

**Memo**

September 12, 2016

To: Mayor Nenshi and Members of City Council

From: Jeff Fielding, City Manager

Re: September 12, 2016 Combined Meeting of Council - Question Period - Administration's Response to Councillor Pootmans' Questions on Calgary's Residential Housing Price Stability, Forecast and Impact on City Revenue

**Questions**

1. Why has Calgary's residential housing price been relatively stable in current economic downturn?
2. What is the forecast for the housing market and the implications on City revenues?

**Response**

Residential housing price in Calgary has been relatively stable during this economic downturn where the unemployment rate reached above 8.5 per cent. The relative stability of housing price has been supported by strong population growth and demand in recent years.

- 1a. **Population growth** has been the primary driver for housing demand in Calgary. From 2006-2015, increased demand for housing (as reflected by household formation or how many new households have been formed) exceeded the increased supply of housing (as reflected by housing starts or new housing units constructed) in eight out of ten years. Record population growth in 2012-2015 drove accumulated demand above supply. In 2015, accumulated demand exceeded accumulative supply by 12,483 units; although trending down in 2016 due to negative net migration.
- 1b. Compared to other major Canadian cities, residential housing in Calgary has been **more affordable** due to relatively lower prices and wage growth that could keep pace with housing price.
- 1c. Economic diversification strengthens resiliency in housing demand through growing wages and average income levels even during economic downturns. Lower housing prices and continued **low interest rates** become appealing for home buyers who wish to enter the market due to its relative affordability.
- 2a. The residential housing market in Calgary is expected to see **mild corrections in 2016-2017**. Population growth has started to slow down due to negative net migration in 2016 (-6,527) and a weaker job market. Housing demand will soften to dry up excess capacity in accumulated demand. As a result, housing starts are anticipated to decline in 2016-2017.
- 2b. According to the Calgary Real Estate Board's mid-year forecast update published in August 2016, the city-wide housing prices are expected to decline by 3.8 per cent and sales by 8.0 per cent in 2016, and this is anticipated to continue into 2017.
- 2c. Overall sales activity was down again in August, totaling 1,567. However, this figure does not reflect the big differences in activity between the detached sector, versus the high density apartment and attached segments of the market. ***"While overall sales have eased for detached homes, so too has the amount of new listings on the market preventing inventories from reaching previous highs and limiting the downward pressure on pricing,"*** said CREB® chief economist Ann-Marie Lurie. "This is not the case in both the attached and apartment sectors which have recorded inventory levels near August highs." The detached benchmark price totaled \$503,200 in August, 3.3 per cent below last year. Meanwhile, condominium apartment prices continue to decline totaling \$274,900 in August, 7 per cent below last year and are at levels comparable to figures reported at the end of 2013.
- 2d. The impact on City revenues will be mainly reflected by **lower building permit values**. Corporate Economics predicts the building permit values for The City will decrease to \$3.6 billion in 2016 and \$4.0 billion in 2017, well below the previous ten years average of \$4.7 billion.