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HOUSING FACTS

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Canada Mortgage and Housing Corporation

Housing starts end the year on a strong note, well above the 150,000-unit mark

Housing starts were up very slightly in December (0.2%), attaining the seasonally adjusted rate of 155,300 units, compared to the revised level of 155,000 units for November.

In the country's urban areas, single-family home building rose by 8.4% to 80,000 units, while multiple housing construction fell by 9.8% to 54,600 units.

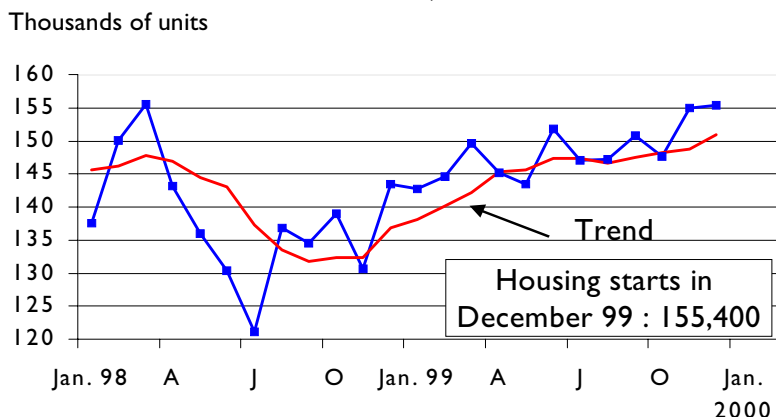
The high level of activity in

December consolidated the very good performance achieved in November, suggesting that the cruising speed of housing starts will stay above the 150,000-unit mark in the year 2000.

The favourable economic outlook and especially the tightening of several niches at the local level are working towards a greater production of housing units this year.

Please see Housing starts on page 2...

Housing starts in Canada
all areas, *saar



Source: CMHC Housing facts
*Seasonally adjusted annual rate

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HOME TO CANADIANS
Canada

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In the different regions, the Prairies (2.5%) posted the strongest growth in housing starts last month, with a total of 24,800 units. Elsewhere, housing starts were up in Ontario (2.4% to 68,600 units) and Quebec (1.5% to 20,100 units). These gains were not sufficient, though, to fully offset the decreases registered in the four Atlantic Provinces (21% to 5,300) and British Columbia (4.8% to 15,800).

At the metropolitan area level, housing starts attained the seasonally adjusted annual rates of 34,200 units in Toronto, 13,300 units in Montréal and 12,100 units in Vancouver.

According to the preliminary data for all of 1999, the volume of urban housing starts in Canada was 9% greater than that recorded in 1998, attaining 127,098 units. All the provinces posted gains, except for Alberta, British Columbia and Newfoundland. ■

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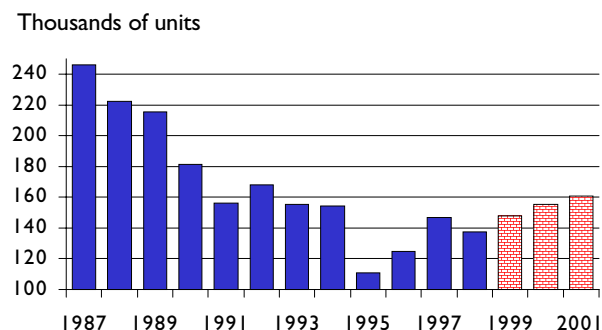
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News flash: forecast for 2000 and 2001

The North American economic growth continues to amaze. And, housing markets will keep expanding in 2000 and 2001. A turnaround is expected in British Columbia.

- The favourable global economic conditions and strong job creation in Canada, particularly the gains made in terms of full-time positions, have prompted us to raise our forecasts. Housing starts in Canada should therefore attain 155,100 units this year and 160,700 units in 2001.
- The growth in multiple housing construction will be stronger than the rise in single-family home building. Semi-detached and row housing starts will show the greatest vigour this year, while apartment production will take over next year.
- Likewise, existing home sales will surpass the record level reached in 1999, posting increases of 0.7% this year and 2.2% in 2001. The bulk of the gains will come from Ontario, Alberta and British Columbia. In some markets, the volume of transactions will be limited by the scarcity of new listings.
- The average resale price in the country will progress at a fast pace over the next 24 months. This price should go up by 2.8% to \$161,800 this year and by 3.4% to \$167,300 in 2001.
- The increase in household income, thanks to the improvement on the labour market and the income tax reductions, should offset the expected mortgage rate hike.
- By the end of 2001, the rise in the migratory balance should also buoy the housing demand, while the current immigration level is well below government objectives. ■

Housing starts in Canada



Source: CMHC Housing facts

*Forecasts for 1999, 2000 and 2001

Tightening of the rental market becoming more probable

The increase in apartment construction costs could well reduce the financial return offered by the rental market and the interest of developers in starting new units.

