



House sales dropped in the first quarter of 2018 in Calgary and across Canada. The new mortgage stress test, introduced by the Federal Government in January of 2018, was the reason. The new mortgage rules are restricting the purchasing power of would be buyers. This new development is challenging developers and homebuilders to provide single-family homes at lower price points.

What We Know

The Calgary economy continues to improve following two years of recession. Numerically, all jobs lost from 2015 to 2017 have returned. However, the nature of the work has changed. Jobs that were lost were higher paying goods sector oriented whereas new jobs are lower paying service sector oriented. Personal incomes are growing slower in Calgary and this is expected to further hamper house sales in 2018.

Regional Demographic and Labour Market Shifts

Baby boomers are retiring across the country. Some are choosing to keep working beyond age 65 which is mitigating some adverse effects of this mass retirement. Still, baby boomers are taking with them a great deal of experience which made them more productive than new entrants to the work force.

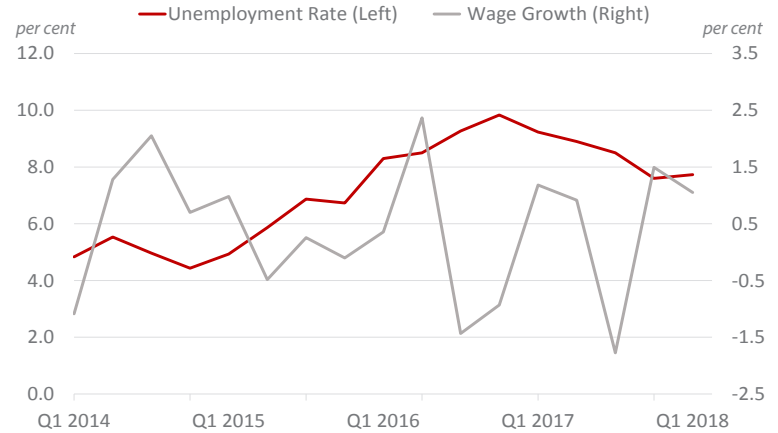
The unemployment rate in Calgary increased slowly by 0.1 per cent from last quarter in 2017 to 7.7 per cent in the first quarter of 2018. As the economy improves and more jobs become available more workers tend to join the labour force. This tends to slow the drop in the unemployment rate following a recession. Improving job conditions in the Calgary economy are disproportionately favoring the service industry though. Consequently, wages are growing slower than they used to. Average aggregate industry weekly wages increased by only \$12 over the last quarter to \$1,161 and by only \$19 over the past year. With wages growing so slowly we anticipate the apartment rental market will show greater improvements than the new house sales market in 2018.

Real Estate Market Activity

Calgary Census Metropolitan Area (CMA)

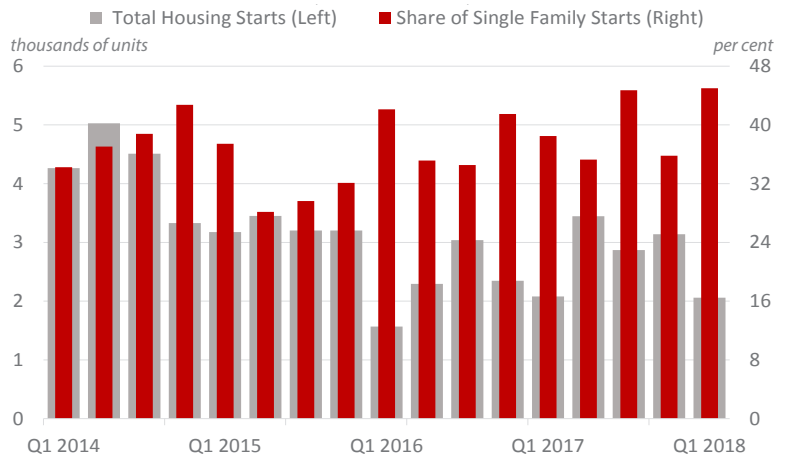
Housing starts in the first quarter of 2018 mirrored the low number of starts that the City saw in the first quarter of 2017. However, when we compare the same time periods the number of houses that sold in Calgary was down 16

Wage Growth and Unemployment Rate (CER)
(Q1 2014 - Q1 2018)



