



Housing Demand - Key Takeaways:

In 2022, Calgary recorded the most significant level of demand for housing since we began collecting this data in 1990. Net migration, employment, and wage growth lifted housing demand. However, the higher interest rate environment, which shifted significantly in 2022H2, mitigated the full impact.

Housing demand pressures drove apartment vacancy rates lower as the need for accommodation increased. The increased demand withstood the pressure from lower housing affordability in 2022.

The higher cost of borrowing and lack of inflation-adjusted wage growth moved housing demand towards relatively affordable housing structures and increased rental activity. They drove apartment vacancy rates down and rents up in Calgary, just like they did across the country.

	2022Q4	2022Q3	2021Q4	2022Q4 (change from 2021Q4)
Interest Rate (average for the quarter) Canada, Chartered Bank	4.0%	3.0%	0.5%	+3.5 percentage points
Population Change (in-migration of permanent residents) Calgary Census Metropolitan Area (CMA)	4,665 people	6,170 people	6,375 people	-1,710 people
Job Growth Calgary Economic Region (CER)	940,400 jobs	961,000 jobs	894,500 jobs	+45,900 jobs
Unemployment Rate Calgary Economic Region (CER)	5.7%	5.6%	7.4%	-1.7 percentage points
Labour Income (average weekly all-industry wage rate) Calgary Census Metropolitan Area (CMA)	\$1,334	\$1,311	\$1,258	+\$76

Interest Rates

The Bank of Canada manages consumer price inflation. It has an inflation-target range between 1 and 3 per cent and has hardly strayed from the 2.0 per cent midpoint over the last thirty-two years. The high inflation experienced in 2022 led the Bank of Canada to increase the overnight policy rate seven times out of eight opportunities to make rate changes in 2022.

It led to a policy rate increase of 4.0 percentage points at the end of 2022 compared to 2021. It impacted the prime lending rate, the benchmark for variable-rate mortgages. When looking ahead, higher rates will pose further challenges to housing affordability in 2023. Beyond 2022Q4, the Bank of Canada added another 0.25 percentage points to the overnight policy rate in January 2023.

Population Change

Net migration is the component of population change that is most important for driving higher housing demand. Net migration into Calgary comprises international, inter-provincial and intra-provincial net migration. The increase in net migration to Calgary, Alberta, and Canada in 2022 has been on a tear.

Net migration drives housing demand in Calgary because most migrants to the city are of working age and contribute to a larger workforce that needs housing accommodation. The considerable increase in population through 2022 has

added more demand pressure on housing services compared to the end of 2021.

Net international migration was 63 per cent of total net migration to Alberta between 2022Q1 and 2022Q3 – net migration to Alberta was 52,582 people. For Calgary CMA (Census Metropolitan Area), there were 6,800 more permanent resident admissions in 2022 compared to 2021.

Job Growth

Strong evidence of the labour market's contribution to robust housing market demand is available by considering a solid pace of positive job growth, a declining unemployment rate, and positive wage growth.

Employment in the Calgary Economic Region (CER) increased by 34,500 positions in 2022 compared with 2021. The increase in the number of jobs was twice as fast as in 2021. Job growth alongside wage growth means Calgarians are more likely to increase their demand for all goods and services, including housing-related goods and services. Employment grew in the CER by 7.3 per cent in 2022. This level of growth is significantly above the historical average – it is not sustainable over long periods and should slow in 2023.

Unemployment Rate

The average unemployment rate in 2022 was 6.1 per cent – a drop of 2.9 percentage

points from 2021. The lower unemployment rate is a good thing. Most of those looking for work are finding employment and positioning Calgary as a relatively more attractive place for job seekers.

Before 2016Q1, the CER typically outperformed the Canadian average with an unemployment rate lower than the national unemployment rate. In 2022Q2, the CER unemployment rate fell to its lowest since 2015Q1. It matched the national average unemployment rate of 5.4 per cent. Through 2023, the focus will be on the CER labour market's ability to outperform the Canadian average.

Labour Income

Wage growth provides strong income support for most first-time home buyers. It also supports the ability of Calgarians to keep up with the rising cost of owned or rented accommodation in a high interest rate environment.

The average weekly all-industry wage grew 4.6 per cent in 2022 compared to a decline in 2021 (-0.65 per cent). On a positive note for workers, it was above-average wage growth for workers in the Calgary region. However, nominal wage growth occurred alongside an even more rapid rate of consumer price inflation (7.2 per cent). Overall, wages adjusted for inflation decreased in 2022 (-2.4 per cent). It is the second consecutive year of decline after a 3.7 per cent drop in 2021.



