Housing Review

Q4 2018

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March 5, 2019

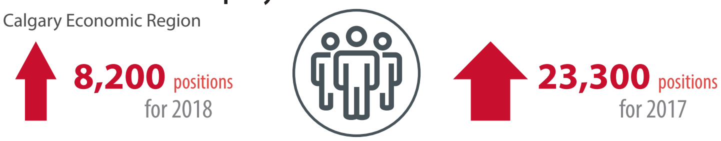
Market Conditions

The review of market conditions in the Calgary Economic Region (CER) focuses on the supply of jobs and earnings received by job holders. The housing market gets a lift whenever both indicators are strong.

The CER unemployment rate averaged 7.6 per cent in 2018, which is better than the 2017 average of 8.4 per cent. However, the supply of jobs increased by only 8,200 positions for the year compared with 23,300 positions in 2017 *(Chart 1)*. The small size of the increase in the supply of jobs puts a limit on the ability to draw down on the inventory of homes available for sale.

Chart 1. Total Employment

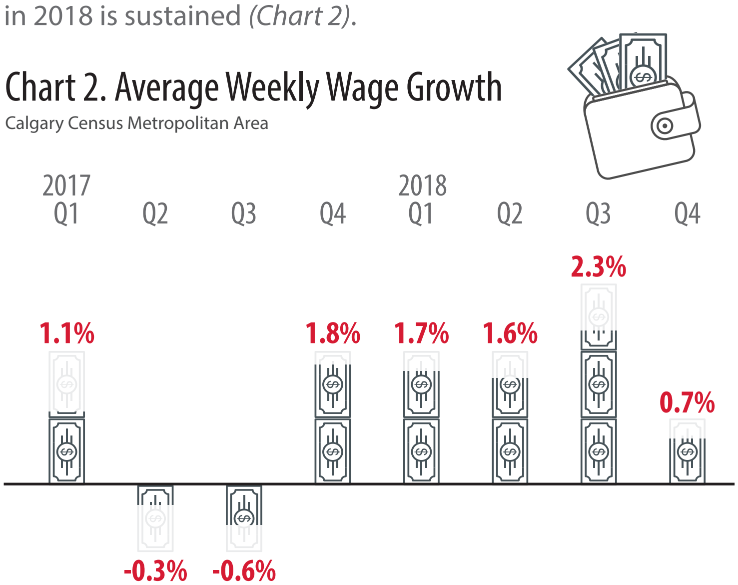
Calgary Economic Region



After adjusting the average weekly wage for inflation, there was +0.6 per cent growth in 2018. For 2017, real wage growth (growth in average weekly wages adjusted for inflation) was -0.7 per cent. The housing market will benefit if the pattern of positive wage growth from quarter-to-quarter that emerged in 2018 is sustained *(Chart 2)*.

Chart 2. Average Weekly Wage Growth

Calgary Census Metropolitan Area



Market Activity

Sales and Listings: *Calgary Census Metropolitan Area (CMA)*

With the prevailing market conditions, it is no surprise that there were 3,335 fewer homes sold in 2018 compared with 2017 *(Chart 3)*. Whenever the number of units sold is 50 per cent of new listings, a balanced market is generally considered to be in place. A buyer's market exists when the value drops below 50 per cent. A seller's market prevails when it is above 50 per cent. The value was 56 per cent in 2017 and decreased to 48 per cent in 2018. The current buyer's market is likely to continue until market conditions improve and translate into a draw down on inventory.

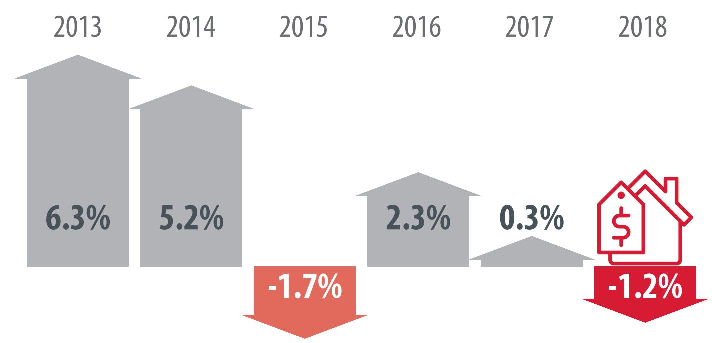
Chart 3. Unit Sales (units)

Calgary Census Metropolitan Area

The average house price dropped from $463,464 in 2017 to $458,093 in 2018. The Calgary CMA has experienced average house price depreciation for the first time in 3 years *(Chart 4)*. The change in mortgage lending rules motivated by overheating Vancouver and Toronto housing markets, slow job growth, and robust inventory of housing supply have all contributed.

