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# HOUSING FACTS

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Canada Mortgage and Housing Corporation

## Housing starts fall to 142,100 in May

In May, 142,100 housing units\* were started in Canada, compared to the revised level of 158,600 units registered in April, for a decrease of 10.4%.

In urban areas, the decrease in the absolute figures was split almost evenly between single and multiple housing starts. In the single-family home building segment, 70,900 starts were recorded (-10.8%), while multiple housing starts declined to 47,900 (-14.2%).

The decrease in starts in May is partly related to the ongoing concrete truck drivers strike in the Toronto area. The latest starts decrease should then not be associated with the recent mortgage rate hike. However, it is clear that the pace registered at the beginning of the year could not be maintained for very long.

As the economic conditions prevailing in Canada remain good, there is no doubt that the results obtained in May represent a temporary substandard performance.

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

## In this Issue:

**Mortgage rates : our latest forecast. .... 2**

**Resale prices growth and mortgage lending risk : a 1988-2000 perspective in Canada. .... 3**

**Wood prices : downward trend. .... 4**

**Rental construction is booming in Ontario. .... 5**

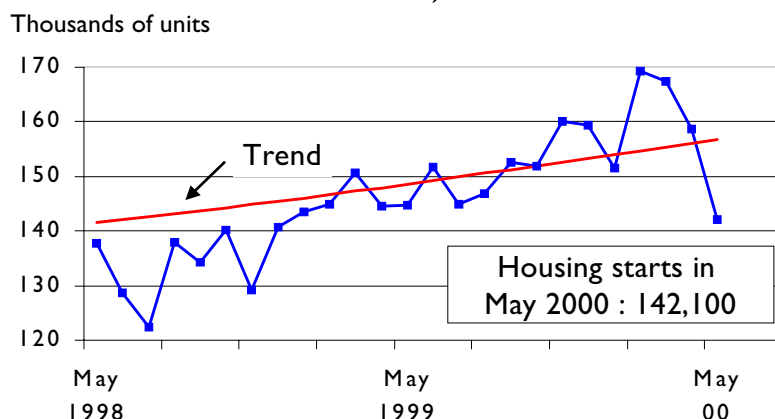
**Rental stock density : the difference between east and west. .... 5**

**Flat mortgage rates yield curve means a decline of starts growth. .... 6**

**Five top growth markets and a diversity of growth patterns. .... 6**

**Tables. .... 7**

Housing starts in Canada  
all areas, \*saar



Source: CMHC Housing facts

\*Seasonally adjusted annual rate



HOME TO CANADIANS  
Canada

**Housing starts - Continued from page 1**

Regionally, gains were posted in the Prairies (15.8% to 28,600 units) and more modestly in the Atlantic Provinces (3.1% to 6,700 units). Starts were down in Ontario, Quebec and British Columbia.

In Ontario, urban starts fell by 24.6% to 53,200 units, after having registered a particularly dynamic first quarter and reached 80,000 units in February. Quebec housing starts, for their part, sustained a 12.3% decrease to 17,100 units. Finally, starts in British Columbia declined by 5.7% to 13,200 units.

In the large urban agglomerations, the number of housing starts, at seasonally adjusted annual rates, attained 29,200 in Toronto, 11,200 in Montreal and 10,100 in Vancouver. ■

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**Mortgage rates nudge up yet remain low**

Despite an upward trend, mortgage rates are still some 5 percentage point below what they were ten years ago.

- Expanding output and employment, though at a slower pace recently, along with higher interest rates in the U.S. and Europe will likely exert further upward pressure on the Canadian interest and mortgage rates in the coming months. Despite continued strength of oil prices, moderate consumer price increases will help keep our interest and mortgage rates low in 2000-2001.
- The one, three and five-year mortgage rates are expected to be in the 7.75-8.75, 8.00-9.00, and 8.25-9.25 per cent range respectively over the next two years.
- Mortgage rates could move even higher than our base scenario if U.S. rates rise much further or the Canadian dollar faces downward pressure.
- A combination of easing inflationary expectation and rising budgetary surplus could lead to a situation where long-term bond yields continue to remain below short-term interest rates, capping increases in mid to long-term bond and mortgage rates over the next few months. ■

