The Housing Industry:
Perspective and Prospective

Working Paper One
The Evolution of the Housing Industry in Canada, 1946–86

Prepared by Clayton Research Associates
and Scanada Consultants

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Special thanks are extended to the industry personnel who willingly answered innumerable questions about the nature and workings of the housing market in bygone years.

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INTRODUCTION

This working paper presents the results of an investigation of the industry producing new housing, developing serviced residential land and renovating the existing housing stock in Canada. It examines the industry's current structure (the number and size of firms), its methods of operation, the financial aspects of its constituent firms and the manner in which the housing industry has changed over the past 40 years.

The paper focuses on the responses to the following two questions:

- What is the housing industry like today, and how does it differ from the industry operating in the immediate era after the Second World War?
- What factors contributed to the changes that occurred during the postwar period?

THE HOUSING INDUSTRY DEFINED

For purposes of this study, the housing industry includes firms that undertake residential construction activity (new or renovation) or develop serviced land for residential use. These firms are predominantly privately owned.[1]

A Four-way Split

For descriptive and analytical purposes, housing industry firms are categorized into four groups as follows:

- Single-family homebuilders

  For all intents and purposes, the builder of single-family homes has been the backbone of the housing industry over the postwar period. Typically, these homebuilders buy serviced lots and build single-family housing for occupancy, usually by a homeowner. Such builders put together the entire housing package, including land acquisition, design, construction, marketing and sales. Builders of single-family homes also may be general contractors—building a custom home to specifications and on a lot provided by the homeowner. (Single-family houses include single-detached, semi-detached and row dwelling units.)

- Residential land developers

  Residential land developers bring serviced land on stream in suburban locations or zoned residential sites in built-up communities. They buy raw land and arrange for all necessary approvals and servicing for the development of the land as residential property.

- Apartment developers

  Like their single-family builder counterparts, mainstream apartment developers are responsible for the entire development process from the buying of the site to the design, construction and disposition of the units (that is, selling condominiums, renting up and selling to investors or retaining for their own investment portfolio). But unlike builders of single-family homes, who for the most part perform their own construction function, apartment developers often hire a general contracting firm to undertake actual construction.

- Residential renovators

  Renovators engage in residential additions, major improvements, rehabilitation, retrofitting, conversions and repairs involving more than one trade.[2] The key is "more than one trade," which also applies to single-family homebuilders. Renovators for the most part are general contractors. They respond to a property owner's request for specific work to be done. Some renovators also undertake a broader range of work more comparable to the single-family homebuilder. They buy an existing residential property, design the work to be done, oversee the construction and then sell the finished property to a homeowner or investor.

Not Watertight Compartments

While many housing firms, particularly builders of single-family homes or renovators, are involved in only one housing-related activity, many are not. Many small homebuilders undertake renovations, other builders develop land or apartments, while still others are involved in non-residential construction. Similarly, an apartment developer may also develop land.

Despite these considerable overlaps, it is still possible to consider each of the four categories of housing firms as distinct entities (though this paper does try to provide an indication of the nature of any overlap). Statistically, data on housing firms are collected on an "establishment" basis so that, for example, the single-family building operations (one establishment) of a diversified firm are separated from the firm's land development operations (a second establishment).

Owner-builders, Do-it-yourselfers and Special Trade Contractors Not Included

An estimated 10 percent—a percentage that probably has diminished from the early postwar years—of single-family houses are built by individuals on their own or acting as their own general contractors (these people are called owner-builders). However, in some parts of the country the proportion of owner-built houses remains quite high (for example, rural parts of the Atlantic provinces).[3] Owner-builders are not included as part of the housing industry since the focus here is on the entrepreneurial housing producer. For the same reason, property owners doing their own renovations (so-called do-it-yourselfers) are excluded. Special trade contractors (that is, those firms primarily engaged in a single aspect of new or renovation residential construction, such as plumbing or landscaping) are also outside the purview of the housing industry as defined here.[4]

FACTORS SHAPING THE HOUSING INDUSTRY

The housing industry is distinct from other major goods-producing industries, such as those for automobiles and household appliances. This fact reflects the environment in which the housing industry operates.

Geographically Dispersed Markets

The Canadian population is spread over an immense continental land-mass. While most of the population lives within a 200 km band north of the U.S. border, this band stretches for more than 6,400 km. The largest metropolitan market (Toronto) accounts for less than 15 percent of the country's population. Only three metropolitan areas have populations exceeding one million persons. The remaining 70 percent of the population is dispersed among several hundred cities, towns, villages, hamlets and other rural areas.

Heterogeneous Consumer Demand

The housing industry faces a multitude of demands for housing, ranging from smaller to luxury rental apartments and townhouses, from homes for first-time buyers to more elaborate homes for those purchasing for the second or third time and from condominium apartments for younger childless couples to retirement housing for senior citizens. Consumers exhibit considerable differences in the types of housing they want, the location, the amenities and the price or rent they are willing to pay. Moreover, community and neighbourhood features, such as the proximity of housing to schools, shopping and recreational facilities, enter into the housing decisions of many consumers.

A geographically dispersed and heterogeneous market is not unique to housing. However, when combined with other industry characteristics, the housing industry, as well as the entire construction industry, is unique.

Site-specific Product and High Transportation Costs

Housing consists of both a structure and a site. Unlike most manufactured consumer goods, both new and renovated housing are tied to specific sites. Although the structure can be produced entirely in a factory (as are most consumer goods), its bulkiness and transportation costs, especially as distances to sites increase, make such a process very costly.

Thus, to date, most residential construction has occurred on-site because it has been more economical to bring the labour and materials to the site and have the structure constructed there than to build the structure in a factory and transport the finished product to the site. Considerable use is made of prefabricated components on-site. However, even in a highly developed country such as Canada, it is efficient to make extensive use of on-site labour.

Local Regulations and Knowledge

During much of the postwar period, the regulation of building was a municipal responsibility, which resulted in a proliferation of dissimilar regulations that discouraged builders from operating simultaneously in a large number of municipalities. The promulgation of a National Building Code by the federal government provided some uniformity in building codes, but its adoption by municipalities was voluntary. Over the past decade or so, most provinces have adopted province-wide building codes modelled on the National Building Code, which are applicable to all municipalities in their jurisdiction. However, the enforcement of the code generally remains at the municipal level, resulting in a variety of local interpretations. Still, province-wide building codes have certainly brought more uniformity to building regulations.

Still, a tremendous disparity exists among municipalities in such things as building permits, site planning and residential land development requirements. For the most part, these are entirely under the control of individual municipalities. Builders and developers have to familiarize themselves with local procedures and regulations to operate successfully in a given municipality.

The extensive involvement of a large number of municipal authorities in the building and land development processes has been one factor retarding the growth of large firms operating in many market areas. This is particularly so when this factor is combined with other distinct characteristics, such as geographically dispersed markets and an immobile product.

Ease of Entry

Little capital is required to enter the housing industry, at least for the new single-family homebuilding and renovation sectors, since suppliers and special trade contractors (sometimes called subtrades) often provide materials and services on credit; land developers often provide credit terms as well. Moreover, the principals of very small firms do much of the construction work themselves. As a result, small firms are able to enter and leave the industry rapidly, depending on local economic and housing market conditions.

However, more significant barriers prevent the entry of apartment developers and, especially, land developers. Substantial initial capital financing is required now. In many municipalities, several years may be required to convert raw land to serviced residential lots. Financial requirements imposed on land developers by municipalities also tend to promote larger land development firms, as do federal tax laws dealing with the costs incurred by such firms in carrying their land inventories.

The Cyclical Nature of Housing

Owing to the lengthy production period for new housing, which ranges from several weeks for single-detached houses up to several years for serviced land in many municipalities, often a lag occurs in the housing industry's response to changes in underlying economic and market conditions. This results in periodic overbuilding with a consequential increase in risk to firms in the industry.[5]

APPROACH

A number of issues were addressed when formulating an approach and structure to this working paper.

Dealing with the Absence of a National Housing Industry

The housing industry consists of a diverse group of firms, most of which operate either in a single market area or in a limited number of market areas. Unlike the producers of automobiles and consumer durables, no national housing industry exists as such. In reality, the housing industry is composed of a multitude of geographically limited industries that correspond to individual housing markets in different geographical areas. To document and describe the housing industry, even regionally, requires a considerable amount of aggregation and generalization, which detracts from the reality of the distinct local industries involved.

The approach here has been to concentrate on key features of the industry common to the local market. To illustrate the points being emphasized, a regional or local dimension is incorporated using case studies or information compiled on a regional or local market basis.

Dealing with a Lack of Information

Not much literature exists on the characteristics of the housing industry as a whole or its individual sectors over the entire postwar period, in large part because of the paucity of comprehensive statistical time series data. To illustrate, until CMHC released data on the number of NHA-insured speculative loans given to builders (disaggregated by number of loans and CMHC office territory) in the early 1960s, no ongoing data existed on the structure of the single-family homebuilding industry (these data were released annually up to 1973, then discontinued). The time series data situation improved in the early 1970s when Statistics Canada initiated an annual survey of residential general contractors. A further source of data on the structure of the industry became available in 1983 when Statistics Canada initiated the annual publication of single-family building permit data issued by size of builder for census metropolitan areas.

The approach here has been to weave a story from the available time series data, recognizing the numerous comparability problems, supplemented by an extensive review of the existing literature (student theses were an especially fruitful source of time series information for several particular market areas). Structured interviews were also conducted with several people knowledgeable about the housing industry and its structure and operations over the postwar period.

Focus on Single-family Builders and Land Developers

A substantial proportion of the resources for Working Paper One has been devoted to detailing the structure and characteristics of single-family homebuilders and land developers. The focus is on these builders of single-family homes and land developers because of the importance of the single-family component of the housing market over the postwar era and the more complete, though still piecemeal, information base for these sectors.

A considerable body of statistical and analytical information is available on the structure and financial aspects of the single-family homebuilding industry, particularly in the early 1980s. However, a number of gaps remain, especially on the *modus operandi* of the firms constituting the industry and how these have changed in response to external forces.

Considerably less information is available about apartment developers than the other sectors of the housing industry. Unlike the land development industry, apartment developers have seldom come under close public or academic scrutiny. There is also a paucity of information on the structure of the residential renovation industry over the postwar period. The situation has improved in recent years in large part because of studies undertaken or commissioned by CMHC.

STRUCTURE OF THE PAPER

The remainder of this working paper comprises the following six chapters:

- Chapter One describes the housing industry's output and the economic, financial, demographic and housing policy environment in which it operated over the postwar period;
- Chapter Two describes the characteristics of the firms producing new single-family houses;
- Chapter Three describes the characteristics of the firms producing serviced land for new single-family housing;
- Chapter Four describes the characteristics of the firms producing apartment housing, whether for rental or condominium ownership;
- Chapter Five describes the characteristics of the firms undertaking residential renovations; and
- Chapter Six presents the conclusions.

Footnotes in each chapter are consolidated at the end.

CHAPTER ONE
OUTPUT OF THE HOUSING INDUSTRY

This chapter describes key features of the housing industry's output in 1986 and highlights overall trends in output since 1946. While the output definitions for the available historical data do not coincide exactly with the housing industry, as defined for purposes of this working paper, the data provide useful insights into main trends. Major economic, demographic and housing policy trends that affected the housing industry and its output during the postwar period are also highlighted.

HOUSING INDUSTRY OUTPUT, 1986

Total housing output, including land, for 1986 is presented first. This output is then adjusted to remove owner-builders and renovation work done by do-it-yourselfers and special trade contractors—people and firms not considered to be part of the housing industry.

Renovation—Single Largest Component of Total Housing Output

Total housing output in Canada is estimated at $31.6 billion in 1986. (See Table 1.) This includes both the value of construction work in place and the serviced land associated with the construction output.[1] Residential renovation construction, broadly defined to include repairs, was the single largest component of total output (42 percent). However, when single-family construction and serviced land for it are combined, single-family houses represented the largest component of output (48 percent of the total). Land development constituted a comparatively small component of housing output (12 percent), as did apartment construction (nine percent).

Single-detached houses were by far the predominant component of single-family construction. Semi-detached and row construction together accounted for nine percent ($1 billion) of the single-family construction total followed by cottages ($522 million) and, at a considerable distance, mobile homes ($174 million).

Table 1. Estimated Total Housing Output Canada, 1986

	Millions of Dollars	Percent
New Construction[a]		
Single-family homes[b]	11,609	37
Apartments	2,871	9
Sub-total	14,480	46
Land		
Single-family homes	3,370	11
Apartments	448	1
Sub-total	3,818	12
Renovation[c]		
Sub-total	13,343	42
Grand Total	31,641	100

Source: New construction and renovation estimates — Statistics Canada; land cost estimates — Clayton Research Associates.

[a] Excludes supplementary costs.
[b] Includes cottages and mobile homes.
[c] Includes repairs.

Single-family Houses—Largest Component Of Housing Industry Output

A removal of the output estimated to be attributable to owner-builders,[2] do-it-yourselfers and special trade contractors[3] provides an estimate of the total output of the housing industry. In 1986, the industy's total output is estimated at just over $21 billion. (See Table 2.)

Table 2. Estimated Housing Industry Output Canada, 1986[a]

	Millions of Dollars	Percent
New Construction[b]		
Single-family homes[c]	10,448	49
Apartments	2,871	14
Sub-total	13,319	63
Land		
Single-family homes	3,370	16
Apartments	448	2
Sub-total	3,818	18
Renovation[d]		
Sub-total	4,003	19
Grand Total	21,140	100

Source: Previous table and Clayton Research Associates.

[a] Excludes 10 percent of new single-family construction and 70 percent of renovation output assumed to be done outside the housing industry.
[b] Excludes supplementary costs.
[c] Includes cottages and mobile homes.
[d] Includes repairs.

Almost two-thirds of the output was related to new single-family houses (construction plus land). Apartments (construction plus land) and renovations accounted for 16 and 19 percent, respectively, of total housing industry output. Land development accounted for nearly one-fifth of the housing industry's total output.

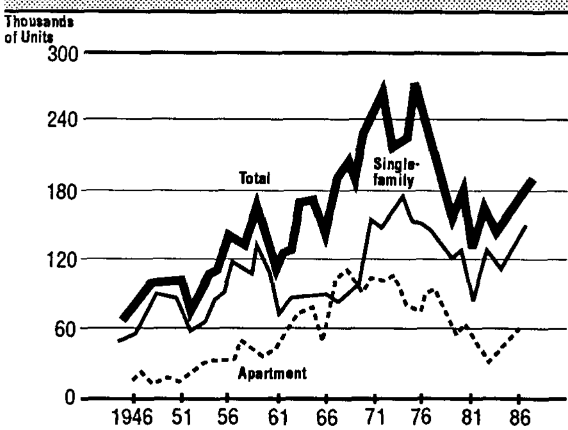
HOUSING OUTPUT TRENDS DURING THE POSTWAR PERIOD

The housing output trends noted in the succeeding paragraphs pertain to total housing output excluding land, not to the output of the housing industry alone. (The trends may not be entirely representative of trends in the housing industry *per se*.) To some extent, shifts may have occurred in the proportion of total housing output accounted for by the housing industry. Still, the data provide some useful insights into trends in the industry over the postwar period.

Marked Rise in Total Starts Until Mid-1970s—Then a Slide

In general, the volume of total starts across Canada was on a sustained upward trend over the first 30 years of the postwar period. The number of total starts climbed to a number in excess of 240,000 units in the mid-1970s from fewer than 100,000 in the late 1940s. The mid-1950s to mid-1960s were an exception as the number of starts levelled (but with considerable year-to-year variation). (See Figure 1.)

FIGURE 1. HOUSING STARTS BY TYPE
CANADA, 1946–86



Source: Clayton Research Associates based on data from CMHC.

Note: Single-family includes single-detached, semi-detached and row housing units.

From the mid-1970s to the early 1980s, the number of starts slumped with the levels returning to the numbers recorded in the mid-1950s to mid-1960s. However, the number of starts increased sharply in 1985 and again in 1986.

Single-family Starts—Good Times and Bad

Five eras can be distinguished from the single-family starts data of the postwar period. These eras are as follows:

- Single-family production expanded sharply over the 1946–58 period.

  The production of single-family homes expanded rapidly in the early postwar years and reached nearly 83,000 units in 1948, more than double the number three years earlier. More than three out of four homes built in the late 1940s were single-family units (almost all were single-detached homes). The number of single-family starts declined in 1951 to 59,000 units but then recorded solid year-over-year gains reaching 86,000 units by 1954.

  The production of new single-family homes increased sharply in the late 1950s, breaking previous record highs in 1955 and 1958 when starts of 111,518 and 117,678 units, respectively, were recorded. Annually, single-family starts averaged 106,103 units during the 1955–59 period versus 73,530 during the 1950–54 period.

- Contraction and then stability occurred through most of the 1960s.

  The number of single-family starts plummeted in 1960, then stabilized in the first half of the 1960s but at a considerably lower level than in the late 1950s. Single-family starts averaged 87,552 units per year in the first half of the 1960s, down 17.5 percent from the late 1950s. The level of starts increased over the 1967–69 period, resulting in the average number of single-family starts during the 1965–69 period increasing slightly to 90,890 units.

- Much of the 1970s was characterized as a golden era.

  The 1970s was a decade of great opportunity for the builders of single-family houses in Canada. The annual number of single-family houses built broke new records on four occasions, reaching its apex in 1976 when nearly 184,000 houses were built. Single-family starts may have subsequently declined during the 1977–79 period, but this was high compared to the historical record.

The composition of single-family starts in this decade shifted as semi-detached and townhouse units became more popular. For the most part, these units were intended for owner-occupancy.

- A collapse in the market occurred in the late 1970s and early 1980s.

  The level of single-family starts dropped in the late 1970s in response to the overproduction of the preceding few years. The single-family housing industry was then devastated by record-high and extremely volatile interest rates during the 1981–82 economic recession, by far the worst economic downturn since the 1930s. The number of single-family starts reached bottom in 1982 when only 72,698 units were built, a drop of 48 percent from 1979 and the lowest number recorded since 1952.

- Recovery occurred in the mid-1980s.

  The number of single-family starts climbed from the low recorded during the throes of the 1981–82 recession, reaching 138,765 units in 1986, the highest number since 1978.

  A shift occurred in the mix of single-family starts during this period. Whereas a considerable number of starts in the late 1970s and early 1980s were semi-detached or townhouse units, the proportion of single-family starts comprising single-detached units rose significantly to 86 percent during the 1983–86 period. This shift reflected in particular a change in definitions by CMHC (two side-by-side dwellings joined under the ground are now regarded as single-detached homes).[4] More importantly, however, the advent of smaller lots for single-detached houses in major markets such as Toronto allowed builders to satisfy the demand for moderately-priced new single-detached houses (previously, semi-detached and townhouse units had been bought as a second-best solution by many people unable to afford a new single-detached house).

Apartment Starts—Prolonged Upturn Followed by Prolonged Decline

The following three basic trends can be identified from the annual apartment starts data:

- Stability and then a slight rise occurred during the first postwar decade.

  The level of apartment starts tended to range from 15,000 to 20,000 units in the early postwar period, although there were exceptions (apartment starts plummeted in 1948 and, after recovering, fell again in 1951). However, the number of starts climbed in 1953 and 1954, reaching a postwar peak in each of these years. Yet, this increase was not as large as for single-family starts, thus the proportion of total starts accounted for by apartments fell to 24 percent in 1954 from 31 percent in 1945.

