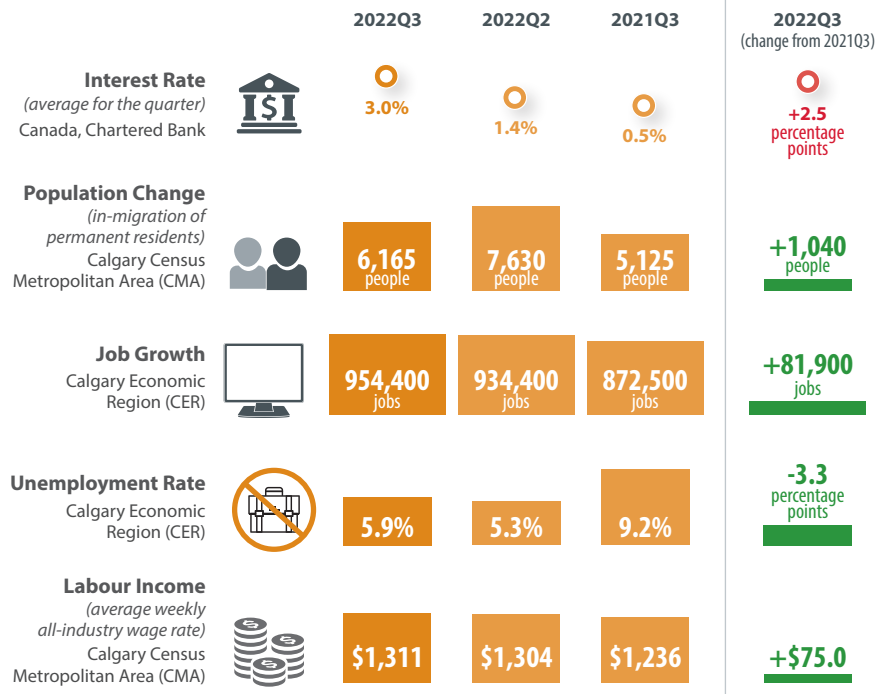




Housing Demand - Key Takeaways:

Interest rates have increased the cost of housing putting downward pressure on prices. However, rising interest rates are only one of many things impacting house prices in Calgary today. The positive impact of improving job conditions in Calgary on increased demand for housing has offset the negative impact of rising interest rates.

Calgary's population is growing, and those people must live somewhere. Whether owned or rented, Calgary needs a physical supply of dwellings to accommodate those new residents. Increasing prices in the rental market indicate that the physical supply of housing is not keeping pace with recent immigration. Tightness in the rental market creates some immediate upward pressure on house prices.



ISI Interest Rates

Interest rates have been dropping since 1981, bottomed during the global financial crisis of 2007/08, and have remained near the lower limit until earlier this year. By the end of the third quarter of 2022, the Bank of Canada had raised interest rates significantly. Additional increases occurred in the fourth quarter. Recent increases in lending rates are associated with about a \$15,000 decline in the value of the typical Calgary single-family house. The impact of rising rates on mortgage payments can be significant but there are ways to manage those payment obligations by shifting to lower interest products, moving to lower interest lenders, and extending amortization periods. Currently, 5-year mortgage rates in Canada are hovering at about where they were just before the 2007/08 global financial crisis.

Population Change

During the pandemic, international immigration to Calgary slowed to about half its normal volume. Those people still want to come to Canada and Calgary and they re-started their immigration dreams in the summer of 2021. The pace of international immigration to Calgary has picked up starting in 2021Q3. From 2021Q3 to 2022Q2, Canada (and, by extension, Calgary) set a record for international migration. Clearing

the backlog of immigrants that wanted to come to Calgary over 2019-2021, but were delayed due to the pandemic, will likely take until the end of 2023.

The challenge from a housing perspective is that Canadian lending institutions typically don't grant mortgages to individuals until they establish a Canadian credit rating, which usually takes two years. For the most part, recent arrivals are unable to purchase housing and must operate in the rental market. This exasperates Calgary's already tight rental market and is creating conditions for a surge in demand for home purchases starting around September 2023.

Job Growth / Unemployment Rate

During the pandemic, Calgary's unemployment rate skyrocketed to among the highest in the country, at around 15 per cent by mid-year 2020. Since then, the improvement in the job situation in Calgary has been nothing short of dramatic. Fast forward two years, and the mid-year unemployment rate in Calgary was hovering around the mid-5 per cent range.

Improvement in unemployment is generally correlated with an increase in house prices. Calgary's unemployment rate is down 2 percentage points just before the pandemic. The positive impact of improving job conditions in

Calgary on house prices has been more than sufficient to offset the negative impact of rising interest rates that occurred in 2022.

