Economic spotlight

Strong demand for housing in Alberta

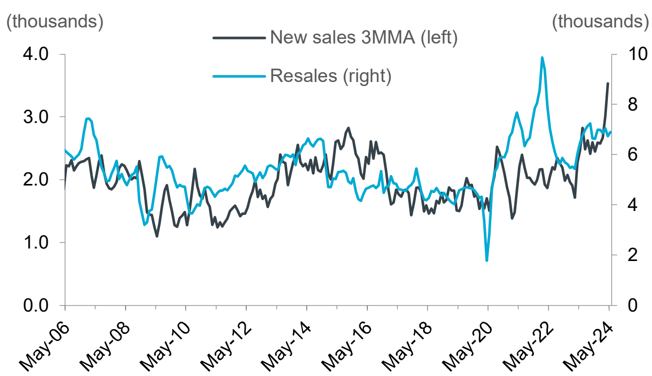
Alberta's housing market has been the hottest in Canada for the past two years. While rising interest rates have held back most markets, Alberta is experiencing elevated activity and price increases. This Spotlight highlights recent trends in Alberta's housing market, examining both supply and demand, as well as overall market conditions.

Alberta's housing market is booming…

Alberta has the strongest housing market in Canada. Since the middle of 2023, seasonally adjusted home resales have held above 6,600 sales a month, a level only seen in the pandemic rebound and briefly in the boom years of 2007 and 2014 (Chart 1). On a per-capita basis, sales are well above the pre-pandemic levels and have consistently been the highest among the provinces since the end of 2021. The strong sales have reduced inventory, with Alberta's market having the fewest months of inventory in Canada since August 2023. This, in turn, has driven the fastest price growth in the country. The strength goes beyond the resale market. New homes are also being bought at a pace similar to boom years, drawing down inventories. Prices for new homes in Alberta rose 1.6% in the first four months of 2024 – the strongest growth nationally.

CHART 1: HOUSING MARKET BOOMING

Alberta housing starts & new sales (SAAR) and home resales



Sources: Statistics Canada, Haver Analytics

…driven by record setting population growth

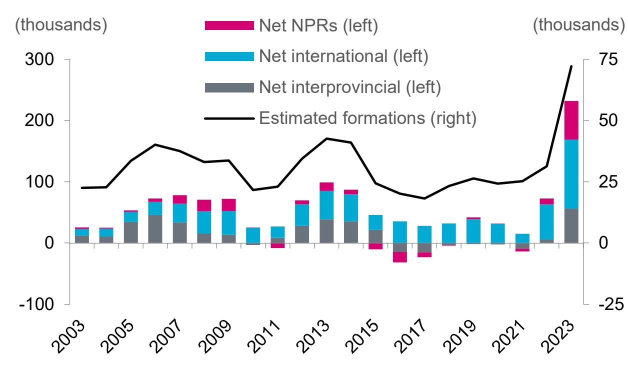
Demand for housing has surged as Alberta's population exploded over the past two years. Over 2023, Alberta's population grew by more than 200,000 people or 4.4% – the fastest growth since 1981. The growth has been led by a surge in international and interprovincial migration. The province welcomed 52,500 net immigrants and 78,370 net non-permanent residents (NPRs) in 2023, while interprovincial migration has never been higher at 55,107 people.

Migration has a direct and immediate impact on housing demand as a majority of immigrants are of adult age. The share of the adult population (18+) has been increasing over the past few years and reached 78% – the highest on record in 2023. At the same time, migrants tend to be young adults (25-44) and in the prime age for household formation. After trending lower since 2015, the share of population aged 25-44 increased in 2023 due to migration.

The composition of migration also impacts housing demand as household sizes tend to differ between migrant type. Interprovincial migrants are more likely to live alone and often arrive as a household. In the 2021 Census, the average interprovincial migrant household included only 1.8 adults per dwelling. Meanwhile, international immigrants and NPRs typically live in larger households, with the 2021 Census recording 2.8 and 2.3 adults per dwelling respectively, and are more likely to live with non-relatives. Based on these historical household sizes, the increase in population through migration resulted in demand for over 70,000 housing units in 2023 (Chart 2), with the majority coming from international migrants.

