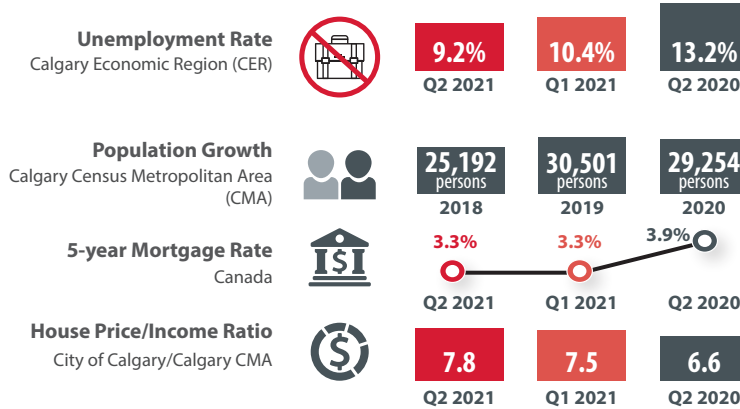


CALGARY'S HOUSING MARKET REVIVAL IN VIEW OF HISTORY

Highlights:



Factors Affecting Housing Affordability and Demand



Existing home sales set new records in Calgary's resale housing market

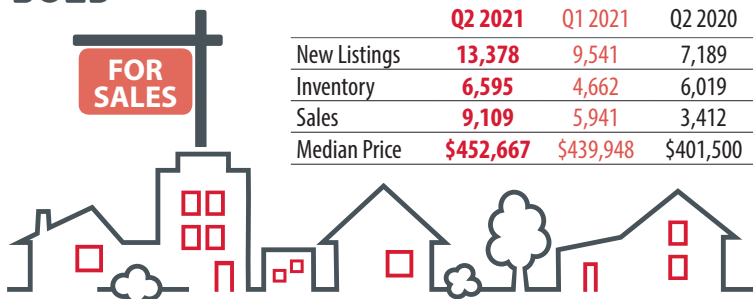
Prices of existing-home sales in the city of Calgary reached new historical seasonal high in Q2 2021. The MLS median price for all types of resale homes in Calgary was \$452,667 in Q2 2021, up by 12.7 per cent from \$401,500 in Q2 2020. The main driver behind this price appreciation was the 13.1 per cent price increase in detached houses, up from \$460,833 in Q2 2020 to \$521,233 in Q2 2021 (Chart 1).

Between January 2005 and June 2021, Calgary's resale home price appreciation has failed to keep up with other Canadian cities. The price increase for all types of properties, measured by the composite MLS Housing Price Index (HPI) for Canadian Census Metropolitan Areas (CMA), was 98 per cent in Calgary, compared to the average of 195 per cent in Canada, 201 per cent in Vancouver, and 236 per cent in Toronto (Chart 2).



Resale Market

City of Calgary



The MLS existing home sales in the city of Calgary increased to 9,109 units in Q2 2021, up by 167 per cent from 3,412 units in Q2 2020. The total sales were the highest in the second quarter over thirty-one years, surpassing the previous peak of 8,570 units in Q2 2006.

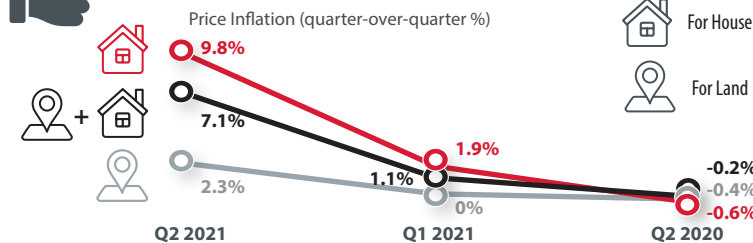
Over the same time, the MLS new listings jumped by 86 per cent, from 7,189 units in Q2 2020 to 13,378 units in Q2 2021.

The sales-to-new listing ratio, a measurement for market balances, increased from 46 per cent in Q2 2020 to 68 per cent in Q2 2021, indicating a shift from a balanced market to a seller's market in Calgary (Chart 3).



