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2017 Economic Outlook & Regional Housing Market Mid Year Update

The forecasts included in this document are based on information available as of August 2017.
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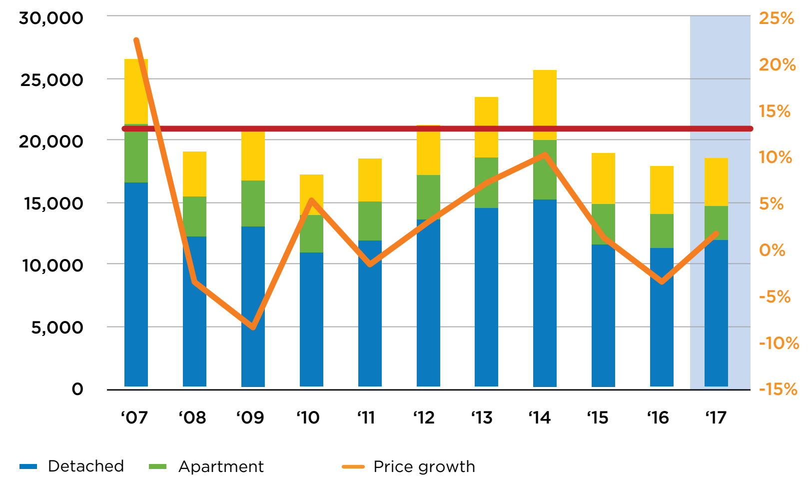
Forecast Summary

>>> After the first half of the year, the economic climate in Alberta appears to be shifting from recession to recovery, with oil prices improving from monthly lows of $30 US per barrel last year to an expected average of $49 this year. While the shift is a welcome change, the pace of recovery is expected to be slow, as economic conditions are supporting stability rather than expansion.

City Of Calgary Sales and Price Growth Forecast



Source: CREB®

With more optimism that the worst of the recession is behind us, some consumers were willing to re-enter the market in the early part of the year. However, continued weakness in employment and migration along with more stringent lending conditions will weigh on demand growth through the second-half of 2017.

Annual resale sales are expected to total 18,401 units, a 3.3 per cent increase over last year. While this is a slightly faster pace than originally anticipated, these levels are still well below long-term trends.

The early boost in demand helped ease the upward pressure on supply levels, supporting more balanced conditions and price stability in some sectors of the market. While inventories relative to supply may remain slightly elevated for the remainder of the year, it is not expected to cause significant downward pressure on prices.

City wide prices in 2017 are forecasted to remain relatively unchanged over 2016 levels. Improved market balance early this year supported some price appreciation. However, prices are expected to flatten out for the remainder of the year and it will still take some time until full-price recovery occurs.

Despite generally improving trends, difficulties continue to exist in the condo-apartment ownership market. Rising sales cannot keep pace with the growth in new listings, keeping supply levels high and placing continued downward pressure on prices. This area of the housing market is expected to face challenges well into next year as it will take time to absorb additional inventory in the resale, new and rental markets.

	2014	2015	2016 (F)	2017 (F)	Forecaster
Economic Indicators					
Alberta GDP Growth	4.94%	-3.69%	-3.83%	4.31%	Conference Board of Canada
Calgary CMA GDP Growth	5.76%	-2.76%	-1.86%	2.25%	Conference Board of Canada
Calgary CMA Employment Growth	2.53%	2.13%	-1.53%	1.09%	Conference Board of Canada
City of Calgary Net Migration	28,017	24,909	-6,527	974	City of Calgary
Housing Starts: Single Family Calgary CMA	6,494	4,138	3,489	3400 - 3600	CMHC
Housing Starts: Multiple Family Calgary CMA	10,637	8,895	5,756	5,100 - 5,500	CMHC
Calgary CMA Two-bedroom Average Rent	1,322	1,332	1,258	1,260	CMHC
Calgary CMA Vacancy Rate	1.40%	5.30%	7.00%	7.50%	CMHC
Average Residential Mortgage Lending Rate 5 year	4.08%	3.77%	3.70%	3.79%	Conference Board of Canada
WTI Price ($USD)	$93.26	$48.67	$43.33	$48.88	U.S. Energy Information Administration
Henry Hub Spot Price ($USD)	$4.39	$2.73	$2.61	$3.17	U.S. Energy Information Administration
	2014	2015	2016	2017 (F)	Forecaster
MLS® System resale market					
City of Calgary					
Sales	25,553	18,839	17,797	18,401	CREB®
Price growth	9.97%	1.06%	-3.72%	0.20%	CREB®
New listings	36,179	33,876	32,269	32,731	CREB®
City of Calgary detached					
Sales	15,104	11,519	11,206	11,576	CREB®
Price growth	9.89%	1.18%	-2.94%	0.80%	CREB®
City of Calgary attached					
Sales	5,653	4,097	3,865	4,031	CREB®
Price growth	9.41%	1.69%	-4.27%	0.50%	CREB®
City of Calgary apartment					
Sales	4,796	3,223	2,726	2,794	CREB®
Price growth	10.95%	0.01%	-5.98%	-3.00%	CREB®

MARKET OUTLOOK RISK

>>> Economic conditions are expected to improve based on stability in the energy sector. The pace of growth and the impact to the job market will influence the recovery in the housing market.

- Employment growth in lower paid sectors could impact the distribution of housing demand.
- Residual impacts of the recession can weigh on more households than expected. Lingering high unemployment rates, family income adjustments and higher costs could force households to make housing adjustments placing upward pressure on supply.
- Supply pressure from the new home market could create pockets of oversupply.
- Expectations of rising lending rates combined with stricter lending conditions could weaken demand growth in the market in the second half of the year. The combination of weaker demand and potential supply growth may cause further price adjustments.

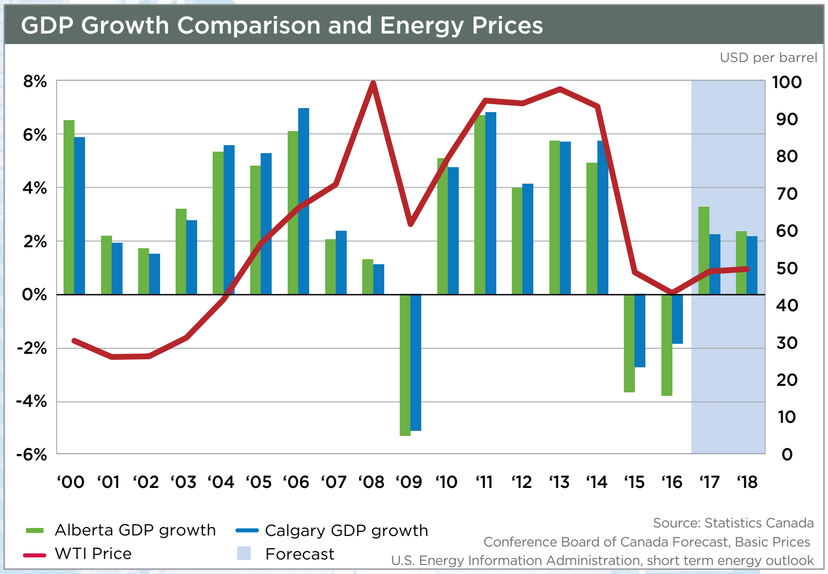
Economic Conditions

>>> The large drop in energy prices followed by two consecutive years of low prices brought significant cost-cutting measures throughout the energy sector, pushing our economy into a two-year recession. Contraction was not isolated to the energy sector, but spread to many other industries. Overall, 65 per cent of Alberta's industries recorded contractions over the two-year period.

Energy prices have climbed from $30 US per barrel monthly lows recorded in 2016. However, expectations on future prices remain conservative, with prices not expected to surpass $50 until 2019. This is still significantly lower than the above $90 average that was achieved through the 2011–mid-2014 period.

