



Housing Review

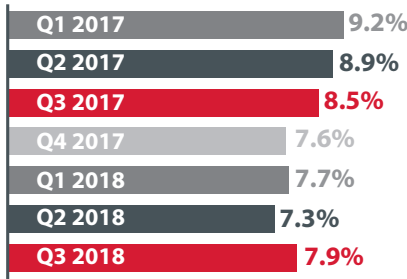
Market Conditions

The evidence for market conditions in the third quarter of 2018 is mixed. The recent increase in monthly unemployment rates and the previous tightening of mortgage lending both dampen housing demand. Positive wage inflation and the significant growth in net migration to Calgary lift housing demand.

The unemployment rate increased to 7.9 per cent in the third quarter of 2018 from 7.3 per cent the previous quarter. Slow job growth remains a concern with 7,000 jobs added to the Calgary Economic Region in the first three quarters of 2018 compared with 29,200 persons in the first three quarters of 2017. This slow pace of job creation reduces the demand for additional housing units.

Unemployment Rates Comparison

*Calgary Economic Region

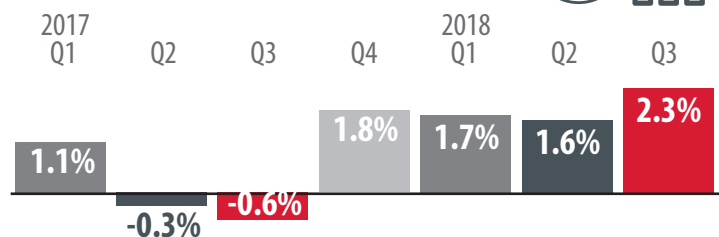


Another negative influence is the tightening of mortgage lending conditions. It started with new mortgage rules effective January 2018 and continued with interest rate increases. The change in the mortgage lending conditions has affected home buyers and may explain the downward pressure on single-family housing starts. As a result, a greater supply of multi-family units has emerged as a new feature of the local housing landscape.

The average weekly wage across all industries rose 2.3 per cent from Q3 2017. For the fourth consecutive quarter, wage increases have occurred over the previous year. Higher wages help support the ability of homeowners to keep up with mortgage carrying costs. Increases in earnings for employed prospective buyers provide support for additional housing purchases.

Average Weekly Wage Growth

Calgary Census Metropolitan Area



A secondary positive influence on markets is the increase in net migration to Calgary from April 2017 to April 2018 by 11,588 persons. This substantial rise in net migrants has added to the increase in market demand for housing.

Market Activity

1. Calgary Census Metropolitan Area (CMA)

Immediate housing demand is on the decline. The most significant change in Q3 2018 for the CMA housing market is the unfavorable drop in sales. The number of units sold in Q3 2018 is 918 fewer than sales for Q3 2017. Q3 2018 sales are also 500 units fewer than sales for Q2 2017.



Unit Sales (units)

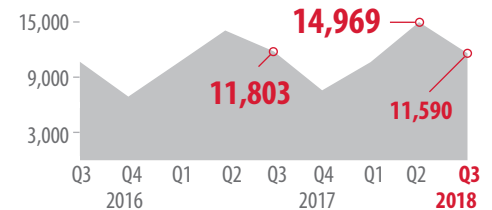
5,553 units sold in Q3 2018

↓ 918 units from Q2 2018
↓ 500 units from Q3 2017

The decline in new housing demand is triggering a slowdown in immediate supply. New house listings were at a multi-year quarterly peak of 14,969 in the second quarter of 2018. The highest level since Q2 2014. The decline from the second quarter to the third quarter is a pattern that keeps repeating itself. However, the drop to 11,590 units in this year's third quarter is much sharper than last year. Also, the number of listings is 213 fewer than Q3 2017.



New Listings (listings)

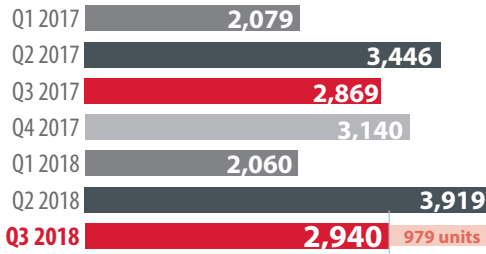


Investments in new housing units are on the upswing. The 8,919 housing starts recorded over the first nine months of 2018 is an improvement over 8,394 housing starts for the first nine months of 2017. The decline of 979 units from the level in Q2 2018 is like previous seasonal dips from the second to the third quarter of the year. The evidence from the first three quarters of 2018 is more optimism about the future than there was in 2017.

