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HOUSING FACTS

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Canada Mortgage and Housing Corporation

HOUSING STARTS REMAIN HIGH IN JUNE

The seasonally adjusted annual rate¹ of housing starts was 210,400 in June, up from a revised² 198,000 in May, signalling that residential construction continues at a strong pace.

Last month's increase in housing starts shows that the housing market continues to respond to stimulative economic conditions. Mortgage rates are at 47 year lows and labour markets are fairly tight in spite of job losses in recent months. Furthermore, consumer confidence remains high and consumers continue to look positively at the future. These combined factors continue to support healthy levels of activity in the housing market. Rising house prices, which have yielded higher returns on residential real estate than on bonds and equities in recent years, have also boosted demand for

housing.

Given low inventories of completed units available for sale, new home sales have resulted in increased construction activity. Year-to-date, actual starts have exceeded last year's level by 2.6 per cent.

The seasonally adjusted annual rate of urban multiple starts was up 11.0 per cent to 82,800 units in June 2003 compared with 74,600 units in May.

The biggest increases were in Ontario followed by the Prairies.

The seasonally adjusted annual rate of urban multiple starts fell in Atlantic Canada and in Quebec. Nationally, year-to-date actual urban multiple starts have increased 12.6 per cent when compared to the same period in 2002.

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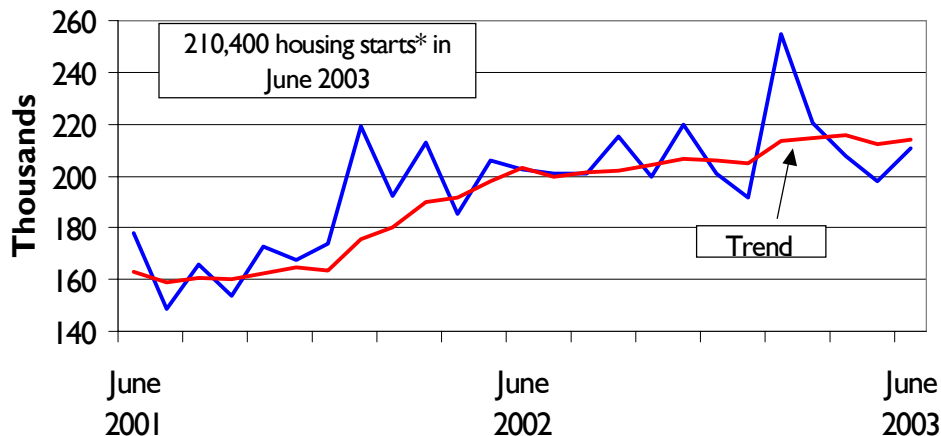
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Housing Starts in Canada - All Areas*



Source: CMHC

*Seasonally adjusted at annual rates

¹⁻² See notes on page 2.

HOME TO CANADIANS

Canada

1. All starts figures, other than actual starts, are Seasonally Adjusted Annual Rates (SAAR), which are monthly figures adjusted to remove normal seasonal variation and multiplied by 12 to reflect annual levels.
2. Figures for the most recent month are preliminary and subject to revisions due to corrections or updates from quarterly enumeration or sampling results.

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Housing Starts - Continued from page 1

In June, urban single starts increased 4.5 per cent to 98,300 units at seasonally adjusted annual rates compared to 94,100 units the previous month. This increase was reflected in all regions of the country except British Columbia where urban single starts decreased 3.8 per cent. In contrast, year-to-date actual urban single starts are 4.7 per cent lower than for the same period of 2002.

Rural starts in June were estimated at a seasonally adjusted annual rate of 29,300 units. ■

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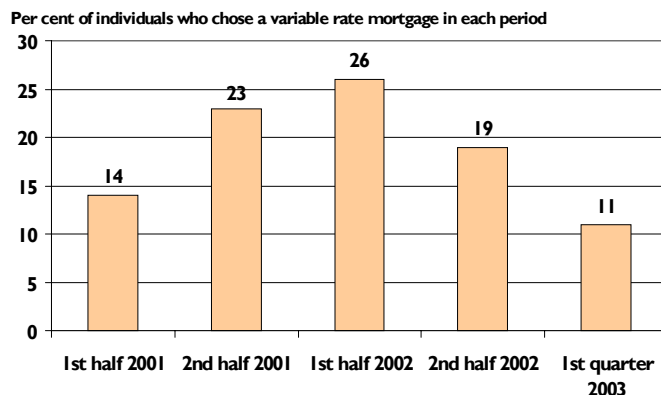
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Popularity of variable rate mortgages dip

Mortgage holders are increasingly considering fixed terms.

