



Environmental Scan 2024

November 2023

INTRODUCTION

This document will serve as a literature review to support the assumptions presented in the Situational Analysis and ultimately the organizational goals for 2024.

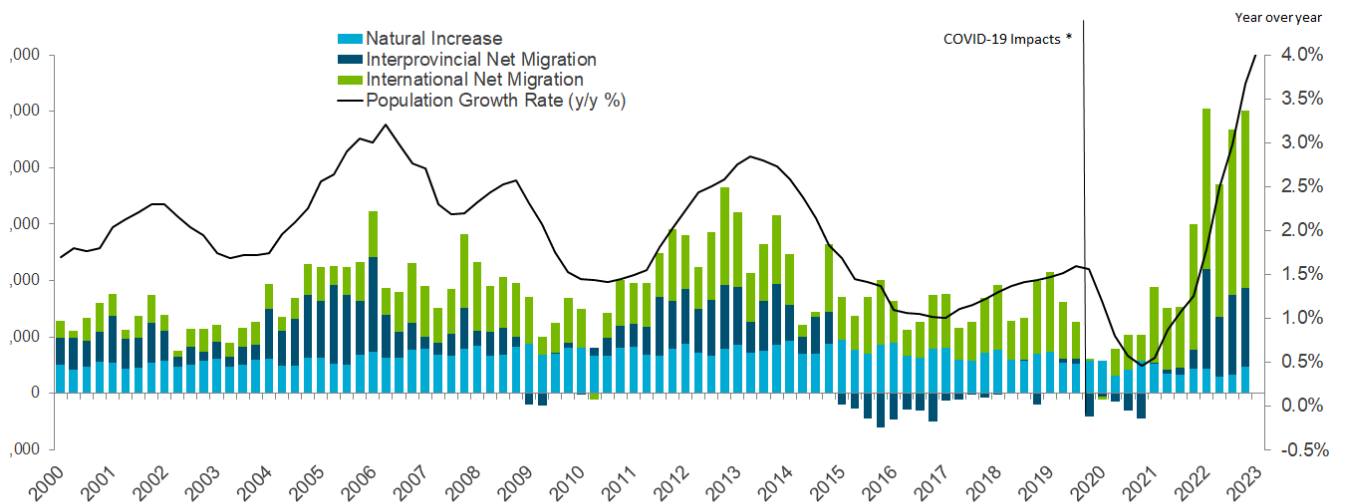
Every year, this report examines current population data for Alberta and Calgary; current and predicted economic conditions; current and predicted housing markets with a specific focus on the multi-family sector.

This year, housing needs data for Calgary are included thanks to a recently published report from The City of Calgary.

POPULATION

On July 1, 2023, the Government of Alberta reported the provincial population, using data from Statistics Canada, as 4,695,290 increasing from last year at 4,543,111. Figure 1 shows Alberta’s annual population growth rate was 4.1%, the highest annual growth rate since 1981 and the highest of all the provinces (GoA, 2023).

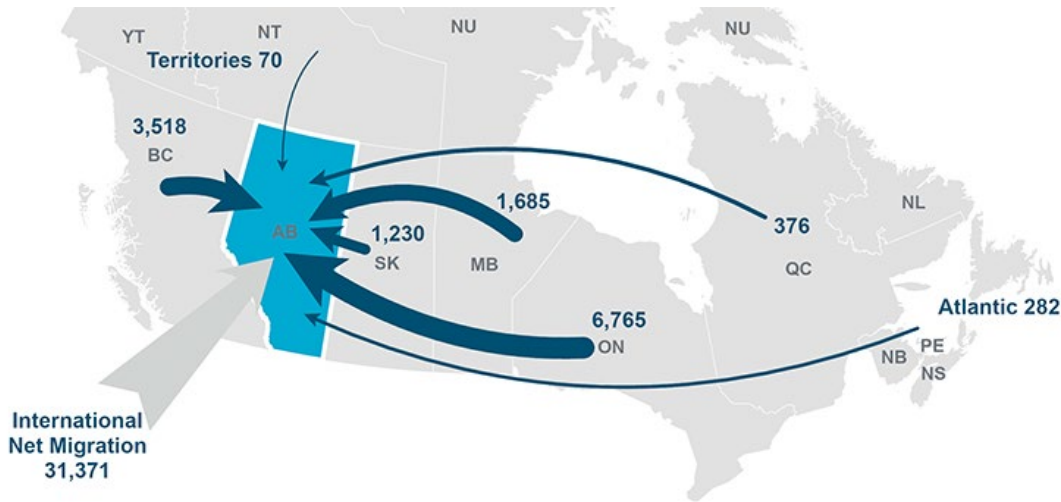
Figure 1. Alberta Components of Populations Change, 2nd Quarter of 2021



The population is growing largely due to immigration and interprovincial migration. Of note, for the second consecutive quarter, Alberta led the country in interprovincial gains. In fact, net interprovincial migration has been positive for four quarters in a row with the highest net gains since 2014. Figure 2

shows that Alberta gained its most interprovincial migrants from Ontario (6,765), B.C. (3,518), and Manitoba (1,685). Alberta’s share of national immigration was similar to the same period last year at 12.0% in the second quarter (GoA, 2023).

