

H

HOUSING FACTS

August 9, 2000; Volume 5, Number 8

Canada Mortgage and Housing Corporation

Starts bounce back up to 165,500 units in July

In July, 165,500 housing units* were started in Canada, compared to the level of 135,000 units recorded in June, for an increase of 22.6%.

The rise essentially came from urban multiple starts, which reached 68,200 units (+57.1%), while 76,300 single starts were enumerated (+5.1%).

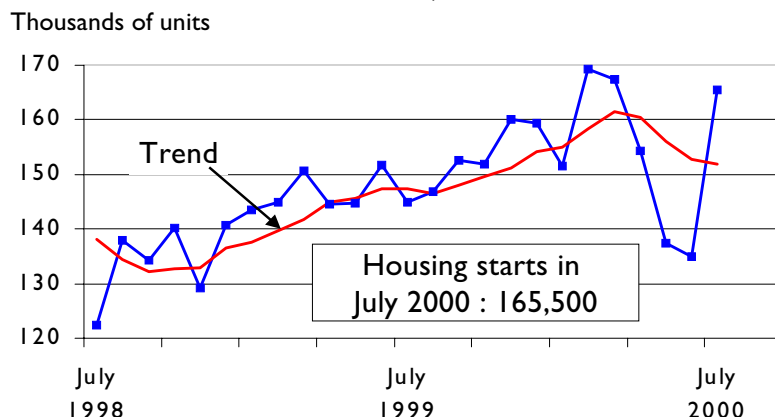
The strong growth in starts in July was largely due to the full resumption of activities follow-

ing the work stoppage by concrete truck drivers in the Toronto area from mid-April to mid-June. Especially in the multiple housing segment, the vigorous growth therefore resulted from a recovery.

Considering the outlook for the other regions, construction will have to continue at a strong pace in Ontario until December, for Canada to post an increase in starts in 2000.

Please see **Housing starts** on page 2...

Housing starts in Canada
all areas, *saar



Source: CMHC Housing facts

*Seasonally adjusted annual rate

In this Issue:

Primary rental stock by age and province. ----- 2

Renovation : outlook for 2000-2001. ----- 3

Secondary rental market: more than basement apartments. ----- 4

Misery Index and housing forecast. ----- 4

Half of homeowners no longer have a mortgage: a provincial breakdown. - 5

Mortgage payments and disposable income by province. ----- 5

Recycled housing in Montreal. ----- 6

Estimated market share of MLS sales. ----- 6

Tables. ----- 7



HOME TO CANADIANS
Canada

Housing starts - Continued from page 1

Regionally, gains were registered in Ontario (41.1% to 80,700 units), the Atlantic Provinces (37% to 7,400 units) and Quebec (29.7% to 21,400 units). Starts were down, however, in the Prairies (-4.4% to 23,700 units) and British Columbia (-6.6% to 11,300 units).

In Quebec, the gains in July were attributable to strong renewed growth in multiple starts while, in the Atlantic Region, the rise was divided between single and multiple starts.

In the large urban agglomerations, starts reached 55,800 units in Toronto, 13,400 units in Montréal and 6,400 in Vancouver, at seasonally adjusted annual rates.

After seven months of activity, real urban starts are up by 4% over the same period in 1999. ■

Contributors: Philippe Le Goff, Claude Lapointe, Louis Trotter, Ali Manouchehri and Robin Wiebe.

Questions:

Philippe Le Goff at 1-613-748-2933
or plegoff@cmhc-schl.gc.ca

To subscribe: 1-613-748-2006 or

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

© Canada Mortgage and Housing Corporation, 2000.

All rights reserved. Canada Mortgage and Housing Corporation hereby grants permission to the subscriber to produce one electronic copy and to print one hard copy for the subscriber's personal use only. No part of this publication may be reproduced, modified, or redistributed in any form or by any means, for any purposes (including but not limited to sales) other than those noted above, without the prior written permission of Canada Mortgage and Housing Corporation.

In Canada, more than 80% of the rental stock is over 20 years old

Apart from in the Atlantic Region, the small number of new rental housing units being added to the primary market over the last ten years is leading to the rapid aging of the rental stock.

