



Housing Demand - Key Takeaways:

This report looks at the residential real estate activity in the city of Calgary for the first half of 2023 (2023H1). Demand in 2023H1 has retreated as a higher interest rate environment persists despite stronger net migration into Calgary and improved inflation-adjusted wages. This is no surprise as the cost of borrowing has increased, the outstanding household debt burden has grown larger, and consumer price inflation remains persistently elevated, all significantly constraining household budgets. On the other hand, some positive factors provided support to the housing demand, including increased net migration, a marginal decrease in the unemployment rate in Calgary, and an improvement in real wages. Overall, the net effect of the push and pull factors in housing demand suggests in 2023H1 that the higher interest rate environment has substantially negated the effects of push factors, resulting in a pullback of housing demand.

ISI Interest Rates

In 2023H1, the Bank of Canada added another 0.5 percentage points to the overnight policy rate, driving it up to 5.0 per cent and resulting in an average of 4.8 per cent for the first half of the year. The overnight policy rate affects the prime lending rate at which banks offer loans and correspondingly impacts mortgage rates. The higher interest rate environment increases challenges in housing affordability in both home rentals and ownership, fostering a relatively stronger demand skewed towards rental.

Population Change

In 2023Q2, the net migration of permanent residents to Calgary was 7,100 persons after gaining 7,900 in Q1, continuing the momentum from 2022 with over 24,000 annual admissions. The strong population growth driven by net migration has added upward pressure on housing demand. If the pace of in-migration observed in 2023H1 persists in the second half of the year, then more pressure on demand for housing services could be expected.

Job Growth

In 2023Q2, employment grew by 2.9 per cent (by 27,300 persons) from 2022Q2, continuing to contribute to the housing demand. Both the goods-producing and service-producing sectors in Calgary have experienced job gains compared to the same time last year.

	2023H1	2022H1	2023H1 (change from 2022H1)
Interest Rate <i>(average for the quarter)</i> Canada, Chartered Bank	 4.8%	 1.0%	 +3.8 percentage points
Population Change <i>(net migration of permanent residents)</i> Calgary Census Metropolitan Area (CMA)	 14,965 people	 13,875 people	 +1,090 people
Job Growth Calgary Economic Region (CER)	 941,150 jobs	 917,050 jobs	 +24,100 jobs
Unemployment Rate Calgary Economic Region (CER)	 6.4%	 6.5%	 -0.1 percentage points
Labour Income <i>(average weekly all-industry wage rate)</i> Calgary Census Metropolitan Area (CMA)	 \$1,355	 \$1,317	 +\$37



Unemployment Rate

The unemployment rate in Calgary dropped in 2023Q2 to 5.8 per cent from 7.0 per cent observed in Q1. In 2023H1, the unemployment rate averaged 6.4 per cent, decreased marginally from 6.5 per cent in 2022H1. The slightly improving labour market conditions support housing affordability and contribute to housing demand, despite a higher interest rate environment in 2023H1.



Labour Income

The nominal labour income in Calgary increased by \$17, or 1.3 per cent in 2023Q2, compared to the same time last year. This is a slowdown from Q1, which increased 4.4 per cent over 2022Q1. In the first half of 2023, both nominal and real labour income increased over the same time last year. The nominal wage grew by 2.8 per cent, while the inflation-adjusted real wage saw an increase of 1.0 per cent in 2023 H1. In comparison, the real wage had a decrease of 4.5 per cent in 2022H1.

The average increase of H1 weekly income over the last ten years was \$21, while 2023H1 saw an increase above the ten-year average of \$37. The inflation-adjusted wage income accurately represents the households' purchasing ability. The improvement in the labour market in 2023H1 strengthened households purchasing ability in Calgary and improved housing affordability.



Housing Supply - Key Takeaways:

In 2023H1, the housing supply in Calgary remained tight for multiple reasons. On one hand, the resale housing inventory saw its lowest levels since 2014H1. The single-family, two-family and townhouses saw their lowest levels since 2014H1, while apartments reached the second lowest level of housing inventory since 2014H1. On the other hand, the new house listings were subdued across all housing types except apartments in 2023H1.