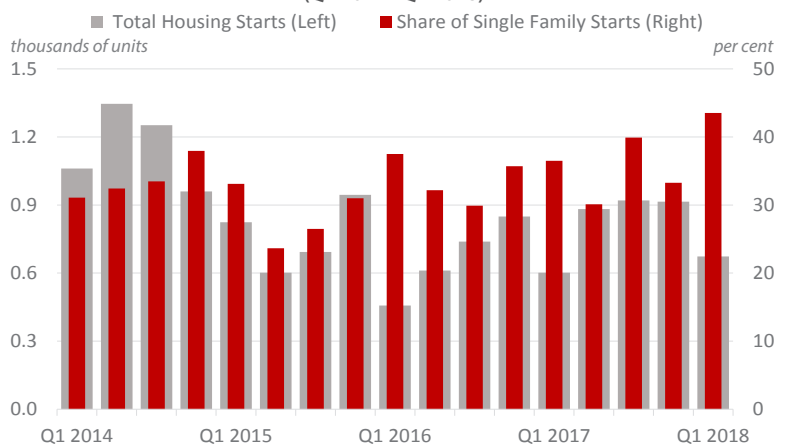
Source: Statistics Canada, Corporate Economics

Share of Single Family Starts and Total Starts (CMA)
(Q1 2014 - Q1 2018)



Source: CREA, Corporate Economics

Share of Single Family Starts and Total Starts (City)
(Q1 2014 - Q1 2018)



Source: CREB, Corporate Economics



per cent. Listings are up 1.6 per cent and average resale prices rose by a small margin of 0.147 per cent.

Over the past 12 months total sales have dropped 10 per cent, listings are up 40 per cent. Average house prices have increased 3.3 per cent, largely due to a relative decrease in the number of condos that have sold compared to houses. The sales to listings ratio has edged up by 15 per cent and now sits at about 0.4, indicating a “buyers market”. This is typical for the first quarter of the year when new listings traditionally increase while adverse weather keeps would-be buyers away.

City of Calgary

Housing starts and Building Permits

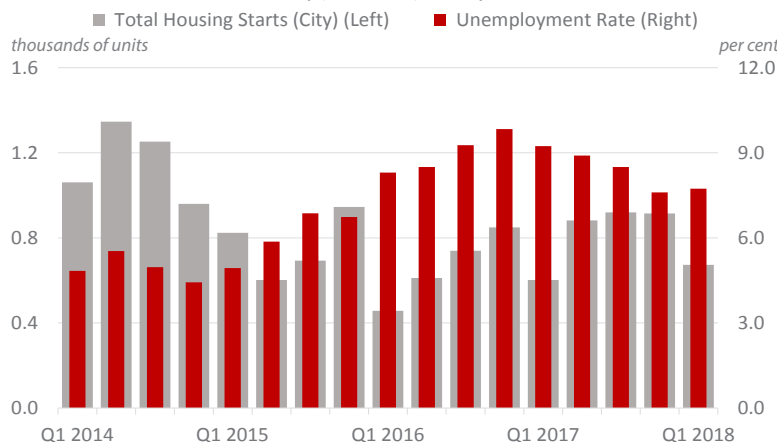
There were 1,546 housing starts in the first quarter of 2018, down from 1,649 in the first quarter of 2017. Looking at single family dwellings, there were 602 housing starts in the first quarter of 2018. This is up by 72 units compared to the first quarter of 2017 but down 26 per cent from the last quarter of 2018. The market share of single family starts increased from 34 per cent in 2017 to 44 per cent in 2018. Prior to 2015 the market share of single family homes averaged 31 per cent.

Residential investment intentions, as measured by building permit values were \$734 million in the first quarter of 2018, up by 7.4 per cent from the last quarter of 2017 and up significantly from the \$405.5 million recorded in the first quarter of 2017.

Single family housing investment rose 14 per cent from a year ago and 1 per cent quarter over quarter to \$283 million in 2018, making up 39 per cent of total residential investment. Historically, single family homes averaged 60 per cent of residential investment between 2000 and 2014, but dropped to 31 per cent during the 2015-2016 recession. In 2017 the market share of single family permits rose to 51 per cent.

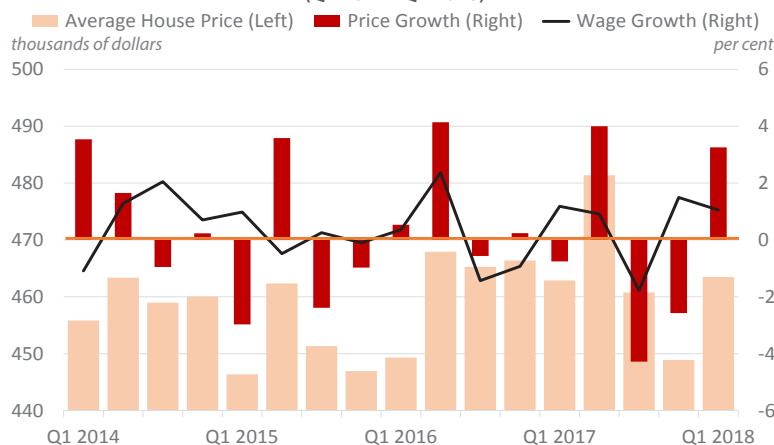
Non-residential investment in the City decreased from \$388 million in the first quarter of 2017 to \$240 million in the first quarter of 2018, and decreased by 29 per cent from the last quarter of 2018. Between 2000 and 2014 the average historical percentage of total investment intentions was 46 per cent. The average dropped to 41 per cent during the recession of 2015-2016 and rose to 49 per cent of total investment intentions in 2017. The non-residential investment intentions in the first quarter of 2018 was 25 per cent of total investment intentions, and is expected to remain significantly muted given the high vacancy rate of existing office space in Calgary.

