

Housing demand

The better job market condition in 2019 in the Calgary Economic Region brought real wage growth at 1.4 per cent and employment growth at 2.9 per cent. It has not been sufficient to draw down housing stock and generate average house price appreciation in 2019.

In March 2020, the impact of COVID-19 pandemic on the first quarter of economic activity has shown up. The shutdown of businesses, public spaces and mobility restrictions due to social distancing in the later part of March resulted in sharp job losses. The region's unemployment rate increased from 7.0 per cent in Q4 2019 to 7.6 per cent in Q1 2020. Compared to the first quarter a year ago, employment in Q1 2020 increased by only 300 persons. However, between the last quarter in 2019 and this year, employment fell by 26,200 persons. To put this into perspective, the Calgary Economic Region employment growth averaged at 16,000 persons per year between 2010-2019.

The annual average weekly nominal wage rate, not adjusting for inflation, increased by 1.6 per cent in 2018 and 2.9 per cent in 2019. The nominal weekly wage grew by 3.1 per cent in March 2020 from March 2019. So far, the real weekly wage inflation coupled with historic employment losses in the first quarter has weakened the housing demand.

Supply (market listings)

The house units sold in Calgary and surrounding areas were down in the first quarter of 2020 to 4,200 units relative to the average of 5,200 units per quarter in 2019. The number of listings was 9,460 units in Q1 2020 compared to the average quarterly number of 9,900 units in 2019.

The sale of homes will remain challenged this year due to social distancing practices brought about by the pandemic and loss of income.

The average house price depreciation persisted into the first quarter of 2020

The sales-to-listing ratio captures the degree of housing market balance. A value of 50 per cent implies the market is neutral; it is neither a buyer's market or a seller's market. Values above 50 per cent suggest a seller's market, while values below 50 per cent imply a buyer's market.

The sales-to-listing ratio in Q1 2020 was 44 per cent, a decrease from 54 per cent in 2019. The change was due in large part to the reduced homes sold caused by social distancing and the growing uncertainty of employment opportunities. The draw down in housing inventory due to reduced sales will keep house prices challenged and depreciated. The housing market is currently a buyer's market.

In 2019, the average resale house price was \$441,800. The average resale house price fell to \$435,500 in Q1 2020. In the 2015-2016 recession in Calgary, the average resale house price was \$457,000. In Q1 2020, house prices are below pre-recession levels.

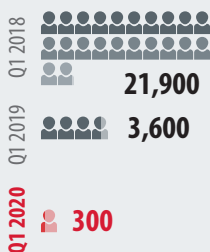
Affordability improved on the back of house price depreciation

Lower house prices and higher real wages improved affordability in the Calgary housing market in 2019. The Q1 2020 affordability index value improved marginally relative to 2019. The last time we saw similar affordability was in 2003. The house price depreciation, coupled with wage growth, supports affordability in the housing market.

Housing demand

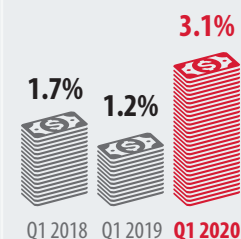
Job growth [Q1]

A **weak job growth** in Q1 2020 relative to Q1 2019 or Q1 2018 in the Calgary Economic Region sets a subdued mood for housing demand.



Annual wage growth

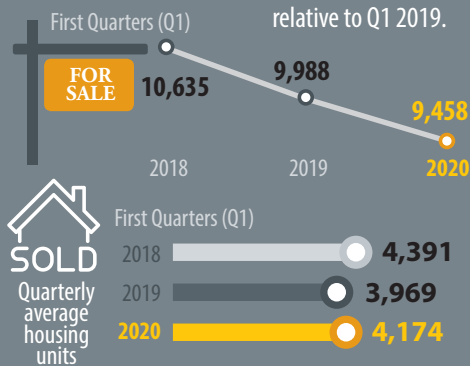
The shift from wage increase below inflation to **wage increases above inflation** supports more housing demand.



Supply (market listings)

Listings and sales [Q1]

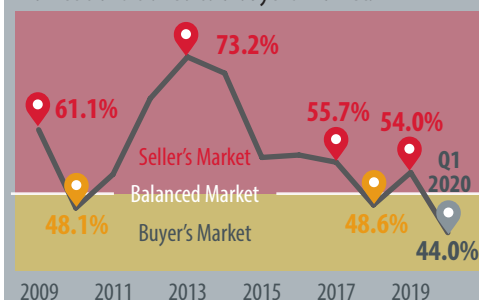
The **quarterly average supply of houses** available for purchase has dropped. **Actual sales** improved relative to Q1 2019.



