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HOUSING FACTS

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Canada Mortgage and Housing Corporation

Housing starts regain momentum after January's breather

February housing starts in Canada rose to their highest level since June 1994, to a seasonally adjusted annual rate of 168,000 units compared to a revised 150,200 figure for January

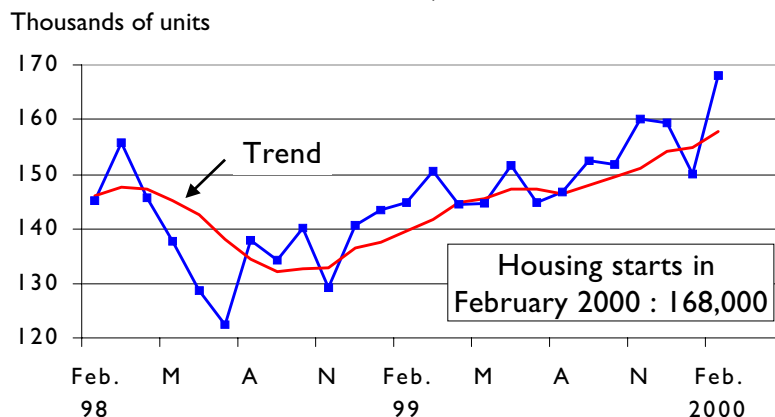
Urban multiples were the story in February, climbing strongly to 75,000 units from only 45,800 in January, the highest since May 1992. Urban singles declined 13.9 per cent to 70,900 units from a strong January result of 82,300.

As mentioned in our previous edition, the peak in under-construction multiple units led many builders to move current projects forward before initiating new ones.

Improving economic and personal income prospects in the next months as well as tight existing home markets (see article in current issue) bodes well for new construction.

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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All regions except Atlantic and Prairies posted gains. B.C. urban starts more than doubled (+59.1 % to 14,800 units) as multiples regained ground to 7,800 from only 3,000 in January.

Ontario urban starts jumped 24.2 per cent to 80,000 units in February, the best performance since January 1990. Multiples more than doubled January's output to 48,800 units, at its best since May 1988.

Quebec urban starts went up 16.0 per cent to 21,800 units from January, with multiples up 43.0 per cent. Respective drops of 14.9 and 24.1 per cent took place in Prairie and Atlantic regions.

At the metropolitan area level, starts reached seasonally adjusted annual rates of 44,600 units in Toronto, 13,200 units in Montréal and 9,200 units in Vancouver. ■

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Should we worry about the housing starts slowdown in January?

There was a significant downturn in multiples in January. The following analysis of multiples for centres with population of 50,000+, suggests we should not be overly concerned with this pause.

- Overall, since the build-up of inventory is predominantly in the larger-unit market, where construction periods are longer, there is no real indication that demand will not be there to absorb the supply. January's performance appears to be a technical and cautionary pause, not a reason for real worry. This should also help the market to avoid a glut on the market.
- Multiples under construction have experienced a strong growth of 28% over the last year and a half.
- Much of the build-up has occurred in structures of 50+ units -- structures of 200+ units dominated in the latter part of 1998, whereas the 50-99 unit category has been the key source of strength in 1999.
- Although still a much smaller part of the market, rentals in the last year have grown at about twice the speed of condo construction.

Builders are moving towards smaller structures

- There has been a marked shift in January 2000 and December 1999 from multiple starts structures of 100+ units towards very small-sized structures (3-19).
- Builders are easing up temporarily on the market sectors with strong recent growth, in order to focus on those sectors that have been more neglected.
- A short pause should be sufficient to allow the levels of unabsorbed multiples to plateau out from their recent and relatively modest rise. ■

Structures under construction by size, Year-over-year per cent change

Dec. 99/Dec.98	Total	3-5	50-99
Montréal	53.7	-8.2	471.9
Toronto	43.2	-8.9	171.6
Vancouver	-29.7	-16.7	9.2
Canada	19.3	-3.6	76.0

Source: CMHC Housing facts

Federal Budget: tax cuts benefits to kick in through next years

Personal income tax breaks will eventually be a key factor of the last budget with respect to housing activity. Housing-related measures will support rental supply and the construction industry.