  Most of the apartments built were situated in Quebec where rental occupancy was much more prevalent than in other provinces.

- Sharp and sustained rise in apartment construction occurred during the late 1950s to early 1970s.

  If the early and mid-1970s was the golden era for single-family builders, the 1960s was the golden era for apartment developers. Apartment starts remained quite stable at around 25,000 units per year in the mid-1950s. The number of apartment starts jumped to nearly 47,000 units in 1958 but then declined over the next two years.

  Through the 1960s, the production of new apartment housing escalated. By the end of that decade, the number of annual apartment starts totalled nearly 111,000 units, up more than threefold the number recorded in 1960.

  The average number of apartment starts climbed from approximately 18,500 units per year in the first half of the 1950s to approximately 83,600 units per year in the last half of the 1960s. In 1969, more than half of all housing starts were apartment units. In the 1971–73 period, apartment starts continued the pattern of the late 1960s, exceeding 100,000 units in each of these years.

- Apartment construction declined during the mid-1970s to mid-1980s.

  The volume of apartment starts fell sharply in the mid-1970s, but picked up moderately in 1976 and 1977 before declining to a 13-year low of 58,387 units in 1979.

  The number of apartment starts recorded in the first six years of the 1980s were considerably low by historical standards, averaging less than 50,000 units per year during this period compared to 77,500 units in the last half of the 1970s. Also, both condominium and rental construction were sluggish during this period. The number of apartment starts reached a 23-year low in 1984. However, an increase in starts occurred in 1985–86, largely because of higher rental starts, particularly in Quebec but also in Ontario, Manitoba and Nova Scotia, and an increase in condominium starts in Ontario.

Table 3. Total Housing Starts by Region Canada, 1948–86, Percent

	Atlantic Provinces	Quebec	Ontario	Prairies	B.C.	Canada
1948–51	7	29	36	18	10	100
1952–56	6	29	38	17	10	100
1957–61	6	27	39	17	11	100
1962–66	6	28	38	16	12	100
1967–71	6	23	40	17	14	100
1972–76	8	23	37	18	14	100
1977–81	6	20	30	27	17	100
1982–86	8	27	37	16	12	100

Source: CMHC.

Note: Starts data by region are not available before 1948.

Shifts in Regional Pattern of Starts

Somewhat surprisingly, the distribution of total housing starts by region in the first half of the 1980s was similar to the distribution in the late 1940s. (See Table 3.) However, a number of conspicuous shifts have occurred at various times during the postwar period. These shifts include:

- A pronounced shift in starts away from Quebec in the 1967–81 period followed by a strong recovery in the 1982–86 period;

- A sharp shift away from Ontario in the 1977–81 period followed by a sharp recovery in the 1982–86 period;

- A sharp shift to the Prairies in the 1977–81 period followed by an even more sharp decline in the 1982–86 period; and

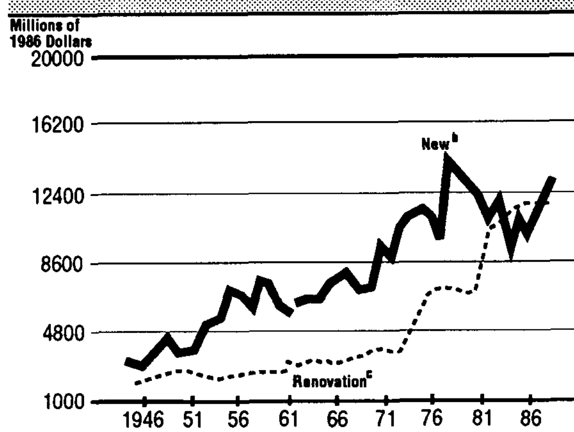
- A gradual upward trend in B.C.'s share of the country's starts from the late 1940s, which reached a peak in the 1977–81 period but was followed by a declining share during the 1982–86 period.

  These shifts in the location of new housing production correspond closely with the economic performance of the various regions over the postwar period.

Sustained Rise in Renovation Activity

Renovation spending has increased in volume throughout the postwar period, with quite modest annual increases for the first 25 years (Figure 2.) However, beginning in the early 1970s, the rate of increase accelerated. In terms of constant 1986 dollars, total spending amounted to $13.3 billion in 1986, more than double the 1971 spending.

Figure 2. Real Residential Construction Expenditures by Component, Canada, 1946–86[a]



Source: Clayton Research Associates based on data from CMHC and Statistics Canada.

[a] There is a break in the time-series data in 1961.
[b] Excludes supplementary and land costs.
[c] Includes repairs; repairs for the 1946–52 period are estimates.

As a result of this accelerating increase in renovation spending, renovation has accounted for a growing share of total residential construction activity since the mid-1970s. In the early 1980s, renovation spending exceeded 50 percent of total construction expenditures (excluding land costs) for the first time. The renovation share fell slightly below 50 percent in 1986 owing to the surge in new construction.

THE POSTWAR HOUSING ENVIRONMENT

The postwar housing environment can be conveniently separated into economic, demographic and housing policy components.

Economic Conditions Most Favourable in the 1960s and 1970s, Least Favourable in the 1980s

Key economic indicators important for housing output include real income growth, inflation and interest rates.

- A big backlog of demand was the legacy of the Second World War.

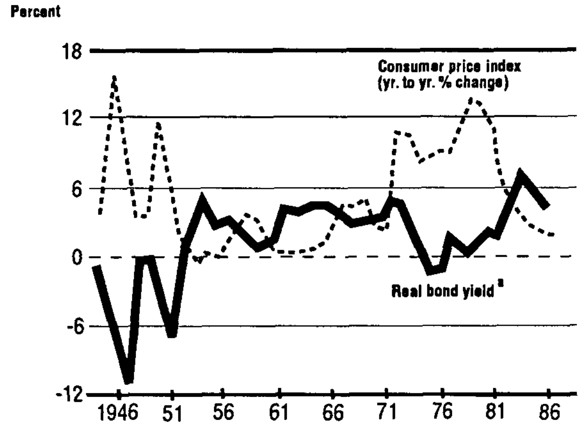
  The postwar period began with a large backlog of pent-up demand in all sectors.[5] As the overall economic environment (for example, low interest rates and low unemployment) was favourable to housing in the initial postwar years, residential construction activity expanded rapidly. Housing starts recorded between 1946 and 1950 would have been even higher if they had not been constrained "by the availability of building materials and labour and the lack of qualified and well organized builders."[6]

  By early 1951, economic conditions related to housing had deteriorated. Rising construction costs because of large defence demands (a result of the Korean War), higher interest rates and a rise in NHA downpayment requirements resulted in reduced demand for new housing. But by 1952, inflationary pressures had eased, and NHA terms were once again favourable. Housing construction responded vigorously but then stabilized between mid-1953 and mid-1954 as a result of a shortage of mortgage funds. (See Figure 3.)

- The 1960s and 1970s were characterized by sustained income growth.

  In general, the economic environment in the 1960s and 1970s was positive for housing (Figure 4). Real personal disposable income per capita climbed every year of these two decades, and income growth was especially buoyant in the early 1970s. However, overall economic conditions deteriorated in the mid-1970s as the economy wrestled with inflation and the aftermath of the first oil price shock in 1973. Interest rates accelerated, but their full impact was cushioned by the decline in real interest rates from the levels of the 1950s and 1960s.

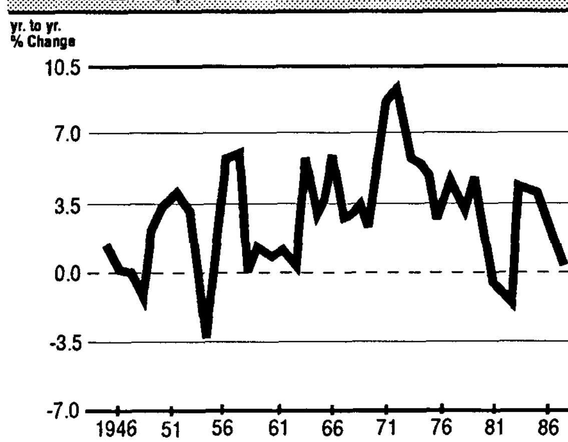
Figure 3. Real Yield on Long-Term Bonds and Year-to-Year Percent Change in the Consumer Price Index Canada, 1946–86



Source: Clayton Research Associates based on data from the Bank of Canada and Statistics Canada.

[a] Government of Canada bond yield averages for 10 years and more less the year-to-year percent change in the Consumer Price Index.

Figure 4. Real Personal Disposable Income Per Capita Canada, 1946–86



Source: Clayton Research Associates based on data from Statistics Canada.

- Adequate supply of mortgage money was a major consern in the last half of the 1950s and in the 1960s.

An important difference between the first decade of the postwar period and the 1955–69 period was a shift in the major determinants of housebuilding activity. The key determinant shifted from the availability of building materials and labour and the capacity of the homebuilding industry to the availability and cost of mortgage funds,[7] which served to increase both the volatitlity of housebuilding activity and the risk to builders.

Mortgage money was plentiful in late 1954 and 1955 owing to the entry of the chartered banks into mortgage lending and an easing of interest rates. However, when interest rates rose rapidly in the 1956 to mid-1957 period (as the economy was buoyed by an investment boom), because of a ceiling on mortgage interest rates that they could charge, the banks withdrew from mortgage lending. This withdrawal subsequently had negative repercussions on the housebuilding industry. Credit conditions eased in the mid-1957 to 1958 period, though the relief was short-lived. Interest rates once again climbed during the mid-1958 to 1960 period.

Conditions in the first half of the 1960s were extremely favourable for the housing market. Interest rates were remarkably stable for much of the period, and the economy was characterized by rising real incomes and employment growth. In contrast, the late 1960s were characterized by rising inflation and higher interest rates, which culminated in the recession of 1970.

- A severe recession occurred in the early 1980s.

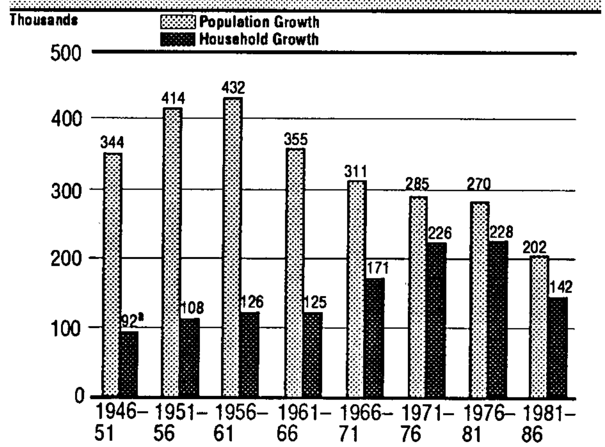
The early 1980s caused difficulties for Canadians as the economy plunged into recession. Unemployment climbed sharply in 1981–82, interest rates skyrocketed and economic uncertainty was widespread.

The economy began to recover in early 1983 and continued to do so for the next three years, but the recovery was not uniform across the country. Ontario and, to a lesser extent, Quebec gained most of the new jobs, with Nova Scotia and Manitoba also doing reasonably well. Resource-based provinces, especially Alberta and British Columbia, did not share in the country's economic recovery. The recovery was accompanied by a sharp decline in mortgage interest rates, although the decline was not smooth.

Demographics Led to Peak Postwar Demand for New Housing During the 1970s

The single largest component of the demand for new housing is household growth, which is demographically driven but greatly influenced by overall economic conditions and government housing policies and programs. In turn, household growth is a product of three variables: growth in the total population; the age profile of the population; and the propensity of people to form households (the household headship rate). (See Figure 5.)

FIGURE 5. AVERAGE ANNUAL POPULATION AND HOUSEHOLD GROWTH CANADA, 1946–86



Source: Clayton Research Associates based on the Census of Canada and Statistics Canada.

[a] Estimates were by Clayton Research Associates as no Census was conducted in 1946.

- Population growth was strong in the early postwar period.

The first 15 years of the postwar period was characterized by rapid and rising growth in Canada's total population. The rising fertility rate and higher immigration accounted for the expanding population. However, after the 1950s, the growth cycle reversed, and population growth per five-year period has continually declined since the late 1950s. Average annual population growth amounted to just 202,000 persons in the first half of the 1980s, less than one-half the level of the 1950s. This decline largely reflected a pronounced drop in the fertility rate, though lower immigration was also a factor.

- Household growth peaked in the 1970s.

A combination of a number of favourable factors resulted in a rapid expansion of household growth in the late 1960s, which continued through the 1970s. Foremost was the movement of the leading edge of the baby boom generation (that is, the generation born in the 1940s) into the key household-forming age groups. This positive demographic factor was reinforced by the impact of rising real incomes and the availability of affordable housing owing to federal housing policy initiatives. Rising real incomes and a supply of affordable housing allowed increasing numbers of young adults to form their own households, as well as partners from broken marriages to obtain accommodation.

Household growth plummetted in the first half of the 1980s, largely in response to the worst recession since the 1930s, historically high interest rates and the aging of the baby boom generation beyond the key household-forming age groups.

- Shifting age profile affected types of housing demanded.

Shifts in the age composition of the country's population have been an important determinant of the mix of housing built over the postwar years. The marked rise and subsequent decline in apartment starts is largely because of the proportion of the total population in the 15 to 24 age cohort. Similarly, the underlying recent strength in single-family starts (relative to total starts) is because of the increasing proportion of persons in the 25 to 34 and 35 to 44 age cohorts. (See Table 4.)

Table 4. Population by Age Group Canada, 1941–86, Percent

Age Group	1941[a]	1956	1966	1976	1986
Under 15	28	33	33	26	21
15–24	19	14	17	19	17
25–34	16	15	12	16	18
35–44	12	13	13	11	14
45–54	10	10	10	11	10
55–64	8	7	7	8	9
65 and over	7	8	8	9	11
Total	100	100	100	100	100

Source: Census of Canada and estimates by Statistics Canada.

[a] No census was conducted in 1946.

The Federal Government Has Been an Important Housing Market Participant

In the mid-1980s, when most new housing is built in response to private-market forces, it is easy to neglect the extremely important part played by the federal government through its housing agency (CMHC) in the development and evolution of the Canadian housing industry.

- The federal government was a major supportive influence in the early postwar years.

The federal government undertook two initiatives in the mid-1940s that directly influenced the single-family homebuilding industry over the next decade: in 1944, the National Housing Act (NHA) was passed; and, in 1945, legislation was passed creating Central Mortgage and Housing Corporation (now called Canada Mortgage and Housing Corporation or CMHC), giving it responsibility for administering the NHA.

Under the NHA, the principle of joint lending already established in the 1930s was continued. Under this lending scheme, approved lenders and CMHC together made loans of up to 80 percent of lending value available for new ownership housing. These loans were shared 75 percent/25 percent by the lenders and CMHC, respectively, with an interest rate subsidy built into CMHC's share.

One section of the NHA contained the Integrated Housing Plan, intended to encourage builders to build speculative homes by reducing their risk. In return for a fixed maximum selling price and preference to returning war veterans, builders were provided with an agreement that CMHC would buy any of their unsold houses at 95 percent of the agreed maximum selling price. Builders were also given priority access to scarce building materials. The combination of buy-back guarantees and price controls appears to have worked; the president of CMHC reported in 1954 that a total of 17,000 homes were built under this plan.[8]

The NHA also contained several provisions for private-sector involvement in rental construction. These provisions were as follows:

- It re-enacted the limited dividend company provisions of the 1938 act. Direct loans of up to 90 percent of lending value were made available for the construction of low rent projects for up to 50 years at an interest rate of three percent.

- It provided for the investment in construction of rental housing by life insurance companies. An annual return of 2.5 percent per annum was guaranteed to life insurance companies that invested in approved projects aimed at households with low and moderate incomes.

- It provided joint loans for rental projects, with a maximum of 80 percent of lending value available under the NHA at a prescribed maximum interest rate. The terms for rental loans were liberalized in 1952. Approximately 19,500 rental units were financed under this plan between 1949 and 1954 (6,621 units in 1949 alone).

- It allowed double depreciation for rental housing projects, a provision intended to stimulate rental construction by offering accelerated depreciation on approved projects. Projects had to be commenced before the end of 1949. Approximately 6,000 units were approved under this scheme.[9]

The act was amended to introduce the Rental Insurance Plan in 1948:

> In 1948 it was found that in the rental field many builders and prospective landlords were hesitant to proceed because they doubted that economic rentals based on higher construction costs would be sustained by long-term effective demand. To meet this condition Parliament passed an amendment to the National Housing Act, 1944, introducing the rental insurance plan.[10]

Under this scheme, CMHC guaranteed sufficient rental income for approved new rental projects to cover mortgage principal and interest, property taxes and operating costs. In turn, the project owners paid a premium for the insurance and agreed to a maximum rent being charged during the first three years of operation (changed to five years in 1951).

The NHA also provided funding for housing research and community planning.

The act was amended in 1947 and again in 1952 to allow CMHC to make direct loans in rural areas and small and medium-sized communities.

CMHC came into existence in 1946 with D.B. Mansur as its first president. According to Humphrey Carver, "It was the task of CMHC, directed by David Mansur, to develop the Canadian housing industry, practically from scratch, to sow the seed and cultivate the crop."[11] Carver asserts this was accomplished by the time Mansur's term of office ended in 1954. "The creation of a mass-production housing industry was, in this period, the remarkable achievement of David Mansur, CMHC and the National Housing Act."[12]

- CMHC was given an expanded mandate in the mid-1950s.

The 1954 NHA was a milestone in several respects. It is best known for introducing the then new NHA-insured loan and allowing chartered banks to enter the NHA lending field. Equally notably, it broadened CMHC's mandate from merely being concerned with the quantity of housing to more qualitative housing and community development matters. This broader mandate was the result of the 1954 NHA provisions that introduced mortgage loan insurance and shifted the responsibility for reviewing loan applications and administration to CMHC (previously, the staff of the respective lender undertook the appraisals, inspections, etc.).

The expanded mandate of CMHC in the 1950s was greatly influenced by the character of CMHC's second president. Whereas David Mansur was concerned with the efficiency of the housing marketplace, Stewart Bates, who was appointed in December 1954, saw "the extraordinary opportunity for CMHC to be an influence upon the evolution of Canadian society through the shaping of the urban environment."[13]

Concern about urban sprawl, quality of housing and of the housing environment and the efficient organization of cities was not new in the mid-1950s. However, under Bates, CMHC adopted an activist stance. Interviews with former CMHC personnel indicate the power of the architects and planners within CMHC grew while that of the engineers declined. Architects and planners were stationed in many of the CMHC branch offices. They not only had input into housing projects brought forth by builders for NHA financing but also in the subdivisions in which NHA- financed housing would be built.

Planning meant not only a better quality of development within subdivisions but also controls on what land could be developed for residential purposes. Sprawl was to be avoided, and growth was to be channelled to specified areas. Hence, the supply of developable residential land in a community was constrained, which had not been the case previously.

As a result of CMHC's entry into such matters as the quality of construction and house and subdivision design, a relationship of mutual respect developed with the homebuilding industry.

