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# HOUSING FACTS

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Canada Mortgage and Housing Corporation

## STARTS IN OCTOBER SECOND HIGHEST IN 12 YEARS

The seasonally adjusted annual rate<sup>1</sup> of housing starts rose to 237,300 in October from 232,200 in September, making October's starts the second highest monthly level in 12 years.

October's strong results continued to reflect low mortgage rates and strong consumer confidence. High activity in the resale market also confirms that demand for homeownership remains strong while creating spill-over demand in the new home market.

Economic fundamentals, low inventories of completed and unoccupied units as well as a buoyant new housing market are keeping homebuilders active. Rising house prices are also encouraging homeowners to trade up to more expensive dwellings, this in turn is boosting housing demand in both the new and resale markets. Year-to-date, actual starts

have exceeded last year's level by 7.4 per cent.

In October, urban single starts increased 0.3 per cent to 100,900 units at seasonally adjusted annual rates compared to 100,600 units the previous month. This increase was reflected in all regions of the country except in Ontario where urban single starts decreased slightly. Canada-wide, year-to-date actual urban single starts were 3.8 per cent lower compared to the same period in 2002.

The seasonally adjusted annual rate of urban multiple starts rose 5.8 per cent to 110,500 units in October compared to 104,400 units in September. The majority of the increase occurred in Ontario with a slight increase also being observed in British Columbia. The seasonally adjusted annual rate of urban multiple starts fell in the remaining regions. Nationally,

year-to-date actual urban multiple starts increased 22.9 per cent compared with the same period in 2002.

Rural starts in October were estimated at a seasonally adjusted annual rate of 25,900 units. ■

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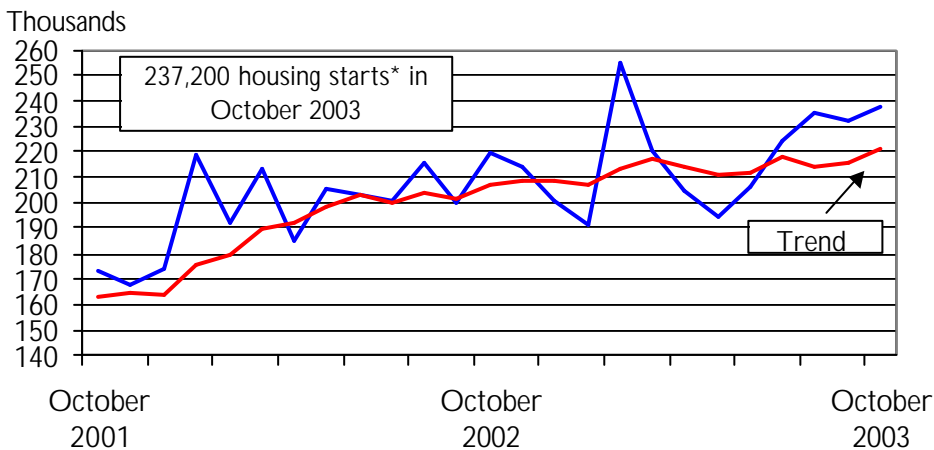
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### Housing Starts in Canada - All Areas\*



\*Seasonally adjusted at annual rates

<sup>1</sup> See notes on page 2.

Source: CMHC



HOME TO CANADIANS  
Canada

**NOTES:** 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.

Figures for the most recent month are preliminary and subject to revisions due to corrections or updates from quarterly enumeration or sampling results.

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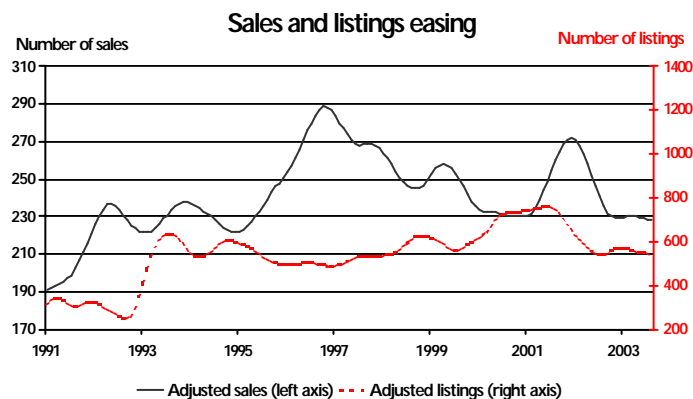
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## A case study on market classifications: Saskatoon

Market classification involves analyzing a variety of indicators to make a judgement about the degree of price pressure and the relative balance between demand and supply in a local resale housing market. Using Saskatoon as an example, we illustrate the use of indicators to properly classify its resale market, which is balanced.

