HOUSING FACTS

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Canada Mortgage and Housing Corporation

OCTOBER HOUSING STARTS DOWN BUT REMAIN HIGH

The seasonally adjusted annual rate[1] of housing starts was 225,000 in October, down from 237,900 in September.

Strong housing starts reflect high levels of new home construction across the country. Favourable economic factors such as, recent growth in full-time employment and low mortgage rates, continue to stimulate residential construction activity. Housing starts continue on pace to reach a 17-year high this year.

October housing starts in Canada's urban centres decreased 4.0 per cent to a seasonally adjusted annual rate of 196,500 units as both single and multi-family sectors moved lower. Urban single detached starts fell by 4.2 per cent to 102,200 in October while urban multiple starts decreased 3.8 per cent to 94,300.

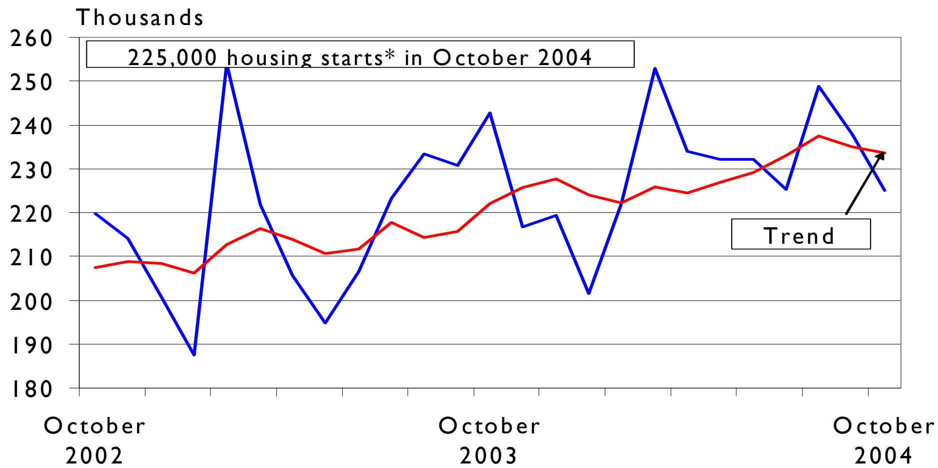
Urban housing starts in October declined in every region except Quebec and the Prairies where seasonally adjusted annual rates increased 5.4 per cent and 1.8 per cent, respectively. The majority of the decrease, in seasonally adjusted annual urban housing starts, occurred in British Columbia with a 21.2 per cent decline in starts, and the Atlantic region where urban housing starts decreased 13.7 per cent. In both British Columbia and the Atlantic region, the decline was mainly due to multiples. Urban starts declined by 3.8 per cent in Ontario.

The estimated number of seasonally adjusted annualized starts in Canada's rural areas was 28,500 units.

For the first ten months of this year, actual urban starts increased 5.3 per cent compared with the same period last year (from 160,911 to 169,448 starts). Single starts rose 4.6 per cent while multiple starts are up 6.1 per cent. ■

In this Issue:

Housing Starts in Canada - All Areas*



Source: CMHC

*Seasonally adjusted at annual rates

[1] See note on page 2.

CMHC SCHL

HOME TO CANADIANS

Canada

1. 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.

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Is there a real estate price bubble in Canada?