- A variable rate mortgage offers individuals a lower rate than a fixed mortgage, but they face the risk of a higher rate if interest rates increase. Fixed rate mortgages offer individuals the stability of a set rate, yet the inability to take advantage of low interest rates until the mortgage term is up.
- The spread between long and short term rates tends to increase before interest rates go up and decrease before rates drop.
- With the increase of the spread between variable and fixed rates throughout 2001-2002, the proportion of mortgage holders choosing a variable rate mortgage had increased. The March 2003 FIRM Residential Mortgage Survey reported 16 per cent of all mortgage holders had a variable rate mortgage -- double the proportion seen two years ago.
- Recent data shows the spread between fixed and variable rates has begun to decrease suggesting less upward pressure on interest rates. However, with mortgage rates at the lowest levels in over 47 years, an increasing number of individuals are locking into a fixed term (see chart).
- Responses from current mortgage holders showed that over a quarter of those with a fixed rate were very likely or somewhat likely to choose a variable rate at renewal, while less than three per cent of those with a variable rate mortgage stated that they were not very likely or not likely to choose a variable rate when renewing. ■

Decreasing activity in variable rate mortgages



Sources: CMHC, Clayton Research and Ipsos-Reid, The FIRM Residential Mortgage Survey

Construction shifting to multiples

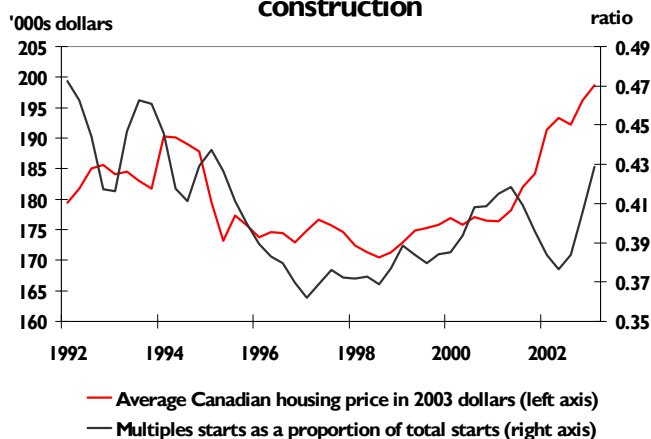
In the first six months of 2003, multiple home starts surged 13 percent while single-detached home starts dipped 5 per cent. What is causing this shift in activity?

- In CMHC's Starts and Completions Survey, there are four basic types of housing units – single-detached houses, semi-detached houses, row houses and apartments. The latter three are frequently referred to collectively as multiple-family homes. Multiple-family homes are generally more affordable than single-detached housing, so when house prices rise, people looking for affordable alternatives turn to multiple housing.
- The chart shows that there is a strong relationship between home prices and the popularity of multiple-family homes. Housing prices declined through most of the 1990s and then have shown strong increases in the last several years. The share of multiple-family homes as a proportion of total starts tended to follow a similar pattern.

look in the more affordable market for multiple-family homes. In these circumstances, starts of multiple-family homes will increase at a faster rate than total starts and the ratio of multiples to total starts will rise. Falling prices encourage buyers to turn to the market for single-detached homes.

- Data from a local market, such as Vancouver, show a visible lag between changes in real prices and changes in the popularity of multiple-family homes. The lag can be explained by the fact that many builders of multiple-family homes do not begin construction before a significant number of buyers have made their commitment to purchase. The lag is not as clear at the national level since the differences in local housing cycles can offset each other.

