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Calgary used to be regarded as affordable. Now, that advantage is slipping away

From housing to energy to food, everything is going up. Here's how Alberta — especially Calgary — is losing its affordability advantage in seven charts

Matt Scace || May 15, 2024

Alberta has been long viewed as a bastion of affordability — one of Canada's last, particularly in recent years.

But that narrative is facing an existential challenge, most glaringly in Calgary.

Economists agree Calgary's housing market is the hottest in the country. Vacancy rates are at historic lows and rents are projected to reach Toronto levels in a few years. As is the case across the country, people's money isn't going as far.

Charles St-Arnaud, chief economist at Alberta Central, poses in the company's Calgary office on Friday, April 26. Jim Wells/Postmedia

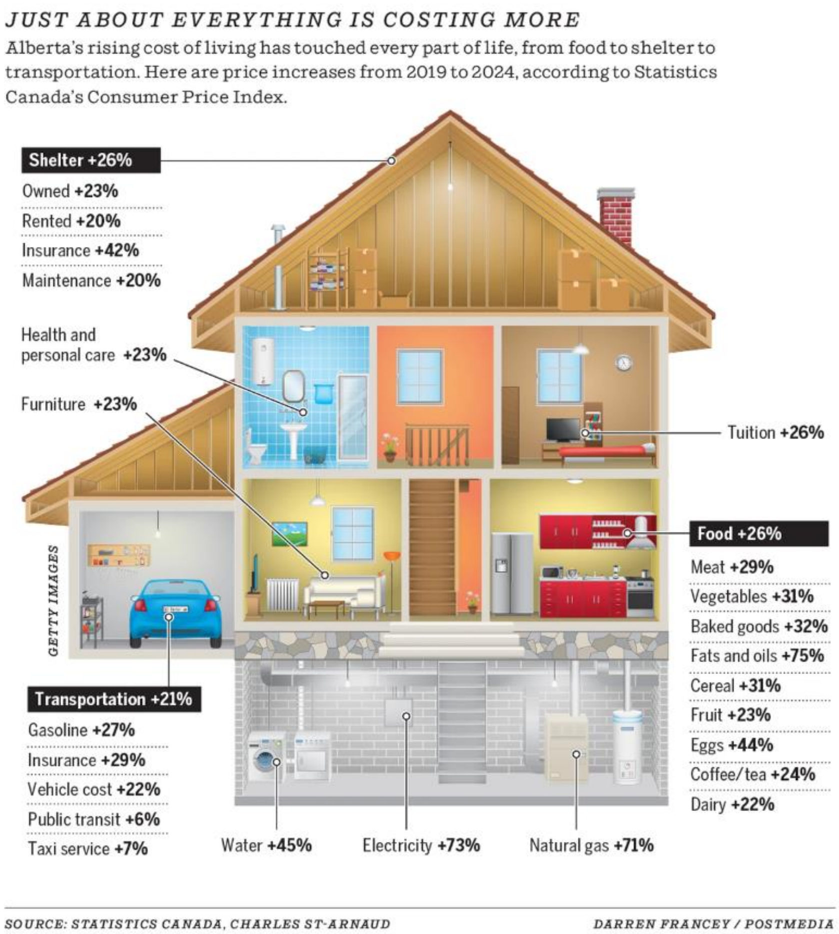
Like a fizzed-up pop bottle, Canadians have responded by ditching cities like Toronto and Vancouver for the Prairies in mind-numbing figures. Last year alone, a population the size of two Red Deers fanned out across the province to make Alberta their home.

Charles St-Arnaud worries Calgary's destiny is already sealed. In the current market, the Calgary Real Estate Board and other homeowner associations will note that Calgary's housing prices still trail major city centres.

The former economist at the Bank of Canada says that may not last for long.

"The way it's going, I feel that we are converging with the national average — that might be the end game," he said in an interview.

