

Overview

Following direction from Lethbridge City Council on May 30th, 2023, Administration has worked towards application to a Canadian Mortgage and Housing Corporation's (CMHC) funding opportunity, the Housing Accelerator Fund. This report was commissioned to support the City's application to the program and was completed by Urban Systems in August 2023.

The Housing Accelerator Fund application requires that municipalities commit to an increase of net new housing development, above and beyond the community's baseline housing growth rate based on issued building permits over the last five years. This is completed through the actioning of municipally proposed initiatives to support systemic changes to internal systems, processes, bylaws, and other barriers to housing development.

The City commissioned the report to establish a housing growth rate based on robust analytical processes. This is especially important due to recent market volatility and a general downward trend in the number of units being built over the past 2-3 years.

The Housing Growth Forecast report included an analysis of historical data and engagements with members of the Building Industry and Land Development Association (BILD) Lethbridge Region in order to identify projected housing demand and supply between 2024-2026.

Highlights

The report projects the following over the next 3 years::

- The population of Lethbridge is forecasted to grow to between 108,149 and 110,788 by the end of 2026.
- Growth in the number of households is expected to increase by 6-9% between 2024 and 2026.
- Increased demand for affordable housing represents a combination of new Lethbridge households estimated to be in core housing need and current Lethbridge households expected to face housing unaffordability in the next three years.
- Housing inventory in the City (consisting of single detached homes, semi-detached homes, rowhouses and apartments) is expected to increase by up to 1,386 units between 2024-2026.
- Local and macro-economic factors impacting the forecasted housing growth rate include interest rates, material costs, labour costs/supply, and federal regulations.
- The forecast indicates that the City could expect the demand for housing to outpace the construction of new units by 500-2,900 units over the next three years. In the medium demand/supply scenario, the expected gap is approximately 1,400 units.

Actionable Items

The report indicates the projected housing growth is insufficient to meet the City's upcoming needs, even in the low demand growth scenario. The report indicates that the following actions, several of which are included in the initiatives proposed by the City in the Housing Accelerator Fund Application, include:

- Reducing processing time or procedures for permits, rezonings, or other applications related to development
- Reducing restrictions for higher density development and "missing middle" housing forms
- Implementing incentives, costing or fee structures for achieving development that could provide units corresponding to the housing needs (e.g., higher density development, affordable housing)
- Investing in affordable housing, including partnership with non-profit housing providers to preserve and increase the stock of affordable housing
- Updating infrastructure planning in alignment with growth targets and housing needs assessment
- Upgrading infrastructure in mature neighbourhoods to facilitate redevelopment and densification



CITY OF LETHBRIDGE

HOUSING GROWTH FORECAST

2023-2026

August 18, 2023

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SYSTEMS

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1.0 INTRODUCTION

The purpose of this document is to provide a projection of future housing demand and supply for the City of Lethbridge in the next three years from 2024 to 2026 to inform various City initiatives, future planning, budget allocation as well as to support the City's Housing Accelerator Fund application to the Canada Mortgage and Housing Corporation (CMHC).

Having recently initiated updates to the Community Wellbeing and Safety Strategy and Municipal Housing Strategy, the City recognizes the shifts that have taken place in the community and the increasing pressures on the local housing system to meet increasingly complex community needs. Forecasting housing supply and demand within the local housing system will help inform and prioritize various City initiatives, future planning, and resource allocation.

In light of the increasing construction cost, labour shortage as well as the macroeconomic uncertainty brought by recent interest rate hikes, developers at both local and national levels have expressed difficulties in keeping up to the supply of new housing as planned, or even meeting the growth of housing demand. In the most recent Housing Market Outlook published by CMHC, there is also analysis identifying significant downside risks from elevated household debt, prolonged inflation, and elevated interest rates that results in lower housing starts. Therefore, it is essential to understand the potential outcomes of the housing gap resulting from decreasing housing start activities under uncertain macroeconomic conditions.

The report presents the findings of a projection analysis in the next 3 years for the City of Lethbridge on the following:

- Housing demand based on future population and household growth scenarios;
- Affordable housing needs based on growth and economic scenarios; and
- New housing supply scenarios under possible outcomes of the macroeconomic environment.

In addition, this work builds upon feedback received from the Building Industry and Land Development Association (BILD) in the Lethbridge Region. Local builders were engaged by the City to provide perspective on the current and projected future capacity of developers in the residential construction market. They also identified anticipated opportunities and challenges related to market health.

The following sections will identify the anticipated growth; the current and projected housing demand; projected supply scenarios of new housing, the gap where the additional demand for new housing could not be met by anticipated housing supply as a result of decreasing housing start activities, the challenges that the local developers and builders are facing, and the possible immediate actions and initiatives the City of Lethbridge can take to reduce the housing gap.

2.0 HOUSING DEMAND FORECAST

To understand the future housing demand for the City of Lethbridge, Urban Systems Ltd. has conducted household projections based on possible population growth scenarios over the next three years to understand the possible demand for additional housing units.

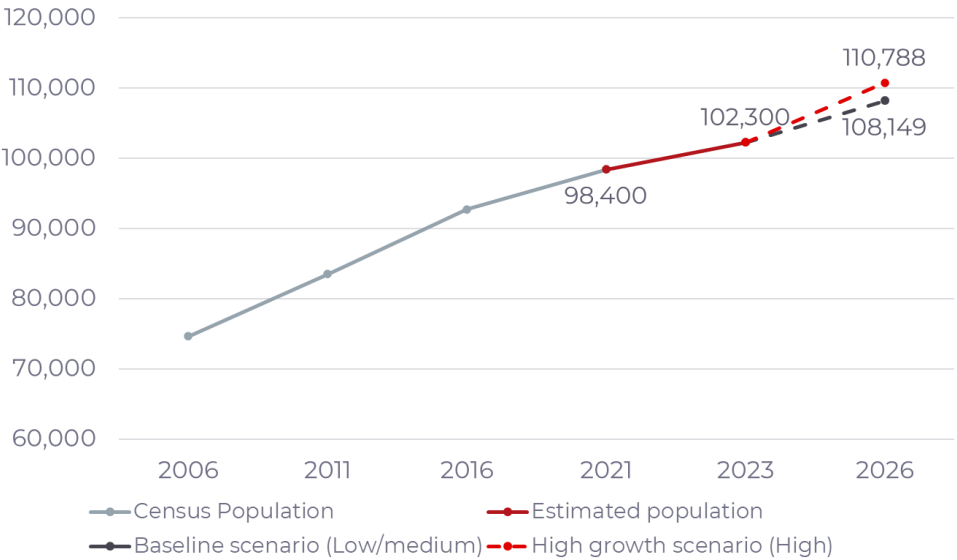
2.1 POPULATION GROWTH

Population growth for the City of Lethbridge was determined based on population projections under baseline and high growth scenarios. The projected growth scenarios for the City of Lethbridge are based on the medium and high growth scenario for the corresponding Census Division No. 2 from the Alberta Population Projections, 2023-2051 for Alberta and Census Divisions prepared by the Government of Alberta.

