

FOURTH QUARTER 2020 HOUSING MARKET DIGEST ALBERTA



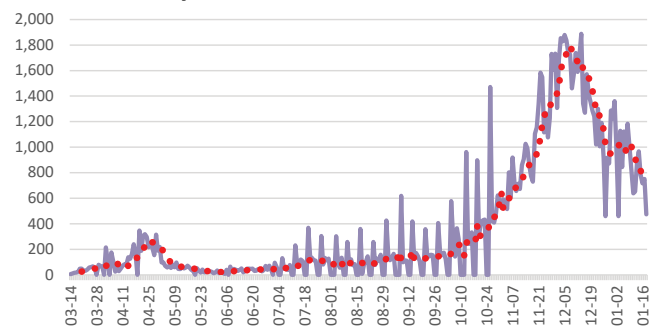
Some Encouraging Data

Alberta experienced a severe surge of Covid-19 infections during the fall, but there has been considerable improvement since then. The rate of new infections remains high, although it is slightly (about 4%) below the national average (looking at the current 7-day average on a per million or per 100,000 basis). This chart shows data up to January 18. Current data can be found here:

<https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

Economic indicators have shown negative consequences (notably for employment). But, the data lags behind actual events. I am still unwilling to produce any forecasts on what might happen to the housing market or the broader economy, because we can't know how this will unfold.

Daily New Covid-19 Cases in Alberta



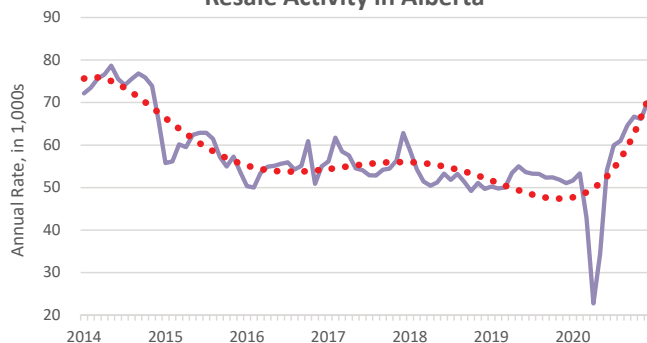
Source: Public Health Agency of Canada

Resale Market

Resale activity has improved considerably within Alberta. During the fourth quarter, the annualized sales rate was 67,700. For the entire year, sales totaled 53,960, which is similar to results in the prior four years. Unlike all of Canada and most of the other provinces, Alberta did not set a new annual record in 2020.

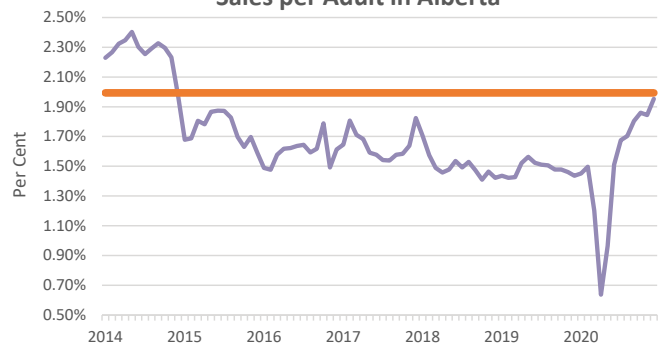
Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 71,300. On this basis, the sales rate for 2020 was far (24%) below average. A combination of a badly weakened provincial economy plus the mortgage stress tests continues to weigh heavily on Alberta's local housing markets.