St-Arnaud, now chief economist at Alberta Central, is one of several economists who have noticed Calgary and Alberta's affordability advantages slipping away. And it's happening in more ways than one.



Up, up and away

Inflation has spared no Albertan or Canadian since 2019. Over the past five years, prices have risen by double digits for almost all of the goods that power daily life.

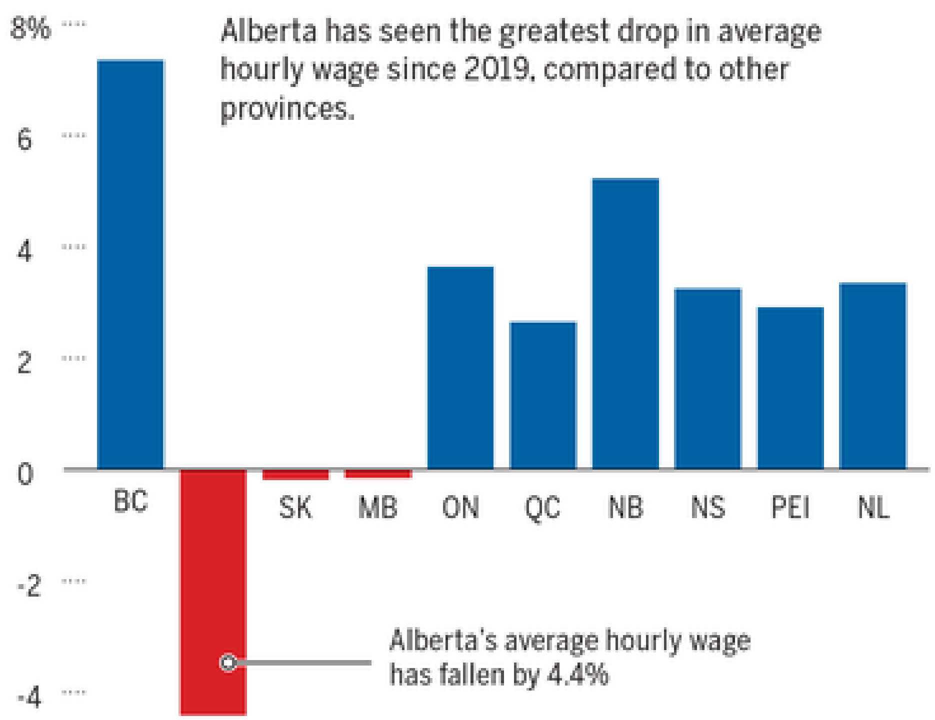
Over that time, shelter costs and food in Alberta have risen 26 per cent. So has tuition. The cost of moving from place to place has gone up 21 per cent.

However, signs show overall inflation is slowing down. The 12-month percentage change in prices for Albertans was 3.5 per cent in March. Economists generally agree two-per-cent yearly inflation is the most sustainable rate of growth — and would likely be the mark Canada needs to hit for the Bank of Canada to begin cutting interest rates.

But the harsh reality of inflation is that these prices are here to stay, Trevor Tombe, economist with the University of Calgary, said in an interview with Postmedia.

"The higher-than-two-per-cent inflation we've been living with for the better part of two years has meant that price levels have potentially ratcheted up to a permanently higher trajectory," Tombe said.

The wage slump



Source: Charles St-Arnaud, Statistics Canada

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Across most provinces, the average worker has seen their wages steadily rise since 2019 by a few percentage points.

The same cannot be said for Alberta, where the average hourly wage has dropped by 4.4 per cent over the five-year span. In B.C., wages have risen 7.3 per cent. Across Canada, the average worker is earning 2.4 per cent more.

It's given a sharper edge to a trend generally observed since 2015 in which wages in Alberta have underperformed compared to the rest of the country, St-Arnaud said. The oil and gas industry isn't to blame, he said; the trend runs across almost every industry and age bracket of the labour force, and is largely due to weak investment over that nine-year stretch.