According to the conference board of Canada, GDP growth in Calgary is expected to reach 4.3 per cent in 2017, marking the end of the recession. Stronger growth this year is related to rising production coming online from investments made prior to the recession, improved winter drilling season and growth in household consumption.

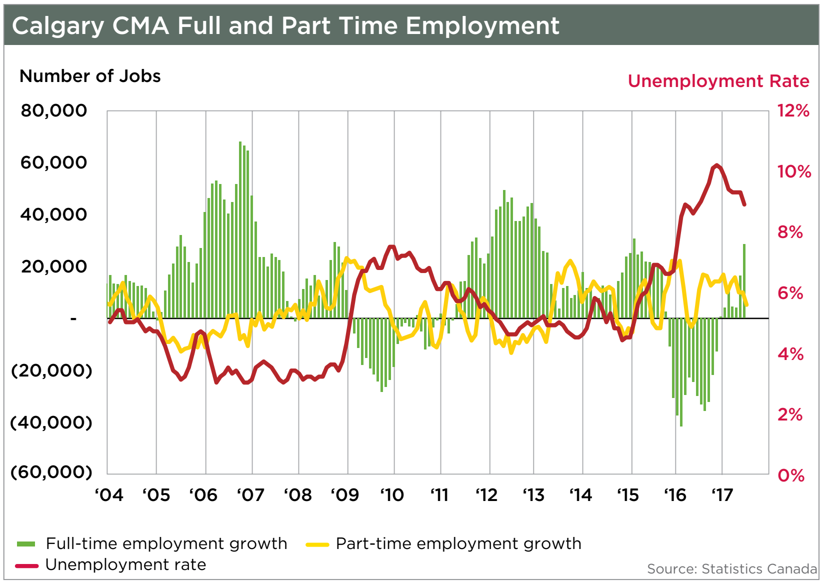
While this growth is a welcome change, the pace is expected to fall below two per cent in 2018 as low energy prices continue to weigh on current investment decisions, limiting future growth.



Low energy prices and competitive pressures will impact how economic recovery unfolds in the region. Current prices are preventing further contraction in the energy sector. However, they are not high enough to support a significant shift in investment activity and growth.

While some energy job growth and investment is expected, forecasters anticipate under current conditions, energy employment in the country will remain below their 2014 peak well past 2021. This new-normal for both energy investment and employment growth will weigh on Calgary's total employment growth, migration and, ultimately, the housing market.

Labour Market



>>> After the first seven months of the year, the labour market appears to be recovering. Employment has shifted from year-over-year declines to small gains and the unemployment rate has trended down from its monthly high of 10.2 per cent.

This turnaround acts as an important first step toward stability in the housing market. However, job growth has occurred mostly in non-energy sector industries.

The most notable growth this year has occurred in non-commercial services, such as health care workers and education.

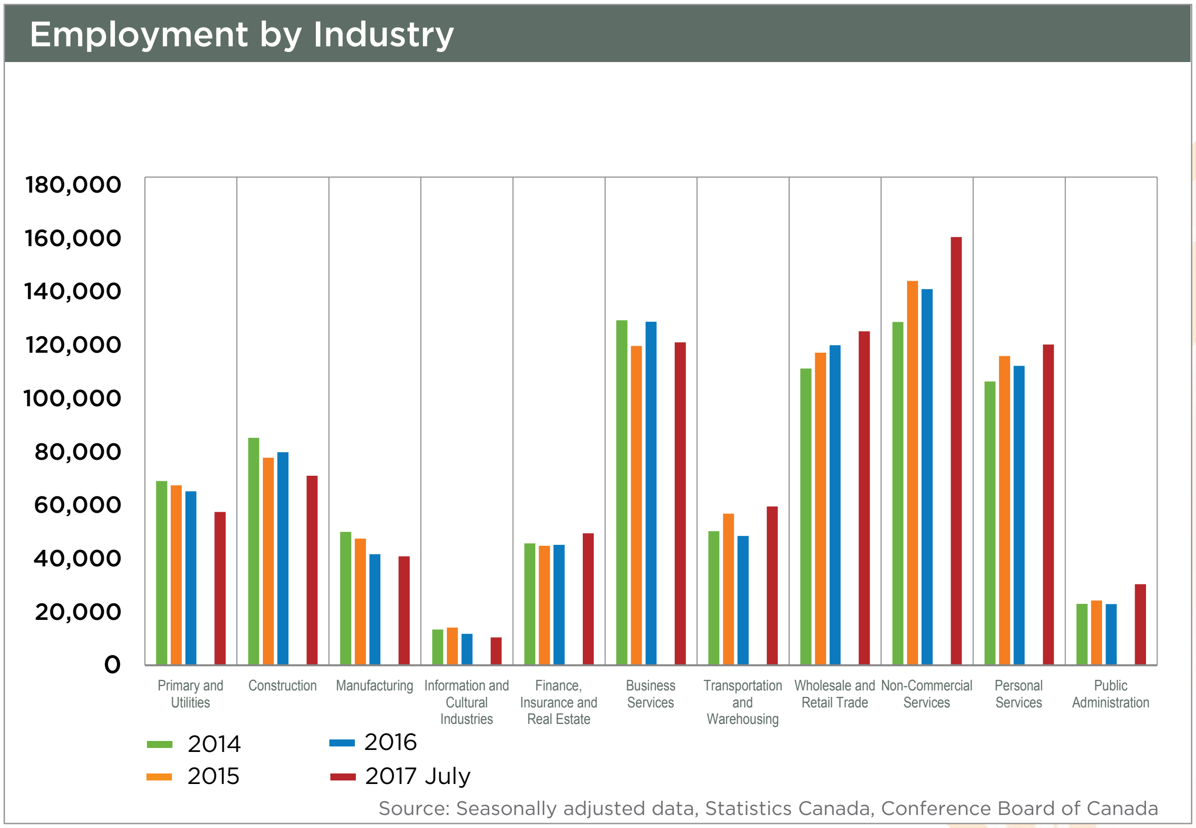
Other areas of growth include: personal services, public administration, wholesale and retail trade, transportation and warehousing, and finance insurance and real estate.

Income levels are traditionally lower in the areas reporting job growth.

Continued high vacancy rates in the downtown core is an indication that near-term recovery of higher-paid energy sector jobs is not expected.

More Calgarians going back to work is the foundation for a turnaround in the housing market. If growth in lower paid sectors continues, it can influence the type of demand growth recorded in the housing market.

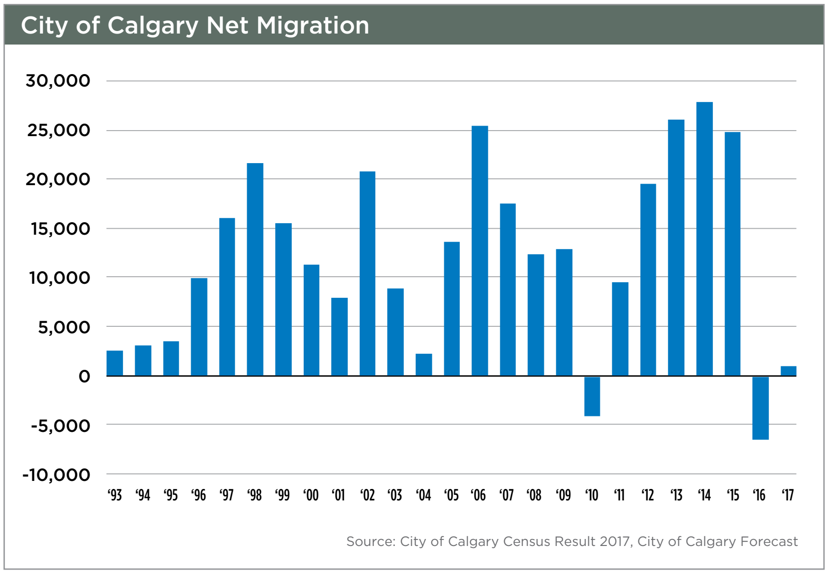
Overall, the Conference Board of Canada expects Calgary employment to grow by 1.09 per cent and unemployment rates are to trend down from the 9.4 per cent average recorded last year.



