THIRD QUARTER 2020

HOUSING MARKET DIGEST

ALBERTA

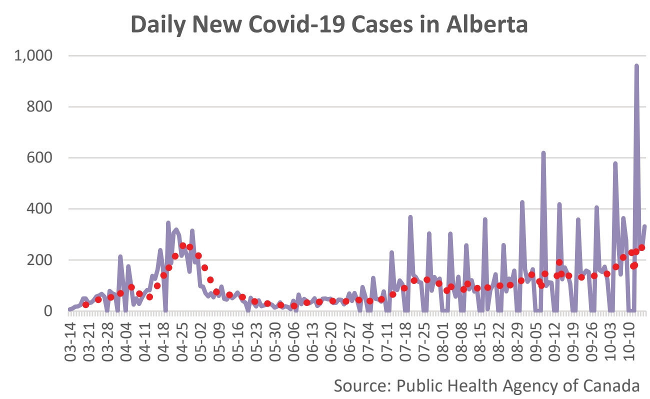
MORTGAGE PROFESSIONALS CANADA

Staying Safe?

It is clear that Canada is now in a second wave of the Covid-19 epidemic, and the seven-day moving average of new cases has recently moved higher than was seen during the spring. Within Alberta, the recent per capita rate of new cases has been close to the national average. It remains to be seen what effects this wave will have for the housing market and the broader economy. This chart shows data up to October 16. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

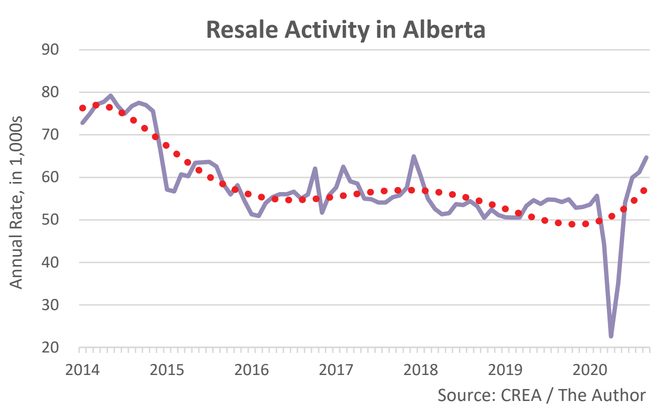
Data from the Canadian Bankers Association implies that about 11% of mortgages were still in deferral at the end of August (down from 16% at the end of June). The CBA report can be found here: https://cba.ca/canadian-banks-are-standing-by-canadians

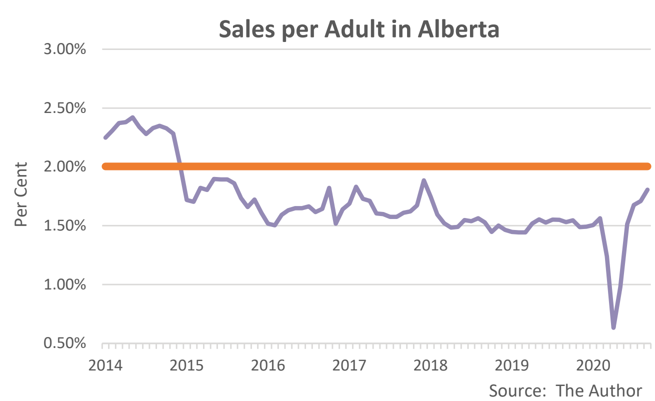
Deferrals will now begin to end in large numbers, creating a risk that there could be a large rise in mortgage arrears in Canada. There is an urgent need for a national conversation about options to assist mortgage borrowers who are still suffering from impaired incomes.



Resale Market

Prior to the pandemic, the provincial housing market was stable (although relatively soft). The combination of a struggling economy and the onset of Covid-19 has been damaging for home sales in Alberta. A partial rebound in the third quarter (to an annualized sales rate of 61,900) provides some encouragement. Yet, combined sales for the second plus third quarters were 31% below the long-term average (in this calculation, the average sales rate has been adjusted for growth of the population).





