

# HOUSING MARKET INSIGHT

## Alberta



CANADA MORTGAGE AND HOUSING CORPORATION

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*“Experience from previous natural disasters in Alberta suggests that many of the destroyed structures will be rebuilt. Fort McMurray will likely be no exception. Expect increased construction activity in the new home market and declining vacancy rates in Fort McMurray’s rental market over the near to medium term.”*



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## Fort McMurray reconstruction will be strong, but unlikely to begin in earnest this year

*In May 2016, Fort McMurray experienced wildfires that destroyed approximately 10 per cent of the structures in the city. Damage from the fire was unevenly distributed: neighbourhoods such as Waterways and Beacon Hill experienced losses of more than half their structures, while other neighbourhoods were not as severely affected. Prior to the fire, the Fort McMurray housing market had slowed down due to weak economic conditions from the oil price decline, and housing supply outpacing demand. The average resale price had fallen 17 per cent since first quarter 2014. Sales transactions were half the five year average, continuing a sharp declining trend that began in 2014. Experience from past disasters such as the Slave Lake wildfire suggests that most destroyed housing units will be rebuilt. If all units in Fort McMurray that were destroyed are rebuilt, a very high level of construction activity will be recorded over the rebuild period. However, due to the time required to complete the clean-up and insurance claim processes, there will be a delay in rebuilding with the expectation that a large number of replacement homes will begin construction in 2017. In the meantime, it is expected that homeowners and those involved in the rebuilding will take up rental accommodation,*

putting downward pressure on the vacancy rate. With respect to resale prices, at this point it is too early to definitively identify a trend in resale prices; however, the reduction of inventory and potential of displaced homeowners entering the resale market could stabilize home pricing.

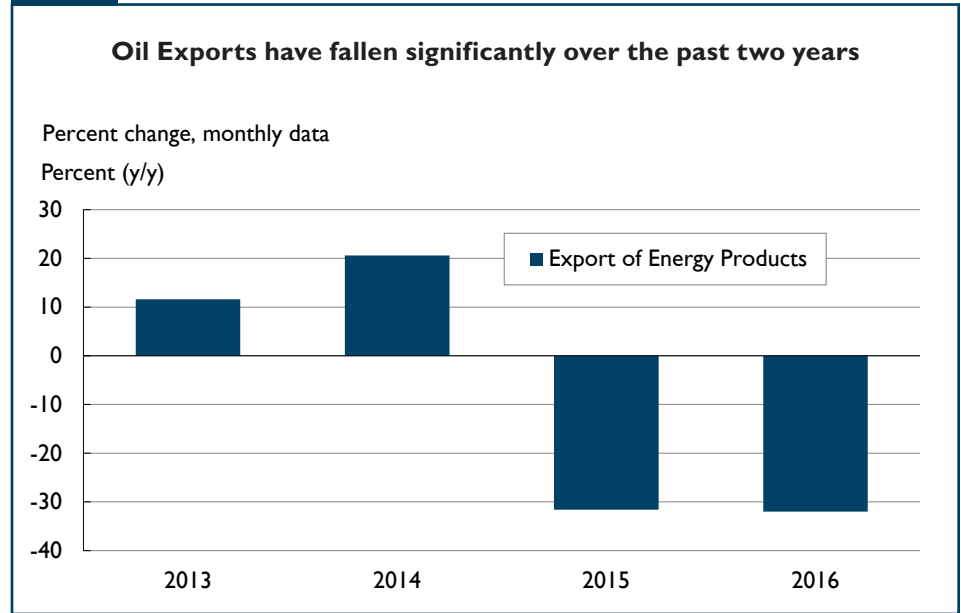
## Introduction

Wildfires that forced residents of Fort McMurray to evacuate their homes in May 2016 have captured the attention of the nation. Many are asking how housing markets in Fort McMurray will evolve after the fire. Prior to the fire, a large decline in the price of oil reduced investment, employment, and the value of exports. This has led to an overall economic slowdown in the Fort McMurray region. As a result, housing market conditions in the city have been favouring the buyer. Experience from previous natural disasters in Alberta suggests that strong rebuilds generally follow these events and Fort McMurray will likely be no exception. Although home prices will face headwinds from low oil prices in the medium term, the new construction and rental markets will make strong gains in the near to medium term as rebuilding efforts get underway.