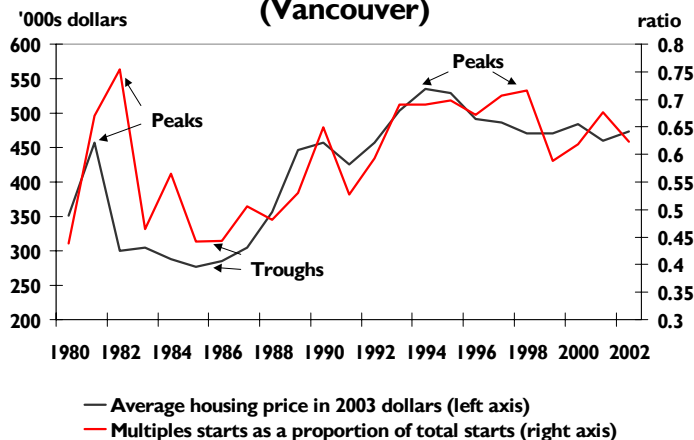
Rising prices encourage multiples construction



Sources: CMHC, Canadian Real Estate Association

- Why does this relationship hold? As housing prices rise, it becomes more likely that prospective buyers will find a home with the combination of price, location and other characteristics that meets their needs if they

Multiple-family starts lag prices (Vancouver)



Sources: CMHC, Canadian Real Estate Association

- House prices are currently rising, which suggests further increases in the proportion of multiple-family homes in total starts are expected over the course of 2003. ■

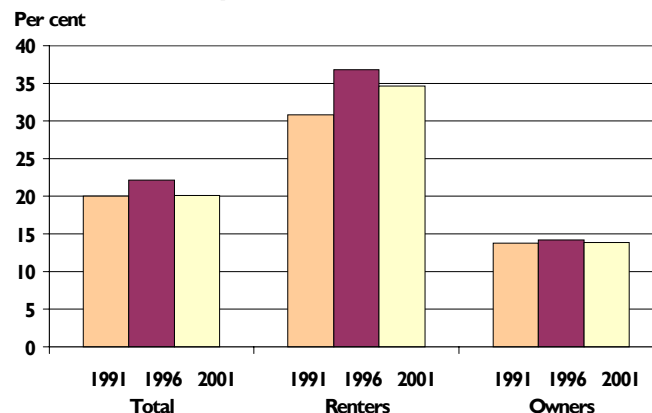
2001 Census: Households and their housing costs

The latest census shows that the proportion of households who spent 30 per cent or more of their before-tax income on shelter has declined.

- The benchmark frequently used by household specialists to determine whether a household has to spend too much on shelter is if 30 per cent or more of their before-tax income is being spent on shelter. The drawback to this benchmark is that it does not always capture necessity. For example, an affluent household may choose to spend more than 30 per cent on shelter.
- The latest census has shown an improvement in the share of households who fall within the 30 per cent benchmark. The proportion of Canadians who spent 30 per cent or more of their income on shelter has dropped from 22.2 per cent in the 1996 census to 20.8 per cent in the 2001 census.
- The proportion of renter households spending more than 30 per cent of their income on shelter also dropped to 34.6 per cent in 2001 census from 36.6 per cent in the 1996 census

period. The proportion of owner households also experienced a slight drop with 13.9 per cent of households spending more than the benchmark compared to 14.2 per cent in the data of the previous census. ■

Proportion of households spending more than 30 per cent on shelter declined



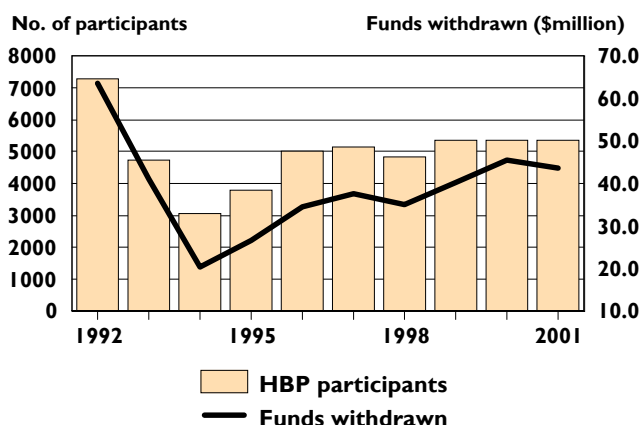
Sources: CMHC, adapted from Statistics Canada, Census of Canada 1991, 1996, and 2001

A series* on RRSP Home Buyers' Plan: Atlantic

Nearly 50,000 Atlantic Canada residents have taken advantage of the Home Buyers' Plan to purchase homes.

