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Canada Mortgage and Housing Corporation

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Canadian Market Overview

AUGUST 2005

New Home Market

Multiple construction pushes housing starts higher in July

The seasonally adjusted annual rate¹ of housing starts was 242,600 units in July, up 0.5 per cent from 241,300 units in June.

Low mortgage rates and favourable labour market conditions have boosted new home construction to its highest level of the year.

Urban multiple starts jump in July, while single starts drop

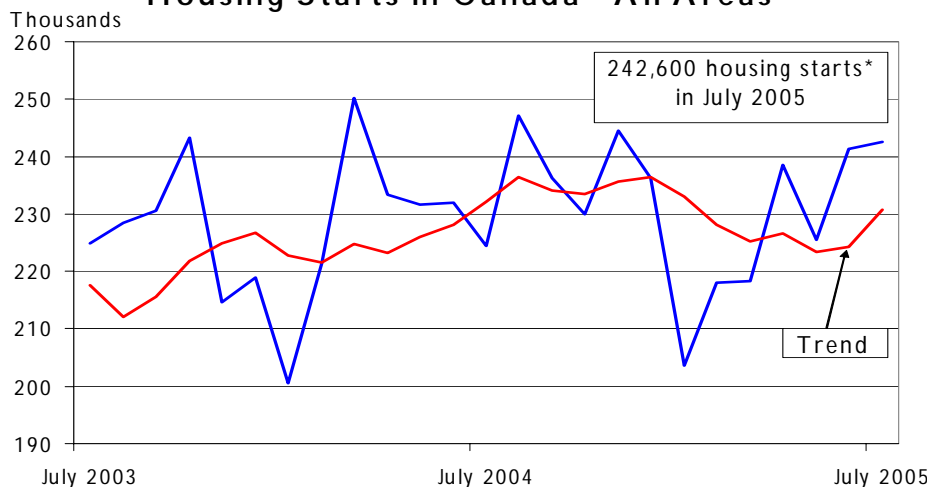
The seasonally adjusted annual rate of urban starts rose 2.3 per cent to 211,900 units in July, due to a 12.4 per cent rise in multiple starts to 122,300 units. Single starts declined 8.9 per cent to 89,600 units in July compared to June. The stronger performance of multiple starts

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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

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.



compared to single starts is consistent with the expectation that rising house prices will result in a shift in demand toward less expensive multi-family homes.

Urban starts increased in all regions except Ontario

Urban housing starts were up in all regions except for Ontario in July. Housing starts were up 17.5 per cent to 32,900 units in British Columbia, 15.3 per cent to 45,300 units in Quebec, 6.7 per cent to 8,000 units in the Atlantic provinces, and 2.5 per cent to 36,600 units in the Prairies. In Ontario, the seasonally adjusted annual rate of urban starts in July fell 7.9 per cent to 89,100 units, despite the near record activity in the Toronto market, where monthly starts posted their second highest level on record.

Rural starts in July were estimated at a seasonally adjusted annual rate of 30,700 units.

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

For the first seven months of 2005, actual urban starts were 2.6 per cent lower than in the same period in 2004. Year-to-date single starts decreased 9.8 per cent, while multiple starts increased 5.5 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 (5.9 per cent). In Quebec (-13.3 per cent), the Atlantic provinces (-4.7 per cent), and British Columbia (-1.6 per cent) starts in the January to July period were down in 2005 compared to the previous year. Starts on a year-to-date basis in Ontario (-0.04 per cent) were relatively unchanged.

New house prices strengthen in June

The year-over-year increase in the price of new homes, measured by the New Housing Price

index (NHPI), increased to 4.7 per cent in June, up from 4.6 per cent in May. Strong market conditions coupled with a shortage of serviced lots contributed to the increase in house prices.

Existing Home Market

MLS® sales up in June

Seasonally adjusted MLS® (Multiple Listings Service) sales were up 4.0 per cent to 42,162 units in June 2005, compared to 40,534 units in May 2005.

MLS® actual sales for the first six months of 2005, at 254,676 units, were up 0.8 per cent from the same period in 2004.

