HOUSING FACTS

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Canada Mortgage and Housing Corporation

Starts down to 155,000 units in May

In May, the seasonally adjusted annual rate of housing starts reached 155,000 units* in Canada, compared to the revised level of 162,000 units recorded in April, for a decrease of 4.3 per cent.

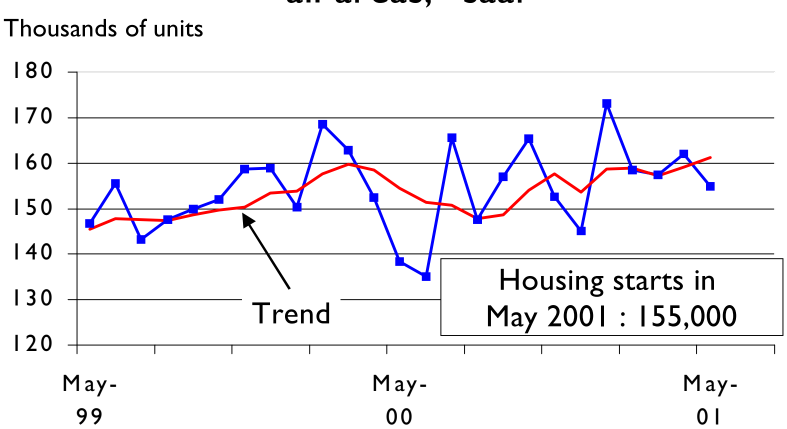
Single urban starts were down by 5.5 per cent to 70,200 units, while multiple starts fell by 4.4 per cent to 62,600 units.

The volume of starts is still in line with our forecast and, all in all, reflects an environment that is favourable to the housing market.

The percentage of dwellings absorbed at completion is still high, signaling continued srong demand.

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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Canada

Housing starts - Continued from page 1

In May, starts in British Columbia jumped up by 8 per cent to 16,200 units, at the seasonally adjusted annual rate, under the impetus of multiple housing construction.

Starts were down, however, in the other regions: the Atlantic Provinces (-19.7 per cent to 4,900 units), Quebec (-12.8 per cent to 19,100 units), the Prairies (-7.8 per cent to 26,000 units) and Ontario (-2.9 per cent to 66,600 units).

In the large urban agglomerations, starts reached 41,600 units in Toronto, 10,900 units in Montréal and 12,500 units in Vancouver, at seasonally adjusted annual rates.

After five months of activity, actual urban starts are up by 6.8 per cent over the same period in 2000.■

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Ownership rates: an aging population bringing about change

By 2020, ownership rates will increase in all provinces. Newfoundland, at 80.4%, will have the highest rate in the country.

- CMHC's projections of ownership rates in Canada indicate that there will be a greater proportion of homeowner households over the next two decades, due to the aging of the population. Ownership rates will increase but at a progressively slower pace as a rising share of households become very old and thus less likely to continue owning their homes.
- Over the next two decades, ownership rates will increase in all provinces. Our projections indicate that the ownership rate in Quebec will be the first to peak in 2012.
- The demographic assumptions underlying our projections are those of the 1996 census. Certain socio-economic factors, such as broader senior home care policies in the coming years could affect these projections.■

Ownership rates projections

	2000	2010	2020
Newfoundland	77.9	79.3	80.4
PEI	72.4	73.2	73.8
Nova Scotia	71.1	71.9	72.6
New Brunswick	74.4	75.5	76.1
Québec	56.5	56.9	56.7
Ontario	64.7	65.5	65.9
Manitoba	68.0	68.1	68.3
Sask.	69.9	70.2	71.3
Alberta	68.3	69.2	70.4
B.C.	66.0	67.3	68.2
Canada	64.0	64.7	65.1

Source: CMHC Housing Facts

Housing starts: a leading or lagging economic indicator?

According to economic theory, housing starts are a leading economic indicator. But in the absence of significant changes in interest rates, they become a lagging indicator later in the cycle.

- Since 1970, Canada has gone through two full economic cycles that ended with the 1981-1982 and 1991-1992 recessions and that were characterized by significant interest rate increases. During these two economic cycles, housing starts reacted strongly to the sharp and extreme changes in credit terms, as did real household consumer spending.
- The rapid reaction of housing starts to strong changes in interest rates led economists to consider housing starts as a leading economic indicator. In fact, based on raw data, housing starts show a positive correlation of one quarter with the percentage changes in the real GDP in 42 per cent of cases, which is however quite low.
- The third and current cycle is still under way and the economic slowdown should not turn into a recession. Housing starts are still in their growth phase and have so far remained unaffected by the economic slowdown for two main reasons: 1) the decrease in mortgage rates and 2) the significant job creation in the past two years as a result of strong GDP growth.
- This second mechanism explains how housing starts are also a lagging indicator of GDP. In fact, using smoothed data to identify long-term trends, housing starts present a positive correlation with the percentage changes in the real GDP in 75 per cent of cases, with a lag of six to ten quarters.