Figure 2. Net Population Movement for Alberta (April 1 to June 30, 2023)



Source: Statistics Canada and Alberta Treasury Board and Finance

As of April 1, The City of Calgary’s estimate for the local population is 1,389,200 (CoC, 2023) and continues to grow at an incredible rate, now believed to be 3% between April 2022 and April 2023. According to The City of Calgary, the addition of 40,600 people in that time represents the greatest annual population growth Calgary has ever seen. The bulk of this is due to international immigration and interprovincial immigration given the ambitious federal government immigration policy and relative levels of affordability compared to other cities in Canada (CBC, May, 2023).

CURRENT ECONOMIC CONDITIONS

According to the International Monetary Fund, the global economy continues to recover from the pandemic, Russia’s invasion of Ukraine, and the cost-of-living crisis. However, it notes that despite many challenges, economic activity has slowed rather than stalled (IMF, Oct. 2023).

In October, Calgary’s Headline inflation rate was 2.8% marking a decline from 4.4% the previous month. Comparatively, Calgary sits higher than the provincial rate of 2.1% but lower than the national rate of 3.1% (CoC, Oct. 2023).

Elevated interest rates (and low supply) have impacted housing affordability in Calgary as rent rates and mortgage carrying costs increase. This impact is driving more people to shift from buying unattached dwellings to relatively lower-priced attached dwellings. As was the story last year, construction costs remain high while construction labour is in short supply (CoC, September, 2023).

Calgary's unemployment rate is up slightly to 6% from 5.6% last year (GoA, 2023). Similarly, the city's job creation rate saw a major decrease to 3.1% this year from 7.3% in 2022. Unfortunately, for newcomers to Calgary, many are overqualified for the jobs that are available (CBC, May 2023).

2023 ECONOMIC OUTLOOK

The former Governor of the Bank of Canada suggests that Canada and the world may be headed for a recession. He believes we have entered the "next age of uncertainty" where the economy will become less forecastable with the rise in populism, increasing geopolitical challenges, and a steady erosion of international collaboration (CED, 2023).

The City of Calgary's October Inflation Review ponders the impact of the conflict between Israel and Hamas given energy prices have already risen to adjust to heightened geopolitical risk. The ongoing duration of the conflict and whether it extends to include oil-producing neighbours will contribute to energy price instability. The cost of energy has been one of the key drivers of inflation and thus implies further inflationary pressures as it serves as a critical input to pricing of other goods. Last, the report points out that geopolitical conflicts might lead to new trade restrictions, potentially disrupting global supply chains (CoC, October, 2023).

At Calgary Economic Development's annual economic forecast event in October 2023, ATB Financial predicted Alberta's GDP to be 2.7% this year and 2.0% in 2024. Mark Parsons, ATB's VP and Chief Economist said that while growth will be slowed, Alberta is comparatively more resilient than other provinces due to the diversification across the energy sector, higher investment trends, and the influx of migrants. Growth is expected to pick up again in 2025 (CED, 2023).

In late October, the Bank of Canada released its forecast that the national economy will grow by 0.9% and inflation will be 3.0% in 2024 (CED, 2023). However, a survey of Canadian market participants expect inflation to drop to 2.2% by the end of 2024 and the GDP to grow 1.2% in 2024. The Bank of Canada expects inflation to hit its 2% target by the end of 2025 (Reuters, Nov. 2023).

On the interest rate front, the Bank of Canada has raised interest rates 10 times between March 2022 and July 2023. Survey participants expect the Bank of Canada to start cutting its key policy rate from a 22-year high of 5% in April 2024 with it eventually dropping to 4% in the fourth quarter of 2024 (Reuters, Nov. 2023).

CALGARY'S HOUSING NEEDS

In September 2023, The City of Calgary released its updated Housing Needs Assessment which reaffirmed that housing is in short supply in our city. The City considers households in need of affordable options if they earn less than 65% of the Calgary median income *and* spend 30% or more of before-tax income on shelter costs. At least 84,600 households (one in five) are in this situation in Calgary (earning less than \$63,700). Interestingly, 81% of the 84,600 are one- and two-person households. Income inequality is high in Calgary. While half of households earn an annual income of more than \$100,000, 27% earn less than \$60,000.

Calgary’s housing situation is a story about limited supply both in terms of ownership and rental. Calgary’s median home price is five times the estimated median household income and that gap is expected to widen. A household income of \$156,000 is needed to afford a median-priced detached home while a household income of \$70,800 is needed to afford the median cost of an apartment in 2023 (City of Calgary, 2023).

The Housing Needs Assessment notes the local population is expected to increase to 1.5 million by 2028 at a growth rate of 62 new residents a day. In October, the Fraser Institute published data revealing that between 1973 and 2022, Alberta’s population increased by 2.4 people (each year on average) for every new home built (all forms). But, in 2022, the population increased by 6.2 people for every new home built, the highest number on record (Calgary Herald, Oct. 2023).

Nationally, data is revealing the comparison of new housing to immigration. For example, Figure 3 shows Canada’s housing starts are not keeping pace with record immigration. Figure 4 shows the growing gap between population growth and housing completions.