Population & Net Migration

>>> According to the latest civic census in April 2017, Calgary's population grew by 0.90 per cent for an annual total of 1,246,337 people. Net migration levels improved by 974 individuals, well below levels that typically exceed 10,000.

Weak job prospects have made it difficult to attract people to the city. Migration levels are expected to slowly improve, but is expected to take several years before they reach normal levels.



Lending Rates

>>> Tightening of lending rules and further potential increases to lending rates are expected to weigh on demand growth in the second half of the year. The Bank of Canada raised the overnight interest rate from 0.50 to 0.75 per cent in July.

While this is a modest increase, it comes at a time when the Calgary market is just starting to gain ground following price declines and income adjustments over the past two years.

While the rate hike combined with lending rule changes may not derail all demand growth in the market, it is anticipated to slow the pace of recovery.

With some pent-up demand easing, we anticipate these changes, combined with the modest economic growth, will slow housing demand growth in the second half of the year.

Bank of Canada Overnight Interest Rate*
0.75%
Bank of Canada Prime Rate*
2.95%
Bank of Canada Five-Year Conventional Rate* (qualification rate for high ratio mortgage)
4.84%

** as of August 11, 2017*

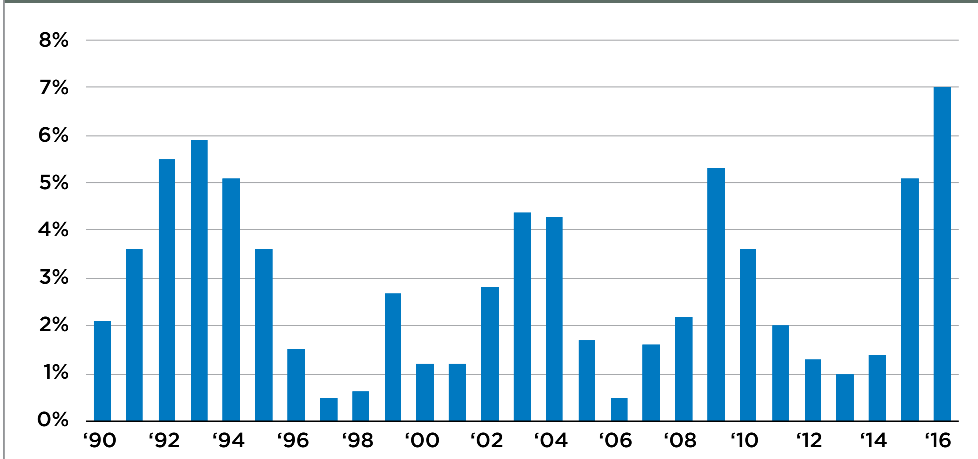
Rental Market

>>> Based on CMHC statistics released in October 2016, rental vacancy reached 25-year- highs causing easing rental rates. When considering various quarterly reports from rental apartment companies, it appears there has been no significant change in the market since the October 2016 survey.

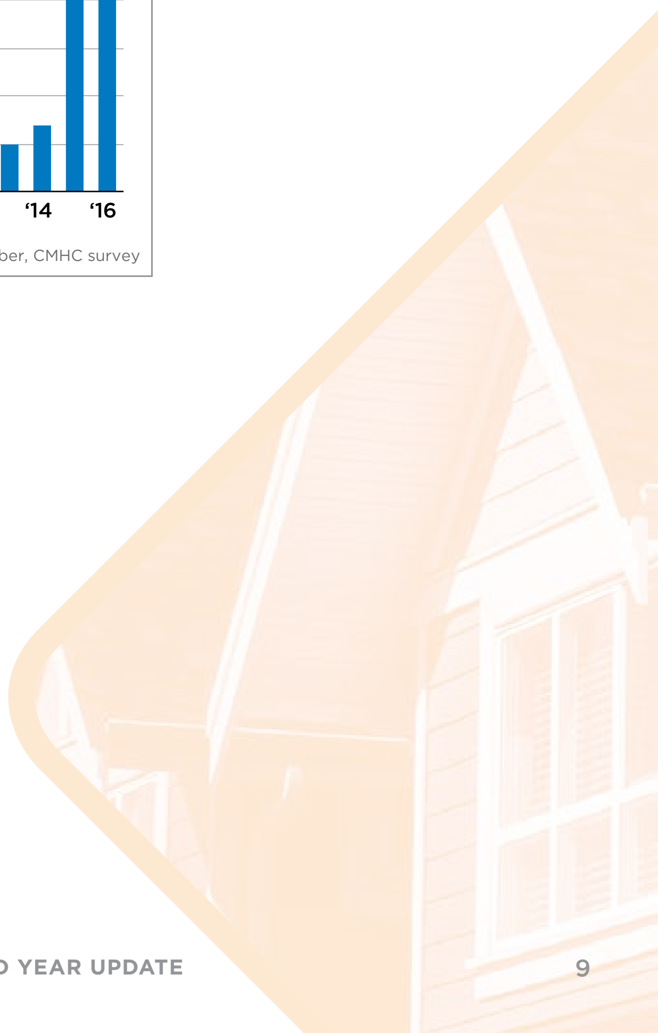
Additional supply is coming from purpose-built rental and owner-supplied units. Weak migration is also weighing on the rentals as it impacts the absorption of the additional units in the rental market.

The rental market is expected to continue to face elevated levels of vacancy rates for the remainder of the year, as additional supply from owner-supplied units and weak migration persist throughout 2017. This will prevent any significant gains in rental rates this year and limit upward demand growth for ownership.

Calgary CMA Total Purpose Built Row and Apartment Vacancy Rate



Source: CMHC, 2016 vacancy based on October, CMHC survey



New Home

>>> Year-to-date new home starts have improved in the Calgary area. In the Calgary Census Metropolitan Area (CMA), single family starts have increased 38 per cent year-to-date while multi-family starts have improved nearly 47 per cent.

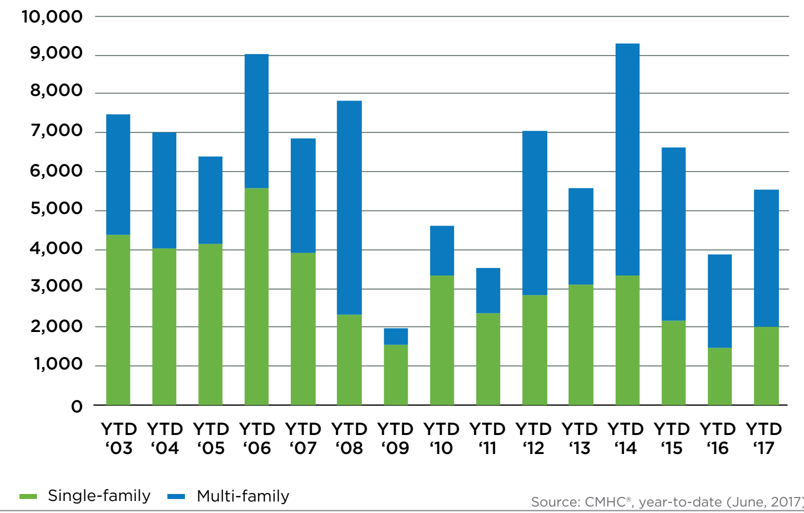
While these gains appear high, it is important to note that starts activity last year was relatively low, and current starts levels remain well below what is typical for the market.

