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HOUSING FACTS

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Canada Mortgage and Housing Corporation

HOME CONSTRUCTION ROBUST IN AUGUST

The seasonally adjusted annual rate¹ of housing starts was 241,600 in August, up from 218,600 in July.

Nationally, the housing market continues to benefit from positive economic factors. Strong consumer confidence and continued growth in employment combined with low mortgage rates continue to support a buoyant new housing market. High activity in the resale market also confirms that demand for homeownership remains strong while creating spill-over demand in the new home market. Next year, as mortgage rates begin to rise, we expect the pace of new construction to moderate.

The seasonally adjusted annual rate of urban starts was up 12.0 per cent to 214,800 units in August. This is mainly due to the high level of urban multiple

starts, which have increased 35.9 per cent to 114,600 in August while urban single starts declined 6.8 per cent to 100,200 on a seasonally adjusted annual basis.

In all regions of Canada, except Quebec, the seasonally adjusted annual rate of urban starts rose in August: 7.4 per cent in the Atlantic; 15.0 per cent in Ontario and; 13.8 per cent in the Prairies. Urban starts in British Columbia rose 33.8 per cent, which was due entirely to the rise in multiple starts. In Quebec, the seasonally adjusted annual rate of urban starts decreased 6.4 per cent.

Rural starts in August were estimated at a seasonally adjusted annual rate of 26,800 units.

Year-to-date actual urban starts were 8.2 per cent higher through August than for the same period last year.

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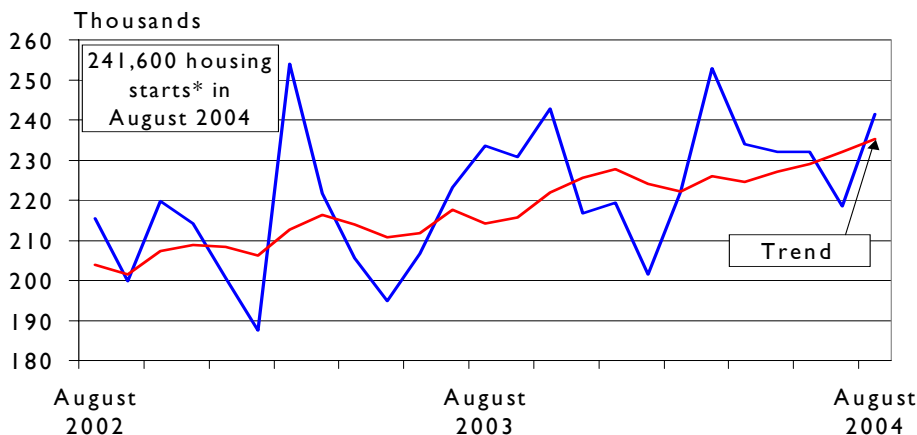
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Single starts were up 4.2 per cent while multiple starts were up 12.9 per cent. The relatively strong growth in multiples is consistent with the upward trend in the share of multiple starts observed since the late 1990s.■

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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Mortgage rates and their effect on the housing demand

Mortgage rates are one of many different factors that affect housing demand. A one percentage-point decrease in mortgage rates has a larger impact on the number of sales of existing homes compared to the number of housing starts.

- There are many factors that affect housing demand, such as migration, employment and income levels, house prices, rent levels, and mortgage rates. Mortgage rates are perhaps the most high profile of these factors. Mortgage rates clearly have a significant impact on the housing market since, along with house prices, they are the biggest determinant of the monthly cost of home ownership. But what is the impact of mortgage rates, and is it measurable? The following analysis sheds some light on this high profile subject.
- Our analysis, which covers the period between 1986 and 2003 shows our estimate of the impact of a one percentage-point change in the 5-year mortgage rate on the new and existing home markets. This mortgage rate is used in the analysis because the largest share of mortgage holders have a fixed, five-year

term*. The analysis estimates that in recent historical terms, a decrease of one percentage-point (100 basis points) in the five-year mortgage rate corresponds to an increase in housing starts of between 8,000 to 12,000 units over the next year. The impact on sales of existing homes was larger, between 14,000 & 22,000 units over the next year. It makes sense that the impact would be larger on the existing house market because the houses are already built, unlike the new house market, reducing the time lag between the change in rates and the market reaction.■