Another facet of CMHC's expanded mandate was its program of massive direct loans to builders and owner-applicants. With the prospect of high unemployment in the winter of 1957 and a demand for loans greater than lenders appeared able to meet, CMHC initiated its first large-scale direct lending program. Builders were subject to a quota of 25 loans each, and the homes built could not exceed 1,050 square feet in size. A total of $650 million in direct lending was authorized between September 1957 and April 1958.[14] These direct lending programs designed to stimulate homebuilding, particularly during periods of high unemployment, were an important CMHC activity until 1973.

Beyond the insured loans available under the 1954 NHA, the federal government provided support to rental construction in various other ways.[15] Through the 1954-64 period, low-interest, high-ratio loans were made available to limited dividend corporations (predominantly private developers who would agree to a fixed return on their investments and controlled rents). The most active years for limited dividend loans were 1957–59 when between 4,100 and 6,300 units were approved annually. The program was reactivated in 1968, and a total of 7,400 units were approved in 1969. Rental starts in 1957 and 1958 also received support under the Small Homes Loan Program.

While public housing was being built throughout the 1955–69 period, the level of activity escalated after the 1964 amendments to the NHA permitted CMHC to provide long-term loans to the provinces for public housing. By 1969, annual approvals had reached 15,600 units. CMHC also provided smaller volumes of rental housing loans to non-profit groups and for student housing.

CMHC's activity in the rental market affected the housing industry in two ways: loans to limited dividend companies and loans under the Small Homes Loan Program were provided directly to private-sector rental developers; and for public housing, dominant numerically, and for non-profit and student housing, the industry was involved through a bidding process as general contractors or through the provision of housing on a turnkey basis. Under a turnkey scheme, the builder typically undertakes the entire operation from acquisition of land to completion of the structure, turning over to the sponsor a completed project ready for occupancy.

- The activist role continued during the 1970s.

The federal government continued to be extremely active in the new housing market during the 1970s. Through large-scale funding of public housing projects, between 12,400 and 21,200 social housing units were approved annually between1969 and 1976. Following the passing of the 1974 amendments to the NHA, non-profit and co-operative housing support expanded.

Private entrepreneurs received a large number of loans to limited dividend corporations in the first half of the decade. Subsequently, between 1975 and

1978, more than 122,000 new rental units destined for the private market were provided subsidies by CMHC under its Assisted Rental Program (ARP). ARP's purpose was to bridge the gap between market rents, which were suppressed by rent controls, and the rents required to realize reasonable profits. In addition, private-sector investors received indirect financial assistance under the Multiple Unit Residential Building (MURB) provision of the Income Tax Act.

While the majority of new rental housing units built during the 1970s were apartments, townhouses and some semi-detached units also were built under the various programs. Similarly, under the Assisted Home Ownership Program (AHOP), a significant number of apartment condominiums were constructed, particularly in the Toronto area. Hence, CMHC assisted in constructing both rental and condominium apartments, although in terms of numbers, its assistance in the rental sector was considerably greater.

Through CMHC, the federal government aided the ownership market in two ways. In the early 1970s, the NHA mortgage insurance provisions were liberalized, which meant lower downpayments. Then in the mid-1970s, AHOP was established, financing more than 150,000 new homes (both single-family and apartment condominiums), mostly between 1974 and 1978.[16] The mid-1970s also saw the introduction of the Registered Home Ownership Savings Plan (RHOSP), a tax savings vehicle intended to help young people to accumulate the downpayment for a home.

- Governments step in during the early 1980s.

The economy of the early 1980s had devastating repercussions on the housing industry. To cushion the adverse impacts and to stimulate employment, the federal government, along with several of the provinces, introduced programs to stimulate new single-family homebuilding. In mid-1982, the federal government introduced the Canadian Home Ownership Stimulation Plan, which gave $3,000 grants to new homebuyers. These grants continued until May 1983. A total of 176,143 applications by purchasers of new homes were approved under this scheme. The Ontario government introduced a program of interest-free loans in mid-1982, and several other provinces (Manitoba, Saskatchewan and Quebec among them) followed suit.

CONCLUSIONS

The housing industry has experienced dramatic shifts in output in both its aggregate level and its composition over the past 40 years. These shifts include a sustained upward trend in total new housing construction over the first 30 years of the postwar period followed by a decline over the next decade, a rise and decline in apartment construction and a more "roller coaster" pattern of single-family construction compared to the sustained strong upward trend in residential renovation output, particularly since the early 1970s. New housing construction showed renewed vitality in the mid-1980s.

These past trends in housing industry output are the product of the economic, demographic and government housing policy environment, both nationally and regionally, in which the housing industry has operated over the postwar years. Major features of this overall environment include the rise and aging of the baby boom generation followed by the baby bust generation, the sustained income growth characterizing the 1960s and 1970s, the huge demand backlog created by the Great Depression and the Second World War, the active role played by CMHC (the federal government's housing agency was created the beginning of 1946 by legislation passed in 1945), volatile interest rates in the early 1980s and the 1981–1982 recession and subsequent recovery.

CHAPTER TWO
THE SINGLE-FAMILY HOMEBUILDING INDUSTRY

The single-family homebuilding industry is an anomaly to many observers, having remained an industry seemingly dominated by smaller firms despite the tremendous surge in production that has occurred during the postwar period.

Two questions come to mind: why has no large firm that could dominate the single-family homebuilding industry emerged; and how did an industry composed mainly of smaller firms respond to the severe demand pressures placed on it by the marketplace during the postwar period?

Single-family homebuilders for the most part build single-detached houses. Although semi-detached and townhouse units are products of these builders as well, they typically have represented only a small portion of the industry's output.[1]

This chapter discusses three main topics, beginning with a description of the single-family homebuilding industry as it exists in the mid-1980s and comparing it with the structure of the industry 40 years earlier. The evolution of the industry in the intervening years is then traced relating, where possible, its size and structure to the overall environment in which the industry operated. To the extent permitted by available information, various aspects of the single-family homebuilding industry's structure, including the number and size of firms, the extent of integration and turnover of firms, are examined. The degree of competition in the industry also is studied.

The second topic concerns the *modus operandi* of the single-family homebuilding industry and its relationship to other housing market participants. Subject to the availability of sufficent information, items considered include land acquisition procedures, the use of special trade contractors, characteristics and qualifications of in-house staff, pricing practices, investment behaviour, nature of planning horizons and the decision-making process concerning where to buy land, product type and speculative versus pre-sale modes of operation.

The final topic consists of a review of the financial aspects of the industry, including indicators of financial performance and equity and working capital requirements and sources.

The information used to examine the structure of the single-family homebuilding industry comes from several sources. More often than not, the coverage and definitions vary. The reader is urged to consult the footnotes for a more technical description of the information sources than is contained in the text.

STRUCTURE OF THE INDUSTRY IN THE MID-1980s

Special tabulations from Statistics Canada's census of residential general contracting firms and establishments (the single-family homebuilding operations of multi-product firms) are used to provide an overview and a regional context of the single-family homebuilding industry in 1984.[2]

Small Builders Dominate the Industry Numerically but not in Total Revenues

Ninety-six percent of the 8,994 single-family builders surveyed by Statistics Canada were small builders with revenues less than $2 million in 1984 ($2 million in revenues translates into an output of 25 homes at $80,000 per home). In fact, two-thirds of these small builders had revenues less than $250,000. A total of 293 firms (three percent of the total) had revenues between $2 million and $10 million (equivalent to an output of 25 to 125 homes at $80,000 per house). Only 48 firms (fewer than one percent of the total) had revenues $10 million or more). (See Table 5.)

In terms of the total value of their output, the two-thirds of very small builders are not overly significant—accounting for just 12 percent of total revenues. In contrast, the largest 48 firms accounted for approximately one-quarter of industry revenues, as did the 293 medium-sized firms (with revenues between $2 million and $10 million). Thus, four percent of the single-family building firms accounted for 51 percent of all revenues of these firms.

Table 5. Homebuilding Firms Specializing in Single-Family Construction by Size of Firm, by Total Revenues and by Region Canada, 1984

Region	Less Than $250,000	$250,000– $1.9 Million	$2 Million– $9.9 Million	$10 Million and over	Total
	Percent of Firms				
Atlantic	59	39	-------- 2 --------		100
Quebec	41	50	8	1	100
Ontario	75	21	3	1	100
Manitoba	73	21	-------- 6 --------		100
Saskatchewan	66	30	-------- 4 --------		100
Alberta	63	32	4	1	100
British Columbia	74	25	1	0	100
Canada	68	28	3	1	100
	Percent of Total Revenues				
Atlantic	16	69	------- 15 --------		100
Quebec	6	50	35	9	100
Ontario	10	26	18	46	100
Manitoba	13	22	------- 65 --------		100
Saskatchewan	12	33	------- 55 --------		100
Alberta	10	34	29	27	100
British Columbia	26	57	17	0	100
Canada	12	37	24	27	100

Source: Clayton Research Associates based on special tabulations from Statistics Canada's annual census of residential general contractors.

Note: Data for firms specializing in single-detached construction are used as an approximation for single-family builders.

Largest Builders Concentrated in Ontario

The structure of the single-family homebuilding industry varies widely by region. In 1984, large builders (those with revenues $10 million or more) were most prevalent in Ontario. In fact, this province accounted for three-quarters of all large builders across the country. But even here, large builders accounted for less than one-half of industry revenues. Small builders (those with revenues less than $2 million) were most prevalent in the Atlantic provinces and British Columbia, accounting for 85 percent and 83 percent of industry revenues, respectively. In Quebec as well, more than 50 percent of industry revenues were produced by small builders.

Statistics Canada provides a second source of data on the structure of the single-family homebuilding industry through a tabulation of building permits issued in the name of builders in census metropolitan areas.[3] The 1984 data from this source confirm the findings of the census of residential general contractors, namely:

- Most builders are very small, with the average builder constructing fewer than 10 houses (81 percent of the building firms built fewer than 10 houses in 1984);

- A small number of large firms (48 firms) account for a sizable proportion of new house construction (24 percent in 1984); and

- Considerable variation exists in the structure of the single-family homebuilding industry among market areas.

Other conclusions from this latter data source include the following:

- No direct relationship exists between market size and structure of the single-family homebuilding industry.

Table 6 ranks census metropolitan areas according to the number of houses built by single-family homebuilders in 1984. While a comparison of this ranking with the average number of houses built per builder shows a rough correspondence between market size and average builder size, numerous exceptions are prevalent, including:

- The average builder size is considerably smaller than the market size ranking would indicate in Vancouver and Montreal, in particular, as well as in Halifax, Calgary, Edmonton and Victoria; and
- In contrast, the average builder size is larger than expected in Oshawa.

As illustrated in Table 6, factors other than market size influence the structure of the single-family homebuilding industry in metropolitan markets.[4]

- The single-family homebuilding industry is competitive, even in markets with a relatively greater number of large builders.

A high degree of production concentration among few firms in an industry is not desirable since an opportunity is provided for collusive pricing practices that could adversely affect consumers through higher prices and lower output. However, for firms

Table 6. Number of Homes Built by Single-Family Homebuilders by Size Census Metropolitan Areas, 1984

Census Metropolitan Area	Total Number of Homes Built by Single-family Builders	Average Number of Homes Built per Builder	Large Builders as Percentage of Total Builders[a]	Percentage of Homes Built by Large Builders	Average Number of Homes Built per Large Builder
Toronto	12,257	21.5	4	40	202
Montreal	7,391	9.9	1	11	157
Ottawa	2,923	22.5	6	64	233
Vancouver	2,598	3.0	0	0	0
Winnipeg	2,380	12.3	3	52	248
Calgary	1,483	6.5	0	0	0
Edmonton	1,395	6.6	0	0	0
Hamilton	1,329	9.2	n.a.	n.a.	n.a.
Quebec City	1,295	7.1	n.a.	n.a.	n.a.
Kitchener	1,070	6.9	0	0	0
Oshawa	850	19.3	n.a.	n.a.	n.a.
London	713	8.6	0	0	0
Saskatoon	615	6.6	n.a.	n.a.	n.a.
Regina	549	7.1	n.a.	n.a.	n.a.
Halifax	544	3.4	0	0	0
Hull	430	8.1	0	0	0
St. Catharines–Niagara	411	6.4	0	0	0
Victoria	406	2.2	0	0	0
Trois Rivières	248	5.4	0	0	0
St. John's	194	3.1	0	0	0
Chicoutimi–Jonquière	165	4.7	0	0	0
Saint John	161	5.2	0	0	0
Windsor	147	2.8	0	0	0
Sudbury	83	3.5	0	0	0
Thunder Bay	52	2.1	0	0	0
Total All CMAs	39,686	8.9	1	24	198

Source: Statistics Canada, Construction Statistics Bulletin.

Note: Data for single-detached homebuilders are used as an approximation for single-family builders.
[a] Large builders are those building 100 or more single-detached homes.
n.a. indicates a small number of large builders whose data are suppressed for confidentiality reasons.

to exercise this collusive power, certain prerequisites, such as a well-defined market with no close substitutes, have to exist. For new single-family housing, the existing stock of ownership housing and rental housing are substitutes for new housing. As well, there would have to be concentrated ownership in particular markets for large builders to have collusive powers.

Concentration in the single-family homebuilding industry is most pronounced in three metropolitan areas—Ottawa, Winnipeg and Toronto. In Ottawa in 1984, eight large builders accounted for nearly two-thirds of the single-family houses built by housing firms; in Winnipeg, five large firms produced 52 percent of the houses; and in Toronto, 24 large firms built one-quarter of the houses. As noted by J.R. Markusen and D.T. Scheffman, none of these concentration ratios are considered high enough to permit a few large firms to control output and hence prices in the new single-family house market: "Holdings of less than 70 percent by the top four has typically not generated accusations of market power on the basis of concentration alone."[5]

THE SINGLE-FAMILY HOMEBUILDING INDUSTRY AT THE END OF THE SECOND WORLD WAR

The single-family homebuilding industry at the end of the Second World War can be characterized as an industry in its infancy.[6]

An Industry Dominated by Small Firms

While no comprehensive statistics are available on the firms producing new single-family housing in the period before and during the war years, available fragmentary information clearly shows that most housing was constructed by very small firms.

In a 1943 article in *Canadian Business*, Leonard Knott observed that the homebuilding industry was controlled by "perhaps 20,000 or 30,000 little contractors—little men who like to work for themselves, who like building and who have sufficient capital or can borrow it to build maybe one or two houses or an apartment house without going broke."[7] According to Knott, some large-scale privately owned builders, such as Foundation Company of Canada and Carter Halls Aldinger, were operating, "but all the homes big contractors build in a normal year would not total 10 percent of the homes built in Canada."

In his 1948 book, *Houses for Canadians*, Humphrey Carver reinforces Knott's perception of an industry dominated by small builders:

> House-building has not attracted large-scale construction firms, and the field has been left almost entirely to the small home-builder.[8]

Unfortunately, neither of these sources offers any definition of the size of operation to which they are referring when they talk about small or large builders.

The Depression and the War Left a Legacy of Unmet Demand

The production of new housing in Canada had been constrained by the depression of the 1930s, especially in the early years of that decade, and by the need to divert the country's economic and labour resources to the war effort in the early 1940s. In the five years before the war, housing completions averaged 41,400 units per year. The comparable number during the 1940–1944 period was 42,800 units.[9]

A report released in March 1944 by the Housing and Community Planning Subcommittee of the Advisory Committee on Reconstruction (commonly known as the Curtis Report) quantified the housing needs of the postwar period.[10] Housing needs were defined broadly to incorporate new dwellings required to replace substandard dwellings and reduce overcrowding, to counter the deficit of units that had accumulated during the war and to accommodate the needs generated by postwar population growth. A target of 700,000 units, for an average of 70,000 units per year, over the first postwar decade was recommended. In fact, 782,000 new housing units were built during this decade.

Large-scale Building and Prefabrication Were Deemed Necessary to Meet Postwar Housing Requirements

Considerable concern was expressed at the time about the housing industry's capability to meet the challenge of the postwar period, which was seen as the reduction of construction costs:

> Getting houses built which will actually rent at $12 a month or lower is a challenge to postwar programs to which several cost reduction devices must be directed. Even housebuilding for ownership will not be taken up by large sections of the population unless construction expenses are much lower than they have been in the past.[11]

According to the Curtis Report, "It is commonly accepted that there will be a wide market for privately financed housing in the post-war period if costs are reduced."[12] However, it also stated that "the efficiency of the housebuilding industry is in question."[13]

The concerns over the efficiency of the homebuilding industry were stated succinctly by the then federal Deputy Minister of Finance, W.C. Clark (housing at that time was a responsibility of the Department of Finance). Clark examined the underlying causes of the high cost of housing (he considered the cost of construction, the cost of land, the cost of financing, public attitudes and public regulations) and was most critical of high construction costs resulting from an outdated industry:

> Perhaps the most important, certainly the most obvious, of these causes is the high cost of construction which reflects an industry relatively little unchanged in form of organization and in technical processes from that which catered to our forefathers prior to the Industrial Revolution. During a period when machine production, standardization and technological advance have been revolutionizing every other important manufacturing process, the building of houses has remained a localized, handicraft process.[14]

Clark decried the fact that the homebuilding industry had not attained the technological maturity of other branches of the construction industry that planned and built modern skyscrapers and erected bridges. He expressed frustration that the large construction firms, on the frontier of modern technology, had not turned their attention to the building of housing.

> They have overlooked the possibilities inherent in applying organizing and promotive ability, large-scale methods, adequate financial resources and modern science to the task of providing decent and economical shelter for families in the lower- and middle-income groups.[15]
>
> Surely this constitutes a powerful and immediate challenge to the construction industry. It is a challenge to make the housebuilding business as efficient as that rugged young interloper, the automobile industry, which is taking an ever-increasing share of the consumer's dollar for a social purpose much less important than is housing.[16]

However, not everyone supported the proposition that large-scale housing producers were more efficient than small builders. As noted by Carver, organized homebuilders contended:

> It is a matter of general belief that the small-scale speculative builder, capable of producing from five to a dozen houses a year, can work more economically than a large organization which must support some high-salaried executives and maintain a downtown office with a staff of draftsmen and stenographers.[17]

Nor was the vision of prefabrication entirely supported:

> Though prefabrication still gleams like a bright star on the horizon, it is only realistic to confess that it is still very far away.[18]

However, in key federal government circles, opinion clearly supported prefabrication as the way of the future. As Carver was to state many years later:

> When the emergency phase was over, the focus of attention shifted to the central postwar aim: to create a mass-production housing industry out of the comparatively few hammer-and-nails housebuilding firms that had survived the war.[19]

A common theme at the time was a more efficient housing industry would lower overall housing costs, thus assisting in satisfying the existing housing needs of lower-income Canadians, as well as meeting the challenge of satisfying general postwar housing requirements and overcoming the problem of underproduction, which was a legacy of the war years.

Wartime Housing Limited—Canada's First and Only Super Residential Builder/Developer

At the same time the private homebuilding industry was being castigated for its dominance by small firms and inefficient production methods, Wartime Housing Limited (WHL), a super builder/developer created by the federal government in 1941, was busy implementing many of the changes related to bigness of operation, which were being advocated for the private homebuilding industry.[20] WHL was truly a large-scale national homebuilding entity with responsibility to secure land, build and manage housing.[21]

A federal Crown corporation established in February 1941, WHL's mandate was to supply rental housing for war workers (who produced munitions, ships and other defence items) where a shortage of housing was apparent. Between 1941 and 1945, WHL completed 16,849 rental units (these were virtually all single-detached homes). The big production years were 1942 and 1943 when 7,635 and 6,326 homes, respectively, were completed. An additional 8,902 houses were built in the 1944–46 period to provide permanent housing for families of returning servicemen.

