Calgary Q3 2019 Housing Review

Chukwudi Osuji, Ph.D, *Senior Corporate Economist* | **Estella Scruggs,** *Corporate Research Analyst*

December 11, 2019

Improved conditions for housing demand

Conditions in the local labour market affect the demand for housing. Two ideal labour market conditions required to boost housing demand are increases in the number of people with jobs and real wage increases for the employed. Those already employed and the newly employed have earning capacity because employment generates labour income. Labour income is typically measured using the wage rate. Wage rate increases above the rate of inflation would yield positive real wage growth. Positive real wage growth increases the purchasing ability of employed people and puts upward pressure on housing demand.

The Calgary Economic Region (CER) is doing well with the first condition. Job growth over the first three quarters of 2019 has improved. By the end of the third quarter of 2018, job growth in the CER was limited to 9,200 people. For 2019, employment increased by 24,600 persons at the end of the third quarter. The unemployment rate in the CER has continued to fall from the 2015-16 recession values. The unemployment rate decreased from 8.6 per cent in 2017 to 7.6 per cent in 2018. For the first three quarters of 2019, the unemployment rate averaged 7.1 per cent.

Before accounting for inflation, wages increased by 0.5 per cent in 2017 and 1.6 per cent in 2018. Compared with the average wage in 2018, wages have increased by 2.6 per cent for the first three quarters in 2019. The CER experienced negative real wage growth in 2017 (-1.1 per cent) and 2018 (-0.8 per cent). By the end of the third quarter of 2019, real wage growth had increased 1.2 per cent relative to 2018. The shift from negative to positive real wage growth for the average job holder provides support for more housing demand.

Supply (market listings) has declined

The number of units available for sale and sold in Calgary and surrounding areas is low. There is a significant drop in residential units available for purchase in 2019, as captured by listings data. After three quarters in 2019, the average number of listings per quarter is 11,000 houses. It is down by 1,398 units from an average of 12,398 units after the first three quarters of 2018. It is also down by 1,109 units from 12,109 units after three quarters in 2017.

For the actual sale of homes, the number of units sold is slightly better than in 2018. After three quarters, 16,570 units sold in the Calgary Census Metropolitan Area (CMA) compared with 16,415 units for 2018. Both values are below 18,982 units for 2017.

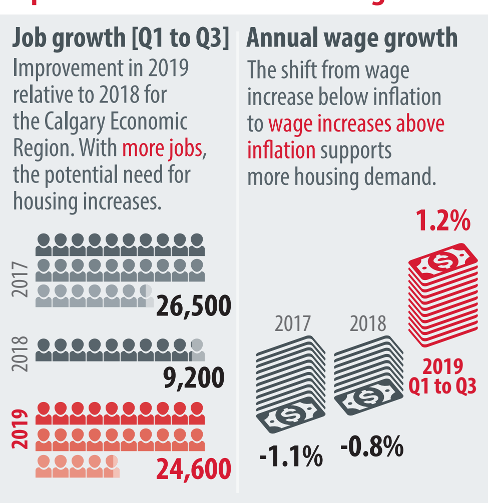
Low supply is supporting a transition to a balanced market that should help stop the fall in house prices

The sales-to-listings ratio measures the degree to which the housing market favours buyers (demand for housing), sellers (suppliers), or neither. A value of 50 per cent implies the market is balanced; it is neither a buyer's or seller's market. Values above 50 per cent suggest a seller's market. Values below 50 per cent indicate a buyer's market. The average sales-to-listings ratio for the first three quarters of the year has moved from 44 per cent in 2018 to 50 per cent in 2019. The Calgary housing market is in balance.

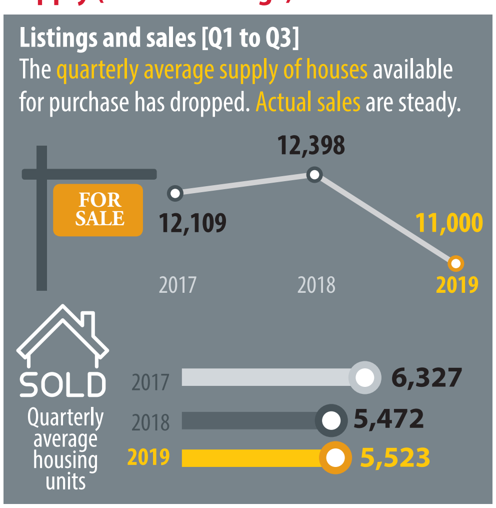
Favourable market demand conditions provide one-part of the rationale for the shift. Lower supply that suggests an erosion of the stock of housing inventory is the second rationale. If the supply remains low or shrinks further, it could lead to a potential transition to a seller's market.

The shift is also good news for reversing the recent spate of house price depreciation. The year-to-date average house price in Calgary has fallen by $20,500 relative to the first

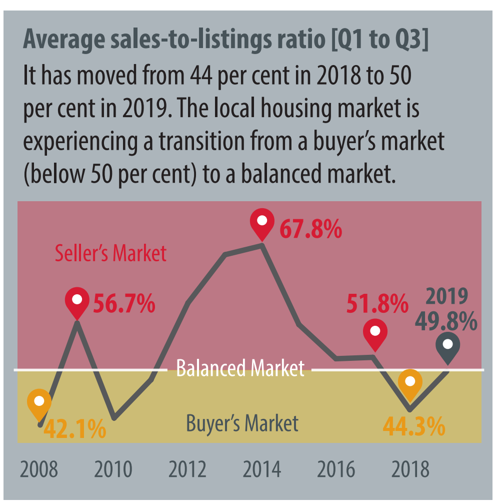
Improved conditions for housing demand



Supply (market listings) has declined



Transition to a balanced market



three quarters of 2018. It is the deepest fall in the average house price for the first nine months of the year in recent times. There was a $7,500 increase from 2016 to 2017 before a $3,400 drop from 2017 to 2018. The fall after three quarters in 2019, suggests that the current average house price is below the 2015-16 recession average.