New House Market

Calgary Census Metropolitan Area



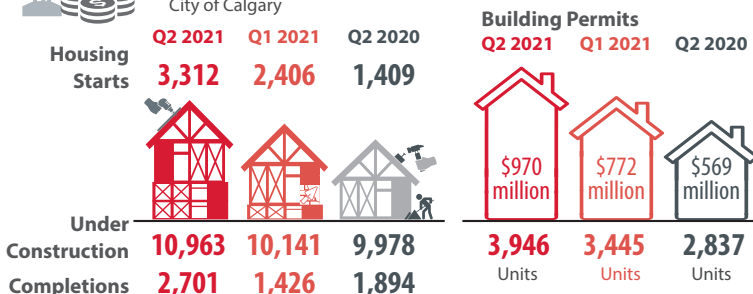
Calgary's MLS inventory for all types of resale homes, the total supply on the resale market, increased to 6,595 units in Q2 2021, from 6,019 units in Q2 2020. However, for the second quarter in a row, the inventory was lower than quarterly home sales, suggesting the supply would be lower than the demand at the current sales rate if no new listings were entering the market.

About half of the MLS inventory in Calgary was detached houses. The supply in the detached house market was even tighter as Q2 2021 was the third quarter in a row with the inventory level (3,080 units) lower than quarterly sales (5,775 units) (Chart 4).



Housing Construction and Investment Intention

City of Calgary



Price appreciations accelerated in Calgary's new housing market

Over the past four decades, builders' selling prices of newly built houses (single/semi-detached and row), measured by the new house price index (NHPI) for Canadian CMAs, increased significantly in Calgary. Between January 1981 and June 2021, Calgary's land and house total NHPI rose by 331 per cent, while land only price index increased by 434 per cent and house only price index increased by 299 per cent. As a result, market participants (landowners, develop-

ers, builders, and contractors) made great returns in Calgary's new residential building constructions.

The most significant increases in Calgary's new housing market prices happened in 2005-06 when the oil price-driven commodity boom attracted massive inflows of interprovincial migrations to the city. From Q4 2005 to Q3 2006, Calgary's new housing market price appreciation accelerated four quarters in a row. The total new housing price index increased by an average of 12 per cent per quarter, with the house only new housing price index increasing by 13 per cent. With one-quarter lag, land only new housing price index rose by 11 percent per quarter from Q1 to Q4 2006. Since 2007, the new housing market price fluctuations have been muted in Calgary, with periods of declines due to the three recessions in 2008-2009, 2015-2016 and 2020.

Fueled by the recent sharp increases in demand for housing, new housing market price appreciations started to accelerate again in the Calgary CMA. In Q2 2021, the total new housing price index escalated by 7 per cent over a quarter, with the house only index increasing by 10 per cent, and land only index increasing by 2 per cent (Chart 5).

Over the years, Calgary's new housing market prices have appreciated more than other major Canadian cities, driven by land cost escalations. Toronto has had similar housing market price increases, mainly due to its higher house prices. But, surprisingly, Vancouver's new housing market prices only rose by 33 per cent, with 39 per cent increase in land price and 23 per cent increase in house only price.

It is worth noting that Calgary is a relatively young city compared to other cities like Toronto and Vancouver and its housing price levels started relatively low. Consequently, even with its relatively high new housing price appreciations in the past decades, Calgary's housing prices today are still among the lowest in big Canadian cities (Charts 6-8).

Strong demand for housing in Calgary supported by healthy population growth and improving local labour market

Recently soaring home prices resulted in worsening housing affordability across Canada, as increases in supply failed to catch up with the surges in demand. Young people, especially those first-time homebuyers who are sensitive to housing prices, have increasingly been priced out of the high-priced markets like Toronto and Vancouver.

Since there is no consensus on housing affordability definitions or measurements, a straightforward way is to use the house-price-to-income ratio¹. After years of affordability improvement since the 2015-2016 recession, Calgary's housing affordability worsened slightly in the past two quarters, with the house-price-to-income ratio increasing to 7.8 in Q2 2021 from 6.6 in Q2 2020. However, housing in Calgary is still well within reasonably affordable ranges (Chart 9).

For decades, Calgary has had the highest housing affordability among biggest Canadian cities. For example, based on one of the more controlled housing affordability measures² calculated by the Royal Bank of Canada, the ownership costs as a percentage of median household income averaged at 52 per cent in Canada in Q1 2021. The ratio was 37 per cent in Calgary, compared to 67.7 per cent in Toronto and 74.9 per cent in Vancouver.

Demand for housing is also driven by household income and interest rates. Studies show homebuyers in Canada have become more sensitive to mortgage rate fluctuations in recent years.