Joseph M. Pigott, a successful Hamilton contractor, was appointed President of Wartime Housing Limited. The Board of Directors included representatives of the housing industry, business and labour. Although the head office was located in Toronto, operations were decentralized—eventually there were 51 branch offices supervising work in 73 municipalities.

Several major decisions were made in the corporation's early days, including the type of housing to build, construction methods and operating procedures. Following a review by key architectural and engineering groups, two basic home designs were adopted: a bungalow with two bedrooms and a two-storey house with four bedrooms. Designed to be temporary in nature (to keep costs low) the houses did not have basements or furnaces; intentions were that they be dismantled after the war (which they were not).

Using these standard designs, it was possible to standardize the details of construction, thereby realizing economies. WHL bought large volumes of materials at favourable prices, for the most part negotiated by the Department of Munitions and Supply. The availability of these materials and their prices were then made known to contractors tendering on the projects. WHL employed an inventive semi-fabricated technique, whereby its contractors "made standardized plywood floor, wall, roof, partition and ceiling panels in a shop at the project location and erected and finished the house on site with remarkable rapidity."[22]

WHL's procedures consisted first of surveying areas with war industries to ascertain their housing situation and then undertaking projects in municipalities experiencing housing shortages. It assembled land, through agreements with municipalities, by expropriating from private owners or using surplus federal lands. WHL serviced the land when necessary.

The contracts tendered by WHL were sizable. For example, contracts for 302 houses and 450 houses, respectively, were authorized in 1941 and 1942 in North Vancouver. Three hundred houses were authorized in Richmond, B.C., in 1942 for the workers of Boeing Aircraft.

Several local contracting firms were awarded the contracts by WHL. For all intents and purposes, they were general contractors. The then "well-known" local contracting company of Smith Brothers and Wilson built the housing in the three projects referred to above; Bird Construction, a Winnipeg-based contractor, built a substantial number of houses in the Prairies; and Eastern Woodworkers Limited, a millworking firm in New Glasgow, Nova Scotia, obtained its first contract from WHL to build 250 homes in the New Glasgow area.

WHL had a number of inherent advantages not available to private-sector single-family builders in the postwar period, including: a large guaranteed market for a standardized product; ready access to land (using expropriation if necessary), materials in short supply at a relatively low cost and capital; and little need to pay attention to the financial statement's bottom line.

THE SINGLE-FAMILY BUILDING INDUSTRY EXPANDED QUICKLY AFTER THE WAR

Postwar concern was considerable over the industry's capability to produce the required number of affordable single-family houses to meet not only the backlog created by the depression and then the war but also the requirements of postwar growth. However, the industry did produce the required housing.

The Move to Large-scale Operations

The 1945–54 period saw not only a rapid rise in the number of homebuilding firms but also an expansion in the size of some existing firms and the entry of a few new firms that attempted to operate on a large-scale basis. However, the industry's production was still dominated by countless small firms.

O.J. Firestone, former Economic Advisor to CMHC, observed in his 1951 book, *Residential Real Estate in Canada*, that many of the houses built in Canada were still constructed by small contractors and tradesmen acting as contractors. However, he noted that larger contracting firms had started to enter the industry: "There has been a change in the pattern in the last few years, with some of the bigger contracting firms undertaking a number of large housing developments."[23]

An invaluable study completed by CMHC in 1951, *Postwar Housebuilding in Canada: Cost and Supply Problems* provides additional insight into the nature of the growth of the homebuilding industry in the early postwar years.

According to this study, the 1945–50 period saw an expansion in the number of firms in the homebuilding industry. In contrast to the more experienced and conscientious contractors who had been in business in the interwar years, a large proportion were speculative builders. Moreover, "the supply of skilled entrepreneurs was diluted by the entry into the field of tradesmen with limited managerial experience."[24] According to this study, these years saw not only the entry of inexperienced entrepreneurs/managers into the housing industry but also an expansion in the scale of operations of existing firms. Some isolated attempts at large-scale operations, including the introduction of some assembly line techniques, were noted, but these were infrequent.

According to another CMHC document, some large general contractors in the housebuilding industry operated in the mid-1950s, in addition to merchant and custom builders, as well as a potpourri of other firms.

> [The homebuilding industry] ... comprises some large general contractors neither continuously nor wholly engaged in residential construction; a much larger group of merchant builders operating chiefly, but not wholly, on a speculative basis; a group of builders who limit their operations to work on a contract basis; and a very large number of others who fall into none of even these ill-defined categories. Among these are owner-builders and large numbers of others whose participation in the industry as entrepreneurs is either of a temporary, intermittent or part-time nature.[25]

Data tabulated by CMHC on builders engaged mainly in speculative building under the NHA indicate that large builders had become an important part of the housebuilding industry by the mid-1950s.[26] The 85 firms that built 100 or more NHA-financed homes in 1955 accounted for 39 percent of the total production of the 1,699 builders tabulated (a large builder being defined as one building 100 or more houses per year). The average large builder built 171 houses in 1955.

Interestingly, more large builders existed in the mid-1950s than 30 years later (based on building permit data, Statistics Canada estimates 70 large single-family building firms operated in 1985 in the census metropolitan areas, where virtually all larger builders would be active). (See Table 7.)

There were also a sizable number of medium-sized building firms. Of the 1,699 builders tabulated by CMHC, 283 (17 percent) built between 25 and 99 houses under the NHA in 1955.

However, most builders were small, building fewer than 25 houses. While slightly more than three-quarters of all builders were small, they built less than 30 percent of the NHA homes.

Table 7. Single-Family Homebuilders by Size of NHA Operations Canada, 1955		
Number of Units Completed Under the NHA in 1955	Number of Builders	Number of Units Completed
	Percent	
1–6 units	42	6
7–24 units	36	22
25–99 units	17	33
100 or more units	5	39
Total	100	100

Source: CMHC, Housing and Urban Growth in Canada, *1956, p. 16.*

Note: Data for all homebuilders are used as an approximation for single-family builders.

Profiles of Four Large Builders

The single-family homebuilding industry met the challenge of the immediate postwar period as large numbers of new houses were produced that were affordable to a large segment of the Canadian population. Builders benefited significantly from the advent of NHA insurance with its low downpayments, the entry (for a time) of the chartered banks into NHA lending and CMHC's direct lending programs, which were initiated in 1957.

What were the characteristics of the builders who became large? Did they share common traits? Were they able to sustain themselves over a long period? Why did no super builder firm emerge? To provide some insight into these questions, the profiles of four large builders are presented briefly. These firms were chosen to reflect geographic diversity and differences in their long-term attachment to the homebuilding industry.

Rex Heslop Homes Ltd.: Rex Heslop was the product of a housebuilding family.[27] Both his grandfather and father had been merchant builders (his father went bankrupt in the 1930s). Heslop worked in construction in the early 1920s but subsequently held a number of jobs. He returned to Toronto in 1943 where he decided to get into homebuilding.

He built his first four houses in 1944—one for his family—on tax sale lots bought cheaply from the municipality of Long Branch. In 1947, he made his first big move. With a $2,000 line of credit from his bank, Heslop bought lots and started building six $7,000 houses under the NHA. His operations expanded: He purchased another six lots, then 12 more. Heslop then bought land, which he developed. Soon 100 houses were under construction. The key to success was volume and quick sales, so he built low-cost houses. This development was completed in 1951, by which time Heslop was a millionaire.

Heslop was ready to make another big move, but he was not driven by the desire for money. His motivation apparently was the personal satisfaction of creating a completely integrated town—his first project had been a residential development. In locations close to Toronto, land prices were rising and municipal red tape was becoming a problem. Heslop settled on 100 acres of land in north Etobicoke (within a few years he expanded his holdings to more than 1,000 acres). He shrewdly chose his land: The aircraft manufacturing plants at nearby Malton airport provided an almost captive market for new NHA housing for defence workers. Also, Highway 401, which was being built, would link the site to the rest of the Toronto area. Rexdale was founded. Heslop found the municipality of Etobicoke to be a solid supporter of his plans to create an integrated development, including numerous industries.

By 1955, Heslop had moved from residential builder to land developer to industrial/commercial land developer. *National Builder* reports that by this time, Heslop was responsible for constructing more than 2,000 homes in a period of less than a decade.[28]

Heslop left Rexdale in the mid-1950s and bought 1,750 acres in Georgetown to create a city of 20,000 people. A total of 3,600 homes, 500 acres of industrial land and a large shopping centre were all part of the new area called Delrex. The Delrex development still comprises a large portion of present-day Georgetown. Heslop's company has since ceased operation, and Heslop is believed to be in semi-retirement.

Campeau Corporation: Robert (Bob) Campeau started building in Ottawa in 1949 on a very small scale.[29] He saw the market opportunity for single-detached houses, and his goal was to build quality houses at the lowest possible price. But Campeau realized he needed cash if he was going to construct a sizable number of houses. Thus, he generated cash from a contract to build 134 houses at Uplands for the Department of National

Defence. He also built sixplex rental projects under the CMHC's Rental Guarantee Program, selling them to investors and again generating cash. Because of the shortage of building lots in the Ottawa area, he began at an early stage to buy and develop residential land.

Whenever Campeau saw an opportunity for profit in the building business, he moved. He established a building supply firm in the mid-1950s, hired a staff architect and set up his own sales staff whenever he sensed it would be profitable.

He also introduced mass-building techniques early on and was extremely cost conscious. Many of his ideas came from the United States. For example, he started manufacturing and installing roof trusses when he saw them being used in Florida. He was also the first North American builder to use a tower crane to construct high-rise apartments. In addition, Campeau saw the merits of standardization. With only four or five basic house models, he was able to order materials in volume and gain efficiencies from labour. He began to manufacture wall panels in winter in anticipation of the spring building season; consequently, he had his houses on the market before his competition. In some years, his production of new housing reached as high as 1,000 units. In total, he added some 16,000 units to the Ottawa housing stock. Virtually all his building in the 1950s was done with NHA-insured financing. Campeau was very much a hands-on entrepreneur, but he also was able to attract competent senior management.

Over the years, Campeau Corporation grew into a large diversified real estate company with operations in both Canada and the United States. The company withdrew from housebuilding activities in the early 1980s and now focuses primarily on commercial real estate.

Qualico Developments: David Friesen was a young Winnipeg lawyer who found it difficult to establish a law practice after the war. Sensing an opportunity in homebuilding,[30] he bought a lot and had a carpenter build his first home. After a short-lived partnership with a contractor (Friesen was the accountant and general manager), he established Quality Construction (the predecessor to Qualico Developments) in 1951. The firm built two houses in its first year but expanded rapidly and by the mid-1960s was building about 300 houses a year.

Friesen was not a construction professional; therefore, he had to hire those talents for his firm. Although he appears to have shared a number of traits with Bob Campeau in the early days, the careers of these two men evolved independent of each other. Friesen saw the advantages of producing a standard product. He was also looking at new production techniques and adopting those ideas that made sense. He learned a lot about mass producing homes from Muttart and Keith, two large-scale building firms that had emerged in Calgary. He established a factory for manufacturing panels and components, which were then brought to the site.

Land availability was not a problem for Friesen since municipalities in the Winnipeg area had acquired a great deal of land before the war through tax arrears and were also the land developers. Friesen was extremely cost conscious as he had little money at the beginning. So he arranged payments with the sub-trades so the first mortgage draw would cover their costs. Similar to Campeau, he built mainly with NHA financing. In the early years, Freisen expanded into Calgary, Edmonton, Regina and Vancouver.

The company diversified in the 1970s and is now a large western-based real estate firm. Unlike Campeau, Qualico has remained active in single-family homebuilding.

Luigi Barone General Contracting: Luigi Barone is a unique individual who was responsible for building more than 5,000 homes in Montreal, a market that has few large builders today.[31] He was regarded as unorthodox, a maverick outside the mainstream of the Montreal housing industry. Contrary to most large builders in the 1950s, Barone never used NHA insurance.

Barone came to Montreal from Italy after the war and started as an apprentice plasterer. After six months, he felt he had learned enough about the trade, and the time had arrived for his dream—to work finally for himself. (He was more an entrepreneur than a tradesman.)

Barone started by building triplexes, when single-detached houses were the fashion, on land he acquired from the City of Montreal in the city's east end. He managed everything himself—in 1956, when he was building 40 to 70 triplexes, small stores and bank premises, he supervised the building and did all the administration and accounting. Only in 1958 did he hire his first office staff. Barone appealed to a thrifty ethnic population as buyers of his properties could count on rental revenue to meet their expenses.

While recuperating from excessive fatigue in 1954, he conceived and subsequently followed through on the idea of building an entire city in St. Leonard.

In the early 1970s, his operations became overstretched with unsold houses and surplus land. However, he was able to draw on financial help from Italy. Barone is still the nominal head of the firm, though he spends much of his time travelling and one of his sons virtually operates the firm.

Barone built to a high quality of construction and finishing and also tried to satisfy complaints from purchasers. He was one of the first builders to use electric heat.

Summary: Recognition of market opportunities, a willingness to act, a willingness to consider and adopt new ideas and cut the losses on bad decisions, as well as a willingness to assemble good management talent and to be prepared to control costs all appear to be hallmarks of the builders that grew rapidly in the 1950s and maintained their size into the 1960s.

The Aborted Rise of Super Builders

A number of large single-family homebuilders emerged in the 1950s. Some, such as Campeau, became very large and accounted for a predominant share of the output in their local market. They could not get any larger without moving outside their own market area. As well, the geographically fragmented housing market in Canada meant an expansion to other market areas. The super builder of the homebuilding industry could only emerge if a company would become involved in several markets across the country.

The late 1950s and early 1960s were times of expansion for many homebuilding firms. Not only did they diversify into land and apartment development and strive for an increased market share in their local market, but a number of firms entered other market areas, often long distances from their home base of operation.

The expansion into other markets appeared to merit serious consideration for several reasons. Most notably, existing medium-sized and large firms had built up an expertise that could ease their entry into other areas, especially compared to new firms contemplating the homebuilding business. However, a number of potential obstacles existed, including a lack of familiarity with the local market (ranging from building codes to sub-trades to the peculiarities of local demand).

A significant number of firms broadened their market base during the 1950s and 1960s. Campeau moved into the Montreal market; Quality Construction moved into Calgary in 1953 and Edmonton in 1954 and then Regina and Vancouver; Home Development of Winnipeg expanded to Regina, Saskatoon, Moose Jaw and the Lakehead in the 1950s and in 1959 to Thompson, Manitoba; Engineered Homes of Calgary started to build in all five major Prairie centres, as well as Red Deer, Medicine Hat and Lethbridge; and Shipp Corporation of Toronto built in Sault Ste. Marie. Among the most impressive expansions was by Consolidated Building Corporation (CBC), a firm established in the mid-1950s. From a strong Toronto base, where it was building large quantities of low-cost houses, CBC expanded to several other areas, including Montreal and Vancouver with the intention of becoming a nation-wide builder.

Successful expansion to other urban markets was not as easy as it appeared. Campeau's houses in Montreal, based on successful products in Ottawa, did not appeal to the Montreal buyer, and his prices were also higher than those offered by local Montreal builders. Quality Construction retreated from Regina because the market could not meet the volumes that Quality wanted to obtain. CBC ultimately retreated to its Toronto base.

The CBC story illustrates the pitfalls of a successful large-scale builder trying to recreate earlier successes in other major market areas. The company expanded rapidly in Toronto in the six years after it was formed in the mid-1950s. According to *Canadian Builder*, the company sold 4,600 houses in its first six years of operation.[32] In 1960–61, the company sold 691 houses alone in its Bay Ridges development in Pickering, Ontario.

The key to its expansion in the Toronto market was the targeting of its product at the low end of the market, building on several sites at once and undertaking large-scale advertising and promotion. However, the company had an elaborate corporate organization chart and did not build all the houses itself. In Bay Ridges, it franchised about eight builders to build homes under the CBC name. The company apparently was very innovative in securing business: When the supply of NHA money from approved lenders ended in 1956, CBC relied on selling its products to owner-applicants who had secured their own NHA funds.

CBC's entry into the Vancouver market in 1964 provides an insight into its operational style. *Canadian Builder* was full of praise for CBC's successful entry into Vancouver:

> The phenomenal sales success of Consolidated Building Corporation in its new housing development at Richmond Gardens near Vancouver is an object lesson on the market opportunities available in Canada today to any large-volume homebuilder who is sufficiently well-organized and thinks big enough to contemplate multi-city operations.[33]

Several reasons were behind this success, according to *Canadian Builder*, including the advantage of being the biggest volume homebuilder in the country "with an efficient, stream-lined organization with substantial funding."[34] However, the key factor, according to the magazine, was CBC's market research, which discovered that local Vancouver builders were not producing for the low end of the market. Bulk buying of materials also helped to keep costs down.

CBC bought 150 acres of land from the Municipality of Richmond for 900 houses and planned to make a real community. Two full-page advertisements were placed in the two daily newspapers the day before the opening of eight model homes. On opening day, 13,000 people visited the site followed by another 15,000 on the second day. A total of 160 houses were sold in the first 20 days. According to *Canadian Builder*, CBC planned to complete the project in three years and was negotiating for more lots in the Vancouver area.

However, three years later, the company, with substantial red ink and a new president, Lawrence Shankman, announced a retrenchment of its single-family homebuilding operations to one active subdivision each in Toronto and Ottawa.[35] Homebuilding activities were ceased in Montreal, Vancouver, Calgary, Hamilton and London.

The company discovered in 1966 that bigness does not necessarily mean success. The greatest problem appeared to be "a matter that the company expanded too greatly and too quickly to cope adequately with the attendant administrative and supervisory problems."[36] Symptoms of the problems outlined by the new president were an inadequate accounting system, problems of decentralized management, labour supply problems in out-of-town locations and the inability of construction to keep up with sales. Consolidated Building decided to reduce its building program to between 300 and 600 houses a year and to place a greater emphasis on land development and investment construction.

An MBA thesis completed by Edmund Price in 1970 at the University of British Columbia provides another perspective on the problems of CBC in Vancouver.[37] According to Price, CBC "built a number of houses in 1964 and finally left with its project half completed amid a large amount of adverse publicity" and "the development was attacked by the public and the media alike for shabby quality and monotonous styling."[38] Price states that the "bad publicity was partly a result of misjudging the general public's acceptance of housing tracts" and "another possible factor was a lack of market research into the tastes and preferences of the area."[39] Another problem was a shortage of labour.