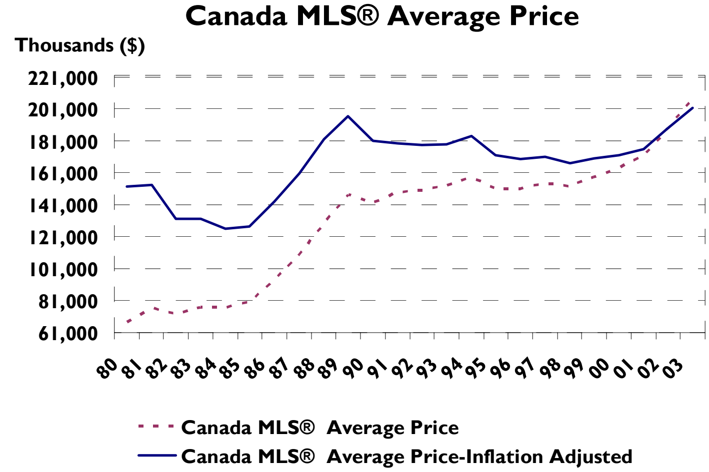
The housing market is still red-hot in many centres across Canada and continues to be an important driver of economic growth. Sales of existing homes will reach record levels this year and residential construction will post the highest level of activity since 1987. Given this environment, house prices have risen rapidly in recent years. This recent rise in home values brings to mind the late 1980s and with it the spectre of a real estate bubble and the potential for an eventual price decline. Before a market correction, bubbles can be difficult to identify. Nevertheless, the strength in housing markets across Canada appears to be grounded in solid economic fundamentals.

A real estate bubble is said to exist when there is a sustained rapid rise in house prices that is not supported by market fundamentals. A symptom of a real estate bubble is the presence of buyers who flip properties, in other words, they buy and resell properties with the hope of making a quick profit. Anecdotal evidence suggests that flipping is not as prevalent today as it was in the late 1980s. However, since a few years, rising prices are encouraging buyers to jump into the market while they can still afford to buy a home. This sense of urgency is exacerbated by the low mortgage rates, which are expected to rise in the near future. This, however, is not speculative behaviour that would give rise to a bubble but rather a buying strategy.

In 2003, the inflation adjusted average MLS® price in Canada recovered to the level of 15 years ago

The average inflation adjusted MLS® selling price started to decline in the early 1990s with the onset of the recession and it was only in 1999 that it began to rise again. In 2003, inflation adjusted house prices finally reached the previous peak, which was established 15 years ago.

Canada MLS® Average Price



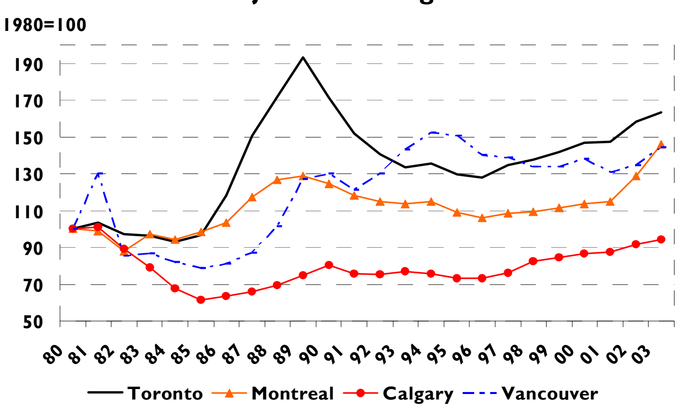
Sources: CREA and Statistics Canada

continued on page 3...

continued: Is there a real estate price bubble in Canada?

Some analysts argue that the previous peak in real prices is a threshold, beyond which we are venturing into bubble territory. However, we do not believe that this is the case. Outside of Toronto, there was no bubble in housing markets in the late 1980s. Therefore, the previous peak in real prices for Canada is not a meaningful threshold, so surpassing it is not necessarily a bad sign. Moreover, housing markets across the country are more synchronized today than in the late 1980s. Back then, British Columbia and Alberta had relatively low house prices, which partially offset the high prices in Ontario and Quebec. Today, synchronized and strong demand in housing markets across the country is contributing to the rise in the average MLS® price for Canada. Moreover, some of the increase in house prices is unrelated to market appreciation but reflects an increase in the quality of houses sold.

