

# H

# HOUSING FACTS

September 11, 2000; Volume 5, Number 9

Canada Mortgage and Housing Corporation

## Starts fall to 146,000 units in August

In August, 146,000 housing units\* were started in Canada compared to the revised level of 165,600 units recorded in July, for a decline of 11.8%.

Urban multiple starts sustained a greater decrease, as they reached a level of 52,300 units (-23.4%). As for single starts, 72,700 new units were registered (-4.7%).

The downturn in starts was disappointing, as Ontario starts were well below expectations generated by the strong economy.

In addition, British Columbia starts are heading towards a historic low, despite the encouraging signs posted by the provincial economy. This offset the gains made in Quebec.

Please see **Housing starts** on page 2...

## In this Issue:

**Renovation superstores: Ontario to be the next battlefield.** ..... 2

**Electronic marketplaces huge potential.** ..... 3

**Seasonal factors affected by market vitality and technology.** ..... 4

**The decline in prices for materials affecting more than wood.** ..... 5

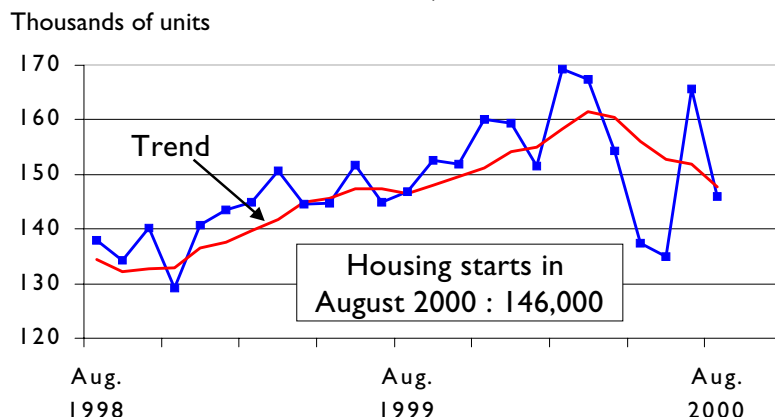
**Resale markets: move-up buyers are pushing prices up.** ..... 5

**Exporting to China.** ..... 6

**Mortgage prepayments on the rise : one-third of homeowners are ready to pay faster this year.** ..... 6

**Tables.** ..... 7

Housing starts in Canada  
all areas, \*saar



Source: CMHC Housing facts

\*Seasonally adjusted annual rate



HOME TO CANADIANS  
Canada

**Housing starts - Continued from page 1**

In detail, at the regional level, Quebec was the only region where an increase was recorded in August (8.9% to 23,400 units) given a strong progression in single starts in Montréal. In fact, starts were down in British Columbia (-21.2% to 8,900 units), Ontario (-23.1% to 62,100 units) and the Atlantic Region (-4.1% to 7,100 units). Starts remained essentially unchanged in the Prairies, at 23,700 units.

In the large urban agglomerations, starts attained 36,100 units in Toronto, 15,600 units in Montréal and 5,700 units in Vancouver, at seasonally adjusted annual rates.

After eight months of activity, real urban starts show a gain of 3% over the same period in 1999. ■

Contributors: Philippe Le Goff, Louis Trottier, Ali Manouchehri and Robin Wiebe.

**Questions:**

**Philippe Le Goff at 1-613-748-2933  
or [plegoff@cmhc-schl.gc.ca](mailto:plegoff@cmhc-schl.gc.ca)**

**To subscribe: 1-613-748-2006 or**

**<http://www.cmhc-schl.gc.ca/mktinfo/store>**

© Canada Mortgage and Housing Corporation, 2000.

All rights reserved. Canada Mortgage and Housing Corporation hereby grants permission to the subscriber to produce one electronic copy and to print one hard copy for the subscriber's personal use only. No part of this publication may be reproduced, modified, or redistributed in any form or by any means, for any purposes (including but not limited to sales) other than those noted above, without the prior written permission of Canada Mortgage and Housing Corporation.