- The state of the resale market in any given locality can be classified as a sellers', buyers', or a balanced market. These market classifications are based on an assessment of the balance between demand and supply and the concomitant price pressures within the market. A market is balanced when supply and demand are similar and home prices are increasing at about the overall rate of inflation. In a sellers' market, demand is greater than supply and this imbalance causes home prices to increase at a rate faster than inflation, while in a buyer's market, supply exceeds demand, resulting in price appreciation below the rate of inflation.
- The most commonly quoted indicator used in resale market classification is the sales-to-new listings ratio, which represents the relationship between housing supply and demand. It is only one of many indicators that should be used when determining a market's classification.
- Proper resale market classification includes an analysis by market segment of recent supply and demand trends and current and expected market activity levels. The indicators used across regions are principally the same, but the cut-off points for an indicator which determine a market's classification are specific to a locality and can vary across markets and over time. Indicators include:

- **Sales volume:** Sales tend to move in the same direction as demand and consequently are used as an indicator of demand.
- **Listings:** Listings are a measure of the supply. Active listings represent the current stock of available supply, while new listings represent the flow of new supply. In general, there is a steady turnover of listings in a balanced market, while in a sellers' market active listings decline since sales exceed new listings. The converse occurs in a buyers' market.
- **Sales-to-listings ratio:** The ratio of sales to either active or new listings is an indicator of the balance between housing demand and supply within a market.



Source: CMHC, adapted from Saskatchewan Real Estate Board

## A Case Study on Market Classifications: Saskatoon (cont.)

Changes in this balance typically precede a response in prices. The higher these ratios, the greater demand relative to supply and the greater the potential for price increases.

- Days on market:** The average time it takes for a dwelling to sell is another indicator of the relative balance of demand and supply. The faster a home sells, the greater housing demand relative to supply.
- Average price trend:** Price is a function of the relative balance between housing supply and demand within the market. In general, dwelling prices rise at about the overall rate of inflation in a balanced market, while in a sellers' market, they rise faster than inflation while in a buyers' market, their rise is slower than inflation.
- Other indicators:** These tend to be based on factors, like employment or GDP growth, which have an indirect impact on the housing market. The responsiveness of different markets to these factors is not constant, so the way these indicators are used is specific to a particular market.

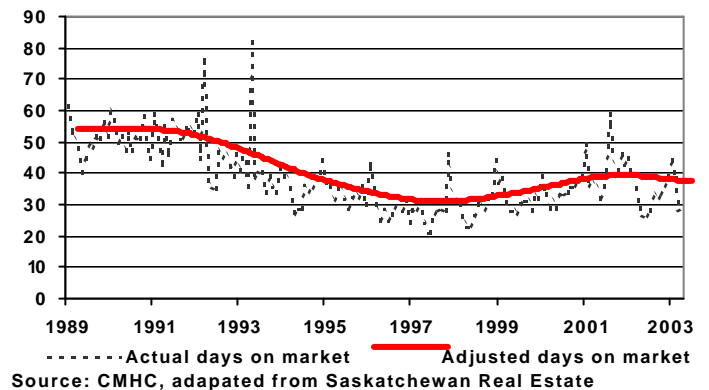
● The above criteria are best used to classify local markets where a more complete data set is available. Thus, as an example of market classification, Saskatoon is used (based on data up to August 2003):

- Sales volume:** Actual year-to-date sales were down by more than 6 per cent compared to 2002. After adjusting for seasonal factors, sales were 228 in August 2003, down from 236 a year ago. This level of sales falls within the range associated with a *balanced market*, but the trend is towards a *buyers' market*.
- Listings trend:** The inventory of active listings has shown an upward trend, but dropped in the last

two months, while the level of 347 new listings in August 2003 was down slightly from 350 a year earlier. This decreasing listings trend falls into the range that is considered to be consistent with a *sellers' market*.