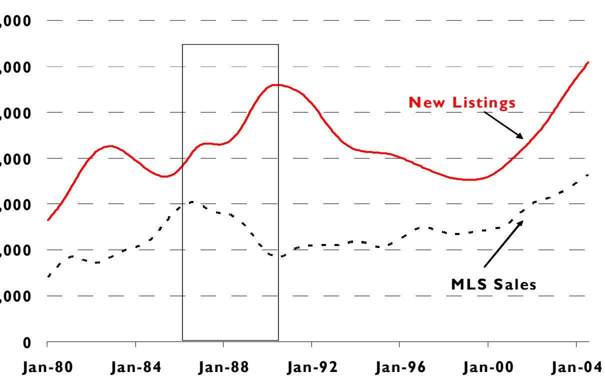
Inflation Adjusted Average MLS® Price



Sources: CREA and Statistics Canada

In Toronto, there was a bubble in the late 1980s. However, there was advance warning that the market was overheating. Supply and demand trended in opposite directions for about four years during the late 1980s. Sales of existing homes, a measure of demand, peaked in 1986 and then started to decline. While demand was falling, new listings (supply) climbed, causing the sales-to-new listings ratio[1] to drop from 80 per cent in 1986 to 33 per cent in 1990. In spite of these deteriorating market conditions, prices continued to climb rapidly in Toronto between 1986 and 1990. This rapid rise in house nominal prices was not justified based on market

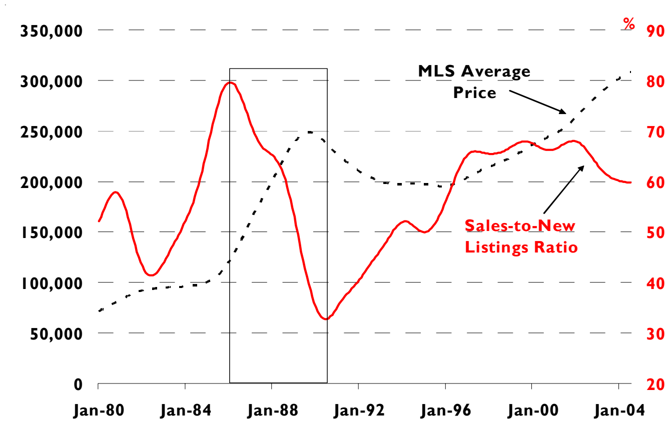
New listings and MLS® sales in the Toronto market



Source: CREA

fundamentals. As a result, home prices subsequently fell by over 20 per cent. In contrast, today's rising prices in Toronto and elsewhere are consistent with strong rising demand.

Sales-to-new listings ratio and house prices for the Toronto market



Source: CREA

Fundamentals are in place to support the market

Several indicators, such as sales-to-new listings ratio, bankruptcies, and inventories, suggest that the Canadian real estate market is on a solid footing and the current growth in prices is well founded. Also, these same indicators allow us to conclude that there is relatively little risk of seeing the market collapse. In brief, the

continued on page 4...

[1] The sales-to-new-listings ratio is a useful tool that allows us to assess the balance between supply and demand in the existing home market. It is calculated by dividing MLS® sales, a measure of demand, by new listings, which are used to gauge supply in the existing home market.

A sales-to-new-listings ratio below thirty-five per cent has historically accompanied prices that are rising at a rate that is less than inflation, a situation known as a *buyers' market*. A sales-to-new-listing ratio above fifty per cent is associated with a *sellers' market*. In a sellers' market, home prices generally rise more rapidly than overall inflation. When the sales-to-new-listings ratio is between these thresholds, the market is said to be *balanced* and home prices tend to increase at about the overall rate of inflation.

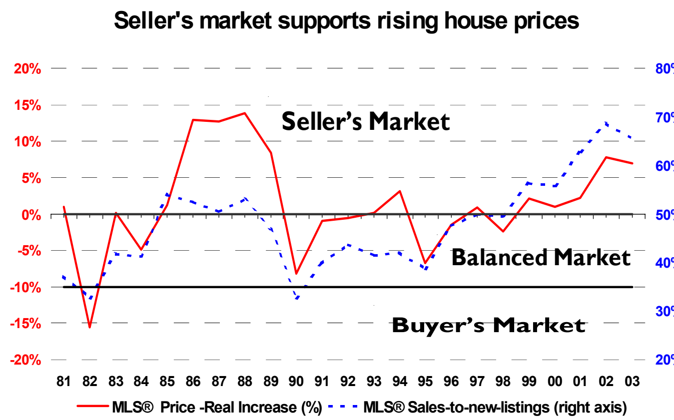
These thresholds for assessing the market can vary from centre to centre, however, they are useful generalizations that allow us to assess the strength of the market and evaluate price pressures. The areas with higher sales to new listings ratios are where we can expect to see continued strong increases in home values over the next year.

continued: Is there a real estate price bubble in Canada?

market is in a much better position than it was in the early 1990s, when housing demand started to slow.