Housing Supply - Key Takeaways:

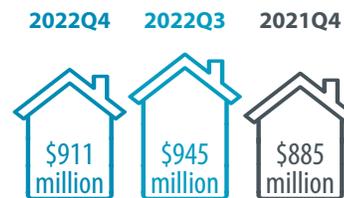
This review assesses housing supply across two market types – the resale of existing homes by owners and the sale of new homes by builders.

For the resale market, the number of listings of existing homes for resale was lower in the last three quarters of 2022 relative to the activity level over the same period in 2021. The number of listings in 2022Q1 was much higher than in 2021Q1 and offset the decline in subsequent quarters. Overall, in 2022, housing sellers felt optimistic about the market. The number of new listings in 2022 was the highest since 2008, when activity dropped due to the global financial crisis. In short, the resale market housing supply was strong.

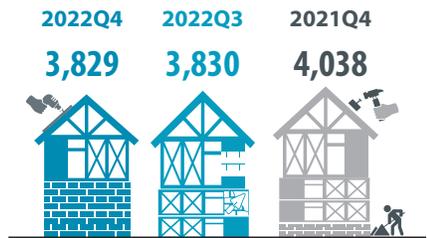
At the beginning of 2022, the inventory of new housing units was the lowest since 2014 (before the 2015/16 recession). The assessment of new housing supply uses four indicators - new residential building construction investments, the number of houses started, the number of dwellings under construction, and the number of dwellings completed.

In 2022, three of these indicators set records. The exception was the number of houses completed in 2022, which was high but just under the value in 2008. The supply of new housing units was also strong.

Residential Construction Investment City of Calgary



Housing Starts (units) City of Calgary



Inventory

When housing inventory is high, that generally signals increased housing options. A low inventory level signals fewer housing options for buyers and, correspondingly, higher demand or sales. In 2022, inventory fell to its lowest since 2014, when the Calgary economy was firing on all cylinders. The historical annual average level of housing inventory between 2014 through 2021 was 5,660 housing units per year. In 2022, it was 4,159 housing units, reflecting relative scarcity.



New Home Listings

New home listings help address scarcity in the market. New home listing increases reflect sellers' release of current housing units. The goal is to change the unit type to meet needs better (downsize or upsize) or take advantage of current housing prices. Conversely, a decrease in new home listings reflects expectations of weak housing prices or a desire to hold on to current unit types. There were 38,900 new home listings in 2022, the most substantial since 2008 (when it was 45,200). The historical annual average between 1990 and 2021 was 31,900.



Residential Construction Investment

Total residential building construction investment captures residential investment intentions. When inventory levels are low, it creates an incentive to increase residential construction investment to meet housing needs. In 2022, the residential construction investment in the city of Calgary reached \$4.0 billion. That's a very high

level. The last time Calgary experienced more than \$4.0 billion in investment was in 2014, with 13,300 housing units intended for construction.

Despite the high inflation environment in 2022, 15,500 housing units were slated for construction, suggesting a shift to multi-family units. That's a record for Calgary. The private market is responding to the need to reflect housing affordability in investment intentions and the choice of structure types.



Houses Started

The number of houses started in Calgary peaked at 14,770 in 2022 – another record for Calgary. However, the distribution of housing types continued the shift from single-family units to apartment units.

Single-family units averaged 57 per cent of the annual number of houses started between 1990 and 2021. The average for apartment units started over the same period was 27 per cent. In 2022, the following represented the share of the new housing units started in Calgary - apartments (51.4 per cent), single-family (28.1 per cent), row houses (12.4 per cent) and semi-detached (8.1 per cent).



Houses under Construction

The significant increase in residential building construction investment, coupled with a record number of historical houses started, has contributed to a record number of houses under construction in Calgary. There were 16,490 houses under construction in 2022 compared to the average of 7,400 per year between 1990 and 2021.

There were 12,930 houses under construction in 2021. The distribution of houses under construction in 2022 by type saw a shift in two categories from 2021.

- Apartment units at 66 per cent is unchanged from 2021.
- Single-family units decreased to 18 per cent (from 19 per cent in 2021).
- Row houses increased to 11 per cent (from 10 per cent in 2021).
- Semi-detached housing units at 5 per cent is unchanged from 2021.



Houses Completed

The number of houses completed is a vital measure of the ability to respond to inventory scarcity and supply new housing units.

Calgary saw 11,700 houses completed in 2022. That's above the average of 8,800 per year between 1990 and 2021. It is also higher than the 9,200 units completed in 2021. The last time more houses were completed, relative to 2022, was in 2008. In terms of the categories of types of houses completed in 2022, there was a shift in all categories compared to 2021.