Clearly, expansion to unfamiliar market areas can be risky. In a retrospective look at the housing industry, Clifford Fowke summed it up as follows:

> Some firms tried running simultaneous operations in various city areas across Canada, and were known as multi-city builders. Almost every one of them failed because of lack of "on-the-spot" knowledge and tastes, things which companies now take in their stride.[40]

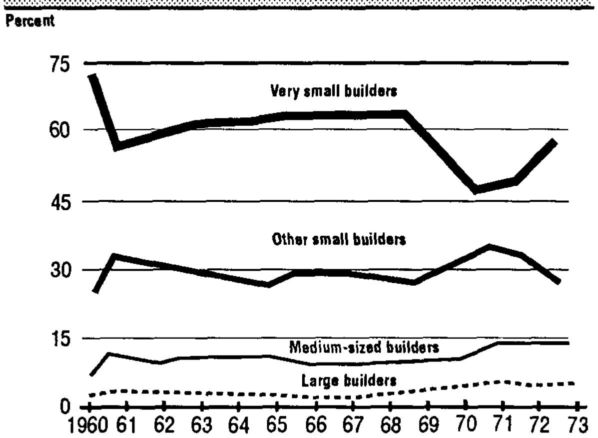
THE INFLUENCE OF LARGE BUILDERS DECLINED IN THE 1960s

The drop in the volume of new single-family construction in the early 1960s and the several years of stable output that followed had repercussions on the structure of the single-family homebuilding industry.

Role of Large Builders Less Significant in the 1960s

A comparison of 1955 CMHC data on the structure of NHA homebuilders with the annual data that became available beginning in 1960 suggests large builders bore much of the brunt of the less favourable market conditions.[41] (See Figure 6.)

FIGURE 6. PROPORTION OF SINGLE-FAMILY BUILDERS BY SIZE OF NHA OPERATIONS, CANADA, 1960–73



Source: CMHC, Canadian Housing Statistics.

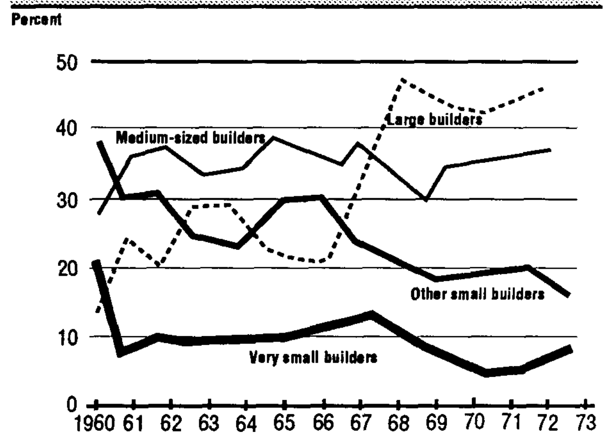
Note: Data for single-detached housebuilders are used as an approximation for single-family builders.

The share of NHA new single-family houses built by large builders (those producing 100 or more houses per year) never exceeded 30 percent during most of the 1960s. This compares with a 39 percent market share in the 1955 statistics.

The market share of medium-sized builders (those building between 25 and 99 houses per year) remained stable through the 1960s at approximately 35 percent of the total NHA houses built—about the same as the proportion in 1955.

The lower market share for large builders in the 1960s compared to the mid-1950s was mirrored by an increased share accounted for by small builders (those constructing fewer than 25 houses per year), as shown in Figure 7.

FIGURE 7. PROPORTION OF NHA HOUSES BUILT BY SIZE OF SINGLE-FAMILY BUILDER, CANADA, 1960–73



Source: CMHC, Canadian Housing Statistics.

Note: Data for single-detached housebuilders are used as an approximation for single-family builders.

Despite the reduced role of the large builder, the average production of large builders did not decline in the 1960s from the mid-1950s. The average large NHA builder built between 170 and 225 homes a year during the decade of the 1960s—the average in 1955 was 171 homes.

Large Builders Centred in Ontario, Manitoba and Alberta in Early 1960s

The structure of the single-family homebuilding industry differs widely by province today and earlier in the postwar period. (See Table 8.)

Some of the major differences in the early 1960s are highlighted here. The data refer to the entire 1960–64 period to eliminate distortions that may appear in a single year's figures. The data refer only to NHA loans to builders.

The homebuilding industry in Newfoundland in the first half of the 1960s was dominated by small builders. The province had only one medium-sized builder active in one year and no large builders.

Nova Scotia also had a predominance of small builders. However, medium-sized builders accounted for over one-quarter of the total houses constructed. (There were no large builders at the time.)

Small builders were the single most important group in New Brunswick, followed by medium-sized builders. As with the previous two Atlantic provinces, no large builders operated in this province in the early 1960s.

Medium-sized builders and small builders were about equal in importance in Quebec in the early 1960s. Quebec also had a small number of large NHA builders—though their average production was lower than in Ontario. (Large builders in Quebec built an average of 166 NHA homes per year in the first half of the 1960s, compared to an average of 221 in Ontario.)

Large builders were more important in Ontario, accounting for nearly one-third of the NHA homes built, though both medium-sized and small builders still accounted for sizable shares of the total new NHA housing built.

This pattern was also characteristic of Manitoba and Alberta, with large builders accounting for 30 to 40 percent of NHA houses built in the early 1960s. However, in Manitoba the share of market activity accounted for by large builders increased significantly, reaching nearly two-thirds by the end of the 1960s.

Medium-sized builders were the largest single group of builders in terms of production in Saskatchewan, though there were one or two large firms.

While British Columbia did have a small number of medium-sized and large firms, housing production was dominated by small firms (which built about 70 percent of all new NHA houses). The share of the NHA houses constructed by medium-sized firms increased during the decade in this province.

MARKET SHARE OF LARGE SINGLE-FAMILY BUILDERS INCREASED IN THE EARLY 1970s

The 1970s, particularly the first half of the decade, was a time when large builders had ample opportunity to grow. If there were economies of scale in homebuilding, they should have blossomed during the 1971–76 period.

Table 8. Single-Family Builders by Size of NHA Operations and Province, 1960–64

	Number of Houses Financed by NHA Loans to Builders			
Province[a]	1–25 Units	26–100 Units	More Than 100 Units	Total
	Percent of Builders			
Newfoundland	99	1	0	100
Nova Scotia	95	5	0	100
New Brunswick	92	8	0	100
Quebec	88	11	1	100
Ontario	89	9	2	100
Manitoba	91	7	2	100
Saskatchewan	79	20	1	100
Alberta	89	8	3	100
British Columbia	98	1	1	100
Canada	90	9	1	100
	Percent of Houses			
Newfoundland	84	16	0	100
Nova Scotia	71	29	0	100
New Brunswick	55	45	0	100
Quebec	43	42	15	100
Ontario	37	31	32	100
Manitoba	38	25	37	100
Saskatchewan	32	63	5	100
Alberta	38	32	30	100
British Columbia	69	13	18	100
Canada	41	34	25	100

Source: CMHC, Canadian Housing Statistics, *various issues.*

Note: Data for single-detached builders are used as an approximation for single-family builders. Includes only single-detached houses financed by NHA loans to builders. Houses constructed by the builder but financed by NHA loans to the owner and non-NHA financed houses constructed by builders are excluded.

[a] Data for Prince Edward Island are not available.

Large Builders Grew in Importance

Just as the large builder segment of the industry was affected the most by the housing downturn in the early 1960s, so too did it benefit the most from the resurgence in single-family starts that began in the last part of the decade. Through the first four years of the 1970s, the market share of large NHA builders exceeded 40 percent, slightly higher than the 1955 figure.

Available information indicates large firms continued to be concentrated in three provinces—Ontario, Alberta and Manitoba.

A Number of Large Publicly Owned Homebuilding Companies Emerged

The 10 largest publicly owned firms involved in homebuilding in Canada had estimated sales of 17,700 units in 1976 (mostly single-family units but included some condominiums). However, these 10 firms did not have an overwhelming share of the market. Their sales were equivalent to 13 percent of all single-family starts in Canada at the time and six percent of total starts. (See Table 9.)

Table 9. Estimated Residential Sales of Ten Largest Publicly Owned Real Estate Companies, Canada, 1976

Company	Number of Units
Nu-West	4,000
Genstar	3,500
Prusac Group[a]	2,500
Victoria Wood	2,000
Bramalea	1,100
Cadillac Fairview	1,100
Campeau	1,100
Richard Costain	800
Daon	800
Consolidated Building	800
Total	17,700

Source: Ira Gluskin, Cadillac Fairview Corporation Limited, *Royal Commission on Corporate Concentration, January 1976, p. 134.*

[a] Partially private.

Ira Gluskin pointed out that "the Canadian housing industry is slowly becoming more rationalized."[42] He estimated that in 1971, the 10 largest publicly owned companies produced around 5,000 units or about three percent of total starts; "thus a trend toward concentration is evident but from a very small base."[43]

Large Builders Did Not Dominate the Industry

Studies examining the structures of the Edmonton and Toronto single-family homebuilding industries in the mid-1970s are available. Both these markets had a comparatively sizable number of large builders at the time.

While the market share of large builders was greater in particular urban markets, the shares were still relatively low. Richard Cook found that in 1976, the six largest builders operating in Edmonton built 1,500 houses, which was equivalent to 28 percent of all new single-family houses built in Edmonton that year. No single builder accounted for more than seven percent of the new single-family houses built. (See Table 10.)

Table 10. Major Single-Family Homebuilders Edmonton Census Metropolitan Area, 1976

Company	Number of Units[a]
Nu-West	368
Qualico	364
Engineered Homes	344
B and H Homes	178
Len Perry	128
Clareco	118
Sub-total	1,500
Other builders	3,778
Total	5,278

Source: Richard Cook, Lot Prices and the Land Development Industry in Edmonton, Canada, 1971–76, *1977. A thesis submitted to the University of California, Berkeley, p. 28.*

[a] Data pertain to single-detached units only.

Andrew Muller tabulated similar information (Table 11) for the Toronto Census Metropolitan Area (CMA) for the period from 1973 to 1975.[44] The largest single-family builder in Toronto (Wimpey Homes) built an average of 510 houses per year during this period. The six largest builders accounted for only 17 percent of all new single-family homes built. A total of 19 builders each accounted for one percent or more of the market. The combined output of these 19 firms accounted for 36 percent of all single-family starts. Clearly, despite the existence of a number of large firms, they did not dominate the production of new houses in the Toronto CMA.

Few Large Single-family Builders in British Columbia in the Early 1970s

A limited number of large builders in British Columbia is not a recent phenomenon. Work done by Michael Goldberg and Daniel Ulinder provides insight into the nature of the housing industry in British Columbia and, by implication, Vancouver, in the early 1970s.

Table 11. Major Single-Family Homebuilders Toronto Census Metropolitan Area, 1973–75

Company	Average Annual Single-family Starts
Wimpey Homes	510
Cadillac Fairview	469
Victoria Wood Developments	415
Coventry Group	350
Pastoria Holdings	349
Consolidated Building	315
Whitehall Developments	303
Bramalea Consolidated	290
Silver Rose Construction	283
Sullivan Construction	278
Ontario Housing Corporation	226
Northdown Homes	218
Runnymede Developments	215
Deltan Realty	188
Schickedanz Brothers	174
Central Park Developments	172
Tudor Glen Homes	159
Monarch Construction	152
Eastcan Holdings	148
Sub-total	5,214
Other builders	10,198
Total	15,412

Source: R.A. Muller, The Market for New Housing in the Metropolitan Toronto Area, *Ontario Economic Council, 1978, p. 209.*

In contrast with Edmonton and Toronto, British Columbia (and, hence, Vancouver) did not have any builders who built more than 150 houses (the breakdown used in the study) in 1975, and only five percent of the builders constructed between 76 to 150 houses. That three percent of builders were large builders in 1972 suggests there was annual fluctuation in the output of larger firms in the province. As well, the proportion of builders constructing an average of 76 to 150 houses per year between 1972 and 1975 significantly declined. Goldberg and Ulinder commented that the decline may have been because of new builders entering the industry, which created increased competition, and because of the shift in builder production away from single-family housing to apartments.[45] (See Table 12.)

Table 12. Single-Family Homebuilders by Size British Columbia, 1972 and 1975

Average Number of Houses Completed Over Last Three Years (Units)	Proportion of Builders in Size Groups 1972	1975
1–15	35	55
16–35	27	22
36–75	22	18
76–150	13	5
Over 150	3	0
Total	100	100

Source: Michael A. Goldberg and Daniel D. Ulinder, "Residential Developer Behaviour: 1975," Housing: It's Your Move, *Volume II, 1976. University of British Columbia, p. 278.*

Note: Data for single-detached and semi-detached homebuilders are used as an approximation for single-family builders.

A Competitive Structure for Homebuilders in the 1970s

These studies suggest the homebuilding industry in the mid-1970s was very competitive, even in market areas having a number of large builders. Muller considered the reason for this in the context of the Toronto market in the mid-1970s. He concluded that economies of scale were not of a sufficient magnitude to prevent small firms from entering the industry:

> There is evidence of some economies of scale in residential construction up to the neighbourhood of a few hundred units per year, but the distribution of building permits does suggest that economies of scale in construction are not large relative to the total market in the Toronto CMA.[46]

This is not to deny that some economies of scale exist. Muller estimates that builders constructing between 200 and 300 units per year obtain a per unit cost reduction in the order of 10 percent compared to builders building less than 100 units per year.[47]

However, Gluskin believed that "the multi-project builder appears to have very little natural advantage over the smaller builder,"[48] although he also emphasized that "it is important to understand that there is no reason to believe that [being large] leads to any diseconomies of scale."[49]

Gluskin also concluded that the homebuilding industry in the mid-1970s was "demonstrably competitive."[50] He stated the industry was competitive because it was so easy to enter. Geoffrey Taylor also concluded that barriers to entry in the homebuilding industry in Vancouver in 1978 were "virtually non-existent."[51]

SINGLE-FAMILY HOMEBUILDING INDUSTRY COPES AND RECOVERS FROM THE 1981–82 RECESSION

Both the 1981–82 recession and the subsequent economic recovery had significant repercussions on the structure of the single-family homebuilding industry.[52]

The Number of Builders Declines

The 1981–82 recession resulted in a reduction in the number of single-family homebuilding firms, but the magnitude of the reduction is unprecise. Data from Statistics Canada's annual census of general residential contractors suggest the decline was quite modest—from 8,965 firms across Canada in 1981 to 8,678 in 1983, a decline of only three percent. (See Table 13.)

Table 13. Number of Single-Family Homebuilding Firms, Canada and Ontario, 1980–83

	Census of Residential General Contractors		Ontario New Home Warranty Program[a]
	Canada	Ontario	Ontario
1980	n.a.	n.a.	2,020
1981	8,965	2,733	1,894
1982	8,870	3,113	1,434
1983	8,678	2,894	2,060
1984	8,994	3,679	2,268
1985	n.a.	n.a.	2,705
1986	n.a.	n.a.	3,419

Source: Statistics Canada and Ontario New Home Warranty Program.

[a] Number of registered builders enrolling at least one home during the year.

However, data from the Ontario New Home Warranty Program (all builders of ownership housing in the province are compelled to belong to the program) show quite a different picture. The number of active builders in Ontario declined from 2,020 in 1980 to 1,434 in 1982, a decline of nearly 30 percent. While the time period and coverage of the data series from Statistics Canada and the Ontario New Home Warranty Program differ, the decline in the number of builders resulting from the 1981–82 recession appears to be significantly larger than the Statistics Canada data indicate.

Both data series show a rise in the number of single-family homebuilders following the recession.

Existing Firms Cut Back Their Operations

According to Statistics Canada data, the number of firms with annual revenues of $2 million or more (including medium-sized and large firms) declined from 282 in 1981 to 218 in 1982—a drop of 23 percent (Table 14). At the same time, the number of firms recording low levels of activity (that is, firms with revenues under $250,000) jumped to 6,520 in 1982 from 5,930 in 1981, an increase of 10 percent). While the total number of firms continued to decline in 1983, the number of firms with revenues of $2 million or more rose to 244 from 218.

Table 14. Number of Homebuilders Specializing in Single-Family Construction by Size Canada, 1981–84

Value of Work Put in Place	1981	1982	1983	1984
	Number of Firms			
0–$249,999	5,930	6,520	6,147	6,112
$250,000–$1,999,999	2,753	2,132	2,287	2,541
$2,000,000–$9,999,999	233	175	200	293
$10,000,000 and over	49	43	44	48
Total	8,965	8,870	8,678	8,994
	Percent Distribution by Size Group			
0–$249,999	66	73	71	68
$250,000–$1,999,999	31	24	26	28
$2,000,000–$9,999,999	2	2	2	3
$10,000,000 and over	1	1	1	1
Total	100	100	100	100

Source: Statistics Canada.

Note: Data for firms specializing in single-detached construction are used as an approximation for single-family builders.

The decline in the total number of firms between 1982 and 1983 shown by the Statistics Canada data appears to be the result of some of the smallest firms (those with revenues of less than $250,000) leaving the industry, apparently after struggling to hold on in 1982.

While partially owing to inflation, that increases occurred in the number of firms with revenues of $250,000 or more in 1984 would suggest that firms expanded operations in that year, after cutting back in 1982 and 1983.

Decline in the Number of Builders Largest in the West

As shown in Table 15, the change in the number of builders between 1981 and 1984 shown by Statistics Canada data varied by region. Quebec, Ontario and Manitoba had more firms operating in 1983 than in 1981; however, the numbers declined in both Quebec and Manitoba in 1984. Ontario experienced a rapid expansion in the number of homebuilding firms between 1983 and 1984 from 2,894 to 3,679 firms. The Atlantic provinces, Saskatchewan, Alberta and B.C. had fewer firms in business in 1983 than in 1981; except for the Atlantic provinces, the numbers continued to drop for these regions in 1984.

Table 15. Number of Homebuilders Specializing in Single-Family Construction by Region Canada, 1981–84

Region	1981	1982	1983	1984
Atlantic	452	533	430	584
Quebec	1,091	1,236	1,277	1,138
Ontario	2,733	3,113	2,894	3,679
Manitoba	343	338	354	326
Saskatchewan	453	367	372	333
Alberta	1,457	1,346	1,112	866
British Columbia	2,436	1,937	2,239	2,068
Canada	8,965	8,870	8,678	8,994

Source: Statistics Canada.

Note: Data for firms specializing in single-detached construction are used as an approximation for single-family builders.

Even in Bad Times New Firms Entered the Industry

Data from the Ontario New Home Warranty Program show the fluidity of the single-family homebuilding industry in terms of the number of firms entering and exiting each year. These data cover 100 percent of the builders in the province.[53] (See Table 16.)

The data show that a sizable number of firms enter and exit the homebuilding industry each year regardless of underlying market conditions. For example, at the bottom of the worst recession in the postwar period in 1982, 487 new homebuilding firms registered with the Ontario New Home Warranty Program.[54] Data from Quebec also indicate that a number of new builders entered the industry in that province in 1981–82.

Table 16. Number of Registered Single-Family Homebuilders in the Ontario New Home Warranty Program, 1980–86[a]

Year	Number of Registered Builders at Beginning of the Year	Builders Registered During the Year[b]	Builders Deregistered During the Year	Number of Registered Builders at End of the Year
1980	4,665	542	1,152	4,055
1981	4,055	571	1,129	3,497
1982	3,497	487	1,108	2,876
1983	2,876	866	534	3,208
1984	3,208	870	622	3,456
1985	3,456	1,098	640	3,914
1986	3,914	1,527	662	4,779

Source: Ontario New Home Warranty Program.

[a] Includes all registered builders regardless of whether they constructed homes in the indicated years.

[b] Includes new applications pending.