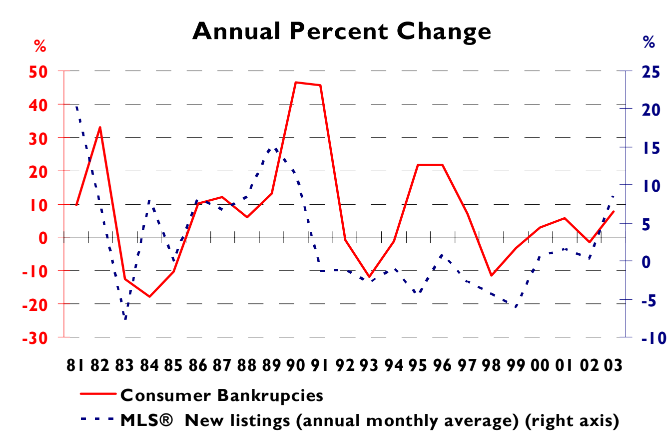
Sales-to-new listings ratio

In the late-1980s, the rapid rise in new listings kept housing markets virtually balanced. Nevertheless, house prices increased more rapidly during this period, than market conditions warranted.



Source: CREA

Today, however, while new listings have started to rise, it is clear that Canada's housing market continues to benefit from good fundamentals. Seller's market conditions continue to motivate price increases that exceed the overall rate of inflation. According to CMHC's most recent forecasts, the Canadian average MLS® price will increase by 9.2 per cent in 2004 ($226,200). Looking further ahead, a rise in new listings and lower MLS® sales imply that the housing market will move toward a more balanced position. Because of this, growth in house prices is expected to slow to 5.3 per cent in 2005 ($238,300).



Sources: CREA and Office of the Superintendent of Bankruptcy Canada

Consumer Bankruptcies

As consumer bankruptcies increased between 1984 and 1990 so did new listings. In fact, according to the graph above, during that period, the rise in bankruptcies lagged that in new listings. This likely reflects the fact that when a household experiences financial difficulties, it is likely to try to sell the house before declaring bankruptcy.

The increase in listings between 1984 and 1990 could also reflect the fact that as households realized that the value of their home increased, they may have been tempted to sell their home to take advantage of the increase in their equity.

From 1997 to 2002, consumer bankruptcies and new listings did not increase much. In 2003, growth in new listings strengthened modestly (8.5 per cent) as did consumer bankruptcies (7.7 per cent). The rise in bankruptcies is likely contributing slightly to the increase in listings.

Inventories

Overall, the residential construction industry is in a good position. Despite the fact that inventories of completed and unoccupied homes have increased slightly, the level remains much lower than in the early 1990s. This reflects the fact that more units are sold before being constructed today than in the early 1990s.

Economic Indicators

General economic conditions are more supportive of strong housing markets today compared to the early 1990s. Full-time employment is still growing and the share of Canadians who are employed is at a record level. Also, real mortgage rates are half of what they were in the early 1990s and inflation is well behaved. The consumer confidence index is very high and indicates that almost 60 per cent of consumers consider that now is a good time to buy, a proportion almost double that in 1990.

Is the market overvalued?

It is difficult to establish the exact threshold at which a market is said to be overvalued. Therefore, it is difficult to say with certainty whether the housing market is overvalued at the present time. A useful indicator to shed light on this is the average selling price to after-tax income ratio, which remains below the peak attained in the late 1980s and mid-1990s.