MLS® new listings decrease in June

Seasonally adjusted MLS® new listings in June 2005 decreased by 0.9 per cent to 63,437 units, compared to 64,015 units in the previous month.

Actual new listings for the first six months of 2005 were up 4.7 per cent over the same period in 2004.

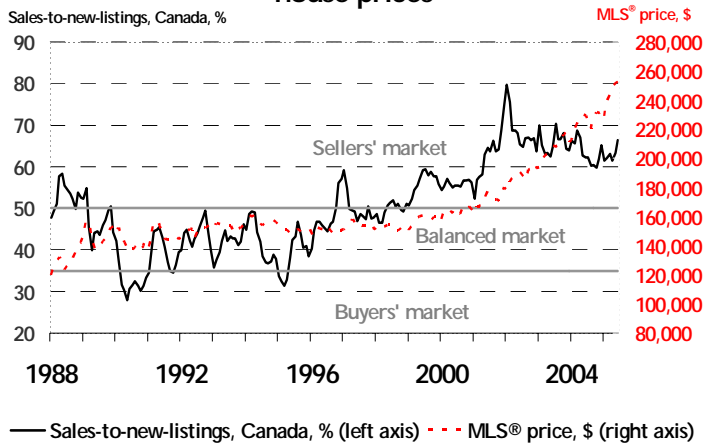
Sellers' market conditions across Canada continue to support strong growth in house prices

An indicator of price pressure in the existing home market is the sales-to-new-listings ratio¹. 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 June 2005, at about 67 per cent. The Canada-wide average MLS® price increased by 9.0 per cent in the first six months of 2005 compared to the same period in 2004. **continued on page 3...**

¹ 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*.

Sellers' market continues to support rising house prices



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

Economic conditions

In July, employment increased by 5,900 jobs. For the second quarter (April to June) 79,000 net new jobs were created (a 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 was down in July (-2,500 jobs), while part-time employment was up 8,500 jobs. The sectors that saw substantial growth in July were the retail and wholesale trade sector (24,000 jobs), the health care and social assistance sector (18,000 jobs), the information, culture and recreation sector (16,000 jobs), and the agriculture sector (16,000 jobs).

Employment in July was up 1.2 per cent compared to a year ago.

The unemployment rate edged up to 6.8 per cent in July 2005, equalling the June 2000 rate, which is still one of the lowest levels 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 12th, following similar decisions on May 25th, April 12th and March 1st. Core inflation is at 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 12th statement, the Bank of Canada underscored the need to reduce the amount of monetary stimulus in the near term.

In July, the price of goods and services included in the Consumer Price Index (CPI) basket increased 2.0 per cent compared to July 2004. The increase was mainly due to higher gasoline prices, restaurant meal prices, and homeowners' replacement cost. These increases were restrained by lower prices for the purchase and leasing of automotive vehicles, computer equipment and supplies, and traveller accommodations. ■

Contributors: Julie Taylor

Brent Weimer

Bob Dugan

Questions:

Julie Taylor at 1-613-748-2239

or jtaylor@cmhc-schl.gc.ca

To subscribe: 1-613-748-2006 or

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

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Still no sign of a housing bubble in Canada

Sales of existing homes will remain near record level this year while residential construction will post the third highest level since 1989. Strong demand for housing has caused prices to rise rapidly in recent years and has led to some speculation that a real estate bubble might be inflating. However, the rise in house prices is grounded in solid economic fundamentals, therefore, there is no evidence of a bubble in Canada.