Labour Income

Higher labour income tends to correlate with higher housing prices. It's not immediately clear which comes first; it could be that when people make more money, they spend it on housing which increases demand and drives prices up. Alternatively, it could be that higher house prices cause people to seek higher incomes. It's likely a bit of both going on at the same time. Average earnings among the employed have increased in Alberta over the past year. On average, the increased earnings have supported an increase in the average single-family house price in Calgary by about \$55,000.

Putting aside the chicken and egg problem, evidence indicates that market forces are organically driving recent increases in house prices in Calgary. There does not appear to be any evidence that house prices in Calgary are elevated due to the presence of what is often called "a bubble." Bubbles arise because of speculative purchases. Calgary house prices are elevated due to a significant increase in the number of people in Calgary that need housing as well as an increase in the cost of raw materials needed to build housing.



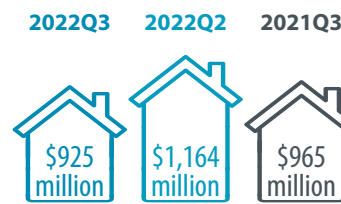
Housing Supply - Key Takeaways:

The state of housing supply is mixed – the new housing market supply is strong, while the resale market supply has weakened.

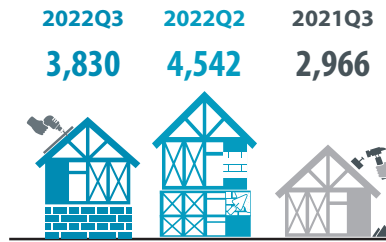
There is a substantial increase in the supply of new housing units as reflected in significant increases in housing completions and housing under construction in 2022Q3. In contrast, housing supply through the resale market has moved significantly lower.

Dollar investment in new residential construction is lower than in the same quarter last year. Yet, the number of units under construction is significantly higher, reflecting the shift to multi-family units.

Residential Construction Investment City of Calgary



Housing Starts (units) City of Calgary



City of Calgary	2022Q3	2021Q2	2021Q3
Housing Under Construction (units)	15,341	14,802	11,785
Housing Completion (units)	3,638	3,118	2,169
Inventory (units)	4,861	5,163	6,123
New Listings (units)	8,521	12,937	9,028

New Home Listings

An unusual increase in new home listings may reflect the desire of repeat homebuyers and investors to liquidate their current holdings for alternative opportunities. It could also indicate that some homeowners can't afford higher interest rates and are being forced to put their houses on the market. An unusually significant decrease may reflect market malaise or that potential sellers think market prices are too low.

Recent activity shows that new listings were subdued over the pandemic, down by 4,000 to 6,000 units per year on average. That activity roared back in 2021 and 2022, with new listings peaking in March 2022, just as the Bank of Canada was starting to raise interest rates.

New listings have fallen off since and are now averaging about 10 per cent below the pre-pandemic monthly level. This may mean that some homeowners could barely afford their houses and sold them. The sales-to-listing price ratio has fallen from a high of 103 per cent in February 2022, indicative of bidding wars early in the year, to a normal market level of 97 per cent today.

Inventory

The inventory of houses for sale in Calgary varies over the year. June or July is the peak when the most significant number of houses are available for sale. December sales tend to be the lowest. In general, the number of houses available for purchase in Calgary has been declining since 2015 and hit a new low in December 2021 at 2,600 units. A recent

increase in listings has improved the monthly inventory level, but Calgary experienced a record level of sales over that time as well. Inventories today are hovering at unusually low levels of around 3,500 units. Ordinarily, there are 7,000 to 8,000 dwellings available for purchase in Calgary this time of year.



Houses Started

There is a solid annual pace of growth in housing starts for Calgary. In 2022Q2, Calgary recorded the most significant number of new dwellings started for any quarter at 4,500. After nine months, that's almost 11,000 starts. That's 30 to 40 percent more than the average Calgary had seen since 2014, when crude oil prices exceeded \$100 per barrel. As already noted, a strong labour market and net migration are strong drivers. The 2022Q3 distribution by housing type was in the following order – apartments (50 per cent), single-family (28 per cent), row houses (14 per cent), and semi-detached (8 per cent). There's a shift in the two major categories from 2021Q3 with apartments up (from 43 per cent) and single-family up (from 38 per cent).



Dwellings under Construction

There are currently a record number of dwellings under construction in Calgary, with around 15,500 units being built. However, the lion's share of those is apartments/condos. They hit a record high in July with 10,650 dwellings under construction, of which 9,800 were still being worked on in late November

2022. There are about 3,000 single-family houses under construction, which is about the same pace Calgary experienced before oil prices dropped in 2015. Semi-detached and row construction activity are similarly up, roughly at the same pace as pre-2015 at 850 and 1,500 units, respectively.



