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Canada

## YOUR LINK TO THE HOUSING MARKET

Canada Mortgage and Housing Corporation

www.cmhc.ca

### Canadian Market Overview

#### New Home Market

##### *New home construction off to a strong start in 2005*

The seasonally adjusted annual rate<sup>1</sup> of housing starts was 204,000 in January, down from 236,300 in December.

Despite the decrease in housing starts in January, the level of activity remains strong and the seasonally adjusted annual rate of starts is higher than it was in January 2004. This high level of activity in the housing market is

consistent with low mortgage rates and a tight labour market.

As 2005 unfolds, we expect these favourable conditions to bring about continued strength in the housing market with starts reaching over 215,000 units, following a 17-year high of 233,431 units last year.

##### *Urban starts fell in January mainly due to multiples*

The seasonally adjusted annual rate of urban starts fell 14.7 per

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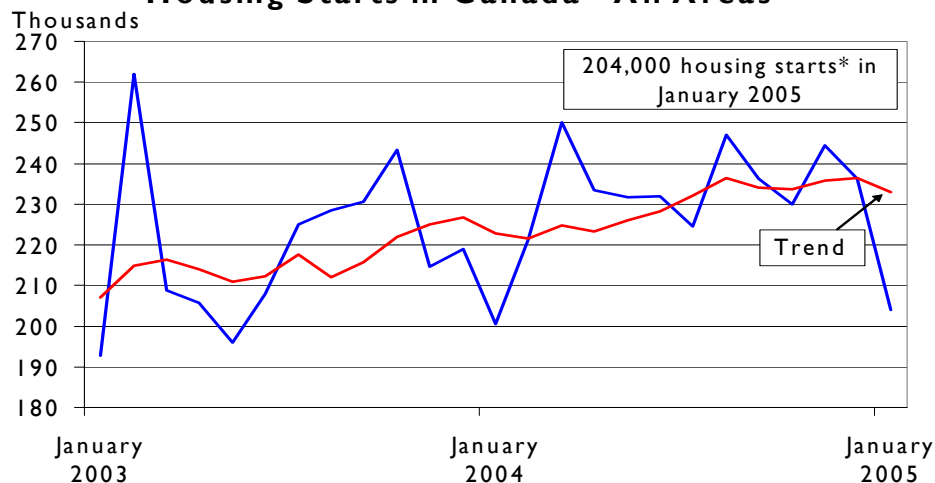
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### Housing Starts in Canada - All Areas\*



cent to 175,600 units, with most of the decline coming from multiples. Multiple starts decreased 21.5 per cent in January to 81,400 while single starts declined 7.8 per cent to 94,200 on a seasonally adjusted annual basis.

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Source: CMHC

\*Seasonally adjusted at annual rates

Monthly housing starts numbers published in Housing Now Canada are final and may differ from the preliminary numbers in the starts press release.

<sup>1</sup> 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.



### **Starts eased in all regions across Canada in January**

The seasonally adjusted annual rate of urban starts declined in all regions across Canada. The largest decreases were in the Prairies and British Columbia, where starts fell by 21.5 and 20.5 per cent, respectively. Starts dropped 11.9 per cent in Ontario, 10.8 per cent in the Atlantic region, and 10.3 per cent in Quebec. In all provinces except Quebec, both single and multiple starts decreased in January. In Quebec, however, a 22.1 per cent decrease in urban multiple starts was partially offset by a 9.9 per cent increase in urban single starts.

Rural starts in January were estimated at a seasonally adjusted annual rate of 28,400 units, a 6.6 per cent decrease from December 2004.

### **Resale Market**

#### **Despite a drop in MLS® sales in December, 2004 sales hit a record level**

Seasonally adjusted MLS® (Multiple Listings Service) sales fell slightly to 37,089 units in December 2004 down 1.3 per cent from 37,585 units in November 2004.