Fearing of missing out of the homeownership, potential homebuyers, especially the first-time buyers, responded to recent interest rate cuts during the pandemic with sharply increased demand for purchasing homes. Many first-time homebuyers absorbed mortgages at their maximum capacities. The recent tightening in mortgage stress test rules that took effect on June 1st, 2021 increased the minimal mortgage qualifying rate from 4.79 per cent to 5.25 per cent, impacting negatively on first-time homebuyers.

Compared to mortgage rates, the more fundamental drivers behind people's home buying behavior are good-paying jobs and wage increases. The average weekly wage in Calgary has generally been the highest among Canadian CMAs, due to its bigger share of employees in high-paying industries, particularly in the goods-producing sector.

Demand for housing in Calgary was depressed in the past few years, due to the oil-price driven recession in 2015-16 and the pandemic induced 2020 recession. However, since the economic reopening from COVID-19 lockdowns, Calgary's labour market has rebounded quickly. With the unemployment rate dropping to 9.2 per cent in Q2 2021 from 13.2 per cent in Q2 2020, the increased income continues to support housing demand (Chart 10).

In the long run, housing demand is driven fundamentally by population growth and household formation. As people aged 25 to 39 years old are considered prime home-buying and family-building age cohort, the growth of this group of population is particularly important for the housing market demand.

Over the years, Calgary's population growth has been one of the fastest in big Canadian CMAs. From 2001 to 2020, Calgary's total population grew by 58 per cent, compared to 29 per cent in all Canadian CMAs; The number of people aged 25-39 increased by 49 per cent in Calgary, compared to 22 per cent in all Canadian CMAs (Chart 11).

¹ Calgary's house-price-to-income ratio is the average house price to annual income ratio calculated with the average housing price in the city of Calgary from the Calgary Real Estate Board (CREB) divided by the average weekly wage rate for the Calgary CMA from Statistics Canada.

² The National Bank of Canada also provides affordability monitor for Canadian cities.

High volumes of residential building construction brought ample supplies to Calgary CMA housing market

Housing starts in the Calgary CMA increased to 4,053 units in Q2 2021, up by 136 per cent from 1,721 units in Q2 2020. The apartment/other type dwelling units are the most affordable and grew fastest in all residential dwelling types (single-detached, semi-detached, row, and apartment/other unit types). Housing starts in this category reached 1,603 units in Q2 this year, up by 166 per cent from Q2 last year.

In Q2 2021, there were 12,131 residential building units under construction in Calgary, up by 10 per cent from 10,998 units in Q2 2020. The growth rate was higher than the ten-year moving average of 11,418 units. Among those residential building units under-construction, there were 2,515 single-detached houses, 761 semi-detached houses, 1,396 row houses, and 7,459 apartment and other type units.

Housing completions in the Calgary CMA increased to 3,049 units in Q2 2021, up by 31 per cent from 2,334 units in Q2 2020. More than half of last quarter's completions were apartment/other type building units (1,347).

Since January 1972, the residential building industry in the Calgary CMA has completed 466,649 units of residential dwellings, accounting for 97 per cent of the total housing starts over the same time (Charts 12-14).

The total absorptions³ of newly completed dwelling units (single-detached + semi-detached) have increased by 9 per cent in the Calgary CMA over a year, from 1,268 units in Q2 2020 to 1,381 units in Q2 2021. Over the same time, the unabsorbed inventory for newly completed dwellings declined by 49 per cent, from 967 units in Q2 2020 to 495 units in Q2 2021. The recent trend was similar to that in the rest of Canada, where the COVID-19 lockdowns drove up demand for bigger houses to accommodate space requirements for telework or telelearning.

Since the late 1980s, the average absorption rate of newly completed houses (the ratio between absorbed and unabsorbed inventory) has been higher in Calgary (99%) than the Canadian average (97%), driven by Calgary's higher demand for housing from a fast-growing, young population and better affordability (Charts 15-16).

Recent building permit applications led by renovation and multiple-dwelling investment intentions in Calgary

The City of Calgary's annual Civic Census surveyed both the city's population and housing stock. Its record shows that the city's total housing stock (the total of occupied, vacant, inactive, vacant renovation, and under-construction housing units) increased proportionally with its population over the years. Between 1972 and 2019, population grew by 211 per cent, from 412,777 persons to 1,285,711 persons. Meanwhile, its housing stock in the city increased by 275 per cent, from 138,895 units to 521,257 units.