## Economic Background

Fort McMurray was negatively impacted by the decrease in oil prices over the last two years. This has pressed both the provincial and local governments as oil companies have scaled back investment<sup>1</sup> in the region and reduced employment. Export of energy products in Alberta, the province's and Fort McMurray's main export, fell 31 per cent in 2015<sup>2</sup>. Unemployment in the Wood Buffalo / Cold Lake Census Agglomerations

Figure 1



Source: Alberta Treasury Board and Finance, Economics and Revenue Forecasting, Last observation: May 2016  
Note: 2016 is a year-to-date number

(CA) reached 10.2 percent this April<sup>3</sup>. Unlike the fires in Slave Lake or the flooding of 2013, the fire in Fort McMurray has occurred during an economic downturn. The price of oil has recovered from its trough in January<sup>4</sup>, and the consensus of forecast is that oil prices will gradually rise in the short to medium term. It is projected that bitumen production, the main energy product created in Fort McMurray, will increase in this period<sup>5</sup>.

## Housing Market before the Fire

Economic conditions have negatively affected the housing market. New housing starts in 2015 totalled only 74 units for both the single- and multi-family sectors. This represents levels not seen since 1997. Starts thus far in 2016 have been equally weak. Year to date, only 13 starts have been recorded. In the resale market, there were 43.5 per cent fewer sales in 2015 compared to 2014. In addition, sales in 2015 were half the average annual sales over the previous five

years. First quarter resales in 2016 declined even further with only 155 units sold. This continued a sharp declining trend that began in 2014. The average MLS<sup>®6</sup> price in the first quarter of 2016 was \$504,097, compared to \$608,738 two years prior; moreover, the annual average MLS<sup>®</sup> price has been declining since 2013. In the rental market, same-sample rents<sup>7</sup> for apartments declined 12.7 per cent from 2014 to 2015 and the vacancy rate in October 2015 reached 29 per cent in Fort McMurray<sup>8</sup>.

## Effects of the Fire

The Regional Municipality of Wood Buffalo revealed that 1,928 structures have been destroyed<sup>9</sup> which is roughly 10 per cent of all structures in Fort McMurray. This includes single detached homes, semi-detached homes, row homes, condos, and non-residential structures. Although the fire did not destroy any major public infrastructure such as the Northern Lights Regional Health Centre or the Fort McMurray

International Airport, these facilities did suffer some damage.

The number of housing units destroyed may be larger than the number of structures lost. The reported residential damage has been unevenly distributed amongst the neighbourhoods of Fort McMurray. Waterways and Beacon Hill have received the most damage: 90 per cent of all homes in Waterways were lost, Beacon Hill lost 70 per cent of all homes, and Abasand lost 50 per cent of its homes. Other neighbourhoods received considerably less damage. Some neighbourhoods, including downtown, appear relatively unaffected. The mayor of Wood Buffalo has suggested that reconstruction may not occur in the most heavily affected areas<sup>10</sup>, likely due to destruction of roads, water pipes and other city infrastructure as well as the geography of the affected neighbourhoods.

The Conference Board of Canada estimates that the fire resulted in a loss of 1.2 million barrels of oil production a day during the fire<sup>11</sup>. While oil production has declined, it was reported that no pipeline infrastructure has been damaged.

## Anticipated Housing Market Response

How the housing market reacts to the wildfire will depend on several factors. Such factors include the nature of government relief, underlying economic growth and net migration from the city. Effects will also vary between the rental, new home and resale market. There will be positive developments in the near to medium term for the rental and new home markets, while the direction of the resale market is less certain.

## Government Response

The federal government, through its Disaster Finance Assistance Arrangements (DFAA), will distribute

\$300 million to be administered by the province and the municipality<sup>12</sup>. DFAA funds can be used to repair both public infrastructure and private dwellings<sup>13</sup>. Specifically, DFAA funds can be used on private dwellings that are primary residences, where the repairs or replacement is not covered by insurance or another government program. This relief effort should further encourage those who have lost their homes to rebuild.