- **Baseline** scenario: The population of the City of Lethbridge is assumed to account for 53.8% of the projected population of Census Division No. 2, Alberta in the next three years (i.e. remain constant as the City’s share of the Census Division No. 2’s population in 2021) based on the **medium** growth scenario projected for Census Division No. 2 as in the Alberta provincial population projection.
- **High** scenario: The population of the City of Lethbridge is assumed to account for 53.8% of the projected population of Census Division No. 2, Alberta in the next three years based on the **high** growth scenario in the Alberta provincial population projection for Census Division No. 2.

Figure 1 presents the projected population growth in the next three years. As of 2023, it is estimated that the City’s population is 102,300. In the baseline scenario, it is projected that the population will grow by 5,849, reaching a total population of 108,149 in year 2026. In the high growth scenario, it is projected that the population will grow by 8,488, reaching a total population of 110,788 in year 2026, with an additional population of 2,636 in 2026 compared to the baseline scenario.

Figure 1 Projected Population Growth, 2006-2026



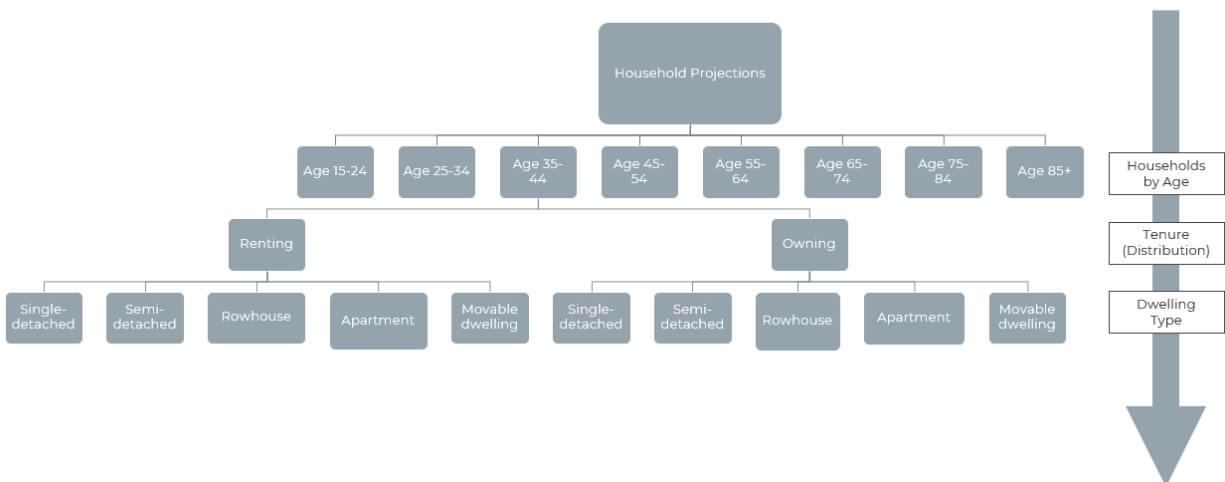
2.2 HOUSING DEMAND PROJECTION

The housing demand projection for the City of Lethbridge are based on the projected population and headship rates by age cohorts and tenure. Headship rates refer to the proportion of individuals in each group who lead (or “head”) a household within the age group. Tracking headship rates by age cohort are helpful for forecasting future housing demand, as it gives an indication of how the household formation pattern and housing demand will change by the age breakdown. The advantage for projecting housing demand with headship rates by age groups is to reflect the changes in preference for different dwelling types under the future changes in demographics and age structure.

A top-down approach is adopted to determine the headship rates in the future periods, as illustrated in Figure 2.

- Total headship rate is firstly determined by age group.
- Then, the proportion of rental tenure by age groups is projected in the next 3 years up to 2026 based on the historical trend of rental tenure proportion in the past 15 years from 2006 to 2021 to determine the proportion of renters in the next 10 years.
- The distribution of tenure-dwelling types is then determined by the historical distribution of the dwelling types for each tenure type by 2021.

Figure 2 Top-Down Determination of Housing Demand



In this report, three housing demand growth scenarios in the next 3 years are presented to illustrate the possible trajectories of housing demand as a result of possible changes in the macroeconomic environment associated with rising interest rates and housing affordability.

- **Low/Medium** household growth scenario: Both low and medium household growth scenario assumes the future population follows the baseline population scenario based on medium growth projected at provincial level as described in Section 2.1.

The **medium** household growth scenario assumes the headship rates remains constant at the level reported in the latest Census 2021, and the proportion of households requiring affordable housing remains at historical averages from the last 4 Census periods. This represents the scenario where the household formation across age groups remains the status quo as present.

In contrast, the **low** household growth scenario assumes the declining headship rate across younger age groups following the historical declining trend. This represents a scenario where the potential household formation is suppressed as a result of housing unaffordability due to rising interest rates and high price levels expected (e.g. younger individuals choosing to live with their parents, deferring the timeline to start their households). Furthermore, it is assumed that the proportion of households requiring affordable housing reaches the peak across the last 4 Census periods as a result of housing unaffordability.

- **High** household growth scenario: The **high** household growth scenario assumes the future population growth follows the high population scenario based on high provincial growth projected as described in Section 2.1. This scenario assumes the same headship rates and proportion of households as in the medium household growth scenario (i.e. the same market conditions and household formation pattern), but with a higher population growth than the medium household growth scenario.

Table 1 summarizes the descriptions and assumptions associated with each of the household growth scenarios.