Over the years, the population-adjusted housing stock in the city of Calgary increased from 336 units per thousand persons in 1972 to 405 units per thousand persons in 2019. Unlike some other cities in Canada where there were supply shortages in new land and houses, housing supply in Calgary has been plenty due to the relatively high investment returns in its new housing market (Chart 17).

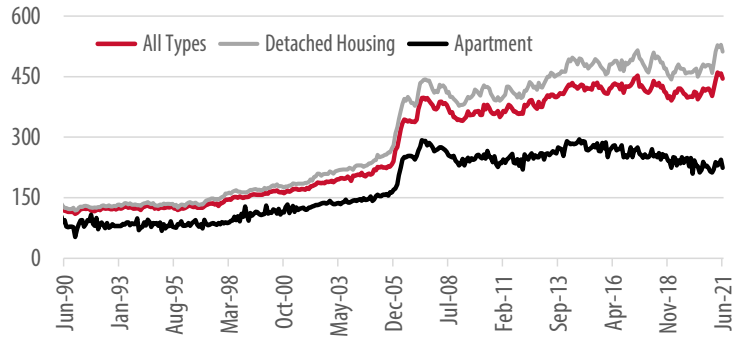
The investment intention in Calgary's housing market has remained elevated in recent years. Building permits for all types of dwellings, including new and improvement, grew by 39, from 2,837 units in Q2 2020 to 3,946 units in Q2 2021. During the same period, building permits for single-family houses grew by 154 per cent, from 532 units in Q2 2020 to 1,351 units in Q2 2021. Today, in the city of Calgary, the share of building permits for new single-family houses of total permits is lower, falling from 74 per cent in Q2 2001 to 34 per cent Q2 2021 (Chart 18).

The data for June 2021 building permits at the CMA level is not available from Statistics Canada. However, year-to-date (January-May) data show that the total building permits in the Calgary CMA increased to 7,002 units in the first five months in 2021, up by 78 per cent from 3,931 units in the same period last year. Building permits for single dwellings in the past five months were 2,363 units, accounting for 34 per cent of the total. Most of the building permits this year were for multiple dwellings (4,639 units), and the growth rate in this permit category was 87 per cent year-over-year (Chart 19).

Next Release: October 2021

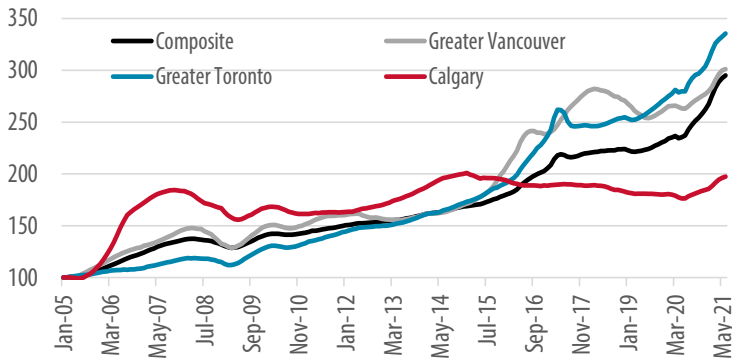
³ Statistics Canada: An absorbed unit is a housing unit that has been sold and completed. A unit is considered sold when a binding contract is secured by a non-refundable deposit and has been signed by a qualified purchaser.

Chart 1. City of Calgary MLS Resale Housing Market Prices
(June 1990-June 2021, thousands of dollars)



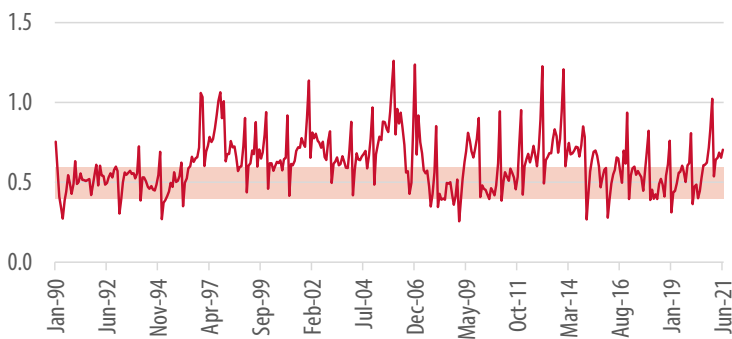
Source: Calgary Real Estate Board (CREB), Corporate Economics.