- A bubble occurs when an asset experiences price increases well in excess of historical norms for a sustained period of time, which are mainly based on the speculation that it can be sold in the future at a higher price to someone who will buy it for the same reason.
- Recent articles published in June 2005 by The Economist magazine¹ note that house prices are rising “at an alarming rate around the globe”. The analysis relies on their house-price indices for 20 countries including Canada. According to the articles, there are two common factors that have driven the house price boom globally: historically low interest rates; and more and more households moving into real estate after losing faith in equities after stock markets plunged in 2000. These factors are also prevalent in Canada.
- House prices in the first quarter of 2005 increased by more than 9 per cent in 11 of the 20 countries for which The Economist gathers

house-price data. In Canada on the other hand, house prices were up only 5.2 per cent in the first quarter of 2005. In fact, year-over-year price growth in Canada in the first quarter of 2005 ranked 14th out of the 20 countries. The only other countries where price growth was weaker than in Canada were Singapore, the Netherlands, Switzerland, Australia, Germany, and Japan. Since 1997, house prices in most countries have increased significantly. The Economist has identified a number of countries whose house prices are over-inflated, but Canada is not among them.

- Looking more closely at the Canadian housing market, we see that price pressures are starting to ease. While the average MLS[®] price in Canada increased by a healthy 7.5 per cent in the second quarter of 2005, compared to the same time period in 2004, this is down from 9.4 per cent in the second quarter of 2004 compared to the same time period in 2003.

Canada MLS Average Price-Inflation Adjusted					
	% change compared to a year earlier		% change of the past few years		
	Q2 2005	Q2 2004	2002	2003	2004
Vancouver	9.7	13.6	3.1	7.1	11.3
Calgary	10.3	3.6	5.0	2.9	3.7
Saskatoon	3.7	4.9	-0.7	3.0	3.7
Winnipeg	10.3	10.5	2.6	9.0	10.0
Toronto	5.7	6.2	7.5	3.2	5.7
Montreal	4.1	13.9	11.2	14.3	10.6
Saint John	3.4	4.0	3.1	-0.5	8.1
Halifax	6.5	4.9	7.6	5.8	5.9
PEI	3.9	2.6	5.6	3.8	6.7
St. John's	5.6	8.9	6.3	2.9	7.7
Canada	7.5	9.4	7.5	6.8	7.3

Sources: CMHC, CREA, Statistics Canada

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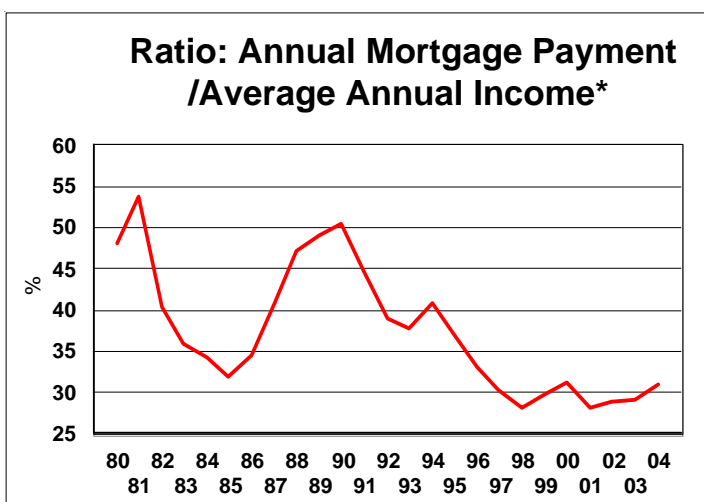
¹ The Economist, *After the fall and The global housing boom (In come the waves)*, June 18th, 2005 (print edition)

continued: Still no sign of a housing bubble in Canada

- A higher degree of synchronization in the housing markets is contributing to the high level of the real MLS® average price for Canada. In the late 1980s, relatively low real house prices in some provinces, such as Alberta, helped offset high prices in other provinces like Ontario and dampened the rise in the Canada-wide average house price. Today, strong housing markets across the country means that all provinces are contributing to the rise in the average house price for Canada as seen in the table on the previous page. The higher degree of synchronization in the housing markets implies that all regions are contributing to the rise in the average real house price and that surpassing the previous peak in real house prices does not mean that there is a house price bubble.
- Even with the accelerated increases in house prices in recent years, the burden of making mortgage payments on households is currently very low. To measure this burden, the annual mortgage payment on the average priced house financed at the posted 5-year mortgage rate is divided by the level of average household after-

tax income. In 2004, the monthly mortgage payment (\$1,331) was 2.5 per cent lower than in 1989, while over the same period, the household after-tax income increased by 55 per cent. As a result, the annual mortgage payment to income ratio dropped from over 49 per cent in 1989 to just under 31 per cent in 2004.

