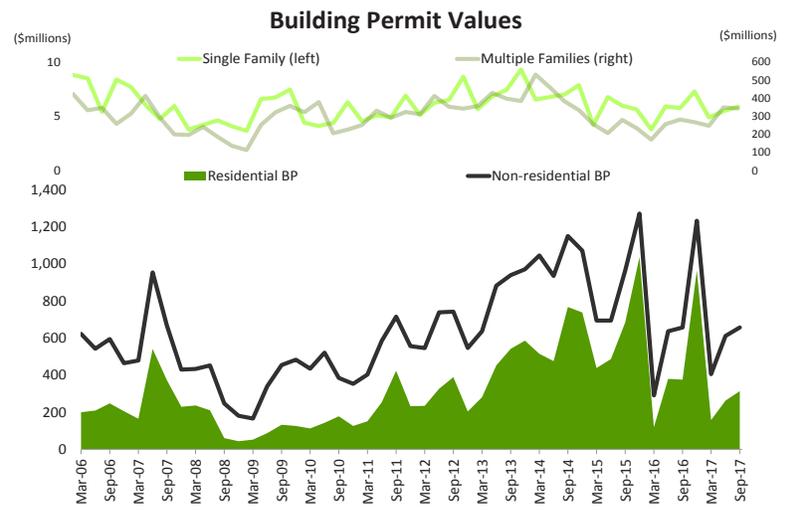
Total housing starts fell from 2,929 unit in the second quarter to 2,305 units in the third quarter of 2017, a drop of 624 housing starts, and down 166 units compared to 2016 third quarter. However, when compared year-to-date, total housing starts increased by 1,294 units in 2017 third quarter. The City of Calgary's total housing starts year to date made up 82 per cent of all total housing starts in Calgary CMA. While in 2016, the City of Calgary made up 84 per cent of the Calgary CMA population. The City of Calgary grew by 0.35 in 2016 and by 0.9 in 2017 to 1,246,337 people.



Source: CMHC, Statistics Canada, Corporate Economics | Author: Corporate Economics



Source: Statistics Canada, Corporate Economics | Author: Corporate Economics



Source: The City of Calgary, Corporate Economics | Author: Corporate Economics

¹ As defined by Statistics Canada; please refer to the Calgary Economic Region Map here.

² Calgary Census Metropolitan Area (Calgary CMA) as defined by Statistics Canada.



Sales and Listings in Calgary CMA

The third quarter of 2017 saw both housing listed and housing sold fall to 2,258 units and 1,656 units correspondingly. Total housing units sold fell by 79 units while total listings increased by 1,134 units, between third quarter of 2017 and third quarter of 2016. However, compared to the third quarter of 2015 and the same period in 2014, we observed a decrease in both listings and housing units sold. The decline in growth between the third quarter of 2014 and the same period in 2015 was -27 per cent in total housing units sold and -14 per cent in total housing units listed. The growth in total housing units sold, increased to -7 per cent and -3 per cent between 2016 and 2015 third quarter. In 2017 third quarter, growth in total housing units sold increased to -1 per cent and 11 per cent in total housing listings. The sales-to-listing ratio of resale homes decreased from 0.55 in the second quarter of 2017 to 0.51 in the third quarter of 2017. The average sales-to-listing ratio over the last three quarters of 2017 was 0.52, indicating a relatively more **balanced market**³ compared to the last five years.