## Rental Market

Rental vacancy rates are expected to decline as people return to Fort McMurray. People who have had their homes destroyed, but plan to remain in the city could move into rental apartments, which were relatively unaffected by the fire. Of the 46 rental buildings managed by Fort McMurray's four largest holding groups, none have been destroyed. This will contribute to rental demand and put downward pressure on Fort McMurray's elevated vacancy rate. Further downward pressure on vacancy rates will likely be created by construction workers

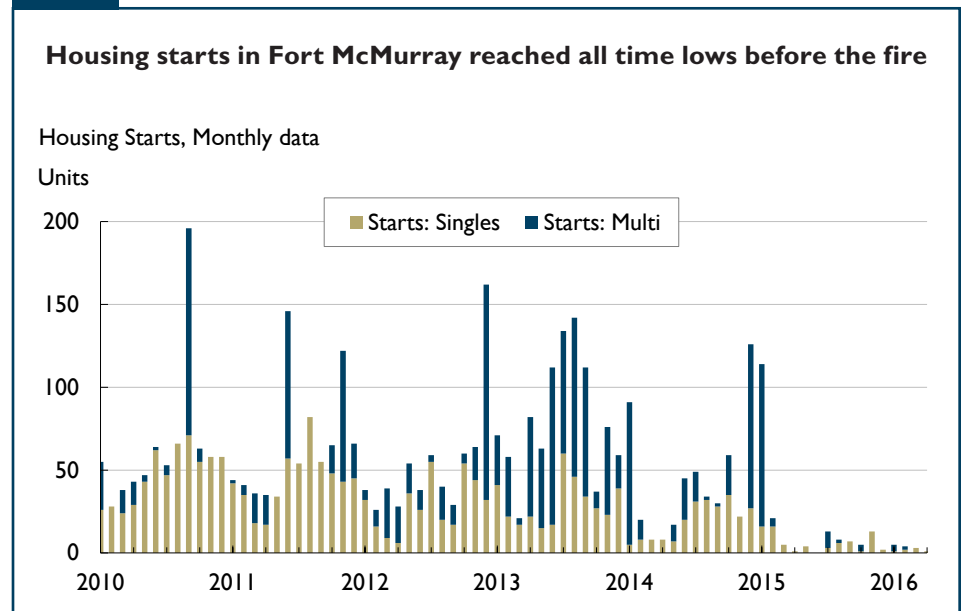
coming to Fort McMurray to rebuild. Given the falling vacancy rates, rents are unlikely to fall further this year as they have for the past two years.

Regional oil producers have opened up rooms in their work camps for affected residents, representing an alternative for rental accommodation. These camps are typically focused on industrial workers, and are not designed for families. Approximately 3,000 spaces are available in work camps; however, much of this capacity has gone unused as some camps are too far from Fort McMurray for residents to commute to and from<sup>14</sup>. The ability for companies to house their workers will have a small impact on the rental market in Fort McMurray.

## New Home Market

A heightened level of new construction is expected in the aftermath of the fire. The most extensive fire damage occurred in the city's residential suburbs, so replacement will cause a sharp increase in new home construction. If all homes that were destroyed are

Figure 2



Source: CMHC, Last observation: April 2016

Note: Multi-family units include Semi-detached, Row homes, Apartments and Condos.

rebuilt, there could be up to 2,500 housing starts<sup>15</sup>. This would be the highest number of starts on record, greater than the 2,200 starts recorded in 2007<sup>16</sup>. Renovations will also be on the rise, as repairs are made to buildings that suffered damage but were not destroyed.

Before construction can begin, fire cleanup must be completed. Many destroyed buildings were sealed with a heavy foam to ensure toxins from destroyed building materials did not leak into the air or water. This foam must be removed before work can begin. Insurance companies will have to evaluate the extent of the damage and determine an appropriate settlement. As such, a lot of replacement home starts will likely begin to occur in 2017. Such a lag in starts was observed after the Slave Lake wildfire in 2011<sup>17</sup>.

An expansion in starts could be mitigated by several factors. Prior to the fire, the Fort McMurray housing market was classified as being in declining market conditions with a low level of demand relative to supply and declining resale housing prices. Some people who have lost their home may decide to leave Fort McMurray altogether, perceiving better economic conditions elsewhere. As of writing, however, over half of the residents of Fort McMurray have returned to the city. Representatives of the work camps have reported that workers have begun to return as well, including workers from out of province. If areas that experienced the most damage like Waterways are not rebuilt, displaced families may opt to enter the resale market instead of rebuilding.