With the recession and easing demand there has been a buildup of inventory in the resale, rental and new home markets. Builders require time to adjust to slower demand and some of the product currently under construction and in inventory was underway well before the economy went into recession.

New home inventories remain near historical highs, mostly due to multi-family product. Improvements in demand and migration should help reduce inventory levels, but at current expectations of growth, new home inventories are expected to remain elevated for most of this year.

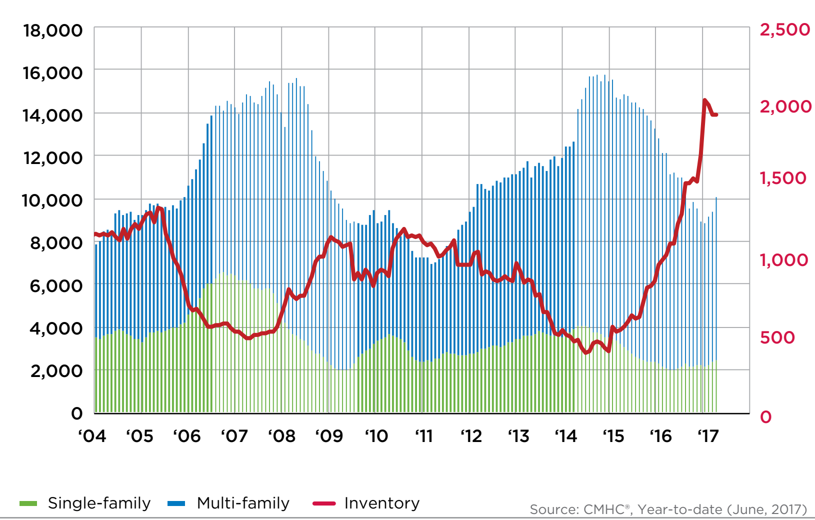
Higher new home inventories add to the overall housing supply and are competing with resale product, placing some limits on price growth in the resale market.

Calgary CMA Housing Starts - YTD



Source: CMHC®, year-to-date (June, 2017)

Calgary CMA Under Construction and New Home Inventory



Source: CMHC®, Year-to-date (June, 2017)

Resale Market

>>> After several years of weak demand, rising inventories and easing prices, the Calgary housing market appears to be transitioning to more stable market conditions.

Year-to-date sales activity has totaled 11,957 units, 9.24 per cent above last year, but 11 per cent below long-term averages. While sales activity remains below longer-term averages, the gains mark a transition in the resale market. This transition has been supported through improving job prospects and more confidence in the economic climate.

Despite recent monthly gains, inventory levels have been trending down, declining by a year-to-date average of 5.2 per cent. Rising sales and easing new listings have supported this general easing, and helped push the overall market toward more balanced conditions.

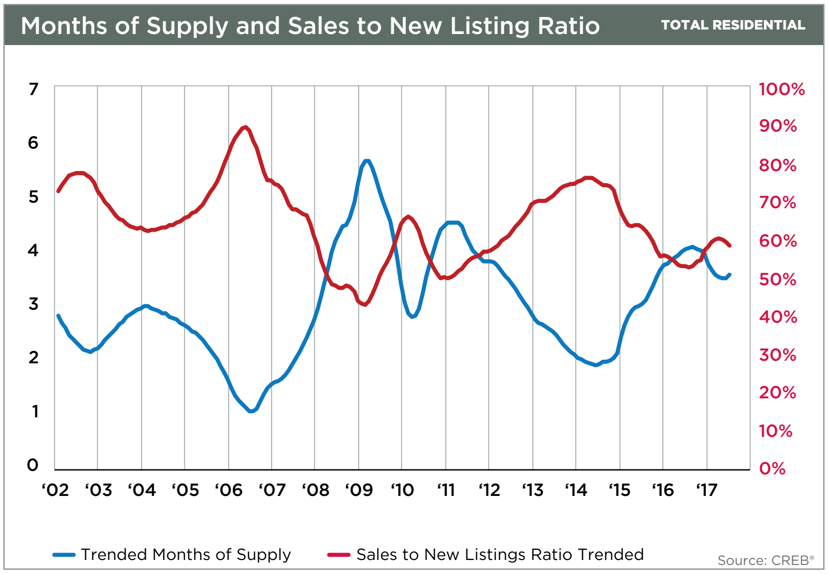
These conditions in the overall market are supporting stability in prices. Every month from January through July, benchmark prices have been generally trending up. However, year-to-date averages remain 0.44 per cent below last year.

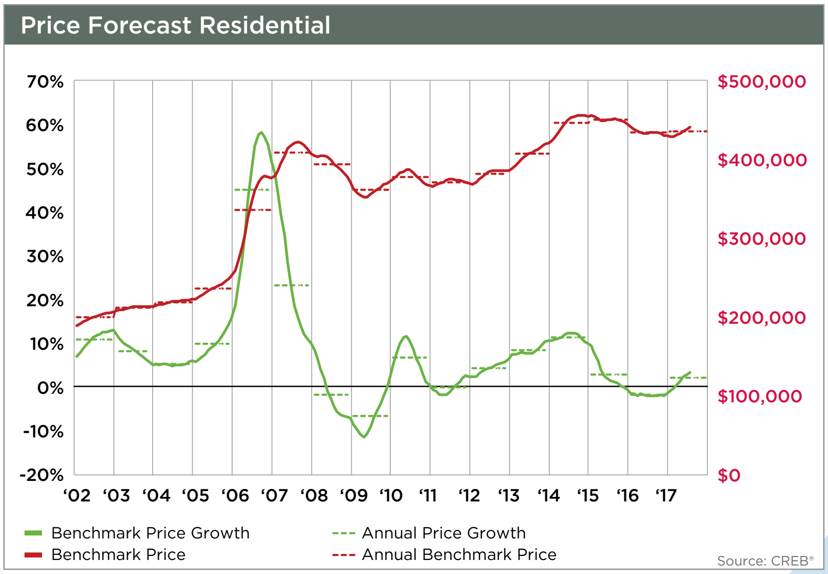
Resale sales growth for the remainder of the year is expected to ease. However, stronger increases in the earlier party of year are expected to offset slower sales. City-wide sales are forecast to total 18,401 units a 3.4 per cent increase over last year.

While economic conditions have been improving, lingering high unemployment rates, weak employment growth and more stringent lending conditions are weighing on demand.

Furthermore, increased competitiveness coming from the new home sector will impact the resale market as consumers compare supply options in both the new home and resale segment of the market.

Supply levels are expected to remain somewhat elevated, preventing further improvements in market balanced conditions. While this may cause further adjustments in pricing in the detached and attached markets for the remainder of the year, it is not expected to outweigh earlier gains. Overall prices are forecasted to remain relatively stable increasing by a modest 0.2 per cent on an annual basis.