- In the third quarter of 1999, the Statistics Canada apartment building construction composite price index was up by 1.8% on an annual basis. This index gives an indication of the costs in seven large urban centres (see opposite table).
- Ottawa and Toronto, where the rental housing vacancy rates are under 1% according to the latest CMHC survey, registered significant increases in construction costs. Apart from Vancouver, the faster rise in costs is generalized.
- This being said, to the extent that rental apartment building developers aim for a financial return of 10% to 15%, equal to what they can get by building condominium apartments or single-family houses, two scenarios become apparent. On the one hand, either there will be an increase in rental rates where regulations so permit and the market can absorb such a rise or, on the other hand, the level of construction will remain low and the pressure on the vacancy rates will consequently intensify.

- These indices are established on the basis of surveys conducted among general and trade contractors and include materials, labour, equipment, tax and overhead costs, as well as profits. ■

Apartment building construction price index

Metropolitan areas	Annual change (%)	
	3 rd quarter 1999	3 rd quarter 1998
Halifax	2.7	1.4
Montréal	2.0	1.3
Ottawa	2.6	1.6
Toronto	3.1	1.7
Calgary	2.8	2.6
Edmonton	2.5	2.1
Vancouver	1.1	1.6
Composite	1.8	1.5

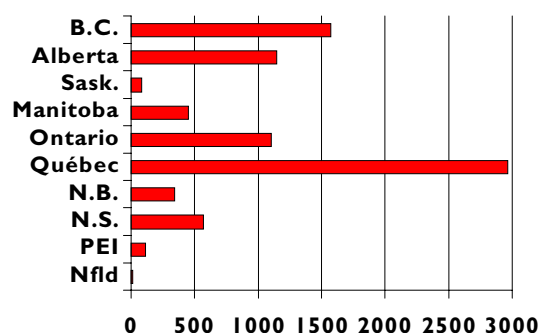
Sources: CMHC Housing facts and Statistics Canada

Quebec is the place where the most rental housing units are built

In 1999 (January to November), only 8% of urban housing starts in Canada were directly intended for the rental market. In 1989, this proportion was 22%.

- Despite an increase in the number of units started in 1999, rental housing construction is becoming marginal. In fact, condominium construction is now three times greater than rental construction and dominates in Ontario, Quebec, British Columbia, Alberta and even Saskatchewan. Even though a good number of condominium units end up being occupied by renters, it is not surprising to see that the rental vacancy rate has been steadily declining since 1996.
- Even if they are rented, units that are officially intended to be used as condominiums are not covered by the CMHC rental market survey on account of their frequent changes of status. ■

Rental housing starts



Source : CMHC Housing facts

*January to November 1999

Materials costs: sporadic shortages and price increases

Order books are quite full. The strong demand could convince manufacturers to increase their capacity and allow for a breakthrough of prefabricated components.

- The shortage of construction materials continues at the North American level, yet the construction materials industry is hesitating to increase the capacity of its installations for fear of a recurrence of the excess capacity problems that had resulted from the collapse of the real estate market in the early 1990s. As well, in the medium term, consumers will have no other choice but to absorb the increases in the prices of materials. The potential easing of these prices, with the new capacities going into production, will take several months before being felt.
- For households who are finally reaping the benefits of the economic growth and who are buying a new home or renovating, the increase in the prices of materials leaves a bitter taste. While contractors may be able to attenuate the increase in the costs of materials by substituting certain products by other less costly products, it is more difficult to contend with the scarcity of qualified labour, which has become a reality in several areas across America.
- The increased use of prefabricated panels to reduce construction costs and time is being intensely promoted by Canadian manufacturers on the American market. Now, Canadian consumers could derive greater benefit from the technological innovations in construction methods. The opportunity is there.
- The experts all agree in forecasting a rise in renovation spending in North America. In the United States, and to a lesser extent in Canada, the growth in household income and the increase in prices on the housing markets are boosting the image of real estate.
- Housing starts should go up by over 5% this year in Canada, while the level of activity is expected to go down in the United States. However, with over 1.5 million units anticipated to be started in the year 2000, the market remains very robust there and the demand largely exceeds the capacity.
- The demand for construction materials is also supported by the fact that homes are increasingly larger and require more materials.