- With the current level of house prices and after-tax income, the 5-year mortgage rate would have to almost double from the current mortgage rate, to reach nearly 13 per cent, to bring the mortgage payment to income ratio back up to the level experienced in 1989. Thus, historically low mortgage rates have offset a substantial proportion of the impact of rising house prices. As a result, the annual mortgage cost as a percentage of after-tax income has been fairly stable in recent years and well below its level in the early 1990s.
- We are in the midst of a global housing boom. In many countries, this boom has resulted in an unsustainable rise in house prices. In Canada, however, this is not the case. Rising house prices in Canada are being supported by strong demand, which in turn reflects solid economic fundamentals such as low interest rates. Furthermore Canadians' ability to pay, as seen in the mortgage payment to income ratio, is keeping up with rising house prices. Therefore, the rise in house prices in Canada in recent years is sustainable and there is no evidence of a house price bubble. ■



Sources: CMHC, CREA, Statistics Canada
 Mortgage loan financed at 90 per cent, amortized over 25 years, for a 5-year term.
 * Average after-tax income of economic families. For 2003 and 2004, it is assumed that personal disposable income increased at the same pace as inflation.

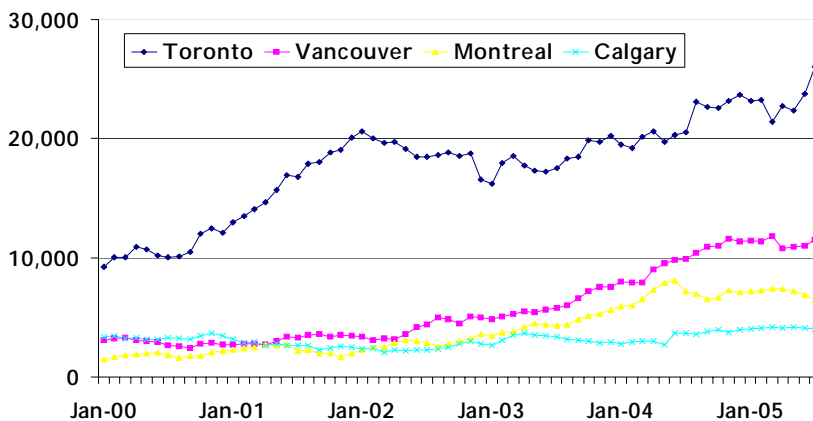
Condominium inventories rise in metropolitan areas

The number of newly completed but unabsorbed condominium apartments in four of Canada's major metropolitan areas (Toronto, Montreal, Vancouver and Calgary) has increased in recent years. This rise reflects an increase in construction activity which has occurred in response to strong housing demand.

- When a newly built home is occupied, the completed unit is recorded as being absorbed by the market. The number of completed units that are not yet absorbed by the market is a measure of standing inventory. This inventory can increase due to a decrease in demand or an increase in construction activity.
- The July issue of *Housing Now* examined the increasing trends in both the number of apartments under construction and the number of completed apartments not yet absorbed for Canada, and concluded that increased inventories resulted from rising construction activity in response to strong demand. However, given that local housing market conditions vary across the country, this article extends the earlier national analysis to the local level.
- Last year, three-quarters of Canada's condominium apartment starts occurred in four major metropolitan areas: Toronto, Montreal, Vancouver and Calgary. The rising level of condominium apartment starts in these four centres has resulted in a doubling of units under construction in the last few years.
- Typically, construction of a condominium apartment building only commences once a given percentage of the units has been sold. However, some units are not pre-sold, and many condominium apartment units in the project could potentially be unabsorbed at the time of completion. As the number of condominium completions rises, so does the number of potentially unabsorbed units. Thus, booming apartment condominium construction, which is supported by a large proportion of pre-sales, can result in higher inventories. In this case, rising inventories of new condominium units reflects stronger demand.
- Another indicator of market conditions is the duration that unoccupied homes remain on the market until they are absorbed. When demand is

strong, newly completed units are quickly absorbed by the market. Thus, shorter absorption times are correlated with stronger demand.

