Calgary Housing Outlook

- **Calgary's housing recovery is ongoing, but home sales and prices will likely remain subdued through 2019. While demand fundamentals are improving, new mortgage stress tests and rising interest rates have introduced counterbalancing headwinds.**
- **A near record supply overhang of multi-unit dwellings is expected to hold back new residential construction at historically low levels. Oversupply conditions also continue to persist in Calgary's rental market following a period of elevated apartment completions.**
- **Calgary's relatively good housing affordability, set against high-priced centres including Vancouver and Toronto, in addition to a growing labour pool, bestows a competitive advantage to businesses seeking to attract and retain key talent.**

As part of our ongoing research into Canadian and global real estate developments and policy issues, we are taking a deeper dive into major housing markets across Canada. This issue of *Global Real Estate Trends* provides an assessment of current conditions and outlook for Calgary's housing market, and highlights important cyclical and structural developments underway. For a detailed analysis of major housing markets in British Columbia and a discussion of the Province's 30-Point *Homes for B.C.* plan, see our recent publication here.

SALES, PRICE STABILITY, BUT LITTLE UPWARD MOMENTUM FOR NOW

Calgary's housing market recovery from the 2014 oil price shock and subsequent recession remains a slow slog. MLS home sales fell 10% q/q in Q1 on a seasonally-adjusted basis. Some slowing in sales was expected after many buyers, as in other parts of the country, rushed to close deals late last year ahead of the January 1, 2018 implementation of new tougher mortgage stress tests. Looking past the volatility of recent months, sales have been trending largely sideways since early 2015 and remain below long-term averages (chart 1).

Home prices are stabilizing, evidence of growing confidence in the sustainability of the province's economic recovery. Calgary's composite benchmark home price (HPI) was unchanged in the twelve months to March, with a small price gain for detached homes offset by modest declines for townhomes and condominiums, which continue to face oversupply conditions. The overall sales-to-new listings ratio averaged 52 in 2018-Q1, within one standard deviation of its long-term average, considered consistent with a balanced market (chart 2).

DEMAND FUNDAMENTALS ARE IMPROVING

Housing demand fundamentals are generally improving. Over 23,000 net new jobs have been created in the Calgary CMA (Census Metropolitan Area) over the past year (+2.9% y/y), all full-time positions. Calgary's unemployment rate, while still elevated, has fallen from a cycle peak of over 10% in late 2016 to around 8%. The jobless rate is forecast to continue to edge lower in 2018–19. The further reduction in labour market slack combined with provincial minimum wage increases are expected to underpin stronger wage and income growth. Alberta's

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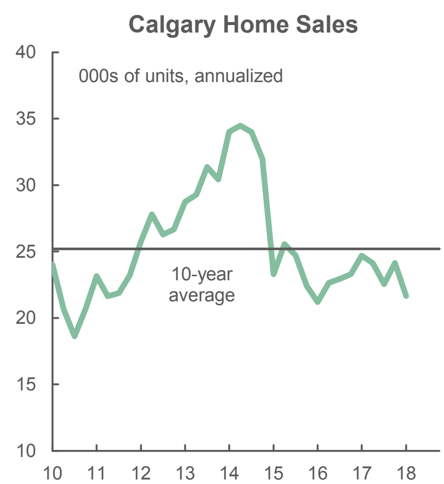
Chart 1



Sources: Scotiabank Economics, CREA.

Chart 2

Sources: Scotiabank Economics, CREA.

minimum wage increased to $13.60 on October 1, 2017, and is set to rise to $15 on October 1, 2018.

Demographic trends also are becoming more favourable. Alberta witnessed a net inflow of migrants from other provinces in the latter half of 2017 for the first time since 2015 (chart 3); net inflows are expected to remain positive, albeit modest relative to the 2012–14 annual average of over 30,000, amid the pickup in labour market demand. High levels of immigration are sustaining healthy household formation growth. Calgary's population, even with the recent slowdown, continues to grow at almost a 2% annual rate, and its age profile remains supportive of housing demand. In addition to an average age of 37.4, the lowest in the country in 2016, the 24.7% share of Calgary's population aged 25–39 years old, considered the prime home-buying age bracket, was the highest of any CMA.

Even so, the combination of the new mortgage underwriting guidelines and higher interest rates are likely to weigh on home sales. The impact is expected to be more muted than in Toronto and Vancouver given Calgary's relatively better housing affordability and smaller share of uninsured mortgages. Mortgage carrying costs for buyers of an average priced Calgary home absorb around 28% of median household income, in line with its historical average[1] (chart 4), and well below the near-record levels of roughly 65% and 50% in Vancouver and Toronto, respectively. We anticipate some erosion in affordability in 2018–19 as rising interest rates boost mortgage payments at a faster pace than income growth, but not to the extent that it becomes a major issue for many households. Overall, we forecast sales and prices to be little changed this year.