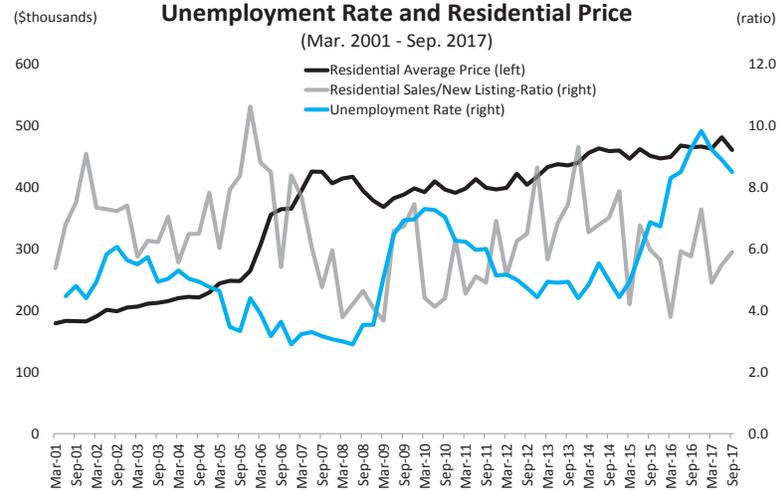
Housing Market Shares by Prices Range

The market share of new housing units sold in the City of Calgary, priced 650,000 dollars and above, increased between 2008 and 2017, while market share of units sold, priced below 550,000 dollars decreased within the same period. Between 2009 and 2010 average market share of sold units priced under 550,000 made up 72.4 per cent and had fallen to 40 per cent between 2016 and 2017. Within the same period, market share of units sold, priced 650,000 and above, was 18 per cent between 2009 and 2010 and increased to 34 per cent between 2016 and 2017.

Resale House Prices in Calgary CMA

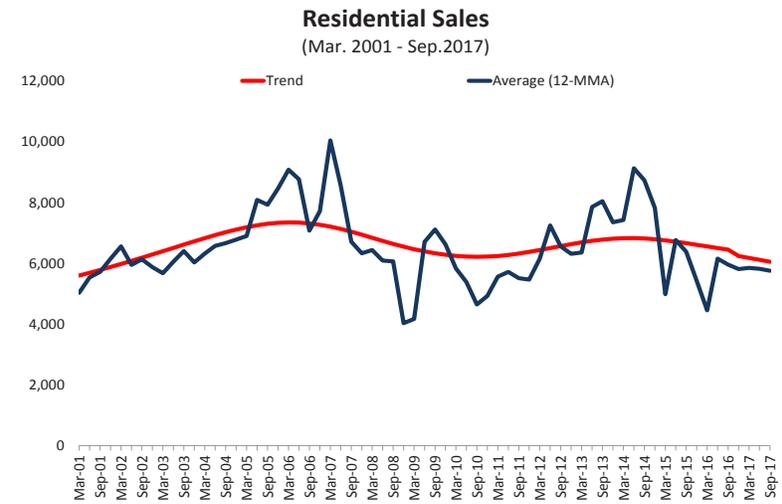
In third quarter of 2017, average house prices fell by 20,601 dollars from the second quarter of 2017, but, fell by 4,514 dollars between first quarter and third quarter of 2017. The growth in average house price between second and third quarter of 2017 was -1.0 per cent. However, the change in average house price year-till-date in 2017 compared to 2016 increased by 7,491 dollars, an appreciation of 1.6 per cent.

³ We define a real estate market as balanced, if the buyer or seller have equally similar opportunities of a purchase or sale. The real estate market can be quantified as balanced by constructing a ratio, such as, the units of housing sold within a given period against the total units of housing listed for sale within the same period. The maximum housing units sold cannot exceed the total units listed, thus the ratio is bounded above by one. While, the least amount of housing units which can be sold is zero, thus it is bounded below by zero. A ratio of 50 per cent lies in the middle, between zero and one, and therefore, reflects a balanced real estate market.



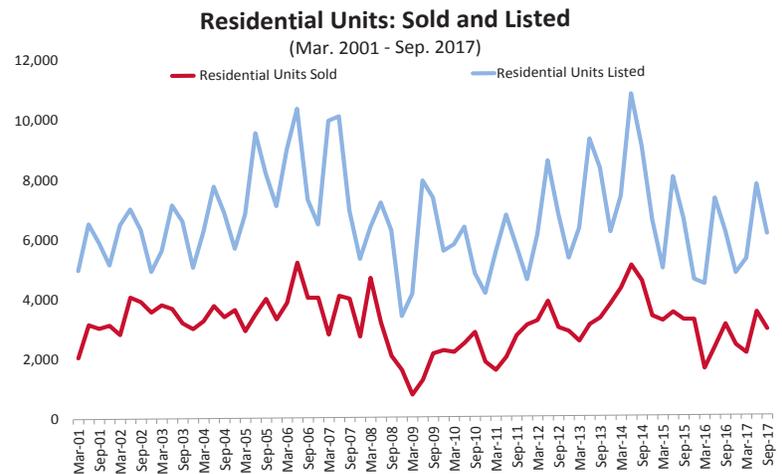
Source: CREA, Statistics Canada, Corporate Economics