CMHC's previous Housing Market Outlook<sup>18</sup> included a forecast that suggested that the housing market was oversupplied, and that prices and home starts would continue to decline. However, due to the significant shock

to the market caused by the fires, a significant positive deviation from the previous forecast is expected for Wood Buffalo.

### Resale Market

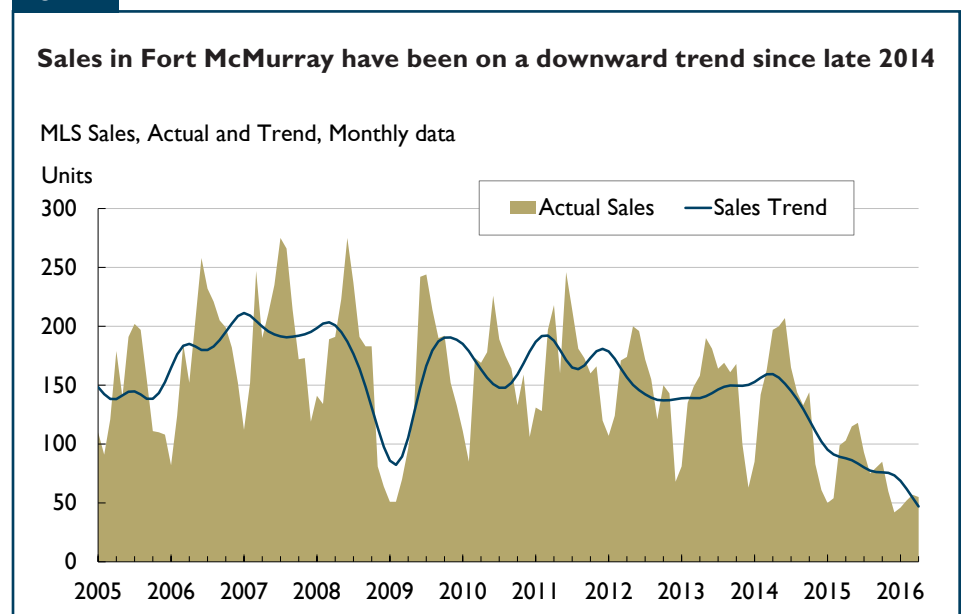
Resale activity, which had been subdued by weak economic conditions, is not expected to quickly return. Many prospective buyers will be busy recovering from the damage left by the fires. In addition, the pace of permanent job creation and the economic outlook continue to remain uncertain as energy investments have been reduced. MLS® inventory has declined, however this is not only due to the physical ramifications of the fire. Due to the absence of people in the city, large numbers of units simply expired from the MLS® and were not renewed<sup>19</sup>. These units may take time to return to the market, as sellers either renovate the home, repair minor fire or smoke damage, or wait for an emerging price trend in Fort McMurray. Buyers may also be waiting to see where prices go in the near term, and may be hesitant to purchase a

house at this time. It will likely take a few months in this period of uncertainty before sales and price trends emerge.

Although there is much unknown at this time, there may be reason to believe house prices will not continue their downward trend. It is likely some displaced residents will opt to purchase existing homes. All else being equal, new consumers in the market will increase the number of buyers relative to sellers, making housing units scarcer. This may provide some positive price support. This support, combined with a reduction in active listings, the recent history of price decline, and expected bitumen production trends, could provide a floor for prices and stabilize the Fort McMurray market, leveling the downward price trend that began sharply again in 2014.

However due to the declining market conditions in Fort McMurray before the fire, the emerging price trends, especially in the medium term, will depend on economic and housing

Figure 3



Sources: Canadian Real Estate Association and CMHC calculations, Last observation: April 2016  
 Notes: Trend data created using the Census X12 Seasonal adjustment method to retrieve a trend component, MLS is a registered Trademark of the Canadian Real Estate Association

fundamentals. Oil prices are a dominant market force in the region, which drives two major economic and demographic fundamentals: employment and migration. Current oil prices will create headwinds for house price growth in the medium term.