OVERSUPPLY CONDITIONS WEIGH ON STARTS AND RENTS

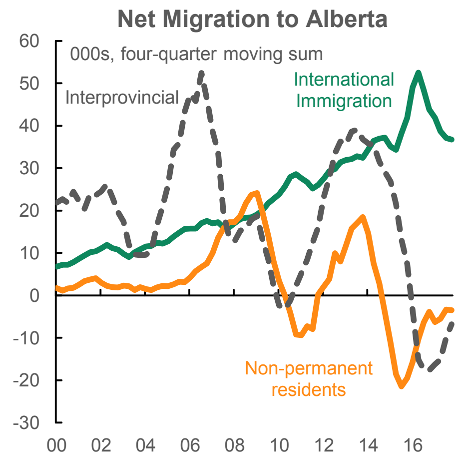
Elevated inventory levels, primarily for multi-family units, are expected to hold back new residential construction at historically low levels. A record number of new apartment launches in 2014–15 butted up against a period of softening demand, driving the number of completed and unabsorbed apartment units to record highs (chart 5). There is little evidence of overbuilding in the single-family market, where unsold inventories remain low. Overall, housing starts are forecast to be relatively flat in 2018 as a modest pickup in single-family starts is offset by a pullback in multi-unit construction, before posting a small increase in 2019.

Meanwhile, oversupplied rental market conditions could put further downward pressure on rents in the near-term. Calgary's vacancy rate for purpose-built rental apartments was 6.3% as of October 2017, while the comparable rate for rented condominiums was 3.8%. Vacancy rates of around 3% are generally deemed balanced. Growing rental demand in recent years has been met by a substantial rise in new supply of both purpose-built apartments and rented condominiums. Purpose-built rental completions in 2016–17 reached their highest level since at least 1990.

Other metrics of Calgary's housing market health are fairly sanguine. Current prices, adjusted for inflation, show little deviation from their long-term trend (chart 6). A decade of essentially stagnant real home prices appears to have removed any evidence of overvaluation built up during the 2005–07 housing boom when average

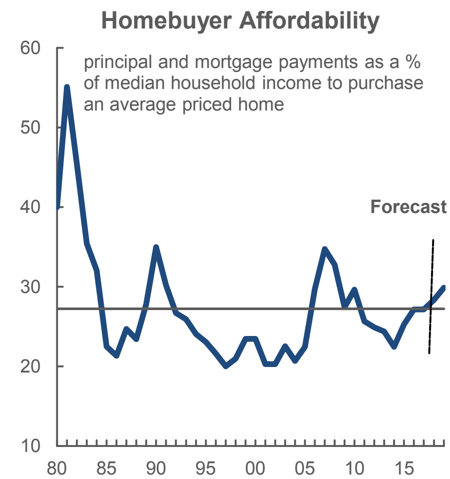
[1] Our affordability calculation is based on the MLS average price, and assumes a 20% downpayment, a 25-year amortization, and the discounted 5-year fixed mortgage rate.

Chart 3



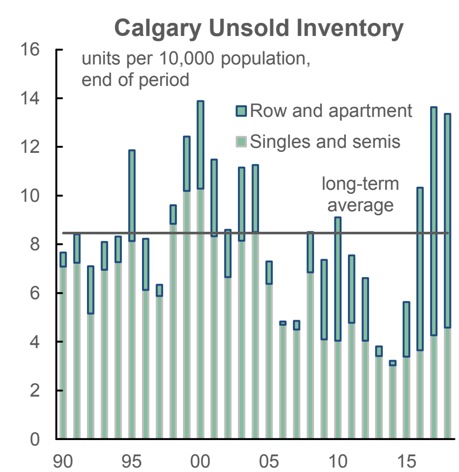
Sources: Scotiabank Economics, Statistics Canada.

Chart 4



Sources: Scotiabank Economics, CREA.

Chart 5



Sources: Scotiabank Economics, Statistics Canada, CMHC.

inflation-adjusted prices soared over 80%. Cumulative real home price gains in the lead-up to the 2014 oil shock were strong, but much more modest at 12%. The share of Alberta mortgages in arrears three or more months peaked at 0.47% in 2017-Q1 and has since edged lower to 0.45, well below the cycle high of 0.84 reached following the 2008–09 recession.

CALGARY'S COMPETITIVE ADVANTAGE

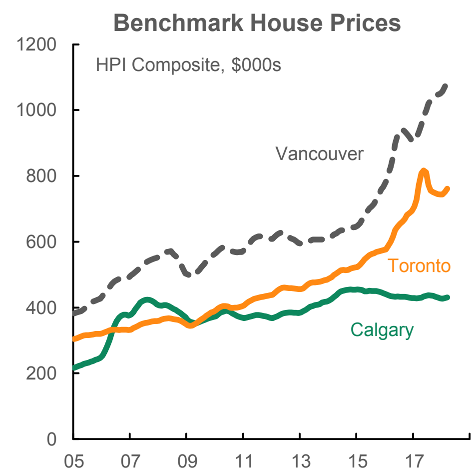
Calgary's relatively good housing affordability bestows a competitive advantage to businesses seeking to attract and retain key talent. The MLS benchmark price for a home in Calgary in March was $430,400, 60% lower than the $1,084,000 benchmark in Greater Vancouver, and 43% lower than the GTA benchmark of $760,800 (chart 7). The average rent on a 2-bedroom apartment, at $1,247 as of October 2017, is 10% lower than in Toronto and 20% lower than a comparable rental unit in Vancouver.

