

STARTS CONTINUE REBOUND IN MARCH

The seasonally adjusted annual rate¹ of housing starts was 252,900 in March, compared with 222,100 in February.

The rebound in starts that began in February continued in March. The pace of new home construction accelerated, as interest rate cuts earlier this year began to be reflected in construction activity. Since the beginning of the year mortgage rates have moved down with the current five-year posted rates the lowest since June 1951. Looking ahead, low mortgage rates should continue to support high levels of starts.

The seasonally adjusted annual rate of urban starts in Canada rose 16.2 per cent to 221,500 units, with most of the increase coming from multiples. Urban multiple starts increased 28.2 per cent in March to 114,700, while urban

single starts rose 5.5 per cent to 106,800.

Seasonally adjusted urban starts rose in almost all regions with starts up 8.3 per cent in British Columbia, 22.7 per cent in Ontario, 16.6 per cent in Quebec and up strongly in the Atlantic Region. In the Prairie region, seasonally adjusted starts dropped 2.4 per cent due to a 23.9 per cent decline in multiple starts.

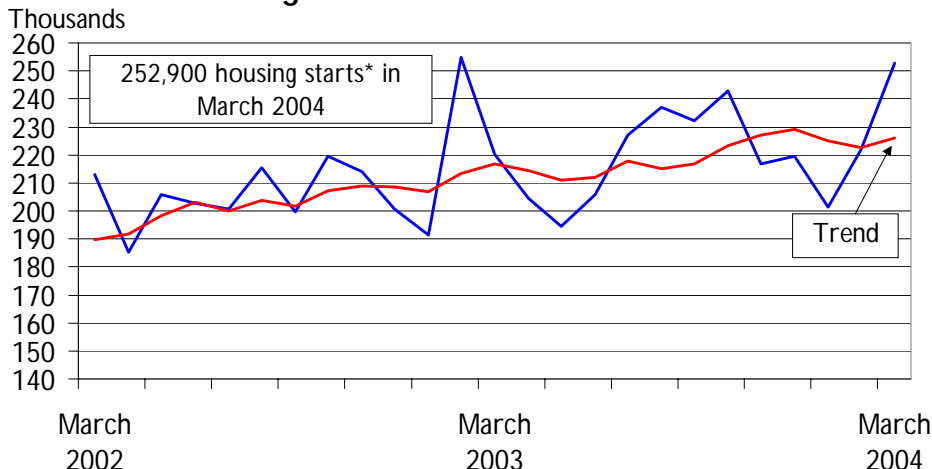
Rural starts in March were estimated at a seasonally adjusted annual rate of 31,400 units.

Year to date actual urban starts were 2.7 per cent higher through March than for the same period last year. Single starts were up 2.9 per cent while multiple starts were up 2.5 per cent. ■

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Housing Starts in Canada - All Areas*



Source: CMHC

*Seasonally adjusted at annual rates

¹ See note on page 2.



HOME TO CANADIANS
Canada

1. All starts figures, other than actual starts, are seasonally adjusted annual rates (SAAR) that are monthly figures adjusted to remove normal seasonal variation and multiplied by 12 to reflect annual levels.

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Demographic profile: Major life events may contribute to the timing of home purchase

Buying a home is a major life event and factors such as mortgage rates, income and expected returns on investment exert a strong impact on the decision to purchase a home. However, other major life events, such as a marriage, birth of a child or changes in employment, may be occurring at the same time as the purchase of a home and may contribute to the decision.

- According to the September 2003 Financial Industry Research Monitor (FIRM) Residential Mortgage Survey results, six per cent of all respondents surveyed intended to buy a home in the next year. Of those six per cent who intend to purchase a home in the next year, 32 per cent of respondents intend to purchase a more expensive property, while 25 per cent intend to purchase their first home.
- Low mortgage rates and the high level of consumer confidence have been driving factors for many individuals who have recently become active in the housing market. Some homebuyers also experience major events at or close to the same time as buying a home, and these major events may play a part in the decision to purchase a home.
- Of all households surveyed in September 2003, the top three most common life events experienced in the past year were a shift in employment (a new job/changing jobs), the birth/adoption of a child and retirement.
- The analysis of the survey results gives an indication of the coincidence between buying a home and other major life events. Some of these major events do create an added push to a household's decision to purchase a home.
- Certain events seem to have had a bigger impact on the decision to move than others.