- The Home Buyers' Plan (HBP) was introduced by the federal government in 1992 to help individuals purchase homes. It allows Canadians, who meet certain eligibility conditions, to withdraw up to \$20,000 tax-free from their Registered Retirement Saving Plans (RRSPs) for this purpose. The amounts withdrawn remain tax-exempt if they are repaid within 15 years.
- In the Atlantic provinces, the federal government's Home Buyers' Plan (HBP) combined with low mortgage rates helped over 5,300 individuals realize their homeowner dream in 2001 by enabling them to withdraw more than \$43 million in RRSP funds to purchase homes. The average amount withdrawn under HBP was \$8,174.
- Since its inception in 1992, nearly 50,000 individuals in the Atlantic have participated in the plan channelling \$388 million to the housing market. Nearly 20 per cent of the funds withdrawn have already been repaid.
- The Atlantic provinces have accounted for about four per cent of participants and three per cent of RRSP funds withdrawn under HBP. ■

The Atlantic's participation in the Home Buyers' Plan



Sources: CMHC, Canada Custom and Revenue Agency
 *This is the last installment of the HBP series. It began in March 2003, and has covered all regions in Canada.

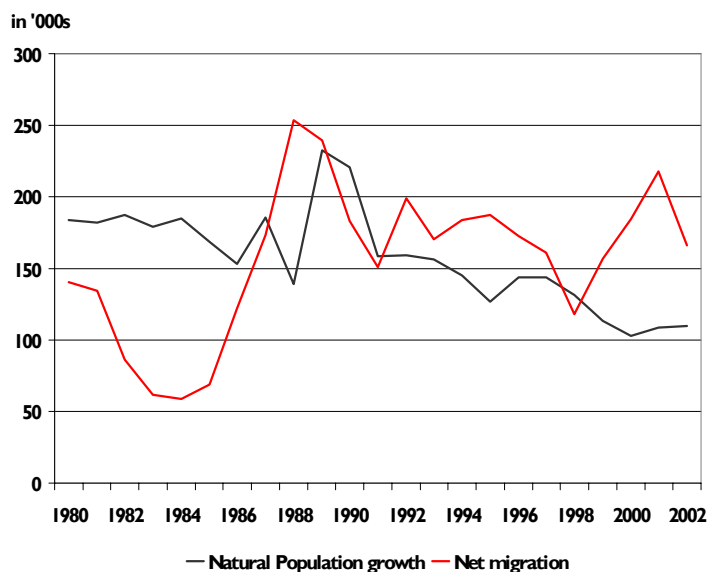
Is the recent immigration drop a concern for future housing demand?

If the recent decline in immigration persists, it will initially impact the rental demand and eventually impact the resale markets and new home construction.

- Canada's natural population growth (births minus deaths) has dropped dramatically starting from 1990. The natural increase in housing demand today is generated by the births of two or more decades ago.
- Population growth is the key to housing demand, and immigration has taken the lead as the engine of population growth. Immigration levels have been high throughout the 1990's and have been above 225,000 the past three years.

- The recent drop in immigration numbers makes it worthwhile to examine and assess what it means for housing demand if the trend continues:
 - immigrants tend to be renter households for a decade or so after arrival so the initial impact of declining immigration levels will be on rental markets;
 - immigrants initially prefer the largest urban centers, so a drop in arrivals would relieve rental market pressures in these centers;
 - immigrant households tend to be younger than Canadian born households and their first home purchase is generally made later in life;
 - after a dozen or so years in Canada the majority of immigrants become homeowners. The implication is high immigrant arrivals throughout the 1990's will feed ownership demand for a few more years;
 - immigrant average incomes are lower than the average Canadian born household, and they catch up by the pre-retirement years.