Table 1: Descriptions and Assumptions for the Housing Growth Projection Scenarios for the City of Lethbridge

	POPULATION GROWTH	HEADSHIP RATE	PROPORTION OF RENTAL	AFFORDABLE HOUSING NEED
Low Household Growth Scenario	Baseline	Declining	Trending	High (Peak point)
Medium Household Growth Scenario	Baseline	Constant as of 2021	Trending	Historical averages
High Household Growth Scenario	High	Constant as of 2021	Trending	Historical averages

Table 2 summarizes the historical trend of headship rates by age group of the City of Lethbridge, and the projected headship rates for the household growth scenarios. As described, the low household growth scenario assumes declining headship rates as a consequence of suppressed household formation associated with increasing housing unaffordability, while the medium and high household growth scenarios assumes the headship rate remains constant as in Census 2021 level, i.e. household formation pattern remaining status quo.

Table 2: Headship Rate 2006-2026 (Forecast), City of Lethbridge

	2006	2016	2021	2026 (FORECAST)	
				Low	Medium/High
15 to 24 years	21.5%	18.8%	18.1%	16.7%	18.1%
25 to 34 years	48.9%	47.2%	47.2%	46.3%	47.2%
35 to 44 years	56.4%	53.5%	54.9%	53.5%	54.9%
45 to 54 years	56.9%	58.2%	57.4%	56.5%	57.4%
55 to 64 years	59.6%	59.4%	59.4%	59.4%	59.4%

65 to 74 years	60.5%	61.5%	60.2%	58.9%	60.2%
75 to 84 years	61.5%	62.7%	64.0%	64.0%	64.0%
85 years and over		41.7%	45.6%	45.6%	45.6%

Also, to reflect the increasing proportion of rental tenure in recent years, the proportion of renting households across age groups are projected in the next three years as presented in Table 3.

Table 3: Proportion of Rental Tenure 2006-2026 (Forecast), City of Lethbridge

	2006	2016	2021	2026 (FORECAST)
15 to 24 years	72.4%	81.6%	82.4%	85.9%
25 to 34 years	41.5%	47.0%	51.3%	54.4%
35 to 44 years	27.1%	33.8%	31.1%	32.7%
45 to 54 years	17.2%	23.9%	27.6%	31.1%
55 to 64 years	16.2%	19.2%	20.6%	22.1%
65 to 74 years	15.9%	20.2%	18.4%	19.4%
75 to 84 years	19.4%	16.4%	17.8%	17.6%
85 years and over		81.6%	82.4%	82.4%

2.2.1 PROJECTED HOUSEHOLD GROWTH AND HOUSING DEMAND SCENARIOS

The projected growth in households over time is presented in Table 4. Low, medium, and high household growth scenarios have been projected in the next 3 years up to 2026. Under a low growth scenario, the number of households is projected to increase by 4% or 1,883 in the next 3 years; under a medium growth scenario, the number of households is projected to increase by 6% or 2,595; and under a high growth scenario, the number of households is projected to increase by 9% or 2,683.

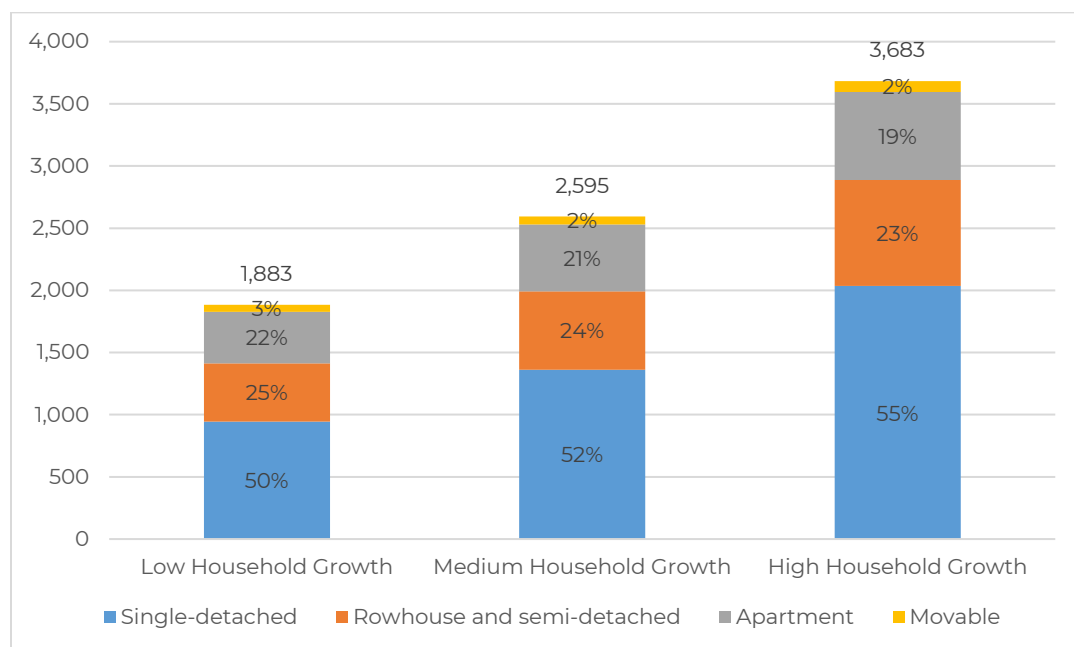
Table 4: Projected Growth in Households, City of Lethbridge

	2021	2022	2023	2026	GROWTH (2024-2026)
Low Scenario	40,174	41,020	41,867	43,750	1,883 (+4%)
Medium Scenario	40,174	41,020	41,867	44,462	2,595 (+6%)
High Scenario	40,174	41,020	41,867	45,550	3,683 (+9%)

To understand the types of additional housing needed, the household projections are further broken down into projections by dwelling types according to low, medium, and high growth scenarios. The breakdown of dwelling types based on forecasted housing demand growth is shown in Figure 3. In each housing demand growth scenario, the greatest proportion of housing is single-detached dwellings, followed by semi-detached units and rowhouse, apartments, and movable dwellings.

- In the **low** household growth scenario, among the 1,883 additional housing units required, 944 single-detached dwellings are needed. This represents about 50% of the additional housing units needed. There is also a need for 470 rowhouse and semi-detached units (25%), 413 apartments (22%), and 56 movable dwellings (3%) are required to meet the additional housing demand from household growth in the next 3 years.
- In the **medium** household growth scenario, among the 2,595 additional housing units required under a medium growth scenario, 1,361 single-detached dwellings (52%); 632 rowhouse and semi-detached units (24%); 538 apartments (21%) and 64 movable dwellings (2%) are required to meet the additional housing demand from household growth in the next 3 years.
- In the **high** household growth scenario, among the 3,683 additional housing units required under a high growth scenario, 2,035 single-detached dwellings (55%); 852 rowhouse and semi-detached units (23%); 709 apartments (19%) and 87 movable dwellings (2%) are required to meet the additional housing demand from household growth in the next 3 years.