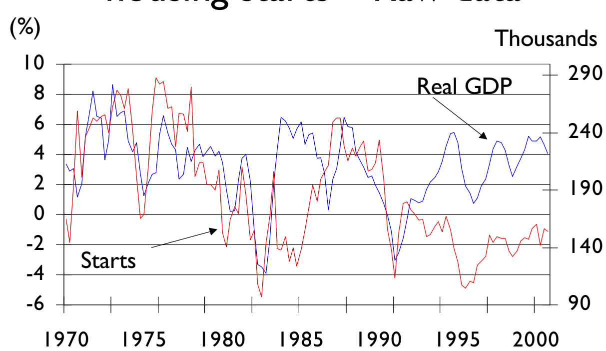
Cyclical phases for real GDP and housing starts

Phase	Real GDP	Housing starts	Lag in quarters
Peak	1972:4	1974:2	7
	1986:1	1988:2	10
Trough	1981:4	1983:1	6
	1991:4	1996:2	19

Sources: CMHC Housing Facts and Statistics Canada

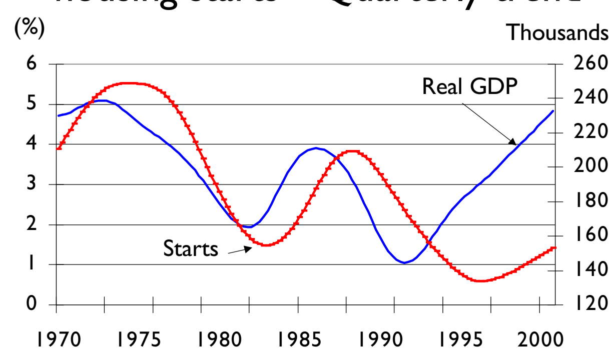
- All in all, housing starts are a leading indicator in the context of changes in interest rates. Of all sectors in the economy, the housing sector is more sensitive and reacts faster to changes in interest rates. However, housing starts can also be a lagging indicator in the context of changes in employment. Employment gains in all sectors of the economy provide a boost to housing demand and the housing sector with a substantial time delay.■

Annual change in the real GDP and housing starts – Raw data



Sources: CMHC Housing Facts and Statistics Canada

Annual change in the real GDP and housing starts – Quarterly trend



Sources: CMHC Housing Facts and Statistics Canada

Energy: hopes and limitations for decentralized residential production

With the increase in energy prices, the development of such technologies as fuel cells, solar, and wind, energy is back on the agenda. But unlike in the U.S., large-scale decentralized production is not just around the corner in Canada, due to economic and market barriers.

- Several months ago, the U.S. Federal Energy Regulatory Commission (FERC) sent a clear message of support for decentralized production and reverse billing of energy, by requiring an electrical distribution company to buy the surplus electrical production of three homeowners at the same price that it sells them electricity. Without a doubt, this decision represents a significant paradigm shift for the energy and housing sectors.
- Today, 30 American states authorize personal production and require the purchase of surpluses. This situation is encouraging research and development of innovative products and materials for the housing market, such as solar cell roofing shingles that transform sunlight into electricity, and gas-powered fuel cells.
- Builders play a central role in getting consumers to adopt these new products. American builders have in fact started to build houses that can meet their own energy needs independently. Builders use these new advances in the area of decentralized production for marketing purposes and to distinguish themselves from their competitors in high-end market niches.
- Canadian manufacturers have every reason to develop their products for the American market, which is bound to expand rapidly if the energy demand trend follows expert projections. In 2000, investment in decentralized electrical production equipment reached approximately US$800 million in the United States.

Source: Partnership for Advancing Technology in Housing

- In Canada, the potential market remains limited, for several reasons:

✓ Relatively low energy prices and the reliability of most networks do not provide as great an incentive for the development of decentralized electrical production equipment.

✓ Within the current market framework, decentralized electrical production is not economically viable since the necessary investment cannot be profitably offset by the sale of electricity to the existing power grid.

✓ As with all products at the beginning of their life cycle, the retail cost of solar cell roofing shingles or fuel cells is prohibitive for the majority of Canadian households, considering current energy prices.