Alongside more reasonable rents and home prices, the high salaries offered in Calgary reinforce the city's competitive advantage. For renters, elevated earnings, even in 2016 when the commodity price correction was well underway, resulted in rents making up just 19.3% of their incomes on average, well below Toronto's 28% and Vancouver's 29.8%.

Chart 6

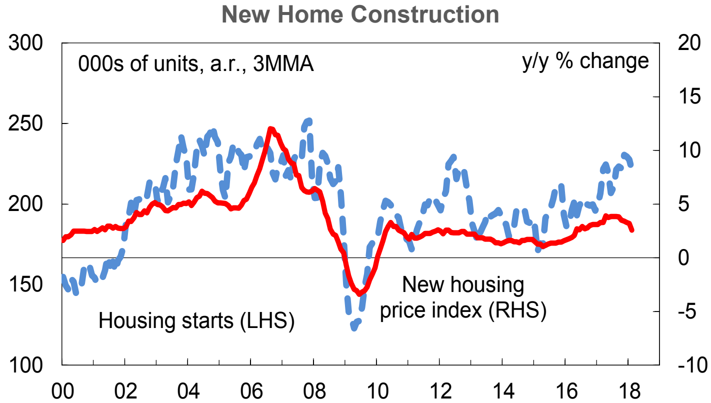
Sources: Scotiabank Economics, CREA, Statistics Canada.

Chart 7

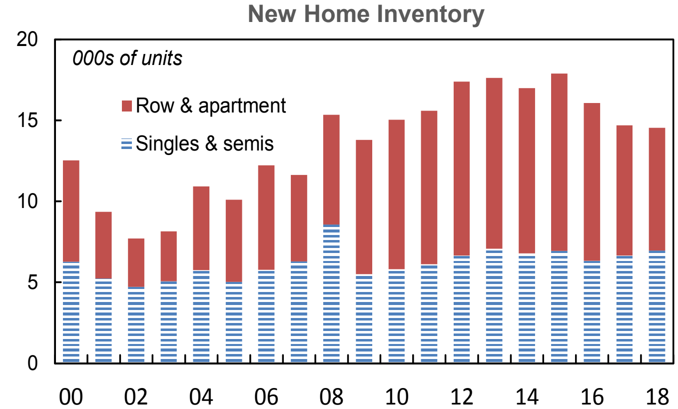


Sources: Scotiabank Economics, CREA.

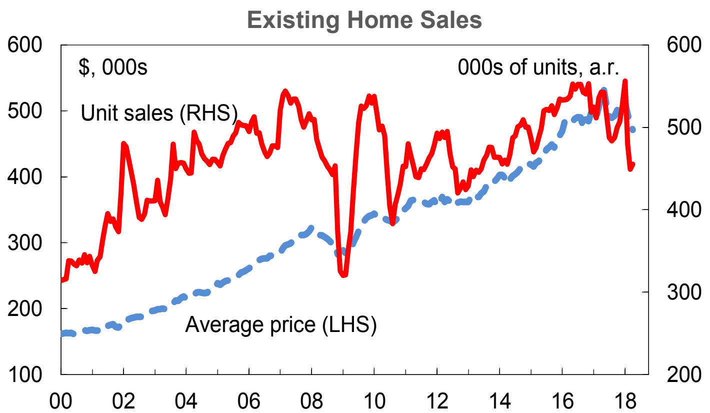
CANADIAN RESIDENTIAL MARKETS



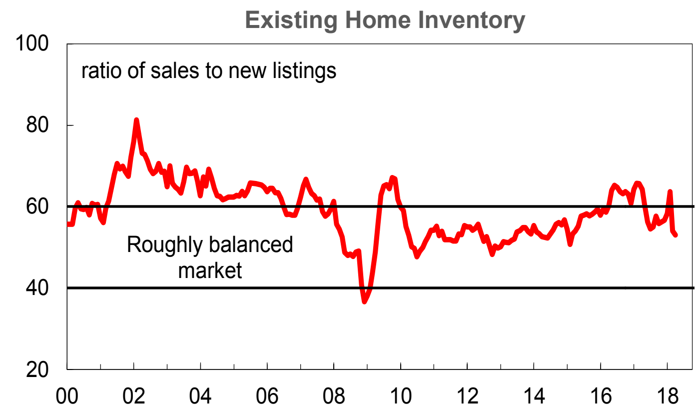
Sources: Scotiabank Economics, CMHC, Statistics Canada.



Sources: Scotiabank Economics, CMHC.



Sources: Scotiabank Economics, CREA.



