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# HOUSING NOW

Canada

## YOUR LINK TO THE HOUSING MARKET

Canada Mortgage and Housing Corporation

www.cmhc.ca

### Canadian Market Overview

JULY 2005

#### New Home Market

##### *Housing starts are up in June*

The seasonally adjusted annual rate<sup>1</sup> of housing starts was 241,300 units in June, up 7.0 per cent from 225,500 units in May.

The new home market was up in June with starts rising to their highest level of the year. The popular five-year fixed mortgage rate has fallen in recent months. This and other

solid fundamentals are stimulating new home construction.

##### *Urban multiple starts jump in June, while single starts hold steady*

The seasonally adjusted annual rate of urban starts rose 8.3 per cent to 207,200 units in June, due mainly to an increase in multiple starts. Single starts continued on page 2...

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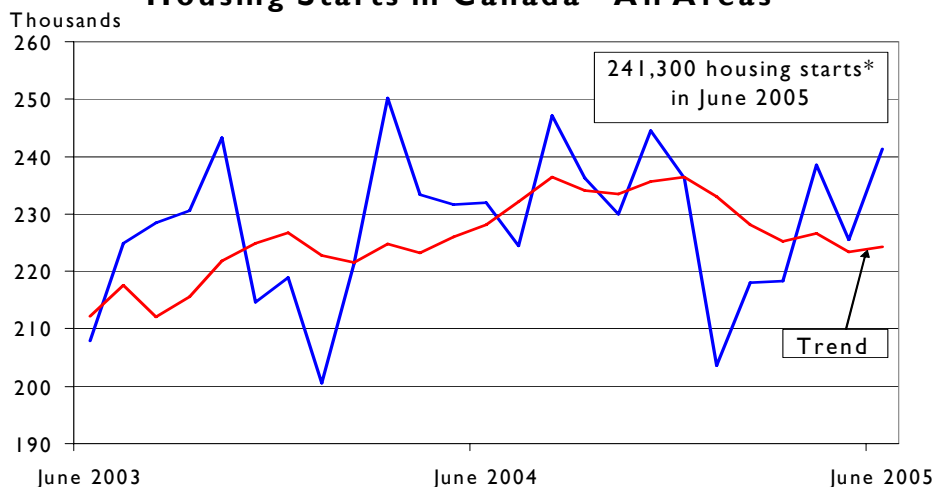
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#### Housing Starts in Canada - All Areas\*



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.

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remained unchanged at 98,400 units in June, while multiple starts rebounded to 108,800 units in June, up 17.0 per cent compared to May.

### **Urban starts increased in Ontario and Quebec, while dipping in the rest of the regions**

Compared to May, the seasonally adjusted annual rate of urban starts in June was up by 42.6 per cent to 96,700 units in Ontario and up 12.6 per cent to 39,300 units in Quebec, due largely to an increase in multiple unit starts. The increase in Ontario and Quebec was partially offset by a decrease in urban starts in the Atlantic, Prairie and BC regions.

Rural starts in June were estimated at a seasonally adjusted annual rate of 34,100 units.

### **Year-to-date actual urban starts are lower than in the same period last year**

For the first half of 2005, actual urban starts were 5.2 per cent lower than in the same period in 2004. As of June, year-to-date single starts decreased 7.8 per cent, and multiple starts dipped 2.5 per cent compared to the same period last year.

Across the regions, on a year-to-date basis, actual urban starts were up only in the Prairies (6.0 per cent). In Quebec (-15.7 per cent), British Columbia (-5.2 per cent), Ontario (-4.1 per cent), and the Atlantic (-3.4 per cent) starts in the January to June period were down in 2005 compared to the previous year.

## **Existing Home Market**

### **MLS® sales up in May**

Seasonally adjusted MLS® (Multiple Listings Service) sales were up 0.2 per cent to 40,268 units in May 2005, compared to 40,119 units in April 2005.

MLS® actual sales for the first five months of 2005, at 204,252 units, were down 0.6 per cent from the same period in 2004.

### **MLS® new listings decrease in May**

Seasonally adjusted MLS® new listings in May 2005 decreased by 2.1 per cent to 64,113 units, compared to 65,489 units in the previous month.