Figure 3. International Migrants Per Unit of housing construction started*

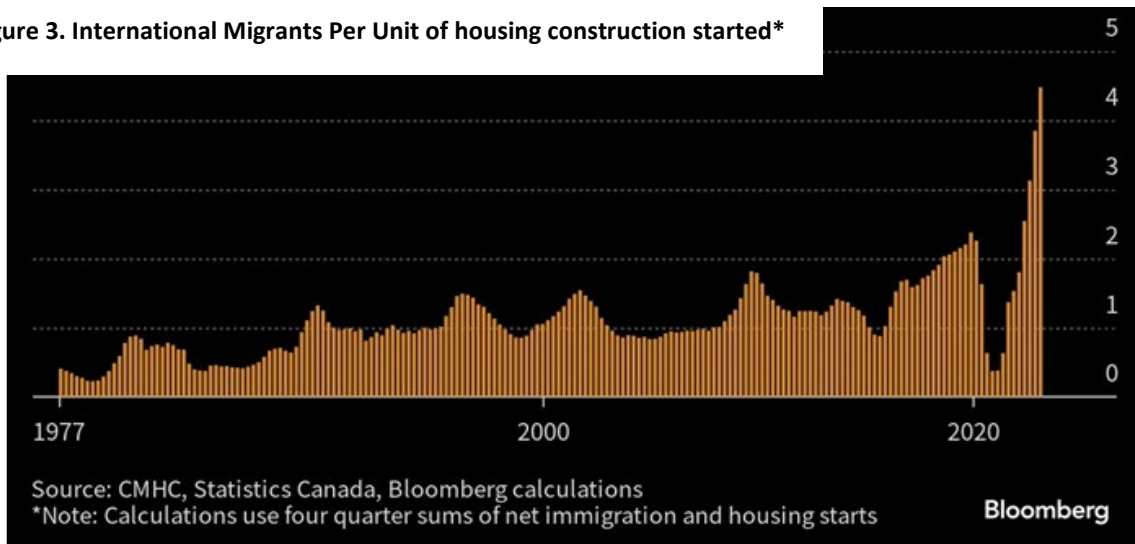
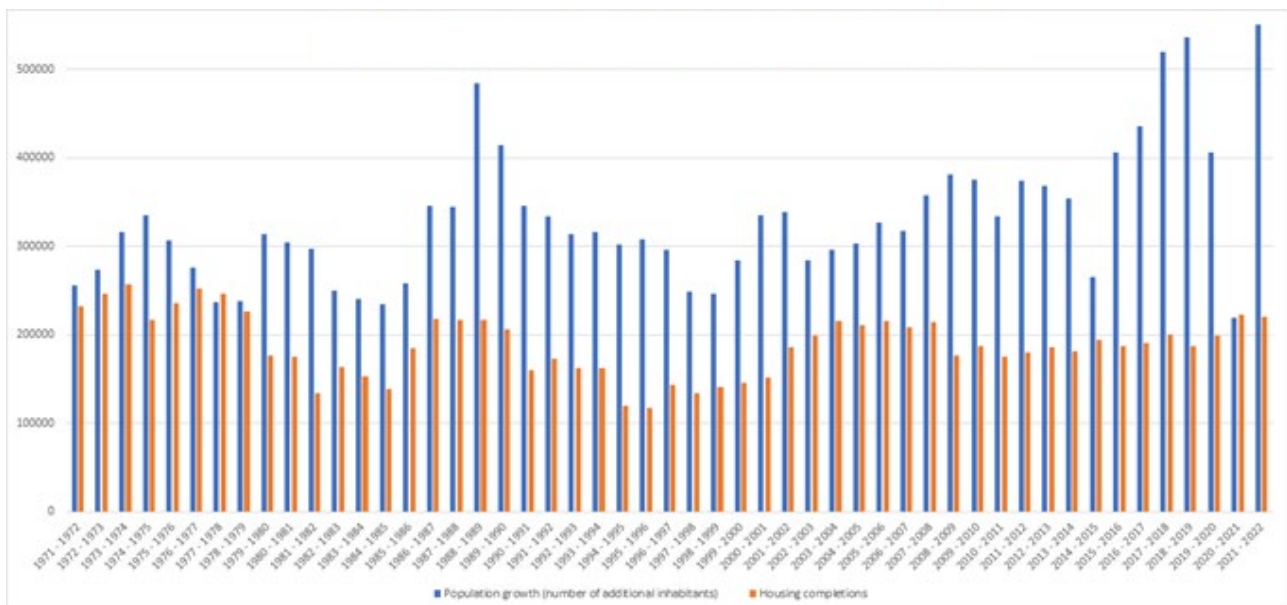


Figure 4. Population Growth and Housing Completions, annual (1971 to 2022)



The public hearing held on September 14th before The City’s Community Development Committee saw over 580 citizens speak about their lived experience with the housing crisis or to share their opinions about the housing strategy. Hundreds of citizens bravely spoke to councillors to share their struggles finding homes they can afford. Many speakers represented AHC’s clientele – people with solid, average-paying jobs who cannot afford to purchase or rent. For example, one gentleman shared that he and his wife have a combined income of \$126,000 yet cannot buy a home because they are outcompeted by offers of \$85,000 over asking price. Another speaker was a 30-year-old woman who earns a living wage, but after a divorce, she was forced to move in with her parents because she was outcompeted on expensive, unmaintained rental units.

Also in September, The City of Calgary approved its new housing strategy, “Home is Here” setting a target for 3,000 new, non-market homes per year and 1,000 more market homes above what would normally be built per year.