Sources: Scotiabank Economics, CREA

Housing Starts

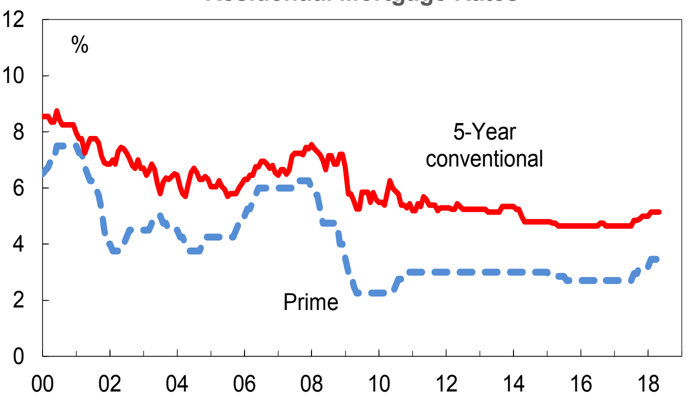
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
(000s units, sa)								
2011	194	26	26	7	6	68	48	13
2012	215	27	33	10	7	77	47	13
2013	188	27	36	8	7	61	38	10
2014	189	28	41	8	6	59	39	8
2015	196	31	37	5	6	70	38	8
2016	198	42	25	5	5	75	39	8
2017	220	44	29	5	8	79	46	9
2018ytd	224	42	25	4	6	89	48	10
2018f	208	42	28	5	6	77	42	8
2019f	196	38	30	5	6	71	38	8

(units, nsa)	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2011	17,867	9,292	9,332	39,745	5,794	22,719	2,954	1,923
2012	19,027	12,841	12,837	48,105	6,026	20,591	2,754	2,153
2013	18,696	12,584	14,689	33,547	6,560	15,632	2,439	1,734
2014	19,212	17,131	13,872	28,929	5,762	18,672	1,757	1,230
2015	20,863	13,033	17,050	42,287	4,972	18,744	2,599	985
2016	27,914	9,245	10,036	39,027	5,298	17,834	2,305	833
2017	26,204	11,534	11,435	38,738	7,457	24,756	2,752	763
2018ytd	28,322	8,896	9,798	49,864	5,148	19,894	1,909	990

Sources: Scotiabank Economics, CMHC. Year-to-date data are expressed at seasonally adjusted annual rates.

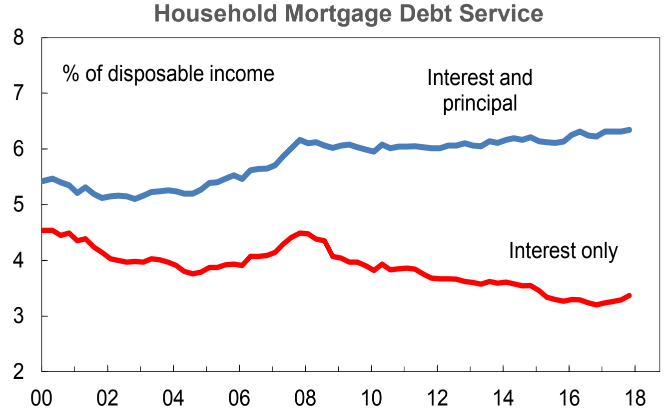
CANADIAN RESIDENTIAL MARKETS

Residential Mortgage Rates



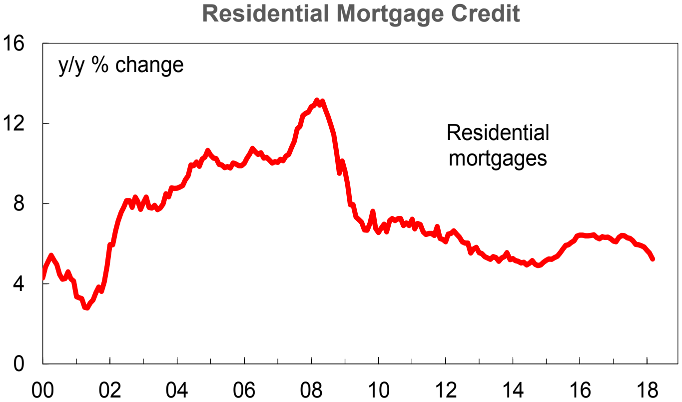
Sources: Scotiabank Economics, Bank of Canada.

Household Mortgage Debt Service



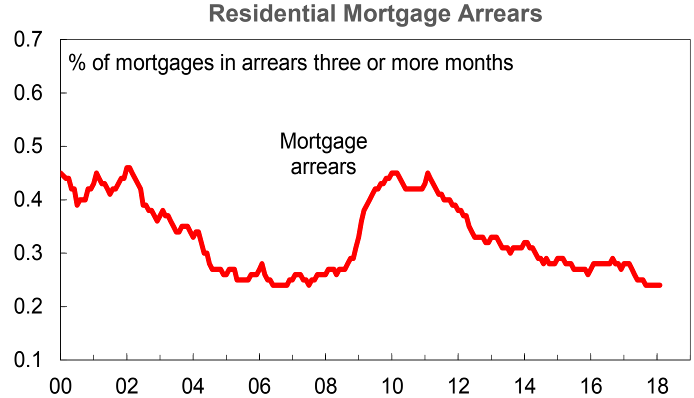
Sources: Scotiabank Economics, Statistics Canada.

Residential Mortgage Credit



Sources: Scotiabank Economics, Bank of Canada.