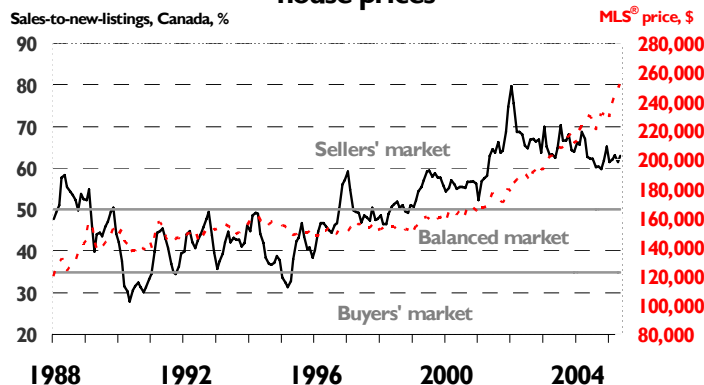
Actual new listings for the first five months of 2005 were up 5.2 per cent over the same period in 2004.

### **Sellers' market conditions across Canada continue to support strong growth in house prices**

An indicator of price pressure in the existing home market is the sales-to-new-listings ratio<sup>1</sup>. New listings are a gauge of supply of existing homes, while MLS® sales are a proxy for demand.

The sales-to-new-listings ratio for Canada remained in sellers' market territory in May 2005, at about 63 per cent. The Canada-wide average

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



— Sales-to-new-listings, Canada, % (left axis) - - - MLS® price, \$ (right axis)

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

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<sup>1</sup> 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*.

MLS® price increased by 8.6 per cent in the first five months of 2005 compared to the same period in 2004.

### **Economic conditions**

In June, employment increased by 14,000 jobs. For the second quarter (April to June) 79,000 net new jobs were created (0.5 per cent increase), which was more than three times the number of jobs created in the first quarter of 2005 (January to March). Full-time employment gains (52,000 jobs) were partially offset by part-time employment (38,000 jobs) losses in June. The sectors that saw substantial growth in June were the construction sector (21,000 jobs), and the education sector (11,000 jobs).

Employment in June 2005 was up 1.3 per cent compared to a year ago.

The unemployment rate moved down to 6.7 per cent in June 2005, equalling the June 2000 rate, which was the lowest in almost three decades.

The seasonally adjusted employment-to-population ratio remains close to its historical peak. In other words, a near 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 July 12<sup>th</sup>, following similar decisions on May 25<sup>th</sup>, April 12<sup>th</sup> and March 1<sup>st</sup>. Core inflation remains slightly below the two per cent target, however, as economic growth strengthens in the second half of the year, interest rates are likely to move higher. Indeed, in their July 12<sup>th</sup> statement, the Bank of Canada underscored the need to reduce the amount of monetary stimulus in the near term.

The year-over-year increase in the price of new homes, measured by the New Housing Price index (NHPI), slowed to 4.6 per cent in May 2005, the lowest rate since June 2003. Strong demand for housing, higher building material and labour costs, as well as increasing land values, contributed to the increase in house prices.

In June, the price of goods and services included in the Consumer Price Index (CPI) basket increased 1.7 per cent compared to June 2004. The increase was mainly due to higher gasoline prices, restaurant meal prices, homeowners' replacement cost, and property taxes. These increases were restrained by lower prices for computer equipment and supplies, natural gas, and traveller accommodations. ■

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Contributors: Milan Gnjec Inna Breidburg Ed Heese Bob Dugan Julie Taylor

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### **Questions:**

**Julie Taylor at 1-613-748-2239**

**or [jtaylor@cmhc-schl.gc.ca](mailto:jtaylor@cmhc-schl.gc.ca)**

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

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

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### Seasonal patterns favour spring housing market

