

HOUSING MARKET INSIGHT

Alberta



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"The rebuild has begun in earnest. So far, one third of the buildings lost in the 2016 wildfires have begun reconstruction. Additional workers from around Alberta are expected to assist in the rebuild, reducing vacancy rates. The rebuild is expected to last three to four years."



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Rebuilding effort well underway in Fort McMurray with one-third of lost units rebuilt

In May 2016, Fort McMurray experienced wildfires that destroyed nearly one in ten of all structures in the city. Since the wildfires, rebuilding has been strong in Fort McMurray, despite weak employment in the city's main industry, oil and gas. There have been 785 total starts this year, the majority of which are rebuilds. An additional 200 starts are expected by the Regional Municipality of Wood Buffalo (RMWB) pushing the total for 2017 close to 1,000. This would be one of the strongest years Fort Mac has seen for new home construction in the last ten. Residents displaced by the fire took up temporary accommodations in the primary rental market immediately after the fire. The apartment vacancy rate in Wood Buffalo dropped from 29.4% in 2015 to 17.8% in 2016. Vacancy rates will experience further downward pressure as workers from outside Fort McMurray come to assist with the rebuild. The resale market remains weak when compared to the last five years. This is likely due to lower activity and employment in the oil sands. Resale market activity will likely remain low until a rebound takes place in oil prices.

Introduction

In May 2016, Fort McMurray was afflicted with wildfires that destroyed around 2,500 housing units.^{1,2} Immediately after the fires, rebuilding Fort McMurray was not a question of if, but when.³ The rebuild has begun in earnest in 2017, with 785 units started in the first six months, and up to 1,000 units expected to be started by year end. Workers have been moving up to Fort McMurray to assist in the rebuild, creating demand for rental units. As such, vacancy rates are expected to decline again in 2017. The resale market has remained low by historical standards, as sales and average prices have fluctuated significantly from month-to-month. The resale market activity will likely remain subdued until oil price uncertainty dissipates and employment stabilizes.

Economic Background

Even before the wildfires, weak oil prices had caused firms to reduce investment and search for efficiencies, leading to layoffs in the region. The unemployment rate reached 10% in April 2016, and many residents left Fort McMurray to find work elsewhere. This put a damper on new home construction, home sales and rental demand, all of which were on track to record multi-year lows. In the aftermath of the fire, housing activity increased despite weaker economic conditions, as those impacted by the fires needed a place to live. Displaced residents found accommodation in rental units or in homes purchased on the resale market, providing a modest boost in activity.

In 2017, although the economy has shown some improvement, the outlook is uncertain. Oil prices have increased since they hit their trough in February of 2016. West Texas Intermediate crude oil, a

common benchmark used in North America, hit \$US 52 per barrel in February 2017. However, the price has struggled to remain above \$US 45 in the second quarter, as global supply continues to grow in spite of OPEC production cuts.⁴ The decline in oil prices will continue to impact the energy industry in Fort McMurray due to the relatively higher cost of extracting and processing oil sands. For instance, many greenfield projects require a price point of \$US 80 to profitably extract.⁵