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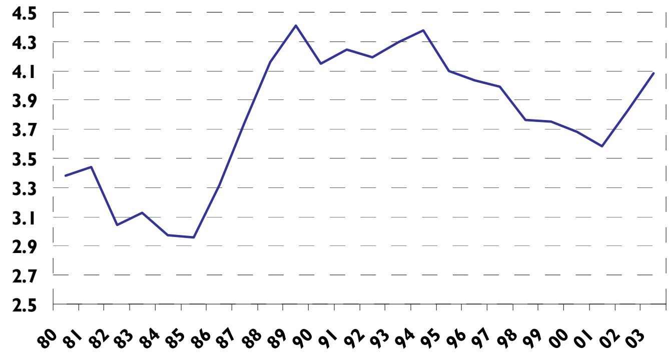
continued: Is there a real estate price bubble in Canada?

Ratio: MLS® Average Resale Price/Average Income*



Sources: CREA and Statistics Canada

* Average after-tax income of economic families. For 2003, the assumption that personal disposable income increased at the same pace as inflation was made.

Are Canadian households too deep in debt?

Household debt has risen steadily over the past 30 years and its share of income has increased to over 100 per cent. Also, the largest component of household debt is mortgage debt (68.8 per cent in 2003). Many have expressed concern about Canadians' indebtedness and wonder if they are too deep in debt.

Looking at debt as a share of income can be misleading because it does not capture the impact of low interest rates on reducing the financing costs of debt. A better measure is the mortgage payment to income ratio, which, as we will show, is near an all-time low. It is reassuring to note that many households took advantage of low mortgage rates and signed for 5-year terms or more, which protect them from potential mortgage rate increases and thus diminish the financial risk. According to the FIRM Residential Mortgage Survey of June 2004, 46 per cent of mortgage holders had a mortgage with a fixed 5-year term and 7 per cent had a mortgage with a fixed term of more than 5 years. Households with longer-term fixed rate mortgages will be able to anticipate the higher mortgage rate environment and can adapt to it by increasing their savings, paying down their mortgage, or moving to a less expensive home.

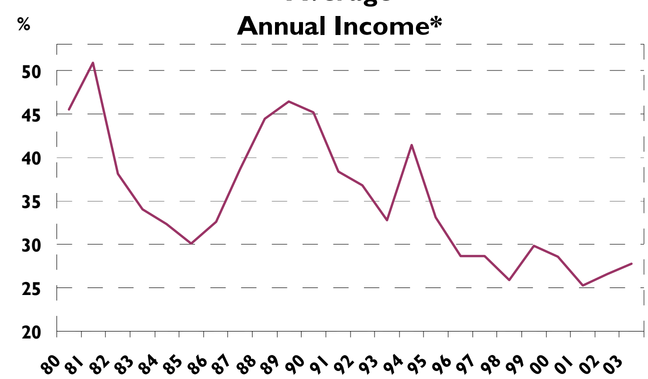
Overall, the risk from rising mortgage rates is not very high. Given today's low inflation environment, mortgage rates are only expected to increase modestly. As a result, the debt burden of Canadian households appears to be sustainable.

Low mortgage rates make all the difference in the households' wallets

Even though increases in house prices have accelerated in recent years, the burden of making mortgage payments on the household budget is currently very low. To measure this burden, we calculated the annual mortgage payment on the average priced house financed at the posted 5-year mortgage rate and divided this payment by the level of average household after-tax income. In 2003, the monthly mortgage payment ($1,175) was 9 per cent lower than in 1989. Over the same period, household after-tax income increased by 52 per cent. As a result, the annual mortgage payment to income ratio has dropped from over 45 per cent in 1989 to under 30 per cent in 2003.

At current house prices and after-tax income levels, the 5-year mortgage rate would have to climb to nearly 13 per cent, almost double the current mortgage rate,

Ratio: Annual Mortgage Payment / Average Annual Income*



Sources: CREA and Statistics Canada

Mortgage loan financed at 90 per cent, amortized over 25 years, for a 5-year term.