However, the balance between the number of firms entering and exiting the industry is very much influenced by market conditions. In Ontario in 1980–82, considerably more firms left than entered the industry; the reverse occurred during the 1983–86 period, when market conditions were considerably better.[55]

THE MOBILE HOME INDUSTRY

According to a study examining the growth of the Canadian mobile home industry during the late 1960s and early 1970s, the industry experienced rapid growth during this period. Total mobile home shipments (including imports) climbed from 6,646 units in 1967 to 33,090 units in 1974.[56] For five years—1972 to 1976—mobile home shipments exceeded 20,000 units per year. Mobile homes accounted for more than 15 percent of total single-family starts, including mobile homes, for five years—1971 through 1975. In 1974, the proportion reached 21 percent.

The growth of the mobile home industry reversed in late 1974 and has been in a state of decline or a low level of activity ever since. A joint study team in a September 1977 report blamed the decline on a number of factors, including: an increase in the supply of affordable site-built housing owing to the success of the federal government's Assisted Home Ownership Program; a decrease in the availability of land on which to place mobile homes, partly because of municipal resistance to such developments; and the financing for mobile homes, available only at higher interest rates and shorter amortization periods than the financing available for site-built housing.

In 1974, the Canadian mobile home industry built over 28,000 mobile homes and employed more than 5,000 workers in 43 plants. By 1984, the domestic industry had shrunk to 21 firms with fewer than 1,000 employees producing just over 3,100 units.[57] Only one company employed more than 100 persons. The present industry is concentrated in Alberta and British Columbia where 10 of the 21 plants are situated.

The mobile home industry evidently played only a minor role in the market for new single-family housing in the mid-1980s.

TURNOVER OF HOMEBUILDING AND INDUSTRY DYNAMICS

The structure of the single-family homebuilding industry is influenced by the longevity of firms in the industry, the extent to which firms move from one size category to another and the reasons for firms leaving the industry.

A Nucleus of Long-established Firms

There is a popular belief that the single-family homebuilding industry is unstable, with large numbers of firms entering the industry in good times and exiting during difficult times. While available data show there are a lot of recent arrivals in the industry, the data also show that as the postwar period progressed, the core of longer established firms grew substantially. (See Table 17.)

The single-family homebuilding industry that existed in the mid-1950s had been largely developed during the postwar period. Almost three-quarters of the home-builders with NHA operations in 1955 had been in business for 10 years or less, while only 14 percent had been in business before the war.

The distribution profiles of small and larger (medium-sized and large) builders by length of time in business were quite similar.

Only 16 years later, the profile of the single-family building industry by age of firm had changed considerably. Nearly one-half of all firms had been in business

Table 17. Single-Family Homebuilders by Size of NHA Operations and Length of Time in Business Canada, 1955

Length of Time in Business	Number of Houses Completed Under the NHA in 1955: Less Than 25	25 or More	Total
	Percent Distribution		
1 year	10	8	10
2 years	15	16	15
3–5 years	23	27	24
6–10 years	25	24	25
11–15 years	13	10	12
More than 15 years	14	15	14
Total	100	100	100

Source: CMHC, Housing and Urban Growth in Canada, *1956, p. 17.*

Note: Data for all homebuilding firms are used as an approximation for single-family builders.

for 15 years or more compared to just 14 percent of the builders in 1955. Only 14 percent had been in business for less than five years.

Large builders had been in business the longest—three-quarters for more than 14 years and 39 percent for more than 19 years. Clearly, most of the large builders in operation in 1971 got their start in the late 1940s or early 1950s. (See Table 18.)

These data clearly indicate a fairly stable group of firms exists in the single-family homebuilding industry, contrary to the general impression. However, a more recent, comprehensive survey of homebuilders in Quebec, conducted in 1984 by Langlais, Hurtubise et Associés, found that only 39 percent of the firms had been in business for more than 10 years, 31 percent for six to 10 years and 30 percent for five years or less.[58]

High Turnover Among Firms

The CMHC data on industry structure in 1955 indicated a large proportion of homebuilding firms in business in 1955 were established during the postwar period. Few firms had been in business before the war.

Table 18. Single-Family Homebuilders by Size of Operations and Length of Time in Business Canada, 1971

Length of Time in Business	25 or Less	26–100	101 and Over	Total
	Number of Housing Units Built[a]			
	Percent Distribution			
1–4 years	16	19	4	14
5–9 years	23	25	7	20
10–14 years	21	19	13	19
15–19 years	19	20	37	22
More than 19 years	21	17	39	25
Total	100	100	100	100

Source: C.J.B. Roberts, A Survey of the Canadian Homebuilding Industry, *CMHC, 1971, Table A1.*

Note: Data for all homebuilding firms are used as an approximation for single-family builders.

[a] All types of housing units built, not just single-family houses.

Data for Kingston, St. John's and Toronto point to a high turnover of homebuilding firms in the late 1950s, the 1960s and the early 1970s.

As illustrated in Table 19, the Kingston housing market in the 1960s was characterized by extremely high mobility among its homebuilding firms. Of the 16 firms in operation in 1961, only three were still in business 10 years later. Turnover was particularly high in the first half of the 1960s, when 48 firms entered the industry and 43 firms exited. The rate of turnover was still high in the late 1960s but decreased significantly in the first half of the 1970s.

Since the demand for new houses was generally stable during the 1960s, though large year-to-year fluctuations occurred, the high turnover among firms suggests that many builders either regarded homebuilding as a temporary endeavour or were disappointed in the level of profits they earned and left the industry to secure more productive returns elsewhere.

A similar pattern emerged in St. John's over the 1954–63 period, where only seven of the 23 builders building in 1954 were still building in 1963.[59] The St. John's study revealed another aspect of the very small builder—a proclivity to enter, leave and re-enter the industry.

These facts suggest that barriers to entry in the housebuilding industry are minimal. The study by Muller of the Toronto market in the early 1970s reached a similar conclusion.

> Some evidence on conditions of entry may be obtained from a comparison of the list of builder and developer members of the Toronto Homebuilders' Association. The 1968 directory lists 174 members. The 1975 directory lists 184, of whom 102 did not appear in the 1968 directory. Thus turnover in the building industry is quite high.[60]

Table 19. Turnover of Single-Family Homebuilding Firms Kingston, Ontario, 1961–76

Period	Firms at Beginning of Period	Firms Entering During Period	Firms Exiting During Period	Firms at End of Period
	Number of Firms			
1961–66	16	48	43	21
1966–71	21	30	35	16
1971–76	16	8	13	11

Source: Calculated from Nebo S. Orazietti, The Changing Structure of the Housebuilding Industry and its Performance: Kingston, Ontario, 1961–76. *A thesis submitted to Queen's University, Appendix Table B–1.*

Note: Data for single-detached homebuilding firms are used as an approximation for single-family builders.

Few Small Builders Grow into Larger Firms

Do building firms that start out building a few houses a year expand into medium-sized and large firms? Data from the previously mentioned Kingston study covering the 1961–76 period suggest that the source of medium-sized firms is, in many instances, the result of growth of small builders. Of the two medium-sized builders in Kingston in 1966, one had been a small builder in 1961. Similarly, of the eight medium-sized builders in 1971, four had been small builders in 1966 (with the exception of one year, Kingston did not have any large builders over the 1961–76 period), as shown in Table 20.

However, the basic pattern appears to be for small firms to leave the industry over a relatively short time span rather than to expand. The vast majority of small firms in Kingston in 1961 and 1966 were not in business five years later.

Table 20. Change in Status of Small Single-Family Homebuilders Over a Five-Year Time Span Kingston, 1961–76			
Number of Small Firms in 1961	Status in 1966		
	Expanded	Remained Small	Exited Industry
15	1	3	11
Number of Small Firms in 1966	Status in 1971		
	Expanded	Remained Small	Exited Industry
19	4	1	14
Number of Small Firms in 1971	Status in 1976		
	Expanded	Remained Small	Exited Industry
8	1	0	7

Source: Calculated from Nebo S. Orazietti, The Changing Structure of the Housebuilding Industry and its Performance: Kingston, Ontario, 1961–76. *A thesis submitted to Queen's University, Appendix Table B-1.*

Note: Data for single-detached homebuilding firms are used as an approximation for single-family builders.

Adverse Market Conditions are a Prime Factor in the Loss of Homebuilding Firms

Two studies provide insight into how adverse market conditions affect the number of single-family homebuilding firms in specific market areas.

In 1981, Currie, Coopers & Lybrand undertook a study for CMHC on firm closures in the homebuilding industry using Windsor and London as case studies.[61]

The study found that 25 percent of all London builders and about half of all Windsor builders who had been in business in 1979 had left the industry by the fall of 1981. (See Table 21.)

Local housing market conditions were a large factor in the high incidence of closures in both market areas. Both areas experienced a sharp decline in housing starts (London after 1978 and Windsor after 1979). However, owing to a more diversified economy, London did not experience the sharp economic downturn that Windsor experienced because of Chrysler's problems in mid–1979. Consequently, the housing market adjustment was much more pronounced in Windsor. Currie, Coopers & Lybrand noted the firms that become insolvent "are generally characterized as relatively new entrants, highly leveraged financially and poorly managed."[62]

New housing construction fell sharply in Winnipeg in 1979 and again in 1980 and remained low until 1983. The main factors behind this decline were overbuilding and a population outflow to booming Alberta and British Columbia. A study by Lynda Newman and Stewart Clatworthy documented the impact of the market downturn on the number of builders in 1980 and 1981.[63] The number of builders obtaining building permits for new housing (almost all were single-detached units) fell from 152 in 1979 to 70 in 1980 with a slight recovery to 77 in 1981. The decline involved mostly builders with revenues of over $1 million (from 22 in 1979 to 11 in 1981) and very small builders (their numbers fell from 119 to 48).

For firms that stayed in business, the Winnipeg study describes the business adjustments they made when faced with a sharp reduction in demand.[64] These adjustments included a reduction in staff and building at zero profit or a loss to maintain staff and keep the business active.

The volume of housing starts in Winnipeg picked up in late 1982 and continued at a high level until the end of 1985. Statistics Canada building permit data indicate a coincident sharp rise in the number of single-family homebuilders in Winnipeg, from 157 in 1983 to 208 in 1985.

Table 21. Incidence of Closures Among Single-Family Homebuilding Firms London and Windsor, 1979–September 1981	London	Windsor
Number of homebuilders active sometime during the 1979 to September 1981 period	260	210
Estimated number of closures 1979 to September 1981:		
Solvent	40	48[a]
Insolvent	25	59[a]
Total	65	107[a]
Number of homebuilders still in business September 1981 (not necessarily active)	195	103[a]

Source: Currie, Coopers & Lybrand Ltd., Firm Closures in the Residential Construction Industry, *a report prepared for CMHC, 1981, p. 13.*

Note: Data for all homebuilding firms are used as an approximation for single-family builders.

[a] Approxomate mid points of a range.

Clearly, as demonstrated by the experience in Winnipeg, the homebuilding industry has a capacity to contract in times of poor economic opportunity and to expand rapidly in times of economic growth.

EXTENT OF INTEGRATION AND DIVERSIFICATION

Integration and diversification can take various forms. Integration for single-family builders can consist of expanding operations to include activities preceding and beyond the actual homebuilding process—activities such as land development, building product manufacturing, sales or landscaping.

Diversification can take two forms: product diversification into related areas, such as apartments, and unrelated areas, such as commercial or industrial building; and geographical diversification into other market areas.

Few single-family builders remaining in the industry for long have concentrated exclusively on single-family construction. A typical progression in the 1950s and 1960s for medium-sized and large firms was to add land development to the activities (integration). Once land development experience had been gained, expansion into rental apartment construction and neighbourhood shopping centres, usually on their own land, often followed (product diversification). For current medium-sized and larger builders, a similar progression occurs, but in many markets the apartments may be condominiums. General contracting became an important activity for many builders in the 1960s and 1970s in response to the large number of tenders and proposal calls for social housing. Also, many small builders have been involved at various times in renovation. At times, large builders diversified even further into large commercial income-producing projects.

The limited data available provide insight into the extent and types of integration and diversification that single-family builders have undertaken.

Land Development the Most Important Ancillary Activity of Homebuilders During the 1969–71 Period

A survey of builder members of HUDAC (now CHBA) in 1971 obtained information on the extent of the respondents' involvement in non-homebuilding activities.[65] (See Table 22.) The survey found that land development was the single most important non-homebuilding field in which builders got involved. The degree of involvement with land development increased with the size of the builders—40 percent of small builders, 60 percent of medium-sized firms and 90 percent of large firms undertook land development.

Table 22. Single-Family Homebuilders by Size of Operation and Extent of Integration and Product Diversification, Canada, 1969–71

	Number of Housing Units Built[a]		
Type of Activity	25 or Less	26–100	101 and Over
	Percent of Firms		
Land development	40	60	90
Renovation	22	3	5
Mobile home parks/ Manufacturing	1	4	8
Financial institutions	3	5	3
Lumber and materials dealer	5	13	15
Real estate broker	2	19	10
Subcontracting	8	7	8
General contracting	30	50	25
Other non-residential building	5	8	5

Source: C.J.B. Roberts, A Summary of the Canadian Homebuilding Industry, *CMHC, 1971, Figures A3.1 to A3.16.*

Note: Data for all homebuilding firms are used as an approximation for single-family builders.

[a] All types of housing units built, not just single-family houses.

General contracting was also an important activity, especially for medium-sized builders. Small builders were the most active in renovation, but even here only one in five firms were engaged in this activity in 1971. Medium-sized builders were involved with real estate brokerage more often than small or large builders.

Limited Diversification into Other Geographic Areas

The same survey also provided an indication, albeit a rough one—in large urban centres, municipalities could be in close proximity—of geographic diversification since respondents were to indicate the number of municipalities in which they operated in 1971. Despite this potential for overstatement of diversification, most builders worked in only a limited number of municipalities. Small and medium-sized builders on average worked in 2.1 municipalities, and large firms worked in 4.2 municipalities.

Diversification into Renovation Has Increased

A survey of builder members of CHBA conducted in May 1984 found the proportion of respondents undertaking residential renovation work was much higher than the 1971 survey showed.[66] Thirty-seven percent of respondents stated they undertook renovation work, compared with approximately 22 percent in 1971. The greatest involvement was in the Atlantic provinces, where two-thirds of the builders were doing renovation work.

Some Large Publicly Owned Homebuilding Companies Diversified into the United States

The extent of integration and diversification varies widely by company. A review of recent annual reports of a sample of public real estate companies illustrates the diversity. Cadillac Fairview and Campeau no longer undertake single-family homebuilding, though Campeau is still involved in land development in Ottawa.

Coscan Development Corporation (formerly Costain Ltd., a subsidiary of a large U.K. firm), which began in Canada as a single-family homebuilder in Toronto, has moved into land development (28 percent of 1986 revenues were from the sale of land). However, homebuilding remains its largest activity (accounting for two-thirds of revenue). The company is now building houses in Kitchener, Ottawa, Calgary and several U.S. locations (57 percent of 1986 revenues were generated in the United States).

In contrast, Melcor Developments Ltd., an Edmonton-based firm, derived more revenue in 1986 from land development than from housing sales (56 percent versus 31 percent of total revenues). It also has expanded into investing in commercial property (10 percent of 1986 revenues came from investment properties). As with Coscan, the company is also active in the United States (58 percent of its land sale revenues in 1986 were generated from its U.S. operations).

Monarch Investments Limited, a Toronto-based single-family homebuilder, has a major land development operation and also owns investment properties in Canada (which accounted for 14 percent of 1986 revenues). Monarch is actively involved in residential building and land development in the United States, but on a much smaller scale than either Coscan or Melcor (only 10 percent of Monarch's 1986 revenues were generated by its U.S. operations).

The reasons for expanding into the United States are diverse. They include the relatively small size of the Canadian market, particularly the small number of large metropolitan markets, the perception of more profitable market opportunities in the United States and a desire for geographic market diversification.

MODUS OPERANDI *OF THE SINGLE-FAMILY HOMEBUILDING INDUSTRY*

The methods of operation of the homebuilding industry are almost as diverse as the industry itself. Unfortunately, in contrast with the structure of the industry, considerably less information is available on firms' methods of operation. The interviews conducted for this study provided little input that could be portrayed as being representative of the entire industry. Operating approaches and methods vary widely, not only among firms at a given point in time but over time. This section has been designed therefore to provide insight into selected facets of the operation of builders and their relationships with other housing market participants based on the available literature.

The Builders' Decision-making Process

An MBA thesis prepared in 1978 by Geoffrey Taylor provides a step-by-step description of the explicit items on which a single-family homebuilding firm must make decisions when undertaking a specific project or when deciding to enter the single-family homebuilding industry.[67]

Builders have to decide where to build, what to build, how to build, what the price should be, how to sell and whether a building will generate an adequate profit and return on equity. Taylor provides an interesting case study of this decision-making process, basing his analysis on the context of two entrepreneurs deciding whether there was a business opportunity to establish a homebuilding firm in the Vancouver area.

■ Where to build

Based on preliminary investigations into growth trends and land availability for various municipalities in the Vancouver area, as well as the personal preferences of the entrepreneurs, the decision was made to concentrate on the municipalities of Surrey and Delta. The second stage of the analysis focused on areas within these municipalities where opportunities to buy land existed. Three areas were considered.

■ What to build

Based on a review of demographic data, it was decided the firm should focus its attention on building homes for young families with children. The three areas under consideration in Surrey and Delta had different income profiles: In one area, the level of incomes suggested no-frills houses, while the other two areas implied homes with extras.

Since many firms were operating in the market and the proposed new firm required only a small share of the market, it was concluded that existing firms were unlikely to retaliate in response to the entry of a new firm; and a successful entry would depend on successful product differentiation.

Based on interviews with existing builders, most new houses were found to be sold on a best-price basis with few builders trying to find out what buyers really wanted. It was concluded that buyers would pay a premium if they could get items they desired that were not being provided in the marketplace (such as fencing or a garage rather than a carport).

■ How to build

Because of limited capital, the firm could not purchase major equipment. Therefore, a large proportion of the work would have to be done by outside contractors (the sub-trades). The entrepreneurs found that most existing firms sub-contracted their plumbing, electrical and most of the finishing work, using non-union labour and usually paying union wage rates. The decision was made to use their own staff to do the foundation form work, concrete work and certain finishing work.

■ Sources of funding

While firms can enter the homebuilding industry with limited capital, sufficient capital is required to cover initial needs, working capital requirements and, in the future, possible expansion. The four broad sources of funding include: personal savings, lenders, trade credit and loans from individuals or friends. The two entrepreneurs decided to use a substantial portion of their own funds as initial capital ($50,000). Two banks were approached who offered to guarantee a line of credit at two points over prime equal to the $50,000 of personal capital to be invested by the principals. A trust company offered a better deal—a line of credit on a 60/40 basis (that is, lending up to $75,000) at two points above prime. Two building supply companies agreed to trade credit terms at net, by the fifteenth of the following month. Sub-trades were relied on to provide most materials with net payment due in 30 days.

■ Source of land

A preliminary analysis was undertaken to determine whether to develop lots or to buy lots from a land developer. Since the financial resources required to develop lots would be great and the time period lengthy, it was decided to buy lots despite their initial analysis, which indicated that land development held the promise of larger profits.

■ Marketing

The two entrepreneurs found that about half the builders in the Vancouver area marketed their homes through a realtor and the other half conducted direct sales. The difference depended on the extent to which the principal was involved in the actual construction work. They decided to sell through a realtor (at a five percent commission) because neither of the principals had any sales experience.