Despite the decline, MLS® actual sales for 2004 increased 4.8 per cent (to 456,503 units) compared to 2003 (435,421 units). Sales of existing homes in 2004 reached a record level for a third consecutive year, thanks to strong demand due to low interest rates and a strong labour market.

#### **New listings fell in December, yet finish 2004 on a strong note**

Seasonally adjusted MLS® new listings in December 2004 fell to 56,112 units, down 7.2 per cent from 60,481 units in November 2004. Despite this month-to-month drop, actual new listings in 2004 increased 8.2 per cent compared to 2003.

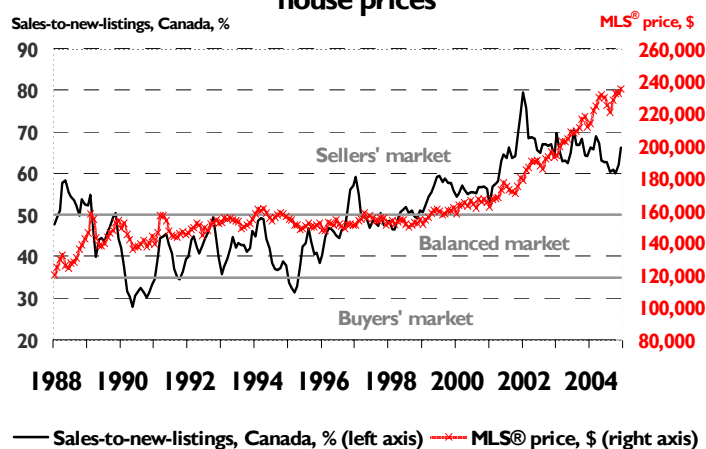
### **Sellers' market conditions across Canada continue to support above inflation growth of average MLS® prices**

An indicator of price pressure in the existing home market is the sales-to-new-listings ratio, which combines new listings, a gauge of supply in the existing home market and MLS® sales, used as a proxy for demand.

Taking the Canadian market as a whole, a sales-to-new-listings ratio below 35 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-listings ratio above 50 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.

The sales-to-new-listings ratio for Canada was firmly planted in sellers' market territory in December 2004, at about 66 per cent. On an annual basis, the sales-to-new-listings ratio for Canada was 64 per cent in 2004. As a result, the average MLS® price for existing homes across

#### **Sellers' market continues to support rising house prices**



Sources: CMHC, Canadian Real Estate Board (CREA)

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Canada was 9.7 per cent higher in 2004 compared to the previous year.

### **Total MLS® dollar volumes reach new record in 2004**

In 2004, the value of residential transactions (total MLS® dollar volumes) through MLS® reached a new record, breaking the past record set in 2003. Total MLS® dollar volumes, which are calculated by multiplying total MLS® sales by the inflation adjusted average MLS® price, grew 12.9 per cent compared to 2003. A look at monthly data reveals that dollar volumes reached a new all-time record in April 2004 with over \$11.3 billion in sales, exceeding the past record set in March 2004.

### **Economic conditions**

In January, employment remained virtually unchanged from December 2004, and the unemployment rate remained at 7.0 per cent. Despite the lack of month-to-month growth, employment in January was up 1.4 per cent from January 2004.

In January, the seasonally adjusted employment-to-population ratio remained near record levels. In other words, a record share of Canadians are employed, thus helping to boost consumer confidence and support strong demand for housing.

The Bank of Canada left its target for the overnight lending rate unchanged at 2.5 per cent on January 25<sup>th</sup>, following a similar decision on December 7<sup>th</sup>. The decision to leave the target for the overnight rate unchanged is in part due to weaker than expected economic growth in the fourth quarter of 2004. With core inflation remaining below the two per cent target, the Bank of Canada is focused on the strong Canadian dollar and its dampening effect on the demand for Canadian exports. Mortgage rates have remained low and have helped keep the financing costs of buying a home down.