Figure 3 Composition of Forecasted Housing Demand Growth 2023-2026



2.3 PROJECTED DEMAND FOR AFFORDABLE HOUSING

In this section, the proportion of households under core housing need in the City of Lethbridge is assumed to be the proportion for households that require affordable housing. Based on the definition of Canada Mortgage and Housing Corporation (CMHC), a household is considered under core housing needs if (i) the household is below one or more of the adequacy, suitability, and affordability standards, and (ii) the household would have to spend 30% or more of its before-tax household income to access local housing that meets all three standards.

2.3.1 HISTORICAL TREND OF HOUSEHOLDS IN CORE HOUSING NEED

The proportion of households (% of tenure) under core housing need is presented in Table 5. Data from the 2006, 2011 and 2016 Census years indicates that there has been a slight increase in the proportion of households in core housing need between 2006 and 2016. While the proportion of households in core housing need appears to have dropped in 2021, it is important to note that income support programs

were still in place in 2021 while the Census collection period was in progress, including those transferred from the Canadian Emergency Response Benefit (CERB) to Employment Insurance (EI), the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB), and the Canada Recovery Caregiving Benefit (CRCB). These income support programs inflated the income data, meaning that the Census 2021 housing affordability data would underestimate the number of households spending 30 percent or more of household income on shelter and the number of households in core housing need.

Table 5: Proportion of Households in Core Housing Need

	2006	2011	2016	2021	AVERAGE ACROSS 4 CENSUS YEARS
Total	9.6%	9.9%	10.1%	9.4%	9.8%

As a result of skewed income data in the 2021 census, the 2021 data on core housing need is not considered an accurate reflection of true core housing need in the community and should not be relied upon alone to determine whether there are unmet housing needs in the community.

In the medium and high household growth scenario, an average of the past four census periods (i.e., 9.8%) is taken to estimate the current and future proportion of households in core housing need, assuming the core housing need situation remains status quo. In the low household growth scenario, it is assumed that the proportion of households in core housing need reaches the peak across the last four historical Census periods in 2026 (i.e., 10.1% in 2016). It is assumed that all households in core housing need would require affordable housing.

2.3.2 PROJECTED ADDITIONAL DEMAND FOR AFFORDABLE HOUSING

Table 6 presents the estimated number of households requiring affordable housing based on the projected future proportion of households in core housing need. Under a low household growth scenario, an additional 350 households are anticipated to be in core housing need. This number includes 191 new households as well as 159 existing households that will experience housing unaffordability over the next 3 years. The low growth scenario assumes that a peak will be reached across the four Census periods in 2026 (i.e. 10.1% in 2016). Under a medium household growth scenario, 254 additional households are anticipated to be in core housing and under a high household growth scenario, 360 additional households are anticipated to be in core housing need. Both the medium and high growth scenarios assume historical averages under core housing need across historical periods (9.8%).

Table 6: Estimated Number of Households Requiring Affordable Housing

DEMAND SCENARIO	2023 ¹	2026	PROJECTED PROPORTION OF HOUSEHOLDS THAT REQUIRES AFFORDABLE HOUSING	ADDITIONAL HOUSEHOLDS THAT REQUIRES AFFORDABLE HOUSING
Low Household Growth	4,086	4,436	Increasing from historical average (9.8%) to peak level (10.1%)	350 <ul style="list-style-type: none"> 191 new households estimated to be under core housing need 159 existing households (2023) that are expected to face housing unaffordability in the

¹ Based on historical average of proportion of households in core housing need across previous 4 Census periods.

				next 3 years under assumption of increasing proportion of households in core housing need
Medium Household Growth	4,086	4,340	Remains at historical average (10.1%)	254
High Household Growth	4,086	4,446	Remains at historical average (10.1%)	360

3.0 HOUSING SUPPLY FORECAST

Under increasing construction cost, labour shortage as well as the market uncertainty brought by recent Bank of Canada interest rate hikes, builders and developers at both local and national levels have expressed difficulties in keeping up to the supply of new housing as planned due to deteriorating project viability.

This section provides analysis of the potential impact of market uncertainty on the housing starts in the City of Lethbridge from the lens of the following factors:

- Historical correlation between interest rates and housing starts in the City of Lethbridge by dwelling types,
- Market outlook in major metropolitan area in Alberta by Canada Mortgage and Housing Corporation (CMHC),
- Recent building permit at the local level in comparison to historical trend, and
- Feedbacks from local developers and builders through BILD Lethbridge survey.

Then, a range of new housing supply in the City is projected for the next 3 years based on the possible macroeconomic outcomes and the market expectation expressed by local developers and builders.

3.1 RELATIONSHIP BETWEEN INTEREST RATES AND HOUSING STARTS

Figure 4 shows the relationship between the historical trend of Bank of Canada interest rates and the housing starts by dwelling type in the City of Lethbridge as reported by CMHC Starts and Completion Survey. The detrended line in each graphs shows the deseasonalized housing starts, as the quarterly construction starts is observed to be associated with the cycle of seasonality.