**Renovation superstores: competition to edge up a notch**

**The opening of many renovation superstores in Quebec and Ontario looks promising for consumers but represents a sizable challenge for the players already in place.**

- In Quebec, the opening of new Rona and Réno-Dépôt renovation superstores and the recent arrival of Home Depot, on a market that is already considered as the most competitive in North America, will intensify the fight for market share by another notch and could trigger a price war in the aisles.
- According to some sources in the sector, it would appear that the high level of competition on the Quebec market has brought about, for example, a drop of 15% to 20% in the price of paint in the last few years. A similar phenomenon now seems to be emerging on the rich Ontario market, as Home Depot, which has so far dominated this market, will soon be facing the greater presence of the two Quebec hardware dealers.
- Ontario is effectively a promising market for renovation product retailers on account of the high income level of households there. The average income per household\* is clearly higher in Ontario than in Quebec, thereby raising the market potential of renovation superstores.
- Despite the proliferation of superstores and sales of \$3.7 billion in Canada last year, they only account for 20% of the market. The growth potential is still huge. Store openings scheduled for this fall and next spring are evidence of this perception of the renovation giants. ■

**Household income\*, 1998**

Census metropolitan area (CMA)	Household income (\$)
Halifax	21,030
Quebec city	17,990
Montréal	18,247
Ottawa	25,002
Toronto	25,782
Calgary	27,206
Edmonton	25,721
Vancouver	22,016

Sources: CMHC Housing facts and Statistics Canada

\* Household income: Total income less income tax and housing and food related expenses.

## Electronic markets on the Internet and residential construction

Their development could lead to a reduction in costs along the industry's entire materials supply line. In addition, this platform could be an excellent vehicle for the distribution of avant-garde or marginal products that have difficulty in finding a place on superstore shelves.

- Electronic markets are Internet sites where sellers and buyers can deal products and materials using catalogues that can be accessed by means of powerful search engines. These markets can also put a buyer in direct contact with a wholesaler, a distributor or a manufacturer. Analysts estimate that there are over a hundred electronic commerce sites dedicated to the construction industry now in operation. On some sites, clients can consult catalogues on-line or download them and subsequently place their orders. Deliveries are then ensured through a network of local distributors and warehouses.
- This becomes even more interesting on sites that provide a call for tenders system combined with a transaction component. Builders can then search for products and suppliers, consult product catalogues, launch a call for tenders, receive tenders and order products. They could also check the status of their orders, in relation to the schedules of their subcontractors and the progress of the work and ensure just-in-time deliveries, using a cell phone or Palm Pilot right from the construction site.
- Other Web sites offer, in addition to the transaction component, instruction resources and interactive information content designed to meet the specific needs of the residential construction industry and aimed at fostering the creation of a veritable on-line exchange and business community.
- Finally, according to the promoters of certain sites currently under development, electronic markets will also offer labour recruitment assistance services. In short, there is no need to look elsewhere. In addition to all the services listed so far in this article, these electronic markets could also offer market conditions and demand forecast and analysis services, project management and accounting services, and this is just the beginning.
- How fast will the residential construction industry respond to the advances of the new economy? American consultants affirm that

### Some interesting WEB sites

[www.builderexpress.com](http://www.builderexpress.com)  
[www.buildscape.com](http://www.buildscape.com)  
[www.buildnet.com](http://www.buildnet.com)  
[www.Buildersupplynet.com](http://www.Buildersupplynet.com)  
[www.Buzzsaw.com](http://www.Buzzsaw.com)

builders will start making an intensive use of these services the day they find out that they can save time and money (from 15% to 25% on a product) by using the Internet to get their supplies rather than calling left and right to check prices and receive proposals.