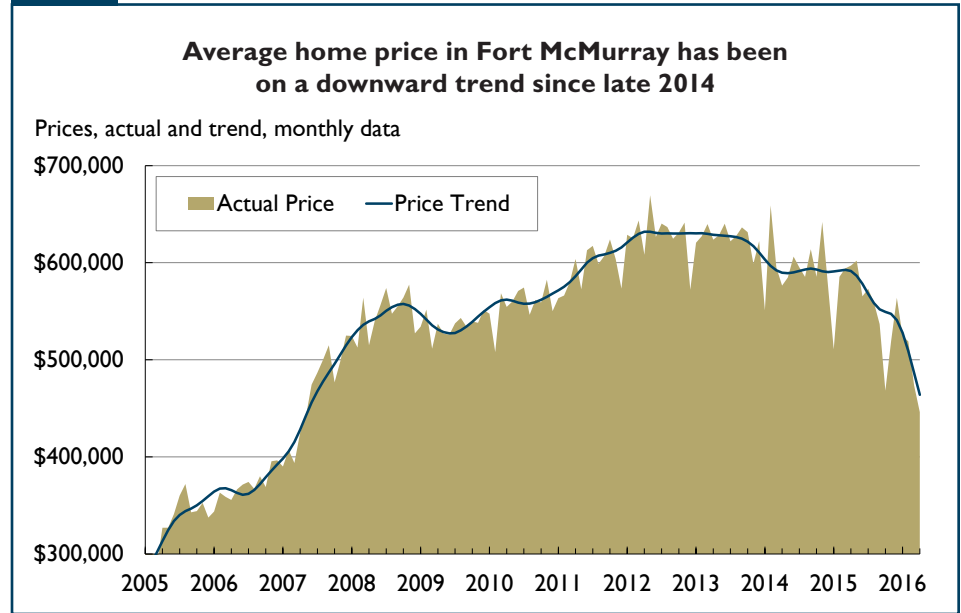
## Conclusion

In the short term, vacancy rates will fall as people who have lost their homes and construction workers take up temporary rentals. A significant increase in housing starts is expected due to the rebuilding of fire damaged structures, and this is expected to be the highest new home construction activity Fort McMurray has seen in twenty years. The resale markets could stabilize in the near term, ending a recent price and sales decline; however, it is too early to definitively predict price trends.

## Acknowledgements

CMHC recognizes the difficult situation the community of Fort McMurray is currently experiencing. We thank industry participants, members of government and all members of the community who have taken the time to consult with us in the creation of this report.

Figure 4



Sources: Canadian Real Estate Association and CMHC calculations, Last observation: April 2016

Note: Trend data created using the Census X12 Seasonal adjustment method to retrieve a trend component, MLS is a registered trademark of the Canadian Real Estate Association

## ENDNOTES

- <sup>1</sup> (Bank of Canada 2016)
- <sup>2</sup> (Alberta Treasury Board and Finance 2016)
- <sup>3</sup> (Statistics Canada 2016)
- <sup>4</sup> (Alberta Treasury Board and Finance 2016)
- <sup>5</sup> (National Energy Board 2016)
- <sup>6</sup> MLS® is a registered trademark of the Canadian Real Estate Association
- <sup>7</sup> When comparing year-over-year average rents, the age of the building needs to be taken into consideration because rents in newly-built structures tend to be higher than in existing buildings. By comparing rents for units that are common to both 2014 and 2015 October Rental Market Surveys, we can get a better indication of actual rent increases paid by most tenants.
- <sup>8</sup> (Canada Mortgage and Housing Corporation 2016)
- <sup>9</sup> Communication and Stakeholder Relations Team, RMWB, email message to author, June 21st, 2016
- <sup>10</sup> (Jones and Giovannetti 2016)
- <sup>11</sup> (Antunes and Bernard 2016)
- <sup>12</sup> (Government of Alberta 2016)
- <sup>13</sup> (Public Safety Canada 2016)
- <sup>14</sup> (Oil Camp Managers 2016)
- <sup>15</sup> At this point, it would be prudent to remind the reader that CMHC considers a house a new start if a new foundation is poured. If the existing foundation is serviceable, it is counted as a renovation. This will also reduce the number of new starts, but to what extent is presently unknown.
- <sup>16</sup> (Canada Mortgage and Housing Corporation 2016)
- <sup>17</sup> (Town of Slave Lake 2013), CMHC data and calculations
- <sup>18</sup> (Canada Mortgage and Housing Corporation 2015)
- <sup>19</sup> (Realtors 2016)

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