* Average after-tax income of economic families. For 2003, it is assumed that personal disposable income increased at the same pace as inflation was made.

to push the mortgage payment to income ratio back up to the level that prevailed in 1989.

In other words, very low mortgage rates have mostly offset the impact of rising house prices on the outlay to pay the mortgage. As a result, the annual mortgage cost as a percentage of after-tax income, has been relatively stable in recent years and well below its level in the early 1990s. Therefore, low mortgage rates have kept finance costs down in spite of strong growth in house prices.

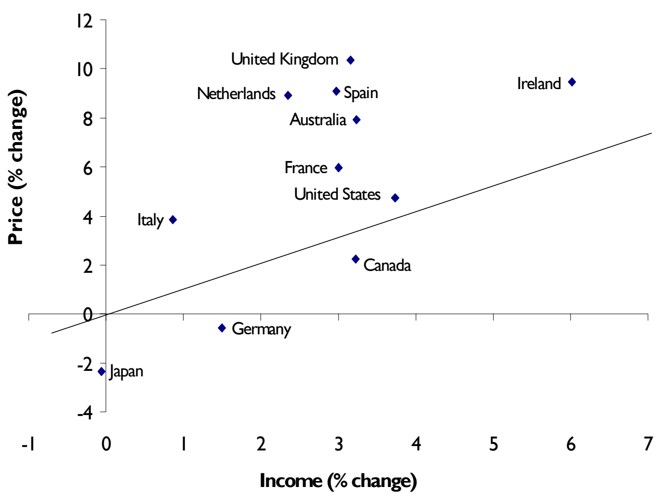
Canada's housing market compares favourably in an international context

Looking at other countries, it is clear that the housing boom is not limited to Canada and there are concerns of housing bubbles worldwide. In April 2004, the International Monetary Fund (IMF) published its World Economic Outlook report. In the report, the IMF looked

continued on page 6...

continued: Is there a real estate price bubble in Canada?

Real House Prices and Real Disposable Income (Average annual growth rate, 1997-2002)



Source: IMF, World Economic Outlook, April 2004

at the issue of real estate price bubbles by comparing real house prices and real disposable income for a selection of countries.

The IMF's results, which are summarized in the graph above, show that growth in real home prices in Canada has averaged slightly over 2 per cent between 1997 and 2002. Over the same period, real disposable income has increased at an average annual rate of about 3 per cent. In other words, Canadians' ability to pay is keeping up with the rise in house prices. Therefore, the expansion in Canada's housing market is proceeding at a sustainable pace, particularly when compared to many other countries. In fact, the Canadian market is not as hot as in the United Kingdom, Spain, the Netherlands and Australia where the average growth rates of real house prices from 1997 to 2002 were much higher than the average growth rates of real disposable income.

Where are the hot spots in Canada?

If we adopt the IMF's approach of comparing the average annual growth rate of real house prices to that of real disposable income over the same 1997 to 2002 period, we can identify where the hot spots in Canada are.

Among large centres, Calgary and Halifax recorded the highest average annual growth rates of real MLS® price, followed by Toronto, Montreal and Edmonton. In most of the centres analyzed, the average annual growth rate of real after-tax income was in line with or exceeded growth in house prices. In Halifax and Edmonton, real MLS® prices increased at a much faster pace than real after-tax income. In these centres, however, the annual mortgage payment to average annual income ratios remains relatively low at under 25 per cent.

However, last fall there were concerns that the condominium apartment market in central Toronto could venture into buyers' market territory. Since last fall, however, the market has tightened. Low mortgage rates have kept buyers active and sales from January to September 2004 were up by about 9 per cent compared to same period last year. On the supply side, active listings have dropped. Declining condominium vacancies and rising rents have helped improve investor sentiment, translating into less selling. Similarly, slower condominium apartment completions have limited the increase in listings. This has helped to increase the sales-to-active listings ratio and tighten the market. Indeed, prices are increasing at the rate of inflation. But not all central Toronto neighbourhoods are faring as well. Some districts in downtown have faced some mild price softening.