- The relief in personal income tax will be most beneficial to housing activity but will take some time to fully blossom. Lower tax rates and the indexation of tax brackets will raise disposable income for potential and current homeowners and will sustainably lift households' means to buy goods and services. Given the importance of shelter costs in households' budget, some of this extra money will be used for new homes and renovations.
- As a result, new home buyers will pay more attention to single-detached homes and will be more willing to spend extra money on special kitchen and bathroom features for instance.
- The impact of this tax relief should not spark a general price boost in housing markets. Instead, local demand and supply factors will set the tune: tighter markets such as Toronto, Ottawa, Calgary and Edmonton are potential candidates to face stronger upward price pressures.
- Similar expectations for renovation spending are likely. Many surveys point to close links between after-tax income and renovation spending. Although clients might be willing to spend more on renovation, the number of projects should remain in line with market prospects at the time tax relief becomes effective.
- For builders and landlords, the GST rebate on newly-built rental units, and lower corporate tax rates will reduce the cost of providing new rental units and thus improve profitability, a factor mentioned by many in explaining the low supply of rental units. Renters should benefit from the increased supply of units through reduced upward pressures on rents. Note that this GST rebate applies to units started after February 27, 2000.
- Construction and manufacturing industries will also find potential opportunities in the infrastructure program. After 2001-2002, the annual injection of \$400 million of federal funds along with similar provincial and municipal contributions into social housing improvements will certainly result in interesting business opportunities. ■

List of housing-related measures in the federal budget

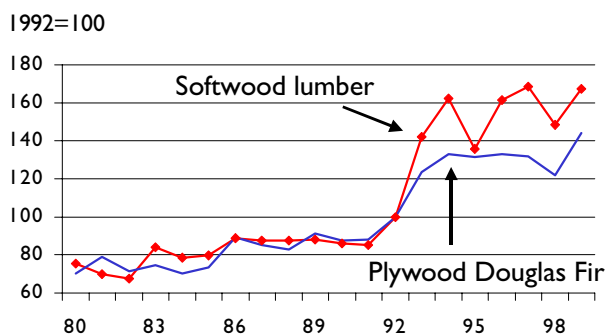
- **GST rebate of 36 per cent of the GST paid (i.e. 2.5 percentage points)** for new construction, substantial renovation and conversion of residential rental units. Leased land, duplexes and cooperative housing for rental purposes will also be eligible.
- **Personal tax relief:** Re-indexation of taxable personal income, higher personal tax exemption, and reduction in the middle tax rate from 26 per cent to 23 per cent. The budget plan estimates that personal income tax per year will fall by an average of 15 per cent by fiscal year 2004/2005.
- **Reduced corporate income tax rates:** corporate tax rates down to 21 per cent from 28 per cent for businesses in the highest taxed sectors, such as high-technology services. The reduction starts with a one-point cut effective January 1, 2001.
- **Reduced small business tax:** General corporate tax rate down to 21 per cent from 28 per cent on small business income between \$200,000 and \$300,000 effective January 1, 2001.
- **New spending on infrastructures:** After 2001/2002, \$400 million of the \$550 million per year will be allocated for municipal infrastructure in cities and rural communities across Canada, including affordable housing and green infrastructure.

Materials: the time is right for promoting new products

The exponential growth in the demand for engineered wood is calling on manufacturers to provide steadier support to the arrival of innovative products on the housing market. This is also a necessary effort in the battle for market shares.

- During the 1990s, Douglas fir plywood (+60%) and softwood lumber (+91%), essential materials for residential construction in North America, sustained breathtaking price increases in Canada.