Immigration driving household growth

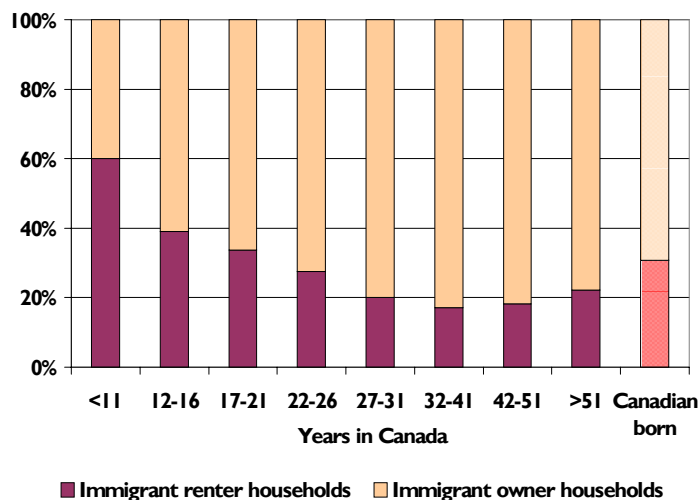


Sources: CMHC, Statistics Canada, Demography Division

- Citizenship and Immigration Canada's (CIC) 2003 targets are for 220 - 245,000 new permanent residents.
- Data for the first five months suggests that CIC's target might not be reached. Immigration plunged during the third quarter of last year and through the first quarter of this year remained at levels consistent with a less than 200,000 annual total. These are still high levels, but well below the national target.

Thus, with time, immigrant demand mirrors Canadian born households. ■

Renting high among recent immigrants



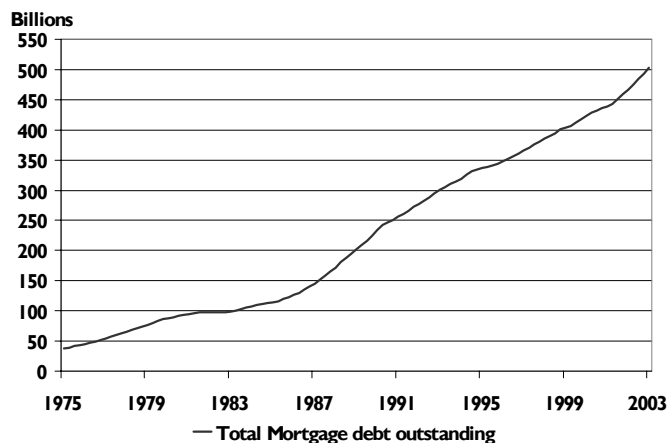
Sources: CMHC, Statistics Canada, HIFE 1997 Micro data file

Are debt levels of Canadians too much to handle?

High levels of mortgage debt burden preceded four of the past five economic slowdowns.

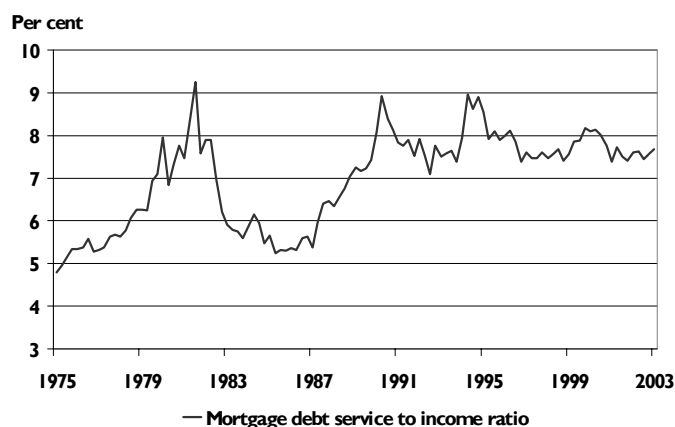
- The first chart to the right shows the total level of mortgage debt outstanding in Canada. It has been rising non-stop for the last 30 years, despite wildly varying economic conditions during that time.
- The second chart illustrates the ratio of mortgage payments (based on a five year mortgage rate and a 25 year amortization) to income for all Canadians. Mortgage payments compared to income provide a representative picture of the mortgage debt burden. Individuals typically look at their monthly mortgage payments relative to their incomes when determining what is within their means. The chart suggests that current mortgage indebtedness of Canadians is not at a peak. This ratio has been very cyclical, showing peaks and troughs over the past 30 years. Right now this ratio is sitting at about 7.5 per cent, which is higher than the 30 year average of seven per cent but is lower than previous peaks which have occurred at nine per cent or higher.
- The third chart suggests that the cycle in the mortgage debt burden of Canadians is related to the cycle of economic growth. As the mortgage debt burden rises consumer spending on other items may slow, causing slower economic growth. In this chart the mortgage payment to income ratio is on the right hand scale with the growth rate of Canada's GDP on the left hand scale. Peaks in the mortgage payment to income ratio (P in the chart) have preceded troughs in economic activity (T in the chart) in four of the past five past economic slowdowns.
- The current mortgage debt burden level is relatively high. Levels above the current were historically followed by economic downturns. ■