- Sales-to-active-listings ratio trend:** The sales-to-active-listings ratio is relatively stable at 0.41 compared to 0.42 last year. This ratio level falls within the range of a very strong *sellers' market*.

Days on market shows balanced market



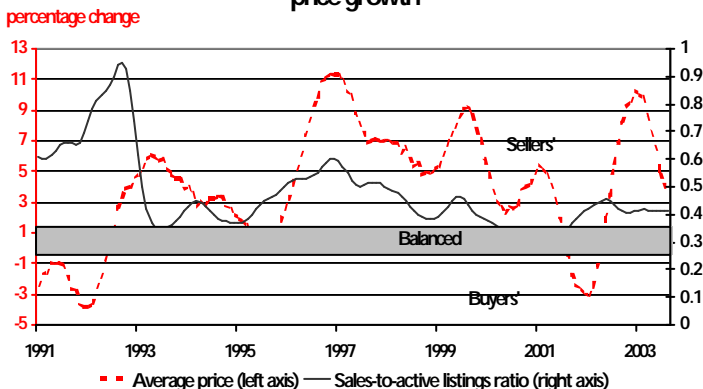
- Days on market:** As of April, listings remained active for an average of 35 days, which is at the cut-off between a *sellers' market* and a *balanced market*. Given its stability, this indicator can be used to classify Saskatoon as either a *sellers' market* or a *balanced market*.

- Average price trend:** The average MLS® price increased 3.25 per cent between August 2002 and August 2003, compared to inflation of about 2.25 per cent in the same period. This increase falls within the range that is consistent with a *balanced market*.

- Other indicators:** Employment growth in Saskatoon remains stable around 3 per cent, which falls within the range associated with a *balanced market*, while mortgage rates, which are lower than 6 per cent, signal conditions associated with a very strong *sellers' market*.

● Some criteria, mainly the average price, the sales-to-active-listings ratio and the sales volume, carry more weight in determining a market's classification. In the case of Saskatoon, most of these indicators are currently in or moving towards the range associated with a balanced market. Therefore, looking at all the factors and what they tell us about supply and demand within the resale market, as of August 2003, **the Saskatoon market is classified as balanced. ■**

Declining sales-to-active listings ratio leads to slower price growth



## Toronto's stock of condominiums continues to grow

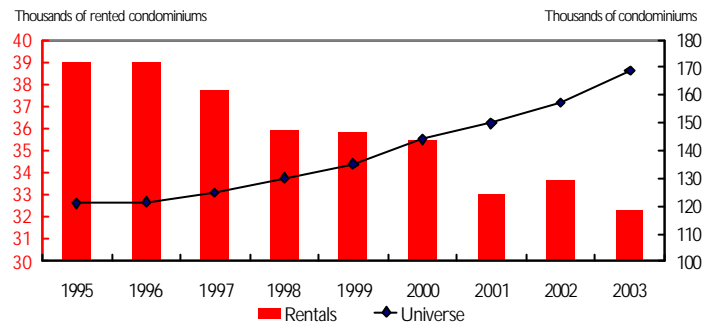
CMHC's Condominium Survey assesses the Toronto condominium apartments market each year in June. The most recent survey showed that the total stock continues to grow, while the stock of condominium apartments on the rental market resumed its downward trend.

- In 2001, a shortage of labour and equipment created a backlog of apartment condominium projects under construction. The anticipated surge in completions in 2002 failed to materialize and instead spilled over into 2003. In the 12 months ending June 2003, almost 12,000 new condominium apartments were added to the total stock of condominium apartments in the Toronto Census Metropolitan Area (CMA).
- In the same period, the stock of condominium apartments on the rental market declined by about four per cent in the Toronto CMA. Significant equity gains by investors over the past year coupled with softer rents, as conveyed by industry contacts, encouraged a number of investors to sell their units in 2003.
- In addition to investors, owner-occupiers who are facing different housing needs have been selling their condominium apartments, which pushed listings to an all time high in the first quarter of 2003 in the Toronto CMA. The record listings of

resale condos and a high rate of completions means there has been a wide selection of apartment condominiums available for sale in Toronto.