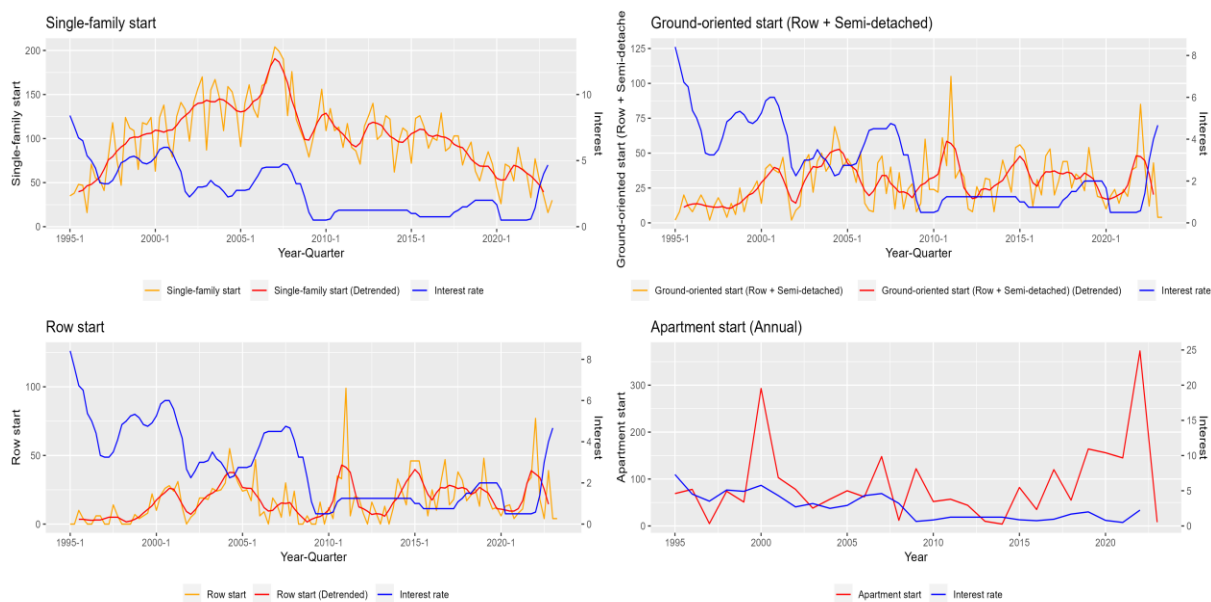
It is difficult to draw a simple conclusion on the relationship between interest rates and housing starts. The main reason is that interest rate is a policy response to the macroeconomic environment, and a tool to achieve certain economic objectives. For example, the Bank of Canada may choose to lower the interest rate under recession to boost economic growth. Although lower interest rate allows developers to finance their development project more easily, the pessimistic economic outlook may result in a lack of confidence for developers to start housing projects, leading to decline in housing outlook.

The top left panel in Figure 4 shows the historical trends for single-family home construction starts and Bank of Canada interest rates. From 2005 to 2008, despite increasing interest rates, there is an increase in single-family home starts, which is believed to be supported by the positive economic outlook. However, as the 2008 financial crisis took place, the housing starts from 2008 to 2011 declined despite declining interest rates, which is believed to be a result of pessimistic economic outlook. In contrast, as

seen in the more recent interest rate hike in 2022, the single-family home starts has declined in the opposite direction of interest rates. This shows that there is no distinctive connection between interest rate movement and housing start.

A similar pattern can also be observed in the semi-detached and rowhouse building forms in the panel at the top right of Figure 4. For rowhouse and apartment, there is limited data available for multi-family construction until 2010, so no conclusion can be drawn.

Figure 4 Historical Trends of Interest Rates and Housing Starts



In order to understand the effect of the recent interest rate hikes on the housing starts in the next 3 years, beside the interest rates, it is important to comprehensively assess the market expectation and developer capacity (based on market confidence, policy, access to labour, as well as other macro-economic conditions such as price level) that would drive the market response.

3.2 CMHC HOUSING MARKET OUTLOOK 2023

Another source of possible hints on the effect of the impacts of increasing interest rates and construction cost would be the Housing Market Outlook 2023 published by the Canada Mortgage and Housing Corporation (CMHC). In the report, CMHC has forecasted the possible new housing start trends for 2023-2025 based on possible economic outcome scenarios under economic uncertainty in relation to interest rate hike and inflation. There are two possible economic outcome scenarios: a baseline scenario and an alternative scenario.

The following assumptions have been made for each of the scenarios:

Baseline Scenario (H)

- Price declines to conclude during 2023, with the average price for the year ending below 2022 levels.
- Recovery as economic growth picks up and immigration increases.

Alternative Scenario (L)

- Impact of inflation (and rising interest rates) persists for longer period.

The forecast summary of new housing starts for the Calgary Census Metropolitan Area (CMA), the closest CMA area analysed in the Housing Market Outlook 2023 report, is presented in Figure 5. The forecast presents the projected number of housing starts of single-detached and multi-family unit dwellings for a baseline scenario (H) and an alternative scenario (L) up to the year 2025.

The following trends are apparent:

- There are 25-45% fewer starts for single-detached dwellings in the alternative scenario (L) compared to the baseline scenario (H) over the years.
- There are 15-30% fewer starts for multi-family unit dwellings in the alternative scenario (L) than the baseline scenario (H) over the years.
- In the alternative scenario (L), new housing starts are projected to decrease from 2023 to 2025, driven by a decline in the construction of single-detached dwellings.

Figure 5: Housing Market Outlook, CMHC, Calgary Census Metropolitan Area (CMA)

Forecast Summary — Calgary CMA

	2020	2021	2022	2023 (F)		2024 (F)		2025 (F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	3,487	5,512	5,752	3,900	5,200	3,800	6,900	3,600	7,900
Multiples	5,748	9,505	11,554	10,300	12,200	8,900	12,000	9,000	12,400
Starts — Total	9,235	15,017	17,306	14,200	17,400	12,700	18,900	12,600	20,300

Source: CMHC Housing Market Outlook 2023

Based on the forecast, if the inflation of construction costs as well as high interest rates continue and remain for long period of time, there is a high likelihood that the housing starts continue to decline in the near term, leading to a widening housing shortage. Although there is contextual difference between Calgary CMA and City of Lethbridge in terms of demographic structure, housing preference and supply available in the housing markets; based on the engagement with local developers and the permitted units in the first two quarters of 2023 since mid-2022 in the City of Lethbridge in the next two sections, there are reasons to believe that the decline housing starts in the City of Lethbridge is also going to be take place if the unfavourable market conditions (i.e. high inflation, high interest rates) persists.

3.3 MARKET RESPONSE OF LETHBRIDGE BUILDERS & DEVELOPERS, 2023 Q1 AND Q2

To demonstrate the immediate impact of the interest rate hike, the next section compares the projected number of permitted units for the first two quarters of 2023 to the number of actual permitted units based on the building permit approval data of the City of Lethbridge. The projected number of starts was based on historical trends in building permit data between 2018 and 2022, prior to the start of the interest rate hike. The starts are presented by dwelling type: single-detached dwellings, semi-detached (duplex-quadplex) dwellings, and rowhouse and apartment (multi-family unit starts).

In summary, since the Bank of Canada interest rate hike started in mid-2022, during the first 2 quarters of 2023, the number of single-detached dwelling units permitted was 35% lower than projected and the number of semi-detached dwelling units permitted is 23% lower than projected, which aligns with the observation of the comparison between the baseline scenario and the alternative scenario across dwelling types in the CMHC Housing Market Outlook 2023 forecast for Calgary CMA. This is attributed to the decrease in construction activity due to increasing costs and interest rates.