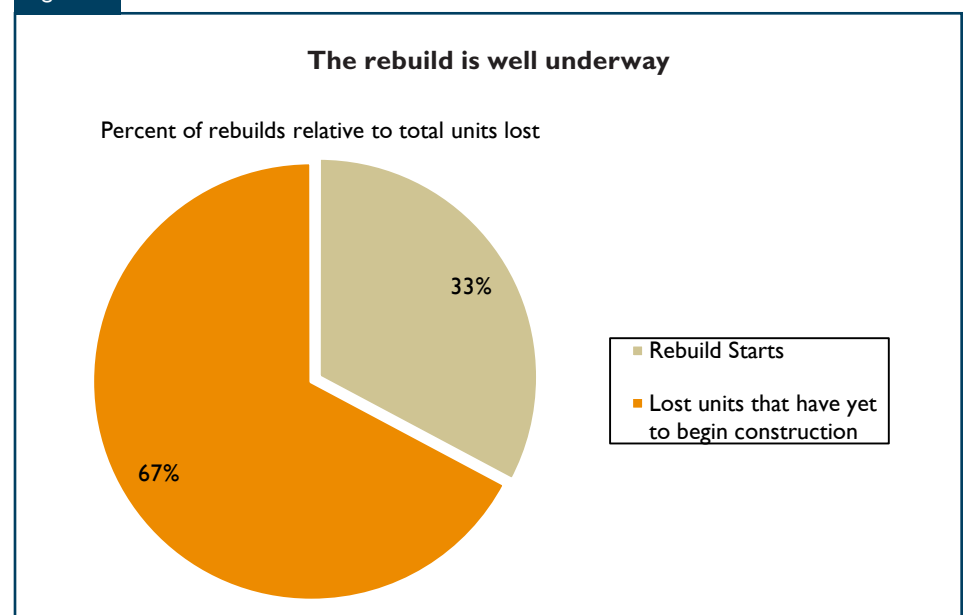
Oil and gas employment in the economic region still remains below the levels reached during the same period in 2015.⁶ The unemployment rate has declined since last year, reaching 7.7% in June, due to a small decline in the labour force.⁷ Although the unemployment rate is elevated, jobs are available in the city as a skill mismatch exists between currently unemployed workers and the roles needed to be filled. The Regional Municipality of Wood Buffalo (RMWB) has noted that employers unable to find labourers with the correct skill set in Fort McMurray have gone to

job fairs in Edmonton and Calgary. Long term employment prospects hinge on oil price certainty and future oil sands labour requirements. The current hope in Fort McMurray is that oil prices will push higher by the time the rebuild ends. Otherwise, the city will return to economic conditions similar to 2015. Some analysts also believe that the oil sands will require fewer workers in the future as companies become more cost efficient.

Rebuild and New Home Construction

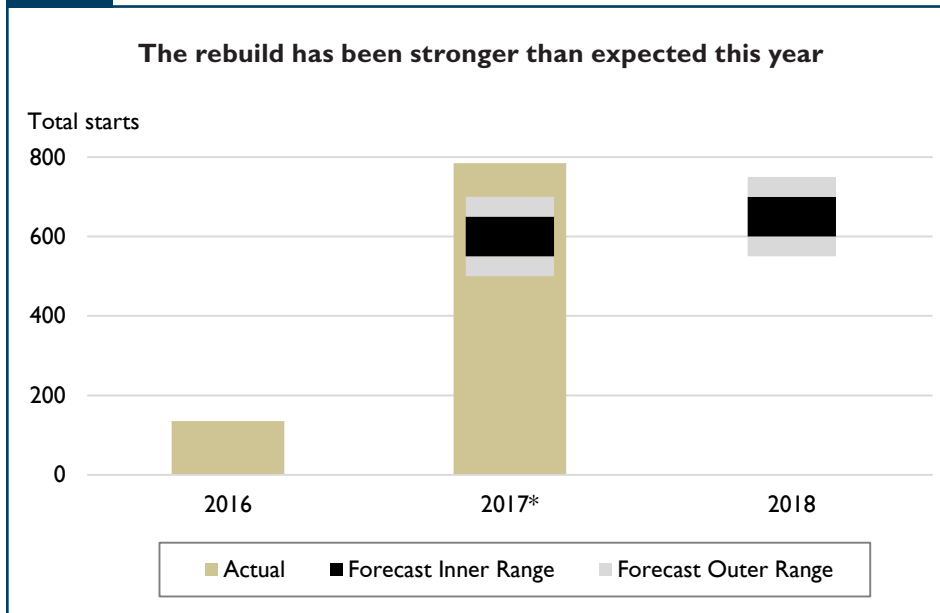
The rebuild has begun in earnest and after the first six months of 2017, there have been 785 total starts. Of which, 722 have been identified as rebuild starts by CMHC⁸, while the 59 non-rebuild starts were a mix of new rental and single-detached homes. While a majority of the reconstruction will take place over the next couple of years, the rebuild was already underway in 2016. After the fires in the spring of 2016, 122 homes started construction between May and December, all of which were

Figure 1



Sources: CMHC and the Conference Board of Canada

Figure 2



Sources: CMHC, Forecast from CMHC 2016Q4 Housing Market Outlook

*2017 is a year-to-date number, as of May.

rebuilt. This brings the total number of observed rebuild starts to 844 from 2016 and 2017, or about one third of all units lost in the fire.