Residential Mortgage Arrears



Sources: Scotiabank Economics, CBA.

Home Sales

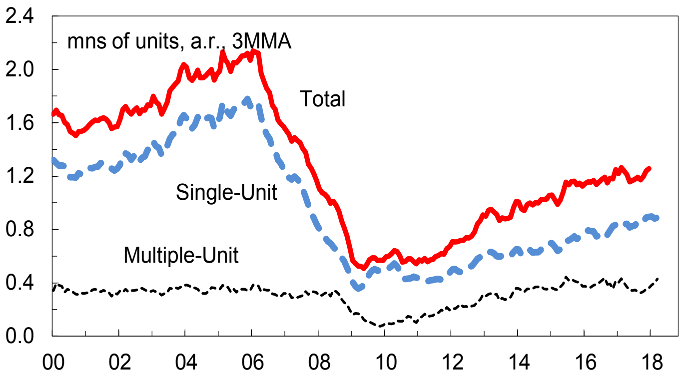
	Canada		British Columbia		Alberta		Man.-Sask.		Ontario		Quebec		Atlantic	
	Avg. Price	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*
2011	362,724	461,874	561,271	76,727	355,331	55,292	249,107	26,680	365,250	202,289	251,138	77,164	201,083	23,279
2012	364,157	456,057	514,849	67,634	365,647	62,202	264,637	27,276	384,560	198,002	260,705	77,372	208,972	23,113
2013	383,392	458,771	537,428	72,936	383,428	67,377	277,048	26,847	403,300	198,567	264,285	71,194	210,089	21,414
2014	408,461	484,950	568,391	84,054	402,331	75,090	284,939	27,257	430,988	206,514	267,916	70,620	210,067	20,957
2015	442,727	511,143	636,607	102,514	395,469	59,295	285,035	26,040	464,301	226,656	271,791	74,120	208,833	22,017
2016	489,815	541,220	691,111	112,211	396,512	54,800	287,476	25,894	534,508	245,870	279,832	78,142	206,771	23,693
2017	510,090	516,500	709,574	103,764	398,145	57,161	290,146	25,487	585,290	222,231	292,545	82,563	211,603	24,618
2018ytd	482,544	461,240	708,367	88,236	392,915	55,108	288,228	24,396	558,124	185,024	302,487	83,640	216,317	24,296

	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*	*Avg. Price*	*Units*
2011	779,730	32,936	402,851	22,466	333,624	17,916	466,352	91,760	344,496	15,059	304,805	41,672	261,125	6,082
2012	730,063	25,445	412,315	26,634	344,699	19,160	498,973	88,157	352,199	14,692	316,630	41,491	272,468	6,194
2013	767,765	28,985	437,036	29,954	354,599	20,560	524,089	88,946	358,592	14,013	319,548	37,764	275,788	5,147
2014	812,653	33,693	460,584	33,615	372,891	22,923	566,491	93,278	362,525	14,122	326,539	36,917	276,721	4,812
2015	902,801	43,145	453,814	23,994	379,516	20,870	622,046	101,846	368,521	14,849	332,496	39,210	286,207	4,897
2016	1,017,228	40,880	463,047	22,522	378,743	19,443	729,591	113,725	374,649	15,616	344,509	41,309	290,833	5,235
2017	1,031,546	36,604	466,259	23,869	380,021	19,539	823,874	93,158	394,304	17,308	364,510	44,448	296,202	5,585
2018ytd	1,017,516	28,584	468,131	21,644	376,500	19,420	756,379	75,460	403,293	16,720	378,805	45,900	304,915	5,712

Sources: Scotiabank Economics, CREA, QFREB. Year-to-date data are expressed at seasonally adjusted annual rates.

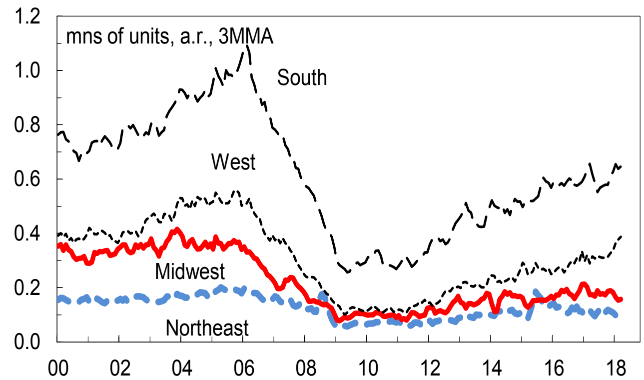
US RESIDENTIAL MARKETS

Housing Starts



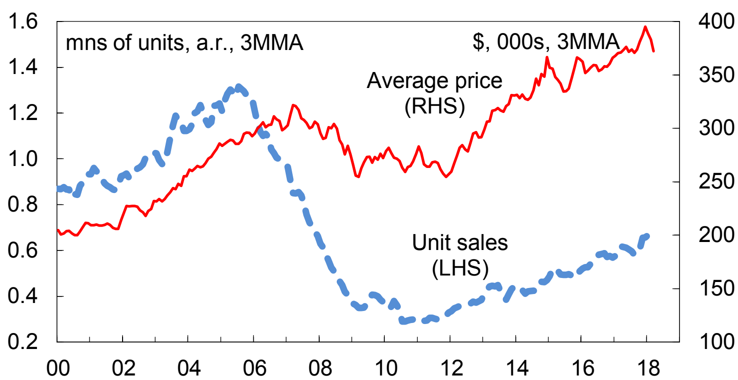
Sources: Scotiabank Economics, US Census Bureau.