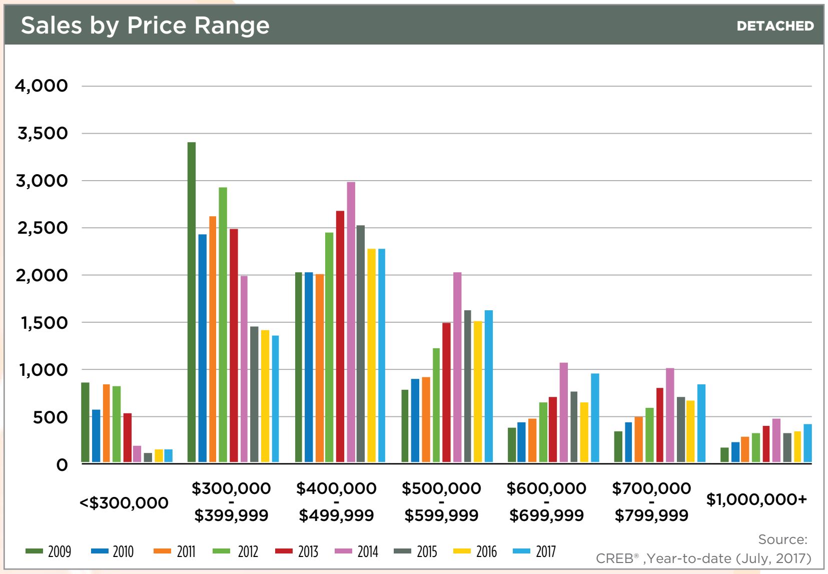
Detached Sector

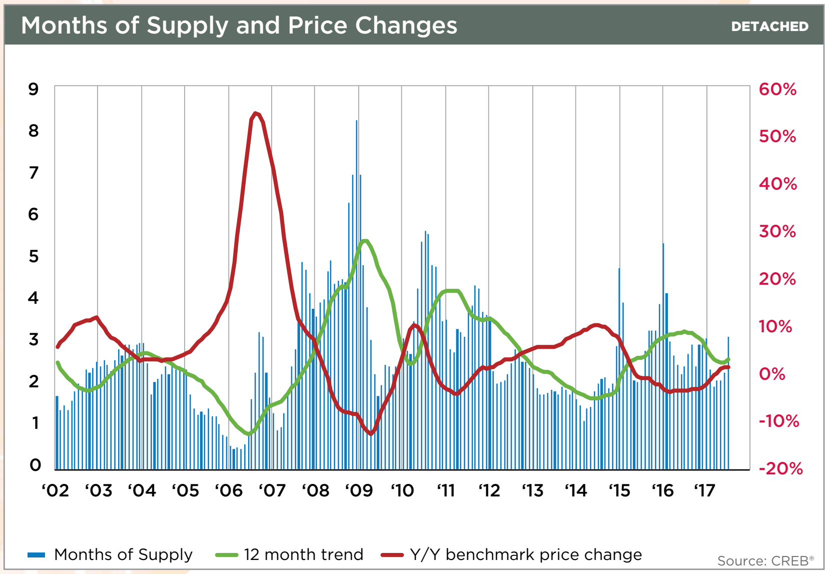
>>> The detached market is the largest component of the resale market, accounting for nearly 63 per cent of all sales. While the recession impacted demand across all segments of the market, the supply pressure was not as significant in this sector, preventing steeper city-wide price declines.

With the expectation from consumers that the worst of the recession is behind them, demand for detached product improved across all price ranges. Over the first seven months of the year, sales activity increased by 9.3 per cent to 7,543 units, a significant improvement compared to the past two years. Some of the higher segments of the market range have seen a larger share of sales.

Sales growth has surpassed new listings growth, supporting a general easing of inventory levels. Improved demand paired with existing inventories helped push months-of-supply into balanced territory and has supported some price movement.

Prices in the detached sector have generally trended up this year. While prices have not recovered all the losses over the past several years, they are expected to stabilize at levels comparable to last year.





Apartment Sector

>>> Year-to-date sales have improved for condominium apartment product, but it has not been enough to keep pace with rising listings. On average, inventory levels are nearly nine per cent higher than last year. Some of the supply gains have been caused by a larger share of newly completed and unoccupied product being listed on the resale market.

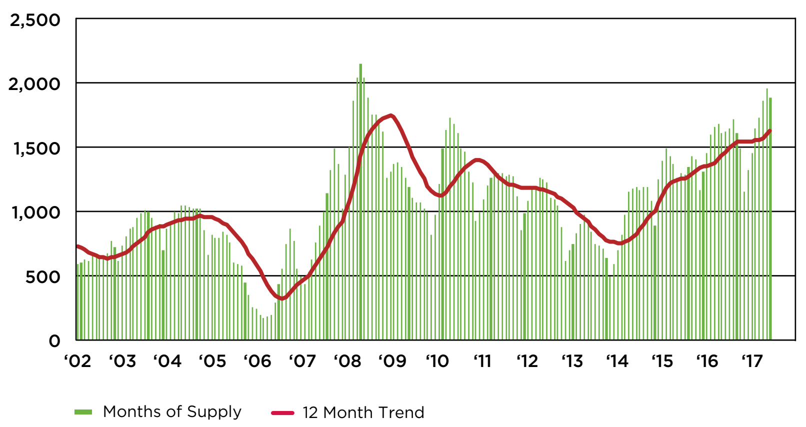
Prior to the recession there were several new condominium ownership products under construction and these completed projects are increasing the amount of total supply in the market.

Easing migration numbers and weaker economic conditions have resulted in a slower absorption of the product.

Excess supply in the market is still expected to persist for the remainder of the year, placing further downward pressure on prices.

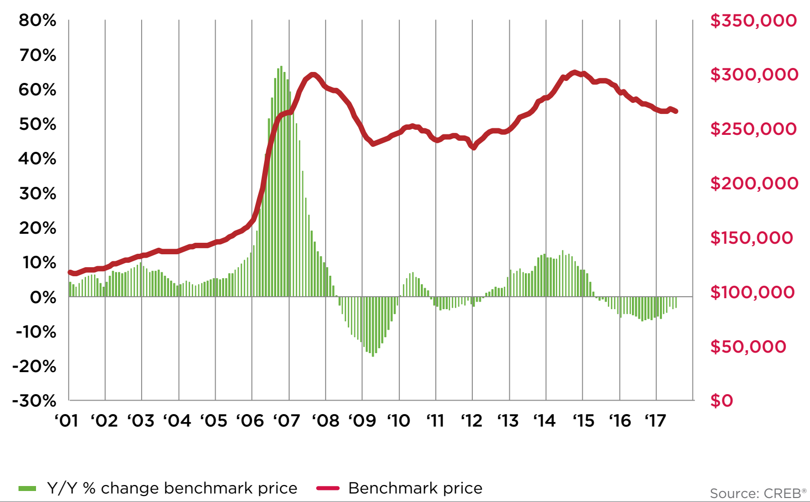
Prices are expected to continue to trend downward for the remainder of this year for an annual forecasted decline of three per cent. Monthly apartment prices have adjusted down by nearly 12 per cent since the start of the recession.

Inventory - Apartment



Source: CREB®

Benchmark Price and Growth - Apartment



Source: CREB®

Attached Sector

>>> The attached market consists of both row properties and semi-detached properties.

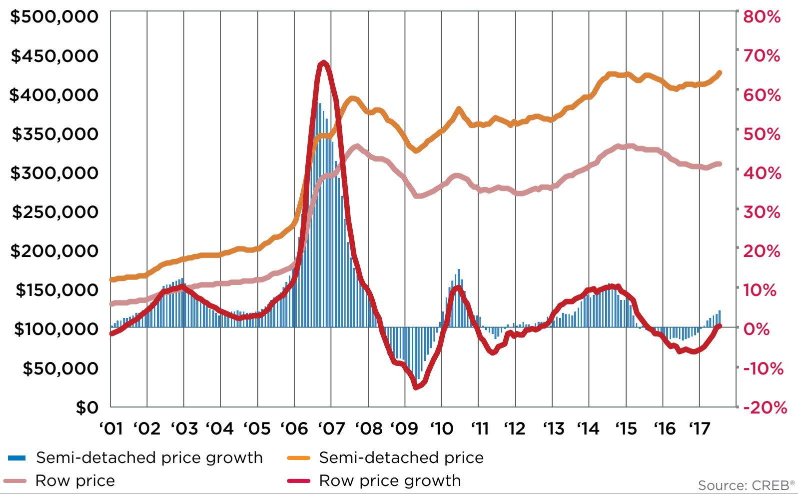
The decline and recovery for these two product types have diverged in trends. While sales activity has improved in both sectors, supply levels compared to demand have been higher for row properties. This has resulted in further price declines in the row sector while prices have improved for semi-detached product.