- As nearly 65% of the rental housing stock was built during the 1950s, 1960s and 1970s, it is reasonable to believe that it will need major renovations over the next few years. Of course, many buildings may have been renovated already. Still, the age of the stock is a top-notch indicator, along with the financial capacity of the owners, to assess the likelihood that renovation expenditures will be made.
- In most metropolitan areas, the timing is now favourable to invest, to revitalize old central districts and to rehabilitate old buildings, as vacancy rates are low and the market can more easily amortize the costs thanks to rising rental income levels.
- The average or median age of the rental housing stock differs considerably from one province to another for historical, economic and political reasons. Today, more than 86% of the primary rental housing stock in Ontario is over 20 years old. Among the large metropolitan areas, Ottawa has the oldest stock (52 years). ■

Primary rental stock (%) by age and by province 1999

	Less than 10 years old	10 to 20 years old	21 to 50 years old	More than 50 years old	Median
Nfld.	7.2	20.2	57.0	15.6	23
P.E.I.	19.7	24.7	35.4	20.2	30
N.S.	16.9	16.3	51.5	15.3	39
N.B.	19.4	20.1	34.4	26.1	30
Québec	7.1	15.5	51.6	25.8	29
Ontario	3.2	10.5	75.6	10.7	43
Man.	1.2	13.2	64.5	21.1	44
Sask.	0.7	24.2	62.8	12.3	30
Alberta	1.7	21.8	75.1	1.4	26
B.C.	9.9	12.1	71.5	6.5	30
Canada	5.6	14.0	64.6	15.9	32

Source : CMHC Housing facts

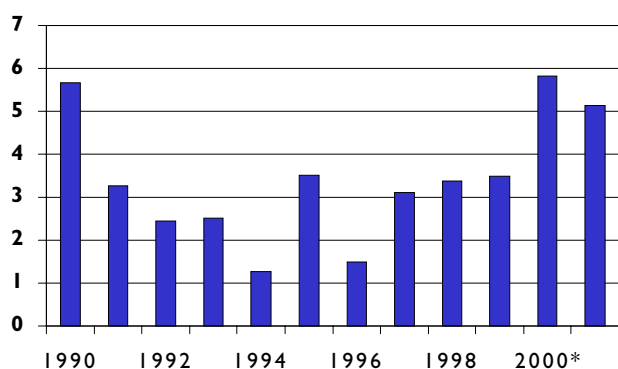
Renovation spending: growth still on the menu

With the increase in income levels and strong volumes of existing home sales, renovation expenditures will rise almost everywhere across the country in 2000 and 2001.

- The upward trend in renovation spending, which began in 1996 at the same time as the recovery in real estate activity, will continue at least until 2001. Total expenditures will climb by 4.2% in 2000 to \$25.9 billion and by another 4.6% in 2001 to \$27.1 billion.
- Existing home sales will continue to be the main driving force behind renovation spending. Recent and upcoming volumes will also support renovation spending. CMHC expects the volume of sales to remain stable at 333,700 units in 2000 and then increase by 2.8% to 343,100 units next year.
- The sustained economic growth in the last few years and the fact that this growth will continue will certainly have some positive effects on the renovation market. Consequently, employment growth, improved homeowner incomes and the current and upcoming tax reductions are other key factors in our forecast.

Disposable income growth to boost renovation spending

Disposable income annual change (%)



Sources: CMHC Housing facts, Conference Board of Canada, *CMHC Forecast

- Additions and modifications, which account for around 70% of expenditures, will go up by 5.5% and 4.1% this year and next year, respectively.
- A household will usually decide whether or not to do major renovations within the first three years after they move into a home. During this period, average annual renovation spending by homeowner households is 30% to

Renovation spending forecast (Billion of \$)			
Region	1999	2000*	2001*
Atlantic	1.7	1.7	1.8
Québec	5.8	6.0	6.0
Ontario	10.1	10.7	11.5
Prairies	3.9	4.1	4.3
B.C.	3.4	3.4	3.5
Canada	24.9	25.9	27.1

Source : CMHC Housing facts

*CMHC forecast

50% higher than for all households.

