

Housing Demand

Calgary in 2015-2016 had experienced two years of economic downturn spurred on by the oil price market crash in late 2014. As Calgary slowly emerging from the economic downturn with a weakened housing market, the housing markets in Toronto and Vancouver remained flaming. The residential price appreciation averaging in double digits between 2015-2017 pushed up residential price appreciation for Canada. The change in federal mortgage rules in 2018 to quale the overheating real estate market, specifically in Toronto and Vancouver, dampened a recovering real estate market in the Calgary region.

Residential price depreciation worsened from -0.3 per cent in 2017 to -0.9 per cent in 2018 in Calgary Census Metropolitan Area (CMA), while residential price appreciation decreased to 7.0 per cent in Vancouver CMA and 1.5 per cent in Toronto in 2018. The average residential price appreciation for Canada decreased from 13.0 per cent in 2017 to 3.4 per cent in 2018.

The federal government introduced a first-time homebuyer incentive program in September 2019. The new program, a shared-equity mortgage, reduced the mortgage burden and negated some of the adverse effects of the change in mortgage rules enacted in 2018 on first-time home buyers. In 2020 Q3, the national average residential appreciation had increased from 0.7 per cent in 2019 to 5.3 per cent. Calgary average residential price depreciation changed from -3.0 per cent in 2019 to -2.0 per cent by 2020 Q3. Vancouver average residential price returned to positive growth, from -3.7 per cent in 2019 to 2.2 per cent in 2020 Q3. Toronto's residential price appreciation increased from 2.9 per cent in 2019 to 7.4 per cent in 2020 Q3.

Amid the COVID-19 pandemic, the residential real estate market across Canada, including Calgary, has demonstrated remarkable resiliency.

In 2020, employment in the Calgary Economic Region (CER) fell by 50,600 persons from 2019 due to the COVID-19 pandemic and oil price crash. The loss of work was mainly associated with jobs that were related to more contact intensive activity. The services-producing sector, which includes tourism and accommodation industries, lost 43,000 jobs in total, while the goods-producing sector lost 7,600 jobs. The share of service-related employment in the CER was 78 per cent of total employment in the region. The unemployment rate increased to 11.3 per cent in 2020, from 7.2 per cent in 2019. Usually, a higher unemployment rate would drive higher residential inventory. However, the mortgage and rent deferral programs introduced due to the COVID-19 pandemic have temporarily alleviated such impact. The annual inflation-adjusted aggregate industry weekly wage (real wage) growth increased 4.2 per cent in 2020. The increase in inflation-adjusted wages coupled with the pent-up demand from the COVID-19 lockdowns, lower-mortgage rates introduced later in 2020, and residential supply-side adjustments partially offset the price depreciation in Calgary's residential market.

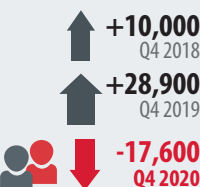
Supply (resale market listings)

Supply remained constrained by COVID-19 restrictions in Calgary CMA. The total average listings fell 9.0 per cent from 10,000 listings per quarter in 2019. During the 2015-2016 economic downturn in Calgary, residential listings averaged 10,500 per quarter and increased to 11,000 per listings between 2017 and 2018. The constrained supply contributed to the deceleration of residential price depreciation in 2020.

Housing demand

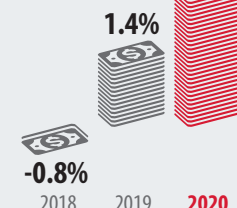
Job growth [Q4]

Jobs fell in Q4 2020 relative to gains in Q4 2019 and Q4 2018 in the CER. The largest unprecedented job gain Quarter over Quarter was in Q3 2020. Total number of job losses in 2020 was 50,600.



Inflation-Adjusted Wage Growth

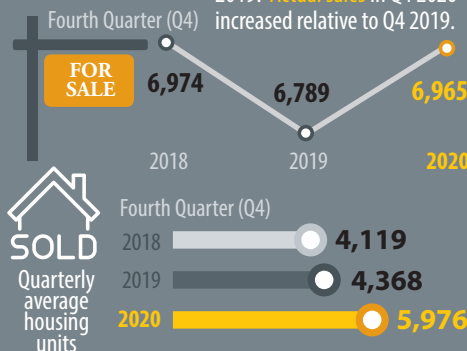
The shift from wage increase below inflation to wage increases above inflation supports upward pressure on housing demand.