But St-Arnaud said this trajectory could be altered for the better if investments in the energy transition sharply increase in the coming years.

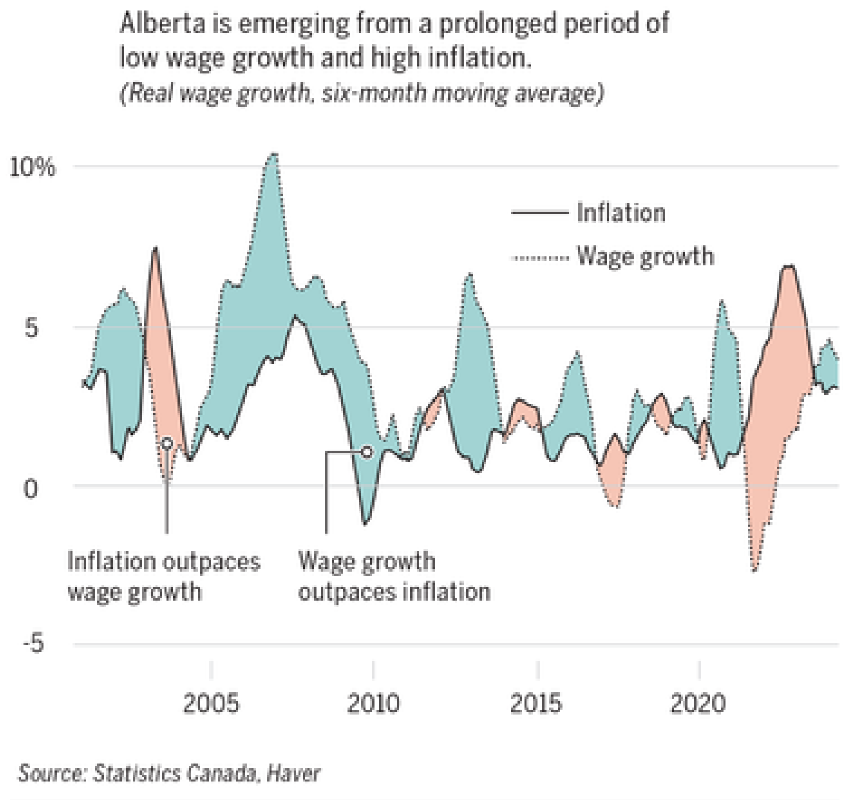
The current government has avoided committing to raising the minimum wage and the issue has animated debate during the current Alberta NDP leadership race.

Overall, Albertans' income is still higher than the Canadian average. In 2019, that advantage was about 13 per cent more than the national average. That difference has dipped to six per cent.

The wage deficit

As inflation ascended to astonishing heights over the past three years, the gap between inflation and wage growth in Alberta plummeted to lows not seen in the 21st century.

As inflation peaked in 2022, Alberta was clawing back wage losses not experienced this millennium, resulting in a startling gap between inflation and wages. That deficit has recently stabilized with the two markers converging in 2023.



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Boosting the minimum wage isn't a catch-all solution to reversing Alberta's wage woes, said Alicia Planincic, economist at the Business Council of Alberta. The province's $15 minimum wage is the third-lowest in Canada and has been frozen since October 2018. Groups including the Alberta Federation of Labour and Vibrant Communities Calgary have argued Alberta should raise the minimum wage to help Alberta's lowest-income groups.