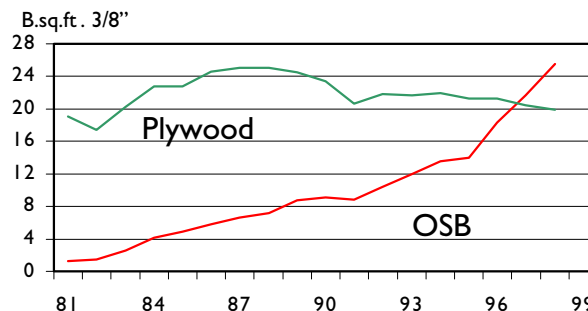
Price Index



Sources: CMHC Housing facts and Statistics Canada

- The gradual appearance of substitutes, and the commercial success of engineered wood products like OSB panels, should convince builders that it would be advisable for them to get familiar with innovative products in order to control costs. In a market that is increasingly receptive to new products, builders could also see this as a way to stand out from the competition.
- The growing use of plastic materials (PVC, vinyl) for such items as windows, supply pipes and exterior cladding is an example of an innovation that conquered the market.
- The industry has been animated for years by the rivalry between wood and steel product promoters, who will now be joined by representatives of the cement and plastic sector. Without entering into the debate, it is likely that an enlightened use of traditional and alternative materials would be beneficial to builders and consumers, as well as for the environment since many alternative products make extensive use of recyclable materials and residues.
- The use of alternative materials and hybrid systems in residential construction is above all a question of efficiency.

Structural panels consumption in North America



Sources: CMHC Housing facts, RISI

- Typical buyers of new homes are not in a position to evaluate and compare the technical qualities related to the different materials or construction methods. They generally buy what the builders propose to them, as long as their wallets do not suffer any undue harm. The price and location of a property are more important factors.
- In fact, builders are the ones who will decide whether a product lives or dies. From this perspective, manufacturers must, more than ever, invest in the promotion of their products among builders and support the acquisition of the necessary technical qualifications by the workers. ■

Structural panels production forecasts B. sq.ft. 3/8''

	1999	2000	2001	2002
Canada				
Plywood	2,1	2,0	2,0	1,9
OSB	8,6	8,8	9,8	10,9
U.S.				
Plywood	18,3	17,4	16,6	16,2
OSB	11,7	12,1	12,5	12,8

Sources: CMHC Housing facts
Forecasts: APA-The Engineered Wood Assoc.

Exports: British Columbia ranks first . . .

Housing product exports* are growing, but a market diversification and a shift towards a greater proportion of value-added products are imperative to face the competition on the American market.

- According to the data for the first three quarters of 1999, B.C. is the top exporter (41.9%) of housing related products, ahead of Ontario (21.4%) and Quebec (20.9%). However, when wood is excluded, B.C.'s share falls to 22.5% and Ontario then comes in first with 40.0% of exports, followed by Quebec (22.9%). This means that B.C.'s exports comprise close to 50% wood and products that have little value added.
- Even with the emergence of business opportunities in Hong Kong, South Korea, Poland and Chile, the U.S. (87%), Japan (7.9%) and the European Union still account for 96% of exports in this sector. According to Industry Canada, Canada is starting to face new competitors on these traditional export markets. In fact, countries like Brazil, Chile, Indonesia and even some parts of the U.S. are benefiting from low production costs and modern factories, which is posing a challenge to our exporters, especially at a time when the Canadian dollar is gaining on the American currency. In addition, as of 2005, the Free Trade Area of the Americas will likely become a reality, and this will inevitably increase the competition. ■

Exports of housing building products by region (%)

	Share of Canada's total (All countries)		Share absorbed by U.S.	
	Total	Wood excluded	Total	Wood excluded
Atlantic	6.1	3.2	98.0	96.0
Québec	20.9	22.9	91.8	93.7
Ontario	21.4	40.0	95.4	95.5
Prairies	9.7	11.3	93.7	93.3
B.C.	41.9	22.5	77.2	87.2
Canada	100.0	100.0	87.0	93.0

Sources: CMHC Housing facts and Statistics Canada. January to September 99

*SIC Codes: 2721, 3540, 3593, 2521, 3031, 3244, 2592, 2541, 2512, 2511, 2522, 2593, 2543, 2542

Resale market feverish in Ottawa and Halifax

The active listings-to-sales ratio indicates that, on most major resale markets, there are fewer and fewer homes for sale: a good thing for sellers!

- The sales-to-active listings ratio is showing favourable conditions for price increases on the existing home market. A ratio below 10 generally reflects a seller's market, in which strong upward pressure on prices develops. Ottawa and Halifax are posting conditions that are definitely overheating. Toronto and Calgary have strong market conditions, but the indicators there have been rather stable in the last few months.
- Only one market differs from the rest: Montréal. Even with a high level of sales, the abundance of sellers on this market has limited the scarcity of available homes and consequently the possibilities of a significant increase in existing home prices this year. ■

Active listings on sales ratio

	January 1999	January 2000
Halifax	6.3	4.8
Montréal*	14.0	10.0
Ottawa	13.9	6.7
Toronto	4.2	4.0
Calgary	3.9	3.2
Vancouver	12.1	11.8

Sources: CMHC Housing facts, Local real estate boards

*Fourth quarter data for 1998 and 1999

Ownership patterns: who's buying?