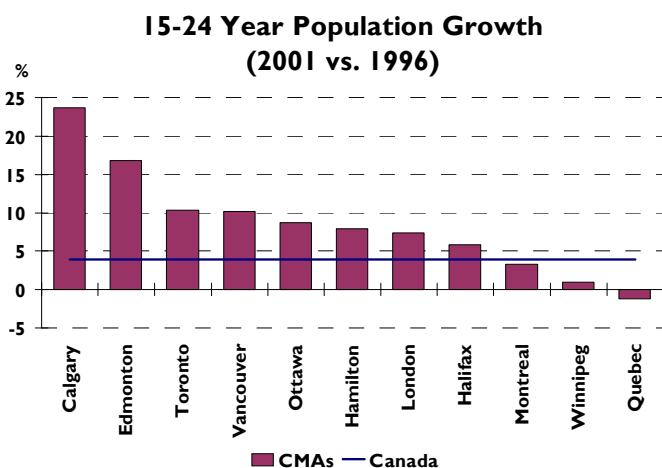
*Clayton Research/Ipsos Reid, the FIRM Survey, March 2004

Local rental demand: a demographic perspective

Economic factors are known to have an impact on rental market performance in the short-term, but what about demographic trends? Population and household growth are important drivers of housing demand in the longer term so it is useful to analyze the results from the last Census to gain a better understanding of trends in rental demand.

Growth in the youth population stimulates rental housing demand...

Most of the large rental markets across the country* experienced above average growth in the youth population (15 to 24 years) between 1996 and 2001. The largest increases were in Calgary and Edmonton. Alberta benefited from strong economic growth, which encouraged many people to move there. Since 1997, Alberta has been the top destination for interprovincial migrants. Growth in the youth population was also strong in Toronto and Vancouver compared to other Census Metropolitan Areas (CMAs).



Sources: CMHC, Adapted from Statistics Canada, Census 2001

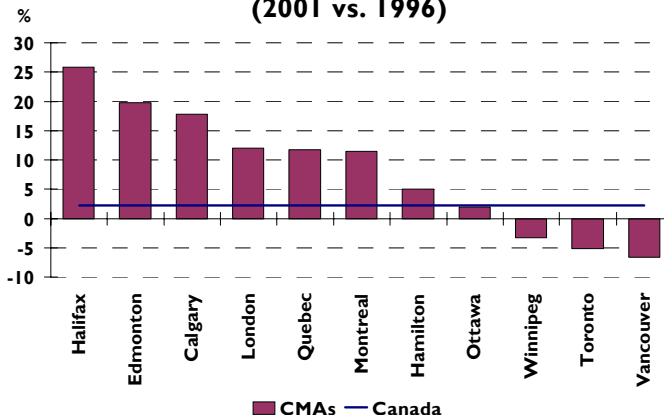
.... however, youth household formation gives a slightly different picture for some centres

Alberta's centres also posted some of the strongest rates of youth household formation, well above the national average. In Halifax, despite the fact that youth population growth was relatively slow, household growth was the highest. Over the 1996-2001 period, net migration to Halifax was mainly attributable to people between 18 to 24 years of age, which stimulated youth household formation.

In Toronto and Vancouver, young household growth was negative between 1996 and 2001, despite the fact that youth population growth was very strong.

* Almost 75 per cent of the entire private rental market universe (units) in Canada is covered by analyzing each of the following CMAs: Toronto, Montreal, Quebec, Vancouver, Edmonton, Ottawa, Winnipeg, Calgary,

15-24 Year Household Growth (2001 vs. 1996)



Sources: CMHC, Adapted from Statistics Canada, Census 2001

According to the Census, the share of young adults living with their parents increased significantly over the last 20 years in Canada (41.1 per cent in 2001 up sharply from 27.5 per cent in 1981). This limits growth in rental demand because 83.4 per cent of households under 25 years rent their dwelling and 52.7 per cent in the 25 to 34 year age group.

Toronto and Vancouver posted some of the highest proportions of people between 20 and 29 years old living with their parents, which helps to explain why young household growth was negative in these centres. Moreover, Calgary, Edmonton and Halifax had some of the lowest proportions of young people living with their parents. In these centres young household growth was very strong.