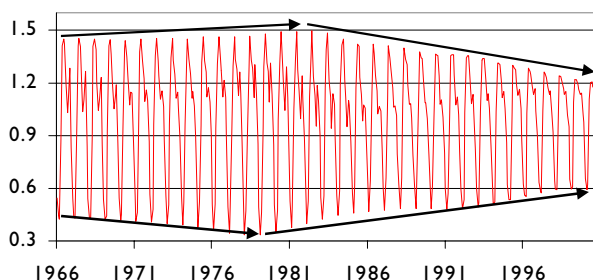
- Some assert that it will be mainly the very large builders that will be the first to benefit from the efficiencies and savings afforded by the Internet, but that suppliers will not be interested in granting significant discounts on small purchase volumes. Could this be a premise for the consolidation of the industry? Some say yes, while others are more skeptical noting that the fragmentation of the industry did not occur by chance, as it responds well to the diversity of the demand and the markets, a situation that particularly holds true in Canada. Still, it should be pointed out that, just 15 years ago, most builders did not have a fax machine.
- Manufacturers could also realize savings on the acquisition of the raw materials that go into the making of their products. As well, electronic commerce will give more value to known brands of construction products and materials given the impossibility for consumers to touch or try a product on the Internet. Cautious consumers will prefer to buy known brands. However, marginal products that do not have access to the major distribution networks are offered an unprecedented showcase. ■

## The importance of seasonally adjusting housing starts data

Housing markets' seasonal variation is not static. For instance, seasonality is moderating in Ontario, but rising in British Columbia. Understanding this is important in interpreting housing data.

- Like most sectors of the economy, housing markets have their own seasonal patterns related to such factors as weather, holidays and the school year.
- Singles starts, for instance, usually rise in the summer when favourable weather prompts more outdoor work. "Seasonal factors" tell us how much any month "normally" varies from the year's monthly average. Winter months typically have seasonal factors below one, since cold weather usually holds singles starts below the year's monthly average. Conversely, summer months typically have seasonal factors above one. Specifically, a hypothetical May seasonal factor of 1.500, applied to singles starts, would indicate May singles starts are typically 50 per cent above the year's monthly average. Analysts use such seasonal factors to gauge housing market trends within a year.

Ontario singles starts seasonal factors



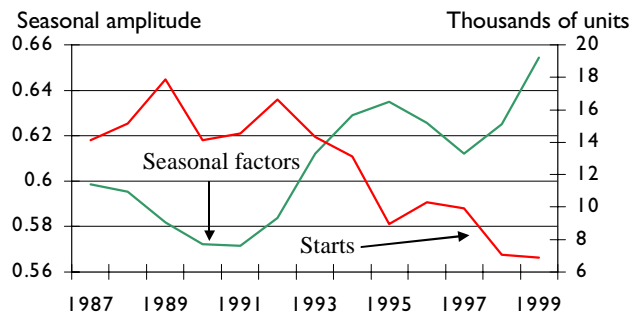
Source: CMHC Housing facts

- Seasonal factors are calculated from underlying data, like that on housing starts, and hence change over time. For instance, as shown in the chart above, the amplitude of each year's seasonal variation (i.e. difference between each year's highest and lowest seasonal factor) in Ontario singles starts rose roughly until the early 1980's and declined thereafter.
- Technological change is one obvious reason for shifting seasonality. Rising use of prefabricated construction components, along with improved cold-weather building inputs and techniques,

enable builders to work in increasingly inclement conditions.

- A shifting location of housing starts also affects seasonality. Specifically, southern Ontario typically faces less severe winters, and therefore smaller seasonal variation in singles starts, than does the province's north. Any distributional shift in single starts to southern locations should reduce Ontario-wide seasonal variation. Available evidence supports such a shift. During the early-to-mid 1980's, CMHC data for 21 Ontario cities shows that the 13 southernmost centres accounted for roughly 80 per cent of these centres' singles starts. By the mid-to-late 1990's, "southern" jurisdictions generated nearly 90 per cent of singles starts.
- A "hot" housing market might also dampen seasonal fluctuation, as builders work through the winter to satisfy housing demand. In British Columbia, for instance, the amplitude of seasonal variation factor fell sharply in 1987-1990 as provincial singles starts remained above 14,000 units.
- British Columbia data also supports the idea that seasonal fluctuations widen in a softening market. By 1995, provincial singles starts had fallen to under 9,000 units. Builders cut their building pace in the face of this implied weak demand; by 1999, the amplitude of seasonal variation had widened sharply. ■

Amplitude of seasonal variation and single-detached starts in B.C.