Unemployment Rate (CER) and Total Housing Starts (City) (Q1 2014 - Q1 2018)



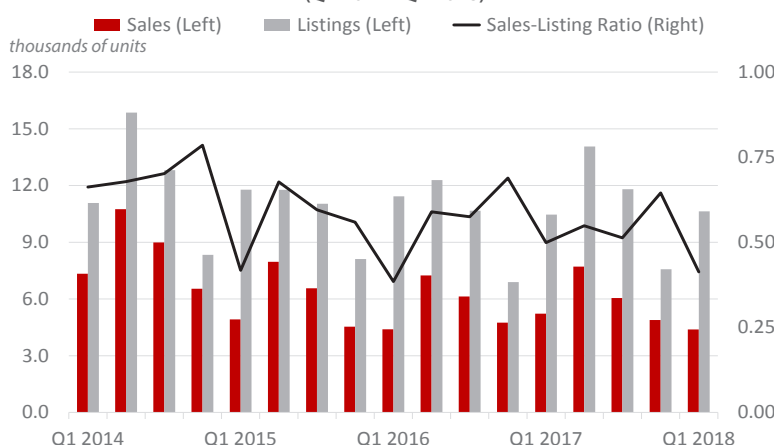
Source: Statistics Canada, CREB, Corporate Economics

House Price Level, Growth (CMA) and Wage Growth (CER) (Q1 2014 - Q1 2018)



Source: CREA, Corporate Economics

Sales, Listings, and Sales-Listings Ratio (CMA) (Q1 2014 - Q1 2018)



Source: CREA, Corporate Economics



Affordability Index

We define an affordability¹ index in Calgary as the sum of average house prices and the cost of utilities divided by labour income in Calgary. Affordability has been increasing in Calgary over the past 4 years with our index dropping from about 0.52 in the first quarter of 2014 to 0.48 today. Overall, wages have grown slightly faster than home ownership costs over this period. We anticipate slower house price increases in the future as the market adapts to new mortgage rules. Though we anticipate wages will improve at a slower rate we expect the mortgage rule impact on market prices will outweigh this resulting in improving affordability in Calgary in the future.

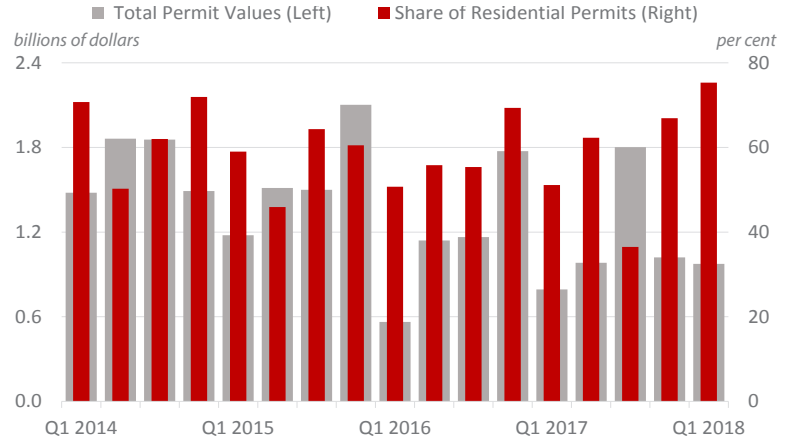
Conclusion

Building permit values have increased by 23 per cent year over year during the first quarter of 2018. Increase in nominal aggregate industry wage growth and improving affordability is expected in the Calgary Census Metropolitan Area (CMA). The number of dwellings sold in the Calgary CMA, however, has dropped by 10 per cent over the previous quarter and by 16 per cent year over year. This drop has been mirrored in other Canadian municipalities indicating the impact of new mortgage rules on the entire Canadian real estate industry.