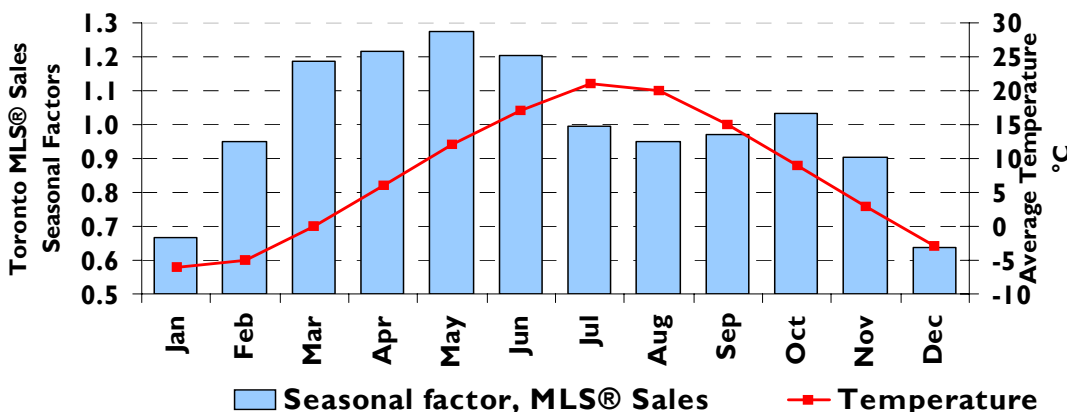
- Monthly activity in the resale housing market follows a recurring and predictable pattern each year. History has shown that activity in the resale market heats up in the spring and cools off in the winter. This recurring pattern is largely weather driven. Colder weather in the winter helps keep both buyers and sellers out of the market. Warmer spring weather brings out buyers and sellers. Other seasonal influences such as holidays and vacation schedules also cause normal fluctuations in resale market activity. Typically activity in the resale market slows during the winter holiday and summer vacation seasons.
- The impact of weather and other seasonal influences can be captured through the seasonal adjustment process. A high seasonal factor implies stronger than average activity in a particular month. For instance, Toronto's April seasonal factor for MLS® sales is approximately 1.20. This suggests that MLS® sales in April are 20 per cent higher than trend.
- The chart below illustrates the relationship between seasonal factors for MLS® sales in Toronto and average temperature. As

temperatures rise, the seasonal factors for MLS® sales also increase.

- A similar recurring monthly pattern is observed with new listings. During spring, the supply of new listings rises significantly. In Toronto, the number of new listings in the spring are roughly 20 per cent higher than trend. Conversely, the winter months typically see the number of newly listed homes well below trend.
- The average MLS® selling price of a home in Toronto also exhibits a recurring seasonal pattern. Homes sold in the spring generally sell for more than homes sold in the winter. The May price seasonal factor indicates that in the absence of other demand pressures, a home sold in May will sell for approximately six per cent more than a home sold in December. For a Toronto home valued at \$300,000 this would translate into an additional \$18,000 on the selling price. Low seasonal factors in the winter months suggest that homes sold in the winter sell below the trend price.

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### Demand for Homes in Toronto Peaks in the Spring



Sources: CREA, Seasonal adjustment by CMHC

**continued: Seasonal patterns favour spring housing market**

- Seasonal price factors exhibit a lot less variation than do seasonal sale factors or seasonal listing factors.
- From a buyers' perspective, buying a home in the winter can lead to some dollar savings off the purchase price. However, the potential benefits of a lower price must be weighed against the fact that there are fewer homes to choose from in the winter.
- From a sellers' perspective, selling a home during spring can be advantageous. With more buyers in the market there is a greater likelihood that their home will sell. Moreover, the larger seasonal factors in the spring suggest that homes typically sell for more in the spring than they otherwise would in the winter.
- The varying climate across Canada tends to impact the degree of regional seasonal variation. In milder climates such as Vancouver, where temperature swings between seasons are less severe, housing market activity is distributed more evenly throughout year. In Winnipeg, however, where winters are colder and harsher, home sales slow down more in the winter months and rebound in the spring months. This is evident from the significant increase in the seasonal factors between the winter and spring months. Seasonal factors for MLS® sales in Winnipeg are almost 90 per cent higher in May than in December. The larger swings in temperature observed in Winnipeg translates into a more uneven distribution of resale market activity between winter and spring.
- There are seasonal factors other than weather that play a role in influencing MLS® sales, new listings and average home prices. For example, vacations during the summer months, the Quebec July 1<sup>st</sup> renter moving day phenomenon, and the back to school rush.
- In conclusion, seasonal factors such as weather play a significant role in influencing MLS® sales, new listings and average home prices. Typically the more pronounced changes in weather patterns are in a region, the more of an impact weather will have on the resale home market. ■