Building materials price growth in U.S.

Annual change (%)	1998	1999*	2000*
Lumber	-7.7	5.5	3.0
Gypsum	4.0	9.7	2.3
Concrete	3.0	2.0	2.6
Total construction materials	-0.5	2.2	1.8

Source: Construction materials composite price index of the U.S. Department of Labor.

*Forecasts: Professional Builder

- In 1978, 2.2 million units were started in the U.S., with an average floor area of 1,755 sq ft, compared to 1.6 million units with an average floor area of 2,150 sq ft in 1998. Add to that the boom in the commercial construction sector in an economy that is posting strong growth, and the record demand for construction materials comes as no surprise. ■

Residential new construction and renovation

	1998	1999f	2000f
Housing starts (millions of units)			
United States*	1.622	1.666	1.536
Canada**	0.137	0.147	0.156
Renovation (\$billion)			
United States (\$US)	119.5	126.7	128.4
Canada (\$Can)	22.5	23.7	25.0

Sources: CMHC Housing facts and National Association of Home Builders (NAHB)

*Forecasts NAHB

**Forecasts CMHC

Dynamic markets heighten the pertinence of renovations

The gap between the Canadian and American markets in the recovery of renovation expenses shows the extent to which the vigour of resale markets influences the nature and yield of renovation expenses.

- The interest in residential real estate in Canada is on the rise and, as prices increase, the portion of renovation expenses recovered when reselling a home goes up. This is good news for renovators given that, only three years ago, renovating one's property was not the most profitable investment. On most markets, renovations would just enable owners to maintain the value of their property and raise the interest of potential buyers, without forgetting the improvement in the comfort of the occupants.
- However, as shown by the data for the United States, where the housing market is booming, the more the markets are vigorous, the greater the recovery of invested sums.
- On most Canadian markets, a good coat of fresh paint still remains the best investment that a seller can make, but kitchen renovations, followed by bathroom renovations, stand out from other types of renovation projects by

their profitability, and this is even more true in the United States. ■

Renovation projects pay back

Type of work	Canada*	É.-U.**
Interior painting	73	n.a.
Kitchen renovation	72	76
Bathroom remodeling	68	71
Basement renovation	49	n.a.
Living room addition	51	71
Doors & windows	57	56

Nota: Evaluation methods may slightly differ between the two countries.

Source: CMHC Housing facts

* Appraisal Institute of Canada 1999

** Remodeling Online Cost Value report 1999.

Elderly care suites in Ontario is a promising market

Strong demand is expected to lead to greatly expanded activity in dwellings for the elderly.

- According to the latest **Annual Care Survey of Retirement and Long Term Care Homes in Ontario*** it is estimated that at least 24,900 additional Private sector retirement care suites will be required by 2011. This is two new 85-suite Retirement Care facilities each month until 2011. Demand for retirement homes was up 6.5% in 1998 and has averaged an increase of 6.1% since 1986. The survey reported a 88.6% occupancy rate.
- In the Public sector long term care category, there is virtually no capacity to meet increasing demand. The government has put forth the first tenders for new beds since 1986. In 1986 there were 154 beds per thousand persons aged 75 or more; by 1998 this had been reduced to only 94 beds per thousand aged 75+. In total, 20,000 new beds have been promised by the government with the first tender for 6,700 having been finalized. However, it is estimated that 29,100 new beds will be required by the year 2011.
- The elderly population is expected to grow dramatically between now and 2011. In this *needs business* the average age of residents is over 81 and those facilities that offer progressive levels of care enjoy higher occupancies. ■

* Survey by Care Planning Partners Inc. May to September 1998; response rate of 69.8%.

Elderly population care suites by type in Ontario

	Units	%
Long Term Care	57,542	36.3
Home Care	49,000	30.9
Retirement Homes	33,509	21.1
Chronic Care	9,532	6.0
Supportive Housing	9,000	5.7
TOTAL	158,583	

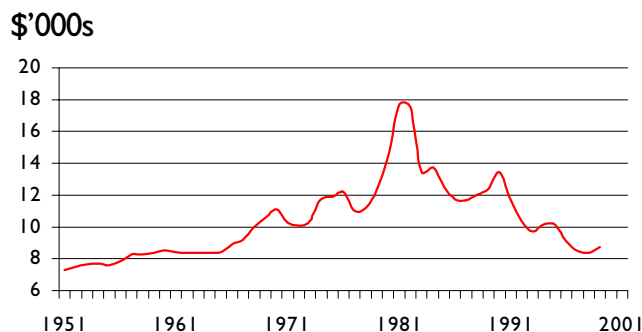
Sources: CMHC Housing facts, Care Planning Partners Inc.