The price of new homes, measured by the New Housing Price index (NHPI), rose 5.3 per cent in December 2004 compared to December 2003. The strong housing market and higher building material and labour costs as well as some increase in land value, contributed to the increase in house prices.

In January, the price of goods and services included in the Consumer Price Index (CPI) basket increased 2.0 per cent compared to January 2004, making January's increase the smallest 12-month increase since September 2004. The increase was mainly due to higher gasoline prices, homeowners' replacement cost, property taxes, and prices for restaurant meals. ■

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## Home Buyers' Plan has helped many home buyers in major urban areas

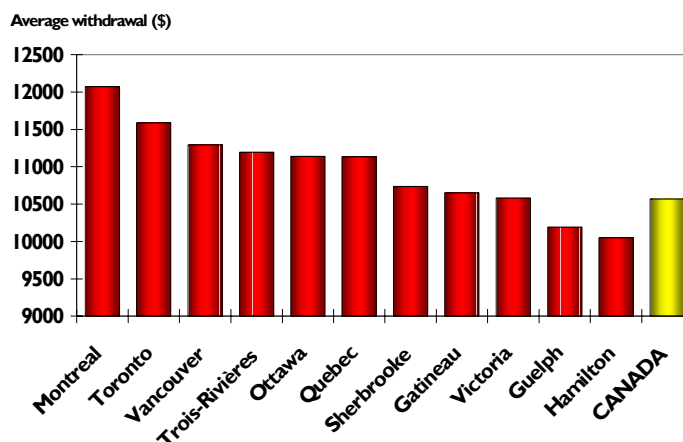
The Home Buyers' Plan, introduced by the federal government in 1992, has helped individuals across Canada purchase a home. Toronto accounted for the largest proportion of participants, followed by Montreal and Vancouver.

- The Home Buyers' Plan (HBP) was introduced by the federal government in 1992 to help individuals purchase a home. It allows Canadians who meet certain eligibility conditions to withdraw up to \$20,000 tax-free from their Registered Retirement Saving Plans (RRSP) to make a down payment on a home. The amounts withdrawn remain tax-exempt if they are repaid within 15 years.
- According to the Canada Revenue Agency, Toronto has accounted for the largest proportion of both participants and RRSP funds withdrawn under HBP among the Canadian urban centres in 2002. Twenty-three per cent of HBP participants in 2002 were from Toronto, where more than \$325 million in RRSP funds were withdrawn to purchase homes. This represented 25 per cent of the total funds used under HBP nationally. Montreal placed second with 17 per cent of the HBP participants and 19 per cent of the RRSP withdrawals, followed by Vancouver with 7 per cent and 8 per cent, respectively.
- It is interesting to note that the proportion of participants in the HBP in Toronto, Montreal, Vancouver, Calgary, Ottawa, Gatineau, and Quebec, was higher than the

proportion of these cities' population in the Canadian population. In other words, the Home Buyers' Plan take up is more heavily concentrated in Canadian urban centres.

- Also, the results vary significantly when it comes to the average amount withdrawn from RRSPs. Montreal took the lead with an average amount of \$12,073 while Toronto and Vancouver posted amounts of \$11,590 and \$11,292, respectively.
- The graph below shows the average withdrawal in different cities. Of particular note is the fact that for most Census Metropolitan Areas in Quebec, the amount exceeds the national average. ■