■ Costing

Once the house designs were chosen, the entrepreneurs prepared a detailed cost estimate. Construction was divided into various phases: For each phase, a breakdown was determined for the costs of labour and materials. Indirect costs for items such as building permits, legal fees, interim financing, insurance, taxes, utilities, surveying and sales commission were also estimated.

- Time frame

  For planning purposes, construction was assumed to take eight weeks, followed by a further six weeks to complete the sales program.

- Profit target

  Both principals agreed that the firm must realize a return on invested capital (excluding their market salaries) at least equal to its opportunity costs (in this case, 10 percent of the sales price for profit and overhead).

- Financial analysis

  A detailed week-by-week cash flow analysis and the preparation of income statements and balance sheets for the first two years of operation indicated their cash flow requirements and expected profitability.

It was concluded that a business opportunity existed for the firm to construct houses for young families with children in the Tsawwassen area of Delta; this was the only market in which the firm was deemed to be competitive.

Operating Characteristics by Size of Builder in Vancouver

A landmark study on the single-family homebuilding industry in the United States was published by Sherman Maisel in 1953.[68] This study, which provided a typology of firms by size, is still being used today. The MBA thesis completed by Price in 1970 examined the relevance of Maisel's typology for the Vancouver homebuilding industry—almost two decades after Maisel's study was published.[69] Price found a remarkable similarity in the methods of operation of various sized firms in the U.S. in the early 1950s and in Vancouver in 1970. It appears that this essentially holds true for the mid-1980s as well. Both Price and Maisel divide small builders (firms building fewer than 25 houses per year) into small contract builders and small speculative builders. Medium-sized builders built between 25 and 99 homes per year and large builders 100 homes or more.

- Small contract builder

  Either builders in this category bought two or three lots at a time or the customer provided the lot. Location was not important as they did not rely on economies of scale. They often drew up their own plans, worked closely with the customer and obtained interim funding from a bank, trust company or the customer. Overhead was low, with the office usually located in the builder's home and the spouse or part-time help doing the paperwork. According to Price, these firms had the shortest life span of all homebuilders.

- Small speculative builder

  This category of builder operated in a similar fashion to the small contract builder, except they built a fairly standard type of house available for sale at any stage of construction. Several lots in a subdivision were usually acquired at one time. These firms also had a relatively short life span.

  The main competitive advantage of both types of small firms was their low overhead—both from using their home as an office and from working long hours supervising construction during the day and doing paperwork and organizing at night. Many small builders did not include this time in their cost calculations.

  One difference between small Vancouver builders in 1970 and the small U.S. builder in the early 1950s profiled by Maisel in his book concerned the large amount of speculative building undertaken by Vancouver builders. In the early 1950s, most small builders in the United States were almost exclusively contract builders.

  Small builders constructing 10 to 24 houses a year tended to do less physical work on-site and appeared somewhat more willing to experiment with different techniques than builders constructing fewer than 10 houses. These firms also tended to have some difficulty obtaining sufficient construction financing and to use real estate agents to sell their homes (this may have been unique to the Vancouver area).

Price concluded that with one or two exceptions, "the small builder in Vancouver is typical of small builders in other North American cities."[70]

- Medium-sized builder

Price concluded "the medium-sized builder [in Vancouver] also appears similar in nature to those found elsewhere."[71] Builders with volumes at the upper end of the 25 to 99 unit range built exclusively on speculation. As a group, they built relatively inexpensive homes, frequently using a number of mass production techniques. They usually had an office, often on the site of one of their projects, with some full-time staff (usually a secretary or salesperson).

Obtaining land was more of a problem for these builders since they required a considerable number of lots in close proximity if they were to operate effectively. Most of the larger firms in this group developed their own land.

A number of medium-sized firms had their own salesperson for sales and marketing. Some used model homes; others set up an office on-site, printing a brochure and running a few advertisements in local newspapers.

Generally, these firms relied heavily on sub-trades. They also tended to more accurately control costs than did small builders, not only because of better management but also because of a more basic product. They also had more definitive management structures.

- Large builder

Price could not reach any conclusions about large builders from his Vancouver survey as only one Vancouver-based large builder existed at the time, and this firm built only 128 houses.

One change in the 1980s from the 1970 situation has been the reduced dependence of builders on speculative building. As a result of the 1981–82 economic recession, volatile interest rates and general uncertainty, most builders in the mid-1980s build mainly on a pre-sale basis. A May 1985 survey of CHBA builder members found that two-thirds of respondents were totally or mostly building on a pre-sale basis, with the majority of the remainder building a mixture of pre-sale and speculative homes.[72] This predominance of building on a pre-sale basis was reported in all areas of the country—less than 10 percent of the respondents in all regions except the Atlantic provinces indicated they built primarily on a speculative basis.

Operating Characteristics of Canadian Builders by Size

The 1971 survey of HUDAC builder members conducted by C.J.B. Roberts provides additional insight into the operational characteristics of single-family homebuilding firms at that time.

Table 23. Single-Family Homebuilders by Size of Operation and Age and Education Level of Operating Head Canada, 1971

	Number of Units Built[a]			
Age of Operating Head	25 or Less	26–100	101 and Over	Total
	Percent Distribution			
20–29	9	8	2	8
30–39	26	38	15	27
40–49	35	40	76	44
50–59	24	14	7	18
60 and over	6	0	0	3
Total	100	100	100	100
Level of Education of Operating Head				
Less than high school	33	8	4	21
High school	43	39	46	42
Vocational school	14	19	4	13
College	10	34	46	24
	100	100	100	100

Source: C.J.B. Roberts, A Summary of the Canadian Homebuilding Industry, *CMHC, 1971, Tables A5 and A6.*

Note: Data for all homebuilding firms are used as an approximation for single-family builders.

[a] All types of housing units built, not just single-family houses.

- Age and education of operating head

The operating heads of small building firms tended to be relatively younger or older than other firms

(Table 23). Medium-sized firms tended to have a high proportion of operating heads in the 30 to 39 age range, while the ages of operating heads in large firms were concentrated in the 40 to 49 age group.

Table 24. Single-Family Homebuilders by Size of Operation, Use of Sub-Trades and Material Procurement Practices, Canada, 1971, Percent

Proportion of Construction Costs Sub-contracted	Number of Housing Units Built[a]: 25 or Less	26–100	101 and Over	Total
0–24	10	7	2	7
25–49	18	13	14	17
50–74	28	16	25	24
75–100	44	64	59	52
Total	100	100	100	100
Median	70	81	79	76
Method of Procuring Sub-contractors				
Negotiated	n.a.	n.a.	n.a.	62
Bid	n.a.	n.a.	n.a.	38
Total				100
Contents of Contract With Sub-contractors				
Labour only	n.a.	n.a.	n.a.	30
Labour/materials–one project	n.a.	n.a.	n.a.	43
Labour/materials–several projects	n.a.	n.a.	n.a.	27
Total				100
Use of Same Sub-contractors				
Always	35	37	22	33
Often	60	61	74	63
Seldom/never	5	2	4	4
Total	100	100	100	100
Procurement of Building Materials				
For one job only	78	61	49	67
For several jobs	22	39	51	33
Total	100	100	100	100

Source: C.J.B. Roberts, A Summary of the Canadian Homebuilding Industry, *CMHC, 1971, Tables A52–A57.*

Note: Data for all homebuilding firms are used as an approximation for single-family builders.

[a] All types of housing units built, not just single-family houses.

Few small firms had operating heads who had attended college or university—in fact, one-third had less than a high school education. In contrast, nearly one-half and about one-third of the operating heads of large and medium-sized firms, respectively, had college educations. This suggests the latter two groups of firms have better qualified management than small builders.

■ Sub-contractors and procurement of materials

The 1971 survey (Table 24) provided insight into the homebuilding industry's use of and contractual arrangements with sub-trades and the procurement of building materials.

All size groups of builders made extensive use of sub-trades with the median firm reporting the subcontracting of three-quarters of its construction work. Small builders used sub-trades to a lesser extent.

The predominant method of procuring sub-trades was through negotiation. The majority of contracts were for both labour and materials. For the most part, builders did not rely exclusively on the same sub-trades.

When procuring building materials, small builders tended to obtain materials for one job at a time; in contrast, about one-half the large builders obtained materials for more than one job.

■ Legal structure, staffing and joint ventures

Most builders at the time were incorporated. The proportion ranged from 73 percent for small builders to 85 percent for large firms. Only 11 percent of all firms were partnerships, and 12 percent were proprietorships.

Few of the respondents (six percent) were subsidiaries of other firms.

Staffing levels varied as expected among homebuilding firms. The median small builder employed three full-time persons on a year-round basis; the comparable numbers for medium-sized and large builders were nine and 18 persons, respectively.

The number of units produced per full-time staff member also varied with the size of the firm—from a median of 11.2 units for large builders to 6.8 units for medium-sized builders and 4.5 units for small builders.

Small builders were less likely to participate in joint ventures—22 percent versus 37 to 39 percent for medium-sized and large builders. When they did undertake a joint venture, it was most likely with other builders. Medium-sized and large builders also undertook joint ventures with individual investors and, to a lesser degree, with financial institutions.

Pricing Policies of Builders

By examining pricing policies of Toronto builders in the mid-1970s, Muller found that prices were generally set at the expected market price and that builders were not using a cost plus pricing rule.[73] In contrast, in a detailed survey of the pricing practices of eight Edmonton builders in 1969, Lawrence Parker found costs were the starting point in the pricing computations. Builders then added a profit margin based on demand considerations.[74]

The two approaches to pricing should produce comparable results since the marketplace ultimately sets prices. However, builders using the cost plus profit margin approach probably have, as a group, more business acumen since they are aware of their costs and profit margins before building commences.

A Profile of the Quebec Homebuilding Industry in 1983

Two recent studies provide insight into the Quebec homebuilding industry in the early 1980s.

The study *Housing for Quebecers* asserts no major obstacle faces persons wanting to build houses in the province, except that they obtain a licence: "The level of capitalization is low, organizing the work is above all a matter of knowing how to co-ordinate it, and there are still many building lots available."[75] It is not surprising that homebuilding has appealed to those with an enterprising spirit.

The study also stated that few homebuilders are in the land development business. About 80 percent of the residential builders specialize in single-family houses.

A more encompassing study, conducted for CMHC in 1984 by Langlais, Hurtubise et Associés,[76] was based on a survey of virtually all builders registered under the New Home Certification Program administered by the Association Provinciale des Constructeurs d'habitations du Quebec (APCHQ). Included among the study's findings:

- Housing production

  About 75 percent of the firms built only single-detached houses, with the remainder constructing smaller buildings, such as duplexes, triplexes and fourplexes.

- Years in operation

  Approximately 70 percent of the firms had been operating for more than five years and about 40 percent for over 10 years.

- Age of partners/owners

  Approximately 41 percent of all partners/owners were over 45 years of age, with most of the remainder in the 35 to 44 age group (33 percent) or the 25 to 34 age group (21 percent).

- Housing experience

  Approximately 60 percent of the owners acquired their experience in the construction trades.

- Land holdings

  Most builders (83 percent) owned a supply of building lots with nearly half owning over five hectares of land. The average land holding per firm was 1.9 hectares.

- Impact of the recession

  A majority of builders stated that the 1981–82 recession forced them to revise their model homes more often, reduce the size of their homes and expand the number of sites on which they built. Three-quarters of the builders reported they were more sensitive to the needs of homebuyers than they had been five years earlier.

FINANCIAL ASPECTS OF THE SINGLE-FAMILY HOMEBUILDING INDUSTRY

An examination of the financial aspects of single-family homebuilders' operations depends on available statistical information. The primary source is Statistics Canada's annual census of residential general contractors, which provides data back to the mid-1970s on profit margins, return on equity and costs (most of these firms are single-family builders).

Profits of homebuilders are an elusive item to define accurately. A frequent rule of thumb is that builders try to earn a 10 percent profit margin. But it is not clear if the 10 percent refers to overhead, as well as before tax profit and, if so, what specific items of overhead are included. For example, in his analysis, Gluskin assumes a 10 percent profit margin before tax but after overhead is taken out.[77] On the other hand, Taylor uses the 10 percent figure but includes overhead.[78] Another problem with delineating profit is to distinguish between market wages and salaries for principals and the return on capital from risk-taking. Given the prevalence of small firms in the industry, principals, whether in construction, management or other areas, are unlikely to pay themselves a market wage for their efforts. This underpayment would result in an overstatement of profits in the Statistics Canada data.

Two indicators of financial performance—profit margins and return on equity—are referenced in this section.

Profitability in the Early Postwar Period

- Average profit margins, including overhead, are estimated at 10 percent.

  A 1943 study prepared for the housing administration section of the Department of Finance, referenced by Firestone, concluded that 50 to 55 percent of homebuilding costs were for materials, 35 to 40 percent for labour and 10 percent for overhead and profits. These figures relate to the construction of the house only and exclude land.[79] The 10 percent figure for overhead and profits was still considered by Firestone to be representative in 1946, with 52.5 percent of homebuilding costs attributed to building materials and a further 37.5 percent for labour.

- CMHC study showed high profitability but included profits of sub-trades also.

  Determining builders' profits has always been difficult since, to many builders, profits are what is left over after paying all expenses to build the house and acquire the lot. Thus, profit includes their own labour in many instances, as well as a return on risk-taking.

  The 1951 CMHC study examined a sample of projects built under the Integrated Housing Plan in 1946–48 and estimated the operating profits of the projects. Operating profits were defined as the difference between the on-site construction costs and the total construction costs excluding land. It included both the subcontractors' and the builders' share of profits and all overhead expenses, as well as actual profits.

  Total operating profits averaged 15.2 percent of total construction costs, but considerable variations existed between projects.[80] This profit was before overhead and taxes and included profits of both builders and sub-contractors. No reference was made in the study as to how time spent by owner-operators on administration was costed (or if it was costed at all).

The Economies of Homebuilding

Although the homebuilding industry is quite competitive, two studies conducted in the 1970s suggest it can also be highly remunerative. This is because it is a highly leveraged business (though high leverage can also result in bankruptcy in bad times).

Gluskin looked at a hypothetical builder who builds 100 houses a year,[81] concluding that, under a set of reasonable assumptions, this builder could generate an after-tax return on equity of between 27 and 53 percent (the latter assumes a pre-tax profit after overhead of 10 percent of sales revenue, while the former assumes a five percent pre-tax margin).

Taylor reached a similar conclusion for a small operation (building 10 houses per year) in Vancouver.[82] At the end of the second year of operation, the company was projected to earn a rate of 35 percent before tax on its original equity (20 percent at the end of the first year). This return is overhead, including market-level salaries of the owners.

Profit Margins Peaked in the Mid–1970s

The Statistics Canada annual census of residential general contractors provides a sizable information base on the financial operations of builders, the vast majority of whom construct new single-family housing.

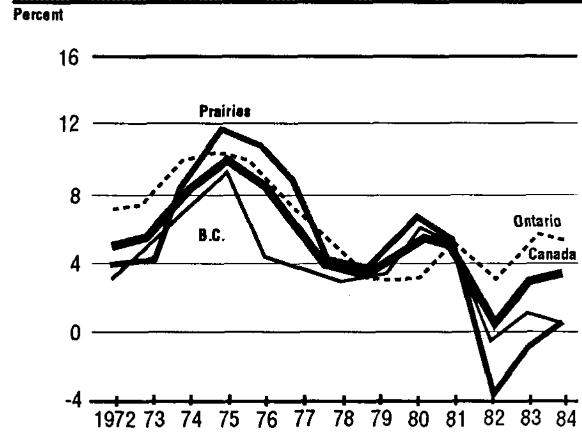
However, the reader should be aware of the coverage of this census and some limitations of the data for a time series analysis. The universe of the census is all firms or establishments deriving most of their revenues from residential construction. The data therefore include both homebuilders and general contractors who undertake new and renovation construction work. It likely excludes some firms with residential building operations that derive the majority of their revenues from other operations, such as land development or operating a portfolio of income-producing properties (though an effort is made to include them).

In addition, the data are not consistent for a time series analysis as several changes in coverage have occurred over the years. In particular, Statistics Canada made a determined effort over a period of years in the late 1970s to improve the coverage of their universe. However, Statistics Canada believes that beginning with the 1981 data, the coverage of the census is comprehensive and compatible.[83]

- Before tax profit margins were highest in the mid-1970s.

  With the exception of the mid-1970s, homebuilders have, on average, fallen considerably short of the 10 percent rule of thumb for profits (as applied to profits after overhead). Profit margins (before tax but after overhead) climbed progressively in the 1970s from 4.8 percent in 1972 to 9.5 percent in 1975 but then declined over the remainder of the decade to 3.7 percent in 1979. This pattern more or less coincided with underlying market conditions. (See Figure 8.)

FIGURE 8. BEFORE TAX PROFIT MARGINS FOR FIRMS SPECIALIZING IN SINGLE-FAMILY CONSTRUCTION, 1972–84



Source: Statistics Canada.

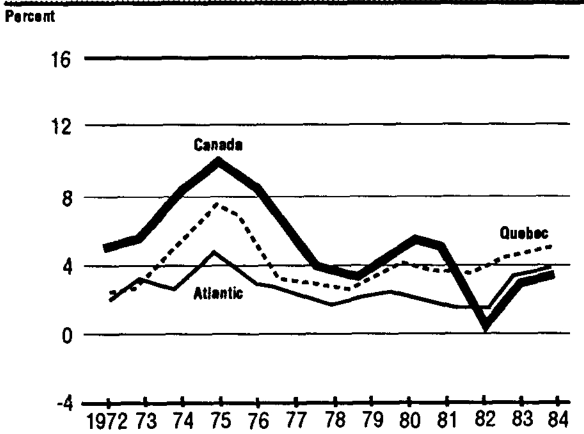
Note: Data for all housebuilding firms are used as an approximation for firms specializing in single-family construction.

Average profit margins in the Atlantic provinces, Quebec and B.C. tended to lag behind those in Ontario and the Prairies. Ontario had the highest profit margins in the first half of the decade, and the Prairies had the highest in the last half.

In many instances, individual companies performed better than the industry average. For example, Coscan Limited's (formerly Costain) profit margin on housing sales before general overhead expenses reached 26.5 percent in 1975, remaining high in the three subsequent years before declining sharply in 1979 to 8.3 percent. Cadillac Fairview's peak profit margin on housing sales before general overhead expenses was reached in 1970 (23.7 percent).

Before tax profit margins in the latest years for which data are available (1982–84) have, on average, been significantly below the numbers achieved in the 1970s. The average builder actually experienced a slight loss in 1982 (a recession year). While profit margins climbed in 1983 and 1984, the average profit margin in 1984 was only 3.6 percent. (See Figure 9.)

Figure 9. Before Tax Profit Margins for Firms Specializing in Single-Family Construction, 1972–84



Source: Statistics Canada.

Note: Data for housebuilding firms are used as an approximation for firms specializing in single-family construction.

The increase in profit margins after 1982 was greatest in Ontario and Quebec which, in 1984, recorded average margins of 5.1 and 4.8 percent, respectively. In contrast, B.C. and Prairie builders reported average profit margins of less than one percent in 1984.

- Rates of return on equity were sharply lower in the 1980s as well.