Source: CMHC Housing facts

## The decline in prices for materials: not just wood

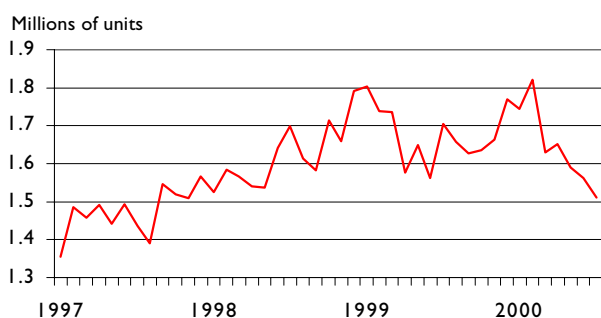
The slowdown in North American demand over the summer and the more moderate outlook are impacting the prices of many construction materials in the U.S. and will soon do so in Canada.

- According to the latest survey of construction materials prices conducted in 20 large U.S. cities, prices are clearly on a downward trend or leveling off, and this is no longer applicable just to wood products. For example, the price of gypsum board dropped by 4% in August, thereby accentuating the decline that began in January.
- Housing starts in the U.S. in July fell to their lowest level since November 1997, as the

interest rate hike is being felt on new home sales and inventories are growing. American market analysts forecast that the demand will stabilize this fall.

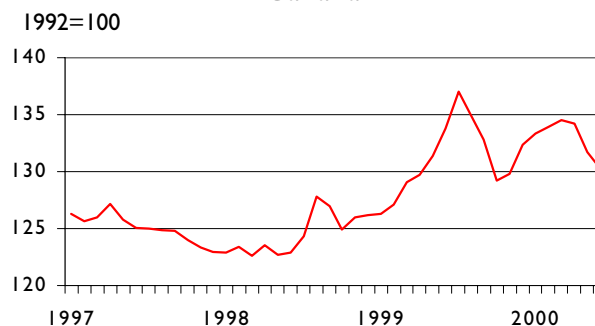
- The materials price index in Canada reacts with a few months delay to the situation prevailing on the American market. Further downturns in the Canadian index can therefore be anticipated. ■

Housing starts in U.S.  
Seasonally adjusted at annual rate



Sources: CMHC Housing facts, U.S. Census Bureau

Total building materials cost index  
Canada



Sources: CMHC Housing facts, Statistics Canada

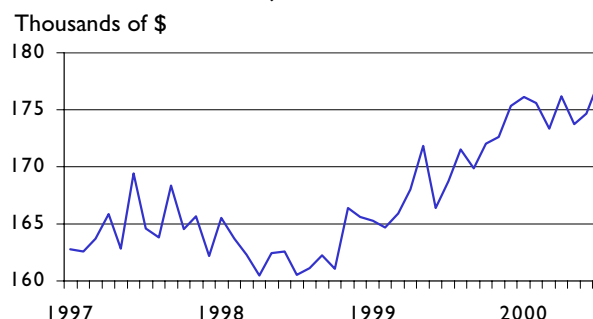
## Resale market: sales are down and prices are heading back up

As sales stagnate and new listings have finally stabilized after falling for ten years, the average price for the 25 largest markets in the country continues to rise.