CALGARY’S CURRENT HOUSING MARKET

Current interest rates have surpassed the Office of the Superintendent of Financial Institutions’ benchmark rate (5.25%) for the stress test thus requiring purchasers to qualify at a rate two percentage points above the offered rates (Calgary Herald, Oct. 2023). Interest rates are currently sitting at 5.34% putting the qualifying rate at 7.34% with serious impacts to purchasing power.

Sales levels in Calgary’s resale market have increased 17% over last year and are amongst the highest levels reported for October. Sales activity in Calgary is boosted by higher than usual sales of apartment condominiums as consumers seek affordable housing options during this high interest rate period. While the number of new listings increased this October compared to last year, strong sales rates keep inventory at 40% below traditional levels.

Weak supply continues to put upward pressure on home prices. The unadjusted benchmark price in October reached \$571,600 which is nearly 10% higher than last year as seen in Table 2 (CREB, 2023).

Table 2. Real Estate Data Summary for October 2023 (Source: CREB)

	Oct-22	Oct-23	Y/Y % Change	2022 YTD	2023 YTD	% Change
CITY OF CALGARY						
Total Sales	1,855	2,171	17.04%	26,817	24,276	-9.48%
Total Sales Volume	\$945,512,875	\$1,184,814,792	25.31%	\$13,928,989,952	\$13,090,784,786	-6.02%
New Listings	2,169	2,684	23.74%	36,243	30,524	-15.78%
Inventory	3,888	3,190	-17.95%	4,461	3,167	-29.00%
Months of Supply	2.10	1.47	-29.90%	1.66	1.30	-21.57%
Sales to New Listings	85.52%	80.89%	-4.64%	73.99%	79.53%	5.54%
Sales to List Price	97.77%	100.03%	2.26%	100.06%	100.33%	0.27%
Days on Market	40	27	-33.73%	29	26	-9.81%
Benchmark Price	\$521,200	\$571,600	9.67%	\$528,540	\$554,090	4.83%
Median Price	\$460,000	\$495,000	7.61%	\$477,500	\$495,000	3.66%
Average Price	\$509,710	\$545,746	7.07%	\$519,409	\$539,248	3.82%
Index	242	266	9.69%	242	255	5.34%

Data from Bode provides a longer snapshot of pricing over time revealing the increase in recent pricing trajectory (Figure 5).

Figure 5. Calgary Detached Prices






CALGARY’S CURRENT MULTI-FAMILY HOUSING MARKET - OWNERSHIP

Zonda Urban’s State of the Market Report for the province notes that development of both rental and ownership multi-family homes are fueled by population growth and Alberta’s strong economy.

New townhome and wood-frame condominium pricing continues to increase yearly gaining 13.6% and 7% respectively. Table 3 shows an average new townhome price of \$431,815 and a new, wood-frame condominium at \$392,155. As was reported last year, these gains are largely due to projects marketing to Ontario investors and thus setting market-leading prices (Zonda, 2023).

Table 3: Pricing by Unit Type

	Q2-2022	Year-Over-Year	Q1-2023	Quarter-Over-Quarter	Q2-2023
 CONCRETE	\$680 PSF \$578,898	8.85% -0.15%	\$709 PSF \$569,193	4.38% 1.55%	\$740 PSF \$578,035
 WOOD FRAME	\$412 PSF \$366,354	13.13% 7.04%	\$454 PSF \$389,541	2.52% 0.67%	\$466 PSF \$392,155
 TOWNHOME	\$291 PSF \$380,250	8.09% 13.56%	\$307 PSF \$415,182	2.46% 4.01%	\$315 PSF \$431,815

Row Housing

Row sales continue to be well above the 10-year average in Calgary (Figure 6). The sales to new listings ratio is high at 89% resulting in a one-month supply (down from 1.45 months this time last year). CREB reported an unadjusted benchmark price of \$425,200, nearly 19% higher than October 2022 when prices were already 15% higher than 2021 (Figure 7). The largest monthly gain occurred in the City Centre which has seen the lowest year to date price growth compared to other areas in the city.

Figure 6. City of Calgary Row Sales

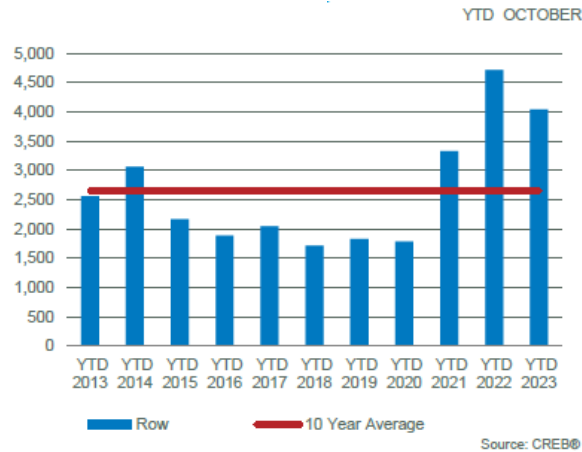
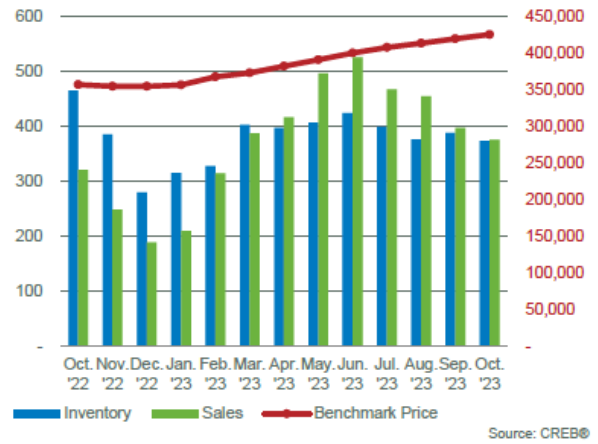