Dwellings Completed

Most of the recent increase in construction activity has yet to reach completion. Notably, August saw major project completions, with almost 1,400 apartment/condo units finishing construction. However, the pace of completion for all other dwelling types is yet to reflect the recent increase in construction for those units in Calgary.

In 2007, dramatic increases in prices for single-family houses in Calgary shifted the market. Single-family houses stopped being affordable for most first-time buyers. Construction activity shifted to other types of dwellings with lower prices – duplexes, high-rise condos, townhouses, and row houses. Calgary house prices were relatively stable between 2008 and 2021. They began moving up in 2022 in response to rising demand and inflation. First-time buyers in 2022 have found Calgary single-family houses even more out of reach, so the market continues to adapt by shifting more construction to lower-priced dwelling types. The 2022Q3 distribution by housing type was apartments (57 per cent), single family (28 per cent), semi-detached (8 per cent), and row houses (7 per cent).



Housing Market Summary: Sales and Prices - Key Takeaways:

Market activity peaked in March 2022, with the pace of sales softening but remaining strong. Yes, interest rates are up but so are jobs and earnings, so the net effect is stable prices in real estate markets in Calgary. The short-term outlook is stable house prices with high rental prices. The long-term outlook is rising home prices and lower rental prices – as the market pivots from rentals to homeownership.

Housing Sales

Overall, 2022 has been a banner year for home sales in Calgary, with a new all-time peak of just over 4,000 houses sold in March. The market was hot from February to July, averaging 3,300 sales per month, nearly double the sales that Calgary has seen over those months since 2014. In recent months, sales activity has decelerated and is now at the same pace Calgary saw the last time oil prices were as high as they are today. Although the monthly sales pace is now slower than it was during the summer, the annual pace is still markedly higher in Calgary today than it's been for the past seven years.

Single-family house sales have softened from a blistering pace of over 2,200 units in March. Monthly sales are now aligned with recent historical monthly averages for this time of the year in the Calgary market at around 1,000 units per month. Apartment sales also spiked in March, with 770 units sold, and the pace has fallen since to about 500 per month. That's about double the average sales for Calgary for this time of year over the past several years.

Average Resale House Prices

House prices have risen significantly in major Canadian cities over the past few years. There isn't a single consistent reporting system across the country to look at average prices, so the ratio of local house prices to average local income is a useful proxy. Calgary averaged 7.1 before the pandemic and the ratio has risen to 7.7. Edmonton sat at about 5.5 before the pandemic but has increased to 6.3. Toronto's before the pandemic was 14.5 and hit 20.9 recently. Ottawa went from 7.1 to 10.7. Montreal went from 7.1 to 9.7. Vancouver and Victoria house prices have been elevated into the 20-plus range for a decade, and the pandemic appears to have impacted that minimally. Still, Calgary's overall 10 per cent annual house price increase is soft compared to Edmonton's 15 per cent, Toronto's 44 per cent, Ottawa's 51 per cent, and Montreal's 37 per cent. A few of these markets are experiencing a slump – making revisiting the full-year impact in the fourth quarter housing review vital.

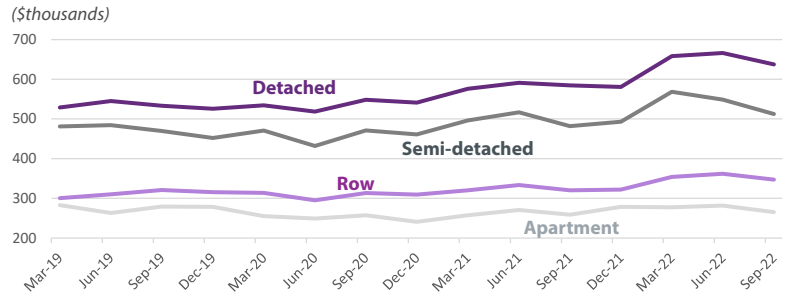
Housing Sales City of Calgary



Average Resale House Prices City of Calgary



Average Resale House Prices by Structure Type City of Calgary (\$thousands)



The last time mortgage rates were this high was in 2008, when Calgary's single-detached house prices averaged \$450,000. If Calgary house prices increased at the pace of general inflation since 2008, they would be almost \$600,000 in 2022. In 2022Q3, the benchmark price in Calgary is 10 per cent lower.

By 2022Q3, the average dwelling prices in Calgary were higher for the year. There is some variation in growth rates by dwelling type. A complete review of growth rates by dwelling type would accompany the fourth quarter housing review.

Next release: February 2023

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.