Year-to-date benchmark prices in the semi-detached sector have averaged $411,714, two per cent above last year. On a monthly basis, benchmark prices have recovered to pre-recession levels.

Row prices have averaged $303,486 so far this year. This is nearly three per cent below last year and monthly prices remain seven per cent below previous highs. Similar to apartment product, there has been more new construction of row properties impacting supply.

Supply demand balance levels have improved slightly, but they remain elevated compared to historical levels. This is expected to continue to place downward pressure on prices for the remainder of year.

Price Growth Comparison



Source: CREB®

Attached product offers an alternative to higher priced detached homes in similar areas. Changes to the lending environment combined with limited wage growth will likely support further demand growth in this traditionally more affordable sector.

However, the adequate supply relative to demand will support price stability for the remainder of the year.

District Summary

CITY OF CALGARY

District Summary Cont.

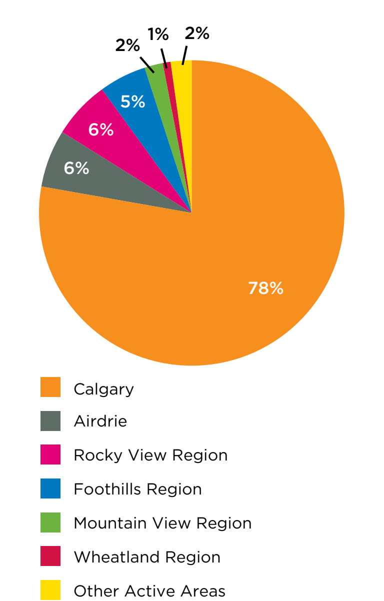
As the overall housing market starts to recover, the pace of recovery has varied significantly by location. Growth in some communities is influenced by the amount of competition coming from new home sectors.

July 2017 (Year-to date)	Sales	Sales growth	New listings	New listings growth	Sales to new listings ratio	Inventory	Months of supply	Benchmark price	Year-over-year benchmark price change	Share of district sales 2017
DETACHED										
City Centre	860	22.5%	1,472	7.5%	58.42%	436	3.55	$671,286	2.31%	11.40%
North East	754	-4.8%	1,524	2.1%	49.48%	480	4.46	$380,871	-1.64%	10.00%
North	1,015	2.6%	1,704	8.3%	59.57%	489	3.37	$441,229	0.22%	13.46%
North West	1,118	4.8%	1,683	2.1%	66.43%	396	2.48	$543,714	1.80%	14.82%
West	883	19.5%	1,416	3.0%	62.36%	345	2.73	$717,414	3.81%	11.71%
South	1,548	16.4%	2,392	6.9%	64.72%	594	2.69	$474,929	-0.86%	20.52%
South East	1,135	5.5%	1,735	-4.4%	65.42%	432	2.66	$448,500	0.05%	15.05%
East	232	10.5%	355	13.4%	65.35%	96	2.90	$357,129	0.28%	3.08%
Total City	7,543	9.3%	12,276	3.8%	61.45%	3,268	3.03	$505,114	0.56%	100.00%
APARTMENT										
City Centre	832	8.1%	2,302	4.2%	36.14%	884	7.44	292,486	-3.76%	46.53%
North East	60	-7.7%	232	21.5%	25.86%	97	11.32	$236,529	-4.63%	3.36%
North	107	8.1%	289	30.8%	37.02%	115	7.52	$219,571	-7.11%	5.98%
North West	176	9.3%	391	2.4%	45.01%	152	6.05	$244,629	-4.39%	9.84%
West	216	22.0%	478	8.6%	45.19%	175	5.67	$253,986	-3.03%	12.08%
South	221	-10.2%	599	-0.5%	36.89%	226	7.16	$234,643	-6.53%	12.36%
South East	132	16.8%	313	1.6%	42.17%	113	5.99	$249,314	-4.28%	7.38%
East	44	22.2%	132	3.1%	33.33%	48	7.64	$200,200	-6.31%	2.46%
Total City	1,788	7.2%	4,735	5.6%	37.76%	1,810	7.09	$266,414	-4.50%	100.00%
SEMI-DETACHED										
City Centre	356	14.1%	673	-4.5%	52.90%	223	4.38	735,586	4.33%	31.28%
North East	121	16.3%	223	5.2%	54.26%	62	3.59	$309,100	0.77%	10.63%
North	119	30.8%	172	13.9%	69.19%	40	2.35	$323,471	-1.41%	10.46%
North West	109	-5.2%	189	-6.4%	57.67%	60	3.85	$379,143	4.45%	9.58%
West	104	-6.3%	180	-18.2%	57.78%	52	3.50	$505,014	4.03%	9.14%
South	161	8.1%	259	6.6%	62.16%	77	3.35	$340,357	-1.93%	14.15%
South East	127	-1.6%	182	-3.7%	69.78%	45	2.48	$316,857	0.87%	11.16%
East	42	-2.3%	91	28.2%	46.15%	37	6.17	$297,957	-0.01%	3.69%
Total City	1,138	8.0%	1,966	-1.4%	57.88%	596	3.67	$411,714	2.03%	100.00%
ROW										
City Centre	251	9.6%	559	1.6%	44.90%	179	4.99	467,929	1.70%	16.87%
North East	135	8.9%	331	19.1%	40.79%	125	6.48	$212,243	-3.41%	9.07%
North	230	25.7%	396	8.5%	58.08%	122	3.71	$263,786	-2.54%	15.46%
North West	168	14.3%	325	0.0%	51.69%	114	4.75	$313,157	-3.35%	11.29%
West	188	22.1%	397	0.3%	47.36%	129	4.80	$346,800	-2.79%	12.63%
South	281	20.6%	521	9.0%	53.93%	165	4.11	$268,071	-4.99%	18.88%
South East	196	-6.7%	396	-5.5%	49.49%	126	4.50	$295,529	-1.91%	13.17%
East	40	0.0%	82	5.1%	48.78%	41	7.18	$181,214	-8.25%	2.69%
Total City	1,488	12.7%	3,004	4.0%	49.53%	1,001	4.71	$303,486	-2.69%	100.00%

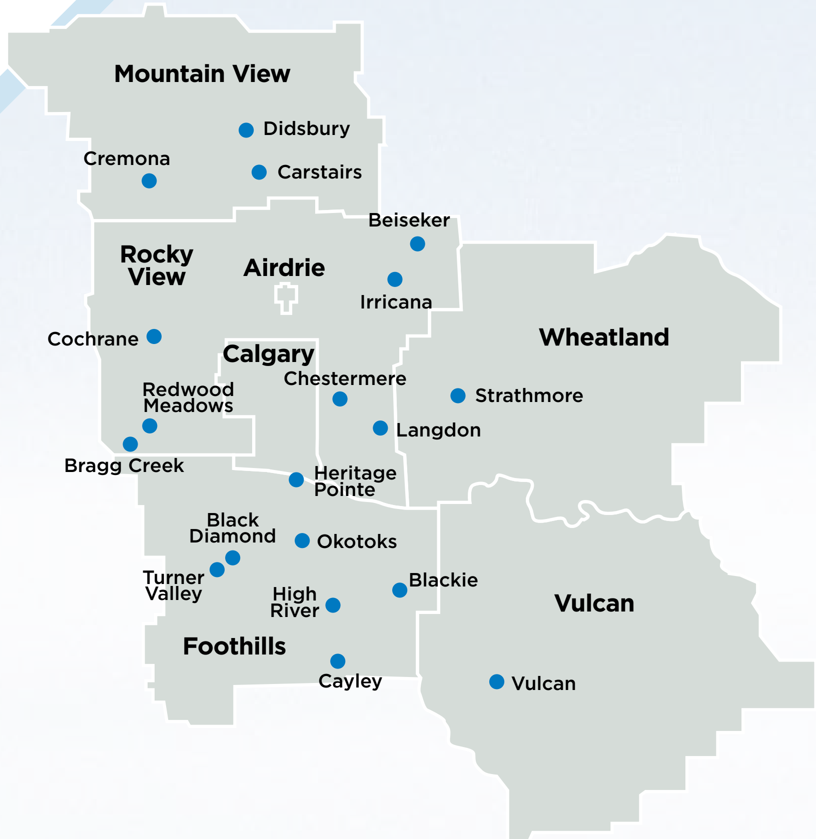
*District sales may not match total city sales, as some areas within the city limits are not an official community located within a specific district.