Figure 7. City of Calgary Row Price, Inventory & Sales



A more interesting story regarding sales and supply of row housing is revealed when taking into consideration price ranges. Figure 8 shows that for the year to date in 2023, most sales occurred within the \$300,000 to \$399,999 category, with Figure 9 showing very little supply in this category. Further, Figure 9 shows the need for AHC inventory within the first three price bands as less than one month's supply exists for all row housing priced from <\$200,000 to \$399,999 (CREB, Oct. 2023)

Figure 8. Year to Date (Oct. 2023) Row Sales by Price

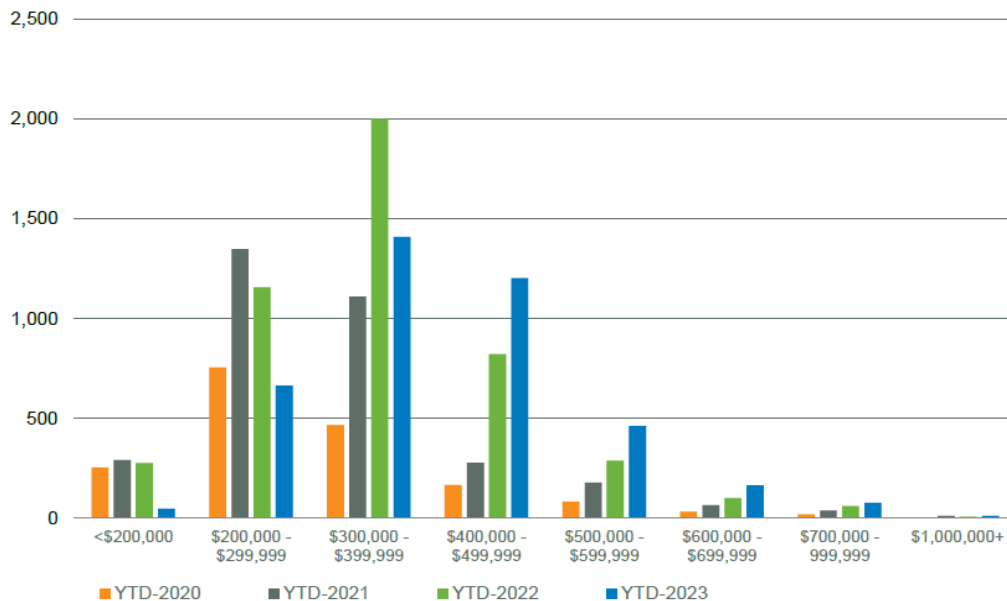
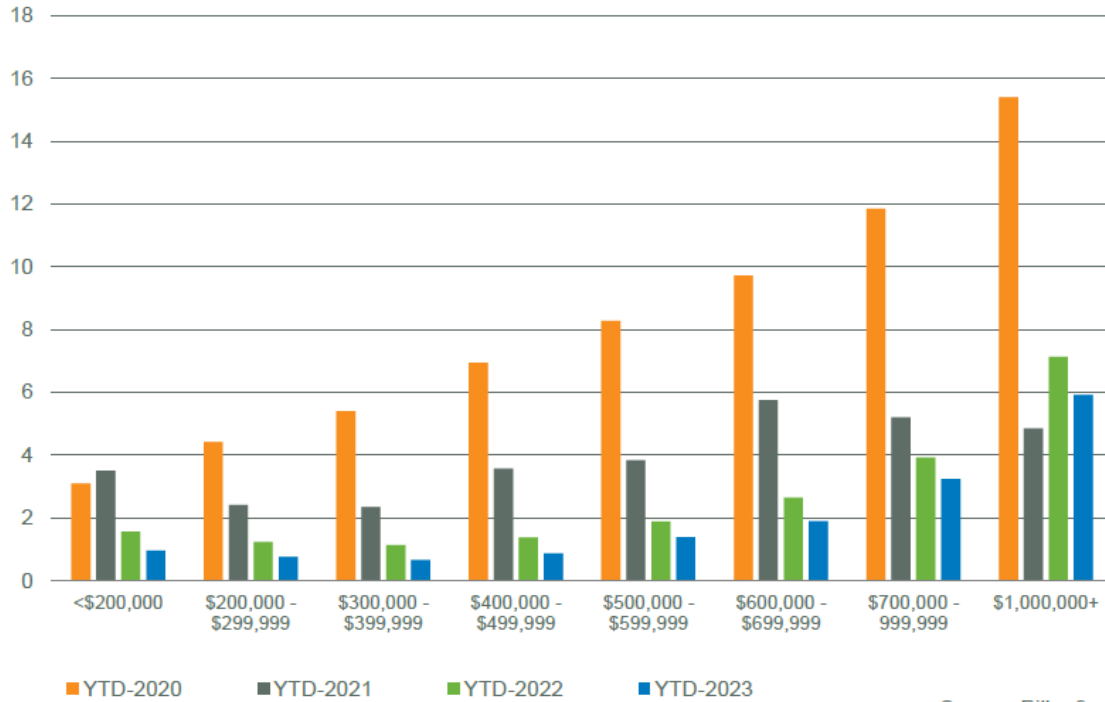