Chart 2. MLS Resale Housing Price Index Comparison: Calgary vs. Selected CMAs
(January 2015-June 2021, Index January 2005=100, Seasonally Adjusted)



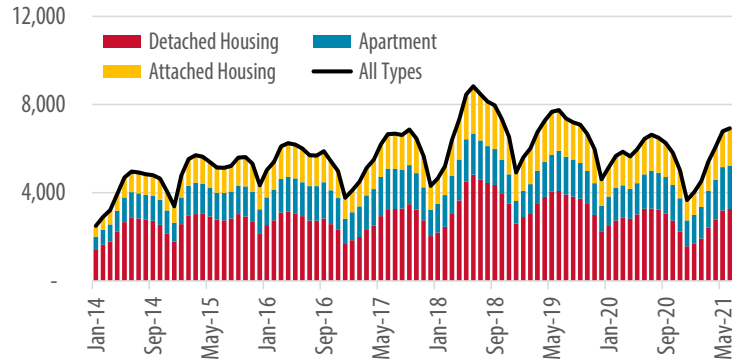
Source: Canadian Real Estate Association (CREA), Corporate Economics.

Chart 3. City of Calgary MLS Resale Housing Market Balance
(January 1990-June 2021, ratio)



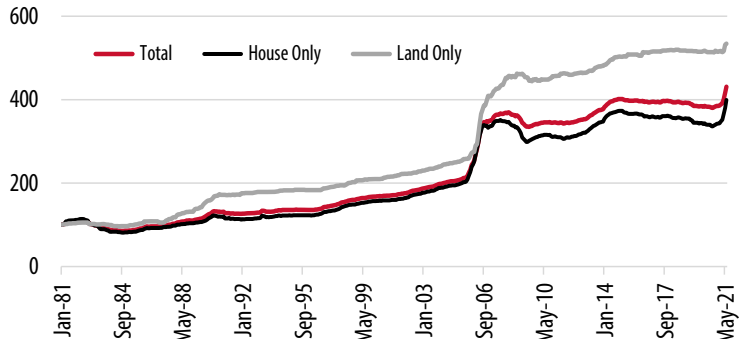
Source: Calgary Real Estate Board (CREB), Corporate Economics.

Chart 4. City of Calgary MLS Resale Housing Market Inventory
(January 2014-June 2021, units)



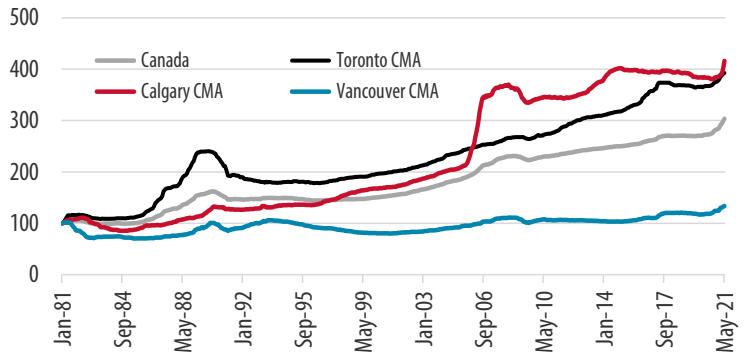
Source: Calgary Real Estate Board (CREB), Corporate Economics.

Chart 5. NHPI: Calgary CMA
(January 1981-June 2021, Index January 1981=100)



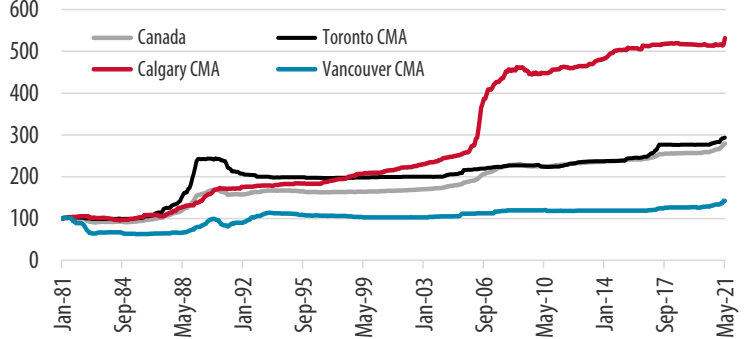
Source: Statistics Canada, Corporate Economics.

