HOUSING MARKET DIGEST
ALBERTA

MORTGAGE PROFESSIONALS CANADA

Resale Market

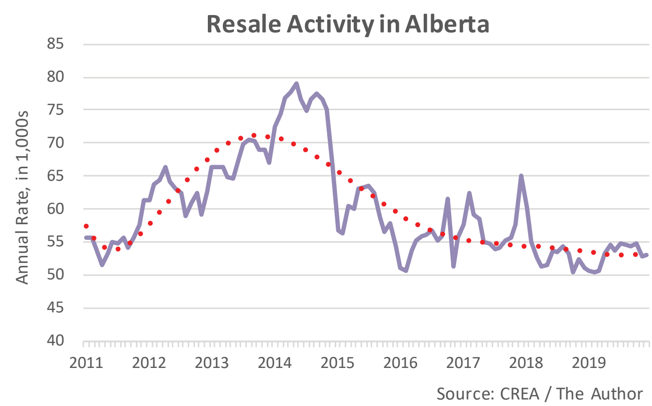
Resale activity dipped slightly during the fourth quarter (by 2% versus the third quarter), from a level that was already quite weak. Furthermore, recent rises in mortgage interest rates might have given a push to sales, as buyers take advantage of pre-approvals before they expire. That positive effect may now be ending and we might see more slowing during the first half of this year.

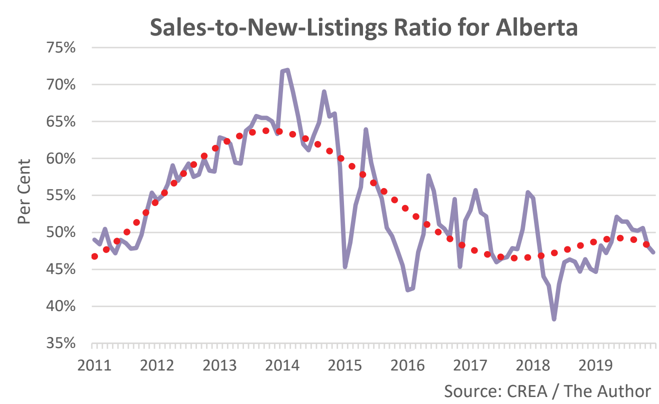
For the entire year, sales fell fractionally, to about 53,200.

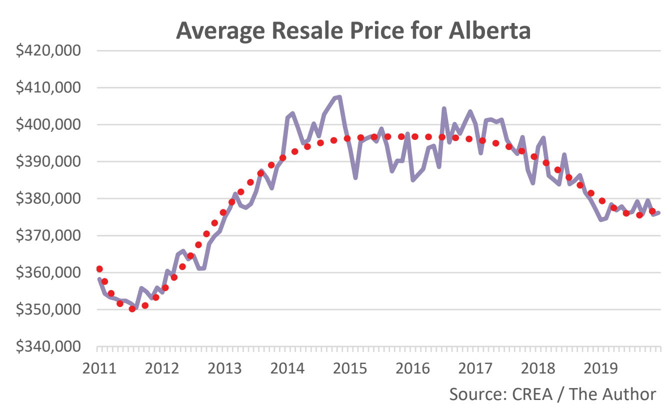
On a population-adjusted basis, sales in 2019 were 26% lower than the long-term (2001-2019) average. The negative effect of a weakened employment situation has been partly offset by low interest rates. The mortgage stress tests are a further negative factor.

The sales-to-new-listings ratio ("SNLR") was 49% in the fourth quarter (a reduction from 51% in the third quarter). This is below the threshold (estimated at 56%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).

Prices have been roughly flat during the past year (which is an improvement from the erosion that was seen during 2017 and 2018). We should expect little or no price growth for a while, and in fact there is some risk of more declines, if potential sellers lose patience.