Figure 9. Year to Date (Oct. 2023) Row Months of Supply by Price Range



Source: Pillar 9

Bode provides a longer view on the evolution of home prices in the attached category. The number of attached homes for sale is down 53% from where it would usually be this time of year thus driving the price increase seen in Figure 10 (Bode, Nov. 2023).

Figure 10. Calgary Attached Prices



bode

November 21, 2023

Market Update

Apartments

October saw record high sales due to a steep gain in new listings thus keeping the sales to new listings level high at 88% (Figure 11). Low inventory, especially in specific price categories has increased the October benchmark price to \$316,000 by 16% over last year (Figure 12) (CREB, Oct. 2023).

Figure 11. Calgary Apartment Sales

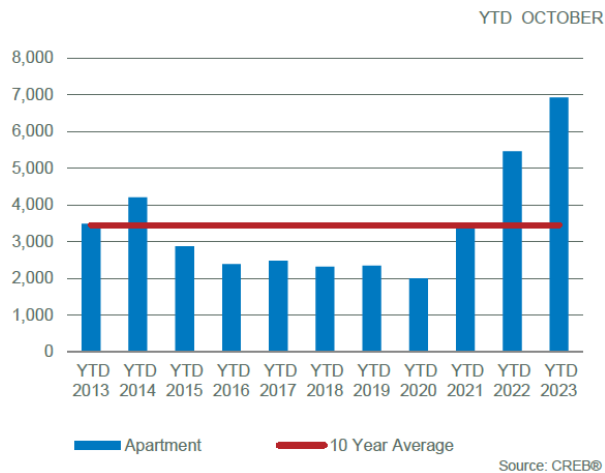
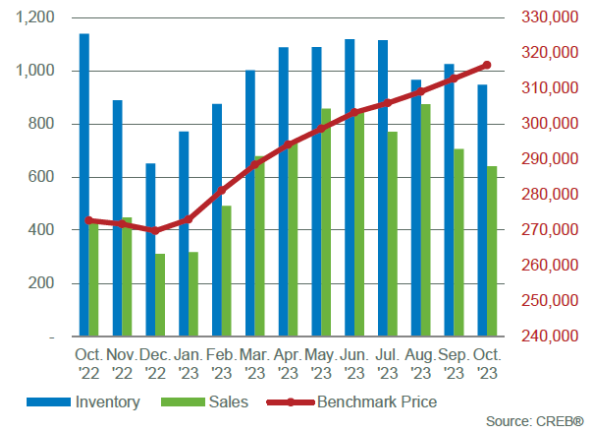


Figure 12. Calgary Apartment Inventory, Sales, & Price



Figures 13 and 14 tell the story of the change in supply and demand for apartment condominiums over the past three years. In October 2020, there was ample supply with lower sales, today the inverse is true. As prices across all housing forms increase and during this period of high interest rates, apartments become the default affordable option.