**Mortgage interest rates**

Year / quarter	1-year	3-year	5-year
1990:1	12.75	12.7	12.7
1990:2	14.25	14.3	14.3
1990:3	13.75	13.8	13.7
1990:4	12.83	12.8	12.8
<b>1990</b>	<b>13.40</b>	<b>13.4</b>	<b>13.4</b>
2000:1	7.63	8.25	8.48
2000:2*	8.08	8.56	8.70
2000:3*	8.55	8.88	9.05
2000:4*	8.43	8.73	8.85
<b>2000*</b>	<b>8.17</b>	<b>8.60</b>	<b>8.77</b>
2001:1*	8.27	8.63	8.75
2001:2*	8.15	8.41	8.63
2001:3*	7.91	8.26	8.51
2001:4*	7.78	8.15	8.41
<b>2001*</b>	<b>8.03</b>	<b>8.36</b>	<b>8.58</b>

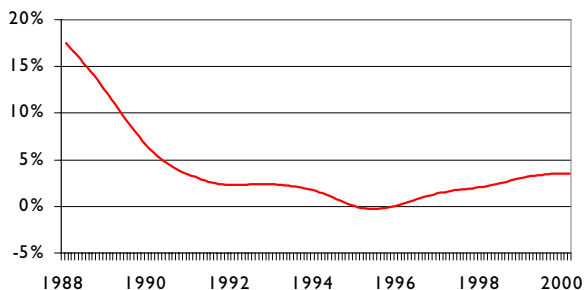
Source: CMHC Housing facts. \*Forecast

## Market growing on more solid ground than in the late 1980s

The rapid increase in resale prices in a context of strong economic growth and rising interest rates recalls the overheating of the late 1980s, but the current growth is much more modest than that recorded in the 1980s.

- Should lending terms and conditions be tightened before the peak in the market cycle is reached in order to prevent losses if one or more markets were to decline? In fact, not really, as we feel that the situation is quite healthy even if certain markets should be watched more closely.
- Since the beginning of the year, the seasonally adjusted real resale price trend has been rising at an annual rate of 3.5% in the 25 largest real estate markets in Canada, making for the fastest growth rate since 1992. But, the current growth rate is much lower than that observed at the end of the 1980s, and it is progressing in line with the increase in disposable household income.

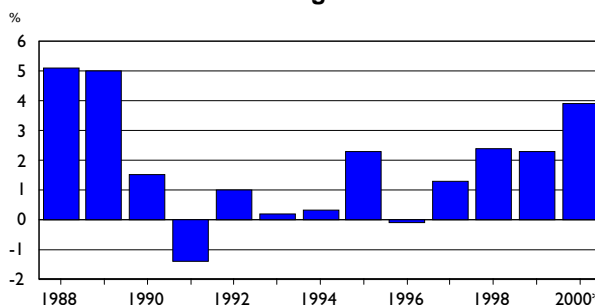
Real resale price annual growth rate\*  
Average trend for 25 major markets



Sources : CMHC Housing facts, Canadian Real Estate Association.  
\*SAAR.

- At the time of the last resale market peak in 1988, the seasonally adjusted annual price growth attained over 17%, or three times faster than the increase in real disposable income. The rest is history: the rise in real disposable income vanished and the increase in prices followed the same trend. The low point was registered in 1995 when the prices decreased only slightly. Since 1995, the growth in prices has accelerated but seems to be coming up against a ceiling since the end of 1999. As a result, contrary to the late 1980s, the disposable income is growing at the same rate as the prices.

Real disposable income  
annual growth



Sources: CMHC Housing facts, Statistics Canada

- This situation is all the more reassuring in that the prospects for tax relief in the vast majority of provinces will support the potential for price increases and undoubtedly offset the effect of the mortgage interest rate hike (see article on page 2).
- The most recent works have demonstrated that it is when prices rise very rapidly and disproportionately in relation to incomes that the risk is the greatest. At that moment, the market is highly vulnerable to shocks such as a hike in mortgage rates, an increase in unemployment or a sudden rise in the volume of properties for sale, etc. For lenders, the detection of the first signs of accelerating prices is fundamental from a risk management standpoint.
- Reading resale prices is difficult, though, as the figures are not weighted according to the sales mix by price range, and it is difficult to really isolate the *market* component within the increase in prices. As such, a good proportion of the strong price trend growth ( $\pm 15\%$  in the first quarter of 2000) currently noted in Ottawa, which largely exceeds the rise in disposable income, may be associated with renewed transaction activity in the upscale segment and not necessarily imply a greater risk for lenders.
- CMHC expects that the average resale price in Canada will go up by 1.8% in real terms this year, compared to 3.9% for the real disposable income. ■



## Rental construction booming in Ontario

Overall, rental construction is losing ground to freehold and condominium housing; however, the regional differences are significant.