Another noticeable trend in the housing supply is the shift to apartment investment and construction from other housing types. The number of intended new apartment construction units increased by 3,700 units in 2023H1, above the ten-year historical average in H1 of 2,100 units. The building permit

values and units in 2023H1 also reflected higher building construction investment intentions on apartments. Clearly, there has been a shift in housing preferences towards apartments as the higher interest rate environment continues to challenge homeownership and affordability in 2023H1. The total housing starts in 2023H1 have also seen an increase in the share of apartment starts. Housing preferences have shifted in Calgary, driven by affordability and leaning toward the apartment segment of housing.

Residential Construction Investment

City of Calgary

2023H1

2022H1



Housing Starts (units) City of Calgary

2023H1

6,832

2022H1

7,108



Inventory

In 2023H1, the resale housing inventory saw its lowest levels since 2014H1. The ten-year historical average of detached housing inventory in H1 was 2,633 homes, while inventory in 2023H1 registered only 1,427 detached houses. The semi-detached and townhouse inventories also registered the lowest stock of housing in 2023H1, while apartment inventory reached the second lowest level in H1 since 2014H1. The lack of housing inventory means buyers have limited options, and restricted supply causes upward pressure on house prices.



New House Listings

The new house listings were subdued across all housing types except apartments in 2023H1. For detached new homes, the listings in H1 were 1,474, about 18 per cent below the ten-year average of 1,800 homes. The tightness across semi-detached and townhouse new listings in 2023H1 was also observed. However, new listings of apartments in 2023H1 were 866, the largest listings in any half of the year since 1990 and above the ten-year H1 average of 680 homes. The increase in new listings of apartments reflected a shift in homebuyers' affordability and appetite towards multi-family housing.



Residential Construction Investment

Permit Values: Residential construction permit values are a measure of the intended building construction investment in the city of Calgary. In 2023H1, the city experienced the second-largest nominal investment of \$2.1 billion in H1 since 2000, only slightly lower than the \$2.2 billion registered in 2022H1.

Over the last decade, the share of housing type investment in H1 has shifted across housing types:

- Single-family (down from 44.7 per cent in 2014H1 to 33.9 per cent in 2023H1)
- Semi-detached (down from 5.8 per cent in 2014 Q1 to 4.9 per cent in 2023H1)
- Townhouse (down from 15.1 per cent in 2014H1 to 9.1 per cent in 2023H1)
- Apartment (up from 27.8 per cent in 2014H1 to 31.9 per cent in 2023H1)

Note: New investment intentions by housing types does not cover the total new investment universe; other types include secondary suites, swimming pools, additional dwelling, and unspecified. Therefore, the share of the four types listed above may not necessarily add up to 100 per cent.

Permit Units: Residential construction permit units also show evidence of a shift in preference of housing types towards apartments.

In 2014H1, the share of single-family was 39.2 per cent of 6,295 total intended units to be built and fell to 26.0 per cent in of 8,035 total intended units in 2023H1. The permit units for semi-detached houses decreased from 8.5 per cent to 6.6 per cent between 2014H1 and 2023H1. The permit units increased from 10.8 per cent to 11.5 per cent for townhouses and from 41.3 per cent to 46.9 per cent for apartments, respectively from 2014H1 to 2023H1.

The higher interest rate environment and robust in-migration in 2023H1 are culprits to the shift in housing preference due to housing affordability in Calgary.



Housing Starts

The total housing starts in 2023H1 was 6,800, above the ten-year historical H1 av-

erage of 5,250 housing starts. Higher starts bode well, especially when factors driving demand for housing services edge up and eventually add to the stock of housing supply. The apartment share of total housing starts a decade ago in H1 was 46.8 per cent and has shifted in 2023H1 to 51.1 per cent, while single-family has fallen from 31.8 per cent to 27.5 per cent correspondingly. Builders are responding to the shift in preferences resulting from the need of affordability in Calgary.



Housing under Construction

The total houses under construction in 2023H1 was over 17,300 homes, which is above the decade H1 average of 11,100 and above 13,600 homes under construction in 2022H1. The pace of growth of houses under construction was driven by apartments in 2023H1, reflecting the increasing appetite for housing affordability.