✓ The most promising market for these new, relatively expensive products—new houses selling for over $300,000, considered high-end except in B.C.—reached only 10,895 units in 2000.■

New homes sales over $ 300,000 in 2000

	Number of sales	% of the total
Newfoundland	19	2.6
PEI	5	2.0
Nova Scotia	77	4.9
New Brunswick	10	1.1
Québec	538	5.5
Ontario	6 178	18.5
Manitoba	52	4.0
Sask.	34	3.0
Alberta	1 197	9.9
B.C.	2 785	49.9
Canada	10 895	16.3

Source : CMHC Housing Facts

Mortgage rates outlook is favourable to housing markets

Trends on the bond and the stock markets will cause mortgage rates to post small variations.

- The outlook for mortgage rates is favourable to housing markets with the one, three and five-year mortgage rates in the 6.5-7.5, 7.00-8.00, and 7.50-8.50 per cent range respectively over the next two years. Mortgage rate discounts ranging from 0.5 to 1.5 percentage point will remain an important competitive instrument over the forecast horizon.
- As the prime rate, money market, and short-term bond yields continue to fall in the immediate future, so will mortgage rates, with most of the declines expected for the short term rates.
- While open and variable rate mortgages closely track lenders prime rate, fixed rate mortgages move in tandem with the bond market.
- Overall economic activity, and consumer spending in particular, is expected to bounce back late in the fourth quarter of this year in North America. Such economic conditions will raise concerns over inflation and lift interest and mortgage rates slightly higher. ■

Mortgages rates

Year /Quarter	1 year	3 year	5 year
2000:1	7.63	8.25	8.48
2000:2	8.03	8.33	8.52
2000:3	7.90	8.10	8.25
2000:4	7.83	8.00	8.15
2000	**7.85**	**8.17**	**8.35**
2001:1	7.10	7.35	7.58
2001:2*	6.67	7.22	7.64
2001:3*	6.50	7.33	7.77
2001:4*	6.55	7.40	7.82
2001*	**6.70**	**7.33**	**7.70**
2002:1*	6.59	7.43	7.85
2002:2*	6.65	7.55	7.90
2002:3*	6.75	7.65	7.95
2002:4*	6.93	7.66	7.98
2002*	**6.73**	**7.57**	**7.92**

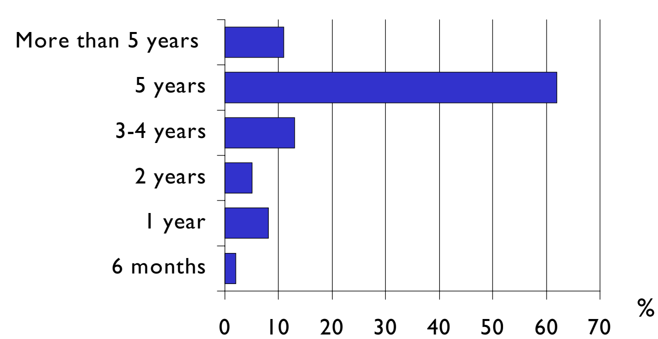
Source: CMHC Housing Facts. *Forecasts

Five-year rate still dominates the Canadian market

Borrowers' preference for longer terms can be explained mainly by their desire to limit the uncertainty with respect to potential fluctuations in monthly mortgage payments.

- According to the December 2000 FIRM Survey, 62 per cent of respondents currently holding a mortgage loan stated that they chose a five-year term.
- Other than the peace of mind afforded by a longer term, the small difference in five-year and one-year mortgage interest rates in 2000 drove down the long-term premium, prompting more borrowers to opt for longer terms.
- Strong competition among lending institutions to increase their market share also encourages them to offer more favourable credit terms to their clients who opt for longer terms, in view of developing client loyalty.

What is the duration of your mortgage loan term?



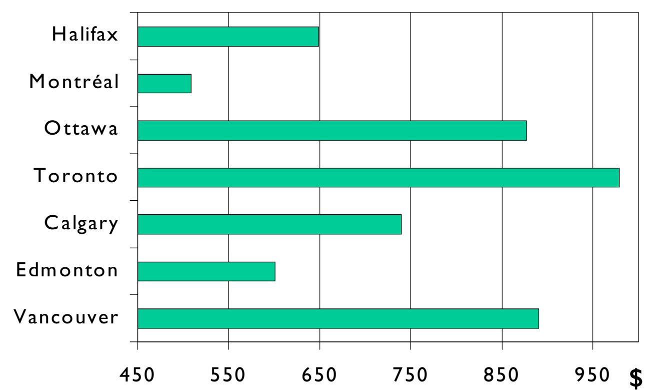
Sources: CMHC Housing Facts
FIRM survey, December 2000

Rent comparisons among major metropolitan areas

Among Canada's major metropolitan areas, Montréal has the largest rental housing stock. It is also one of the least expensive metropolitan areas.

