Calgary

# Q4 2019 Housing Review

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**January 28, 2020**

## Improved conditions for housing demand

Labour market conditions in the Calgary Economic Region (CER) improved in 2019. For the first time in five years, both real wages (inflation-adjusted) and employment grew. From 2015 through to 2018, either jobs or real wages declined. The combination of real wage growth of 1.4 per cent and employment growth of 2.9 per cent provided a strong backdrop for improved housing market demand in 2019. In 2015 and 2016, there were job losses and positive real wage growth. In 2017 and 2018, there was a decline in real wages and job growth.

Employment in the CER grew by 23,300 jobs in 2017 and by 8,200 jobs in 2018. At the end of 2019, the CER added 26,500 jobs. The unemployment rate fell from 8.6 per cent in 2017 to 7.6 per cent in 2018 and continued a downward trajectory to 7.1 per cent in 2019.

The weekly nominal wage, which does not account for inflation, increased 0.5 and 1.6 per cent in 2017 and 2018, respectively. The weekly nominal wage grew by 2.9 per cent in 2019. The weekly real wage growth in 2019 supported stronger purchasing power for housing units than in 2017 or 2018.

## Supply (market listings) has declined

The number of units available for sale in Calgary and surrounding areas was down in 2019 relative to 2018 and 2017. The 2019 average number of listings per quarter was 10,000 units compared to 11,000 units in 2017 and 2018.

The sale of homes improved to 21,000 units in 2019 from 20,500 units in 2018. The 2.4 per cent year-over-year increase in housing units traded reflects improved demand. Nevertheless, housing activity is still low. In 2017, there were 24,000 units sold, 3,000 units more than in 2019.

## The average house price dropped drastically earlier in 2019 before recovering some losses at the end of the year

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

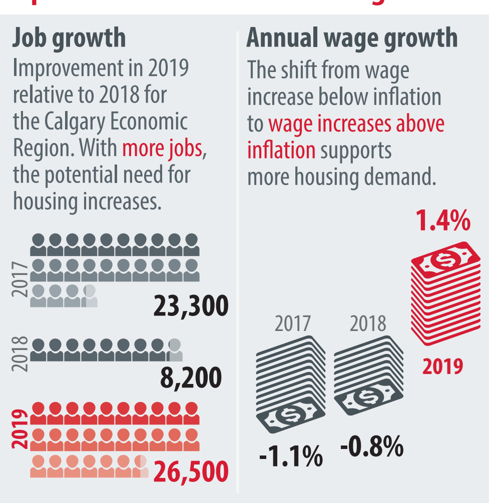
The sales-to-listing ratio averaged 54 per cent in 2019 up from 48 per cent in 2018. The change was due in large part to the reduced listings. The early indication is that reduced listings were a result of discouraged home sellers refusing to sell below their price expectations. As a result, the housing inventory declined so that the fewer sellers in the market could have more price making power. The ratio has hovered around balanced market territory over the last few years.

In 2019, the average resale house price fell by $16,300 relative to 2018. The average resale house price was $458,000 in 2018, $463,000 in 2017 and $442,000 in 2019. In the last recession (2015-2016) in Calgary, the average resale house price was $457,000. In 2019, house prices were below pre-recession levels. Earlier in 2019, the price drop was more significant before narrowing slightly in the fourth quarter.

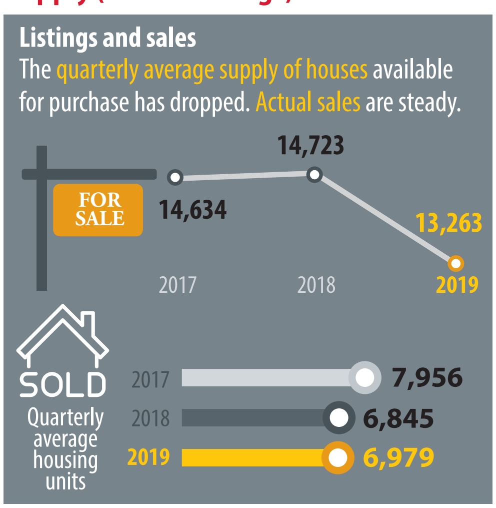
## Affordability is at the most favorable level since 2003, but federal housing policy and reduced confidence restrain housing activity

Lower house prices and higher real wages improved affordability in the Calgary housing market in 2019. The 2019 affordability index value improved relative to 2018 and was at its most favorable level since 2003. Nevertheless, the number of housing units sold in 2019 was only a marginal