Supply (resale market listings)

Listings and sales [Q4]

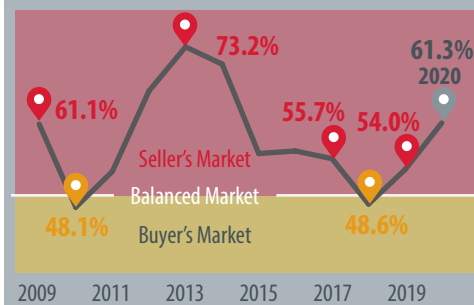
The annual and quarterly average supply of houses available for purchase decreased in 2020 compared to 2019. Actual sales in Q4 2020 increased relative to Q4 2019.



Seller's market

Average sales-to-listings ratio

Sales-to-listings ratio has moved up 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 2020, the housing market shifted to a seller's market.



The drag on resale house price appreciation in 2020 dissipates

Total residential sales increased to 22,000 units in 2020, up from 21,000 in 2019 despite the pandemic and subsequent economic disruptions. The total residential sales in the first half of 2020 were lower than the total sales in the second half of 2019. However, residential units sold in the last two quarters of 2020 propelled sales over the second half of 2019. The combination of constrained resale residential supply and firming-up of residential demand in Calgary increased average resale house price by 1.8 per cent. The average price of resale houses increased by \$7,800, from \$441,834 in 2019 to \$449,580 in 2020.

The sales to listings ratio equal to 0.5 implies a balanced real estate market. In 2019, the Calgary real estate market was balanced, with the sales to listing ratio of 0.54. In 2020, the market became a seller's market with a sale to listing ratio of 0.6.

Affordability cradled on the back of real wage growth and residential house price depreciation despite the draw-down in employment in Calgary and the area.

The affordability of housing in Calgary and area has improved since 2019. Though housing has become relatively more affordable, significant job displacement was expected to drag on inventory draw-down in 2020. Instead, a combination of lower interest rates, federal housing initiatives to improve homeownership, and increased real wage growth above residential price appreciation sustained the purchasing power of households looking to buy homes in 2020.

Restrain in residential construction investment

The total residential building construction permit values in Calgary was \$2.3 billion in 2020, a decrease from \$3.2 billion in 2019. The single-family share of total residential investment increased from 36 per cent in 2019 to 49 per cent in 2020. The oversupply of multi-family houses in 2019, spurred by a change in mortgage rules in early 2018, contributed to the shift of residential investment towards single-family in 2020.

We expect single-family house build-up to continue in 2021, given the low-interest rate environment and anticipated increases in economic activity in 2021.

The total number of housing starts in Calgary fell to 8,000 units in 2020 from 11,000 units in 2019. The multi-family housing starts fell below 2019 housing starts, while single-family housing starts increased above 2019 levels. The share of single-family starts from total residential starts increased from 25 per cent in 2019 to 34 per cent in 2020.

In Calgary CMA, there were 9,000 housing starts in 2020 compared to 12,000 units in 2019. The number of single-family and multi-family homes started in 2020 was less than the number of single-family and multi-family houses started in 2019. The multi-family sector contributed 600 houses less compared to the same period a year ago. The single-family housing starts made up 38 per cent total residential housing starts in 2020, compared to 30 per cent in 2019.

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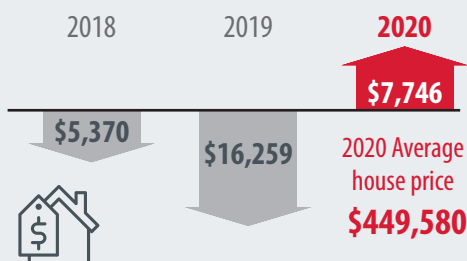
Sources:

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

Larger resale house price appreciation

Change in the average house price

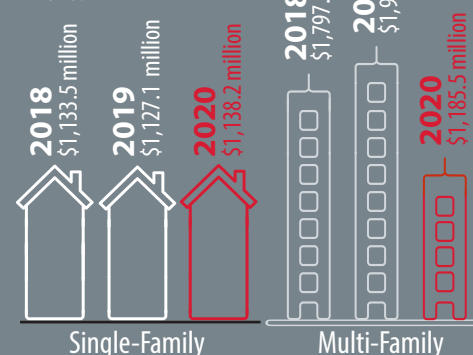
Calgary CMA's average house price had declined in 2018 and 2019, bringing the current average house price below the average during the 2015-2016 recession. In 2020 average house price appreciated relative to 2019.



Uptick in share of single-family investment

Building permit values

The share of single-family investments was 49 per cent in 2020.



Lower housing starts

Single-family housing starts

Single-family housing starts in the city of Calgary registered an increase over 2019 and 2018. Shares of single-family to total housing starts remained higher than in 2019 and 2018. In Calgary CMA, both single and multi-family starts were lower than 2019.