Mortgage rate rise offset by employment and income growth

Mortgage rates have always been a central actor in housing markets behavior. But times are changing and as long as they will remain relatively low they will not play the leading role.

- Residential real estate markets performed better in 1999 compared to 1998 despite higher mortgage rates. Both new home construction and house sales edged higher in 1999, reflecting the important role of employment and income growth in the housing markets. However, by December 1999 one and five-year mortgage rates stood 1.15 and 1.65 percentage point higher than they were a year ago.
- Statistical analysis of historical data shows that, for every sustained full percentage point increase in mortgage rates, housing starts and sales could decline by 5%-6%, or 8,000 and 20,000 units respectively over the following 3-12 months.
- During the last 3 years housing markets reacted mainly to employment growth, migration and disposable income growth.■

Annual mortgage payment*



Sources: CMHC Housing facts and Bank of Canada
*Based on \$100,000 mortgage, amortized over 25 years, 5-year mortgage rate

30-year fixed rate mortgages : popular in U.S. but forgotten in Canada

Homeowners in U.S. have access to 30-year fixed mortgage rate at a lower rate than Canadian borrowers opting for a 5-year term! Is the time ripe for a return to longer term mortgages in Canada?

- Until the 1960s in Canada, most residential mortgages were closed and for terms of 25 to 40 years. In the 1970s and early 1980s, lenders became vulnerable because of rising inflation and interest rates, and offered shorter term mortgages. Today, one year and five-year rates have become the norm, while seven or ten-year are still marginal. Could the prevalence of stable, low interest and mortgage rates could lead to a revival of longer terms?
- In the U.S., it is possible to lock in the interest rate and monthly mortgage payment for the life of the loan. The longer term gives the borrower peace of mind knowing the rate and payment won't change over the life of the loan. These days, the 30-year fixed mortgage rate is the most popular and is even lower than the 5-year adjustable mortgage rate. What are the driving forces behind this popularity?
- In general, the nominal interest rate on a debt security such as a mortgage consists of a risk-free rate (e.g. one on treasury bills) plus a premium reflect-

ing the expected inflation, the risk of default and the liquidity of the security. Many borrowers dislike short-term debt because such debt exposes them to the risk of having to repay it under adverse conditions. Accordingly, borrowers are willing to pay a high rate, other things equal, for longer-term funds than for short-term funds.■

Selected mortgage rates terms*

Canada	United States	
5-year	5-year AMR**	30-year fixed.
8.25	7.38	7.88

Sources: CMHC Housing facts, Bank of Canada and CitiBank Corp.
*Dec. 23, 1999.
**Adjustable mortgage rate U.S.

This Month's Housing Data

	1998	Q2:99	Q3:99	Q4:99	M10:99	M11:99	M12:99
Housing starts, units, 000's							
Canada, Total, All areas	137.4	147.3	147.2	152.7	147.6	155.0	155.4
chg	-6.5	1.0	-0.1	3.7	-2.1	5.0	0.3
Canada, Total, Rural areas	20.6	22.2	20.5	20.7	20.7	20.7	20.7
chg	-13.3	-1.3	-7.7	1.0	1.0	0.0	0.0
Canada, Total, Urban areas	116.8	125.1	126.7	132.0	126.9	134.3	134.7
chg	-5.2	0.7	1.3	4.2	-2.6	5.8	0.3
Canada, Single, Urban areas	68.3	72.8	74.8	75.3	72.1	73.8	80.0
chg	-6.0	8.8	2.7	0.7	-5.1	2.4	8.4
Canada, Multiple, Urban areas	48.5	52.3	51.9	56.7	54.8	60.5	54.7
chg	-4.1	-8.7	-0.8	9.2	0.9	10.4	-9.6
Newfoundland, Total, All areas	1.5	1.4	1.3	1.5	1.3	1.6	1.4
chg	-14.5	-22.2	-7.1	15.4	8.3	23.1	-12.5
Prince Edward Island, Total, All areas	0.5	0.5	0.8	0.5	0.5	0.6	0.5
chg	11.5	-37.5	60.0	-37.5	-16.7	20.0	-16.7
Nova Scotia, Total, All areas	3.1	5.3	2.7	4.1	4.4	4.3	3.7
chg	-17.7	12.8	-49.1	51.9	46.7	-2.3	-14.0
New Brunswick, Total, All areas	2.4	2.4	2.7	2.5	2.1	2.8	2.3
chg	-9.4	-11.1	12.5	-7.4	-27.6	33.3	-17.9
Quebec, Total, All areas	23.1	23.8	25.9	26.5	27.3	25.9	26.2
chg	-10.7	-3.3	8.8	2.3	-15.0	-5.1	1.2
Ontario, Total, All areas	53.8	69.6	64.9	68.8	63.3	70.8	72.4
chg	-0.4	7.4	-6.8	6.0	-1.6	11.8	2.3
Manitoba, Total, All areas	2.9	3.2	3.2	2.9	3.7	2.5	2.6
chg	10.8	-8.6	0.0	-9.4	37.0	-32.4	4.0
Saskatchewan, Total, All areas	3.0	3.0	3.9	2.8	3.1	2.5	2.7
chg	7.5	11.1	30.0	-28.2	-26.2	-19.4	8.0
Alberta, Total, All areas	27.1	23.0	26.3	25.8	26.3	25.4	25.7
chg	14.6	-1.7	14.3	-1.9	10.0	-3.4	1.2
British Columbia, Total, All areas	19.9	15.1	15.5	17.5	15.8	18.8	18.1
chg	-32.1	-10.7	2.6	12.9	-0.6	19.0	-3.7