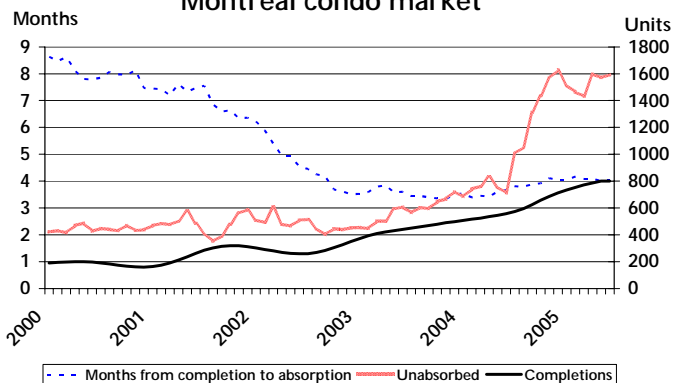
Rise in the number of condominium apartments under construction



Source: CMHC (Starts and Completions Survey)

- The number of unabsorbed condominium apartments in Montreal has nearly quadrupled since 2000. However, this increase reflects rising construction levels due to stronger demand. Last year saw condominium apartment starts and completions in Montreal more than triple compared to the year 2000, while absorption times were significantly lower than they were a few years ago.

Montreal condo market



Note: The average number of months between completion and when the building is 90% absorbed

Source: CMHC (Market Absorption Survey)

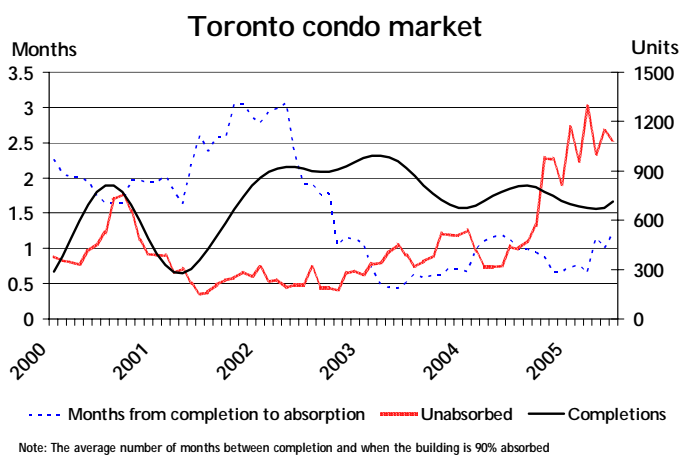
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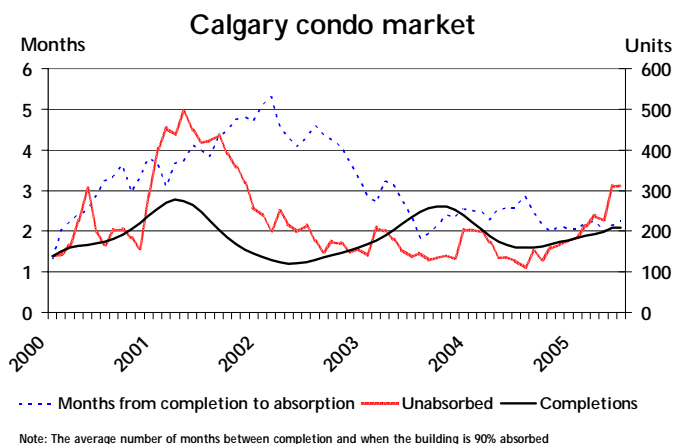
- Toronto condominium apartment completions surged in 2002, yet the number of unabsorbed units remained low. Despite the flurry of condominium completions in 2002, absorption times actually decreased significantly as the year progressed and declined even further throughout 2003. While the number of unabsorbed condominium apartment units has more than doubled in Toronto over the past 12 months, absorption times still remain very low, only increasing marginally over the past few months.

in recent months, but standing inventories and absorption times remain extremely low as newly completed units are being snapped up faster than in the past.