Resale Activity in Alberta



Source: CREA / The Author

Sales per Adult in Alberta



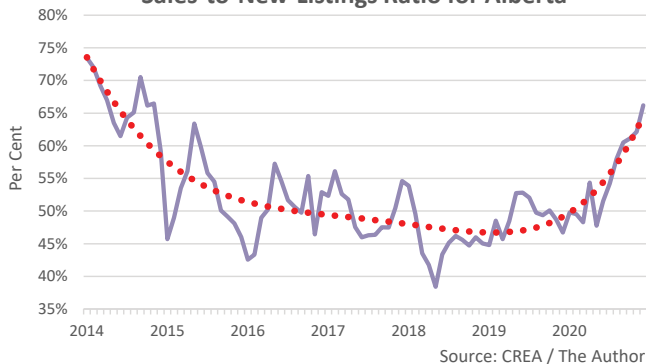
Source: The Author

Resale Market (Continued)

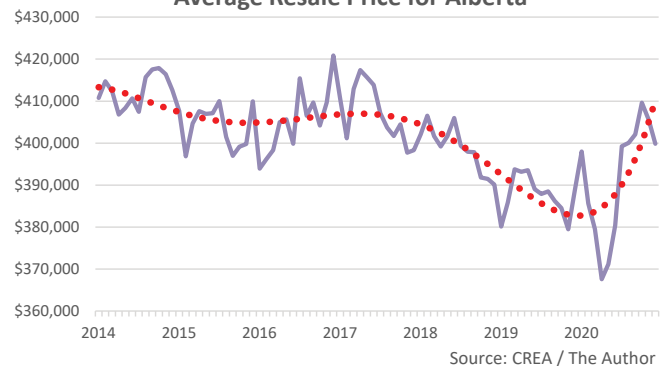
The flow of new listings into the market has not kept up with demand, and this has allowed the provincial sales-to-new-listings ratio (“SNLR”) to improve, from previously low levels. The ratio has averaged 60.4% during the past six months, slightly higher than Alberta’s 56% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year.

The improved state-of-balance has ended the price erosion that was seen earlier. The average resale price for the fourth quarter was 5.4% higher than a year ago. Within Alberta and across the country, there has been some shifting away from condominium apartments towards low-rise dwellings. CREA’s estimates of “benchmark” prices for Calgary and Edmonton indicate that on a “constant quality” basis, prices are now rising for single-family homes (about 3.5% during the past six months), but are showing smaller changes for apartments.

Sales-to-New-Listings Ratio for Alberta



Average Resale Price for Alberta



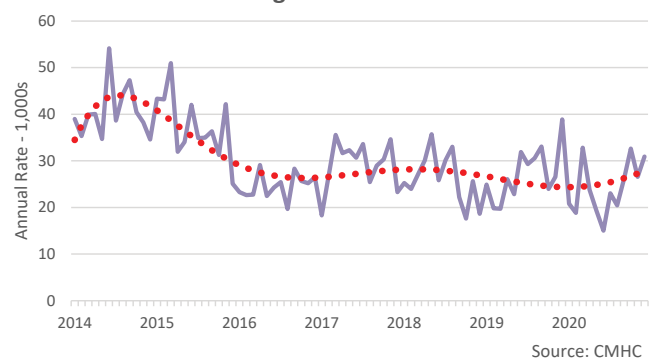
Housing Starts

The rate for housing starts rose in the fourth quarter (30,200). The trend remains low in historic terms.

For the full year, Alberta starts totaled 24,023, which is 27% below the average of the past 20 years.

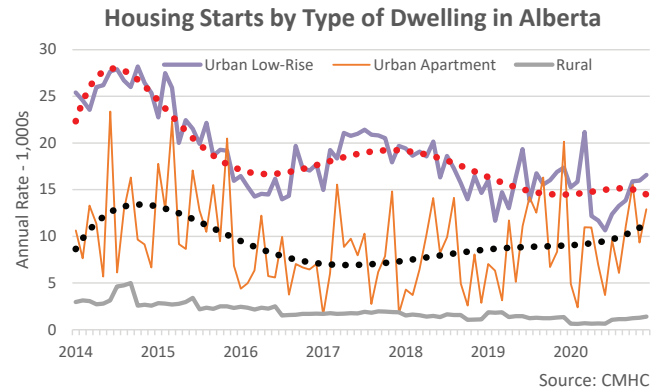
Starts remain weak for low-rise dwellings (single-detached, semi-detached, and town homes). Activity might be increasing for apartments, but large month-to-month variations make it difficult to draw a conclusion about the trend.