Chart 6. NHPI Comparison: Land and House
(January 1981-June 2021, Index January 1981=100)



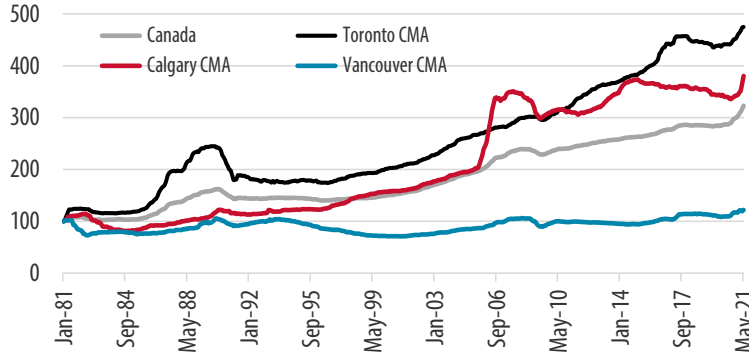
Source: Statistics Canada, Corporate Economics.

Chart 7. NHPI Comparison: Land Only
(January 1981-June 2021, Index January 1981=100)



Source: Statistics Canada, Corporate Economics.

Chart 8. NHPI Comparison: House Only
(January 1981-June 2021, Index January 1981=100)



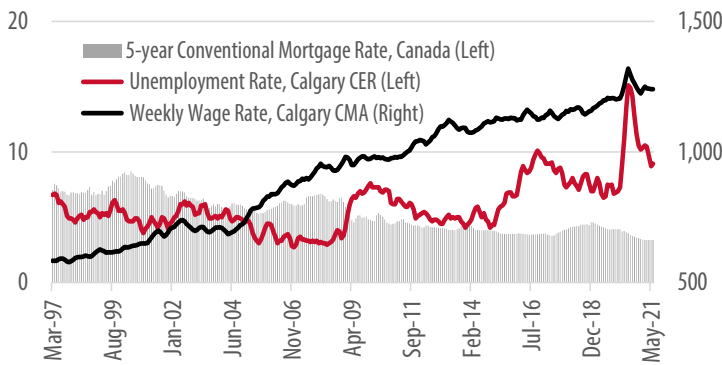
Source: Statistics Canada, Corporate Economics.

Chart 9. Calgary's House-Price-to-Income Ratio
(Q2 1997-Q2 2021)



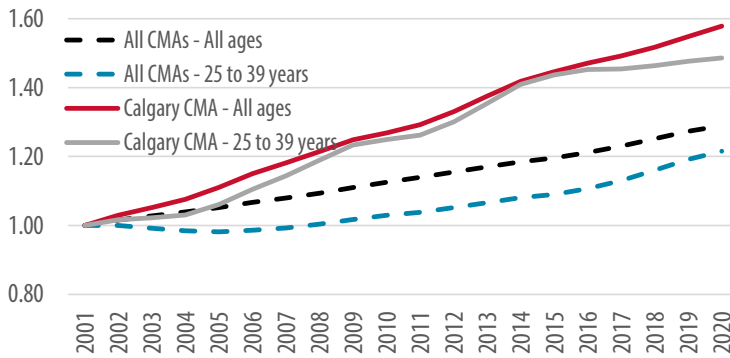
Source: Calgary Real Estate Board (CREB), Statistics Canada, Corporate Economics.

Chart 10. Factors Affecting Housing Demand and Affordability
(March 1997-June 2021, [Left] per cent, [Right] dollars)



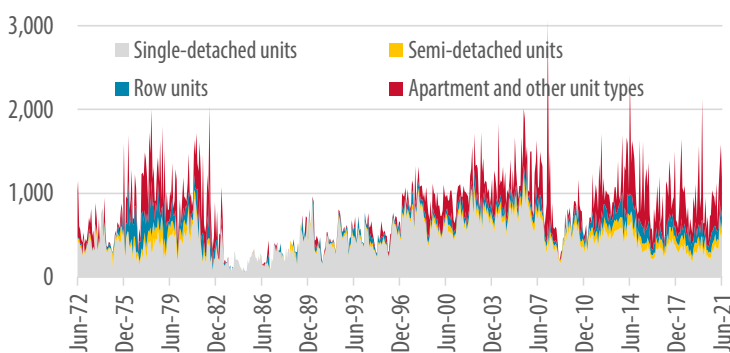
Source: Statistics Canada, Corporate Economics.