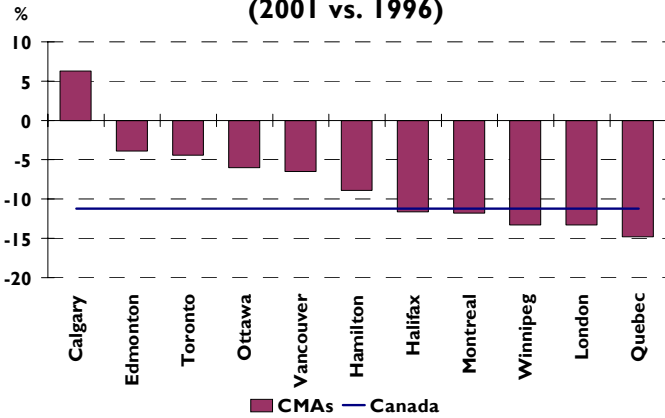
Decline of population and households in 25 to 34 year age group

People between the age of 25 and 34 are also an important pool for rental demand. The population in this age group declined in all centres between 1996 and 2001, except in Calgary. Household growth in the 25 to 34 age group was in line with population growth. This is an additional factor that restrained growth in rental demand.

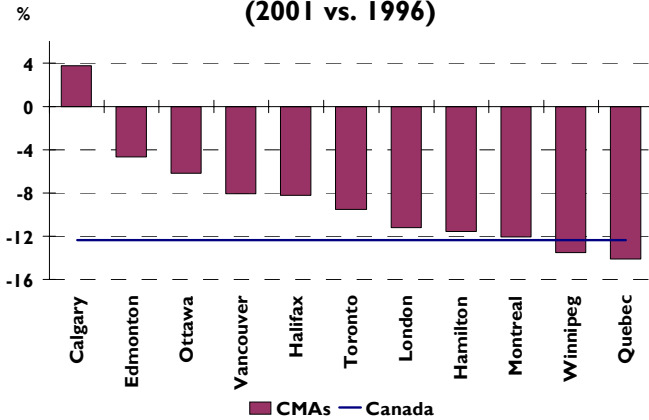
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25-34 Year Population Growth (2001 vs. 1996)



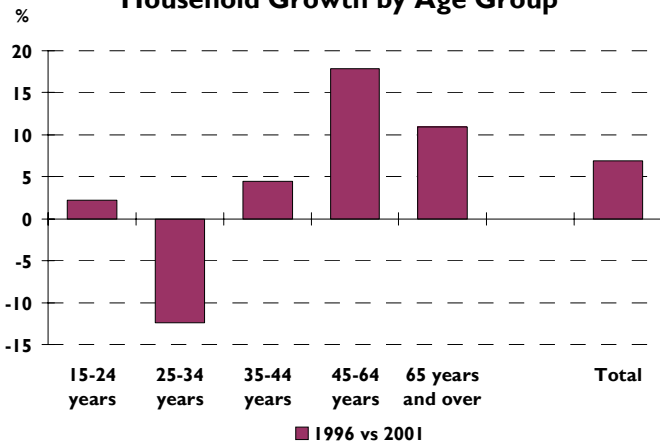
25-34 Year Household Growth (2001 vs. 1996)



Sources: CMHC, Adapted from Statistics Canada, Census 2001

Older age groups do not contribute significantly to the rental demand. According to the 2001 Census, total Canadian household growth occurred mostly in the 45 years and older age group. This pattern holds true for all CMAs analysed.

Household Growth by Age Group



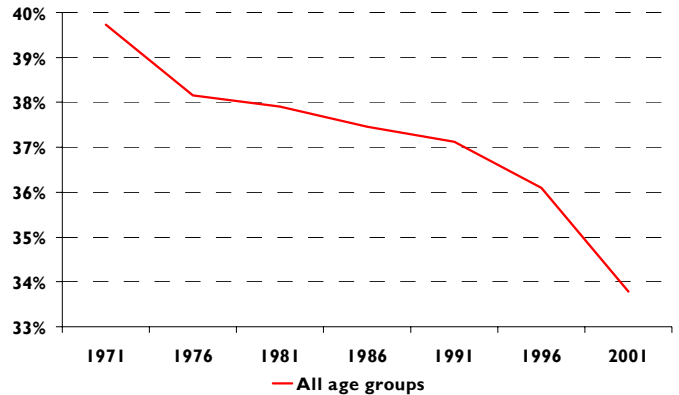
Sources: CMHC, Adapted from Statistics Canada, Census 2001

Canadian households aged 45 years or more grew by 15.2 per cent compared to 1996 while households under 45 years declined by 2.5 per cent. This means that households 45 years of age and more have a more important influence on housing demand than younger age groups.