Author: Corporate Economics



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City of Calgary Permit Value

Residential Permit Values

In the third quarter of 2017, residential permit values totaled 657 million dollars compared to 611 million dollars in the second quarter of 2017, and 657 million dollars in the third quarter of 2016. The total residential permit values, year-to-date in 2017 third quarter, was 1.7 billion dollars, while in 2016 it was 1.6 billion dollars. The total residential permit value grew by 5.6 per cent between third quarter of 2016 and third quarter of 2017 and when adjusted for inflation grew at 4.2 per cent.

Single-Family Permit Values

Single-family permit value in third quarter of 2017 was 343 million dollars, down marginally from 349 million dollars in the second quarter of 2017, however, up from 282 million dollars in the third quarter of 2016. The total single-family permit value year-to-date in the third quarter of 2017 was 940 million dollars, and in 2016 it was 710 million dollars - a growth of 32 per cent, and when adjusted for inflation, grew by 31 per cent.

Affordability Index

The **affordability index**⁴ for the third quarter of 2017 decreased from 0.49 in the second quarter to 0.48. However, the affordability index, when averaged across the first three quarters of 2016 and 2017, was 0.48 in both years. Although the affordability index improved in the third quarter of 2017, it has remained relatively stable over the last eleven quarters.

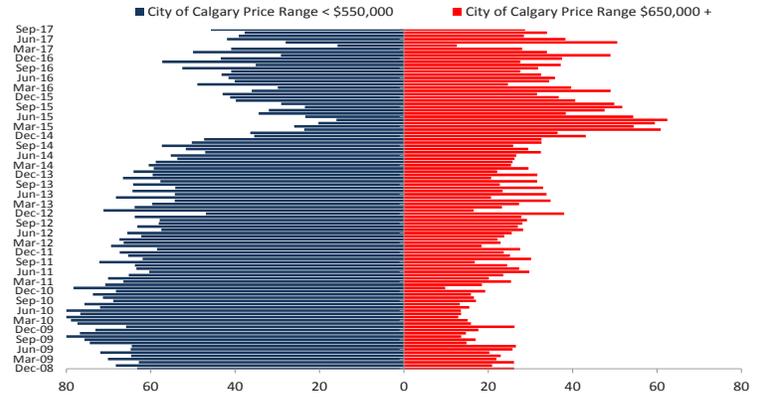
Conclusion

A stronger labour force market activity marked by lower unemployment rate, real wage growth along with population growth should enable growth in the real estate residential market. The labour market indicators have been firming up quarter by quarter, highlighting potential pressure on housing demand, which should drive housing construction and permit values. As population growth increases above the 1 per cent mark, we can expect additional pressure on housing demand, all else constant. Though demographic shifts provide interesting changes in residential structure type purchases, the increase in demand for housing, given the mentioned economic indicators, should generate upward pressure on housing prices across most types of residential structure.

⁴ The affordability index measure is constructed as ratio of the total cost of home ownership to the income earning capacity. As the earning income capacity increases (all else constant), the affordability index decreases, implying home ownership is relatively affordable, and, when total cost of home ownership increases (all else constant), the affordability index increases, implying housing ownership is less affordable.

Residential Sales by Market Shares of the Price Ranges

(per cent from the total monthly sales; Dec. 2008 - Sep. 2017)

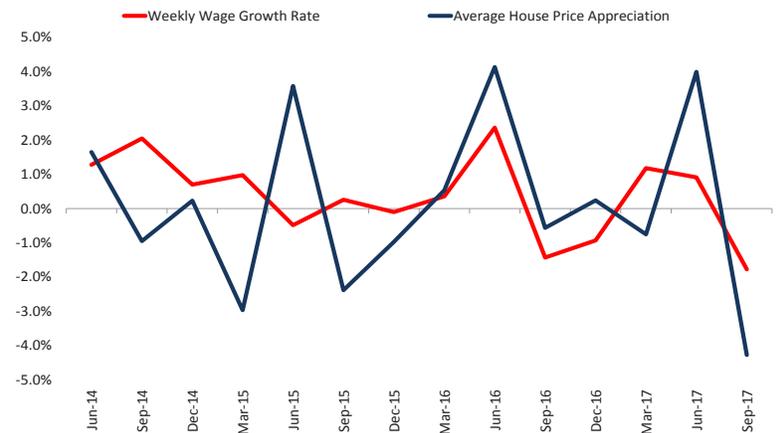


Source: CMHC, Corporate Economics

Author: Corporate Economics

Weekly Wage Growth and House Price Appreciation

(Q/Q per cent change; Jun. 2014 - Sep. 2017)