Chart 11. Population growth by age: Calgary CMA vs. All Canadian CMAs
(2001-2020, Index 2001=1.0)



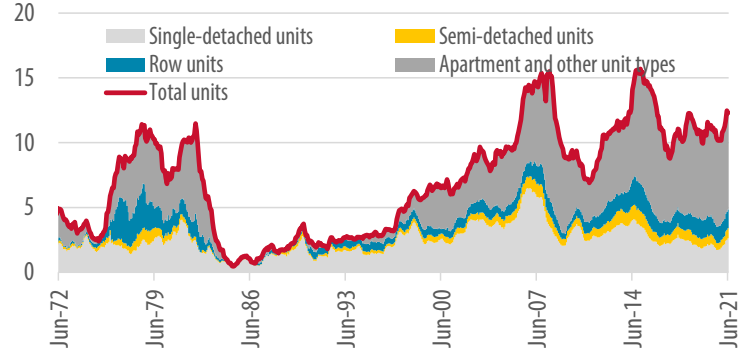
Source: Statistics Canada, Corporate Economics.

Chart 12. Calgary CMA Housing Starts by Type of Unit
(June 1972-June 2021, units)



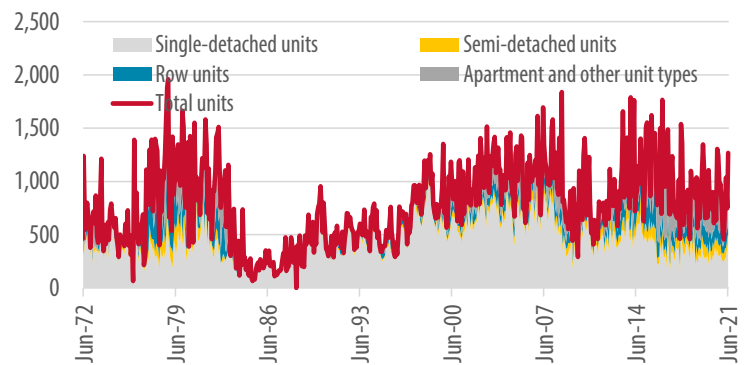
Source: Canada Mortgage and Housing Corporation (CMHC), Corporate Economics.

Chart 13. Calgary CMA Housing Under Construction by Type of Unit
(June 1972-June 2021, thousands of units)



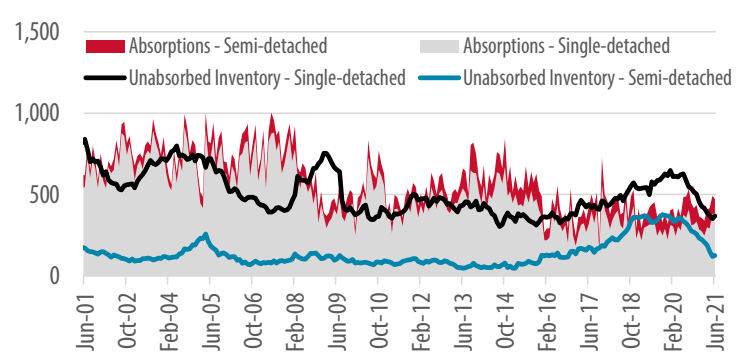
Source: Canada Mortgage and Housing Corporation (CMHC), Corporate Economics.

Chart 14. Calgary CMA Housing Completions by Type of Unit
(June 1972-June 2021, units)



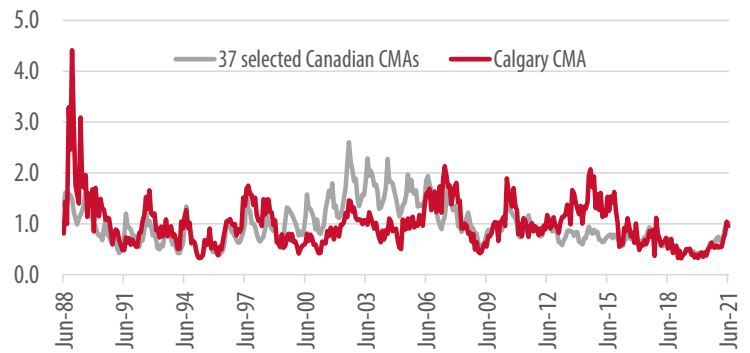
Source: Canada Mortgage and Housing Corporation (CMHC), Corporate Economics.