Figure 13. Year to Date (Oct. 2023) Apartment Sales by Price

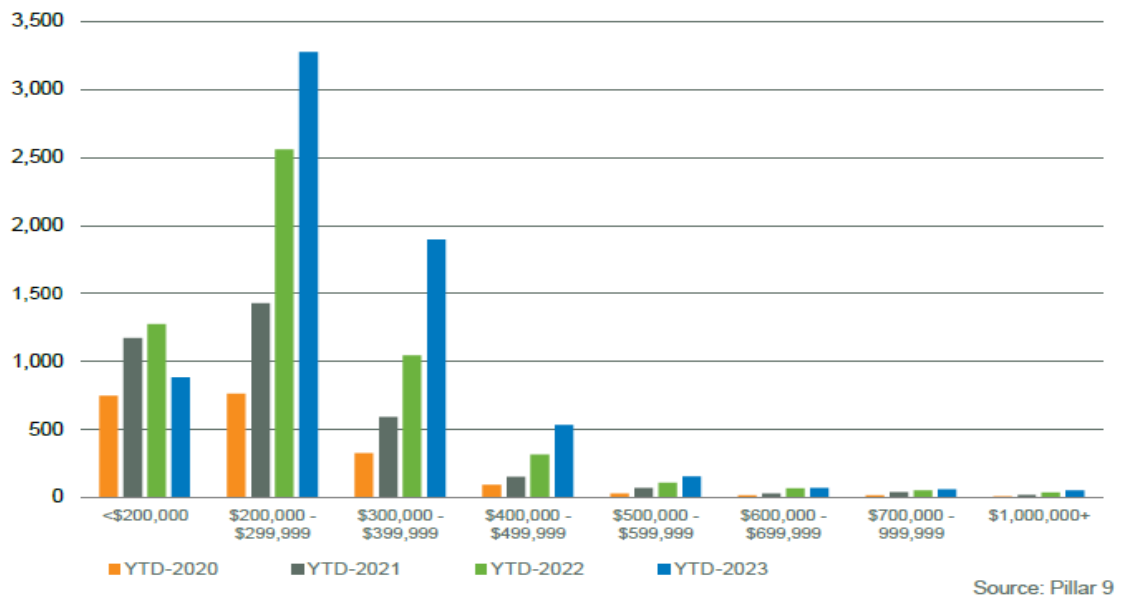
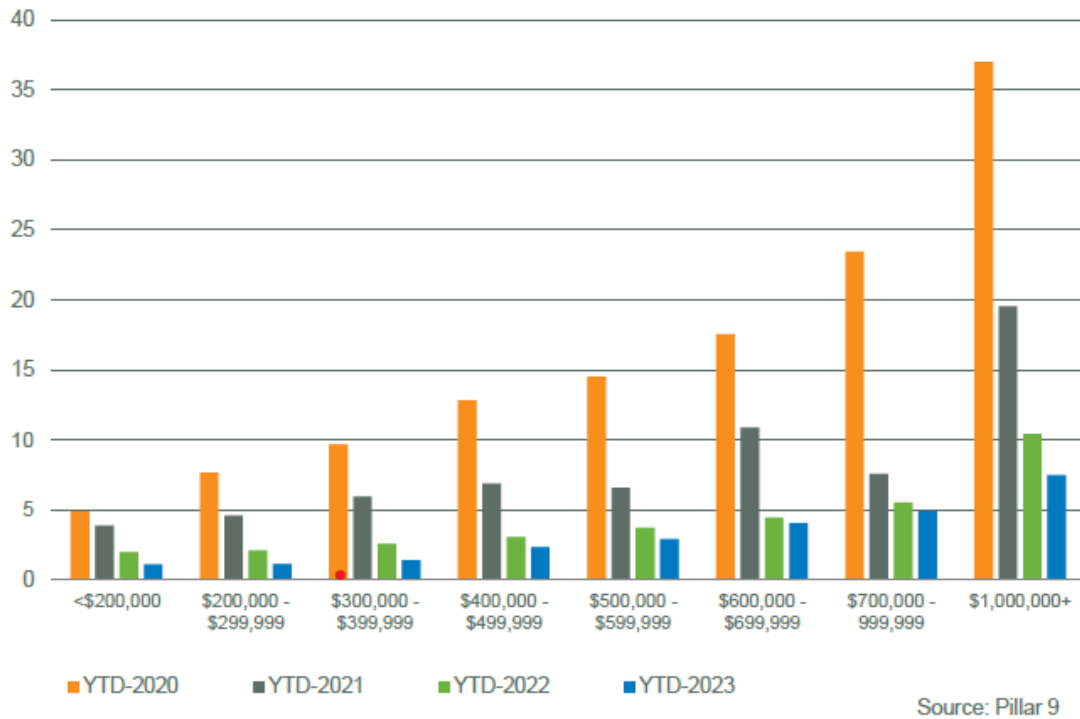


Figure 14. Year to Date (Oct. 2023) Apartment Months of Supply by Price Range



Bode’s apartment price history shows relatively little price changes (on average) between 2008 and early 2022 (Figure 15). However, the trajectory since January 2023 tells a very clear story of how increased demand with little inventory has driven prices beyond the “boom” prices of 2007 (Bode, Nov. 2023).

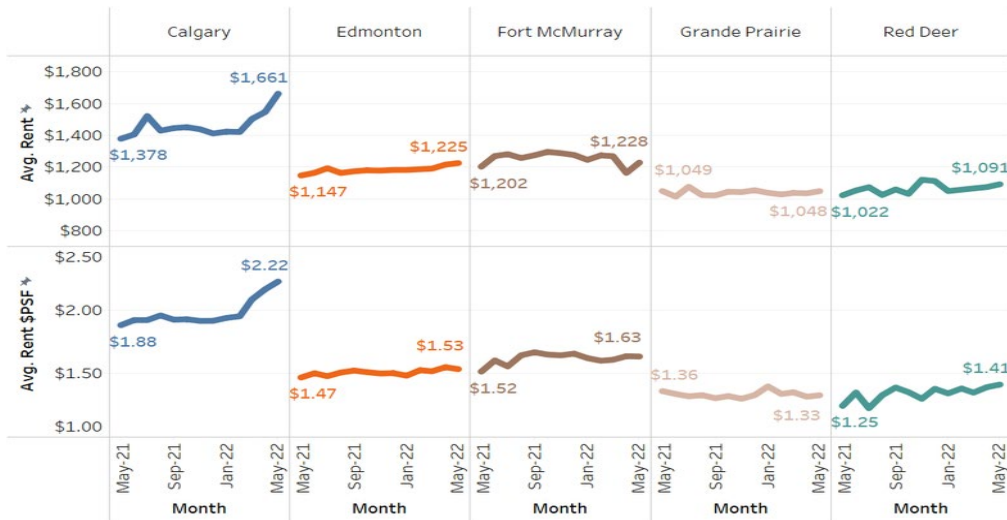
Figure 15. Calgary Apartment Prices



CALGARY'S CURRENT MULTI-FAMILY HOUSING MARKET - RENTAL

Growth of new purpose-built rental construction has been driven by increasing rents which rose from \$2.57 per square foot in the second quarter of last year to \$2.99 per square foot in the second quarter of 2023, an increase of about 16% (Calgary Herald, Nov. 2023). Calgary shows the fastest price increase among cities of more than a million people (CBC, Oct. 2023). Figure 16 shows the average rent and average rent per square foot in Calgary as compared to other centres across Alberta. A distinct hockey stick trajectory is apparent in Calgary that does not exist elsewhere in the province.