- Rental housing construction made a remarkable leap in Ontario and the Atlantic Provinces in the first quarter of this year in relation to the same period in 1999. At the national level, though, this type of building remained stable and its relative weight among total housing starts was 8.1% (from January to March 2000) compared to 9.1% during the first three months of 1999.
- The bulk of the growth in housing starts this year has occurred on the freehold housing market. However, the distinction made between the different intended markets (freehold, condominium and rental) is less and less relevant as, in some metropolitan areas, quite a few condominium apartments are rented, thereby significantly raising the supply of rental housing units. ■

Rental housing starts			
Regions / Provinces	First quarter 1999	First quarter 2000	In % of total starts First quarter 2000
Atlantic	85	296	32.8
Quebec	720	409	13.7
Ontario	108	952	8.5
Prairies	578	102	2.4
B.C.	398	135	6.1
Canada 10 000+	1,889	1,894	8.1

Source: CMHC Housing facts

## Rental housing stock: the density difference between east and west

An analysis of the distribution of the Canadian rental housing stock by structure size reveals major density differences that undoubtedly have significant effects on the markets.

- Rental density, measured in terms of the distribution of rental units by structure size, has long been much higher in the western part of Canada than in its eastern urban areas. In most urban centres in Quebec and the Atlantic Provinces, over 50% of the rental buildings have fewer than 7 units, while this is rather the exception in the Prairies, in British Columbia and, to a lesser extent, in Ontario.
- This concentration of units within a smaller number of structures, in a market that favours this type of unit distribution may mean less flexibility on the market. A limited number of players may influence the market more directly, albeit involuntarily. It is clearly more difficult to build a 100-unit housing project than twenty 5-unit structures, given the costs and the risks.
- The generally higher rental market vacancy rates in the eastern part of country may be partly related to the structure of the market, which is more flexible and more fragmented,

even if they are mainly driven by economic factors. ■

Rental stock density apartments buildings with 3 units +		
Metropolitan areas	% of buildings with less than 7 units	% of stock in buildings with less than 7 units
Hull	78.0	40.1
Saint John	72.3	42.9
Montreal	69.2	34.9
Quebec city	62.7	27.3
Toronto	46.8	5.1
Saskatoon	18.5	3.6
Vancouver	20.6	3.2
Edmonton	14.4	2.7

Source: CMHC Housing facts

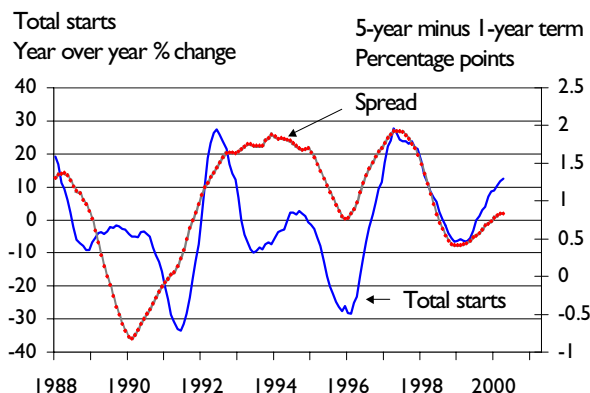
## Flattening yield curve suggests moderating gains in housing starts

The recent drop in five-year mortgage rates and rise in one-year rates are cutting the spread between these two terms. Such narrowing usually precedes easing housing starts growth.

- A flattening or inverted bond yield curve (i.e. a shrinking spread between long-term and short-term interest rates) has often been associated with an economic slowdown. A similar pattern holds between the mortgage rate yield curve and housing activity.
- A shrinking spread between one-year and five-year mortgage rates supports CMHC's forecast of slackening housing starts growth to about 6 per cent this year, down from 8 per cent last year. Next year, starts growth should cool further to about three per cent.
- From January to April, rising short-term Canadian bond yields prompted an increase in chartered banks' average one-year mortgage rate from 7.54 per cent to 7.70 per cent. Meanwhile, falling longer-term bond rates cut the average five-year mortgage rate from 8.48 per cent to 8.35 per cent. April's resulting 65 basis point spread between five-year and one-

year mortgage rates was down from 94 basis points in January. ■

Mortgage rate spreads and housing starts



Sources: CMHC Housing facts, Bank of Canada

## Spotlight on five rapidly growing areas to start this year

Apartment unit, retirement housing and single-detached home starts account for the increases in these five areas.