Chart 15. Calgary CMA Newly Completed Dwelling Absorptions
(June 2001-June 2021, units)



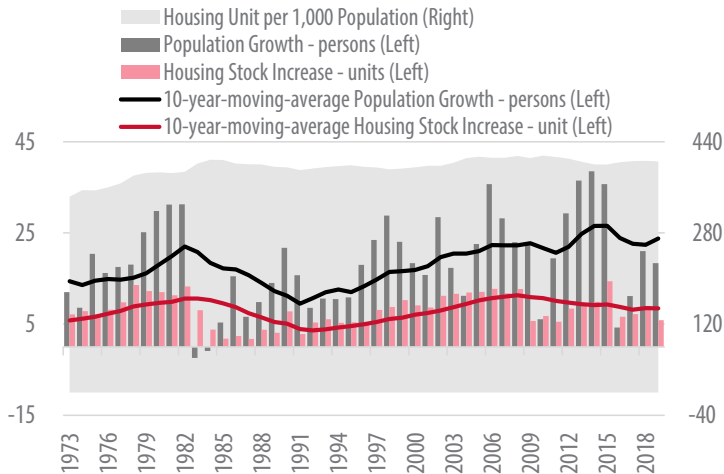
Source: Canada Mortgage and Housing Corporation (CMHC), Corporate Economics.

Chart 16. New housing absorption ratios: Calgary CMA vs. Selected CMAs
(June 1988-June 2021, ratio)



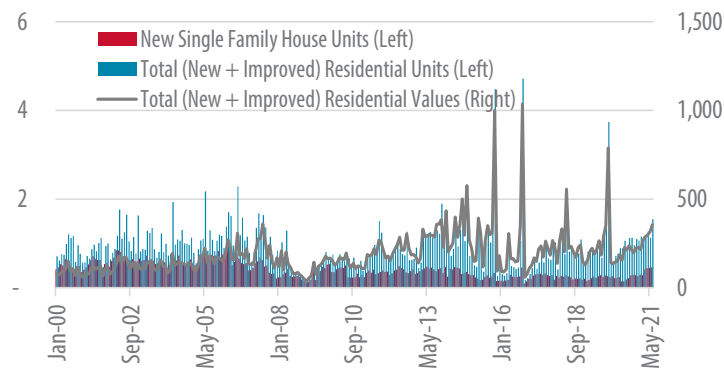
Source: Canada Mortgage and Housing Corporation (CMHC), Corporate Economics.

Chart 17. City of Calgary's Housing Stock Increase vs Population Growth (1965-2019)



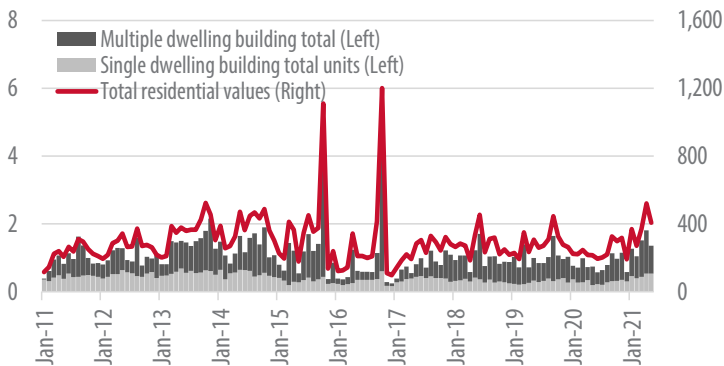
Source: The City of Calgary Civic Census, Corporate Economics.

Chart 18. City of Calgary Building Permits (January 2000-June 2021, [Left] thousands of units, [Right] millions of dollars)



Source: The City of Calgary, Corporate Economics.

Chart 19. Calgary CMA Building Permits (June 2000-June 2021, [Left] thousands of units, [Right] millions of dollars)



Source: Statistics Canada, Corporate Economics.

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:

Bank of Canada, Calgary Real Estate Board (CREB), Canadian Real Estate Association (CREA), Canada Mortgage and Housing Corporation (CMHC), Statistics Canada, The City of Calgary, Corporate Economics