The share of households experiencing birth/adoption of child, inheritance, final payment on mortgage, separation/divorce and start of a home business who intended to buy a home was much higher than the share of the households in the overall survey sampled. This may indicate that these particular events were more influential in the decision to move than the other events such as changing jobs or retirement as seen in the table below. ■

Major life events experienced in the past year

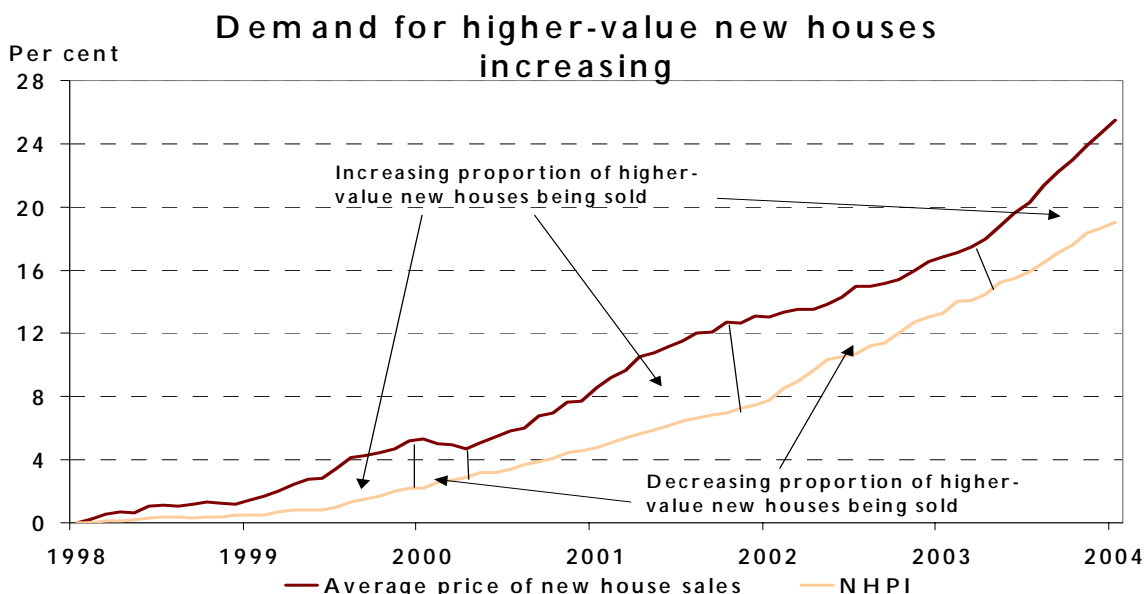
Major life event	% of all households	% in each group that plan to buy a home in the next year
New job/change jobs	17	15
Birth/adoption of child	7	12
Retirement	5	2
Inheritance	4	14
Last child leaving home	3	4
Final payment on mortgage	3	10
Marriage	3	5
Separation/divorce	2	16
Start a home business	2	22
All respondents surveyed	100	6

Sources: CMHC, Clayton Research and Ipsos-Reid, The FIRM Residential Mortgage Survey, September 2003 issue

Why are new house prices rising?

Are new houses getting more expensive or are people buying more house?