Mortgage debt has risen non stop



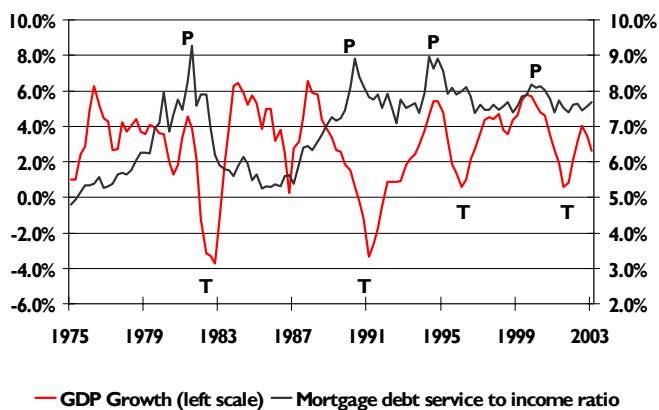
Sources: CMHC, Statistics Canada, National Accounts

Mortgage debt burden moderately high



Sources: CMHC, Statistics Canada, National Accounts

Indebtness peaks have preceded economic troughs



Sources: CMHC, Statistics Canada, National Accounts

This Month's Housing Data (SAAR)

	2002	Q3:02	Q4:02	Q1:03	M4:03	M5:03	M6:03
Housing starts, units, 000's							
Canada. Total. All areas	205.0	205.5	211.6	222.2	207.0	197.8	210.4
% chg	26.0	3.9	3.0	5.0	-6.1	-4.4	6.4
Canada. Total. Rural areas	25.9	24.7	25.7	31.5	29.3	29.3	29.3
% chg	26.7	0.4	4.0	22.6	-7.0	0.0	0.0
Canada. Total. Urban areas	179.1	180.8	185.9	190.7	177.7	168.5	181.1
% chg	25.9	4.4	2.8	2.6	-5.9	-5.2	7.5
Canada. Single. Urban areas	103.1	103.5	106.9	97.0	97.0	94.3	98.3
% chg	31.7	0.4	3.3	-9.3	4.1	-2.8	4.2
Canada. Multiple. Urban areas	76.1	77.3	79.0	93.7	80.7	74.2	82.8
% chg	18.7	10.3	2.2	18.6	-15.7	-8.1	11.6
Newfoundland. Total. All areas	2.4	2.1	2.9	1.6	2.3	2.6	2.3
% chg	35.3	-16.0	38.1	-44.8	53.3	13.0	-11.5
Prince Edward Island. Total. All areas	0.8	0.9	0.7	0.9	0.4	0.8	0.9
% chg	14.8	12.5	-22.2	28.6	-42.9	100.0	12.5
Nova Scotia. Total. All areas	5.0	4.4	5.9	9.9	3.9	4.1	5.6
% chg	21.5	-8.3	34.1	67.8	-80.4	5.1	36.6
New Brunswick. Total. All areas	3.9	3.3	5.1	3.7	5.2	4.4	3.5
% chg	11.6	-19.5	54.5	-27.5	52.9	-15.4	-20.5
Quebec. Total. All areas	42.5	43.7	45.4	46.8	42.7	43.3	43.4
% chg	53.4	8.7	3.9	3.1	-4.3	1.4	0.2
Ontario. Total. All areas	83.6	83.4	80.7	90.2	77.6	77.6	86.9
% chg	14.1	3.1	-3.2	11.8	-1.6	0.0	12.0
Manitoba. Total. All areas	3.6	3.9	3.7	3.5	3.1	3.5	3.6
% chg	22.1	14.7	-5.1	-5.4	-6.1	12.9	2.9
Saskatchewan. Total. All areas	3.0	3.4	3.4	3.4	4.8	2.6	3.0
% chg	24.4	36.0	0.0	0.0	26.3	-45.8	15.4
Alberta. Total. All areas	38.8	36.6	40.1	38.4	39.4	35.8	37.3
% chg	32.8	-5.4	9.6	-4.2	-2.2	-9.1	4.2
British Columbia. Total. All areas	21.6	23.8	23.6	23.8	27.5	23.0	23.8
% chg	25.5	19.6	-0.8	0.8	14.6	-16.4	3.5