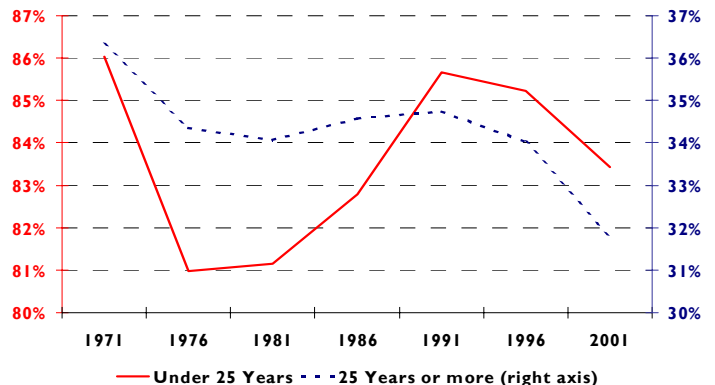
Renter rate is on a declining trend

The proportion of households that rent their dwelling (renter rate) is on a declining trend. This decrease was more pronounced between 1996 and 2001, a period when mortgage rates dropped significantly. As a result, many renters made the transition to homeownership, which lowered renter rates. We can safely assume that the switch to homeownership was stronger among renters with steady incomes, which is consistent with the fact that the decline in renter rates between 1996 and 2001 was higher for renter households over the age of 24 years. Between 1996 and 2001, renter rates among households aged 25 years or more dropped by 2.2 percentage points compared to a decline of 1.8 percentage points for households under 25 years.

Canadian Renter Rates (%)



Canadian Renter Rates (%)



Sources: CMHC, Adapted from Statistics Canada, Census 2001

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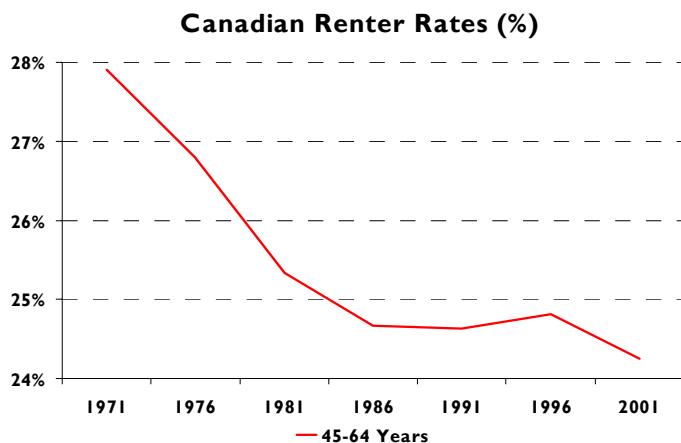
continued: Local rental demand: a demographic perspective

In 2001, renter rates were higher in the Quebec CMAs. Indeed Montreal had the highest share of renter households in the country, but renter rates in Montreal have recently edged lower and there are now more owner households than renters. In 2001, 50.2 per cent of households owned their homes, compared to a proportion of 48.4 per cent in 1996. The high percentage of renters in Montreal is a legacy of the large pool of rental housing, making Montreal the largest rental market in the country. In 2003, the total privately initiated rental universe (of buildings containing 3 or more units) was evaluated at 479,688 units which represents almost 60 per cent more rental units than in Toronto.

All CMAs analysed, except Calgary, had a higher share of renters than the national average. Calgary has the lowest proportion of renters in all age groups and the highest average renter household income among CMAs analysed.

The proportion of renters remains stable over time for the 45 to 64 year age group

According to the 2001 Census, the majority of households in the 45 to 64 age group are owners (about one in four is a renter). Unlike other age groups, the proportion of renters has remained very stable since 1986.