- During the first half of 2001, a rise in Calgary condominium apartment completions pushed both unabsorbed units and absorption times higher. Absorption times continued to rise into 2002 despite waning completion activity and declining inventories. The number of unabsorbed units in the Calgary condominium apartment market has moved higher in recent months but the absorption times remain fairly low.

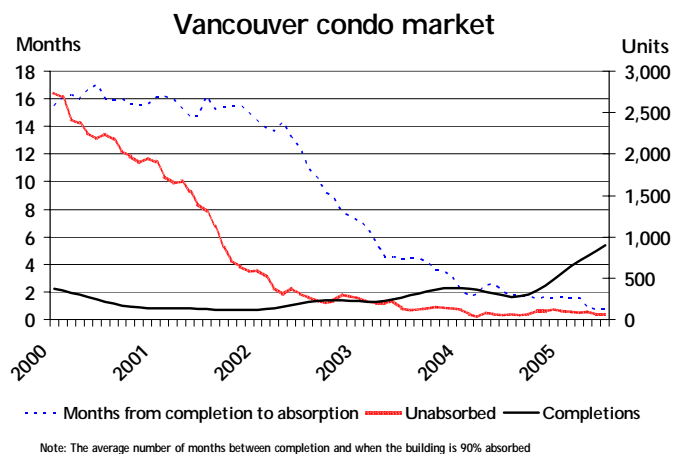


Source: CMHC (Market Absorption Survey)



Source: CMHC (Market Absorption Survey)

- Unlike Montreal or Toronto, the Vancouver condominium apartment market turned a corner earlier in the decade with both standing inventories and absorption times plummeting. At the same time, the number of condominium apartment starts in Vancouver nearly quadrupled between 2000 and 2004. Completions have begun to rise substantially



Source: CMHC (Market Absorption Survey)

- Conclusion: While there are some differences between the major condominium apartment markets, all four markets appear to be healthy. Inventories have risen somewhat in the Montreal, Toronto and Calgary markets which reflects higher construction activity in these centres. Absorption times have decreased in recent years and remain low. Demand and supply in these condominium markets are expected to remain in balance. The Vancouver market, however, has also shown a pick-up in completions, while both inventories and absorption times are extremely low, having trended lower for a number of years. Thus, the Vancouver market remains tight relative to its recent history and compared to the other major centres. ■

This Month's Housing Data (SAAR)

	2004	Q4:04	Q1:05	Q2:05	M5:05	M6:05	M7:05
Housing starts, units, 000s							
Canada. Total. All areas	233.4	236.9	213.3	235.4	225.5	241.3	242.6
Per cent change from previous period	6.9	0.3	-10.0	10.4	-5.5	7.0	0.5
Canada. Total. Rural areas	29.0	30.4	28.7	34.1	34.1	34.1	30.7
Per cent change from previous period	9.5	-7.0	-5.6	18.8	0.0	0.0	-10.0
Canada. Total. Urban areas	204.4	206.5	184.6	201.3	191.4	207.2	211.9
Per cent change from previous period	6.5	1.4	-10.6	9.0	-6.4	8.3	2.3
Canada. Single. Urban areas	103.9	102.5	93.4	98.6	98.4	98.4	89.6
Per cent change from previous period	3.6	-2.6	-8.9	5.6	-0.4	0.0	-8.9
Canada. Multiple. Urban areas	100.5	104.0	91.2	102.7	93.0	108.8	122.3
Per cent change from previous period	9.7	5.7	-12.3	12.6	-11.9	17.0	12.4
Newfoundland. Total. All areas	2.9	2.9	3.1	2.5	2.7	2.3	2.2
Per cent change from previous period	6.6	0.0	6.9	-19.4	17.4	-14.8	-4.3
Prince Edward Island. Total. All areas	0.9	0.7	1.5	1.0	1.2	1.0	0.7
Per cent change from previous period	12.9	-12.5	114.3	-33.3	71.4	-16.7	-30.0
Nova Scotia. Total. All areas	4.7	4.7	4.0	5.4	5.4	4.0	5.0
Per cent change from previous period	-7.4	-4.1	-14.9	35.0	-20.6	-25.9	25.0
New Brunswick. Total. All areas	3.9	4.0	3.2	4.3	4.6	4.3	4.0
Per cent change from previous period	-12.1	-7.0	-20.0	34.4	17.9	-6.5	-7.0
Quebec. Total. All areas	58.4	60.6	55.1	52.6	47.5	51.9	56.2
Per cent change from previous period	16.2	0.2	-9.1	-4.5	-18.7	9.3	8.3
Ontario. Total. All areas	85.1	84.4	71.3	88.2	74.7	103.6	94.5
Per cent change from previous period	-0.1	-1.6	-15.5	23.7	-13.4	38.7	-8.8
Manitoba. Total. All areas	4.4	4.0	4.3	4.4	4.0	5.1	6.0
Per cent change from previous period	5.6	-29.8	7.5	2.3	-4.8	27.5	17.6
Saskatchewan. Total. All areas	3.8	4.2	2.5	3.3	2.8	4.3	2.9
Per cent change from previous period	14.1	31.3	-40.5	32.0	16.7	53.6	-32.6
Alberta. Total. All areas	36.3	39.6	36.7	41.6	47.4	34.3	35.5
Per cent change from previous period	0.3	14.1	-7.3	13.4	10.2	-27.6	3.5
British Columbia. Total. All areas	32.9	31.8	31.6	32.1	35.2	30.5	35.5
Per cent change from previous period	25.8	-5.1	-0.6	1.6	15.4	-13.4	16.4