- Ontario and Alberta will post the greatest gains, around 6% to 7% per year, thanks to vigorous economic growth and strong migration that support their respective real estate markets. The other Prairie provinces will record moderate increases.
- Quebec will score some points again this year, owing to a persistently very active existing home market over the forecast period and a rapidly improving job market.
- The Atlantic market will register a limited rise in renovation expenditures. The opening of several renovation warehouses should reverse the negative impact of less significant economic growth and plateauing home sales.
- Sluggish economic activity and higher mortgage financing costs will limit the increases in spending in B.C. The only exception will be in well-established districts where better-off homeowners will continue to undertake major projects.■

Secondary rental market: a way to meet diverse needs

The secondary rental market is not just synonymous with lower-end basement apartments.

- The occupied rental housing stock in Ontario exists in many forms, depending on local business and economic conditions. It is considered to be relatively elastic but also very diversified.
- As can be seen in the opposite table, 589,861 or 42.3%, of the rental housing units enumerated in Ontario in 1996 were not apartments. Considering the significant volume of single-detached, semi-detached and row homes, and knowing the rents that are associated with them, the secondary rental market should therefore not be perceived only as a market response to an affordability or shortage problem. It should be noted that these figures do not include accessory apartments not covered by the census and estimated at about 80,000 units for the City of Toronto alone.
- It is difficult to predict what we will learn from the 2001 census, as Ontario is posting strong economic growth and a higher level of housing starts than during the first half of the 1990s, even if we have observed an erosion in the number of rental starts on the primary market.■

Tenant-occupied dwellings by structural type - Ontario			
Structural type	1991	1996	%
Rental Universe	1,318,630	1,396,145	5.9
Single-detached	199,895	197,965	-1.0
Semi-detached	147,404	146,113	-0.9
Row house	141,777	162,468	14.6
Others	72,617	83,315	14.7
Total secondary rental (excluding apartments)	561 693	589 861	5.0

Sources: CMHC Housing facts, Statistics Canada

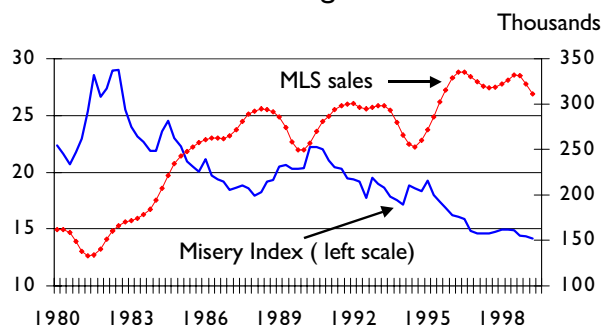
Misery Index: an intuitive forecasting approach

Housing variables should rise when the index falls, since a declining index indicates improved job markets or housing affordability.

- During the late 1970's and early 1980's, a "misery index", which summed the inflation and unemployment rates, figured prominently in several political campaigns, particularly in the United States.
- As shown in the accompanying chart, a conceptually similar index applied to housing variables (singles starts, resale volumes and average resale prices), which sums the rates for national unemployment and one-year term mortgages, can be a useful "back-of-the-envelope" forecasting tool.
- The accompanying chart shows that national sales through the Multiple Listing Service (MLS) have trended up through the 1990's as the index eased. In the early 1990's, most of the index's decline was prompted by falling interest rates. Over roughly the last couple years, however, Canada's falling unemployment rate has cut the index's level.
- The last four quarters of the chart's sales

volumes are a forecast based on historic patterns. The index level over the past couple quarters has forecast about 333,000 MLS sales over the next year - broadly in line with CMHC's forecast of 333,700 sales for 2000.■

A falling "Misery Index" boosted MLS sales through the 1990's



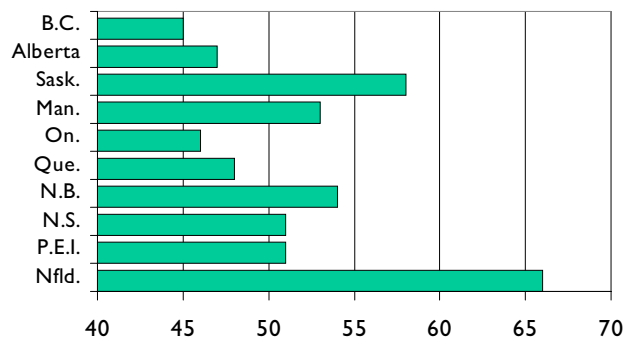
Sources : CMHC Housing facts, Canadian Real Estate Association

More than half of all homeowners no longer have a mortgage

Nearly two out of three households own their home, and only half of them have a mortgage.