**Seasonal Factor Ranges**

	Degree variation between highest and lowest avg. monthly temp.	MLS Listings			MLS Price			MLS Sales		
		Low	High	% chg	Low	High	% chg	Low	High	% chg
Winnipeg	37	0.39 (Dec.)	1.42 (May)	164%	0.96 (Jan.)	1.05 (April)	9%	0.53 (Dec.)	1.40 (May)	164%
Saskatoon	36	0.49 (Dec.)	1.30 (May)	165%	0.97 (Dec.)	1.03 (May)	6%	0.56 (Dec.)	1.25 (April)	123%
Ottawa	31	0.40 (Dec.)	1.35 (May)	238%	0.97 (Dec.)	1.03 (May)	6%	0.62 (Jan.)	1.42 (May)	129%
Montreal	30	0.60 (Dec.)	1.31 (March)	118%	0.95 (Jan.)	1.04 (June)	10%	0.77 (Dec.)	1.53 (March)	99%
Toronto	27	0.43 (Dec.)	1.28 (May)	198%	0.96 (Aug.)	1.03 (May)	7%	0.64 (Dec.)	1.28 (May)	100%
Calgary	25	0.47 (Dec.)	1.2 (May)	155%	0.98 (Dec.)	1.02 (June)	4%	0.66 (Dec.)	1.21 (May)	83%
Saint John	24	0.37 (Dec.)	1.34 (June)	262%	0.97 (Oct.)	1.02 (June)	5%	0.52 (Jan.)	1.34 (June)	158%
Halifax	23	0.45 (Dec.)	1.41 (May)	213%	0.98 (Nov.)	1.03 (April)	5%	0.54 (Dec.)	1.42 (June)	163%
St John's	19	0.43 (Dec.)	1.30 (June)	102%	0.96 (Oct.)	1.04 (Jan.)	8%	0.44 (Jan.)	1.49 (July)	239%
Vancouver	14	0.52 (Dec.)	1.26 (May)	142%	0.97 (Dec.)	1.02 (April)	5%	0.65 (Jan.)	1.20 (March)	85%

Sources: CREA, Seasonal adjustment by CMHC, average monthly temperatures from the Weather Network website, [www.theweathernetwork.com](http://www.theweathernetwork.com)

## Strong construction activity pulls up inventories

The number of newly completed apartments, which remain unabsorbed, jumped in 2004 and 2005. The rise mainly reflects an increase in construction activity, which in turn reflects strong demand.

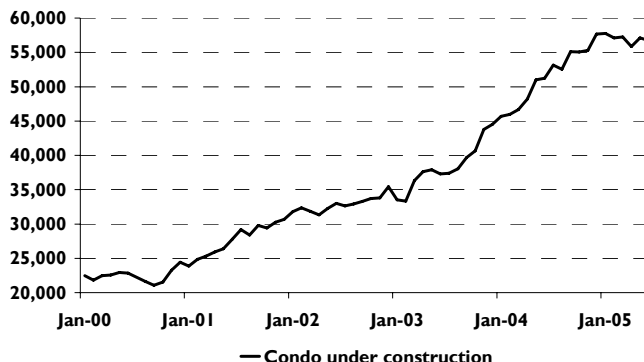
- At Canada Mortgage and Housing Corporation (CMHC) we track new residential construction from start to completion. We also keep track of when a new home is sold or rented or, in other words, when the unit is absorbed by the market. The number of units that remain unabsorbed can be considered as a form of inventory, which can be used as an indicator of market conditions. Inventories can increase for two reasons – a decrease in demand or an increase in construction activity.

- The increase in the inventory of unabsorbed homes in Canada in recent years has been concentrated in apartments. The number of unabsorbed apartment units has increased by 105 per cent between January 2002 and June 2005.

- Apartment inventories include both condominium and rental apartments. In the case of rental apartment buildings, there are often many units that are vacant at the time of completion. Therefore, an increase in rental apartment completions almost automatically pushes inventories upward.

- Construction of condominium apartments normally only begins once some share of the units in a project have been sold. As a result, in condominium apartments, many units in the building could still be unabsorbed at the time of completion. Therefore, increases in condominium completions also tend to push inventories higher. However, because of the fact that condominium construction is supported by pre-sales, increases in inventories associated with rising completions of new condominium units reflects stronger demand.