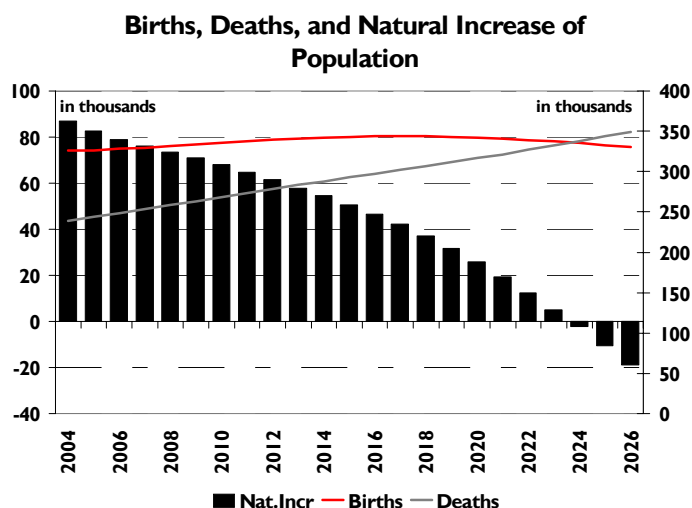
**Quebecers' withdrawals from the HBP are among the highest**



## Demographic demand for housing is declining

Demographic trends, such as the ageing of the population, declining fertility rates, and increased levels of immigration are important drivers of long term housing demand.

- In the short term, favourable economic conditions, such as low interest rates, can cause significant increases in housing demand. Over the longer term, however, demographic trends that influence the rate of household formation such as changes in the size and age structure of the population are an anchor for housing demand. When demographic trends lead to an increase in the rate of household formation, the demand for housing also rises.
- From the national perspective, there are two sources of population growth. The first is the natural increase in the population, which is the difference between the number of births and the number of deaths. The second source of population growth is net international migration, which is defined as immigration less emigration.
- The natural population growth rate has slowed by more than half between 1990 and 2001. The increase in the natural population accounted for only a third of the population growth in 2001. Looking forward and making reasonable assumptions about fertility rates and deaths, we expect growth in the natural population to continue to slow and eventually turn negative around 2024 (see graph above).
- A key factor contributing to the slower natural population growth is the low fertility rate, which will eventually lead to a decrease in the number of births. The



Sources: CMHC, Statistics Canada

total fertility rate, which is an estimate of the average number of children women aged 15 to 49 will have in their lifetime, has been declining in Canada. Indeed, over the past 30 years, the fertility rate of all women has declined by nearly 40 per cent. Despite the trend decline, the fertility rate edged higher in 2001 to 1.51 from the record low of 1.49 set in 2000. We assume for the purpose of projecting the level of the natural population that the fertility rate in Canada will remain constant over the next 20 years.

- The other key factor contributing to the slower natural population growth is that the number of deaths is expected to gradually rise, mainly due to an ageing population. Baby boomers, a large generation born in the period following World War II through to the mid-1960s, account for a large proportion of the

continued on page 6....

**continued: Demographic demand for housing is declining**

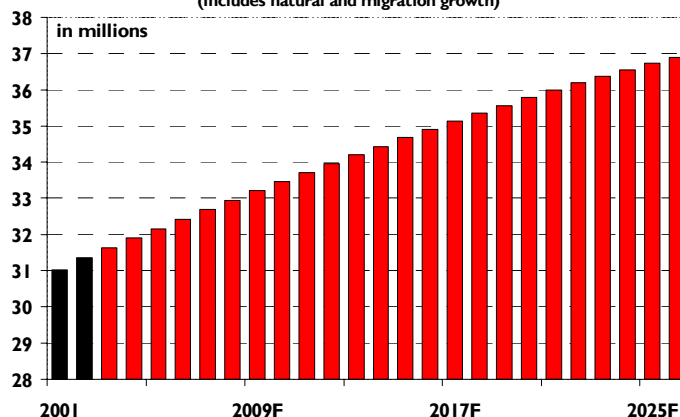
population. As they age, it is expected to result in a rise in the total number of deaths.

- Thus, the combination of rising deaths, and a decrease in the number of births will create a slowdown in growth of the natural population.
- As the natural population growth slows, immigration will become an increasingly important source of population growth. Over half of the population growth in each year from 1997 to the present was due to net international migration. The government’s official immigration target is for 220,000-245,000 new arrivals per year. Between 1989 and 2003 the average annual level of immigration (221,600 arrivals) has been around the lower end of this target range. In the latter half of 2003, relaxation of the criteria for admission of immigrants into Canada was implemented, and the number of immigrants entering Canada has started to recover. In fact, international immigration has increased 11.9 per cent over the first three quarters of 2004 compared to the same time frame in 2003. With this in

mind, it is reasonable to assume that international immigration will continue to strengthen.