Market forces support improved affordability, but federal government housing policy restrains it

The downward pressure on house prices and real wage increases have improved affordability in the Calgary housing market. After three quarters, the local average affordability index has improved not only relative to 2018. The index value is at the most favourable level since January to September 2005. Favourable market prices and labour market conditions are yet to stimulate even more sales. It is largely because stringent mortgage stress tests introduced in January 2017 have raised entry costs for first-time homebuyers. Local market forces and federal housing policy pulling in different directions is affecting the outlook for housing.

The outlook for investment in new housing units is lower for single-family

The value of planned residential investment spending in the city of Calgary

The City of Calgary tracks residential permit values as a measure of planned investment in Calgary. The total residential investment decreased to $1.9 billion over the first three quarters compared to $2.3 billion by the end of the third quarter of 2018. Concerns about the drop are moderate because investment in residential property is higher than $1.7 billion recorded at the end of the third quarter of 2017.

The value of the single-family residential investment category is lower than in 2018. Single-family units at $809 million represented 35 per cent of total investment after three quarters in 2018. For 2019, the investment value was $744 million or 40 per cent of the investment in residential units.

The year 2018 was a big year for investment in multi-family units. Investment in both single- and multi-family units is lower in 2019 than in 2018.

From 2000 to 2014, single-family units represented 62 per cent of the value of residential housing investment in Calgary. The average fell to 53 per cent during the 2015-16 recession. Subsequently and due in large part to the change to mortgage rules in 2017, the share has fallen further to an average of 43 per cent. The 40 per cent share at the end of the third quarter of 2019 suggests the long-term trend is unchanged. Lower affordability due initially to a weak economy and then stringent mortgage stress-tests appear to be driving the shift from single-family to multi-family units.

The number of units of new residential investment in Calgary and surrounding areas

Single-family residential housing starts in the city of Calgary for January to September is declining. The 1,945 units recorded in 2019 is lower than for 2017 (2,404 units) and 2018 (2,170 units). The decline in single-family housing starts relative to total housing starts is from 39 to 32 per cent between 2017 and 2019.

The year-to-date result for total housing starts is an improvement from 2017. Housing starts in the city of Calgary was 7,145 units after three quarters in 2019. It was 6,883 units in 2017. Unfortunately, the city of Calgary was unable to keep up with 7,661 units after three quarters of 2018 due to many multi-family units started last year.

Extending the year-to-date analysis to the Calgary CMA generates weaker results. The total number of houses started in Calgary CMA has fallen to 8,007 units after three quarters in 2019. It is a fall from 8,919 and 8,394 units in 2018 and 2017 respectively.

Next update: January 27, 2020

For media inquiry, please contact:

The Media Line at
403.828.2954 or media.relations@calgary.ca

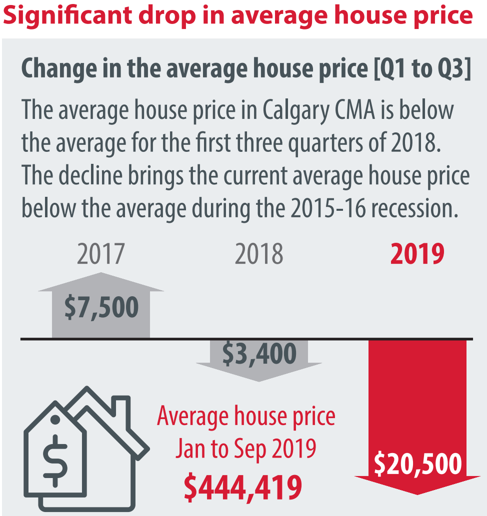
For the technical questions, please contact:

Oyin Shyllon
City Economist & Regulatory Lead
403.268.1590
oshyllon@calgary.ca

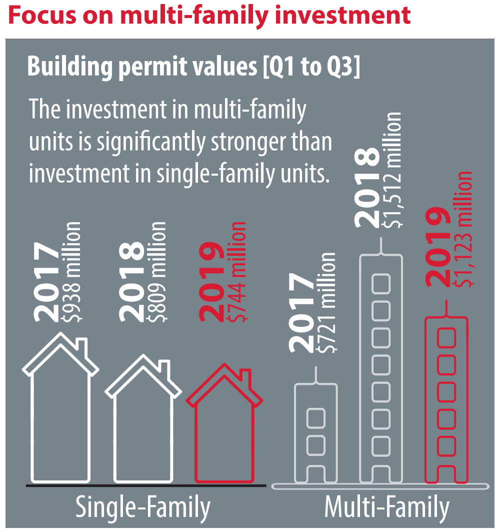
Chukwudi Osuji, Ph.D
Senior Corporate Economist
403.268.3752
coosuji@calgary.ca

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

Significant drop in average house price



Focus on multi-family investment



Declining single-family housing starts