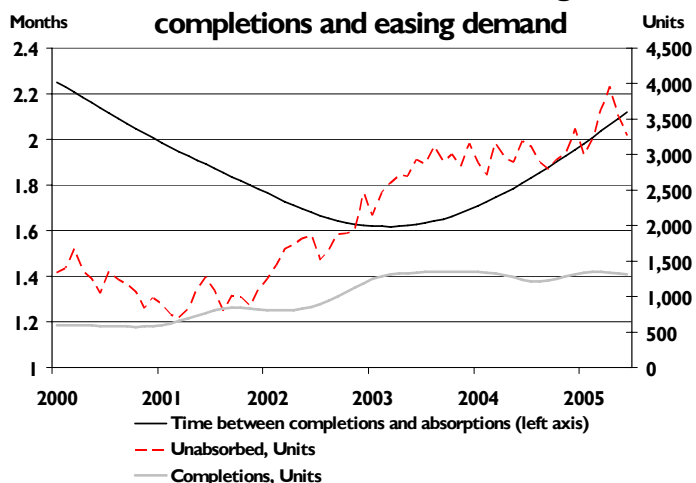
Rise in the number of condominiums under construction signals strong demand



Source: CMHC (Market Absorption Survey)

- Another indicator of market conditions is the length of time that unoccupied rental and condominium apartment units stay on the market before they are absorbed. The shorter the time, the stronger demand.

Rental inventories reflect both high completions and easing demand



Source: CMHC (Market Absorption Survey)

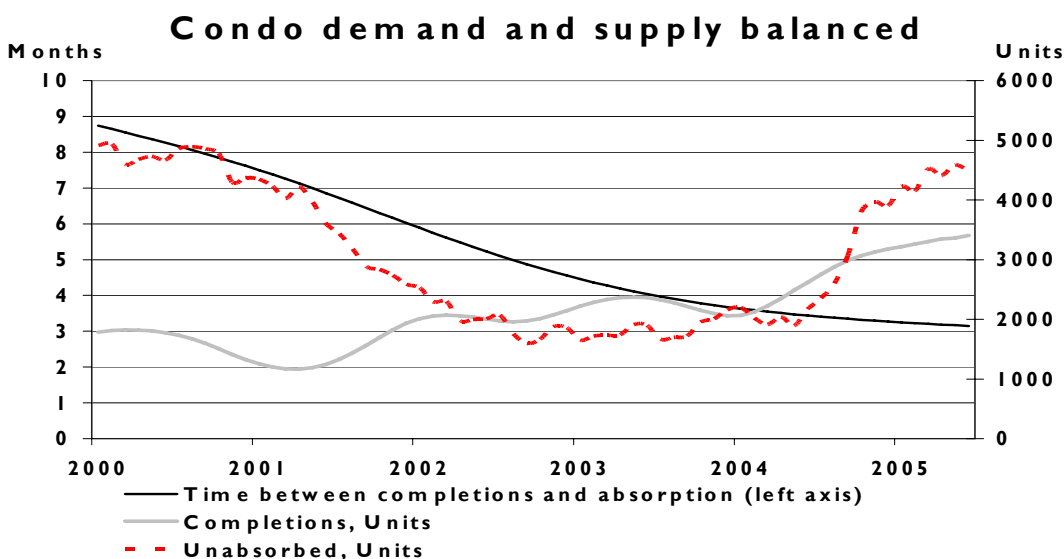
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**continued: Strong construction activity pulls up inventories**

- Inventories of unabsorbed newly completed rental apartment units increased sharply between the beginning of 2002 and mid-2003. This rise in inventories was accompanied by an increase in rental completions and a reversal in the trend decline in the average number of months that elapses between the completion of a rental building and when 90 per cent of its apartments were absorbed. Since 2003, rental completions have stabilized at a higher level and rental units have taken a little longer to be leased. Therefore, recent rise in inventories reflects a combination of stronger construction activity and some easing in rental demand. This is consistent with the rise in the national rental vacancy rate in recent years.
- Rising inventories for condominiums are due to higher completions in the context of strengthening demand. The rate of increase in completions surged in 2004, triggering the current increase we see in inventories. The average amount of time elapsed between completion of a condo project and when it was

90 per cent absorbed decreased continuously over the past five years, moving down from about 9 months at the start of 2000 to about 3 months in June 2005. Since 2003, however, the time lag between the completion and absorption has begun to stabilize. Nevertheless, newly completed condominium apartments are being snapped up faster than in the past.