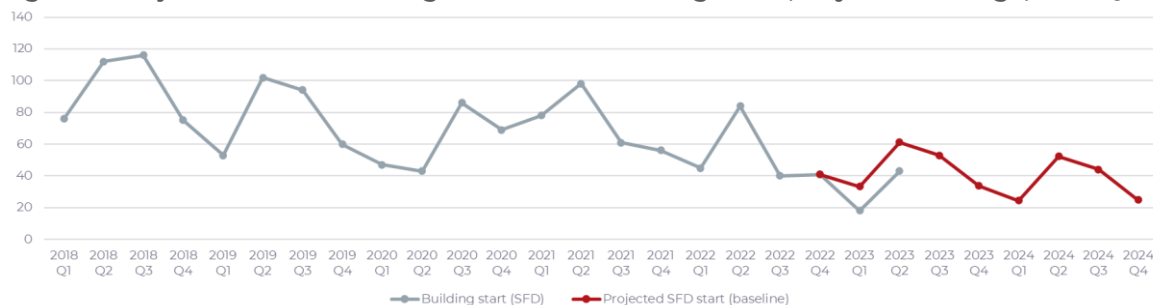
3.3.1 SINGLE-DETACHED DWELLING UNIT STARTS

The number of projected and actual permitted starts for single-detached dwellings is presented in Table 7 and Figure 6. During the first two quarters of 2023, the number of units permitted was 35% lower than projected.

Table 7: Projected and Actual Single-Detached Dwelling Starts, City of Lethbridge, 2023 Q1 and Q2

	PROJECTED STARTS BASED ON TRENDS 2018-2022	ACTUAL	DIFFERENCE
2023 Q1	33	18	-15 (-46%)
2023 Q2	61	43	-18 (-30%)
Total	94	61	-33 (-35%)

Figure 6: Projected and Actual Single-Detached Dwelling Starts, City of Lethbridge, 2023 Q1 and Q2



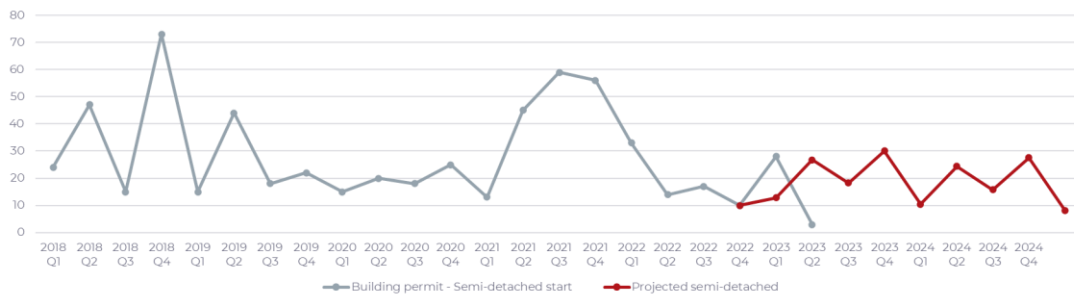
3.3.2 SEMI-DETACHED (DUPLEX-QUADPLEX) UNIT STARTS

Table 8 and Figure 7 present the number of projected and actual permitted starts for semi-detached units. During the first two quarters of 2023, the number of units permitted was 23% lower than projected.

Table 8: Projected and Actual Semi-Detached Dwelling Starts, City of Lethbridge, 2023 Q1 and Q2

	PROJECTED STARTS BASED ON TRENDS 2018-2022	ACTUAL	DIFFERENCE
2023 Q1	13	28	15
2023 Q2	27	3	-24
Total	40	31	-9 (-23%)

Figure 7: Projected and Actual Semi-Detached Dwelling Starts, City of Lethbridge, 2023 Q1 and Q2



3.3.3 ROWHOUSE & APARTMENT (MULTI-FAMILY) UNIT STARTS

Permitted starts for rowhouses and apartments are presented in Figure 8 and Figure 9. Due to the lack of consistent data for rowhouses and apartments, no accurate projections to inform this study could be made.

Figure 8: Rowhouse Starts (2018-2023)

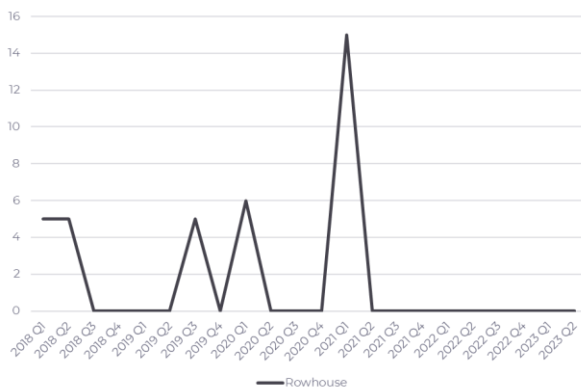
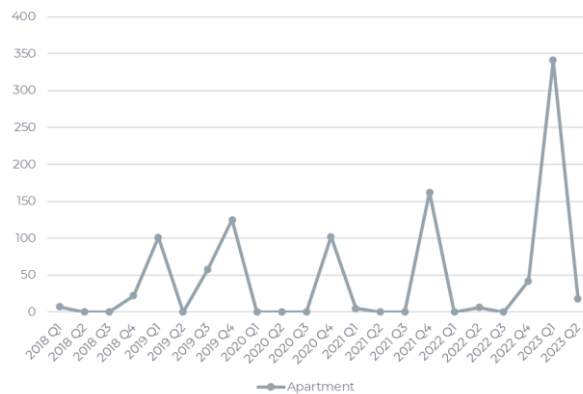


Figure 9: Apartment Starts (2018-2023)



3.4 BILD ENGAGEMENT AND MARKET EXPECTATION

In July 2023, the City of Lethbridge conducted an engagement survey with members of Building Industry & Land Development Association (BILD) in the Lethbridge Region to understand the local real estate development sector expectations towards the current and future local market and planned actions for developers and builders under changing economic and market conditions.

The survey received limited responses. With limited responses, it was difficult to directly quantify the effect of economic uncertainty on housing starts in the City of Lethbridge. However, the respondents who participated expressed concerns over increasing interest rates and construction costs. The following summarizes the common themes shared by those who completed the survey.

- The majority of builders/developers identified the Bank of Canada interest rate, material costs, labour cost and supply and federal regulations as the most important factors impacting the number of housing starts.
- On average, builders identified that 20-25% of the planned residential units to be built are cancelled due to interest rate hikes and economic uncertainty. Most of the affected units are single-detached units, though some are rowhouse or apartment units.