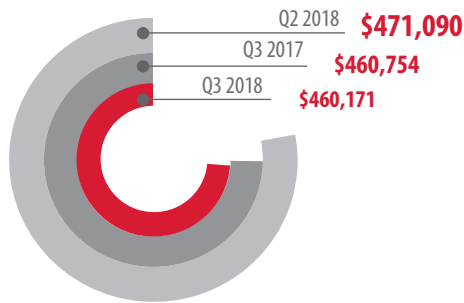
The Q3 2018 average house price remains close to the average for the previous four quarters. A sustained price level suggests that the decrease in immediate supply has matched the decline in near-term demand. The market has settled at a lower level of units traded, but the average price of a home remains at about \$460K in the third quarter of 2018. The all-time high of \$481K occurred in Q2 2017. The average house price has fallen by about \$21K from the Q2 2017 high. The 4.4 per cent price drop likely reflects excess inventory and weaker housing demand.



Total Housing Starts (units)



Average House Price (dollars)



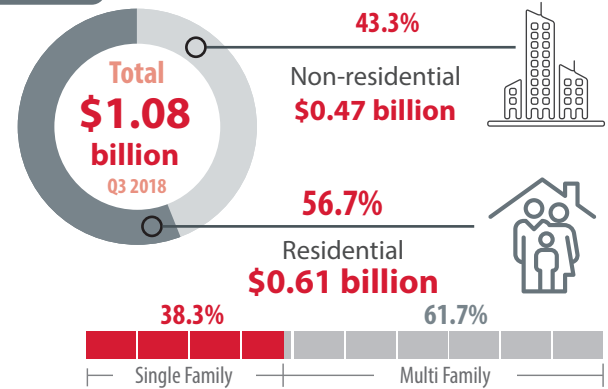
quarters of 2018. The increase in residential investment is significant compared with 47 per cent for the first nine months of 2017.

Notably, the share of single-family residential building investment in the first three quarters of 2018 (38 per cent) is much lower than for 2017 (56 per cent). The shift to multi-family home investment is significant.



City of Calgary

Building Permits (\$billion)

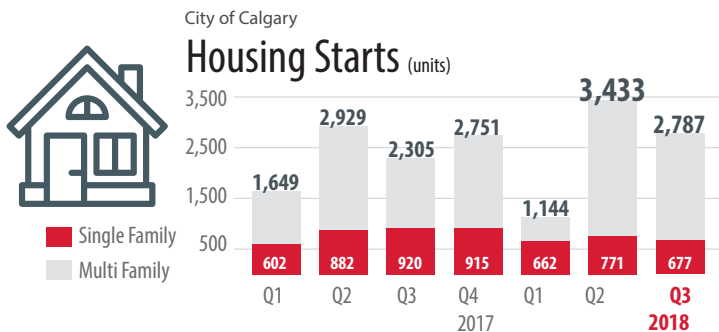


2. City of Calgary

Housing Starts

The 7,364 housing starts recorded over the first nine months of 2018 is an improvement over 6,883 housing starts for the first nine months of 2017. At 83 per cent, the city of Calgary continues to represent a robust contributor to housing investments in the census metropolitan area (82 per cent in 2017).

A key trend is a switch away from single-family housing starts. The share of single-family housing starts relative to total housing starts has dipped to 29 per cent for the first nine months of 2018 relative to 35 per cent over the first nine months of 2017.



Affordability

The affordability index for the Calgary Census Metropolitan Area stayed within the 0.41 and 0.56 range between 2002 and 2008. More recently, the range for the index has narrowed to between 0.47 and 0.54.

A decline in the affordability index indicates that home ownership is becoming more affordable, while a rising index implies home ownership is becoming less affordable.

Over the last three quarters, the affordability index has remained steady at 0.50 suggesting no change in home affordability in 2018. The most recent change in the index was an increase from 0.49 in the last quarter of 2017 to 0.50 in the first quarter of 2018. At the time, home ownership became slightly less affordable.

For the affordability index to decline, the pace of house price appreciation needs to be slower than the rise in incomes.

Building Investment

The addition to total building permit value in the third quarter of 2018 was \$1.08 billion. Total building investment in the city of Calgary for the first three quarters of 2018 is \$3.4 billion. Total building investment in the city of Calgary for the first three quarters of 2017 was \$3.5 billion.

Residential building investment makes up \$2.2 billion or 63 per cent of total building investment for the first three

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