- In July 2000, the average MLS price within the 25 largest markets attained \$177,617 at the seasonally adjusted annual rate. This represents a record level and a 5.2% increase over the level recorded in July 1999, following several ups and downs since the beginning of 2000. The tighter supply and demand, but also the increase in upscale home sales in several large urban centres, account for this rise in the average price.
- In fact, sales are still high but have been decreasing since April 2000, as the market is slowing down and facing a shortage of affordable and moderately priced homes for sale in many areas. The increase in the supply of homes for sale following the rise in the number of new listings in the last few months, after an almost continuous fall for the past ten

years, could boost sales especially with the help of the small decrease in mortgage rates in middle of the summer. ■

Average MLS resale price  
25 major markets



Sources: CMHC Housing facts, Canadian Real Estate Association



## Exporting to China: small numbers for a huge market

Despite the vastness of the Chinese market, the difficulties involved in doing business in this country are such that our exports there remain marginal, at 0.06% of the total in 1999. NAFTA, the continentalization of trade flows, and market similarities are increasingly intensifying the force of attraction of the U.S.

- Efforts to diversify our export markets are stepping up in order to reduce our dependence with regard to the American market, and one of the privileged markets is China. In fact, from a Canadian point of view, the potential of the Chinese market and its 4 million new housing units per year is overwhelming.
- Ongoing efforts to privatize housing have several objectives, such as reducing the indebtedness of government enterprises that subsidize employee housing, reducing the stock of unoccupied units in cities (56 million m<sup>2</sup>) and improving the quality of life of the population by increasing the habitable floor area per inhabitant. According to a June 2000 study by the Canadian Embassy in Beijing on the construction product market in China, the Chinese government is planning to build the equivalent of around 240 million m<sup>2</sup> per year to raise its average occupied floor area per inhabitant to 12 m<sup>2</sup> by 2010, from its current average of 8.8 m<sup>2</sup>.
- For the time being, the Chinese real estate market is contending with a high vacancy rate due to the prohibitive prices of available housing, problems with building design and location, a lack of infrastructure and a deficient mortgage market.
- The Chinese construction materials market is estimated at US\$53 billion, including \$3 billion for imports. Domestic production essentially meets the market demand, but imported goods are considered to be of superior quality. In the face of the competition from other countries, Canadian firms specialized in energy conservation have a comparative advantage given our expertise, our techniques and our construction products adapted to considerable temperature variations. ■

### Canada's exports (\$Million) Housing related products

	China	%	U.S.	%
1995	16.6	0.12	9,889.2	69.9
1996	16.6	0.10	12,021.7	74.3
1997	15.9	0.09	13,004.3	76.7
1998	14.1	0.09	13,878.8	83.6
1999	11.4	0.06	16,595.4	84.9

Sources: CMHC Housing facts, Statistics Canada

## One third of homeowners plan to make a mortgage prepayment

Excellent economic conditions are spurring more mortgage holders to pay faster. Average prepayment planned for 2000 in Canada is about \$6,500.

- A recent survey (FIRM, March 2000) shows that some 35% of those surveyed are planning to make prepayments in 2000. Average prepayment planned for 2000 is about \$6,500, slightly below \$7,200 in 1999.
- Last year, 27% of homeowners took advantage of double-up, lump-sum, and similar options to make mortgage prepayments above their regular payments. Quebec residents led the way with over one-in-three making a prepayment last year, while only 18 per cent of British Columbia homeowners made prepayments. Ontario homeowners made the largest prepayments last year, averaging \$10,390, while prepayment by Alberta residents averaged about \$3,000.
- With aging baby-boomers and good economic prospects this trend in mortgage loans prepayment should continue to be strong over the next years and add more downward pressure on the outstanding balance of mortgage credit. ■