- The CMHC Market Absorption Survey reports that, on average, prices for new houses have risen 25.5 per cent since 1998. This increase reflects two basic factors. The first is market appreciation, where similar new houses in the same location and quality type are being sold for a higher price. The second factor is shifts in demand because relatively higher-value new houses are being sold, thus pushing up the average price. The determinants of new house value include location, size, and the number and quality of amenities.
- CMHC collects data on the prices and number of new houses as they are completed and sold. Average prices calculated from this data are an indicator of trends in what people are actually paying for new housing. The impacts of market appreciation and demand shifts on the trend in these average prices can be identified with the help of the New Housing Price Index (NHPI) prepared by Statistics Canada. The NHPI is a measure of market appreciation because it tracks the prices at which developers sell houses with a constant location, size and set features over time. Appreciation in the price of land is also reflected in the index.
- The increase in average new house sale prices and the increase in the NHPI are charted below. Given that the NHPI is an estimate of market appreciation, the extent to which this average new house sales price exceeds the NHPI gives an indication of price increases attributable to shifts in quality. A widening of the gap occurring when the average new house sale price is greater than the NHPI implies proportionately more higher-value new houses are being sold. A narrowing of the gap occurs when there is a decrease in proportion of higher-value new houses being sold.
- The chart uses data for Canada and shows that the gap between NHPI and the average new house sale price was increasing between 1998 and 2000 indicating that part of the increase in new house prices was due to people buying "more house". The gap had been mainly constant or narrowing during the period starting in October 2001 to about April 2003, indicating that increases in the average prices were mainly due to market appreciation. Recently, the average new house sale price has climbed more quickly than the NHPI, which is the current trend in centres such as Toronto, Vancouver and Montreal, indicating that people are again buying more house, thus proportionately more higher-value new houses are being sold. ■



Sources: CMHC, Statistics Canada

The housing market is matching the demand with new housing supply

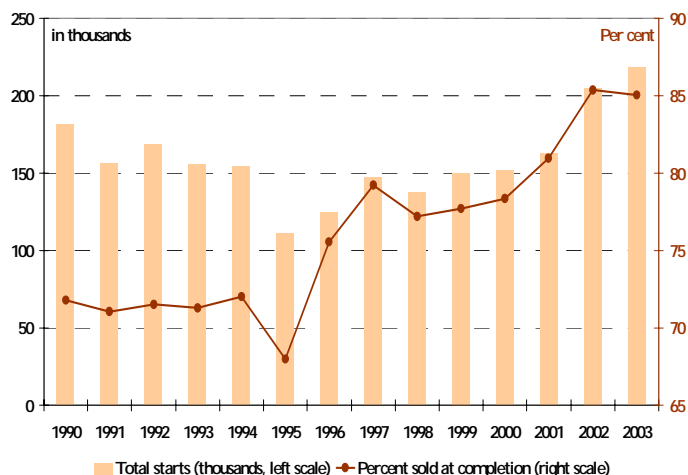
The percentage of new housing sold at completion topped 85% in 2003, reflecting both strong sales and close matching of supply to demand by builders, which minimizes the risks of over-building and sustains strength in the housing market.

- Absorption rates, defined as new housing units that have been both completed and sold divided by the number of units completed, can be used to examine the state of supply and demand conditions in the housing market. Absorptions can be examined in terms of absolute numbers or expressed as a percentage of total completions.
- Recent trends in starts and absorptions show two things: First, that demand has been strong; and second, the homebuilding industry has done a better job of matching supply to demand.
- When the percentage of units that have already been sold upon completion and the level of construction are high, one may conclude that the demand is strong. Thus, in the face of high levels of construction, few completed units are being left unsold. This was the case last year, when the percentage of units sold at completion topped 85% and the level of urban housing starts reached a 14-year high. This comes on the heels of 2002, another year when both total starts and the percentage of houses sold at completion hit decade-high levels. When the percentage of units sold upon completion decreases significantly, inventories rise, indicating that the level of construction activity is exceeding demand. Subsequently, the pace of housing construction

would be expected to fall, which would ease downward pressure on the percent of units sold upon completion.

- In general, the housing construction industry continues to do a good job matching supply with demand, even at the high levels of starts observed over the past two years. Key is their ability to accurately gauge the level of demand and to limit speculative building. ■

High demand met by supply



Source: CMHC

Strong sellers' market supports rising house prices

Demand for housing in Canada has been supported by low mortgage rates and, until very recently, strong job creation. Sales of existing homes set a record in 2003 and sales will remain strong in 2004. The strong demand for existing homes, combined with tight supply has led to rapid increases in home prices. Will these price pressures continue? Part of the answer lies in the sales-to-new-listings ratio.