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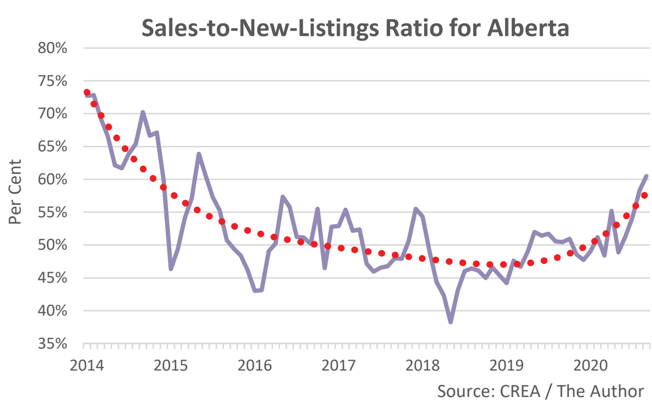
Resale Market (Continued)

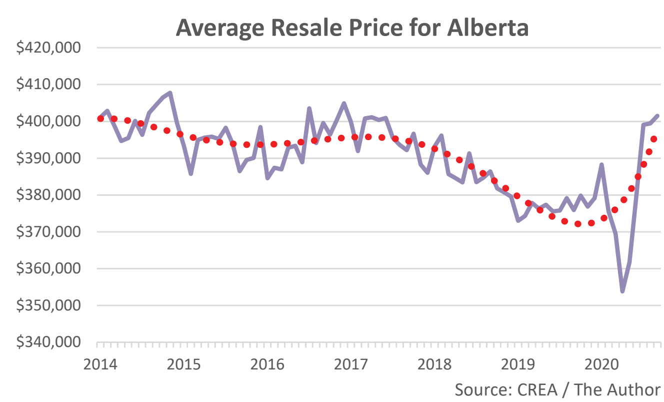
The provincial performance has been much weaker than for all of Canada (combined second and third quarter sales in Canada were 5% below the population-adjusted average).

Looking at the data in terms of sales per adult, activity in the third quarter was 14% below the long-term average. Extremely low interest rates and the re-opening of the economy have provided some support for housing markets in Alberta. The provincial sales-to-new-listings ratio ("SNLR") has improved, from previously low levels, to an average of 55% during the past six months.

This is essentially equal to Alberta's 56% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year. Previously, a negative imbalance between supply and demand was resulting in some price erosion. The recently improved SNLR may have disrupted that erosion. CREA data shows that the provincial average resale price for the third quarter was 6% higher than a year ago.

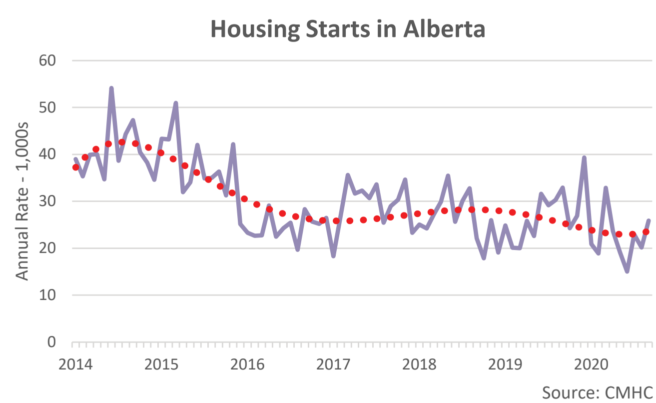
However, the average price may have been distorted by changes in composition – the locations and types of homes sold. CREA's estimates of "benchmark" prices for Calgary and Edmonton indicate that on a "constant quality" basis, there has been little change in prices during the past year.





Housing Starts

Housing starts in Alberta remain relatively weak in historic terms. During the third quarter, the annualized rate of starts was 23,000, which is slightly less than has been seen during the past three years. The third quarter data shows a slowing for low-rises (single-detached, semi-detached, and town homes).



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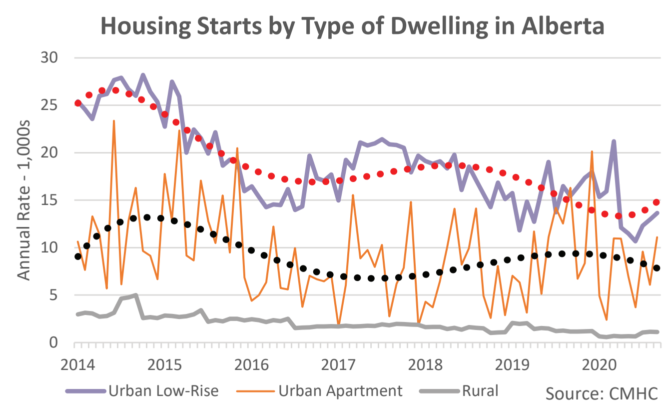
Housing Starts (Continued)

However, this activity has varied from month-to-month, and it is difficult to draw a conclusion about the trend. Apartment activity is in comparatively better condition in historic terms. Demand for apartments (both owned and rented) is likely to be soft for some time and there is a significant risk of excessive supply for apartments. Starts remain weak in rural areas.