- Conclusion: The strong growth in unabsorbed rental and condo apartment units that occurred in 2004 and the first half of 2005 is due mainly to stronger construction activity in both the rental and condo markets. In the case of condominium apartments, the rising construction activity reflects strong demand. However, the elapsed time between when a building is completed and when it become 90 per cent absorbed has begun to rise slightly for rental apartments and is stabilizing in the case of condominiums. As a result demand and supply in both the condo and rental segments of the market are expected to remain in balance. ■



Source: CMHC (Market Absorption Survey)

## This Month's Housing Data (SAAR)

	2004	Q4:04	Q1:05	Q2:05	M4:05	M5:05	M6:05
<b>Housing starts, units, 000s</b>							
<b>Canada. Total. All areas</b>	233.4	236.9	213.3	235.4	238.5	225.5	241.3
Per cent change from previous period	6.9	0.3	-10.0	10.4	9.2	-5.5	7.0
<b>Canada. Total. Rural areas</b>	29.0	30.4	28.7	34.1	34.1	34.1	34.1
Per cent change from previous period	9.5	-7.0	-5.6	18.8	18.8	0.0	0.0
<b>Canada. Total. Urban areas</b>	204.4	206.5	184.6	201.3	204.4	191.4	207.2
Per cent change from previous period	6.5	1.4	-10.6	9.0	7.7	-6.4	8.3
<b>Canada. Single. Urban areas</b>	103.9	102.5	93.4	98.6	98.8	98.4	98.4
Per cent change from previous period	3.6	-2.6	-8.9	5.6	6.1	-0.4	0.0
<b>Canada. Multiple. Urban areas</b>	100.5	104.0	91.2	102.7	105.6	93.0	108.8
Per cent change from previous period	9.7	5.7	-12.3	12.6	9.3	-11.9	17.0
<b>Newfoundland. Total. All areas</b>	2.9	2.9	3.1	2.5	2.3	2.7	2.3
Per cent change from previous period	6.6	0.0	6.9	-19.4	-14.8	17.4	-14.8
<b>Prince Edward Island. Total. All areas</b>	0.9	0.7	1.5	1.0	0.7	1.2	1.0
Per cent change from previous period	12.9	-12.5	114.3	-33.3	-46.2	71.4	-16.7
<b>Nova Scotia. Total. All areas</b>	4.7	4.7	4.0	5.4	6.8	5.4	4.0
Per cent change from previous period	-7.4	-4.1	-14.9	35.0	88.9	-20.6	-25.9
<b>New Brunswick. Total. All areas</b>	3.9	4.0	3.2	4.3	3.9	4.6	4.3
Per cent change from previous period	-12.1	-7.0	-20.0	34.4	0.0	17.9	-6.5
<b>Quebec. Total. All areas</b>	58.4	60.6	55.1	52.6	58.4	47.5	51.9
Per cent change from previous period	16.2	0.2	-9.1	-4.5	12.1	-18.7	9.3
<b>Ontario. Total. All areas</b>	85.1	84.4	71.3	88.2	86.3	74.7	103.6
Per cent change from previous period	-0.1	-1.6	-15.5	23.7	19.4	-13.4	38.7
<b>Manitoba. Total. All areas</b>	4.4	4.0	4.3	4.4	4.2	4.0	5.1
Per cent change from previous period	5.6	-29.8	7.5	2.3	-19.2	-4.8	27.5
<b>Saskatchewan. Total. All areas</b>	3.8	4.2	2.5	3.3	2.4	2.8	4.3
Per cent change from previous period	14.1	31.3	-40.5	32.0	9.1	16.7	53.6
<b>Alberta. Total. All areas</b>	36.3	39.6	36.7	41.6	43.0	47.4	34.3
Per cent change from previous period	0.3	14.1	-7.3	13.4	7.2	10.2	-27.6
<b>British Columbia. Total. All areas</b>	32.9	31.8	31.6	32.1	30.5	35.2	30.5
Per cent change from previous period	25.8	-5.1	-0.6	1.6	-12.9	15.4	-13.4