- According to CMHC's October 2000 Rental Market Survey, Montréal has the lowest apartment rental costs among the major census metropolitan areas (CMAs). In fact, two-bedroom apartments rent for an average of $509 per month.
- By comparison, Toronto is the CMA with the highest rents, 92.3 per cent more than in Montréal, followed by Vancouver (74.9 per cent more than in Montréal), Ottawa (72.3 per cent), Calgary (45.4 per cent), Halifax (27.3 per cent) and Edmonton (18.1 per cent).
- In dollar terms, the average rent gaps for a two-bedroom apartment between Montréal and the other CMAs range from $90 in Edmonton to $470 in Toronto.
- The difference in rents is only one factor among many to be considered when planning a move.■

Rents in large metropolitan areas



Source: CMHC Housing Facts

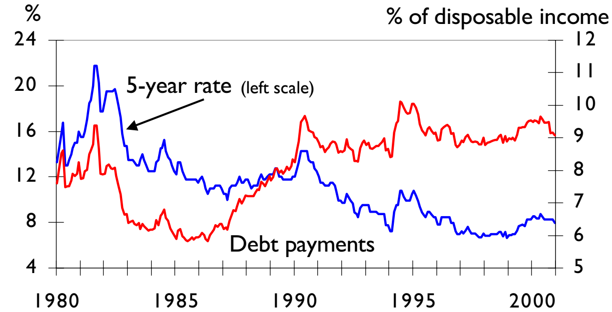
*2-bedroom apartments, october 2000

Mortgage debt payments stable relative to disposable income

The ratio of mortgage debt payments to disposable income of all households is high but has been relatively stable for 10 years. The increase in disposable income resulting from economic growth and tax cuts will be beneficial.

- Mortgage debt payments for Canadian households (homeowners with and without mortgages and renters) as a percentage of their disposable income stood at just over 9 per cent in December 2000, while the posted five-year mortgage rate averaged 7.95 per cent. In comparison, mortgage payments reached approximately 9.4 per cent in the fall of 1981, when posted mortgage rates peaked at an average of 21.75 per cent. The mortgage debt payments ratio reached a high point of 10.1 per cent in June 1994.
- This trend in the ratio of debt payments to disposable income, despite the decrease in mortgage rates in the past twenty years, brings out the fact that households enhanced the leverage of their residential assets in the 1990s. Household mortgage credit outstanding as a percentage of the estimated value of housing in Canada has now reached 57 per cent, according to CMHC's estimates. This proportion stood at 46 per cent twenty years ago.
- CMHC's projections (see page 5) indicate that mortgage rates will fluctuate modestly over the coming months, which means that the level of risk will be limited. This level of risk should decrease, considering expected growth in disposable income.■

Mortgage debt payments as % of disposable income and 5-year mortgage rates



Sources: CMHC Housing Facts and Bank of Canada

*Capital and interests as % of households' disposable income, based on 5-year mortgage rate and amortization of 25 years