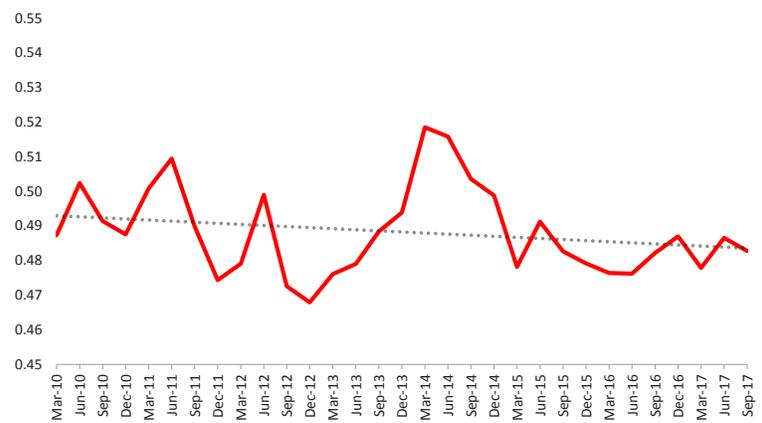


Source: Statistics Canada, CREA, Corporate Economics

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Affordability (Costs-to-Wage Rate)

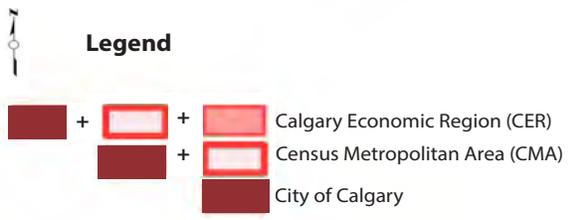
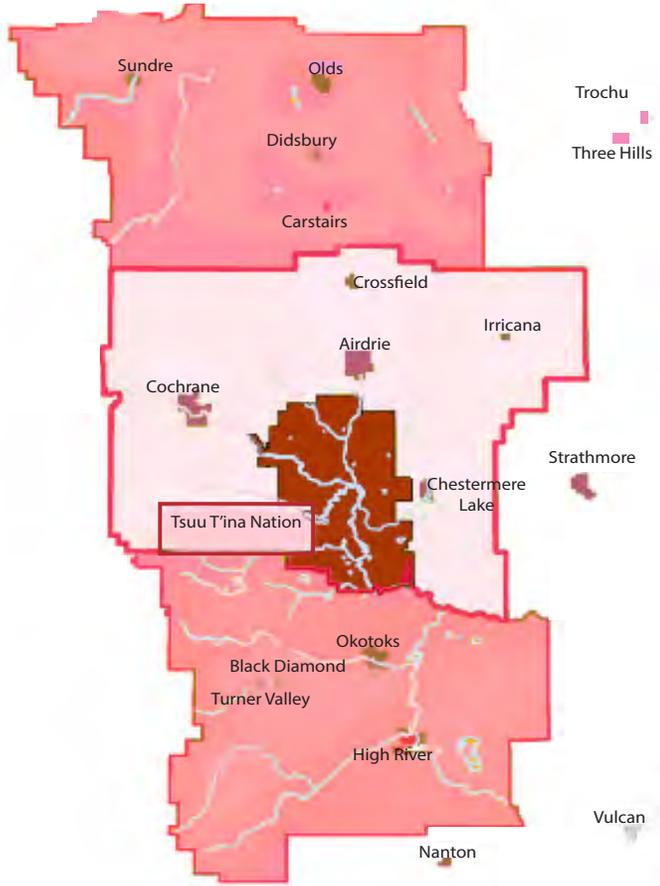
(Mar. 2010 - Sep. 2017)



Source: Statistics Canada, CREA, Corporate Economics

Author: Corporate Economics

Calgary Economic Region Map



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