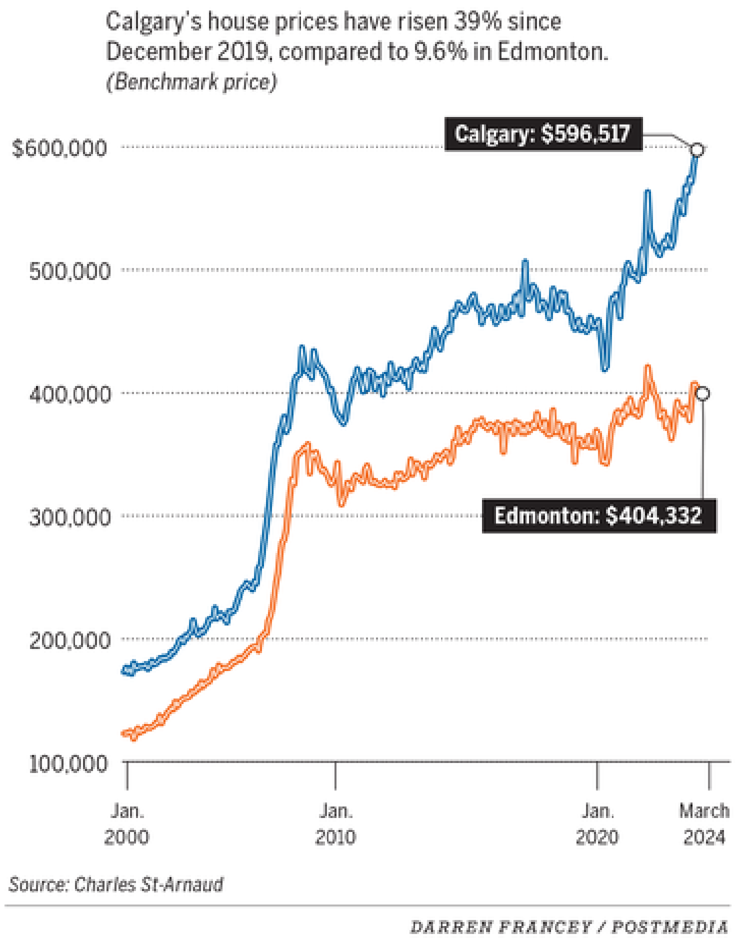
Similarly echoing St-Arnaud, broad investments across sectors — which have been notably stagnant for several years — are needed to bring wage growth in Alberta back to life, she said.

She instead looks to overall productivity, measured by GDP per hour worked, as the leading indicator that determines Alberta's wage growth. Canada's productivity levels have been deemed a long-standing issue. (Carolyn Rogers, senior deputy governor of the Bank of Canada, said in March it's "time to break glass" to fix the country's productivity problem.)

"I think the much bigger factor is the strength of the economy, which has really waned since 2014, 2015," she said.

"With that, the Alberta advantage, quote-unquote, has sort of slipped away."

The east-west correction



Calgary's suburban-heavy makeup has for decades offered an affordable option compared to other major Canadian cities.

It's no secret that advantage has taken a hit.