Nearly all the units that were destroyed are expected to be rebuilt. The RMWB has indicated that almost all of Waterways will be rebuilt, as a new flood mitigation plan has been approved for the area.⁹ However this will require the municipality to buy out 21 lots to ensure slopes in Waterways remain stable.¹⁰ An additional 14 homes located in Waterways may also be bought by the municipality, bringing the total bought out lots to as high as 35. This would represent approximately one per cent of the units lost in Fort McMurray.

There were 1,877 single-detached homes lost, representing about three-quarters of all units lost.¹¹ The communities impacted by the fires, such as Abasand and Beacon Hill, largely consisted of single-detached homes. As of June 2017, 557 single-detached units started construction since the fire in May. In addition to the construction of

single-detached homes, two large multi-family developments in Abasand have been planned, however the foundations have yet to be poured. These two developments will account for a combined 530 multi-family starts.

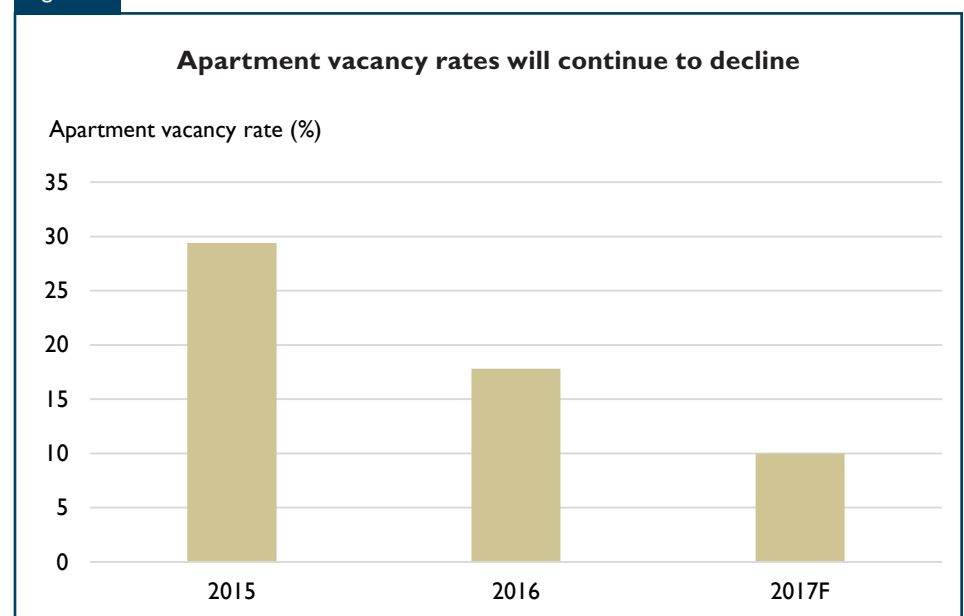
The municipality expects a further 200 units to begin construction this summer. By year-end, we estimate that around 1,000 units will be started. This would be the highest level of starts seen since 2009, much more than what was expected in the outlook CMHC presented in December 2016.¹² It would also represent 41% of all the units lost in the fire. This rate of construction suggests that it would take two to three years for every rebuild unit to start construction, and three to four years to complete.