Sources: CMHC, Adapted from Statistics Canada, Census 2001

In 2001, the proportion of renters in the CMAs of Montreal (39.2 per cent) and Quebec (33.7 per cent) were much higher than the national average (24.3 per cent), virtually unchanged from the 1996 Census.

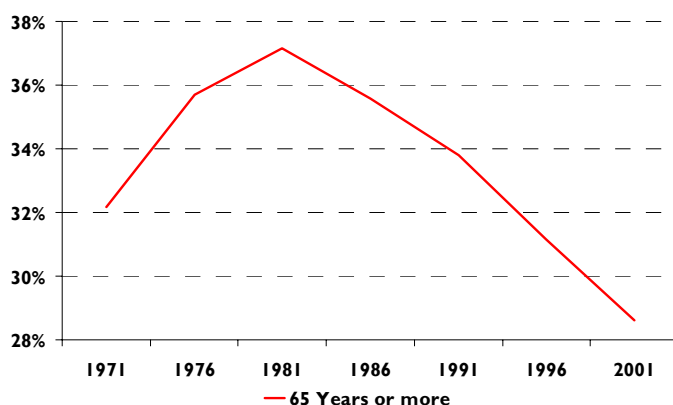
The proportion of renters in the 45 to 64 age group dropped more significantly between 1996 and 2001 in Calgary (18.1 per cent) and in Toronto (27.6 per cent), with decreases of 2.9 percentage points and 1.8

percentage point, respectively. In these centres the average income of renter households between 45 and 64 were the highest among CMAs analysed in 2001.

65 years and over: higher drop of renter rates between 1996 and 2001 compared to other age groups

Between 1996 and 2001, renter households aged 65 years and over recorded the largest decline in renter rates. At the national level, the proportion of renters in this age group was 28.6 per cent in 2001 compared to 31.2 per cent in 1996, a drop of 2.6 percentage points.

Canadian Renter Rates (%)



Sources: CMHC, Adapted from Statistics Canada, Census 2001

The Canadian pattern of renter rates for households 65 years or more is very interesting. Homeownership is more important among this age group and this trend should continue with the ageing baby boomer households, which are a majority of owners.

1986 marked the beginning of a declining trend that has accentuated over the years. Even though the average renter household income was the lowest among all age groups in 2001 (\$26,714), some of them could nevertheless afford to own their property. It seems that these households are attracted by the condominium life style, given that 12.3 per cent of Canadian owner households aged 65 years and over owned a condominium, which is higher than the average of 8.8 per cent for all age groups.

As in other age groups, the proportion of renters was higher in Quebec CMAs. In Montreal and Quebec, almost one in two households aged 65 years or over was a renter, which is much higher than the national average. In the province of Quebec, construction of retirement homes represents a significant proportion of total rental construction.

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continued: Local rental demand: a demographic perspective

Winnipeg had the third highest proportion of renters among households 65 years or more (34.8 per cent) and many “life-lease” units are appearing in the rental market. The life-lease concept is a rather new phenomenon in the Canadian housing sector and is basically the right to housing tenure for the duration of the resident’s life. Life-lease projects are usually non-profit and generally sponsored by groups of individuals who share common interests such as church groups and community based organizations and are aimed at people aged 55 years or older.

In other centres, renter rates for households aged 65 years and over are much closer to the average for all age groups. Renter rates declined in all CMAs between 1996 and 2001. The largest declines in renter rates between 1996 and 2001 were in Calgary, Ottawa, and Vancouver.

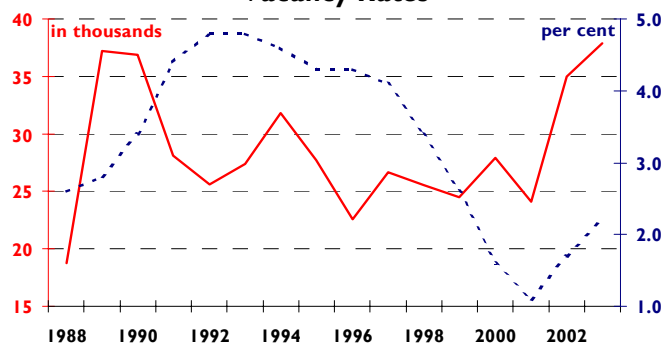
Condominium construction is more active than rental construction

Due to high construction costs, many rental apartment projects target the mid to high end rent range and seniors, as well as they tend to be located downtown. These types of projects are more profitable (higher rents) but aimed at a more limited pool of households.