Housing Starts in Alberta



Housing Starts (Continued)

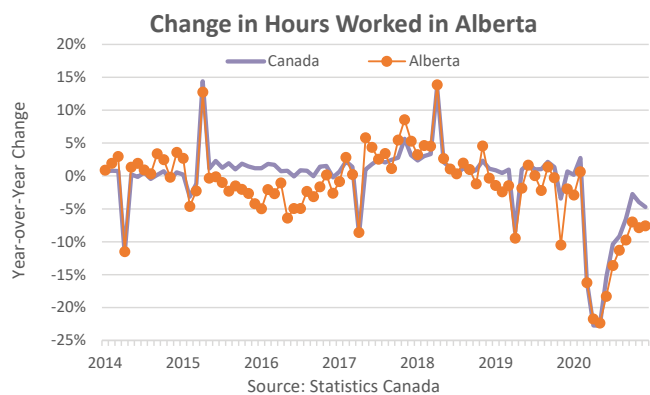
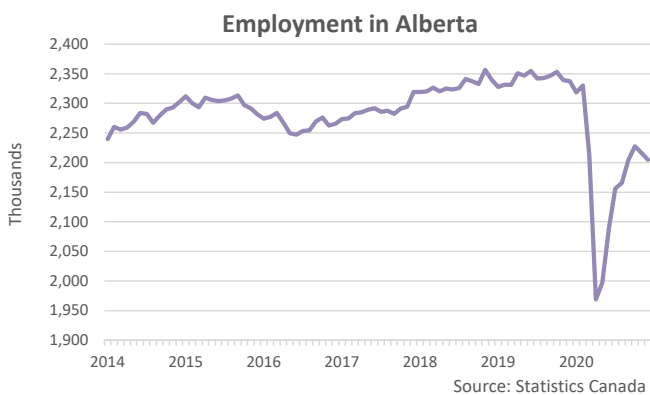
Demand for apartments (both owned and rented) is likely to be soft for some time, due to the combination of a weak employment situation and changes in consumer preferences that have resulted from Covid-19. There is a significant risk of excessive supply for apartments. Starts remain weak in rural areas.



Employment Trends

The estimates from Statistics Canada’s Labour Force Survey show a reversal for Alberta’s employment during the last two months of the year. As of December, the province’s employment is estimated to be 125,000 (5.4%) lower than in February. Because the data is generated via a sample survey it can sometimes be wrong. But, if the data is correct this is a worrying sign. For all of Canada, the current shortfall is 3.3%.

The next chart looks at employment in terms of numbers of hours worked. As of December, total hours for Alberta are 7.6% lower than a year ago. The reduction for all of Canada is less substantial, at 4.7%.



Rental Markets

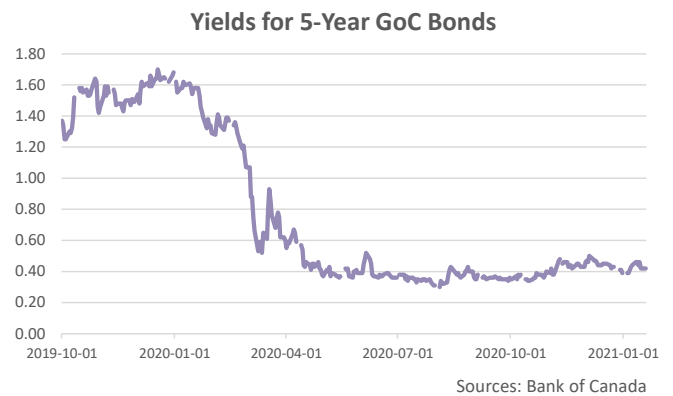
CMHC will release the results from its October survey on January 28. Two years ago, the release occurred on November 28.

Interest Rates

In reaction to positive news about Covid-19 vaccines, bond yields rose slightly during November. Since then, there have been only minor variations. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates remain extremely low. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.



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