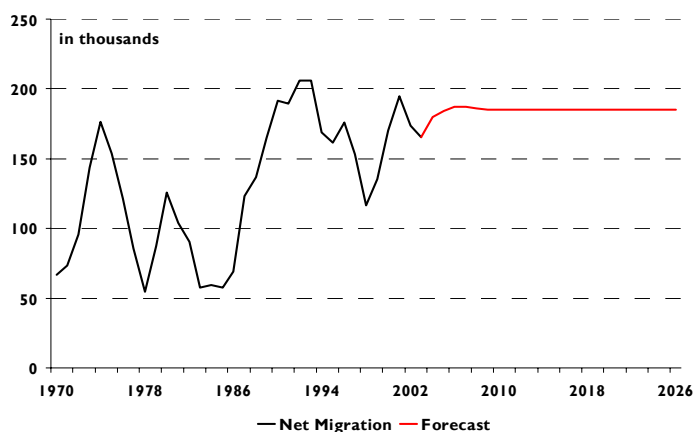
- Combining our natural population projections and our net migration scenario yields a forecast for the total population. According to our forecast, the total population will increase over the entire projection period. However, the rate of growth will steadily slow. As the rate of growth of the natural population slows, growth in the total population will become tied ever more closely to immigration.

**Total Population Estimate**  
(includes natural and migration growth)



Sources: CMHC, Statistics Canada

**Net Migration Scenario**  
(average international immigration around 240,000 annual arrivals)



Sources: CMHC, Statistics Canada

- The demographic composition within the population has a strong influence on the demand for housing. Depending on how population growth changes in the future, its effects on household formation and thus on the demand for housing can be either negative or positive. ■