In response to high costs, construction has drifted to the condominium market. Since 1997, condominium construction has been far more active than rental construction. From 1997 to 2003, there were 2.5 condominium units started for each rental unit.

Condominiums are a relatively inexpensive form of ownership housing, which allows many renter households to move into home ownership. This contributed to reduce renter rates between 1996 and 2001 and consequently

Condominium completions vs. Vacancy Rates*



— Condominium completions in urban centres - - - Vacancy rate (right axis)

*: Average of 28 Census Metropolitan Areas (CMA), Privately Initiated Apartment Structures (with at least 3 units)

Source: CMHC

had an affect on the rental demand.

Looking ahead

Low mortgage rates, which reduced mortgage carrying costs, lessened demand for rental housing by bringing home ownership within the reach of many renter households. With the high level of activity in residential construction in the homeownership segment, it is safe to expect that Canadian renter rates will pursue their declining trend.

In the shorter term, the rise in vacancy rates will reflect a number of factors, including low mortgage rates and rental apartment completions in many centres.

Moreover, in some markets, condominiums are rented out by their owners, which increases competition with rental market supply. Vacancy rates, aggregated across all metropolitan areas, in 2004 and 2005 will remain well below the peak achieved in 1992 and 1993.

Percentage of renter households among CMAs in 2001 by age group

	Total	Under 25 years	25-34 years	35-44 years	45-64 years	65 years or more
Montreal	49.8%	91.9%	67.6%	45.8%	39.2%	49.1%
Quebec	44.5%	92.6%	62.0%	37.9%	33.7%	48.1%
Vancouver	39.0%	84.8%	64.4%	41.9%	28.0%	25.6%
Ottawa	38.6%	90.0%	62.3%	36.3%	26.0%	31.6%
Halifax	38.2%	93.3%	58.9%	31.3%	25.7%	32.9%
London	37.2%	90.1%	55.5%	34.6%	25.1%	31.9%
Toronto	36.8%	82.6%	57.9%	37.8%	27.6%	29.0%
Winnipeg	34.5%	86.1%	50.6%	29.1%	22.9%	34.8%
Edmonton	33.6%	85.4%	53.0%	29.2%	21.3%	26.7%
Calgary	29.4%	80.7%	46.3%	25.0%	18.1%	22.7%
Canada	33.8%	83.4%	52.7%	32.4%	24.3%	28.6%

Source: Adapted from Statistics Canada, Census 2001, table 95F0324XCB01004

This Month's Housing Data (SAAR)