Chart 4. Average House Price Growth

Calgary Census Metropolitan Area



Housing Starts: *City of Calgary and Calgary Census Metropolitan Area (CMA)*

Construction activity resulted in 8,866 housing starts for the city of Calgary in 2018. Housing starts dropped 6 per cent from 9,458 units started in 2017. There was a 15 per cent drop in single-family housing starts. After removing the effect on single-family housing starts, multi-family housing starts remained steady at just under 6,200 units.

Housing starts in the remainder of the Calgary CMA increased slightly from 2,076 in 2017 to 2,105 in 2018. Lower

Calgary

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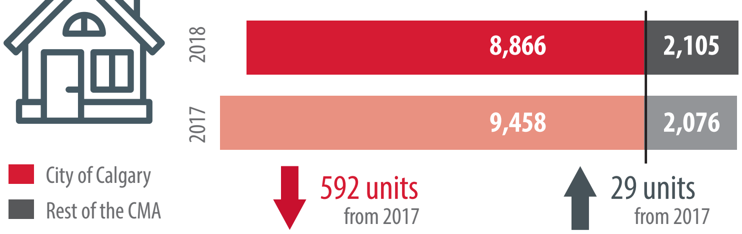
single-family housing starts in the city of Calgary held back the rest of the Calgary CMA *(Chart 5)*. The total housing units started in Calgary CMA in 2018 was 10,971 units, compared with 11,534 units in 2017.

Chart 5. Housing Starts (units)

Calgary Census Metropolitan Area



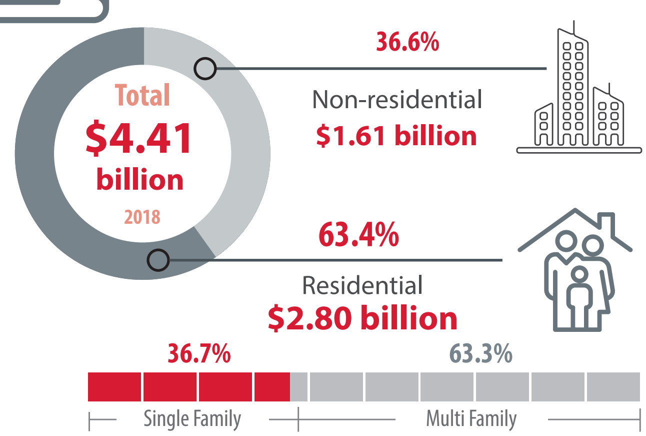
Planned Residential Investment Spending: *City of Calgary*

The value of planned residential building investment increased from $2.3 billion in 2017 to $2.8 billion in 2018. For 2018, planned building investment in the residential sector was almost twice as much as the non-residential. Residential buildings remain a significant driver of ongoing investment in Calgary.

There was a shift from single-family to multi-family residential building investments in 2018. The share of single-family home investments fell to 36.7 per cent from 52.0 per cent in 2017 *(Chart 6)*. Affordability is likely a driver of the shift away from single-family units. There is a correlation between the January 2017 change in mortgage lending rules and the shift to multi-family. Planned investment in single-family housing decreased 16 per cent from $1.2 billion in 2017 to $1.0 billion in 2018.

Chart 6. Building Permits

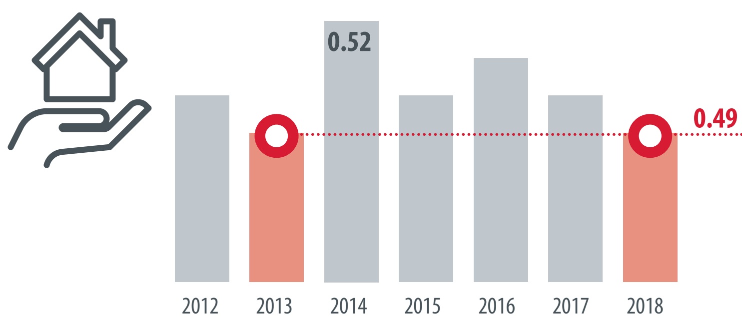
City of Calgary



Affordability

The demand for new housing in 2018 was adversely affected by slow job growth, sluggish weekly real wage growth of 0.6 per cent, and the change in mortgage lending rules. The supply of new housing in 2018 was held back by excess housing inventory from 2017. Lower demand and lower supply together contributed to the decline in the average house price. The increase in planned investment from 2017 to 2018, suggests increased supply in 2019. There is support for the ability of the market to take up new supply with lower prices that increase the ability to purchase. However, the affordability index was lower in 2018 than in 2017 and 2016. The last time the affordability index was at this level was in 2013 *(Chart 7)*.

Chart 7. Affordability Index



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