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	Q4:04	Q1:05	Q2:05	M4:05	M5:05	M6:05
<b>Canada</b>	<b>204.4</b>	<b>206.5</b>	<b>184.6</b>	<b>201.3</b>	<b>204.4</b>	<b>191.4</b>	<b>207.2</b>
<b>Newfoundland</b>	<b>2.1</b>	<b>2.2</b>	<b>2.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.9</b>	<b>1.5</b>
<b>Prince Edward Island</b>	<b>0.6</b>	<b>0.4</b>	<b>1.1</b>	<b>0.5</b>	<b>0.2</b>	<b>0.7</b>	<b>0.5</b>
<b>Nova Scotia</b>	<b>3.3</b>	<b>3.1</b>	<b>2.5</b>	<b>3.9</b>	<b>5.3</b>	<b>3.9</b>	<b>2.5</b>
<b>New Brunswick</b>	<b>2.6</b>	<b>2.5</b>	<b>1.8</b>	<b>3.0</b>	<b>2.6</b>	<b>3.3</b>	<b>3.0</b>
<b>Québec</b>	<b>46.7</b>	<b>49.3</b>	<b>41.6</b>	<b>40.0</b>	<b>45.8</b>	<b>34.9</b>	<b>39.3</b>
<b>Ontario</b>	<b>79.9</b>	<b>77.2</b>	<b>69.4</b>	<b>81.3</b>	<b>79.4</b>	<b>67.8</b>	<b>96.7</b>
<b>Manitoba</b>	<b>2.9</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.5</b>	<b>2.3</b>	<b>3.4</b>
<b>Saskatchewan</b>	<b>3.1</b>	<b>3.3</b>	<b>2.0</b>	<b>2.8</b>	<b>1.9</b>	<b>2.3</b>	<b>3.8</b>
<b>Alberta</b>	<b>32.2</b>	<b>35.6</b>	<b>32.0</b>	<b>35.8</b>	<b>37.2</b>	<b>41.6</b>	<b>28.5</b>
<b>British Columbia</b>	<b>30.9</b>	<b>30.3</b>	<b>29.0</b>	<b>29.6</b>	<b>28.0</b>	<b>32.7</b>	<b>28.0</b>

\* Thousands of units, seasonally adjusted and annualized.

**This Month's Major Housing Indicators**

	2004	Q4:04	Q1:05	Q2:05	M4:05	M5:05	M6:05
<b>New Housing</b>							
<b>New &amp; unoccupied singles &amp; semis, units 000s</b>	<b>5.2</b>	<b>5.7</b>	<b>5.7</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>	<b>5.3</b>
Per cent change from same period previous year	9.3	12.6	12.5	4.1	6.7	3.7	1.8
<b>New &amp; unoccupied row &amp; apartments, units 000s</b>	<b>6.7</b>	<b>8.3</b>	<b>8.8</b>	<b>9.3</b>	<b>9.5</b>	<b>9.3</b>	<b>9.0</b>
Per cent change from same period previous year	18.9	37.1	49.6	54.0	60.5	62.1	40.5
<b>New House Price Index, 1997=100</b>	<b>123.2</b>	<b>125.4</b>	<b>126.5</b>	<b>n.a.</b>	<b>127.7</b>	<b>128.3</b>	<b>n.a.</b>
Per cent change from same period previous year	5.5	5.4	5.1	n.a.	4.9	4.6	n.a.
<b>Existing Housing</b>							
<b>MLS® resales*, units 000s</b>	<b>461.1</b>	<b>451.3</b>	<b>454.3</b>	<b>491.6</b>	<b>482.4</b>	<b>486.4</b>	<b>505.9</b>
Per cent change from same period previous year	6.0	0.6	-0.1	2.9	-0.6	3.1	6.3
<b>MLS® average resale price*, \$C 000s</b>	<b>226.2</b>	<b>233.1</b>	<b>239.2</b>	<b>246.5</b>	<b>243.1</b>	<b>249.1</b>	<b>247.2</b>
Per cent change from same period previous year	9.2	8.1	8.8	8.9	8.0	8.5	10.3
<b>Mortgage Market</b>							
<b>1-Year Mortgage Rate, % (period average)</b>	<b>4.59</b>	<b>4.90</b>	<b>4.88</b>	<b>4.83</b>	<b>4.90</b>	<b>4.85</b>	<b>4.75</b>
<b>5-Year Mortgage Rate, % (period average)</b>	<b>6.23</b>	<b>6.25</b>	<b>6.12</b>	<b>5.90</b>	<b>6.05</b>	<b>5.95</b>	<b>5.70</b>

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.