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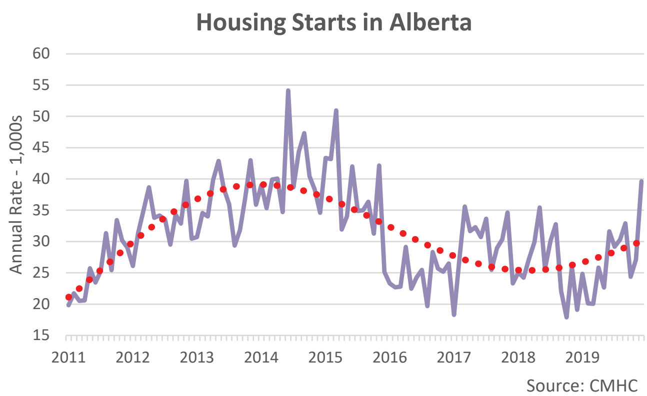
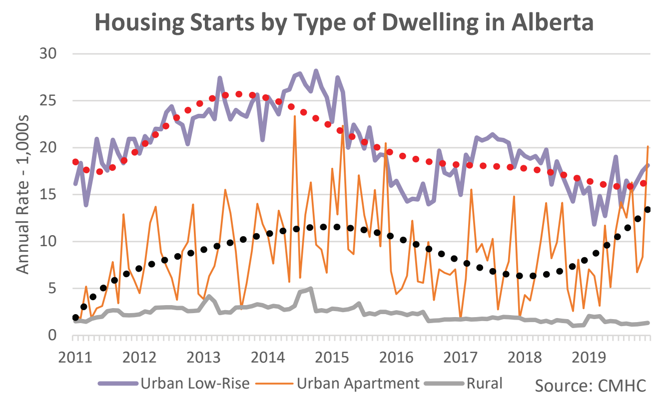
Housing Starts

Housing starts are below average, but in fact are stronger than we might expect, given the economic environment. The rate in the fourth quarter (30,400) was down slightly (1%) from the third quarter. For the year, starts totaled just over 27,000, which was 5% higher than in 2018, but 17% below the 20-year average of 33,086.

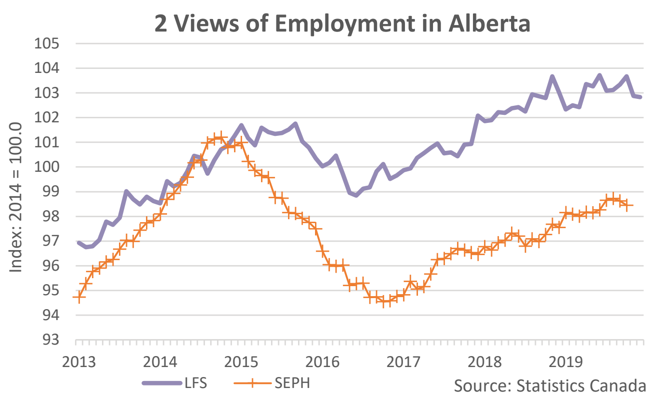
Starts are quite weak for low-rise homes (especially for single-detached homes, which were 43% below the 20-year average). Apartment starts, on the other hand, have expanded, and the total in 2019 was 24% above the 20-year average.

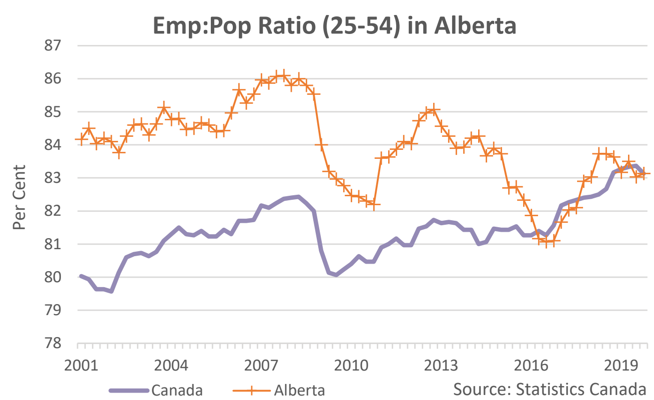




Employment Trends

Statistics Canada's surveys of employment had shown improvement during 2018, but for 2019, both surveys show weakness once again. The Labour Force Survey shows a drop of 0.2% from a year ago, as of December. The Survey of Employment, Payrolls and Hours shows growth of 1.2% (but as of October), but negligible change since last January). This data is negative for the housing market outlook.





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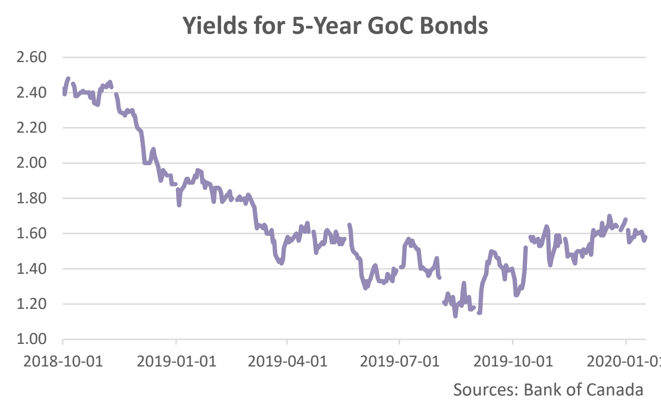
Employment Trends (Continued)

The employment-to-population ratio for "prime working age" adults (25-54) is volatile, most likely this is a random variation that is often found in surveys with small samples.