- Canadians generated a mortgage debt that stood at over \$423.3 billion at the beginning of 2000.
- Among all homeowners, 48% have a mortgage. The percentage is highest in Newfoundland (66%), despite the relatively low home prices in this province. Conversely, 55% of British Columbia residents have no mortgage.
- A recent survey that was published in the second quarter 2000 issue of **Mortgage Market Trends** revealed that the average mortgage debt is around \$77,000 per homeowner. The average mortgage was the highest in British Columbia, where it attained \$106,000. It was the lowest in the Atlantic Provinces, where it stood at \$60,000. The average homeowner has been making mortgage payments for 10 years. ■

Homeowners with a mortgage (%)



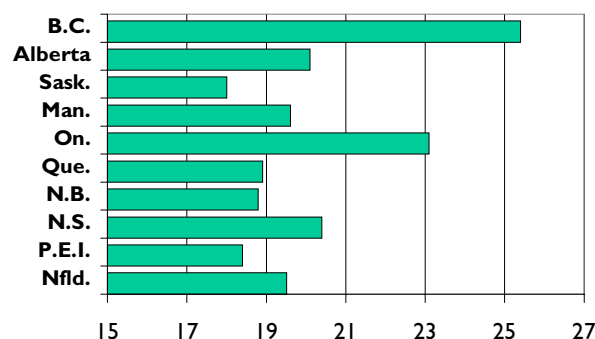
Sources: CMHC Housing facts and Statistics Canada

Mortgage burden: British Columbia and Ontario top the list

On average, mortgage payments represent around one fifth of a household's disposable income.

- The share of a household's disposable income spent on mortgage payments is directly related to the price levels on the major real estate markets in each province. In Saskatchewan, typical homeowners spend around 18% of their disposable income on their mortgage payments. In British Columbia, they spend just over 25%, on average.
- As homeowners' income increases, their mortgage burden decreases. Homeowners with a disposable income below \$50,000 spend an average of 27% of their income to repay their mortgage. For homeowners with a disposable income above \$100,000, this percentage falls to 17%.
- In general, older homeowners have seen their disposable income grow over the years, and their mortgage payment to disposable income ratio is lower. However, this ratio does not vary significantly with age within each income range. As such, homeowners whose income is below \$50,000, regardless of age, spent between 21.7% and 25.9% of their disposable income on their mortgage payments.
- Of course, the cost of owning a home includes much more than the mortgage payment. Heating costs, property taxes and maintenance and repair expenses are all items that raise the proportion of disposable income spent on housing. ■

Mortgage payments to disposable income ratio (%)



Sources: CMHC Housing facts and Statistics Canada

Recycled housing: a dynamic market that is reaching maturity

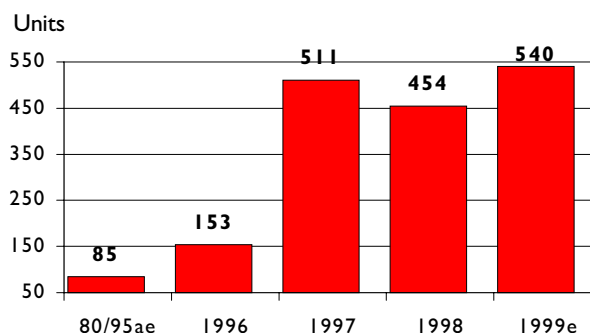
The conversion of non-residential space into housing, whether all or only a part of a building is involved, is booming in Montréal. But the number of buildings worth converting is not endless.