Next Release: July 2018

Total Permit Values and Share of Residential Permits (City)

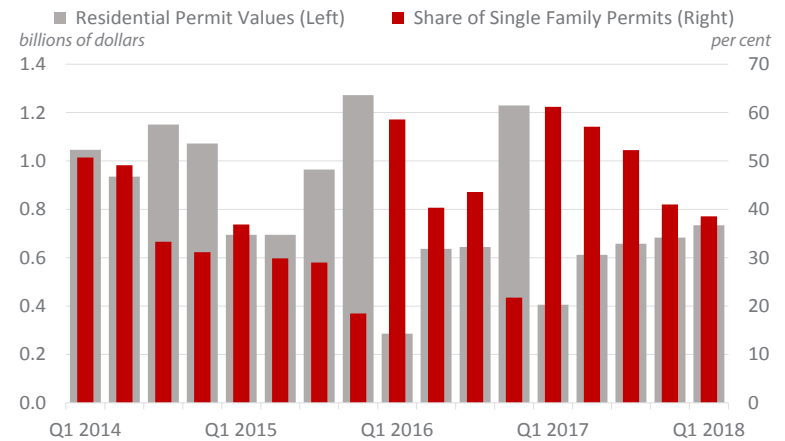
(Q1 2014 - Q1 2018)



Source: The City of Calgary, Corporate Economics

Residential Permit Values and Share of Single Family (City)

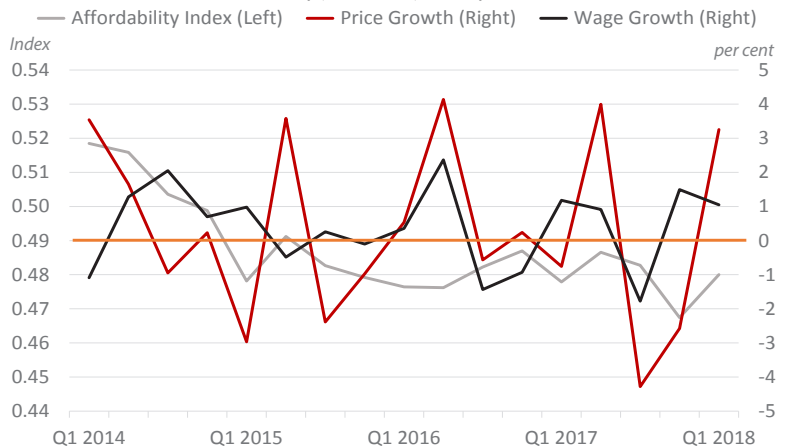
(Q1 2014 - Q1 2018)



Source: The City of Calgary, Corporate Economics

Affordability Index, Wage Growth, and House Price Growth (CMA)

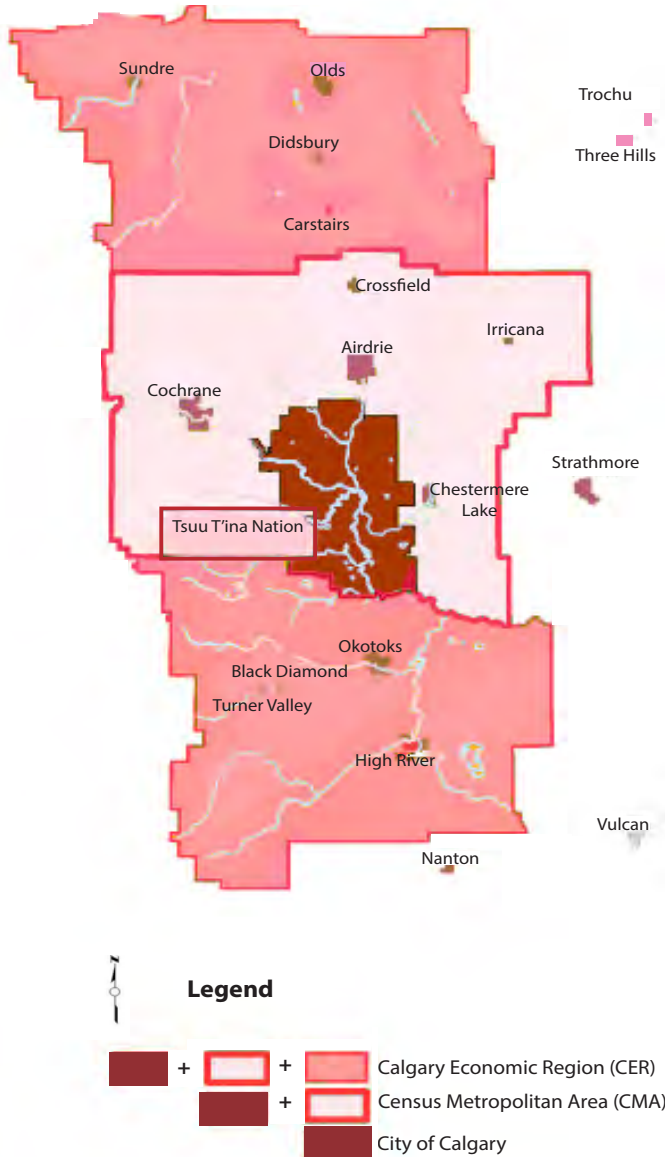
(Q1 2014 - Q1 2018)



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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