Housing Completions

The total houses completed in 2023H1 was over 5,470 homes which is above the decade average of 4,710 in H1 and marginally above completions in 2022H1. This is a summary of the share of housing completions over the last decade.

- Single-family (down from 36.4 per cent in 2014H1 to 36.0 per cent in 2023H1)
- Semi-detached (down from 8.0 per cent in 2014H1 to 9.1 per cent in 2023H1)
- Townhouse (down from 11.2 per cent in 2014H1 to 13.1 per cent in 2023H1)
- Apartment (up from 44.4 per cent in 2014H1 to 41.4 per cent in 2023H1)



Housing Market Summary: Sales and Prices - Key Takeaways:

The number of houses sold slowed down in 2023H1 compared to the number of homes sold in the first half of last year or the year before. This again is no surprise due to the higher borrowing cost environment and rising debt burden despite strong in-migration and slightly improved inflation-adjusted wages. Housing demand remained relatively strong, above the ten-year historical average in H1, and has been confronted by a lower stock of housing supply. The tighter housing supply stock, caused by low inventory and subdued new listings, has kept resale home prices elevated in Calgary. With increased residential building investment intention and a slowdown in housing demand, the pace of house price appreciation is expected to moderate in 2023.

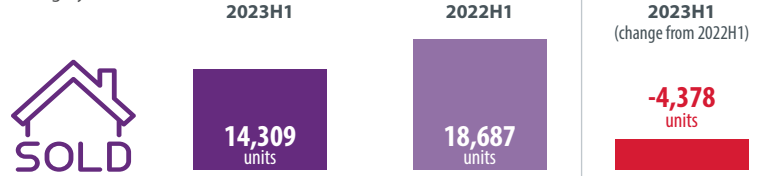


Sales

In 2023H1, 14,300 homes were sold in Calgary, which is lower than the 18,700 homes sold in 2022H1, and lower than the 15,000 homes sold in 2021H1. However, the number of apartments sold in 2023H1 was the largest recorded since 1990. The share of apartments sold over the total sales increased from 18.2 per cent in 2014H1 to 27.5 per cent in 2023H1. Meanwhile, the share of sales for single-family homes shrank to 47.6 per cent in 2023H1 from a much higher share of 59.9 per cent of total sales a decade ago.

Obviously, Calgary buyers are looking towards apartments as a significant option in housing needs as buyers shift away from purchasing single-family homes and other relatively more expensive housing types.

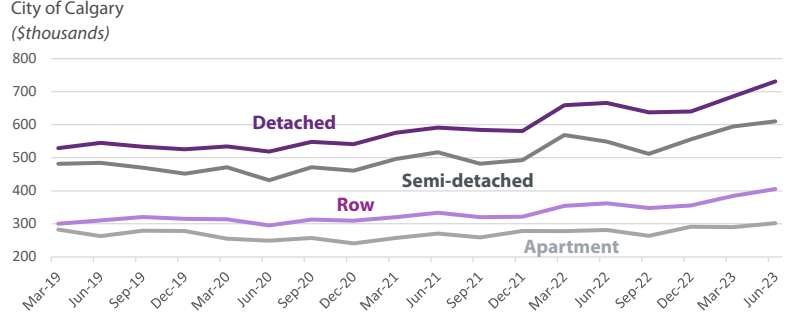
Housing Sales City of Calgary



Average Resale House Prices City of Calgary



Average Resale House Prices by Structure Type City of Calgary



Average Resale House Prices

The average resale price of all home types in Calgary in 2023H1 rose to \$534,175 from \$527,927 in 2022H1, an increase of 1.2 per cent compared to a 6.4 per cent increase a year ago during the same period. Comparing the average resale price to the benchmark price in Calgary, we saw the benchmark grow by 2.7 per cent in 2023H1 compared to a 14.0 per cent price gain during 2022H1.

The slower pace in resale house price appreciation is expected in 2023, given the significant constraint on household budgets under an elevated borrowing cost environment.



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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.