Surrounding Areas

Share of Sales Year-to-Date 2017



Source: CREB®



While some price stability was maintained throughout the first portion of 2017 for Calgary's surrounding areas, different balances between residential housing supply and demand continue to bring distinct market conditions for each area. The following table highlights activity in some of the largest areas in our broader region.

	2017 year-to-date detached benchmark price	Year-over-year price change	Typical Home Attributes			
			Gross living area (above ground)	Year built	Lot size	Above ground bedrooms
Airdrie	377,243	-1.27%	1,390	2002	4,653	3
Cochrane	422,500	0.11%	1,494	1998	5,520	3
Chestermere	484,829	2.36%	1,871	2003	5,511	3
Rural Rocky View	811,343	1.83%	1,837	1997	3,735	3
Okotoks	423,171	-0.34%	1,491	2002	4,973	3
Rural Foothills	453,000	-1.40%	1,723	1995	N/A	3
Strathmore	394,086	8.02%	1,265	2000	5,562	3
City of Calgary	505,114	0.56%	1,341	1991	4,908	3

Source: CREB®

Airdrie

>>> Airdrie's relative affordability compared to Calgary has supported population growth and a stable resale housing market. Year-to-date residential sales totaled 821 units, just below the 837 units recorded last year. However, sales in Airdrie have been overshadowed by record housing inventory.

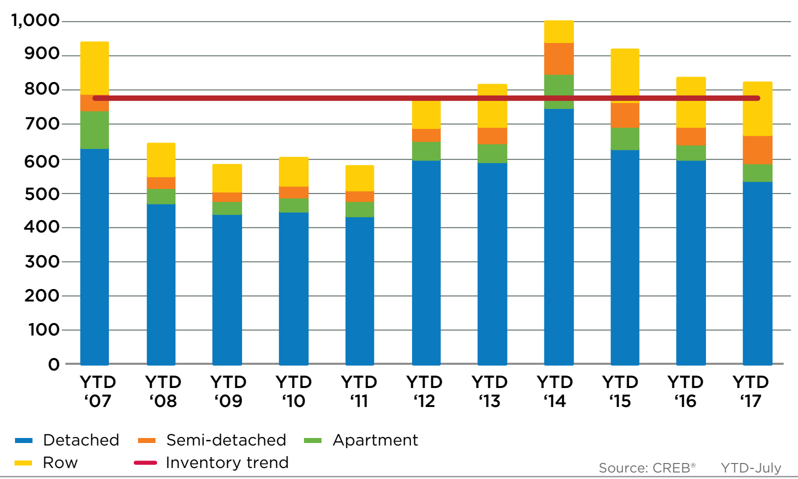
- Record levels of new listings so far this year have contributed to supply-heavy conditions for the resale housing market in Airdrie. Total residential inventories have averaged 444 units since January, above the 5-year trend but still below peak 2008 levels.

- Overall months of supply has averaged 3.79 from January through July, slightly higher than last year and above levels recorded in Calgary's nearby north district. More supply relative to demand along with increased competition from the new home market has placed downward pressure on prices.

- The year-to-date unadjusted benchmark price for a detached home in Airdrie averaged $377,243, a year-over-year decrease of 1.3 per cent. After the first seven months, price declines were more significant in the relatively more oversupplied attached and apartment sector. Prices for those segments declined by a respective 4.7 and 3.8 per cent.

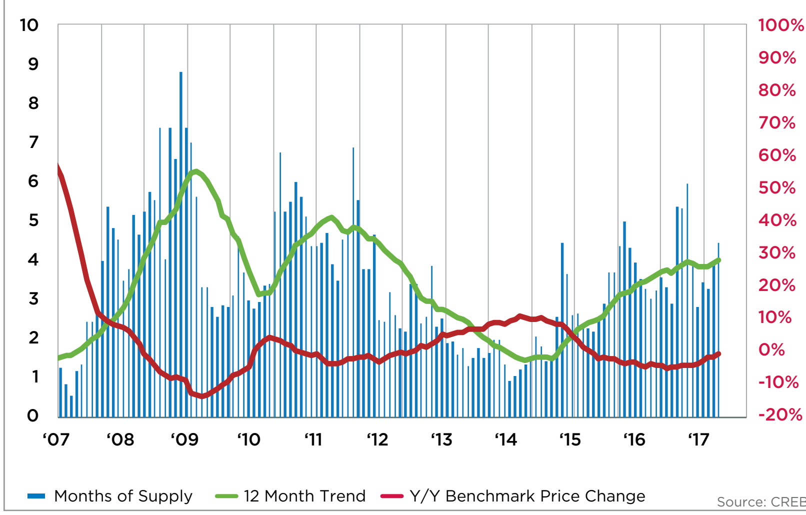
- Elevated inventories have supported a pullback in the new home sector, which will help reduce excess inventory and support price stabilization moving forward.