## This Month's Housing Data

	1999	Q4:99	Q1:00	Q2:00	M6:00	M7:00	M8:00
<b>Housing starts. units. 000's</b>							
<b>Canada. Total. All areas</b>	<b>150.0</b>	<b>157.0</b>	<b>162.7</b>	<b>142.1</b>	<b>135.0</b>	<b>165.6</b>	<b>146.0</b>
% chg	9.1	5.9	3.6	-12.7	-1.8	22.7	-11.8
<b>Canada. Total. Rural areas</b>	<b>22.9</b>	<b>24.5</b>	<b>23.9</b>	<b>19.0</b>	<b>19.0</b>	<b>21.0</b>	<b>21.0</b>
% chg	10.7	17.8	-2.4	-20.5	0.0	10.5	0.0
<b>Canada. Total. Urban areas</b>	<b>127.1</b>	<b>132.5</b>	<b>139.3</b>	<b>123.1</b>	<b>116.0</b>	<b>144.6</b>	<b>125.0</b>
% chg	8.8	4.0	5.1	-11.6	-2.1	24.7	-13.6
<b>Canada. Single. Urban areas</b>	<b>72.8</b>	<b>75.3</b>	<b>81.3</b>	<b>74.3</b>	<b>72.6</b>	<b>76.3</b>	<b>72.7</b>
% chg	6.6	0.3	8.0	-8.6	2.3	5.1	-4.7
<b>Canada. Multiple. Urban areas</b>	<b>54.3</b>	<b>57.2</b>	<b>58.0</b>	<b>48.8</b>	<b>43.4</b>	<b>68.3</b>	<b>52.3</b>
% chg	12.0	9.4	1.4	-15.9	-8.6	57.4	-23.4
<b>Newfoundland. Total. All areas</b>	<b>1.4</b>	<b>1.3</b>	<b>1.7</b>	<b>1.4</b>	<b>1.1</b>	<b>1.8</b>	<b>1.3</b>
% chg	-5.4	0.0	30.8	-17.6	-21.4	63.6	-27.8
<b>Prince Edward Island. Total. All areas</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>
% chg	17.6	-44.4	0.0	20.0	0.0	-14.3	16.7
<b>Nova Scotia. Total. All areas</b>	<b>4.3</b>	<b>4.8</b>	<b>6.4</b>	<b>4.9</b>	<b>4.6</b>	<b>5.4</b>	<b>5.8</b>
% chg	35.5	54.8	33.3	-23.4	-16.4	17.4	7.4
<b>New Brunswick. Total. All areas</b>	<b>2.8</b>	<b>3.1</b>	<b>4.5</b>	<b>2.4</b>	<b>2.2</b>	<b>2.6</b>	<b>2.3</b>
% chg	13.4	14.8	45.2	-46.7	-4.3	18.2	-11.5
<b>Quebec. Total. All areas</b>	<b>25.7</b>	<b>27.8</b>	<b>26.7</b>	<b>22.4</b>	<b>21.2</b>	<b>27.2</b>	<b>29.1</b>
% chg	11.2	7.3	-4.0	-16.1	-2.3	28.3	7.0
<b>Ontario. Total. All areas</b>	<b>67.2</b>	<b>69.3</b>	<b>78.8</b>	<b>63.6</b>	<b>60.5</b>	<b>84.4</b>	<b>65.7</b>
% chg	24.9	7.1	13.7	-19.3	7.1	39.5	-22.2
<b>Manitoba. Total. All areas</b>	<b>3.1</b>	<b>2.6</b>	<b>2.3</b>	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>	<b>3.1</b>
% chg	8.2	-21.2	-11.5	21.7	12.0	-7.1	19.2
<b>Saskatchewan. Total. All areas</b>	<b>3.1</b>	<b>2.3</b>	<b>2.4</b>	<b>2.7</b>	<b>3.2</b>	<b>2.7</b>	<b>2.8</b>
% chg	4.1	-39.5	4.3	12.5	18.5	-15.6	3.7
<b>Alberta. Total. All areas</b>	<b>25.4</b>	<b>27.4</b>	<b>26.1</b>	<b>26.0</b>	<b>24.3</b>	<b>24.3</b>	<b>23.6</b>
% chg	-6.2	3.8	-4.7	-0.4	-15.0	0.0	-2.9
<b>British Columbia. Total. All areas</b>	<b>16.3</b>	<b>17.9</b>	<b>13.3</b>	<b>15.3</b>	<b>14.4</b>	<b>14.0</b>	<b>11.6</b>
% chg	-18.2	11.2	-25.7	15.0	-7.7	-2.8	-17.1

SOURCE: CMHC

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

% chg: Per cent change from previous period.