While house prices are rising rapidly in many centres across Canada, there is no indication of a real estate price bubble.

Average annual growth rate from 1997 to 2002

	Real MLS® Price (A)	Real After-Tax Income* (B)	(B)-(A)
Calgary	4.3	3.7	-0.6
Halifax	4.0	1.3	-2.7
Toronto	3.9	3.2	-0.7
Montreal	3.6	3.9	0.3
Edmonton	3.4	1.6	-1.8
Ottawa-Gatineau	3.0	5.2	2.2
Quebec	1.4	1.8	0.4
Victoria	1.0	3.7	2.7
Winnipeg	0.1	2.6	2.5
Vancouver	-0.6	2.8	3.4
Canada	**1.9**	**2.9**	**1.0**

Sources: CREA and Statistics Canada
* Average after-tax income of economic families.
Note: Centres are larger than metropolitan areas

No housing bubble for Canada

Canada's housing markets are vibrant and the expansion has created upward pressure on prices. However, rising prices are being supported by solid fundamentals and have been in line with income growth. Looking at other countries, it is clear that the housing boom is not only limited to Canada. Moreover, Canadians' ability to pay is keeping up with the rise in house prices. Even if household debt has risen, it is reassuring to note that many took advantage of low mortgage rates and signed for 5-year terms or more. This diminishes the financial risk from potential mortgage rate increases, that should be modest given today's low inflation environment. ■

This Month's Housing Data (SAAR)

	2003	Q1:04	Q2:04	Q3:04	M8:04	M9:04	M10:04
Housing starts, units, 000s							
Canada. Total. All areas	**218.4**	**225.5**	**232.7**	**237.6**	**248.8**	**237.9**	**225.0**
Per cent change from previous period	6.5	-0.3	3.2	2.1	10.4	-4.4	-5.4
Canada. Total. Rural areas	**26.5**	**31.4**	**23.6**	**33.2**	**33.2**	**33.2**	**28.5**
Per cent change from previous period	2.3	13.4	-24.8	40.7	0.0	0.0	-14.2
Canada. Total. Urban areas	**191.9**	**194.1**	**209.1**	**204.4**	**215.6**	**204.7**	**196.5**
Per cent change from previous period	7.1	-2.2	7.7	-2.2	12.2	-5.1	-4.0
Canada. Single. Urban areas	**100.3**	**101.0**	**104.7**	**105.8**	**102.2**	**106.7**	**102.2**
Per cent change from previous period	-2.7	-2.6	3.7	1.1	-5.3	4.4	-4.2
Canada. Multiple. Urban areas	**91.6**	**93.1**	**104.4**	**98.6**	**113.4**	**98.0**	**94.3**
Per cent change from previous period	20.5	-1.8	12.1	-5.6	34.7	-13.6	-3.8
Newfoundland. Total. All areas	**2.7**	**3.5**	**2.8**	**2.8**	**2.8**	**2.8**	**2.7**
Per cent change from previous period	11.3	16.7	-20.0	0.0	0.0	0.0	-3.6
Prince Edward Island. Total. All areas	**0.8**	**1.0**	**1.2**	**0.8**	**0.8**	**0.7**	**0.9**
Per cent change from previous period	5.0	42.9	20.0	-33.3	-11.1	-12.5	28.6
Nova Scotia. Total. All areas	**5.1**	**5.9**	**4.1**	**4.9**	**5.1**	**5.3**	**4.6**
Per cent change from previous period	2.5	13.5	-30.5	19.5	21.4	3.9	-13.2
New Brunswick. Total. All areas	**4.5**	**2.4**	**4.1**	**4.2**	**4.0**	**4.6**	**3.4**
Per cent change from previous period	16.2	-42.9	70.8	2.4	-2.4	15.0	-26.1
Quebec. Total. All areas	**50.3**	**59.0**	**55.4**	**60.8**	**60.3**	**59.1**	**56.2**
Per cent change from previous period	18.5	5.0	-6.1	9.7	-4.0	-2.0	-4.9
Ontario. Total. All areas	**85.2**	**79.5**	**87.9**	**86.5**	**92.6**	**86.0**	**83.3**
Per cent change from previous period	1.9	-8.1	10.6	-1.6	14.6	-7.1	-3.1
Manitoba. Total. All areas	**4.2**	**4.0**	**4.1**	**5.7**	**7.5**	**4.4**	**4.4**
Per cent change from previous period	16.3	-18.4	2.5	39.0	47.1	-41.3	0.0
Saskatchewan. Total. All areas	**3.3**	**3.0**	**4.6**	**3.2**	**3.5**	**3.5**	**4.2**
Per cent change from previous period	11.9	3.4	53.3	-30.4	40.0	0.0	20.0
Alberta. Total. All areas	**36.2**	**36.4**	**33.8**	**34.7**	**34.0**	**37.4**	**38.1**
Per cent change from previous period	-6.7	6.1	-7.1	2.7	4.3	10.0	1.9
British Columbia. Total. All areas	**26.2**	**30.8**	**34.7**	**34.0**	**38.2**	**34.1**	**27.2**
Per cent change from previous period	21.0	8.8	12.7	-2.0	29.5	-10.7	-20.2