SOURCE: CMHC

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

% chg: Per cent change from previous period.

This Month's Major Housing Indicators

	1998	Q2:99	Q3:99	Q4:99	M10:99	M11:99	M12:99
New Housing							
Building permits, units, 000's	148.6	155.3	159.7	n.a.	174.4	n.a.	n.a.
chg	2.1	-1.3	2.9	n.a.	16.0	n.a.	n.a.
New & unoccupied, singles & semis, 000's	6.8	6.5	6.4	6.3	6.4	6.3	6.3
chg	6.8	-4.2	-1.8	-2.6	-1.0	-1.4	-0.2
New & unoccupied, row & apartments, 000's	7.8	7.4	7.6	7.4	7.4	7.7	7.4
chg	12.1	-4.0	2.0	-2.7	-2.4	4.0	-4.1
New house price Index, 1992 = 100	100.1	100.6	101.1	n.a.	101.6	n.a.	n.a.
chg	0.0	0.2	0.5	n.a.	0.2	n.a.	n.a.
Existing Housing							
MLS Resales, units, 000's	314.2	354.5	346.9	n.a.	322.2	328.9	n.a.
chg	-2.1	13.4	-2.1	n.a.	-6.2	2.1	n.a.
MLS average resale price, \$C, 000's	152.4	156.9	158.6	n.a.	161.2	161.8	n.a.
chg	-1.5	2.1	1.0	n.a.	1.8	0.4	n.a.
Mortgage market							
1-year mortgage rate, *	6.5	6.5	7.0	7.3	7.3	7.3	7.3
5-year mortgage rate, *	6.9	7.3	7.8	8.3	8.3	8.3	8.3
Residential investment **							
Total, \$1992 billions	41.5	44.1	44.3	n.a.	n.a.	n.a.	n.a.
chg	-1.9	3.3	0.6	n.a.	n.a.	n.a.	n.a.
New, \$1992 billions	20.7	21.9	22.3	n.a.	n.a.	n.a.	n.a.
chg	-3.5	2.4	1.8	n.a.	n.a.	n.a.	n.a.
Alterations, \$1992 billions	13.6	14.3	14.0	n.a.	n.a.	n.a.	n.a.
chg	2.5	1.0	-1.7	n.a.	n.a.	n.a.	n.a.
Transfer costs, \$1992 billions	7.2	7.9	8.0	n.a.	n.a.	n.a.	n.a.
chg	-5.1	10.5	1.5	n.a.	n.a.	n.a.	n.a.
Deflator, 1992 = 100	108.3	111.4	111.2	n.a.	n.a.	n.a.	n.a.
chg	1.6	1.0	-0.2	n.a.	n.a.	n.a.	n.a.
Building materials							
Total costs building materials index, 1992=100	124.5	131.7	135.0	n.a.	n.a.	n.a.	n.a.
chg	-0.4	3.3	2.5	n.a.	n.a.	n.a.	n.a.

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

chg % change from previous period.

n.a. Figures not available

* All indicators are seasonally adjusted, except 1- and 5-year mortgage rates.

** Residential investment includes outlays for new permanent housing; conversion costs; the cost of alterations and improvements; supplementary costs; and transfer costs.