- To assess the future direction of home prices in the existing home market, a useful indicator is the sales-to-new-listings ratio, which is calculated by dividing the number of MLS® sales by the number of MLS® new listings and multiplying by 100. New listings are used to gauge supply in the existing home market, while sales are used as a proxy for demand.
- Taking the Canadian market as a whole, a sales-to-new-listings ratio below thirty-five per cent has historically accompanied prices that are rising at a rate that is less than inflation, a

situation known as a *buyers' market*. A sales-to-new-listing ratio above fifty per cent is associated with a *sellers' market*. In a sellers' market, home prices generally rise more rapidly than overall inflation. When the sales-to-new-listings ratio is between these thresholds, the market is said to be *balanced* and home prices tend to increase at about the overall rate of inflation.

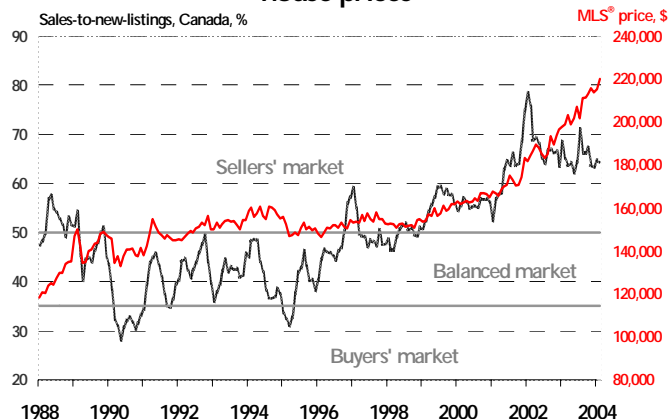
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continued: Strong Sellers' Market Supports Rising House Prices

- The February 2004 sales-to-new-listings ratio for Canada, at over 64 per cent, was firmly planted in sellers' market territory. As a result, house prices are expected to continue to increase faster than the rate of inflation.

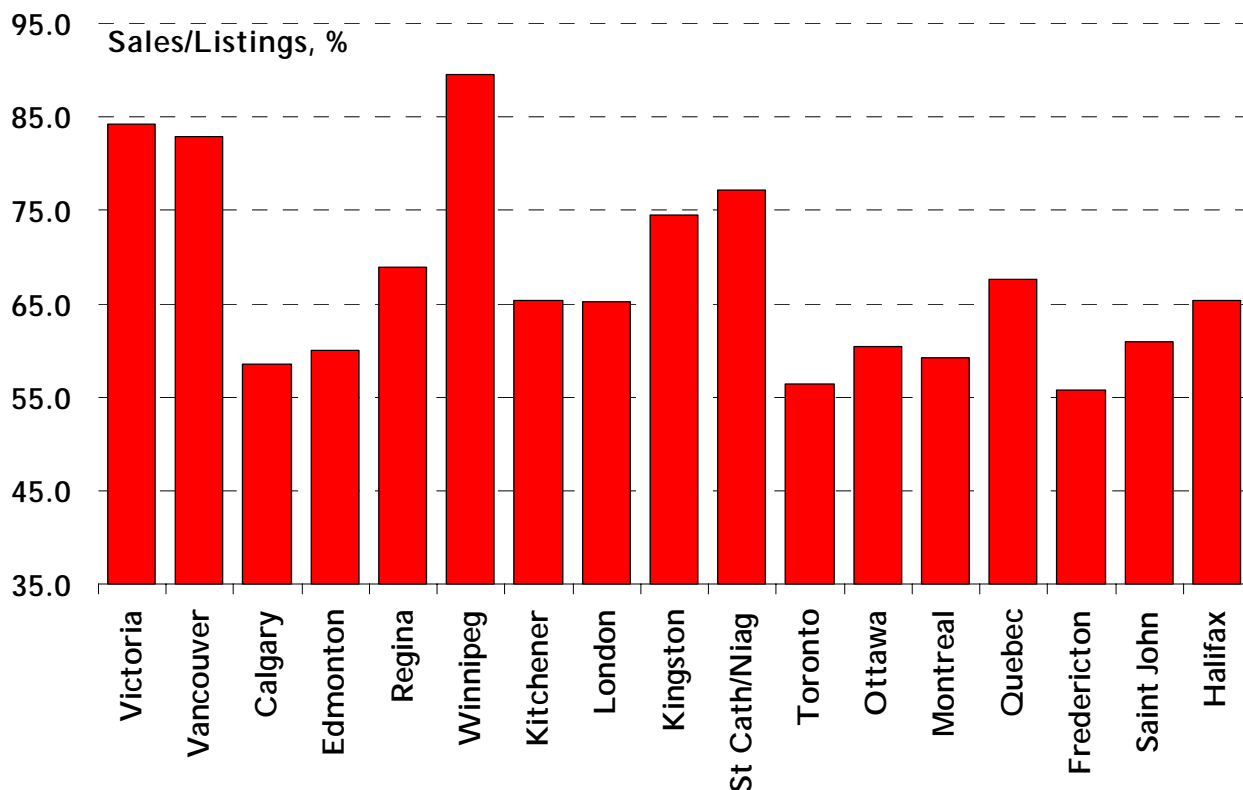
- The thresholds for assessing a market can vary from centre to centre, however, they are useful generalizations that allow us to assess the balance between demand and supply and evaluate price pressures. The areas with higher sales-to-new-listings ratios are where we can expect to see continued strong increases in home values over the next year.
- All centres examined had sales-to-new-listings ratios in excess of 50 per cent and, therefore, are in sellers' market territory. As a result, price increases for existing homes should remain strong in 2004.
- The highest sales-to-new-listings ratios were observed in Winnipeg, Victoria and Vancouver, suggesting that price pressures will be more acute in these centres. Sales-to-new-listings ratios are the lowest in Fredericton, Toronto and Calgary. ■