CHART 2: MIGRATION DRIVING HOUSING DEMAND

Migration and estimated household formations



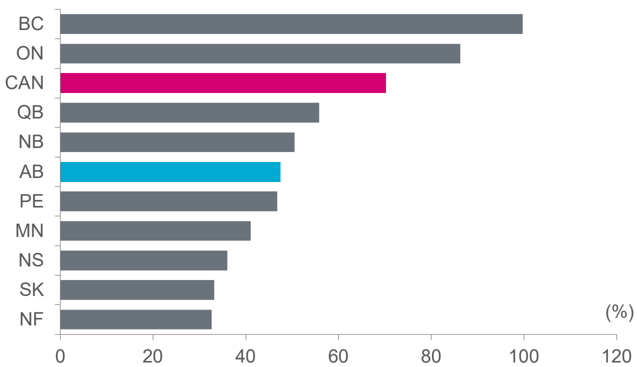
Sources: Statistics Canada, Haver Analytics, TBF calculations

Affordability driving migration to Alberta

Alberta's more affordable housing relative to other provinces has become a significant factor behind strong migration into the province in recent years. The average sold house price in Alberta was $461,153 at the end of 2023, 31% below the Canadian average of $670,025 and almost 50% lower than the least affordable provinces of Ontario and BC. At the same time, average weekly earnings in Alberta were $1,290, 5.8% higher than the $1,220 for Canada. Ignoring taxes and household size, a typical Canadian would have to dedicate 70% of their monthly earnings to a mortgage when purchasing the average priced home in Q1 2024, compared with 47% for an Albertan (Chart 3).

CHART 3: ALBERTA MORE AFFORDABLE THAN REST OF COUNTRY

Share of earnings to cover mortgage payments



Sources: CREA, CMHC, Statistics Canada, Haver Analytics

Rents in Alberta are also more affordable than other markets. In the 2023 Canada Mortgage and Housing Corporation's rental report, average two-bedroom apartment rent was more than 15% higher in B.C. and Ontario than in Alberta. More recently, rent for vacant 1-bedroom listings in Alberta's major centres, as measured by Urbanation and Rentals.ca, has remained below the Canadian average since the start of 2024.

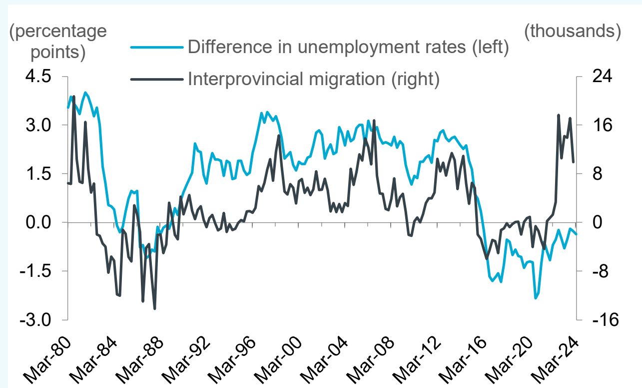
With housing in Alberta relatively more affordable, the province began to see net inflows of interprovincial migrants. In 2021, the gap between Canada and Alberta in the share of earnings to cover a mortgage reached 25 percentage points. These inflows surged in 2022 as the gap widened further to 30 percentage points. The combined share of migrants coming from B.C. and Ontario, where housing affordability is a bigger concern, has never been higher. Additionally, there's been a change in the composition of migrants coming from other provinces. In previous population booms, men made up around 60% of interprovincial migrants, but this time the gender split is roughly equal, supporting the shift from economic to affordability drivers (see Box). Housing affordability is also attracting international immigrants to settle in Alberta. While immigration targets and flows are set at the federal level, Alberta's share of Canadian immigrants was only higher in the early 1980s and around the 2014 boom.

Labour market conditions are no longer the primary driver of migration

Historically, interprovincial migrants were attracted to Alberta by differences in provincial labour markets. Typically, Canadians moved to Alberta when Alberta's unemployment rate was below the national average and vice versa. However, this relationship broke down after the pandemic. Alberta's unemployment rate has held above the national average since the pandemic, yet interprovincial migration surged (Chart A). Additionally, the gap between average wages in Alberta and Canada has narrowed, reducing economic incentives to move. In fact, average wages in Vancouver and Toronto are now comparable to Edmonton and Calgary.