Ownership rates have been rising for many years. Nonetheless, it would be wrong to assume that all market segments have participated equally in this trend.

- Ownership rates in Canada have been rising for many years. According to the census, owners comprised 63.8% of all households in 1996, up from 60.3% in 1971. The overall ownership rate jumped a full percentage point from 1991 to 1996, the largest gain since 1971-76.
- While total ownership rates increased steadily, it would be far from true to conclude that rates rose for all segments of the population. Between 1991 and 1996, rates increased only for households headed by those 55 and older. In younger groups, rates fell or were flat, continuing a pattern evident since 1981.
- With rates down in most age groups, why did the total ownership rate rise? The answer is population aging. The probability of owning increases with age. A higher proportion of the population was 35 or over in 1996 than in 1991. Baby boomers were five years older and that much more likely to have bought a home. Without this aging effect, the proportion of owners would actually have edged down.
- The increase in ownership rates of older households reflects both the wealth of this group and the growing availability of housing geared to meet the needs of aging households.
- Changes in household composition account largely for the drop in ownership rates of young and middle-aged households. Between 1991 and 1996, the fastest growing household types tended to be those that typically have lower ownership rates, such as lone parent and one-person households.
- One-person households were the fastest growing type of owner. Rapid growth was not just a function of the aging effect; in fact, ownership rates of people living alone rose in all age groups, except the teenage years. Another group posting robust increases in ownership at all ages was childless couples.
- Couples without children and one-person households are expected to grow rapidly in the future as the population ages. If anything, recent strength in employment growth will make it possible for more individuals to live alone.

Ownership rates, Canada, percent

Age of household head	1991	1996
15-24	13.9	14.2
25-34	47.2	46.0
35-44	68.2	66.4
45-54	75.0	74.2
55-64	75.7	76.4
65+	66.1	68.8
Total	62.8	63.8

Sources: CMHC Housing facts and Statistics Canada

- The positive effects of aging on ownership levels will operate for some years to come. Beneath the rise in total ownership rates, the shift away from traditional families with children will also continue. Housing options favoured by childless couples (including "empty nesters") and people living alone, such as condominiums, will remain popular. These two groups accounted for over two-thirds of owner-occupied condos in 1996. ■

Growth in owner households by household type

Type of owner household	Growth 1991-96 (%)
Family	7.4
Couple/no child	10.7
Couple/child	3.6
Lone parent	16.9
Non-Family	12.6
One-person	21.2

Sources: CMHC Housing facts and Statistics Canada

This Month's Housing Data

	1999	Q2:99	Q3:99	Q4:99	M12:99	M01:00	M02:00
Housing starts, units, 000's							
Canada, Total, All areas	150.0	147.0	148.2	157.0	159.3	150.2	168.0
chg	9.1	0.5	0.8	5.9	-0.4	-5.7	11.9
Canada, Total, Rural areas	22.9	22.8	20.8	24.5	24.5	22.1	22.1
chg	10.7	0.9	-8.8	17.8	0.0	-9.8	0.0
Canada, Total, Urban areas	127.1	124.2	127.4	132.5	134.8	128.1	145.9
chg	8.8	0.5	2.6	4.0	-0.5	-5.0	13.9
Canada, Single, Urban areas	72.8	72.6	75.1	75.3	79.9	82.3	70.9
chg	6.6	8.4	3.4	0.3	7.4	3.0	-13.9
Canada, Multiple, Urban areas	54.3	51.6	52.3	57.2	54.9	45.8	75.0
chg	12.0	-8.8	1.4	9.4	-10.1	-16.6	63.8
Newfoundland, Total, All areas	1.4	1.4	1.3	1.3	1.2	1.6	2.6
chg	-5.4	-22.2	-7.1	0.0	-20.0	33.3	62.5
Prince Edward Island, Total, All areas	0.6	0.6	0.9	0.5	0.5	0.8	0.8
chg	17.6	-25.0	50.0	-44.4	-16.7	60.0	0.0
Nova Scotia, Total, All areas	4.3	5.3	3.1	4.8	4.4	5.8	4.8
chg	35.5	23.3	-41.5	54.8	-10.2	31.8	-17.2
New Brunswick, Total, All areas	2.8	2.5	2.7	3.1	2.9	5.2	2.6
chg	13.4	4.2	8.0	14.8	-14.7	79.3	-50.0
Quebec, Total, All areas	25.7	24.2	25.9	27.8	27.7	25.8	28.8
chg	11.2	-1.2	7.0	7.3	1.5	-6.9	11.6
Ontario, Total, All areas	67.2	69.2	64.7	69.3	72.4	68.0	83.6
chg	24.9	6.6	-6.5	7.1	0.7	-6.1	22.9
Manitoba, Total, All areas	3.1	3.1	3.3	2.6	2.3	2.4	1.8
chg	8.2	-13.9	6.5	-21.2	4.5	4.3	-25.0
Saskatchewan, Total, All areas	3.1	2.9	3.8	2.3	2.2	3.2	2.2
chg	4.1	-23.7	31.0	-39.5	10.0	45.5	-31.3
Alberta, Total, All areas	25.4	22.9	26.4	27.4	27.4	26.2	24.1
chg	-6.2	-5.4	15.3	3.8	2.2	-4.4	-8.0
British Columbia, Total, All areas	16.3	14.9	16.1	17.9	18.3	11.3	16.8