## This Month's Housing Data (SAAR)

	2004	Q2:04	Q3:04	Q4:04	M11:04	M12:04	M01:05
<b>Housing starts, units, 000s</b>							
<b>Canada. Total. All areas</b>	<b>233.4</b>	<b>232.4</b>	<b>236.3</b>	<b>236.9</b>	<b>244.5</b>	<b>236.3</b>	<b>204.0</b>
Per cent change from previous period	6.9	3.8	1.7	0.3	6.3	-3.4	-13.7
<b>Canada. Total. Rural areas</b>	<b>29.0</b>	<b>23.7</b>	<b>32.7</b>	<b>30.4</b>	<b>30.4</b>	<b>30.4</b>	<b>28.4</b>
Per cent change from previous period	9.5	-23.5	38.0	-7.0	0.0	0.0	-6.6
<b>Canada. Total. Urban areas</b>	<b>204.4</b>	<b>208.7</b>	<b>203.6</b>	<b>206.5</b>	<b>214.1</b>	<b>205.9</b>	<b>175.6</b>
Per cent change from previous period	6.5	8.1	-2.4	1.4	7.3	-3.8	-14.7
<b>Canada. Single. Urban areas</b>	<b>103.9</b>	<b>104.9</b>	<b>105.2</b>	<b>102.5</b>	<b>101.3</b>	<b>102.2</b>	<b>94.2</b>
Per cent change from previous period	3.6	4.0	0.3	-2.6	-2.6	0.9	-7.8
<b>Canada. Multiple. Urban areas</b>	<b>100.5</b>	<b>103.8</b>	<b>98.4</b>	<b>104.0</b>	<b>112.8</b>	<b>103.7</b>	<b>81.4</b>
Per cent change from previous period	9.7	12.7	-5.2	5.7	18.0	-8.1	-21.5
<b>Newfoundland. Total. All areas</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>
Per cent change from previous period	6.6	-17.6	3.6	0.0	-9.4	-3.4	3.6
<b>Prince Edward Island. Total. All areas</b>	<b>0.9</b>	<b>1.1</b>	<b>0.8</b>	<b>0.7</b>	<b>0.9</b>	<b>0.7</b>	<b>1.8</b>
Per cent change from previous period	12.9	10.0	-27.3	-12.5	12.5	-22.2	157.1
<b>Nova Scotia. Total. All areas</b>	<b>4.7</b>	<b>4.2</b>	<b>4.9</b>	<b>4.7</b>	<b>4.1</b>	<b>5.4</b>	<b>4.6</b>
Per cent change from previous period	-7.4	-26.3	16.7	-4.1	-6.8	31.7	-14.8
<b>New Brunswick. Total. All areas</b>	<b>3.9</b>	<b>4.1</b>	<b>4.3</b>	<b>4.0</b>	<b>3.8</b>	<b>4.5</b>	<b>2.5</b>
Per cent change from previous period	-12.1	70.8	4.9	-7.0	-2.6	18.4	-44.4
<b>Quebec. Total. All areas</b>	<b>58.4</b>	<b>54.8</b>	<b>60.5</b>	<b>60.6</b>	<b>63.3</b>	<b>60.7</b>	<b>55.4</b>
Per cent change from previous period	16.2	-5.7	10.4	0.2	9.7	-4.1	-8.7
<b>Ontario. Total. All areas</b>	<b>85.1</b>	<b>87.8</b>	<b>85.8</b>	<b>84.4</b>	<b>85.0</b>	<b>81.3</b>	<b>71.7</b>
Per cent change from previous period	-0.1	11.0	-2.3	-1.6	-2.2	-4.4	-11.8
<b>Manitoba. Total. All areas</b>	<b>4.4</b>	<b>4.2</b>	<b>5.7</b>	<b>4.0</b>	<b>4.3</b>	<b>3.8</b>	<b>3.8</b>
Per cent change from previous period	5.6	7.7	35.7	-29.8	10.3	-11.6	0.0
<b>Saskatchewan. Total. All areas</b>	<b>3.8</b>	<b>4.7</b>	<b>3.2</b>	<b>4.2</b>	<b>4.7</b>	<b>3.7</b>	<b>2.6</b>
Per cent change from previous period	14.1	56.7	-31.9	31.3	17.5	-21.3	-29.7
<b>Alberta. Total. All areas</b>	<b>36.3</b>	<b>34.3</b>	<b>34.7</b>	<b>39.6</b>	<b>40.9</b>	<b>38.8</b>	<b>30.8</b>
Per cent change from previous period	0.3	-4.7	1.2	14.1	4.6	-5.1	-20.6
<b>British Columbia. Total. All areas</b>	<b>32.9</b>	<b>34.4</b>	<b>33.5</b>	<b>31.8</b>	<b>34.6</b>	<b>34.6</b>	<b>27.9</b>
Per cent change from previous period	25.8	9.6	-2.6	-5.1	32.6	0.0	-19.4