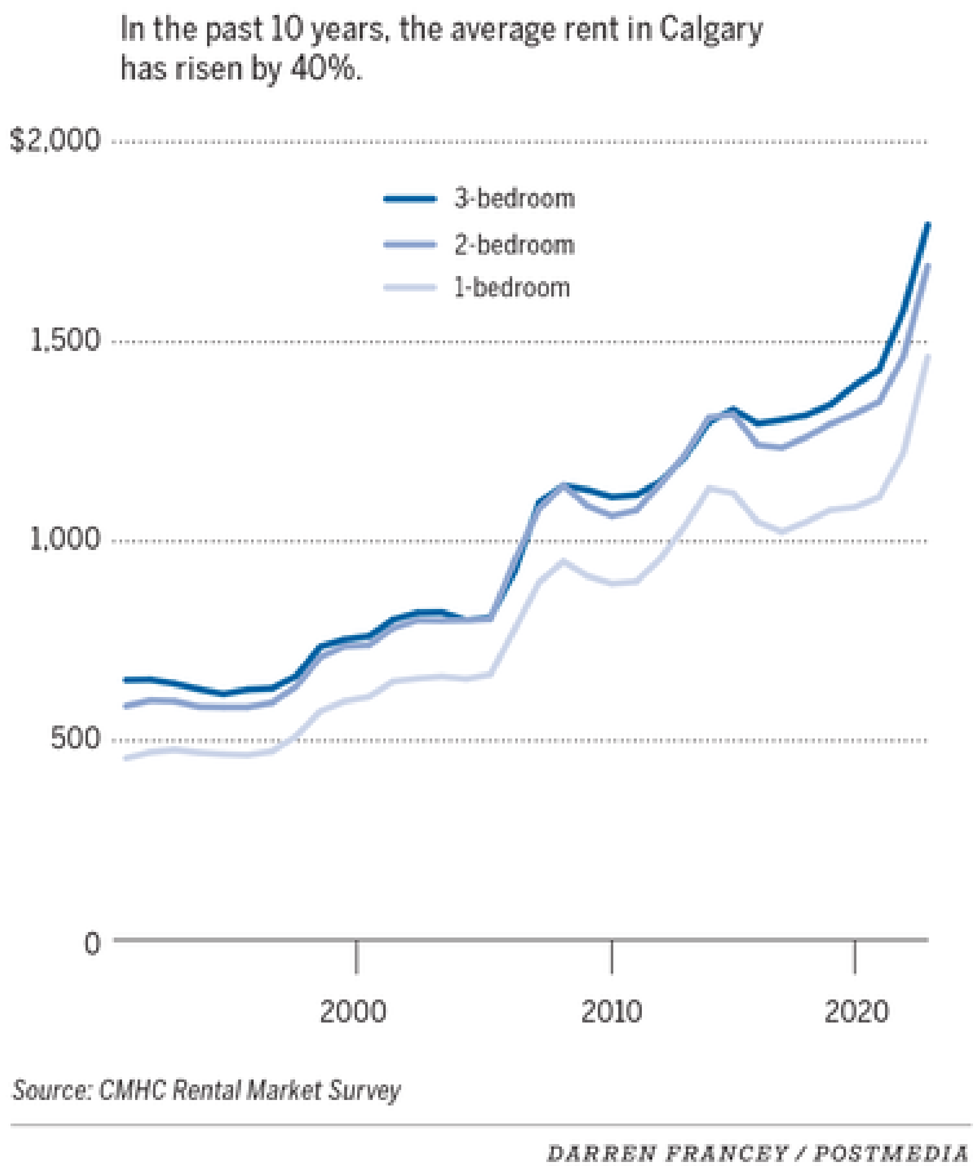
The easiest way to view that change is through average home prices. The seasonally adjusted benchmark in Calgary hit $652,541 in March, according to the Canadian Real Estate Association (CREA). That's up from $458,099 in March 2019.

Since December 2019, Calgary's home prices have risen 39 per cent — the second-most in Canada only behind Montreal (43 per cent).

The sheer velocity with which B.C. and Ontario's housing markets have skyrocketed has had a rapid effect on Calgary's home prices, St-Arnaud said.

"If there's a mispricing, people will go and correct it," he said. "It's a bit harder in housing because you don't transplant yourself and your family that easily. But we're at the point where people in Toronto and Vancouver are like, 'I don't care if the cost is high to transplant my family, at least I can live somewhere.'"

Rents go for a run



Less than eight years ago, evenly splitting a two-bedroom apartment in Calgary would put you down about $600 a month. Living solo, typically more expensive, cost just over $1,000 each month.

Fast forward to late 2023, and Calgary's rents were speeding toward reaching Toronto's average rates by next year.

Today, evenly splitting a two-bed unit costs the average tenant about $850 a month — $1,691 total per month — according to CMHC's figures for October 2023. A one-bedroom unit in Calgary, meanwhile, costs on average $1,463.

“Alberta has just seen incredible growth in terms of people, and the stock has just not been able to keep up,” said Rachel Battaglia, economist at the Royal Bank of Canada. “You’re seeing it in ownership, but then you’re also seeing it in rental.”