SOURCE: CMHC

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

% chg: Per cent change from previous period.

Housing starts, urban areas*

	1999	Q2:99	Q3:99	Q4:99	M12:99	M1:00	M2:00
Canada	127.1	124.2	127.4	132.5	134.8	128.1	145.9
Newfoundland	0.9	1.0	0.9	1.0	0.9	1.2	2.2
Prince Edward Island	0.4	0.4	0.5	0.3	0.3	0.5	0.5
Nova Scotia	2.8	3.7	2.0	2.9	2.5	4.6	3.6
New Brunswick	1.9	1.7	2.0	1.8	1.6	4.5	1.9
Québec	19.5	18.0	20.7	20.2	20.1	18.8	21.8
Ontario	62.9	64.5	61.3	65.5	68.6	64.4	80.0
Manitoba	2.1	2.1	2.0	1.9	1.6	1.4	0.8
Saskatchewan	2.2	2.0	2.9	1.9	1.8	2.5	1.5
Alberta	20.2	18.1	21.0	21.4	21.4	20.9	18.8
British Columbia	14.2	12.7	14.1	15.6	16.0	9.3	14.8

* Seasonally adjusted.

This Month's Major Housing Indicators

	1999	Q2:99	Q3:99	Q4:99	M12:99	M1:2000	M2:2000
New Housing*							
New & unoccupied, singles & semis, 000's	6.3	6.5	6.4	6.3	6.3	6.3	6.2
chg	-8.3	-4.9	-1.8	-2.3	-1.4	0.1	-0.6
New & unoccupied, row & apartments, 000's	7.9	7.4	7.7	7.6	7.7	7.6	7.8
chg	-3.4	-4.0	3.5	-1.3	4.4	-1.6	3.3
New house price Index, 1992 = 100	101.0	100.6	101.1	101.8	101.8	102.0	n.a.
chg	0.9	0.2	0.5	0.7	0.2	0.2	n.a.
Existing Housing*							
MLS resales, units, 000's	335.7	353.4	347.1	323.1	331.2	312.9	n.a.
chg	6.7	10.7	-1.8	-6.9	1.9	-5.5	n.a.
MLS average resale price, \$C, 000's	158.0	157.2	158.7	161.7	161.2	163.2	n.a.
chg	3.7	1.7	1.0	1.9	0.4	1.2	n.a.
Mortgage market							
1-year mortgage rate, %	6.8	6.5	7.0	7.3	7.3	7.3	7.6
5-year mortgage rate, %	7.6	7.3	7.8	8.3	8.3	8.3	8.6
Building materials							
Total costs building materials Index, 1992=100	130.9	131.6	134.7	129.8	129.7	130.6	n.a.
chg	5.1	3.2	2.3	-3.6	0.4	0.7	n.a.

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

chg % change from previous period.

n.a. Figures not available

* Seasonally adjusted.