- Record low interest rates permitted buyers to take advantage of the opportunity. In the first eight months of 2003, prices for condominium apartment rose about 4 per cent in the Greater Toronto Area, implying that demand has been sufficient to absorb the record levels of supply. ■

More condos in Toronto (CMA) but fewer are rented



Source: CMHC, Greater Toronto Area Condominium Report, 2003

## Mortgage Refinancing

From time to time, the FIRM Survey includes items to elicit information from mortgage holders who increase the principal on their current mortgage. Why do people refinance their mortgage?

- Mortgages are refinanced for many reasons. In a period of declining mortgage rates, as has been the case for the past two years, mortgage holders may be able to borrow a larger amount without increasing their monthly mortgage payment. In effect, mortgage holders are accessing some of the equity in their house without selling.
- The results of the March and June 2003 editions of the FIRM survey provide some information on mortgage refinancing in Canada. Mortgage refinancing in the year ending March 2003 is estimated at approximately \$5 billion.
- In the 12 months ending June 2003, about 7% of homeowners with a mortgage refinanced to a larger amount. Among them:
  - The average increase in the mortgage due to refinancing was approximately \$33,000;
  - The top reasons for refinancing to a larger amount were to consolidate debt (29%), to consolidate debt originally incurred for renovations (22%), and to directly finance renovations (22%);
  - Twelve percent indicated they intended to purchase another home and seven percent intended to purchase a vehicle.
  - No other reason was given for which the percentage of respondents was higher than 5 per cent. ■

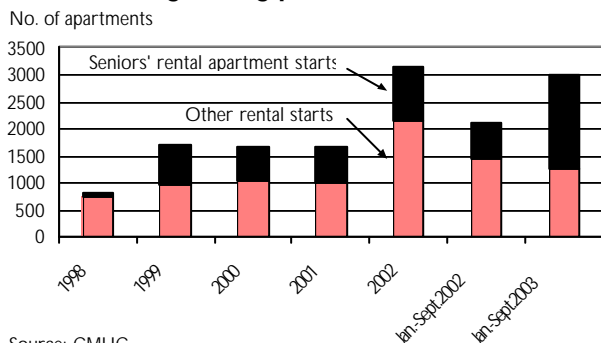
FIRM Residential Mortgage Survey March 2003 and June 2003, Clayton Research/Ipsos-Reid

## Demand from seniors encourages rental construction in Montreal

Although still well below the levels reached in the late 1980s, the number of rental housing starts in Montreal has been growing strongly for several years. What has stimulated this type of construction?

- Construction of apartments intended for the rental market has increased considerably in Montreal since 1996. After a slump during which rental apartment construction fell from close to 7000 units in 1989 to a low of about 750 units in 1996, rental apartment starts began to increase at a rate that averaged 27 per cent per year between 1996 and 2002. In the first 9 months of 2003, the pace accelerated to over 40 per cent. Despite this strong growth, the number of rental starts is still less than half of the total recorded in 1989.
- In addition to the usual housing characteristics (e.g., dwelling type, tenure) tracked by CMHC's Starts and Completions Survey, information on the type of clientele targeted by apartment construction projects began to be collected in Montreal in 1998. As a result, it is possible to differentiate between projects intended for seniors (people over the age of 65) in this market and those for the rest of the population.

**Seniors a growing part of the rental market**



Source: CMHC

- This data indicates that seniors have become a large part of the market catered to by developers of rental accommodation. Although

apartment buildings projects targeted to seniors represented only a small fraction of rental construction activity in 1998, in subsequent years they accounted for between 30 and 40 per cent of rental starts. During the first three quarters of 2003, seniors became the major group targeted by rental apartment developers, with rental apartments for seniors accounting for close to 60 per cent of rental starts.