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\***

	2004	Q2:04	Q3:04	Q4:04	M11:04	M12:04	M01:05
<b>Canada</b>	<b>204.4</b>	<b>208.7</b>	<b>203.6</b>	<b>206.5</b>	<b>214.1</b>	<b>205.9</b>	<b>175.6</b>
<b>Newfoundland</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.1</b>	<b>2.4</b>
<b>Prince Edward Island</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.4</b>	<b>1.4</b>
<b>Nova Scotia</b>	<b>3.3</b>	<b>3.1</b>	<b>3.5</b>	<b>3.1</b>	<b>2.5</b>	<b>3.8</b>	<b>2.9</b>
<b>New Brunswick</b>	<b>2.6</b>	<b>2.8</b>	<b>3.0</b>	<b>2.5</b>	<b>2.3</b>	<b>3.0</b>	<b>1.6</b>
<b>Québec</b>	<b>46.7</b>	<b>46.5</b>	<b>44.1</b>	<b>49.3</b>	<b>52.0</b>	<b>49.4</b>	<b>44.3</b>
<b>Ontario</b>	<b>79.9</b>	<b>83.8</b>	<b>81.4</b>	<b>77.2</b>	<b>77.8</b>	<b>74.1</b>	<b>65.3</b>
<b>Manitoba</b>	<b>2.9</b>	<b>2.6</b>	<b>3.9</b>	<b>2.6</b>	<b>2.9</b>	<b>2.4</b>	<b>2.1</b>
<b>Saskatchewan</b>	<b>3.1</b>	<b>4.0</b>	<b>2.9</b>	<b>3.3</b>	<b>3.8</b>	<b>2.8</b>	<b>2.0</b>
<b>Alberta</b>	<b>32.2</b>	<b>30.6</b>	<b>30.5</b>	<b>35.6</b>	<b>36.9</b>	<b>34.8</b>	<b>27.3</b>
<b>British Columbia</b>	<b>30.9</b>	<b>32.5</b>	<b>31.7</b>	<b>30.3</b>	<b>33.1</b>	<b>33.1</b>	<b>26.3</b>

\* Thousands of units, seasonally adjusted and annualized.

**This Month's Major Housing Indicators**

	2004	Q2:04	Q3:04	Q4:04	M11:04	M12:04	M01:05
<b>New Housing</b>							
<b>New &amp; unoccupied singles &amp; semis, units 000s</b>	<b>5.2</b>	<b>5.3</b>	<b>5.0</b>	<b>5.7</b>	<b>5.8</b>	<b>5.8</b>	<b>5.6</b>
Per cent change from same period previous year	9.3	8.6	8.3	12.6	13.8	13.8	13.5
<b>New &amp; unoccupied row &amp; apartments, units 000s</b>	<b>6.7</b>	<b>6.0</b>	<b>6.7</b>	<b>8.3</b>	<b>8.3</b>	<b>8.6</b>	<b>8.5</b>
Per cent change from same period previous year	18.9	5.5	18.6	37.1	41.6	36.4	41.4
<b>New House Price Index, 1997=100</b>	<b>123.2</b>	<b>122.6</b>	<b>124.2</b>	<b>125.4</b>	<b>125.5</b>	<b>125.8</b>	<b>n.a.</b>
Per cent change from same period previous year	5.5	5.8	5.9	5.4	5.3	5.3	n.a.
<b>Existing Housing</b>							
<b>MLS<sup>®</sup> resales*, units 000s</b>	<b>456.5</b>	<b>473.4</b>	<b>455.0</b>	<b>446.2</b>	<b>451.0</b>	<b>445.1</b>	<b>n.a.</b>
Per cent change from same period previous year	4.8	14.6	-1.9	-0.4	2.9	0.8	n.a.
<b>MLS<sup>®</sup> average resale price*, \$C 000s</b>	<b>227.2</b>	<b>227.3</b>	<b>226.8</b>	<b>234.2</b>	<b>234.1</b>	<b>236.7</b>	<b>n.a.</b>
Per cent change from same period previous year	9.7	12.6	8.0	8.5	7.4	10.1	n.a.
<b>Mortgage Market</b>							
<b>1-Year Mortgage Rate, % (period average)</b>	<b>4.59</b>	<b>4.57</b>	<b>4.60</b>	<b>4.90</b>	<b>5.00</b>	<b>4.80</b>	<b>4.80</b>
<b>5-Year Mortgage Rate, % (period average)</b>	<b>6.23</b>	<b>6.45</b>	<b>6.38</b>	<b>6.25</b>	<b>6.30</b>	<b>6.05</b>	<b>6.05</b>

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

n.a. Figures not available

\* Seasonally adjusted and annualized (SAAR).