- The recycling of buildings into upscale apartments is stirring up a great deal of interest on the real estate market in Montréal. In the last three years, this phenomenon has gone from marginality to marketing, while contributing to heritage preservation.
- The growth observed since 1996 largely resides in the improvement of the Montréal economy, which is supporting the demand for more expensive products. According to a study conducted by CMHC's Montréal office, recycled dwellings are very popular among households with university degrees (73%) and high incomes (\$70,000+). In short, our homeowners are highly educated, earn relatively high incomes and are very clear-sighted with regard to money management. Still, we noted that the purchase of a recycled dwelling was an impulsive gesture.
- For nearly 8 out of 10 people in the focus groups, it was love at first sight! In fact, the decision to buy came within less than a month after the first visit. In a few cases, it was even immediate.
- This niche closely follows the conditions prevailing on the upscale condominium market, as the prices for projects now underway are well above \$125 per square foot. For several home-

owners, the heritage aspect and the unique appearance of the architecture represent a guarantee against any decrease in value of the dwelling.

- The regulatory and financial support provided by public authorities for the revitalization of older districts, particularly Montreal, seems essential to the completion of these conversions. For developers, the costs and the risks are important when considering factors like site contamination, consolidation of structures and the difficulty in accurately anticipating costs.■

Recycled housing is not marginal anymore in Montreal



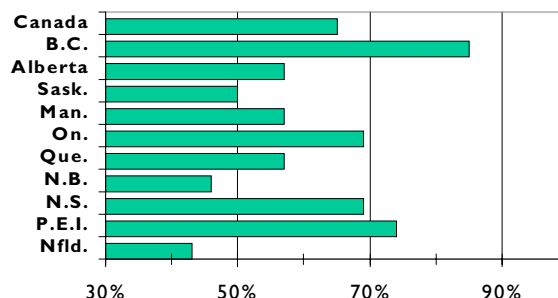
Sources: CMHC Housing facts, City of Montreal
ae : average annual estimate. e : estimate.

A third of sales do not go through the real estate boards

In Canada, in any given year, 35% of home sales are closed without the involvement of the real estate boards. This undoubtedly distorts our appreciation of the real vitality of the housing markets.

- A study commissioned by CMHC, aimed at estimating the total volume of residential real estate transactions, revealed the great disparity that exists at the provincial level with respect to using the services of real estate agents to sell homes.
- According to 1998 data, real estate boards are involved in 85% of sales in British Columbia through the Multiple Listing Service (MLS).
- Again in 1998, 69% of sales were closed through the MLS in Ontario, compared to 57% in Quebec. In the Prairies, this proportion varies between 50% and 57%, while it ranges from 43% to 74% in the Maritime Provinces.■

Estimated share of MLS sales on total resales 1998



Source: CMHC Housing facts

This Month's Housing Data

	1999	Q4:99	Q1:00	Q2:00	M5:00	M6:00	M7:00
Housing starts. units. 000's							
Canada. Total. All areas	150.0	157.0	162.7	142.1	137.5	135.0	165.5
chg	9.1	5.9	3.6	-12.7	-10.9	-1.8	22.6
Canada. Total. Rural areas	22.9	24.5	23.9	19.0	19.0	19.0	21.0
chg	10.7	17.8	-2.4	-20.5	0.0	0.0	10.5
Canada. Total. Urban areas	127.1	132.5	139.3	123.1	118.5	116.0	144.5
chg	8.8	4.0	5.1	-11.6	-12.4	-2.1	24.6
Canada. Single. Urban areas	72.8	75.3	81.3	74.3	71.0	72.6	76.3
chg	6.6	0.3	8.0	-8.6	-10.7	2.3	5.1
Canada. Multiple. Urban areas	54.3	57.2	58.0	48.8	47.5	43.4	68.2
chg	12.0	9.4	1.4	-15.9	-14.9	-8.6	57.1
Newfoundland. Total. All areas	1.4	1.3	1.7	1.4	1.4	1.1	1.8
chg	-5.4	0.0	30.8	-17.6	-17.6	-21.4	63.6
Prince Edward Island. Total. All areas	0.6	0.5	0.5	0.6	0.7	0.7	0.6
chg	17.6	-44.4	0.0	20.0	40.0	0.0	-14.3
Nova Scotia. Total. All areas	4.3	4.8	6.4	4.9	5.5	4.6	5.4
chg	35.5	54.8	33.3	-23.4	14.6	-16.4	17.4
New Brunswick. Total. All areas	2.8	3.1	4.5	2.4	2.3	2.2	2.6
chg	13.4	14.8	45.2	-46.7	-14.8	-4.3	18.2
Quebec. Total. All areas	25.7	27.8	26.7	22.4	21.7	21.2	27.2
chg	11.2	7.3	-4.0	-16.1	-10.3	-2.3	28.3
Ontario. Total. All areas	67.2	69.3	78.8	63.6	56.5	60.5	84.3
chg	24.9	7.1	13.7	-19.3	-23.5	7.1	39.3
Manitoba. Total. All areas	3.1	2.6	2.3	2.8	2.5	2.8	2.6
chg	8.2	-21.2	-11.5	21.7	-16.7	12.0	-7.1
Saskatchewan. Total. All areas	3.1	2.3	2.4	2.7	2.7	3.2	2.7
chg	4.1	-39.5	4.3	12.5	17.4	18.5	-15.6
Alberta. Total. All areas	25.4	27.4	26.1	26.0	28.6	24.3	24.3
chg	-6.2	3.8	-4.7	-0.4	14.9	-15.0	0.0
British Columbia. Total. All areas	16.3	17.9	13.3	15.3	15.6	14.4	14.0
chg	-18.2	11.2	-25.7	15.0	-4.3	-7.7	-2.8