Residential construction starts will slow down somewhat after the bulk of the rebuild, likely in 2019. Further, economic uncertainty may induce more people to sell their lot instead of rebuilding, a trend we have already begun to see.¹³

Rental Market

The impact of the wildfires and the reconstruction efforts have helped support demand in the rental market in Fort McMurray. CMHC's 2016 Fall

Figure 3



Sources: CMHC Rental Market Survey, CMHC Forecast from CMHC 2016Q4 Housing Market Outlook

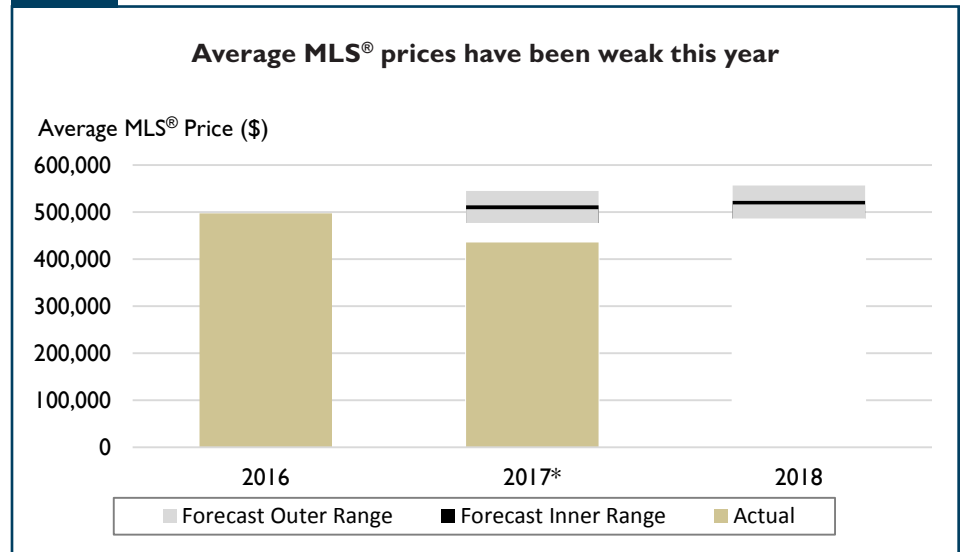
Rental Market Survey was conducted soon after residents could return to Fort McMurray. At that time, the overall apartment vacancy rate had fallen from 29.4% in 2015 to 17.8% in 2016, as displaced residents took up rental accommodations. Extended stay hotels have been another source of temporary housing and have a large presence in Fort McMurray. Some residents awaiting reconstruction of their homes have taken up residence in these suites, thus reducing the potential decline in vacancy rates in the purpose-built rental market.

Vacancy rates are expected to decline again this year, as construction workers from outside Fort McMurray assist in the rebuild. Although some of these workers are expected to be absorbed by extended stay hotels, many will find accommodations in the rental market. Further, those displaced by the fire and living in temporary rental accommodations will eventually return to their homes once they are rebuilt, mitigating the downward pressure on vacancy rates. It is unlikely, however, that many homes will reach completion until after CMHC's Rental Market Survey is conducted in October 2017. Landlords have reported that their observed vacancy rates in their buildings have fallen this year, and we expect overall vacancy rates to be around 10% in 2017. As vacancy rates will remain elevated, it is unlikely that rents will increase this year.

Resale Market

Unlike the rental and new home market, economic uncertainty has had a larger impact on the resale market. Prior to the wild fires, prices and total sales had been declining in Wood Buffalo since 2013. Up until 2012, there had been a land shortage in Wood Buffalo; the province had not released more land for the

Figure 4



Sources: CREA, CMHC Forecast from CMHC 2016Q4 Housing Market Outlook

*2017 is a year-to-date number, as of May

Note: MLS® is a registered trademark of the Canadian Real Estate Association

municipality to turn into new lots¹⁴. This inflated the price of real estate in the area. Newly available land started to push prices down, and the decline in oil production and employment accelerated this process. From the end of 2013 to the end of 2015, average prices had fallen 20%. Immediately after the wildfire, sales volume and average resale price grew. Sales were similar to their levels in 2014, before the oil price correction, while prices appeared stronger than they otherwise would have been as displaced residents and pent up demand from the months the market was effectively closed gave support for prices. This provided support for the market during 2016; however, this momentum has since levelled off.