Housing Starts by Region



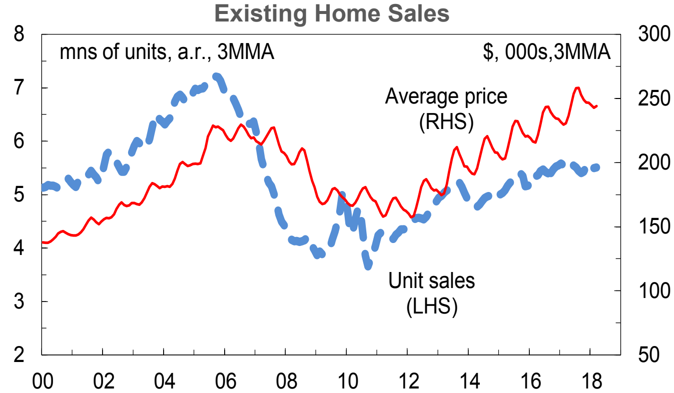
Sources: Scotiabank Economics, US Census Bureau.

New Home Sales



Sources: Scotiabank Economics, US Census Bureau.

Existing Home Sales

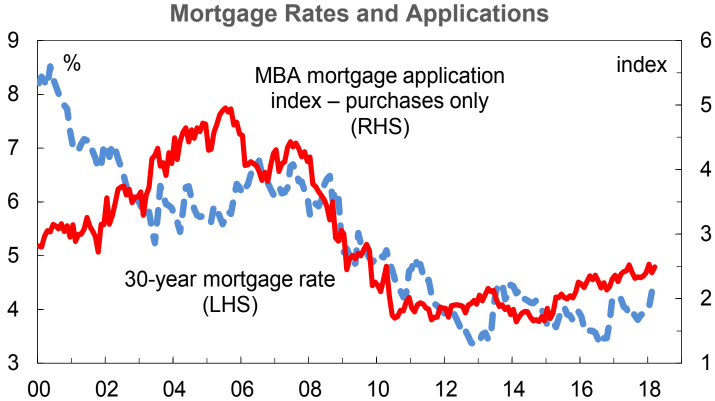


Sources: Scotiabank Economics, National Association of Realtors (NAR).

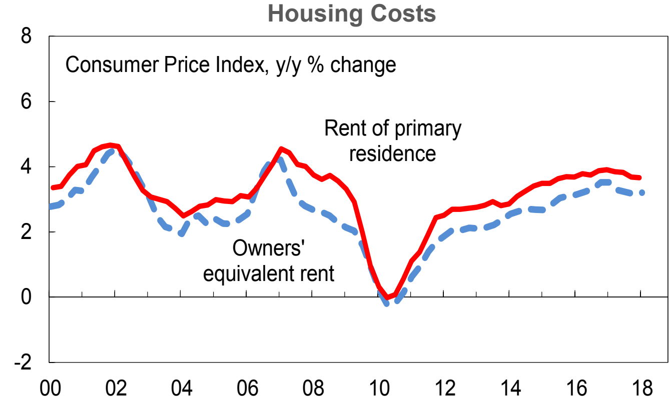
	Housing Starts							Permits		
	Total	Singles	Multis	West	South	Midwest	Northeast	Total	Singles	Multis
	(millions of units)							*(millions of units)*		
2011	0.609	0.431	0.178	0.133	0.308	0.101	0.068	0.624	0.418	0.206
2012	0.781	0.535	0.245	0.175	0.398	0.128	0.080	0.830	0.519	0.311
2013	0.925	0.618	0.307	0.215	0.464	0.150	0.097	0.991	0.621	0.370
2014	1.003	0.648	0.355	0.235	0.496	0.163	0.110	1.052	0.640	0.412
2015	1.112	0.715	0.397	0.266	0.556	0.153	0.138	1.183	0.696	0.487
2016	1.174	0.782	0.392	0.291	0.585	0.182	0.116	1.207	0.751	0.456
2017	1.203	0.849	0.354	0.313	0.599	0.180	0.111	1.264	0.817	0.447
2018ytd	1.318	0.889	0.429	0.388	0.647	0.157	0.126	1.351	0.869	0.482
2018f	1.260									
2019f	1.300									

Sources: Scotiabank Economics, US Census Bureau. Year-to-date data are expressed at seasonally-adjusted annual rates.