CHART A: MIGRATION DRIVERS CHANGED

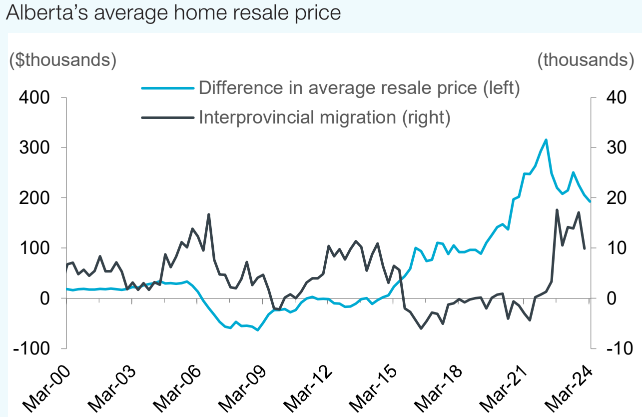
Interprovincial migration and the difference between Alberta's and Canada's unemployment rate



Sources: Statistics Canada, Haver Analytics

CHART B: MIGRATION DRIVERS CHANGED

Interprovincial migration and the difference between Canada's and Alberta's average home resale price



Sources: Statistics Canada, Haver Analytics

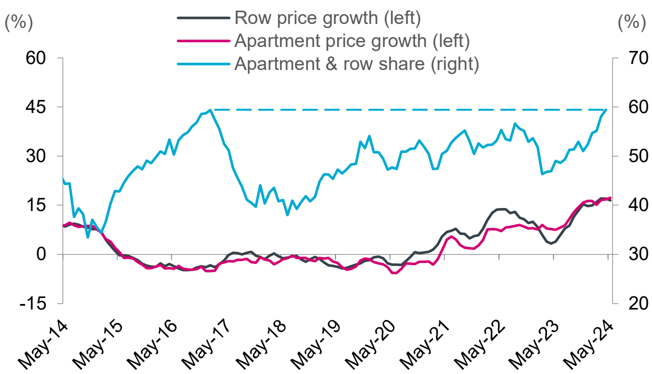
Alberta

Growing demand for more affordable housing

The change in the composition and motivations of migrants has resulted in a significant change in the type of housing demand. Historically within the new housing market, sales of single- and semi-detached homes outpaced row and apartment units. However, sales of more affordable row houses and apartments have made up more than half of new house sales since the pandemic and surged in 2023 (Chart 4). After declining for years, Alberta's benchmark price for apartments and row houses has risen 22% and 20% respectively since the start of 2023 as buyers focused on these property types. In comparison, the price of Alberta's benchmark single-family was up 13% over the same period.

CHART 4: STRONG DEMAND FOR APARTMENTS AND ROW HOUSES

Share of new sales and year-over-year price growth



Sources: CMHC, CREA, Haver Analytics

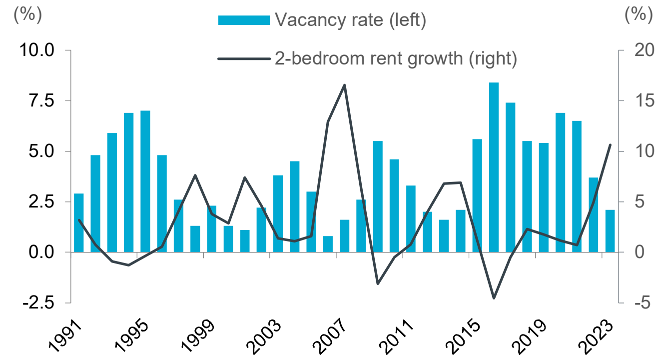
Demand has also increased for rental units due to the strong influx and composition of migrants. Immigrants and NPRs comprise almost three-quarters of Alberta's recent population growth and tended to be renters in the 2021 Census. As migration took off in 2023, Alberta's rental vacancy rate in urban centres fell to 2.1% (Chart 5), the lowest over the previous decade, and average two-bedroom rent grew 11% y/y to $1,448, the third fastest growth in Canada.

Builders responding to tight market

Builders are responding to this historic demand, with housing starts reaching a pace last seen in 2008. Alberta's housing starts have averaged a seasonally adjusted annualized rate (SAAR) over 44,000 homes in the past six months. In turn, the number of dwelling units under construction and the amount of residential construction investment have remained elevated after soaring to record levels. At the same time, building permits have continued to be strong.