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	Q4:99	Q1:00	Q2:00	M5:00	M6:00	M7:00
Canada	127.1	132.5	139.3	123.1	118.5	116.0	144.5
Newfoundland	0.9	1.0	1.5	1.1	1.1	0.8	1.4
Prince Edward Island	0.4	0.3	0.5	0.3	0.4	0.4	0.4
Nova Scotia	2.8	2.9	4.2	3.1	3.7	2.8	3.7
New Brunswick	1.9	1.8	2.8	1.6	1.5	1.4	1.9
Québec	19.5	20.2	20.8	17.7	17.0	16.5	21.4
Ontario	62.9	65.5	74.3	60.3	53.2	57.2	80.7
Manitoba	2.1	1.9	1.3	1.6	1.3	1.6	1.5
Saskatchewan	2.2	1.9	2.0	2.0	2.0	2.5	2.2
Alberta	20.2	21.4	20.3	22.4	25.0	20.7	20.0
British Columbia	14.2	15.6	11.6	13.0	13.3	12.1	11.3

* Seasonally adjusted.

This Month's Major Housing Indicators

	1999	Q4:99	Q1:00	Q2:00	M5:00	M6:00	M7:00
New Housing*							
New & unoccupied. singles & semis. 000's	6.3	6.4	6.3	6.2	6.5	6.2	6.2
chg	-8.3	-1.8	-2.3	-1.9	1.9	-3.6	0.1
New & unoccupied. row & apartments. 000's	7.9	7.7	7.6	8.1	8.5	8.1	8.3
chg	-3.4	3.5	-1.3	-1.1	3.1	-4.0	1.8
New house price Index. 1992 = 100	101.0	101.1	101.8	n.a.	103.0	n.a.	n.a.
chg	0.9	0.5	0.7	n.a.	0.3	n.a.	n.a.
Existing Housing*							
MLS resales. units. 000's	335.7	323.8	341.8	333.6	340.2	333.2	n.a.
chg	6.7	-6.6	5.6	-2.4	3.9	-2.0	n.a.
MLS average resale price. \$C. 000's	158.0	161.2	162.1	162.4	162.1	162.5	n.a.
chg	3.7	1.5	0.6	0.2	-0.4	0.2	n.a.
Mortgage market							
1-year mortgage rate. %	6.8	7.0	7.3	8.0	8.3	8.1	7.9
5-year mortgage rate. %	7.6	7.8	8.3	8.5	8.8	8.5	8.3
Building materials							
Total costs building materials Index. 1992=100	131.1	130.5	134.0	132.1	131.7	130.2	n.a.
chg	5.3	-3.3	2.7	-1.4	-1.8	-1.1	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.