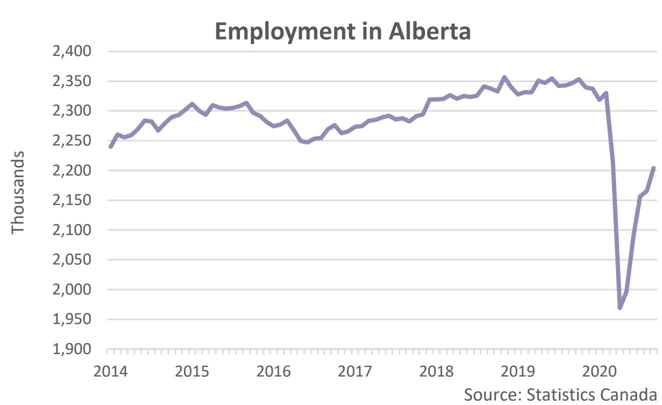


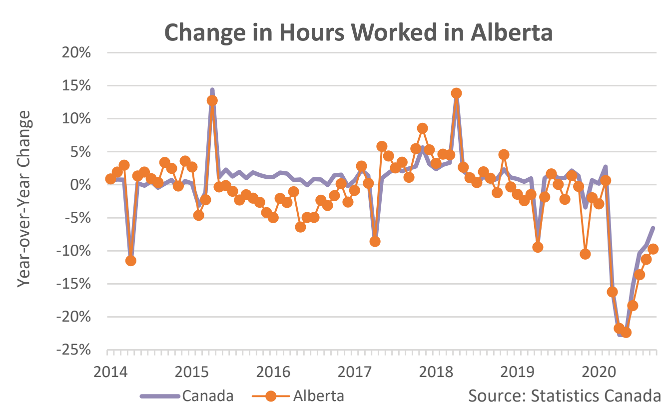
Employment Trends

Employment continues to recover, with the fifth consecutive large rise in September. Statistics Canada estimates that employment fell by 361,000 during March and April, but since then 235,000 jobs have been regained. As of September, total employment is estimated to be 126,000 (or 5.4%) lower than in February. For all of Canada, the current shortfall is 3.7%.

At present, I prefer to watch employment in terms of total hours worked. The next chart shows that while there has been a strong rebound, as of September, hours worked in Alberta were 9.7% lower than a year ago (for all of Canada, the figure is 6.6%).

The worst impacts have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying. Canada Mortgage and Housing Corporation is currently conducting its annual survey of rental markets across Canada. Unfortunately, CMHC expects that it won't release the results until January.





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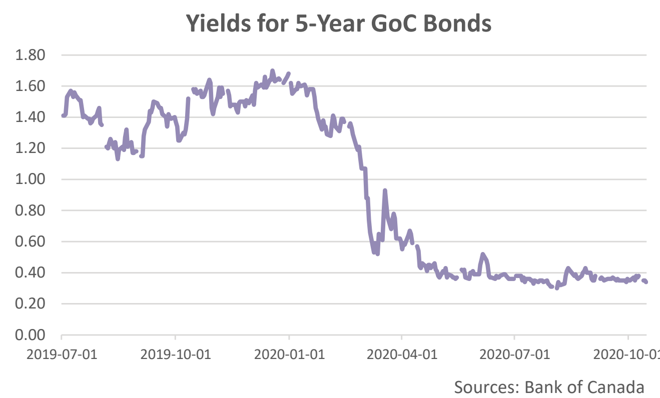
Interest Rates

Bond yields remain extremely low and are showing only very small movements. During the past month, the average yield for 5-year Government of Canada bonds has been just 0.36%.

Mortgage interest rates have largely adjusted to the plunge in bond yields. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 1.9%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and at 1.55 points is now below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.8%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.79%.



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