CHART 5: RENTAL MARKET TIGHT

Alberta rental vacancy rate and rent growth

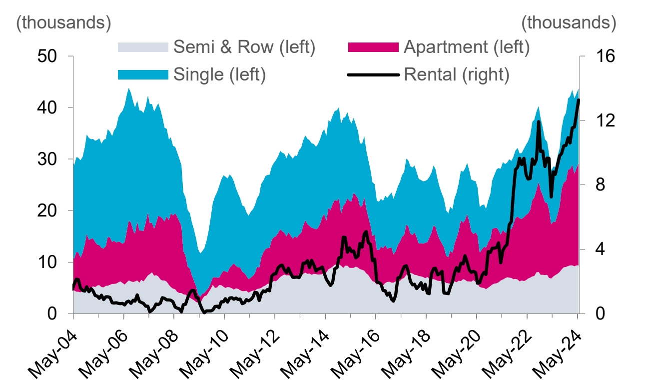


Source: CMHC

As housing starts hit an elevated pace, their composition shifted to reflect the changing demand. Since March 2022, over half of housing starts are for multi-units, which are more affordable and reflect the low inventory for these units. This contrasts with prior construction booms when single-detached homes made up most construction (Chart 6). Additionally, the number of purpose-built rental unit starts has never been higher, mirroring the low rental vacancy rate and the tendency of immigrants and NPRs to rent when they arrive.

CHART 6: NEW SUPPLY FOLLOWING DEMAND

Alberta housing starts by dwelling (SAAR) and market type, 6MMA



Sources: Statistics Canada, Haver Analytics

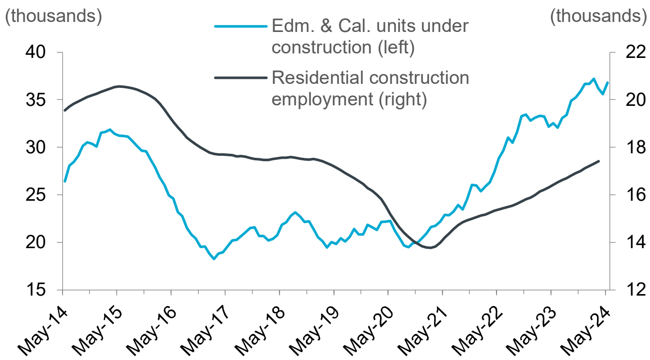
Employment and costs holding back construction despite boom

Home builders continue to face challenges, even as they've ramped up the pace of construction. Availability of skilled labour remains a constraint. Although residential construction employment rose steadily out of the pandemic, employment growth has not kept up with construction. Employment remains below 2018 levels even as the units under construction hit new highs (Chart 7); in February the number of homes under construction per worker hit an all time high at 2.2. With the tight labour market, average weekly earnings in residential construction rose 5.0% in 2023, on top of 4.3% growth in 2022.

For more information on the construction labour market, please see [Labour Market InSight: Strength in the construction sector].

CHART 7: EMPLOYMENT BELOW 2018 LEVEL EVEN AS CONSTRUCTION TAKES OFF

Units under construction and construction employment



Sources: Statistics Canada, Haver Analytics

Supply constraints have also weighed on the builders' response, limiting building activity and driving up prices. The average construction length for single-detached homes, a proxy for the impact of constraints, rose during the pandemic and peaked in April 2023 at 9.4 months. As shortages eased, construction lengths fell to 7.5 months in May 2024, close to the 2014-2019 average of 7.4 months, but material prices remain elevated. The residential building construction price index, which includes the cost of material, labour, and contractor profits, rose by about 72% in Calgary and 56% in Edmonton since the start of the pandemic.

In the broader construction sector, rising costs have weighed on profitability. Based on tax receipt data, higher costs shrunk construction corporate margins in the fiscal 2022-23 year (see [Economic Spotlight: Corporate income tax revenue hits all-time high in 2022]). 88% of Alberta construction firms reported cost obstacles in the Q2 2024 Canadian Survey of Business Conditions and firms have been more likely to report a fall in profits than an increase since the survey started in 2021. Furthermore, rising costs have been compounded by higher interest rates as builders face higher financing costs for building and have an increased risk of holding unsold inventory for longer.

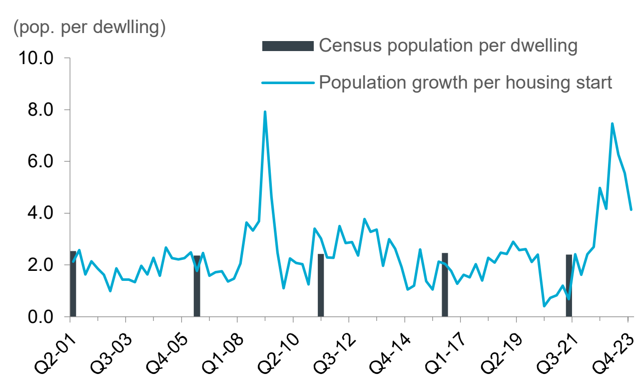
The market will take time to adjust as builders confront these obstacles. The Alberta government is forecasting around 40,000 homes to start construction in each of the next two years as supply catches up to demand.