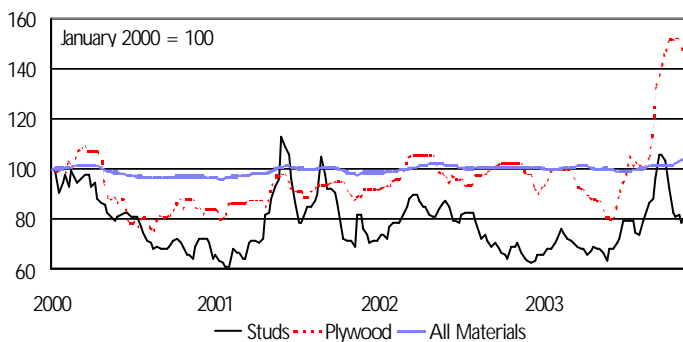
- Since 2002, developers have begun building luxury rental housing projects targeted to retired and semi-retired people. These projects may offer certain services, which are different from those usually found in a retirement home. In 2003, these projects represented over 6 per cent of rental starts, up from about 2 per cent the year before.
- Despite the strong increase in construction of rental accommodation for seniors between 1998 and 2002, vacancy rates in both retirement homes (buildings with common dining facilities) and seniors' apartments declined from 7.6 per cent to 3.1 per cent and 3.1 per cent to 1.3 per cent respectively in the same period. Clearly, demand for rental accommodation from seniors was strong enough to absorb the increased supply of apartments.
- Favourable demographics and the possibility of enhancing profitability by providing additional services indicate that housing targeted to seniors will continue to be an important part of the rental housing market. ■

## Price volatility of structural wood building materials presents a challenge to builders

Since the beginning of 2003, prices for softwood two by fours are up about 20 per cent while prices for plywood are up about 50 per cent. At the same time, the overall cost of building materials has been increasing at a very modest rate. What is the impact on the cost of a new house?

- Although the prices of two by fours (studs) are still up substantially, they are about 25 per cent below the peak reached in August. Prices were driven up by concerns that the fires in B.C. would lead to shortages, and fell back as that perception changed. The market for studs remains generally oversupplied, and the tendency for price increases to be temporary remains unchanged.
- Prices for plywood began to move up in mid-year, and although they have come off the peak, they are still at unprecedented levels. The main factor pushing up prices appears to be the increase in starts in both the US and Canada at mid-year, when capacity utilization at plywood and Oriented Strand Board (OSB) (a substitute for plywood) mills was already high. Despite the recent easing in plywood prices, this market is expected to remain very tight until overall construction activity begins to slow down.

**Wood Prices are Volatile**



Source: CMHC, adapted from Statistics Canada and Madison's Canadian Lumber Reporter

- The cost of building a house depends on the type of house and its location since the cost of materials and labour vary according to local conditions. However, broad averages do yield some understanding of building costs, particularly with respect to cost distribution rather than cost level. R.S.Means, a consulting firm considered to be an authority on building costs, collects and publishes this data annually. The table shows the North American average cost distribution based on

several popular types of wood frame houses. Studs and plywood or OSB are used only in framing, so their prices affect approximately 5.7 per cent of the cost of a house.

### Cost distribution for a single-detached house

(Based on 1,1.5 and 2 story economy, average and custom models)

	Material	Labour	Total
Interior (drywall,paint carpet,..)	13.1%	12.9%	25.9%
Foundation (excavation, concrete,..)	8.1%	9.9%	18.0%
Exterior (siding, insulation, windows..)	8.7%	4.7%	13.5%
Overhead (profit, fees, ..)	6.9%	6.5%	13.4%
<b>Framing (studs,trusses,sheathing..)</b>	<b>5.7%</b>	<b>7.2%</b>	<b>12.9%</b>
Mechanical (plumbing, heating..)	3.9%	2.9%	6.8%
Roofing (shingles, eavestroughs..)	1.4%	1.9%	3.3%
Specialties (kitchen cabinets,..)	2.3%	0.7%	3.0%
Electrical (wiring, fixtures, ...)	0.9%	1.5%	2.5%
Site Work		0.8%	0.8%
Total	51.1%	48.9%	100.0%

Source: Means Residential Cost Data 2003. Copyright R.S.Means Co. Kingston, MA. All rights reserved.