SOURCE: CMHC

All data are seasonally adjusted at an annual rate, latest month's figures are preliminary.

% chg: Per cent change from previous period.

Annual rate of housing starts, urban areas*

	2002	Q3:02	Q4:02	Q1:03	M4:03	M5:03	M6:03
Canada	179.1	180.8	185.9	190.7	177.7	168.5	181.1
Newfoundland	1.6	1.4	1.5	1.2	1.8	2.1	1.8
Prince Edward Island	0.5	0.6	0.5	0.5	0.3	0.7	0.8
Nova Scotia	3.7	3.5	4.7	8.6	2.3	2.5	4.0
New Brunswick	2.6	2.3	3.6	2.1	4.3	3.5	2.6
Québec	33.5	35.3	36.4	35.2	33.9	34.5	34.6
Ontario	79.6	79.3	76.9	83.9	72.0	72.0	81.3
Manitoba	2.2	2.6	2.1	2.1	1.7	2.1	2.2
Saskatchewan	2.4	3.0	2.7	2.7	4.2	2.0	2.4
Alberta	32.7	30.3	34.9	33.5	32.5	28.9	30.4
British Columbia	20.3	22.5	22.6	20.9	24.7	20.2	21.0

* Thousands of units, seasonally adjusted.

This Month's Major Housing Indicators

	2002	Q3:02	Q4:02	Q1:03	M4:03	M5:03	M6:03
New Housing*							
New & unoccupied singles & semis, 000's	4.8	4.6	4.8	4.6	4.6	4.7	n.a.
%chg	-16.4	-5.6	4.7	-5.3	2.0	3.4	n.a.
New & unoccupied row & apartments, 000's	5.1	4.8	5.1	5.1	5.4	5.5	n.a.
%chg	-16.5	-9.6	7.1	-0.5	3.1	1.4	n.a.
New House Price Index, 1992=100	110.4	110.9	112.4	113.7	114.2	n.a.	n.a.
%chg	4.1	0.9	1.3	1.2	0.2	n.a.	n.a.
Existing Housing**							
MLS® resales, units. 000's	416.4	402.7	409.9	401.6	398.7	408.0	n.a.
%chg	9.4	-2.3	1.8	-2.0	-0.5	2.3	n.a.
MLS® average resale price. \$C, 000's	186.7	189.7	192.6	197.8	198.7	200.8	n.a.
%chg	8.8	1.0	1.6	2.7	-1.1	1.1	n.a.
Mortgage Market							
1-Year Mortgage Rate, %	5.17	5.33	5.03	5.05	5.35	5.05	4.85
5-Year Mortgage Rate, %	7.02	6.85	6.80	6.63	6.65	6.15	5.80

SOURCES: CMHC, Statistics Canada, Bank of Canada, The Canadian Real Estate Association.

chg % change from previous period.

n.a. Figures not available

* Seasonally adjusted.

** Seasonally adjusted at annual rate (SAAR).