Sellers' market continues to support rising house prices



Sources: CMHC, Canadian Real Estate Board (CREA), MLS®

Sales-to-new-listings ratio for major centres across Canada



Sources: CMHC, Canadian Real Estate Board (CREA), MLS®

This Month's Housing Data (SAAR)

	2003	2003:3	2003:4	2004:1	2004:01	2004:02	2004:03
Housing starts, units, 000s							
Canada. Total. All areas	218.4	229.2	226.2	225.5	201.5	222.1	252.9
Per cent change from previous period	6.5	13.4	-1.3	-0.3	-8.2	10.2	13.9
Canada. Total. Rural areas	26.5	26.6	27.7	31.4	31.4	31.4	31.4
Per cent change from previous period	2.3	13.7	4.1	13.4	13.4	0.0	0.0
Canada. Total. Urban areas	191.9	202.6	198.5	194.1	170.1	190.7	221.5
Per cent change from previous period	7.1	13.3	-2.0	-2.2	-11.3	12.1	16.2
Canada. Single. Urban areas	100.3	102.0	103.7	101.0	95.1	101.2	106.8
Per cent change from previous period	-2.7	4.3	1.7	-2.6	-8.1	6.4	5.5
Canada. Multiple. Urban areas	91.6	100.6	94.8	93.1	75.0	89.5	114.7
Per cent change from previous period	20.5	24.2	-5.8	-1.8	-15.0	19.3	28.2
Newfoundland. Total. All areas	2.7	2.5	3.0	3.5	2.7	5.1	2.9
Per cent change from previous period	11.3	-13.8	20.0	16.7	3.8	88.9	-43.1
Prince Edward Island. Total. All areas	0.8	0.7	0.7	1.0	1.5	0.5	0.9
Per cent change from previous period	5.0	-30.0	0.0	42.9	66.7	-66.7	80.0
Nova Scotia. Total. All areas	5.1	4.9	5.2	5.9	3.8	3.3	10.6
Per cent change from previous period	2.5	19.5	6.1	13.5	-43.3	-13.2	221.2
New Brunswick. Total. All areas	4.5	4.8	4.2	2.4	2.6	2.3	2.4
Per cent change from previous period	16.2	-2.0	-12.5	-42.9	-42.2	-11.5	4.3
Quebec. Total. All areas	50.3	56.2	56.2	59.0	49.4	59.9	67.8
Per cent change from previous period	18.5	27.7	0.0	5.0	-10.8	21.3	13.2
Ontario. Total. All areas	85.2	85.5	86.5	79.5	69.0	76.7	92.7
Per cent change from previous period	1.9	7.7	1.2	-8.1	-15.6	11.2	20.9
Manitoba. Total. All areas	4.2	4.3	4.9	4.0	3.6	4.3	4.1
Per cent change from previous period	16.3	16.2	14.0	-18.4	-10.0	19.4	-4.7
Saskatchewan. Total. All areas	3.3	3.2	2.9	3.0	3.2	2.1	3.4
Per cent change from previous period	11.9	-13.5	-9.4	3.4	28.0	-34.4	61.9
Alberta. Total. All areas	36.2	37.5	34.3	36.4	34.1	38.6	36.6
Per cent change from previous period	-6.7	6.2	-8.5	6.1	-0.3	13.2	-5.2
British Columbia. Total. All areas	26.2	29.6	28.3	30.8	31.6	29.3	31.5
Per cent change from previous period	21.0	27.6	-4.4	8.8	17.9	-7.3	7.5