Demand has outpaced supply

With the residential construction sector contending with capacity constraints, housing starts are not keeping up with demand. In the fourth quarter of 2023, there was one housing start for every 4.1 new Albertans. In comparison, every Census since 2001 recorded approximately 2.5 people per dwelling. Since the start of the population boom in the middle of 2022, demand has outpaced supply, and the ratio of starts to new Albertans has held well above 2.5 (Chart 8). With construction lagging the strong population growth, inventory of new homes in Calgary and Edmonton fell from a monthly average of 5,014 units in 2019 to an average of 2,758 units over 2023. Declining inventories have been concentrated in lower priced homes with demand for affordable units outstripping new supply. Within the new housing market, 16% of unsold homes were priced below $400,000 in 2023 compared to 50% of homes in 2019 as buyers took affordable units off the market.

CHART 8: SUPPLY FALLING BEHIND DEMAND

Alberta population per dwelling



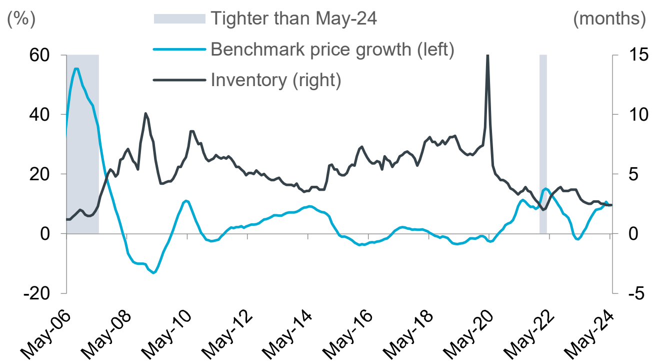
Sources: Statistics Canada, Haver Analytics

Tight market pushing prices higher

With housing demand outpacing the growth in supply, the real estate market has tightened significantly and prices have moved higher. Aside from early 2022, before the Bank of Canada raised interest rates, high sales within the resale market drove inventory down to levels last seen in 2007. Alberta's resale market is the tightest in Canada with the sales-to-new-listing ratio holding well above 70 since the start of 2024. Sales for newly built homes have also been strong and inventory of finished homes is low. The tight market has put upward pressure on prices even as higher interest rates have weighed down prices in other parts of Canada. Alberta's benchmark house price has hit a new record every month since June and has been growing above 7% y/y since October (Chart 9).

CHART 9: MARKET TIGHTEST SINCE 2007

Year-over-year price growth and inventory, seasonally adjusted

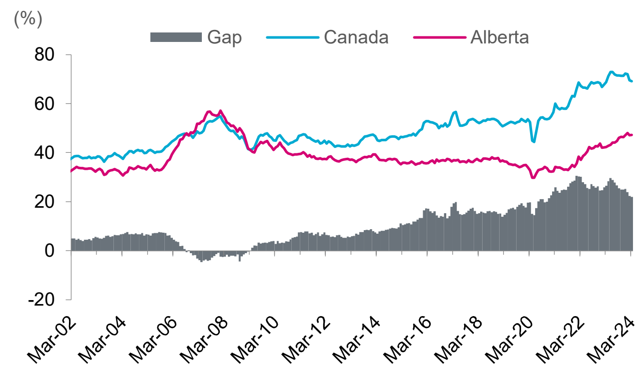


Sources: Canadian Real Estate Association, Haver Analytics

While Alberta is still affordable compared to the rest of Canada, the gap is narrowing as Alberta's home prices rise. The share of monthly earnings to cover a mortgage for the average priced home rose to 47% by the end of 2023, up from around 33% in 2021 and the highest since 2008. Calgary, due to its tighter real estate market, experienced the fastest price growth in the province and the share of earnings to cover a mortgage rose to 55% at the end of 2023 from 38% in 2021. Meanwhile, Edmonton has risen to 39% of earnings, up from 30% in 2021. In contrast, benchmark prices in other regions have either declined or held flat over the same period, improving their relative affordability. However, Alberta's prices remain much lower and the affordability gap remains wide despite the recent narrowing (Chart 10).

CHART 10: ALBERTA AFFORDABILITY ADVANTAGE HAS NARROWED BUT STILL THERE

Share of earnings to cover mortgage cost



Sources: CREA, CMHC, Statistics Canada, Haver Analytics

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