This Month's Housing Data

Housing starts. units. 000's

	2000	Q3:00	Q4:00	Q1:01	M3:01	M4:01	M5:01
Canada. Total. All areas	**151.7**	**157.3**	**155.2**	**163.0**	**157.4**	**162.0**	**155.0**
% chg	1.1	11.0	-1.3	5.0	-0.6	2.9	-4.3
Canada. Total. Rural areas	**20.6**	**22.6**	**20.3**	**21.4**	**21.4**	**22.2**	**22.2**
% chg	-9.9	16.5	-10.2	5.4	0.0	3.7	0.0
Canada. Total. Urban areas	**131.1**	**134.7**	**134.9**	**141.6**	**136.0**	**139.8**	**132.8**
% chg	3.1	10.1	0.1	5.0	-0.7	2.8	-5.0
Canada. Single. Urban areas	**74.4**	**73.2**	**74.9**	**80.1**	**78.9**	**74.3**	**70.2**
% chg	2.1	0.3	2.3	6.9	-5.2	-5.8	-5.5
Canada. Multiple. Urban areas	**56.7**	**61.5**	**60.0**	**61.5**	**57.1**	**65.5**	**62.6**
% chg	4.4	24.7	-2.4	2.5	6.1	14.7	-4.4
Newfoundland. Total. All areas	**1.5**	**1.5**	**1.5**	**0.8**	**0.5**	**1.2**	**1.7**
% chg	6.4	7.1	0.0	-46.7	-44.4	140.0	41.7
Prince Edward Island. Total. All areas	**0.7**	**0.8**	**1.2**	**0.9**	**0.9**	**0.5**	**0.5**
% chg	15.3	100.0	50.0	-25.0	28.6	-44.4	0.0
Nova Scotia. Total. All areas	**4.4**	**4.3**	**3.7**	**4.1**	**2.5**	**5.1**	**3.3**
% chg	4.3	-4.4	-14.0	10.8	-45.7	104.0	-35.3
New Brunswick. Total. All areas	**3.1**	**3.7**	**3.0**	**4.0**	**3.2**	**2.4**	**2.5**
% chg	11.0	60.9	-18.9	33.3	-22.0	-25.0	4.2
Quebec. Total. All areas	**24.7**	**26.4**	**26.1**	**28.8**	**27.6**	**28.9**	**26.1**
% chg	-4.1	16.3	-1.1	10.3	-14.8	4.7	-9.7
Ontario. Total. All areas	**71.5**	**74.7**	**73.0**	**77.3**	**78.6**	**73.0**	**71.0**
% chg	6.4	17.8	-2.3	5.9	8.4	-7.1	-2.7
Manitoba. Total. All areas	**2.6**	**2.6**	**2.6**	**2.6**	**2.6**	**3.2**	**2.6**
% chg	-18.3	-7.1	0.0	0.0	-3.7	23.1	-18.8
Saskatchewan. Total. All areas	**2.5**	**2.6**	**2.2**	**2.2**	**2.3**	**1.7**	**1.3**
% chg	-18.6	-3.7	-15.4	0.0	15.0	-26.1	-23.5
Alberta. Total. All areas	**26.3**	**27.6**	**26.3**	**26.0**	**25.5**	**29.6**	**28.4**
% chg	3.2	5.3	-4.7	-1.1	8.5	16.1	-4.1
British Columbia. Total. All areas	**14.4**	**13.1**	**15.6**	**16.3**	**13.7**	**16.3**	**17.5**
% chg	-11.6	-14.4	19.1	4.5	-8.7	19.0	7.4

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*

	2000	Q3:00	Q4:00	Q1:01	M3:01	M4:01	M5:01
Canada	131.1	134.7	134.9	141.6	136.0	139.8	132.8
Newfoundland	1.0	1.1	1.1	0.7	0.4	0.8	1.3
Prince Edward Island	0.4	0.4	0.5	0.4	0.4	0.3	0.3
Nova Scotia	3.0	3.0	2.3	2.8	1.2	3.5	1.7
New Brunswick	2.0	2.1	1.9	2.6	1.8	1.5	1.6
Québec	19.9	22.3	20.8	23.0	21.8	21.9	19.1
Ontario	67.4	70.0	69.7	72.8	74.1	68.6	66.6
Manitoba	1.5	1.6	1.4	1.6	1.6	2.1	1.5
Saskatchewan	1.9	2.1	1.5	1.5	1.6	1.4	1.0
Alberta	21.5	21.1	22.4	21.2	20.7	24.7	23.5
British Columbia	12.4	11.0	13.3	15.0	12.4	15.0	16.2

* Seasonally adjusted.

This Month's Major Housing Indicators

	2000	Q3:00	Q4:00	Q1:01	M3:01	M4:01	M5:01
New Housing*							
New & unoccupied. singles & semis. 000's	6.32	6.11	6.31	6.20	6.20	6.12	6.02
%chg	0.24	-1.61	2.95	-1.70	0.98	-1.29	-1.63
New & unoccupied. row & apartments. 000's	7.27	8.24	6.54	6.77	6.77	6.99	7.23
%chg	-8.30	1.46	-20.12	3.52	0.73	3.25	3.43
New house price Index. 1992 = 100	103.22	103.47	104.18	104.85	105.12	n.a.	n.a.
%chg	2.24	0.52	0.66	0.63	0.00	n.a.	n.a.
Existing Housing*							
MLS resales. units. 000's	333.70	336.24	333.39	352.73	349.44	353.47	n.a.
%chg	-0.61	0.95	-0.88	5.72	-1.24	1.15	n.a.
MLS average resale price. $C. 000's	164.09	164.35	166.33	165.60	164.46	169.18	n.a.
%chg	3.84	1.42	1.20	-0.99	-1.09	2.87	n.a.
Mortgage market							
1-year mortgage rate.%	7.85	7.90	7.83	7.10	6.70	6.80	6.70
5-year mortgage rate. %	8.35	8.25	8.15	7.58	7.25	7.50	7.75

SOURCES: Statistics Canada, Bank of Canada, The Canadian Real Estate Association.
chg % change from previous period.
n.a. Figures not available
* Seasonally adjusted.