Additional study and engagement with local builders and developers is needed to understand their market expectations and decisions in the next few years.

3.5 NEW HOUSING SUPPLY FORECAST SCENARIOS

Based on the market evidence observed in early 2023, the housing market outlook and feedback from the local real estate development sector, three new housing supply scenarios are derived to project the new housing supply by dwelling types in the City of Lethbridge in the next three years based on possible economic outcomes and market expectations. The following assumptions were made for each scenario:

High Supply Scenario

- The **high** supply scenario assumes that the building starts resume to the previous five-year average building capacity (2018-2022)² in three years (i.e. 2026), with an upward trajectory of new housing supply per year.
- This scenario assumes the most optimistic economic outlook, which is likely to take place if the interest rates stabilize and start to decline towards levels seen before 2021, and construction costs become stable in the next three years.

Medium Supply Scenario

- The **medium** supply scenario assumes that production capacity resumes to the **projected permitted units based on the historical trend between 2019 Q1 and 2021 Q4** for single-family homes, and 2018 to 2022 Q3 for semi-detached homes to offset the sudden hike in 2021³.
- The projected new housing supply in the **medium** supply scenario is about 15% fewer building units permitted than the **high** scenario, but still with an upward trajectory of new housing supply per year.

² The 2020 period is excluded due to data anomaly when the COVID-19 pandemic took place.

³ The apartment trend determined through adjusted trends (i.e., Redefining year 2018 as 2018 Q2 to 2019 Q1, 2019 as 2019 Q2 to 2020 Q1, etc.) to even out the discrepancy across years.

- This scenario represents the case that follows the historical trend in more recent years, where increasing construction costs trend as observed from 2018 to 2021 before the interest rate hike took place. This scenario is likely to take place when there is a relatively optimistic expectation of growth as a result of inflation returning to more typical levels, and the period of higher interest rates is going to end in the near future.

Low Supply Scenario

- The **low** supply scenario projects a decline in construction of new single-family homes and semi-detached homes from 2018 to 2022, the unfavorable market condition continues, and the multi-family units (apartment and rowhouse) are going to be 20% lower than the **medium** scenario.
- This scenario presents a case where unfavourable market conditions persist due to prolonged inflation (i.e. high inflation and increasing construction costs, continuous interest rate hikes), which further weakens the confidence of developers in starting new housing projects.
- The declining new housing starts is in alignment with the alternative housing outlook scenario for the Calgary CMA outlined in the CMHC Housing Market Outlook 2023 report.

In all scenarios, it is assumed that that a constant number of units are demolished annually based on the average of single-family units demolished during the historical period from 2018 to 2022.

3.5.1 FORECAST – HIGH SUPPLY SCENARIO

The forecasted net new housing permitted units under a high scenario are presented in Table 9. The building starts resume to the previous five-year average building capacity (2018-2022)⁴ in three years (i.e. 2026) across all housing types, reaching a 3-year total of new housing permitted units of 1,386 units (net demolition)

Table 9: Forecast Net New Housing Permitted Uses – High Supply Scenario

	2023 (ANTICIPATED)	2024	2025	2026	3-YEAR TOTAL (2024-2026)
Single-detached	148	146	222	298	665
Semi-detached	79	78	102	126	306
Rowhouse and apartment	10*	113	153	193	459
Total new housing	237	337	477	617	1,431
Demolition	15	15	15	15	45
Total new housing net demolition	222	322	462	602	1,386

* Excluding the outlier of ONE large multi-family project approved of over 300 units

⁴ The 2020 period is excluded due to data anomaly when the COVID-19 pandemic took place.

3.5.2 FORECAST – MEDIUM SUPPLY SCENARIO

The forecast net new housing permitted units under the medium supply scenario are presented in Table 10. It is projected that the new housing permitted units reaches a 3-year total of 1,182 units (net demolition) in this scenario.

Table 10: Forecast Net New Housing Permitted Uses - Medium Supply Scenario

	2023 (ANTICIPATED)	2024	2025	2026	3-YEAR TOTAL (2024-2026)
Single-detached	142	131	179	226	536
Semi-detached	77	74	89	104	267
Rowhouse and apartmen	10*	113	142	170	425
Total new housing	229	318	409	500	1,227
Demolition	15	15	15	15	45
Total new housing net demolition	214	303	394	485	1,182

* Excluding the outlier of ONE large multi-family project approved of over 300 units

3.5.3 FORECAST – LOW SUPPLY SCENARIO

The forecast net new housing permitted units under a low scenario are presented in Table 11. Under declining new housing permitted units each year as a consequence of unfavourable market conditions, it is projected that the new housing permitted units reaches a 3-year total of 763 units (net demolition) in this scenario.

Table 11: Forecast Net New Housing Permitted Units – Low Supply Scenario

	2023 (ANTICIPATED)	2024	2025	2026	3-YEAR TOTAL (2024-2026)
Single-detached	142	128	88	67	283
Semi-detached	77	71	66	49	186
Rowhouse and apartment	10*	90	113	136	340
Total new housing	229	289	268	251	808
Demolition	15	15	15	15	45
Total new housing net demolition	214	274	253	236	763