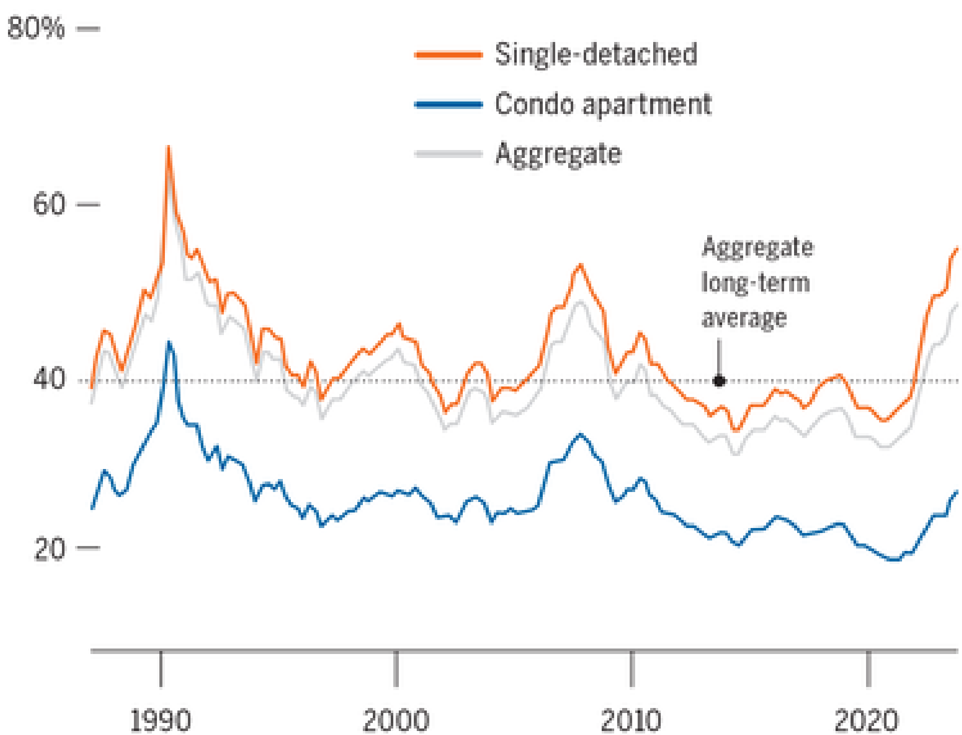
CMHC’s estimates are likely conservative, especially for renters getting into the market.

According to Rentals.ca, the average two-bedroom rent in Calgary was $2,101 in April — an 8.8-per-cent increase from last year.

(Rentals.ca’s data is based on recent monthly postings for primary and secondary rental markets, while CMHC’s data only includes purpose-built rentals. Rentals.ca claims its rental rates are a better reflection of what rents a prospective tenant would encounter, while CMHC numbers are a stronger show of what the average household currently spends on rental housing.)

Incomes becoming no match for ownership costs

The share of a median income needed to cover ownership costs of a single detached home in Calgary was 54.9% at the end of 2023. For a condo apartment, it was 26.3%. The aggregate was 48.3%.



Based on Calgary median pre-tax annual income of $94,440.
Source: RBC Economics

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Imagine the following: Your household makes $94,440 a year before taxes.

With that income, you would now have to fork over nearly half of that, if not more, to cover home ownership costs alone, according to an analysis by RBC. Economists generally agree that number should be about 30 per cent.

At 48.3 per cent, Calgary has climbed 4.5 percentage points in the past 12 months — the second-fastest growth in Canada behind the Vancouver area, and nine percentage points higher than Calgary's average score since 1985.