- Among the 26 metropolitan areas, the most impressive percentage gains since the beginning of the year have occurred in small and mid-size agglomerations. This observation is mainly attributable to the volatility of the multiple housing construction segment and increasingly changing conditions every year.
- In the case of Sudbury, this growth follows the disappointing performance recorded in the first half of 1999. As a result, the year 2000 has been more dynamic so far, although still below the usual averages.
- In the Chicoutimi-Jonquière and Québec areas, the growth resides mainly in the construction of retirement homes (55 and 163 units, respectively).
- As for the Kitchener area, it has been taking advantage of its proximity to Toronto and its positioning in the high-technology sector. Apartment construction led the way with three large structures containing a total of just under 600

units. Single-detached home building was also up with 81 more units than in 1999. ■

### Housing starts (january to april)

Metropolitan areas	1999	2000	2000/1999
Sudbury	6	21	250.0%
Chicoutimi-Jonquière	40	95	137.5%
Kitchener	667	1356	103.3%
London	334	566	69.5%
Quebec city	410	683	66.6%

Source: CMHC Housing facts

## This Month's Housing Data

	1999	Q3:99	Q4:99	Q1:00	M3:00	M4:00	M5:00
<b>Housing starts. units. 000's</b>							
<b>Canada. Total. All areas</b>	<b>150.0</b>	<b>148.2</b>	<b>157.0</b>	<b>162.7</b>	<b>167.3</b>	<b>158.6</b>	<b>142.1</b>
chg	9.1	0.8	5.9	3.3	-1.2	-5.2	-10.4
<b>Canada. Total. Rural areas</b>	<b>22.9</b>	<b>20.8</b>	<b>24.5</b>	<b>23.4</b>	<b>23.4</b>	<b>23.3</b>	<b>23.3</b>
chg	10.7	-8.8	17.8	-6.4	0.0	-0.4	0.0
<b>Canada. Total. Urban areas</b>	<b>127.1</b>	<b>127.4</b>	<b>132.5</b>	<b>139.3</b>	<b>143.9</b>	<b>135.3</b>	<b>118.8</b>
chg	8.8	2.6	4.0	5.1	-1.4	-6.0	-12.2
<b>Canada. Single. Urban areas</b>	<b>72.8</b>	<b>75.1</b>	<b>75.3</b>	<b>81.3</b>	<b>90.8</b>	<b>79.5</b>	<b>70.9</b>
chg	6.6	3.4	0.3	8.0	28.1	-12.4	-10.8
<b>Canada. Multiple. Urban areas</b>	<b>54.3</b>	<b>52.3</b>	<b>57.2</b>	<b>58.0</b>	<b>53.1</b>	<b>55.8</b>	<b>47.9</b>
chg	12.0	1.4	9.4	1.4	-29.2	5.1	-14.2
<b>Newfoundland. Total. All areas</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.7</b>	<b>1.5</b>	<b>1.7</b>	<b>1.4</b>
chg	-5.4	-7.1	0.0	30.8	-37.5	13.3	-17.6
<b>Prince Edward Island. Total. All areas</b>	<b>0.6</b>	<b>0.9</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.6</b>
chg	17.6	50.0	-44.4	66.7	20.0	-33.3	50.0
<b>Nova Scotia. Total. All areas</b>	<b>4.3</b>	<b>3.1</b>	<b>4.8</b>	<b>6.4</b>	<b>6.7</b>	<b>5.0</b>	<b>5.7</b>
chg	35.5	-41.5	54.8	25.5	15.5	-25.4	14.0
<b>New Brunswick. Total. All areas</b>	<b>2.8</b>	<b>2.7</b>	<b>3.1</b>	<b>4.5</b>	<b>3.8</b>	<b>2.8</b>	<b>2.4</b>
chg	13.4	8.0	14.8	40.6	5.6	-26.3	-14.3
<b>Quebec. Total. All areas</b>	<b>25.7</b>	<b>25.9</b>	<b>27.8</b>	<b>26.7</b>	<b>27.7</b>	<b>26.3</b>	<b>23.9</b>
chg	11.2	7.0	7.3	-5.0	0.0	-5.1	-9.1
<b>Ontario. Total. All areas</b>	<b>67.2</b>	<b>64.7</b>	<b>69.3</b>	<b>78.8</b>	<b>82.9</b>	<b>75.0</b>	<b>57.6</b>
chg	24.9	-6.5	7.1	13.2	-1.9	-9.5	-23.2
<b>Manitoba. Total. All areas</b>	<b>3.1</b>	<b>3.3</b>	<b>2.6</b>	<b>2.3</b>	<b>2.6</b>	<b>2.9</b>	<b>2.4</b>
chg	8.2	6.5	-21.2	-11.5	44.4	11.5	-17.2
<b>Saskatchewan. Total. All areas</b>	<b>3.1</b>	<b>3.8</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.1</b>	<b>2.5</b>
chg	4.1	31.0	-39.5	4.3	26.3	-12.5	19.0
<b>Alberta. Total. All areas</b>	<b>25.4</b>	<b>26.4</b>	<b>27.4</b>	<b>26.1</b>	<b>26.7</b>	<b>27.2</b>	<b>31.2</b>
chg	-6.2	15.3	3.8	-3.7	8.5	1.9	14.7
<b>British Columbia. Total. All areas</b>	<b>16.3</b>	<b>16.1</b>	<b>17.9</b>	<b>13.3</b>	<b>12.4</b>	<b>15.3</b>	<b>14.5</b>
chg	-18.2	8.1	11.2	-25.7	-24.8	23.4	-5.2

