

Housing demand

The COVID-19 pandemic in 2020 has added negative impacts to an already struggling housing market in Calgary. Before the pandemic, Calgary was mounting a comeback, coming out of a two-year economic downturn in 2015-2016.

In 2017 and 2018, Calgary saw annual employment growth of 2.7 per cent and 1.1 per cent, respectively. However, the real wage growth was negative at the same time. As a result, the new housing demand was insufficient to draw-down inventory and change house price depreciation. In 2019, both real wage and employment grew, at 1.7 and 2.9 per cent respectively. As a result, the housing inventory declined. However, the shift of supply and demand balance to a more balanced market was insufficient to contribute to a positive house price appreciation. The change in federal mortgage rules in 2018 resulted from a hot real estate market in Vancouver and Toronto added to further clobbering of the Calgary real estate market.

The first-half of 2020 saw a drop-off in the employment of 51,000 persons from the same period a year ago. The unemployment rate over the first half of 2020 was 10.3 per cent compared to 7.2 per cent in the same period in 2019. Real wage growth increased 4.4 percent from the same period, a significant increase compared to the 0.1 percent real wage inflation over the same period last year.

Supply (market listings)

Supply remains constrained in the Calgary Census Metropolitan Area (CMA). Listings fell from 11,000 units in the first half of 2019 to 9,000 units in the first half of

2020. The average listings per quarter in 2019 was 10,000 listings. In 2020, the listings per quarter have averaged 9,000 units so far.

A drag on house price appreciation persists

The sales in the first half of 2020 was 8,700 units, down by 2,000 units from the same period a year ago. The average house price has dropped by \$11,000 or 2.4 per cent since 2019. In Q2 2020, average resale house price fell to \$426,883 from \$435,481 in Q1 2020.

The weakened labour market in Calgary provides significant headwind as housing inventory remains elevated. The sales to listings ratio equal to 0.5 imply a balanced real estate market. In 2019, the Calgary and region real estate market was considered balanced with the sales-to-listing ratio of 0.54. In the first half of 2020, the market has become a buyer's market with a sales-to-listing ratio of 0.46.

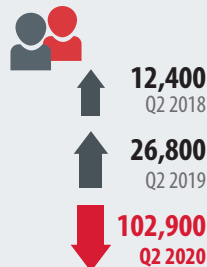
Affordability cradled on the back of house price depreciation and real wage growth in Calgary and area

The affordability of housing in Calgary and area has improved since 2019. Though housing has become relatively more affordable, workers' significant displacement poses a drag on inventory draw-down. Any further decrease in employment in the next quarter may increase the number of people who cannot afford mortgages anymore. A combination of a pandemic and federal housing initiatives to improve home-ownership are at odds as the potential demand increase is restrained by the loss of jobs.

Housing demand

Job growth [Q2]

Job cuts in Q2 2020 relative to Q2 2019 and 2018 in the Calgary Economic Region sets a subdued mood for housing demand.



Annual wage growth

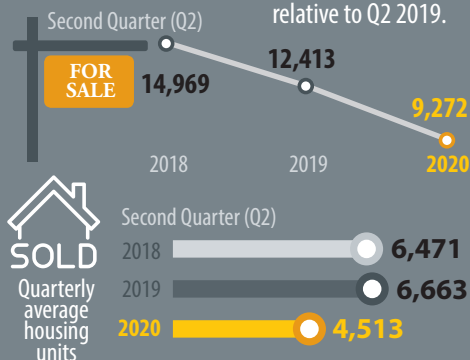
The shift from wage increase below inflation to wage increases above inflation supports more housing demand.



Supply (market listings)

Listings and sales [Q2]

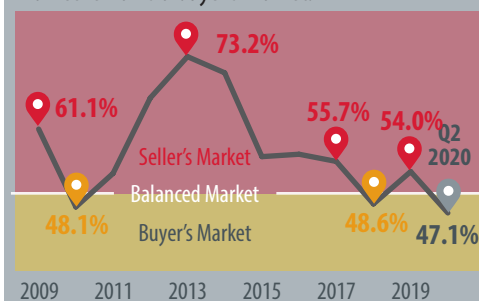
The quarterly average supply of houses available for purchase has dropped. Actual sales decreased relative to Q2 2019.



Transition to a buyer's market

Average sales-to-listings ratio [Q2]

It has moved from 48.6 per cent in 2018 to 54.0 per cent in 2019. The local housing market experienced a balanced market in 2019. In Q2 2020, the housing market remains a buyer's market.



Over supply of multi-family and corresponding restrain in residential construction investment

The total residential building permit value in the city of Calgary decreased in the first half of 2020 to \$1 billion from \$1.1 billion in the first half of 2019. The decrease in 2020 was due to the \$110 million decline of multi-family construction investment. The share of single-family investment from total investment increased to 46 per cent in the first half of 2020 from 40 per cent in 2019 same period.

The total number of housing starts in the first-half of 2020 fell by 1,100 units from first half of 2019 in Calgary CMA. The multi-family housing starts were 800 units less within the same period. The share of single-family starts to total increased from 31 per cent in 2019 to 42 per cent in the first half of 2020.

The city of Calgary total housing starts fell by 900 houses in the first half of 2020 from the same period last year. The multi-family sector contributed 600 houses less compared to the same period a year ago. The share of single-family from total starts increased from 26 per cent in 2019 to 39 per cent in the first half of 2020.

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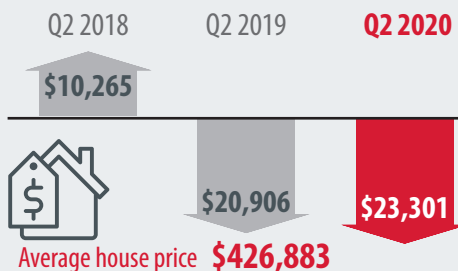
Sources:

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

Larger house price depreciation

Change in the average house price [Q2]

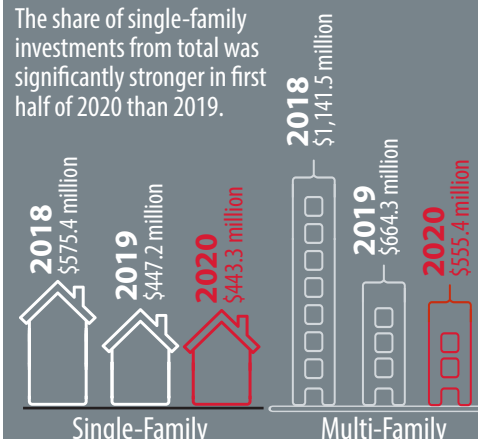
The average house price in Calgary CMA had declined in 2018 and 2019, bringing the current average house price below the average during the 2015-2016 recession. In Q2 2020 average house price depreciation increased relative to 2019.



Shifting to single-family investment

Building permit values [Q1 to Q2]

The share of single-family investments from total was significantly stronger in first half of 2020 than 2019.



Increasing single-family housing starts

Single-family housing starts [Q1 to Q2]

Single-family housing starts in the city of Calgary register an increase over 2019 but falls short of 2018.