- Based on CMHC's Market Absorption Survey, the average price of new houses completed to date in 2003 has been \$256,831. If we assume that the wood frame house is representative of these new houses and the lot value equals about a third the price, then the cost of building the average new Canadian house is about \$172,000. If the prices for studs and plywood at the beginning of 2003 are associated with the cost distribution, then the cost of these materials needed to build the average house is about 5.7 per cent of \$172,000, or roughly \$10,000. If these materials had been purchased in August, when prices for both were near their peaks, they would have cost about \$16,000, whereas if they had been bought in May, they would have cost about \$9500. Even though these materials are a relatively small part of overall costs, their price volatility implies purchase timing and/or builders' inventory strategies can have a noticeable affect on builders' profitability. ■

## This Month's Housing Data (SAAR)

	2002	Q1:03	Q2:03	Q3:03	M8:03	M9:03	M10:03
<b>Housing starts, units, 000s</b>							
<b>Canada. Total. All areas</b>	<b>205.0</b>	<b>222.2</b>	<b>201.7</b>	<b>230.7</b>	<b>234.8</b>	<b>232.2</b>	<b>237.3</b>
Per cent change from previous period	26.0	5.0	-9.2	14.4	4.5	-1.1	2.2
<b>Canada. Total. Rural areas</b>	<b>25.9</b>	<b>31.5</b>	<b>24.5</b>	<b>27.2</b>	<b>27.2</b>	<b>27.2</b>	<b>25.9</b>
Per cent change from previous period	26.7	22.6	-22.2	11.0	0.0	0.0	-4.8
<b>Canada. Total. Urban areas</b>	<b>179.1</b>	<b>190.7</b>	<b>177.2</b>	<b>203.5</b>	<b>207.6</b>	<b>205.0</b>	<b>211.4</b>
Per cent change from previous period	25.9	2.6	-7.1	14.8	5.1	-1.3	3.1
<b>Canada. Single. Urban areas</b>	<b>103.1</b>	<b>97.0</b>	<b>97.2</b>	<b>101.8</b>	<b>100.5</b>	<b>100.6</b>	<b>100.9</b>
Per cent change from previous period	31.8	-9.3	0.2	4.7	-3.5	0.1	0.3
<b>Canada. Multiple. Urban areas</b>	<b>76.1</b>	<b>93.7</b>	<b>80.0</b>	<b>101.7</b>	<b>107.1</b>	<b>104.4</b>	<b>110.5</b>
Per cent change from previous period	18.7	18.6	-14.6	27.1	14.7	-2.5	5.8
<b>Newfoundland. Total. All areas</b>	<b>2.4</b>	<b>1.6</b>	<b>3.0</b>	<b>2.5</b>	<b>2.8</b>	<b>2.5</b>	<b>3.5</b>
Per cent change from previous period	35.3	-42.9	87.5	-16.7	16.7	-10.7	40.0
<b>Prince Edward Island. Total. All areas</b>	<b>0.8</b>	<b>0.9</b>	<b>1.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.6</b>	<b>1.2</b>
Per cent change from previous period	14.8	28.6	77.8	-56.3	-37.5	20.0	100.0
<b>Nova Scotia. Total. All areas</b>	<b>5.0</b>	<b>9.9</b>	<b>4.2</b>	<b>4.9</b>	<b>4.8</b>	<b>4.5</b>	<b>3.6</b>
Per cent change from previous period	21.5	67.8	-57.6	16.7	-5.9	-6.3	-20.0
<b>New Brunswick. Total. All areas</b>	<b>3.9</b>	<b>3.7</b>	<b>5.1</b>	<b>4.7</b>	<b>4.6</b>	<b>4.3</b>	<b>3.5</b>
Per cent change from previous period	11.6	-27.5	37.8	-7.8	-9.8	-6.5	-18.6
<b>Quebec. Total. All areas</b>	<b>42.5</b>	<b>46.8</b>	<b>43.2</b>	<b>56.5</b>	<b>61.1</b>	<b>56.3</b>	<b>53.4</b>
Per cent change from previous period	53.4	3.3	-7.7	30.8	16.8	-7.9	-5.2
<b>Ontario. Total. All areas</b>	<b>83.6</b>	<b>90.2</b>	<b>79.0</b>	<b>85.9</b>	<b>86.5</b>	<b>86.4</b>	<b>95.6</b>
Per cent change from previous period	14.1	10.8	-12.4	8.7	1.9	-0.1	10.6
<b>Manitoba. Total. All areas</b>	<b>3.6</b>	<b>3.5</b>	<b>3.8</b>	<b>4.3</b>	<b>5.1</b>	<b>4.3</b>	<b>6.3</b>
Per cent change from previous period	22.1	-5.4	8.6	13.2	59.4	-15.7	46.5
<b>Saskatchewan. Total. All areas</b>	<b>3.0</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.5</b>	<b>3.2</b>	<b>3.7</b>
Per cent change from previous period	24.4	0.0	8.8	-10.8	16.7	-8.6	15.6
<b>Alberta. Total. All areas</b>	<b>38.8</b>	<b>38.4</b>	<b>35.4</b>	<b>37.8</b>	<b>36.9</b>	<b>38.3</b>	<b>33.7</b>
Per cent change from previous period	32.8	-3.5	-7.8	6.8	-4.2	3.8	-12.0
<b>British Columbia. Total. All areas</b>	<b>21.6</b>	<b>23.8</b>	<b>22.7</b>	<b>30.1</b>	<b>29.0</b>	<b>31.8</b>	<b>32.7</b>
Per cent change from previous period	25.5	1.3	-4.6	32.6	-1.4	9.7	2.8