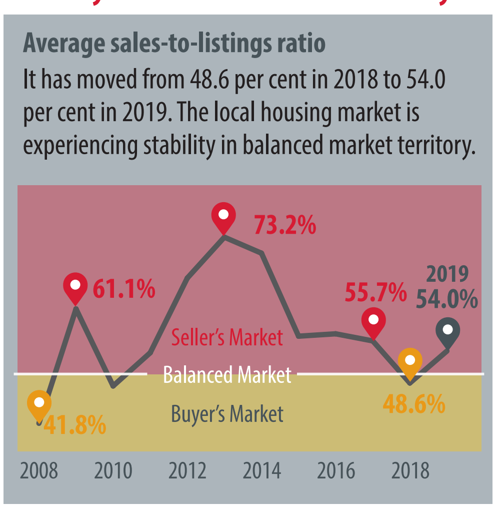
### Improved conditions for housing demand




### Supply (market listings) has declined




### Stability in balanced market territory



improvement from 2018. The gains in the local labour market did not get fully reflected in the 2019 housing market.

There are two potential explanations. First, it could be a result of speculation by prospective home buyers that housing prices have not bottomed out yet. Second, the stringent mortgage stress test introduced in January 2017 has provided friction towards improving housing sales due to raised entry costs for first-time homebuyers.

The analysis shows that both forces are likely at work. The federal housing financing policy and reduced confidence in the local housing market contributed to the softer performance in 2019 despite healthy local market conditions.

## Investment in multi-family units has surged in recent years

### 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 $3.2 billion in 2019 up from $2.9 billion in 2018 and $2.3 billion in 2017.

Two factors explain the sustained surge. First, suppliers of new housing units are likely optimistic about future housing activity because of improved labour market conditions. Second, the new Alberta Building, Fire and Energy Efficiency Codes that took effect on April 1, 2019, contributed. There was a transition period through to December 1, 2019, before implementation was mandatory. The 2019 increase reflects some front-loading of investments in late 2019.

The investment surge targeted multi-family investment. Multi-family investment in 2019 was up relative to both 2017 and 2018 at $2.1 billion. The 2019 aggregate single-family permit value was equivalent to 2018 at $1.02 billion, but lower than in 2017. The boon is in multi-family investment.

The share of single-family investment before the pre-recession period of 2015-2016 averaged 62 per cent of total residential investment. From 2017 to 2019, following the introduction of the new federal mortgage policy, the share of single-family investment has averaged 39 per cent.

Affordability helps to explain some of the shift away from single-family to multi-family units. 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. The share of single-family starts in 2019 was 26 per cent of total housing starts. Single-family housing starts in 2019 was lower than all years for which consistent data is available (2006 to 2019). From 2006 to 2014, the share of single-family housing starts relative to total housing starts averaged 53 per cent.

The total number of new houses started in the Calgary Census Metropolitan Area (CMA) in 2019 was 11,900, up from 10,970 in 2018 and 11,530 in 2017. Total starts in the City of Calgary and its surrounding areas increased in 2019 compared to 2018 and 2017. The increase is due entirely to multi-family investment.

Next update: April 27, 2020

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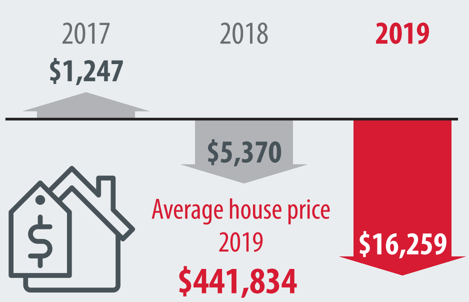
Sources: Statistics Canada, CMHC, CREA, CREB, The City of Calgary, Corporate Economics

## Significant drop in average house price

**Change in the average house price**

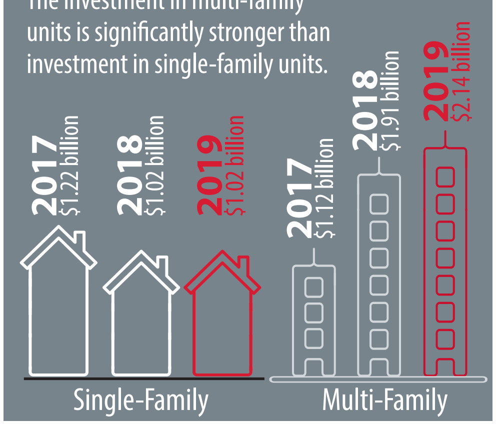
The average house price in Calgary CMA declined for a second year. The decline brings the current average house price below the average during the 2015-2016 recession.




## Focus on multi-family investment

**Building permit values**

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




## Declining single-family housing starts

**Single-family housing starts**

Single-family housing starts in the city of Calgary is weaker than in recent history.


Single-family housing starts are also declining for the Calgary CMA from 2017 (4,423) to 2018 (3,790) and further to 2019 (3,535).