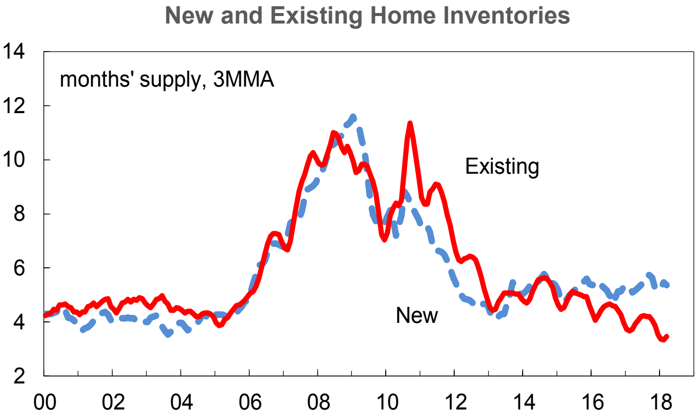
US RESIDENTIAL MARKETS



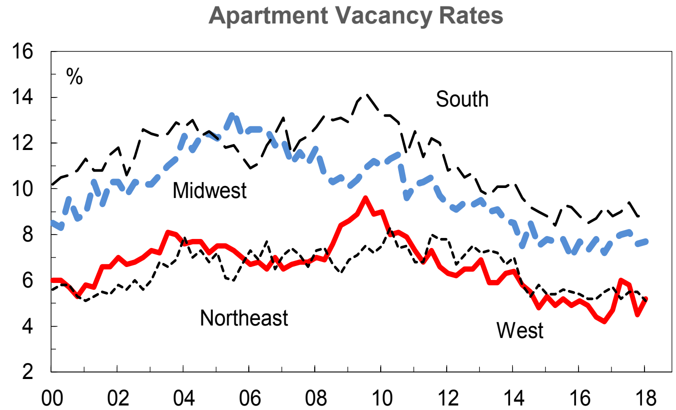
Sources: Scotiabank Economics, Mortgage Bankers Association (MBA), FHLMC.



Sources: Scotiabank Economics, US Bureau of Labor Statistics.



Sources: Scotiabank Economics, US Census Bureau, National Association of Realtors (NAR).



Sources: Scotiabank Economics, US Census Bureau.

	Existing Home Sales							New Home Sales		
	Total	Avg Price	Months' Supply	West	South	Midwest	North East	Total	Avg Price *($000s)*	Months' Supply
	(sa)	*(nsa)*	*(nsa)*	*(million units, saar, unless otherwise noted)*						
2011	4.260	214.0	8.3	1.130	1.680	0.910	0.540	0.306	263.4	6.6
2012	4.660	225.4	5.9	1.160	1.840	1.070	0.590	0.368	285.4	4.8
2013	5.090	245.5	4.9	1.190	2.050	1.200	0.660	0.430	319.3	4.7
2014	4.940	255.3	5.2	1.100	2.050	1.140	0.640	0.440	341.8	5.5
2015	5.250	266.4	4.8	1.170	2.160	1.240	0.700	0.503	348.6	5.2
2016	5.450	276.0	4.4	1.190	2.220	1.300	0.740	0.561	359.3	5.2
2017	5.510	289.2	3.9	1.220	2.260	1.300	0.740	0.617	377.8	5.4
2018ytd	5.507	284.4	3.5	1.213	2.357	1.253	0.683	0.668	372.2	5.4

Sources: Scotiabank Economics, National Association of Realtors (NAR), US Census Bureau.
Year-to-date data are expressed at seasonally-adjusted annual rates.