- Apartments were 50 per cent of units completed (44 per cent in 2021).
- Single-family units were 31 per cent of units completed (34 per cent in 2021).
- Row houses were 11 per cent of units completed (13 per cent in 2021).
- Semi-detached units were 8 per cent of units completed (9 per cent in 2021).



Housing Market Summary: Sales and Prices - Key Takeaways:

Despite higher interest rates, the Calgary housing market saw record unit sales in 2022. It is the second consecutive year of record unit sales. Three significant contributors to the demand for more units were:

1. the most significant level of net migration recorded to date;
2. the growth in job positions by more than 7 per cent; and
3. positive nominal wage growth.

Consequently, house prices across all four major housing types experienced positive house price appreciation in 2022. It motivated increased rental market activity as many struggled with housing affordability.

Housing Sales

The demand for houses was strong in 2022. Total sales reached a historic high of 29,700 homes sold in 2022. There was support for higher unit sales from net migration, employment and wage growth in 2022 amid a backdrop of higher interest rate shifts from 2021.

However, the distribution of types of houses sold shifted in 2022. It was the natural market response to declining housing affordability. The sale of multi-family units increased to 38 per cent in 2022 from 29 per cent in 2021. The sale of single-family and semi-detached decreased to 62 per cent from 71 per cent in 2021.

Average Resale House Prices

House prices appreciated across all housing types in 2022. The single-family category saw average house prices of \$650,500, the most expensive across housing types. The rate of house price appreciation was 12.1 per cent in 2022 compared to 8.6 per cent in 2021.

Housing Sales City of Calgary



2022Q4	2022Q3	2021Q4	2022Q4 (change from 2021Q4)
4,706 units	6,277 units	6,027 units	-1,321 units

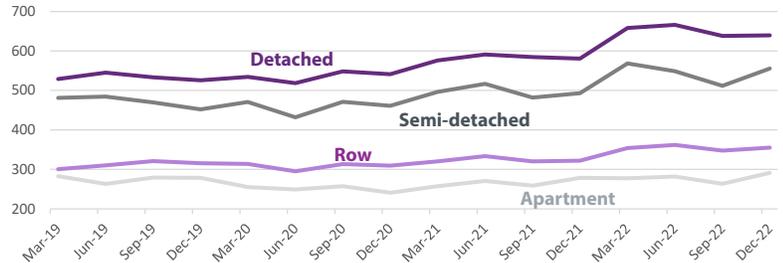
Average Resale House Prices City of Calgary



2022Q4s	2022Q3	2021Q4	2022Q4 (change from 2021Q4)
\$498,305	\$491,831	\$484,092	+\$14,213

Average Resale House Prices by Structure Type

City of Calgary
(\$thousands)



The second most expensive housing type was semi-detached units. The average resale house price was \$546,200. That's a 10.3 per cent rate of house price appreciation in 2022, above the 8.9 per cent pace in 2021.

The second most affordable category was row houses. The average resale house price was \$354,700. The rate of house price appreciation was 9.6 per cent in 2022 compared to 5.2 per cent in 2021.

The most affordable housing type was apartment units. The average resale house price was \$278,500. That's a 6.2 per cent rate of house price appreciation in 2022, also above the 5.8 per cent pace in 2021.

At the beginning of 2022, arguably the most significant challenge facing the housing market was addressing unit scarcity (reflected in low inventory levels) with a robust increase in housing supply. The private housing market responded, particularly with a sustained increase in multi-family units.

At the beginning of 2023, the most significant challenge, undoubtedly, is housing affordability. The Bank of Canada raised interest rates seven times in 2022 with a cumulative 4.0 per-

centage point increase. The Bank of Canada followed up in January 2023 with another 0.25 percentage point increase to the overnight policy rate. As a result, there is the risk that Calgarians would succumb to affordability pressures and start defaulting on mortgage-related debt obligations. The Bank of Canada's decision to implement a conditional pause would help alleviate this risk.

Housing Affordability and The Rental Market

The heightened affordability challenge is evident in the Calgary CMA rental market. The rental vacancy rate for privately initiated apartment structures declined from 5.1 per cent in October 2021 to 2.7 per cent in October 2022. It suggests a movement away from home ownership to the rental market. The average rent for a two-bedroom apartment unit also increased by 6.0 per cent over the same period as increased demand allowed rental providers to raise rates. By October 2022, 6.8 per cent of apartment units were in rental arrears as many struggled to keep up with rents.

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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), Government of Canada, Statistics Canada, The City of Calgary, Corporate Economics.