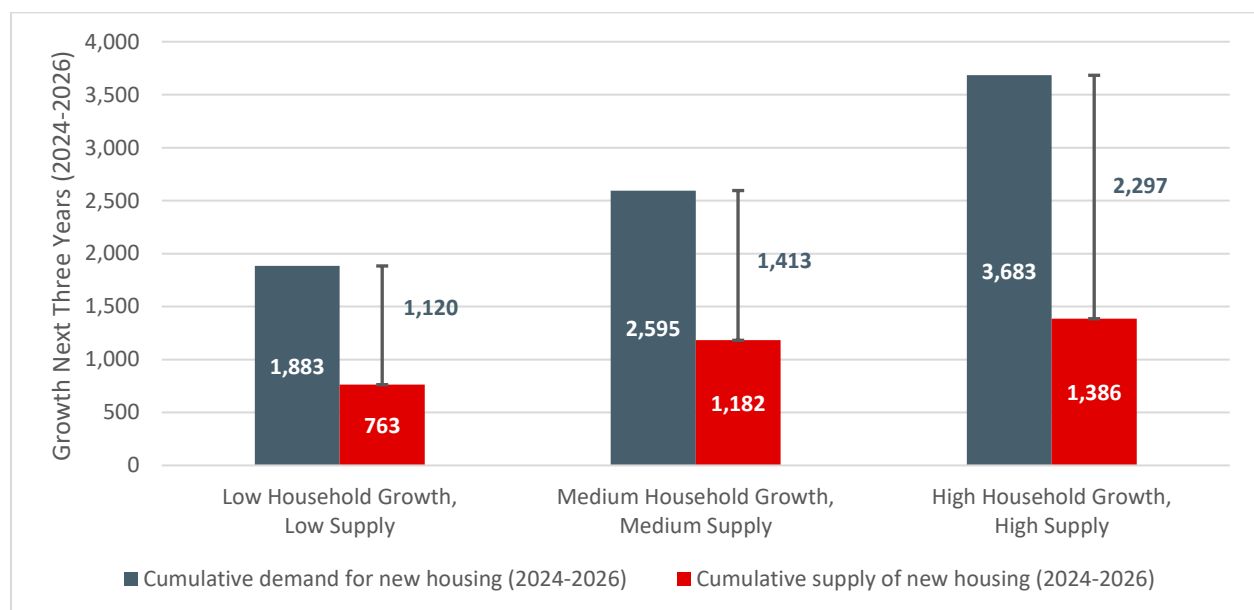
* Excluding the outlier of ONE large multi-family project approved of over 300 units

4.0 GAP BETWEEN DEMAND & SUPPLY FOR NEW HOUSING

The gap between the projected demand for and supply of new housing in the next three years in the City of Lethbridge is presented in Figure 10. In all scenarios, the anticipated new housing supply falls short of the anticipated needs for the corresponding scenario, with a shortage ranging from 1,120 units to 2,297 units. Even the most optimistic supply scenario (High Supply, with 1,386 new units in three years) cannot meet the demand associated with anticipated low household growth scenario (1,883 units in three years).

As in the BILD engagement survey, the increasing cost and uncertainty in interest rates has deterred developers' ability to supply more new housing in the immediate three years. If the unfavourable market condition of high inflation and high interest rates persists, there is a high risk that the shortage gap between housing demand and supply would further worsen.

Figure 10: Gap Between Demand and Supply for New Housing, City of Lethbridge, 2024-2026



4.1 AFFORDABLE HOUSING NEED & SUPPLY

A comparison of the number of new households requiring affordable housing and the availability of affordable housing in the 2024-2026 period is presented in Table 12.

Assuming 20% of new units are allocated to affordable housing (15% for low-income households, 5% for moderate-income households) as outlined in the Municipal Housing Strategy Implementation Plan 2019-2025 of the City of Lethbridge, there would be a shortage of additional affordable housing in all household growth scenarios ranging from 18 units to 83 units (not including existing households that fall under core housing needs as a result of increasing household unaffordability in the Low Household Growth scenario).

Under the Low Household Growth Scenario (as a result of housing unaffordability), the gap between additional households that will require affordable housing and the new affordable housing supply in the next three years is the greatest among all scenarios. The shortage is likely to be underestimated as

the households currently under core housing need without affordable housing, also need to be considered⁵.

Table 12: Affordable Housing Need & Supply

	NEW HOUSEHOLDS REQUIRING AFFORDABLE HOUSING, 2024-2026	NEW AFFORDABLE HOUSING SUPPLY, 2024-2026	SHORTAGE
Low Household Growth, Low Supply	191*	153	38
Medium Household Growth, Medium Supply	254	236	18
High Household Growth, High Supply	360	277	83

* Does not include additional 159 existing households (2023) that are expected to face housing unaffordability under the assumption of increasing percentage of households in core housing need as a result of increasing housing unaffordability.

⁵ Assuming all households in core housing needs requires affordable housing.

5.0 SUMMARY

Based on the housing demand and supply forecast in this report, it is projected that the number of new housing starts anticipated is insufficient to meet the growth of additional households as well as the additional need for affordable housing across all growth scenarios in the next three years in the City of Lethbridge. Even in the low demand growth scenario, the projected new housing supply in all scenarios cannot catch up with the projected household growth without intervention.

The continued interest rate hikes and increasing construction costs have created high level of uncertainty in the market, which slowed down the housing starts activities in the City of Lethbridge, while also leading to more severe housing unaffordability due to widening gap between housing demand and new housing supply. While household growth could be lower in the low growth scenario, the increasing housing unaffordability would still widen the gap between households that need affordable housing and the supply of new affordable housing without intervention.

Housing supply is constrained by the increasing labour and construction costs, increasing interest rates and the uncertainty in future interest rate trends. The slowdown of building activities was observed among local developers and builders during the BILD survey. If the trend of increasing interest rates and costs continues, the gap between new housing supply and housing demand could worsen without intervention as housing starts continues to fall.

5.1 ACTIONS THE CITY CAN TAKE TO RELIEVE THE GAP

Despite the increasing construction costs and housing market uncertainty, there are several policy initiatives that the City can undertake to reduce the gap between demand from additional household growth and housing supply in the short-term by reducing barriers for development. These include the following:

- Reducing processing time or procedures for permits, rezonings, or other applications related to development
- Reducing restrictions for higher density development and “missing middle” housing forms
- Implementing incentives, costing or fee structures for achieving development that could provide units corresponding to the housing needs (e.g., higher density development, affordable housing)

Other actions that the City can take to narrow the supply gap and meet the growth in new households and affordable housing needs (with the aid of Housing Accelerator Fund) include:

- Investing in affordable housing, including partnership with non-profit housing providers to preserve and increase the stock of affordable housing
- Updating infrastructure planning in alignment with growth targets and housing needs assessment
- Upgrading infrastructure in mature neighbourhoods to facilitate redevelopment and densification

5.2 MARKET RISK & CITY-LED DEVELOPMENT

The City of Lethbridge, through its Lethbridge Land Department, is a major land developer in the community, historically accounting for approximately 20% of all new residential lot development in the City.

As the market risk increases and other land developers delay or cancel projects through 2023-2026, it is likely that the City will be required to increase its market share to meet the targets outlined in the Housing Accelerator Fund (HAF) application. This would result in the City taking higher market risks than anticipated, but also having a greater impact on the density and housing types in greenfield neighbourhoods.

It should be noted that while the City can increase its involvement to supplement lower levels of private land development, Lethbridge Land may be constrained from developing more lots due to market conditions related to labour costs/supply, third-party capacity, capital funding, and more.