## Housing starts, urban areas\*

	1999	Q4:99	Q1:00	Q2:00	M6:00	M7:00	M8:00
<b>Canada</b>	<b>127.1</b>	<b>132.5</b>	<b>139.3</b>	<b>123.1</b>	<b>116.0</b>	<b>144.6</b>	<b>125.0</b>
Newfoundland	0.9	1.0	1.5	1.1	0.8	1.4	0.9
Prince Edward Island	0.4	0.3	0.5	0.3	0.4	0.4	0.5
Nova Scotia	2.8	2.9	4.2	3.1	2.8	3.7	4.1
New Brunswick	1.9	1.8	2.8	1.6	1.4	1.9	1.6
Québec	19.5	20.2	20.8	17.7	16.5	21.4	23.3
Ontario	62.9	65.5	74.3	60.3	57.2	80.8	62.1
Manitoba	2.1	1.9	1.3	1.6	1.6	1.5	2.0
Saskatchewan	2.2	1.9	2.0	2.0	2.5	2.2	2.3
Alberta	20.2	21.4	20.3	22.4	20.7	20.0	19.3
British Columbia	14.2	15.6	11.6	13.0	12.1	11.3	8.9

\* Seasonally adjusted.

## This Month's Major Housing Indicators

	1999	Q4:99	Q1:00	Q2:00	M6:00	M7:00	M8:00
<b>New Housing*</b>							
<b>New &amp; unoccupied. singles &amp; semis. 000's</b>	<b>6.3</b>	<b>6.4</b>	<b>6.3</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>
% chg	-8.3	-1.8	-2.3	-1.9	-3.6	0.1	1.4
<b>New &amp; unoccupied. row &amp; apartments. 000's</b>	<b>7.9</b>	<b>7.7</b>	<b>7.6</b>	<b>8.1</b>	<b>8.1</b>	<b>8.3</b>	<b>8.5</b>
% chg	-3.4	3.5	-1.3	-1.1	-4.0	1.8	2.8
<b>New house price Index. 1992 = 100</b>	<b>101.0</b>	<b>101.1</b>	<b>101.8</b>	<b>102.9</b>	<b>103.1</b>	<b>n.a.</b>	<b>n.a.</b>
% chg	0.9	0.5	0.7	1.0	0.1	n.a.	n.a.
<b>Existing Housing*</b>							
<b>MLS resales. units. 000's</b>	<b>335.7</b>	<b>323.8</b>	<b>341.8</b>	<b>333.6</b>	<b>333.2</b>	<b>324.0</b>	<b>n.a.</b>
% chg	6.7	-6.6	5.6	-2.4	-2.0	-2.8	n.a.
<b>MLS average resale price. \$C. 000's</b>	<b>158.0</b>	<b>161.2</b>	<b>162.1</b>	<b>162.4</b>	<b>162.5</b>	<b>164.4</b>	<b>n.a.</b>
% chg	3.7	1.5	0.6	0.2	0.2	11.7	n.a.
<b>Mortgage market</b>							
<b>1-year mortgage rate. %</b>	<b>6.8</b>	<b>7.0</b>	<b>7.3</b>	<b>8.0</b>	<b>8.1</b>	<b>7.9</b>	<b>7.9</b>
<b>5-year mortgage rate. %</b>	<b>7.6</b>	<b>7.8</b>	<b>8.3</b>	<b>8.5</b>	<b>8.5</b>	<b>8.3</b>	<b>8.3</b>
<b>Building materials</b>							
<b>Total costs building materials Index. 1992=100</b>	<b>131.1</b>	<b>130.5</b>	<b>134.0</b>	<b>132.1</b>	<b>130.1</b>	<b>n.a.</b>	<b>n.a.</b>
% chg	5.3	-3.3	2.7	-1.4	-1.2	n.a.	n.a.

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

chg % change from previous period.

n.a. Figures not available

\* Seasonally adjusted.