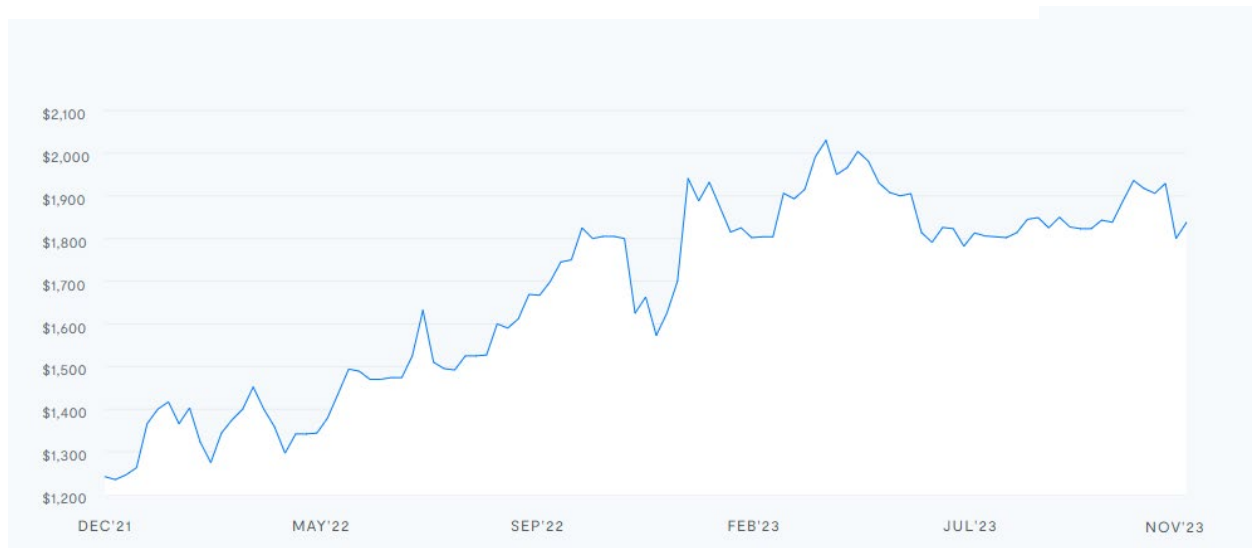
Figure 16. Average Rent and Average Rent Per-Square-Foot in Select AB Municipalities, All Property Types, May 2021-May 2022



Source: Rentals.ca

Figure 17 below indicates how the average rent for a one-bedroom apartment in downtown Calgary has increased from \$1,250 at the end of 2021 to \$1,850 two years later.

Figure 17. 1-Bedroom Average Rent for Downtown Calgary 21-23



Source: Zumper

2024 HOUSING OUTLOOK

CREB predicts that while economic growth is expected to slow next year, Alberta benefits from higher commodity prices and strong international and interprovincial migration. This helps to offset the impact on the economy and housing market. CREB indicates that migration levels are expected to slow in 2024 but remain strong thus supporting housing demand. Improving housing starts and new listings will offer more supply in 2024. A potential reduction in interest rates in the second half of 2024 will provide buyers with more certainty and increase sales levels (CREB Q3, 2023).

RISKS & IMPACTS

The risks to AHC in 2024 are like those of 2023. While inflation is improving, high interest rates remain but their future direction is uncertain. Construction costs continue to increase, and labour is still in short supply, both potentially impacting timelines of future AHC developments.

While inflation has decreased from last year, it is likely that many consumers in Calgary have not felt substantial relief in their pocketbooks. Buyers may be waiting for the Bank of Canada to announce declines to the key lending rate next year before purchasing a home. The City of Calgary just increased its residential property tax rate by 7.8% in 2024 (Calgary Herald, Nov. 22, 2023). The cumulative effect of small hits against homeownership could factor into buying decisions.

CONCLUSION

Affordable housing and housing affordability have consumed headlines throughout 2023 whether focused on the lived challenges of citizens across Canada or announcements about new government strategies, policies, and funding. This trend is likely to continue next year, especially as we near a federal election in 2025.

While the hits against homeownership (interest rates, qualifying stress test, property tax increase) could present challenges to AHC's homeownership offering, rental rates continue to escalate in Calgary driving more renters to seek stability through independence. The struggle many lower- and moderate-income Calgarians face in attaining the dream of homeownership is the growing price point needed to reach to put a foot on the property ladder. This time last year, the benchmark townhome in Calgary was priced at \$360,000 and now sits at over \$425,000. The "starter home" of previous generations no longer exists.

In both the rental and homeownership markets, there is a void for AHC to fill with below-market options.

Demand for what AHC offers remains steady at 300 registrants per month. Calgary would be well served if AHC could fill the missing middle portion of the housing continuum in both ownership and rental.

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