Year-to-Date Comparison Sales



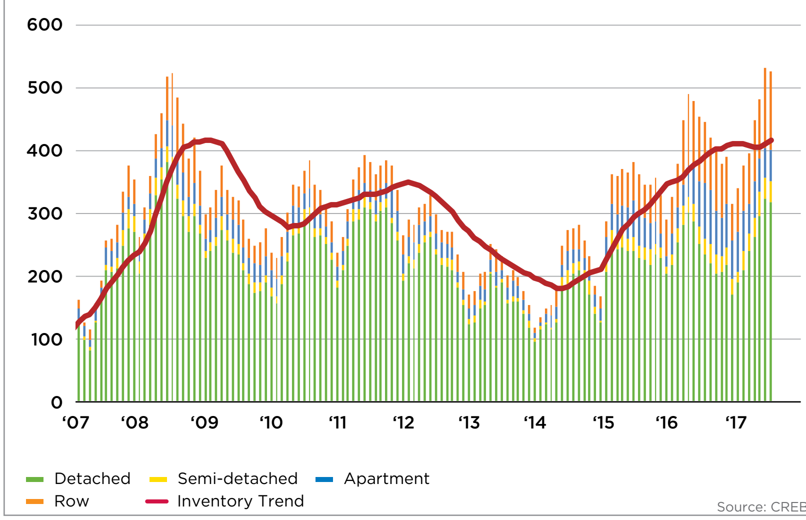
Source: CREB® YTD-July

Months of Supply and Price Changes - Total Residential



Source: CREB®

Airdrie Inventory - Total Residential



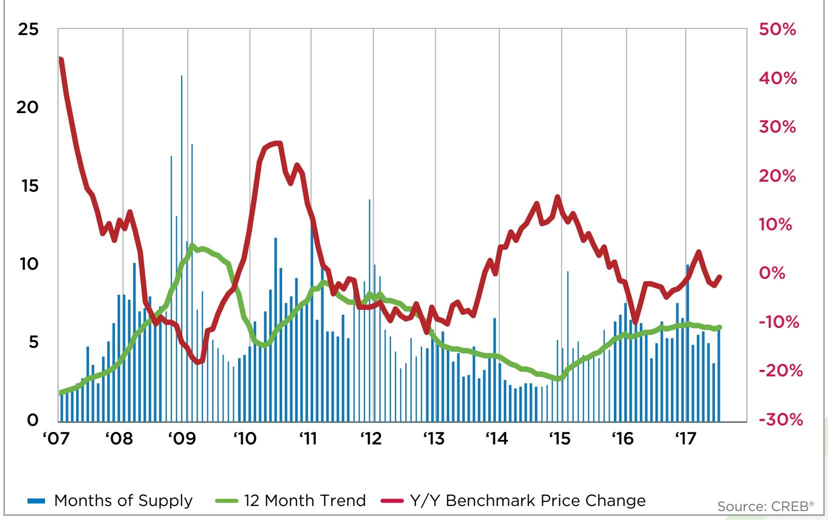
Source: CREB®

Cochrane

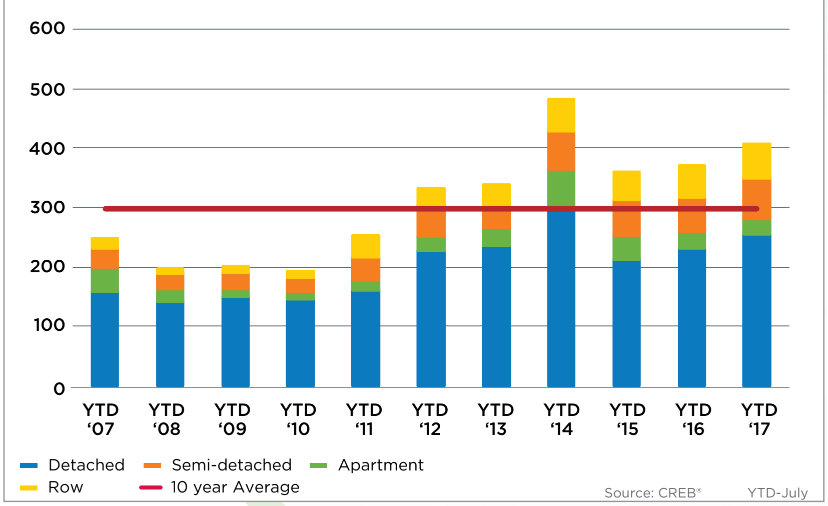
>>> Improving economic conditions and continued population growth into Cochrane has contributed to a growing demand for housing in the area.

- Year-to-date residential sales totaled 408 units, a year-over-year gain of 10 per cent and the second highest level on record for Cochrane.
- New listings also continued to experience significant gains, totaling 821 units for the same period. This is the highest seven-month total on record.
- Despite higher-than-average contributions to new listings, sales demand was enough to keep pace. This is preventing significant gains in inventory levels and has generally caused months of supply to ease over last year's levels.
- With no further gains in the months of supply, prices have managed to remain relatively stable over last year. The unadjusted detached benchmark price averaged $422,500 between January and July, similar to last year but below highs recorded in 2015.
- Rising starts in the new home sector could add further competition for the resale market when completed. While some of that product could end up on the resale market, it may impact the price recovery for existing homes.

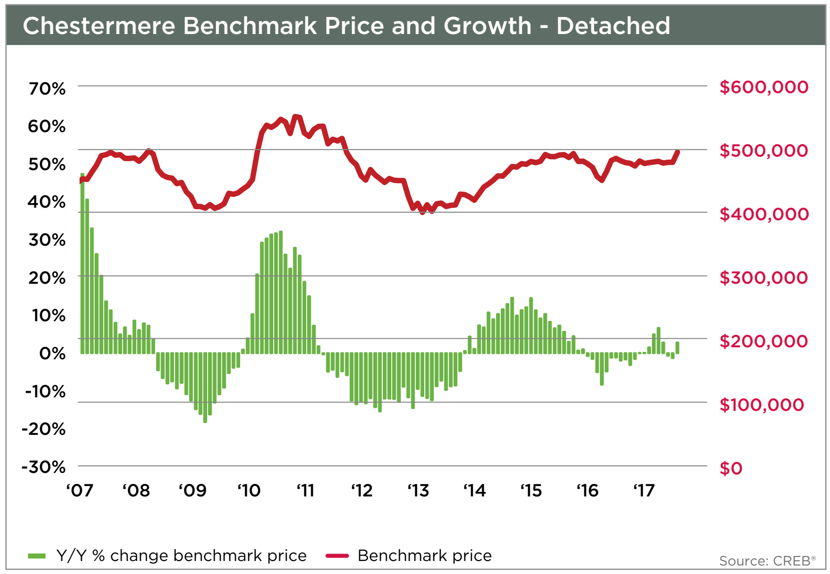
Cochrane Months of Supply and Price Changes - Total Residential



Year-to-Date Comparison Sales



Chestermere



>>> Sales activity in Chestermere continues to be driven by the detached sector, accounting for nearly 80 per cent of total activity. Year-to-date sales totaled 188 units in Chestermere, nearly seven per cent higher than 2016.

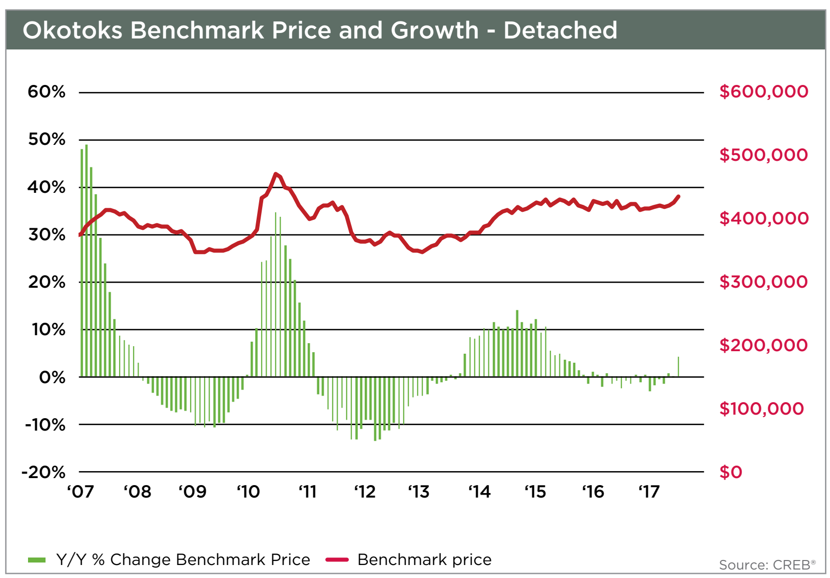
- Rising sales and easing inventory caused the months of supply to trend down, averaging six months and lower than the seven-month average recorded last year.

- These improvements supported modest gains in detached housing prices.

- The average detached benchmark price in Chestermere so far this year was $484,829, a year-over-year increase of 2.36 per cent.

- Home builders remain cautious in the new home market with 71 starts, less than half of the five-year average. This will help reduce additional supply and support prices.

Okotoks



>>> Sales activity in Okotoks remained comparable to the previous year. However, easing new listings have supported the general downward trend in inventory.

- Despite some recent bumps, average months of supply have generally been trending down this year and currently average 3.8 months, well below the 4.6 months recorded at the same time last year.

- A decreased level of inventory has also limited downward pressure on pricing in 2017, with prices remaining close to 2016 levels. After the first seven months of the year, detached home prices averaged $423,171.

- While demand in Okotoks has remained below longer term trends, supply has also adjusted preventing large price adjustment in this market. While conditions may not support significant price growth, we anticipate price stability to persist in this market.

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