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	Q3:99	Q4:99	Q1:00	M3:00	M4:00	M5:00
<b>Canada</b>	<b>127.1</b>	<b>127.4</b>	<b>132.5</b>	<b>139.3</b>	<b>143.9</b>	<b>135.3</b>	<b>118.8</b>
Newfoundland	0.9	0.9	1.0	1.5	1.3	1.4	1.1
Prince Edward Island	0.4	0.5	0.3	0.5	0.6	0.2	0.4
Nova Scotia	2.8	2.0	2.9	4.2	4.5	3.0	3.7
New Brunswick	1.9	2.0	1.8	2.8	2.1	1.9	1.5
Québec	19.5	20.7	20.2	20.8	21.8	19.5	17.1
Ontario	62.9	61.3	65.5	74.3	78.4	70.6	53.2
Manitoba	2.1	2.0	1.9	1.3	1.6	1.8	1.3
Saskatchewan	2.2	2.9	1.9	2.0	2.0	1.6	2.0
Alberta	20.2	21.0	21.4	20.3	20.9	21.3	25.3
British Columbia	14.2	14.1	15.6	11.6	10.7	14.0	13.2

\* Seasonally adjusted.

## This Month's Major Housing Indicators

	1999	Q3:99	Q4:99	Q1:00	M3:00	M4:00	M5:00
<b>New Housing*</b>							
<b>New &amp; unoccupied. singles &amp; semis. 000's</b>	<b>6.3</b>	<b>6.4</b>	<b>6.3</b>	<b>6.3</b>	<b>6.4</b>	<b>6.3</b>	<b>6.5</b>
chg	-8.3	-1.8	-2.3	1.6	0.9	-0.7	1.9
<b>New &amp; unoccupied. row &amp; apartments. 000's</b>	<b>7.9</b>	<b>7.7</b>	<b>7.6</b>	<b>8.3</b>	<b>8.2</b>	<b>8.3</b>	<b>8.5</b>
chg	-3.4	3.5	-1.3	8.9	0.2	0.5	3.1
<b>New house price Index. 1992 = 100</b>	<b>101.0</b>	<b>101.1</b>	<b>101.8</b>	<b>n.d.</b>	<b>102.4</b>	<b>n.d.</b>	<b>n.d.</b>
chg	0.9	0.5	0.7	n.d.	0.0	n.d.	n.d.
<b>Existing Housing*</b>							
<b>MLS resales. units. 000's</b>	<b>335.7</b>	<b>347.1</b>	<b>323.2</b>	<b>343.0</b>	<b>362.6</b>	<b>327.6</b>	<b>n.d.</b>
chg	6.7	-1.8	-6.9	5.9	7.5	-9.7	n.d.
<b>MLS average resale price. \$C. 000's</b>	<b>158.0</b>	<b>158.7</b>	<b>161.7</b>	<b>162.1</b>	<b>160.9</b>	<b>161.7</b>	<b>n.d.</b>
chg	3.7	1.0	1.9	0.6	-1.2	0.5	n.d.
<b>Mortgage market</b>							
<b>1-year mortgage rate.%</b>	<b>6.8</b>	<b>7.0</b>	<b>7.3</b>	<b>7.6</b>	<b>7.7</b>	<b>7.7</b>	<b>8.3</b>
<b>5-year mortgage rate. %</b>	<b>7.6</b>	<b>7.8</b>	<b>8.3</b>	<b>8.5</b>	<b>8.4</b>	<b>8.4</b>	<b>8.8</b>
<b>Building materials</b>							
<b>Total costs building materials Index. 1992=100</b>	<b>130.9</b>	<b>134.7</b>	<b>129.8</b>	<b>132.8</b>	<b>133.2</b>	<b>132.8</b>	<b>n.d.</b>
chg	5.1	2.3	-3.6	1.8	0.3	-0.2	n.d.

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

chg % change from previous period.

n.a. Figures not available

\* Seasonally adjusted.