The first quarter average price in 2017 was \$407,000, a full \$97,000 and 19.3% below the average price in the first quarter of 2016. This was largely driven by composition, as more people were buying condo and mobile units than in previous years. This is further borne out on the sales side, as there were 54% more sales in the first quarter of 2017 than in the

same period in 2016, and 17% more sales than in the first quarter of 2015. The increased sales activity may have been affected by rising oil prices and a belief that oil sands hiring could soon resume. Sales are still weak compared to historical averages.

In the second quarter of 2017, prices recovered somewhat, averaging \$435,500. This is higher than what the second quarter average would have been in 2016 had the wildfire not intervened. However, sales have softened with 306 sales in the second quarter, nine per cent below the corresponding period in 2015¹⁵. The increase in the average price is again subject to composition, in this case more single detached homes were sold than condos and mobile units. The decline in sales could be due to multiple factors, including but not limited to: fewer displaced residents searching for homes or fewer new people coming to Fort McMurray in the face of economic uncertainty. Annual MLS® sales are likely to remain below historical averages until the region's major industry, energy, shows clearer trends.

Conclusion

Despite uncertain economic conditions, the rebuild of Fort McMurray is well underway. If the level of starts expected for the municipality is realized, this will be one of the strongest years for new home construction in Fort McMurray in the last 10 years. The resulting gains in employment have provided temporary support to the rental market, further reducing vacancy rates. Given the rate of building this year, it is expected that the rebuild will extend into 2019 and beyond, providing further support to the new home and rental markets. The resale market is still adjusting to lower oil prices and activity will remain below historical averages.

ENDNOTES

- ¹ Conference Board of Canada. 2016. "The Economic Impacts of the 2016 Alberta Wildfires." Conference Board Briefing. November.
- ² Consultations with the RMWB has revealed that some of units listed as destroyed by wildfire in the report were lost to other incidents, such as a post fire explosion. Numbers provided by the RMWB and the Conference Board may not sum, Conference Board Numbers are used when there is a conflict.
- ³ Gensey, Timothy. 2016. "After the Fire: Anticipated Housing Market Response" Housing Market Insight Alberta. July
- ⁴ Krauss, Clifford, 2017. "Oil Prices, What to Make of Volatility." The New York Times. June
- ⁵ Bank of Canada. 2015. April 2016 Monetary Policy Report. Central Bank Policy Report, Ottawa ON: Bank of Canada, 9-20.
- ⁶ Statistics Canada. 2017. Table 282-0054 to 282-0122: V2055118, Wood Buffalo-Cold Lake, Alberta [4880], Accessed June 1, 2017. www23.statcan.gc.ca/imdb-bmdi/document/3701_D5I_T9_VI-eng.htm.
- ⁷ Ibid.
- ⁸ via CMHC's monthly Starts and Completions Survey (SCS).
- ⁹ Bird, Cullen. 2017. "Recovery Committee to hear Waterways slope stability update." Fort McMurray Today.
- ¹⁰ RMWB. 2017. "Industry Consultations." Interview conducted by Timothy Gensey. June 1.
- ¹¹ Conference Board of Canada. 2016. "The Economic Impacts of the 2016 Alberta Wildfires." Conference Board Briefing. November
- ¹² Gensey, Timothy. 2017. "Housing Market Insight, December 2016." Housing Market Insight, Alberta. December
- ¹³ Fort McMurray Realtors. 2017. "Industry Consultations." Interview conducted by Timothy Gensey
- ¹⁴ Commercial and Industrial Land Use Advisory Committee. 2010. "Commercial and Industrial Land Use Survey." Regional Municipality of Wood Buffalo Report
- ¹⁵ Comparisons with 2016Q2 are intentionally avoided, due to the occurrence of the wildfire.

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