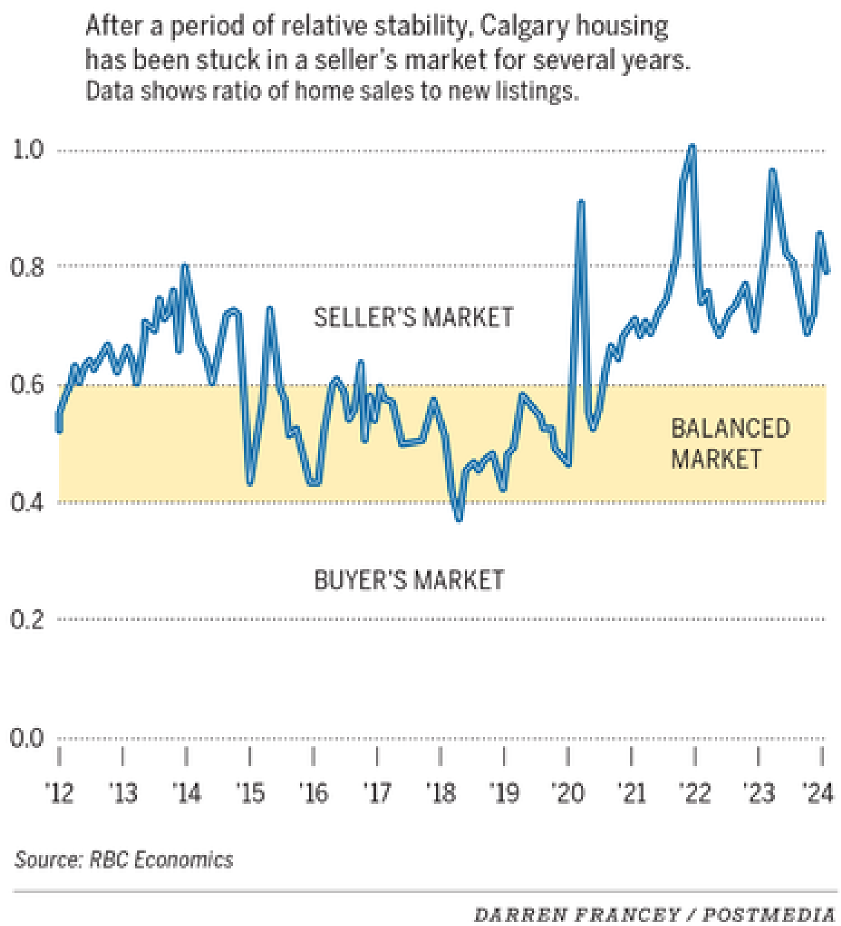
"Calgary has seen quite the erosion to housing affordability," said RBC's Battaglia, adding Calgary still doesn't stack up to the crises seen in Toronto, Vancouver, Victoria and Halifax.

RBC's affordability measure for Calgary has rapidly deteriorated over the past three years, reaching the end of 2023 at its worst level since 2007.

Even so, Calgary fares better than the national average. Canadians would currently need to dedicate nearly two-thirds of their income (64 per cent) to cover ownership costs.

Meanwhile, Calgary isn't even close to hanging with Vancouver's housing market. At the Lower Mainland city's annual pre-tax income, households in Vancouver require a whopping 106 per cent of their income to cover ownership costs.

The bidding war zone



If you're not one of them, most Calgarians know someone who's entered the housing market in the past three years. It's arduous — an experience that's become a feature, not a bug, of the market in recent years.

"Calgary is in a seller's market right now," Battaglia said.

Housing prices indicate Calgary is still relatively affordable compared to Vancouver or Toronto. But the battle to find a home has become more tenuous, Battaglia said.

While demand is hard to track, the ratio of home-sales-to-new-listings is one of the better snapshots capturing which party has the leverage in a given market. A balanced market occurs when that ratio is between 40 and 60 per cent. Under 40 per cent, it's a buyer's market.

Above 60 per cent — meaning there are more people interested in buying a home than there are — and sellers are in the driver's seat. Those are breeding grounds for price wars, Battaglia said.

Calgary's ratio has neared 100 per cent twice in the past two years and currently sits around 80 per cent.