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\*

	2002	Q1:03	Q2:03	Q3:03	M8:03	M9:03	M10:03
Canada	179.1	190.7	177.2	203.5	207.6	205.0	211.4
Newfoundland	1.6	1.2	2.1	1.6	1.9	1.6	2.6
Prince Edward Island	0.5	0.5	0.6	0.6	0.4	0.5	0.5
Nova Scotia	3.7	8.6	2.9	3.2	3.1	2.8	2.1
New Brunswick	2.6	2.1	3.5	3.1	3.0	2.7	2.5
Québec	33.5	35.2	34.7	45.3	49.9	45.1	43.6
Ontario	79.6	83.9	75.8	81.9	82.5	82.4	91.8
Manitoba	2.2	2.1	2.0	3.1	3.9	3.1	5.0
Saskatchewan	2.4	2.7	2.8	2.6	2.8	2.5	2.9
Alberta	32.7	33.5	31.3	33.6	32.7	34.1	28.9
British Columbia	20.3	20.9	21.5	28.5	27.4	30.2	31.5

\* Thousands of units, seasonally adjusted and annualized.

## This Month's Major Housing Indicators

	2002	Q1:03	Q2:03	Q3:03	M8:03	M9:03	M10:03
<b>New Housing</b>							
<b>New &amp; unoccupied singles &amp; semis, units 000s</b>	4.8	4.7	4.8	4.6	4.6	4.7	4.9
Per cent change from same period previous year	-16.4	-9.5	-3.4	5.6	6.2	5.8	4.6
<b>New &amp; unoccupied row &amp; apartments, units 000s</b>	5.1	5.2	5.7	5.7	5.8	5.6	6.0
Per cent change from same period previous year	-16.5	-2.8	8.7	19.9	27.4	20.4	27.7
<b>New House Price Index, 1997=100</b>	111.3	114.6	115.9	117.3	117.3	117.9	n.a.
Per cent change from same period previous year	4.1	5.0	4.4	4.8	4.7	5.1	n.a.
<b>Existing Housing</b>							
<b>MLS<sup>®</sup> resales*, units 000s</b>	421.2	415.0	421.8	475.4	456.2	469.3	481.1
Per cent change from same period previous year	10.6	-9.8	2.4	18.0	13.6	12.7	11.2
<b>MLS<sup>®</sup> average resale price**, \$C 000s</b>	188.1	197.7	203.5	208.0	211.1	213.3	213.2
Per cent change from same period previous year	9.5	8.0	8.3	9.7	12.9	8.9	12.7
<b>Mortgage Market</b>							
<b>1-Year Mortgage Rate, % (period average)</b>	5.17	5.05	5.08	4.55	4.55	4.55	4.55
<b>5-Year Mortgage Rate, % (period average)</b>	7.02	6.63	6.20	6.28	6.35	6.30	6.40

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

n.a. Figures not available

\* Seasonally adjusted and annualized (SAAR). \*\* Seasonally adjusted.