	2003	Q4:03	Q1:04	Q2:04	M6:04	M7:04	M8:04
Housing starts, units, 000s							
Canada. Total. All areas	218.4	226.2	225.5	232.7	232.1	218.6	241.6
Per cent change from previous period	6.5	-1.3	-0.3	3.2	0.0	-5.8	10.5
Canada. Total. Rural areas	26.5	27.7	31.4	23.6	23.6	26.8	26.8
Per cent change from previous period	2.3	4.1	13.4	-24.8	0.0	13.6	0.0
Canada. Total. Urban areas	191.9	198.5	194.1	209.1	208.5	191.8	214.8
Per cent change from previous period	7.1	-2.0	-2.2	7.7	0.0	-8.0	12.0
Canada. Single. Urban areas	100.3	103.7	101.0	104.7	101.9	107.5	100.2
Per cent change from previous period	-2.7	1.7	-2.6	3.7	-5.7	5.5	-6.8
Canada. Multiple. Urban areas	91.6	94.8	93.1	104.4	106.6	84.3	114.6
Per cent change from previous period	20.5	-5.8	-1.8	12.1	6.2	-20.9	35.9
Newfoundland. Total. All areas	2.7	3.0	3.5	2.8	2.8	2.6	2.5
Per cent change from previous period	11.3	20.0	16.7	-20.0	3.7	-7.1	-3.8
Prince Edward Island. Total. All areas	0.8	0.7	1.0	1.2	1.3	0.9	0.8
Per cent change from previous period	5.0	0.0	42.9	20.0	18.2	-30.8	-11.1
Nova Scotia. Total. All areas	5.1	5.2	5.9	4.1	4.6	4.1	4.9
Per cent change from previous period	2.5	6.1	13.5	-30.5	15.0	-10.9	19.5
New Brunswick. Total. All areas	4.5	4.2	2.4	4.1	3.7	3.7	3.7
Per cent change from previous period	16.2	-12.5	-42.9	70.8	-15.9	0.0	0.0
Quebec. Total. All areas	50.3	56.2	59.0	55.4	52.7	56.9	53.9
Per cent change from previous period	18.5	0.0	5.0	-6.1	-7.7	8.0	-5.3
Ontario. Total. All areas	85.2	86.5	79.5	87.9	88.7	81.2	92.6
Per cent change from previous period	1.9	1.2	-8.1	10.6	0.6	-8.5	14.0
Manitoba. Total. All areas	4.2	4.9	4.0	4.1	4.0	4.9	7.4
Per cent change from previous period	16.3	14.0	-18.4	2.5	-4.8	22.5	51.0
Saskatchewan. Total. All areas	3.3	2.9	3.0	4.6	2.7	3.0	4.0
Per cent change from previous period	11.9	-9.4	3.4	53.3	-62.0	11.1	33.3
Alberta. Total. All areas	36.2	34.3	36.4	33.8	40.1	32.0	33.1
Per cent change from previous period	-6.7	-8.5	6.1	-7.1	35.9	-20.2	3.4
British Columbia. Total. All areas	26.2	28.3	30.8	34.7	31.5	29.3	38.7
Per cent change from previous period	21.0	-4.4	8.8	12.7	-6.8	-7.0	32.1

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	Q4:03	Q1:04	Q2:04	M6:04	M7:04	M8:04
Canada	191.9	198.5	194.1	209.1	208.5	191.8	214.8
Newfoundland	1.9	2.3	2.7	2.1	2.1	2.0	1.9
Prince Edward Island	0.6	0.5	0.7	0.8	0.9	0.6	0.5
Nova Scotia	3.6	3.8	4.8	3.1	3.6	2.7	3.5
New Brunswick	3.0	2.8	1.5	2.9	2.5	2.8	2.8
Québec	39.9	44.0	46.6	47.0	44.3	46.7	43.7
Ontario	80.9	81.8	73.3	83.8	84.6	75.9	87.3
Manitoba	2.7	3.4	2.3	2.6	2.5	3.2	5.7
Saskatchewan	2.6	2.4	2.3	3.9	2.0	2.1	3.1
Alberta	32.1	30.5	31.9	30.2	36.5	28.0	29.1
British Columbia	24.7	27.0	28.0	32.7	29.5	27.8	37.2

* Thousands of units, seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2003	Q4:03	Q1:04	Q2:04	M6:04	M7:04	M8:04
New Housing							
New & unoccupied singles & semis, units 000s	4.8	5.0	5.0	5.3	5.2	4.9	5.0
Per cent change from same period previous year	-0.9	5.3	7.3	8.6	7.0	7.0	10.1
New & unoccupied row & apartments, units 000s	5.7	6.0	5.9	6.0	6.4	6.6	6.6
Per cent change from same period previous year	10.9	19.6	13.1	5.5	8.7	17.7	13.5
New House Price Index, 1997=100	116.7	119.0	120.4	122.6	123.5	123.7	n.a.
Per cent change from same period previous year	4.8	5.0	5.0	5.8	6.2	6.0	n.a.
Existing Housing							
MLS[®] resales*, units 000s	434.6	441.6	446.4	477.4	474.3	460.0	n.a.
Per cent change from same period previous year	3.9	8.8	8.1	14.3	7.0	-6.9	n.a.
MLS[®] average resale price**, \$C 000s	207.3	215.0	220.8	225.5	222.6	219.1	n.a.
Per cent change from same period previous year	9.7	10.7	9.9	10.7	6.9	8.2	n.a.
Mortgage Market							
1-Year Mortgage Rate, % (period average)	4.84	4.68	4.30	4.57	4.70	4.60	4.40
5-Year Mortgage Rate, % (period average)	6.39	6.45	5.85	6.45	6.70	6.55	6.30

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.