Transition to a buyer's market

Average sales-to-listings ratio [Q1]

It has moved 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 Q1 2020, the housing market transitioned to a buyer's market.



Affordability has been shored up by the First-Time Home Buyers' Initiative introduced by the federal government in late 2019. It is a housing equity sharing program. The federal government program makes available between 5-10 per cent downpayment for home buyers. The stringent mortgage stress test introduced in January 2018 has provided friction towards improving housing sales due to raised entry costs for first-time homebuyers. However, the federal government in April of 2020 has eased part of the high-cost barriers to home buyers mitigating some adverse effects.

Multi-family residential building construction investment restrained in 2020

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 residential permits were valued at \$430 million in Q1 2020, down from \$480 million in Q1 2019 and \$736 million in Q1 2018.

From 2018 to 2019, following the introduction of the new federal mortgage policy, the share of single-family investment had averaged 35 per cent. Affordability helps to explain some of the shift away from single-family to multi-family units.

The share of single-family construction investment increased to 58 per cent of total residential investment in Q1 2020. The last time we saw higher annual average residential shares was in 2010. The first quarter shift of residential shares towards single-family is an early indication that the multi-family inventory of housing stock may be getting too high. The long-term concern is that the local housing market may have too many units in one category that is above long-term demand.

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

Total housing units started in the city of Calgary was 10,600 units in 2019, up from 9,350 units in 2018 and 9,460 units in 2017. In Q1 2020, the total number of housing starts was 1,900 units. The last time we saw a higher level than this in the City of Calgary was in 2015. The share of single-family houses started in Q1 2020 increased to 38 per cent. The annual average share of single-family houses began in the City of Calgary remained below 38 per cent between 2012-2019.

The total number of new homes started in the Calgary Census Metropolitan Area (CMA) in Q1 2020, was 2,200 houses, up from 1,800 in Q1 2019. Total starts in the City of Calgary and its surrounding areas increased in Q1 2020 compared to Q1 2019 were dominated by single-family houses started.

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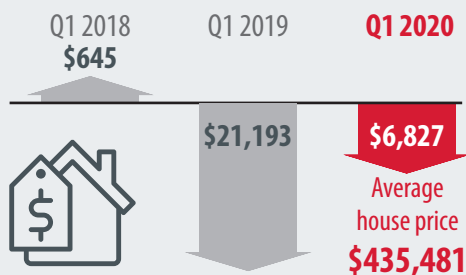
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Sources: Statistics Canada, CMHC, CREA, CREB, The City of Calgary, Corporate Economics

Falling house price depreciation

Change in the average house price [Q1]

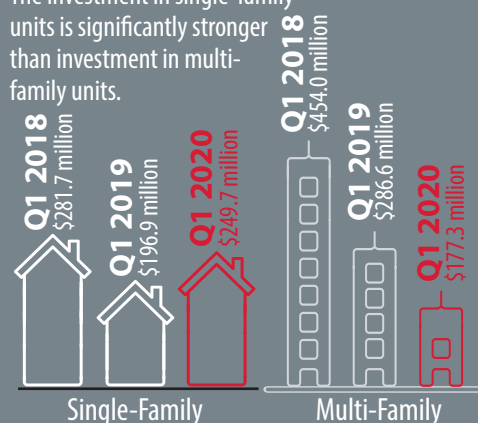
The average house price in Calgary CMA had declined in 2018 and 2019, bringing the current average house price below the average during the 2015-2016 recession. In Q1 2020, average house price depreciation decreased relative to 2019.



Shifting to single-family investment

Building permit values [Q1]

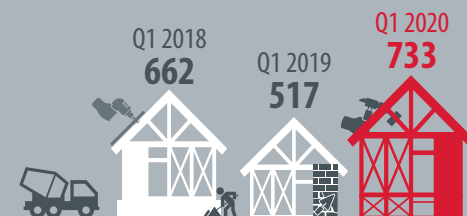
The investment in single-family units is significantly stronger than investment in multi-family units.



Increasing single-family housing starts

Single-family housing starts [Q1]

Single-family housing starts in the city of Calgary register higher starts over the last four years.



Single-family housing starts also registered higher compared to the last four years for the Calgary CMA.