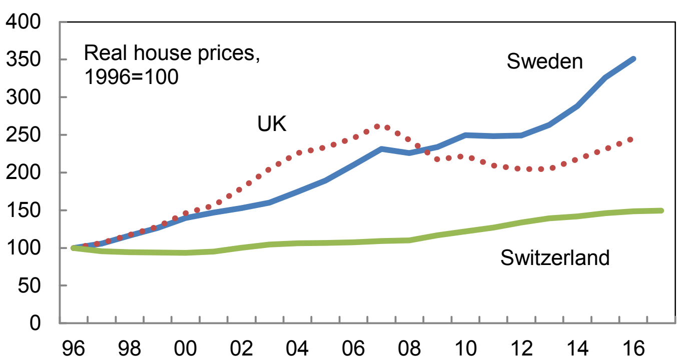
INTERNATIONAL RESIDENTIAL MARKETS

International House Prices

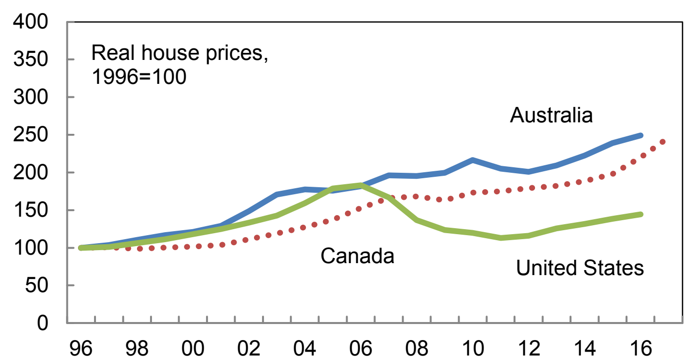
(Inflation-adjusted, y/y % change)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	17Q1	17Q2	17Q3	17Q4
Australia	2.2	8.5	-5.3	-2.1	4.1	6.4	7.4	4.2	---	7.9	8.1	6.4	---
Canada	-3.2	6.2	0.9	2.4	1.8	3.4	4.9	11.2	12.0	15.0	16.2	9.9	7.5
France	-6.3	3.2	3.6	-2.4	-2.7	-2.1	-1.5	0.9	---	1.6	2.5	3.6	---
Germany	-0.7	-0.6	0.5	1.0	1.7	2.2	4.3	5.5	---	3.7	3.5	4.2	---
Ireland	-15.4	-12.5	-19.2	-14.9	0.7	16.3	11.8	7.4	---	8.8	10.3	11.6	---
Italy	-1.3	-2.9	-2.0	-5.7	-6.9	-4.6	-2.6	-0.7	---	-1.5	-1.7	-1.9	---
Japan	---	2.2	0.3	-0.8	1.3	-1.2	1.6	2.3	---	3.6	1.6	1.9	---
Spain	-6.3	-3.5	-10.5	-16.8	-10.4	0.5	4.1	4.8	---	2.5	3.5	4.9	---
Sweden	3.5	6.8	-0.4	0.3	5.5	9.6	13.2	7.6	---	5.1	6.7	5.2	---
Switzerland	6.2	4.2	4.2	5.2	4.2	1.8	3.1	1.6	0.8	1.2	1.5	0.3	0.0
United Kingdom	-10.8	2.3	-5.7	-2.3	0.0	6.5	5.9	6.3	---	2.2	1.7	2.0	---
United States	-9.6	-2.8	-5.7	2.6	8.3	4.7	5.4	4.1	---	3.0	4.0	4.4	---
Russia	-10.9	1.3	-27.0	9.5	-2.7	-6.0	-12.3	-11.6	---	-8.4	-7.6	-6.7	---
Brazil	19.4	19.0	11.6	6.1	2.8	0.2	-8.0	-10.3	---	-6.8	-5.5	-4.5	---
Chile	1.5	6.0	2.0	2.1	6.1	1.8	4.7	-1.2	---	0.2	-0.5	---	---
Colombia	4.9	5.5	4.3	7.1	7.6	5.0	4.4	4.1	---	2.9	2.7	3.7	---
Mexico	0.1	-0.3	0.8	0.7	0.0	0.4	3.8	5.1	---	0.2	0.7	-3.3	---
Peru	14.0	9.3	13.2	17.5	13.7	9.2	2.6	2.4	---	-7.5	-2.7	-5.2	---
China	1.9	5.4	-1.2	-3.2	3.2	0.6	-5.2	4.5	---	9.2	8.3	6.0	---
India	---	8.5	11.3	15.5	7.8	7.8	8.3	1.6	---	6.6	6.4	4.2	---
Indonesia	-2.7	-2.2	-0.7	0.6	5.3	0.6	-0.8	-0.4	---	-1.0	-1.1	-0.5	---
South Korea	-2.5	-0.5	1.2	0.7	-1.7	0.2	2.6	1.7	-0.6	-0.8	-0.7	-0.8	-0.2
Thailand	6.1	-0.5	0.5	0.3	5.5	3.8	3.5	1.2	-0.6	-1.8	-3.2	-0.2	3.1

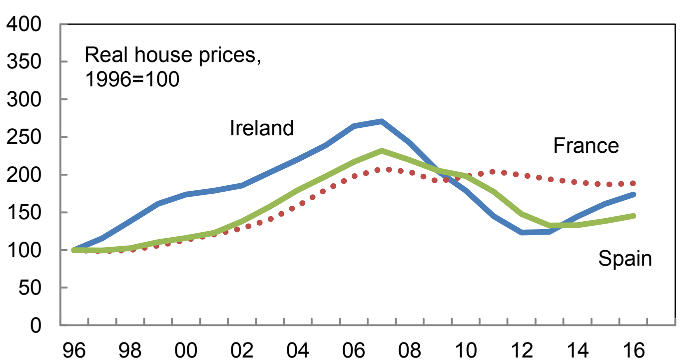
Sources: Scotiabank Economics, Bank for International Settlements



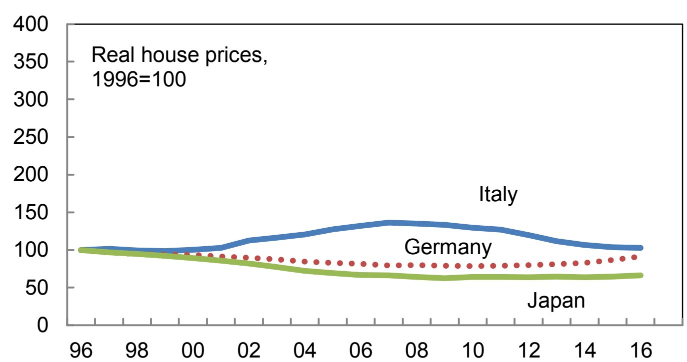
Sources: Scotiabank Economics, BIS, OECD.



Sources: Scotiabank Economics, BIS, OECD.



Sources: Scotiabank Economics, BIS, OECD.



Sources: Scotiabank Economics, BIS, OECD.