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*

	2003	Q1:04	Q2:04	Q3:04	M8:04	M9:04	M10:04
Canada	191.9	194.1	209.1	204.4	215.6	204.7	196.5
Newfoundland	1.9	2.7	2.1	2.0	2.0	2.0	2.5
Prince Edward Island	0.6	0.7	0.8	0.5	0.5	0.4	0.5
Nova Scotia	3.6	4.8	3.1	3.4	3.6	3.8	2.8
New Brunswick	3.0	1.5	2.9	2.9	2.7	3.3	2.4
Québec	39.9	46.6	47.0	44.2	43.7	42.5	44.8
Ontario	80.9	73.3	83.8	82.3	88.4	81.8	78.7
Manitoba	2.7	2.3	2.6	3.9	5.7	2.6	2.5
Saskatchewan	2.6	2.3	3.9	2.9	3.2	3.2	3.2
Alberta	32.1	31.9	30.2	30.3	29.6	33.0	33.8
British Columbia	24.7	28.0	32.7	32.0	36.2	32.1	25.3

* Thousands of units, seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2003	Q1:04	Q2:04	Q3:04	M8:04	M9:04	M10:04
New Housing							
New & unoccupied singles & semis, units 000s	**4.8**	**5.0**	**5.3**	**5.0**	**5.0**	**5.1**	**5.4**
Per cent change from same period previous year	-0.9	7.3	8.6	8.3	10.1	7.7	10.2
New & unoccupied row & apartments, units 000s	**5.7**	**5.9**	**6.0**	**6.7**	**6.6**	**6.9**	**7.9**
Per cent change from same period previous year	10.9	13.1	5.5	18.6	13.5	24.7	33.5
New House Price Index, 1997=100	**116.7**	**120.4**	**122.6**	**124.2**	**124.3**	**124.7**	**n.a.**
Per cent change from same period previous year	4.8	5.0	5.8	5.9	6.0	5.8	n.a.
Existing Housing							
MLS® resales*, units 000s	**434.6**	**446.4**	**476.2**	**455.7**	**453.8**	**452.3**	**435.2**
Per cent change from same period previous year	3.9	8.1	14.1	-2.2	1.8	-1.4	-5.7
MLS® average resale price, $C 000s**	**207.3**	**220.8**	**225.3**	**224.6**	**227.2**	**225.5**	**230.7**
Per cent change from same period previous year	9.7	9.9	10.6	7.6	7.2	6.1	7.9
Mortgage Market							
1-Year Mortgage Rate, % (period average)	**4.84**	**4.30**	**4.57**	**4.60**	**4.40**	**4.80**	**4.90**
5-Year Mortgage Rate, % (period average)	**6.39**	**5.85**	**6.45**	**6.38**	**6.30**	**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).
** Annual and quarterly data is actual. Monthly data is seasonally adjusted.