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	M5:05	M6:05	M7:05
Canada	204.4	206.5	184.6	201.3	191.4	207.2	211.9
Newfoundland	2.1	2.2	2.5	1.7	1.9	1.5	1.6
Prince Edward Island	0.6	0.4	1.1	0.5	0.7	0.5	0.4
Nova Scotia	3.3	3.1	2.5	3.9	3.9	2.5	3.3
New Brunswick	2.6	2.5	1.8	3.0	3.3	3.0	2.7
Québec	46.7	49.3	41.6	40.0	34.9	39.3	45.3
Ontario	79.9	77.2	69.4	81.3	67.8	96.7	89.1
Manitoba	2.9	2.6	2.7	2.7	2.3	3.4	4.1
Saskatchewan	3.1	3.3	2.0	2.8	2.3	3.8	2.2
Alberta	32.2	35.6	32.0	35.8	41.6	28.5	30.3
British Columbia	30.9	30.3	29.0	29.6	32.7	28.0	32.9

* Thousands of units, seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2004	Q4:04	Q1:05	Q2:05	M5:05	M6:05	M7:05
New Housing							
New & unoccupied singles & semis, units 000s	5.2	5.7	5.7	5.5	5.5	5.3	5.1
Per cent change from same period previous year	9.3	12.6	12.5	4.1	3.7	1.8	3.0
New & unoccupied row & apartments, units 000s	6.7	8.3	8.8	9.3	9.3	9.0	9.5
Per cent change from same period previous year	18.9	37.1	49.6	54.0	62.1	40.5	44.6
New House Price Index, 1997=100	123.2	125.4	126.5	128.4	128.3	129.3	n.a.
Per cent change from same period previous year	5.5	5.4	5.1	4.7	4.6	4.7	n.a.
Existing Housing							
MLS® resales*, units 000s	461.1	451.3	454.3	491.6	486.4	505.9	n.a.
Per cent change from same period previous year	6.0	0.6	-0.1	2.9	3.1	6.3	n.a.
MLS® average resale price*, \$C 000s	226.2	233.1	239.2	246.5	249.1	247.2	n.a.
Per cent change from same period previous year	9.2	8.1	8.8	8.9	8.5	10.3	n.a.
Mortgage Market							
1-Year Mortgage Rate, % (period average)	4.59	4.90	4.88	4.83	4.85	4.75	4.90
5-Year Mortgage Rate, % (period average)	6.23	6.25	6.12	5.90	5.95	5.70	5.80

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.