SOURCE: CMHC, Starts and Completions Survey. All data are seasonally adjusted and annualized. This seasonally adjusted data goes through stages of revision at different times through the yearly cycle resulting in finalization of preliminary data. These revisions take place at the end of each month, quarter and year.

Annual rate of housing starts, urban areas*

	2003	2003:3	2003:4	2004:1	2004:01	2004:02	2004:03
Canada	191.9	202.6	198.5	194.1	170.1	190.7	221.5
Newfoundland	1.9	1.7	2.3	2.7	1.9	4.3	2.1
Prince Edward Island	0.6	0.6	0.5	0.7	1.2	0.2	0.6
Nova Scotia	3.6	3.1	3.8	4.8	2.7	2.2	9.5
New Brunswick	3.0	3.2	2.8	1.5	1.7	1.4	1.5
Québec	39.9	45.2	44.0	46.6	37.0	47.5	55.4
Ontario	80.9	81.4	81.8	73.3	62.8	70.5	86.5
Manitoba	2.7	3.0	3.4	2.3	1.9	2.6	2.4
Saskatchewan	2.6	2.5	2.4	2.3	2.5	1.4	2.7
Alberta	32.1	33.4	30.5	31.9	29.6	34.1	32.1
British Columbia	24.7	28.5	27.0	28.0	28.8	26.5	28.7

* Thousands of units, seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2003	2003:3	2003:4	2004:1	2004:01	2004:02	2004:03
New Housing							
New & unoccupied singles & semis, units 000s	4.8	4.6	5.0	5.0	5.0	5.0	5.1
Per cent change from same period previous year	-0.9	5.6	5.3	7.3	5.8	5.9	10.3
New & unoccupied row & apartments, units 000s	5.7	5.7	6.0	5.9	6.0	5.7	6.0
Per cent change from same period previous year	10.9	19.9	19.6	13.1	24.6	7.2	8.5
New House Price Index, 1997=100	116.7	117.3	119.0	n.a.	119.9	n.a.	n.a.
Per cent change from same period previous year	4.8	4.8	5.0	n.a.	5.1	n.a.	n.a.
Existing Housing							
MLS [®] resales*, units 000s	439.4	471.3	446.6	n.a.	421.2	430.9	n.a.
Per cent change from same period previous year	4.1	17.4	8.9	n.a.	-3.5	4.8	n.a.
MLS [®] average resale price**, \$C 000s	206.3	207.9	214.0	n.a.	215.5	220.0	n.a.
Per cent change from same period previous year	9.8	10.9	10.8	n.a.	9.0	10.7	n.a.
Mortgage Market							
1-Year Mortgage Rate, % (period average)	4.84	4.55	4.68	4.30	4.30	4.30	4.30
5-Year Mortgage Rate, % (period average)	6.39	6.28	6.45	5.85	6.05	5.80	5.70

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

n.a. Figures not available

* Seasonally adjusted and annualized (SAAR).

** Annual and quarterly data is actual. Monthly data is seasonally adjusted.