This data indicates that the current situation is weak in historic terms. It also shows that while Alberta, for many years, had an employment rate above the national average, it has been only average in recent times. This is a negative factor for future population growth, as the province has become comparatively less attractive to job seekers.

Interest Rates

Bond yields are now more-or-less where they should be: the current yield for 5-year Government of Canada bonds is 1.57% (as of January 16), within the range of 1.5-1.75% that I think is appropriate, and I don't expect these yields to change materially during the next few months. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate from major lenders) has been 2.85% since early November.



The spread between mortgage rates and bond yields remains skinny (in the area of 1.2-1.3 points versus a long-term average of 1.8 points), due to intense competition. Variable rates are unchanged (my opinion-estimate remains at 2.95%).

Rental Markets

Every October, Canada Mortgage and Housing Corporation does a comprehensive survey of residential rental markets in Canada. The results for 2019 were released on January 15. For the urban areas of Alberta, the October 2019 vacancy rate was 5.4%, which was a fractional drop from 5.5% a year earlier. This is still a high vacancy rate. The average vacancy rate for the period shown in this chart is 3.8%.

The reduction in the vacancy rate compared to 2016 is partly due to reduced housing construction, but also due to economic hard times, which has no doubt made home ownership less accessible, increasing demand for rentals. That said, the continued high vacancy rate is very much the result of housing production exceeding the need. It's not just construction of rentals: when the supply of housing rises more rapidly than the number of households that need it, vacancies increase. During 2019, there were about 26,700 housing completions. This is 17% below the 20-year average. Based on trends for housing starts I expect the vacancy rate to change little during 2020 and 2021. For some time, there will be little upward pressures on rents.

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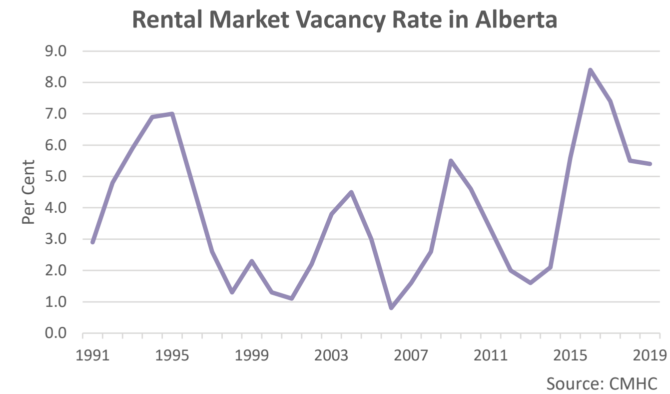
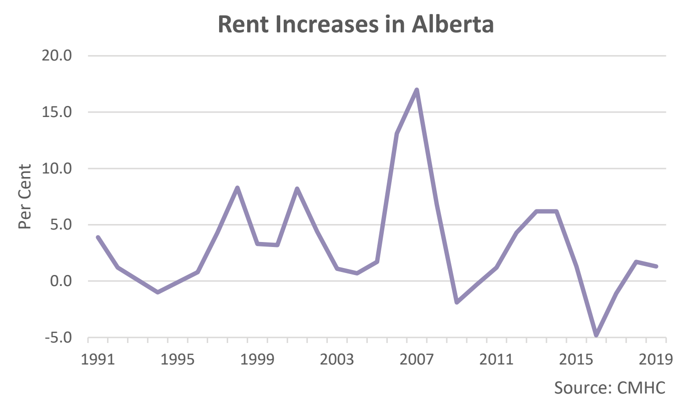
Rental Markets (Continued)

CMHC estimates that rents increased by 1.3% during the past year. Rents are lower than they were five years ago.

Occasionally, comments are made that a healthy vacancy rate is 3%. I have investigated the origins of this, and as far as I can tell, this has never been supported by actual research. In response, I have calculated the statistical relationships between vacancy rates and rent increases. For Alberta, we should expect rents to increase by 2% per year when the vacancy rate is 4.5%. This is my opinion on a healthy ("balanced market") vacancy rate. The calculated balanced market vacancy rates vary across the provinces and cities of Canada. For all of Canada, the estimated threshold is 3.7%.





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