Profit margins are an important aspect of a builder's financial performance. However, the before tax rate of return on equity is probably as critical, if not more so, an indicator of performance, particularly for medium-sized and large firms. (See Figure 10.)

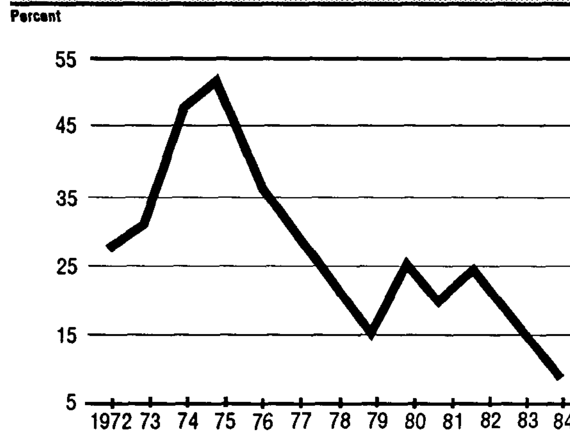
The data suggest that the homebuilding industry as a whole during the 1970s was lucrative. The before tax rate of return on equity reached a high of 52 percent in 1975. At the low point of the decade (1979), the rate of return amounted to 16 percent.

The average rate of return moved higher during the 1980–82 period, but fell sharply in 1983 and again in 1984, to just nine percent, the lowest rate of return recorded since Statistics Canada began collecting these data in 1972.

- Payments to sub-trades represented the largest single cost for builders.

As shown in Figure 11, the four major costs incurred by homebuilders are payments to sub-trades, the purchase of building materials, land costs and general overhead (office staff, financing, depreciation, etc.).

Figure 10. Average Net Profit Before Tax as a Proportion of Equity for Firms Specializing in Single-Family Construction, Canada, 1972–84



Source: Statistics Canada.

Note: Data for all housebuilding firms are used as an approximation for firms specializing in single-family construction.
Data pertain to a sample of builders excluding small builders.

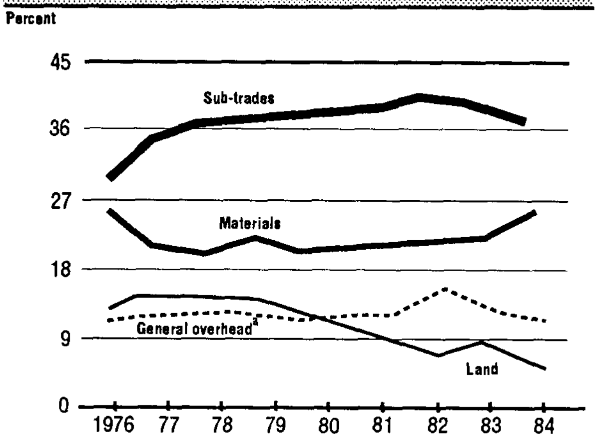
Payments to sub-trades is the largest single cost for builders. The relative importance of payments to sub-trades increased during the late 1970s to early 1980s period—from less than 35 percent of total revenues to 40 percent in 1982. These costs, relative to total revenues, then declined slightly in 1983 and 1984.

The purchase of materials comprises the next largest cost component—about 20 percent of the total. These costs remained fairly stable in the late 1970s but experienced a slight rise in the early 1980s.

In the late 1970s, land was the third largest cost component for builders, accounting for 13 to 15 percent of total revenues. This proportion is low compared to the proportion of new house costs usually attributed to land in the 1970s (typically 25 to 30 percent). In the 1980s, land costs declined to an even smaller share of total revenues—amounting to less than 10 percent during the 1982–84 period.

In the late 1970s, overhead was equivalent to 11 to 12 percent of total revenues. Overhead costs increased sharply in 1982 in response to higher financing costs but experienced a relative decline in 1983 and 1984.

FIGURE 11. MAJOR COSTS AS A PROPORTION OF TOTAL REVENUES FOR SINGLE-FAMILY HOMEBUILDERS, CANADA, 1976–84



Source: Statistics Canada.

Note: Data for all housebuilding firms are used as an approximation for single-family housebuilders.

[a] Includes items such as office salaries and financing.

The cost data for homebuilders specializing in new single-family construction suggest that sub-trades are used to a much greater extent in other parts of the country than in the Atlantic provinces (Table 25). Reported to be surprisingly low in relative terms in all regions, land costs are particularly low in the Atlantic provinces, Quebec and British Columbia.

The reasons for this small share of total revenues are not immediately obvious. It may be that builders have, on average, held the land for many years, which means therefore that costs (the original price paid plus carrying costs) are considerably below market value at the time of construction. This is a possible explanation but unconvincing since many builders buy land only a year or two before construction. Another reason may be that servicing costs for builders who undertake their own land development may not be included under the land cost category. Whatever the reason, the land cost data reported in the census of residential general contractors are severely understated.

TABLE 25. MAJOR COSTS AS A PROPORTION OF TOTAL REVENUE FOR FIRMS SPECIALIZING IN NEW SINGLE-FAMILY CONSTRUCTION BY REGION, CANADA, 1984

	Cost Component as % of Total Revenue			
Region	Payments to Sub-trades	Materials	Wages and Salaries	Land
Atlantic Provinces	24	38	17	2
Quebec	37	29	9	4
Ontario	41	20	6	12
Manitoba	39	24	6	9
Saskatchewan	38	24	7	7
Alberta	40	25	7	9
British Columbia	35	26	9	4
Canada	38	24	8	8

Source: Statistics Canada.

Note: Data for firms specializing in single-detached construction are used as an approximation for single-family builders.

CONCLUSIONS

The single-family homebuilding industry has shown a high capability for adjusting to the changing marketplace. In times of expanding demand, the number of firms in the industry has increased, with large firms accounting for a greater share of the industry's output; the converse has occurred when demand has declined.

The single-family homebuilding industry continues to be characterized by a large number of small firms building fewer than 25 houses per year, a much smaller number of medium-sized firms building 25 to 99 houses per year and only a handful of large firms building 100 or more houses per year. Most large builders are still small compared to average-sized firms in many other goods-producing industries, which suggests an absence of substantial economies of scale (that is, an inverse relationship between costs per unit and the number of houses built). Various efforts at creating a super single-family building firm (a large-scale firm operating in numerous major market areas) have failed. The medium-sized and large firms account for most of the industry's output, however.

The structure of the single-family homebuilding industry varies widely across the country. All major urban markets have a large number of small firms, reflecting the ease of entry into the industry that has been a characteristic over the entire postwar period. Less uniform is the role played by large builders. Some major markets, such as Toronto, Ottawa and Winnipeg, have a number of large builders who account for more than 40 percent of all single-family houses built by the housing industry; other markets, such as Montreal and Vancouver, are conspicuous by the absence of a contingent of large builders. These structural differences reflect, in part, local market differences, such as differences in land ownership patterns and the regulation of the building and land development processes. In no instance, however, does it appear the industry structure in major urban markets is such that a limited number of large firms have the power to control prices or market share.

Mobile home manufacturers have failed to become an established force in the single-family homebuilding industry, though they did excel briefly in the early 1970s.

The financial returns from homebuilding are related closely to market conditions and the competitive environment. Generally, homebuilding was extremely attractive from a financial perspective in the mid-1970s but has been much less so in the first half of the 1980s.

CHAPTER THREE
THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY

The residential land development industry is defined broadly to include firms responsible for the conversion of raw suburban land to serviced residential land use, as well as those responsible for the conversion of land use in built-up areas for new housing (for example, buying several adjacent existing houses, demolishing them, obtaining a rezoning for apartments and preparing the site for the construction of apartments). The focus of this chapter is on the suburban land developer.

Land markets are more complex than markets for new housing construction. Local factors, such as topography, land ownership, the municipal planning process, servicing standards, taxation and financial requirements and attitudes toward residential growth, all shape the features of the residential land market and, thus, the land development industry. These are in addition to market conditions and the availability of entrepreneurial talents.

The land development industry also differs from the single-family homebuilding industry to the extent that governments in specific market areas have been involved actively in land development. A number of municipalities across the country contain large subdivisions developed by provincial or municipal governments, usually with federal financial support. In some areas, the municipality remains a major developer of new lots. However, with a few notable exceptions (such as the City of Saskatoon), most serviced residential land during the postwar period has been brought on stream by the private sector.

The focus of this chapter is on the "national" land development industry, though clearly, such a perspective is based more on notion than that provided for the single-family homebuilding industry. Data sources for land developers are even more scarce than for builders of single-family homes, and the information available tends to be for individual areas. Because of these limitations, much of the discussion relies on regional information; case studies are used where available to illustrate broader points.

This chapter concentrates on the characteristics of private-sector subdivision land developers and how they have changed over the past 40 years.

THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY AT THE END OF THE SECOND WORLD WAR

Various studies, as well as interviews conducted for this study, provide insights into the nature of the land development industry in the immediate postwar period.

Land Supply not a Problem

The 1944 Curtis Report ignored land in its analysis of the costs of providing new housing and possible measures for reducing these costs. Other than mentioning the "cost of land, and the costs of land acquisition" as one of seven components of housing costs, no further reference is made to land supply or costs in this landmark study.[1]

The Curtis Report strongly favoured town planning, noting that the backlog of unplanned city growth had the result that "to-day, many cities and towns are facing a critical situation, in terms of property deterioration, uneconomic expansion at the outskirts, and a tax-revenue impasse."[2] "Also, the proper use and regulation of land, and the enforcement of minimum standards for community design and development have become matters of imperative necessity."[3] The report referred in a footnote to the costs of municipal services, which are directly affected by the efficiency of the urban pattern.[4]

W.C. Clark, the Deputy Minister of Finance in 1937, considered the high cost of land as one of four major causes (but not the most important one) of the high cost of housing.[5] Clark also considered the problem to be one of excessive servicing costs resulting from the haphazard pattern of urban development. The supply of serviced lots was not an issue with Clark.

In his study of urban land policy during the 1900–85 period, Michael Gordon noted, in commenting on the Curtis Report, that "unlike much of the planning literature from the 1920s, there was no criticism of the land development industry."[6]

Many municipalities had a large municipally owned land bank at the end of the Second World War. Property tax defaults in the 1930s, and earlier in the Prairies, resulted in much land passing into municipal ownership.

In Edmonton, for example, 70,000 lots reverted to the city after tax sales during the 1918–20 period; by 1954, 30 percent was still in municipal ownership.[7]

Municipalities in the Winnipeg area, which had acquired thousands of tax sale lots in the 1920s, acquired thousands more in the 1930s; the lots had little or no value at the time, and the owners simply stopped paying taxes. By 1937, the City of Winnipeg alone owned 36,526 building lots.[8] These lots often were sold cheaply as municipalities competed to attract residents.

The City of Montreal also had a large quantity of tax sale land, as did municipalities in the Vancouver area. It acquired a substantial amount of land in the 1930s through tax defaults and by 1948, had a considerable amount of serviced land for sale.

In other municipalities, such as Ottawa and Halifax, that did not have large municipally owned supplies of building lots, supply at the end of the war was sufficient to meet the demand for a few years. Large private land assemblies existed as well. Home Smith, for example, owned 1,500 acres in the Township of Etobicoke, which had been purchased in 1910. The firm would have lost the land in the 1930s had the municipality not decided it was better to get some tax revenue than none at all; a deal was subsequently arranged.

Land Costs Relatively Low

Lot prices were comparatively low in the mid-1940s. O.J. Firestone estimated that land costs accounted for around eight percent of the combined land and construction costs of a single-detached house; the average lot for NHA-financed houses in 1948 cost $566.[9] Servicing costs generally were not included in the lot price at that time, and the level of services provided was rudimentary.

Industry not Formalized

While there was no shortage of building lots in the immediate postwar period, to the extent that it existed and consisted exclusively of small operators, there was a fear that the land development industry would be incapable of producing the large amount of serviced lots needed for returning war veterans. "If anything, the [federal] government wanted to encourage consolidation of the land development industry."[10] However, the 1944 NHA contained no provisions in this regard.

The industry was rudimentary at best during this period. To illustrate, Halifax had no land development industry in the early years after the war. The subdivisions that did exist generally were small and scattered. People who owned the land laid out their own subdivisions. Small builders would buy two or three lots; after building and selling the houses, they would then buy another two or three lots and begin building again.

LAND COST TRENDS

A statistical series published by CMHC for the 1947–79 period regarding land costs for new single-family houses insured under the National Housing Act is used to document postwar land price trends.[11]

Land Costs Rose Inexorably Through the Early 1950s

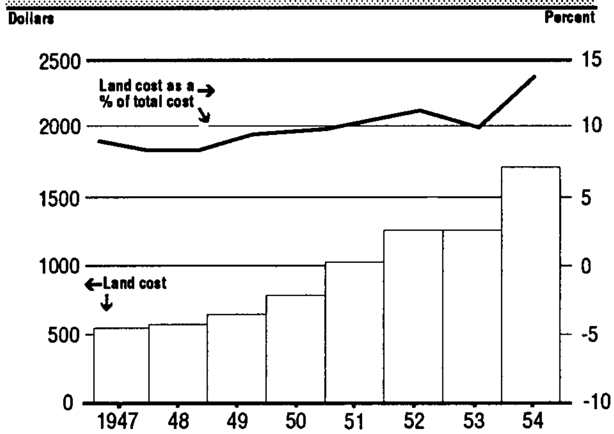
The extreme pressures of demand and the efforts of some municipalities to obtain upfront some of the servicing costs from land developers (in most municipalities the costs were previously financed through local improvement charges) resulted in land costs sharply rising, particularly during the early 1950s. Lot costs more than tripled between 1947 and 1954, and their share of total new house costs climbed from 8.3 percent to 13.9 percent. (See Figure 12.)

Increases Much More Subdued in the 1960s

Lot prices continued to increase throughout the 1950s, reaching 17.5 percent of total new housing costs by 1959.

While lot prices also rose through the 1960s, the increases were much more subdued than in the 1950s. Lot

FIGURE 12. AVERAGE ESTIMATED LAND COST OF NEW SINGLE-FAMILY HOUSES FINANCED UNDER NHA, CANADA, 1947–54

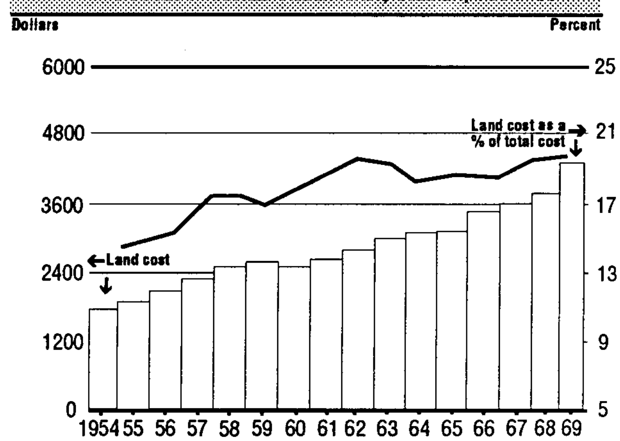


Source: CMHC.

Note: Data for one-storey single-detached houses are used as an approximation for all single-family homes.

prices increased at an only slightly more rapid rate than total new housing costs during this period. Land costs as a proportion of total new housing costs amounted to 19.6 percent in 1969, up only marginally from 17.2 percent at the beginning of the decade. (See Figure 13.)

FIGURE 13. AVERAGE ESTIMATED LAND COST OF NEW SINGLE-FAMILY HOUSES FINANCED UNDER NHA, CANADA, 1954–69



Source: CMHC.

Note: Data for single-detached houses are used as an approximation for all single-family houses.

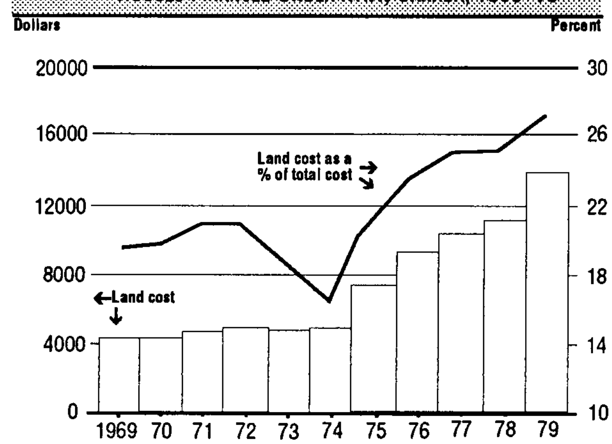
It is no coincidence that the rapid rise in lot costs in the 1950s coincided with a period of buoyancy in single-family house construction, with at least some of the increase demand-induced. Similarly, the more subdued lot cost increases in the 1960s occurred during a period of fairly stable levels of construction.

In the late 1960s, lot prices were highest in Ontario (particularly in Toronto, Ottawa and Hamilton) and lowest in Quebec. British Columbia also had comparatively high land prices.

Rapid Rise in Lot Prices Resumes in the Late 1970s

Prices of lots for single-family houses resumed their rapid increase in the late 1970s (Figure 14). By 1979, the average price of land for NHA-financed new houses had risen to $13,568 from just $4,201 a decade earlier. Lot costs in 1979 accounted for 26.5 percent of the total price of NHA-financed new houses across Canada. For metropolitan areas alone, the proportion was even higher—over 30 percent.

FIGURE 14. AVERAGE ESTIMATED LAND COST OF NEW SINGLE-FAMILY HOUSES FINANCED UNDER NHA, CANADA, 1969–79



Source: CMHC.

Note: Data for one-storey single-detached houses are used as an approximation for all single-family homes.

Lot Prices Still Lowest in Quebec in Mid–1970s

The importance of land costs in the total price of new houses varied widely among larger market areas in the mid-1970s, according to Statistics Canada estimates. As shown in Table 26, land costs ranged from a low of 10.9 percent of total new house prices in Montreal in 1976 (in

Quebec at this time, servicing costs were still being financed almost exclusively through local improvement charges) to a high of 37.7 percent in Toronto. In relation to total new house prices, land costs were comparatively low in Regina, Saskatoon, Halifax and St. John's but higher in Calgary and Vancouver.

Table 26. Lot Price Weights for New House Price Index, 1976

	Serviced Lot Price as Percent of Total New House Price[a]
St. John's	16.8
Halifax	20.1
Montreal	10.9
Ottawa-Hull	27.2
Toronto	37.7
Kitchener	32.4
Winnipeg	27.7
Regina	17.8
Saskatoon	22.5
Calgary	34.1
Edmonton	30.1
Vancouver	35.2

Source: Statistics Canada, Construction Price Statistics, *February 1984, Table 11.*

[a] These data are not strictly comparable owing to the differing mixes of single-detached, semi-detached and row housing.

Lot Prices Slump, Then Recover in the 1980s

While reliable statistical data on lot price trends are not available in the first half of the 1980s, without doubt they were deeply affected by the 1981–82 recession. Many markets, particularly in Alberta and British Columbia, recorded sharp declines in lot prices because of the recession and a response to the market excesses of the late 1970s and the early 1980s.

In various parts of the country, lot prices increased again in the mid-1980s, particularly in southern Ontario and, to a lesser degree, Quebec. In Quebec, a growing shift in the financial responsibility for land servicing to builders/developers by a number of municipalities undoubtedly has exerted upward pressure on land prices.

CHANGES IN THE EARLY POSTWAR PERIOD

Two major developments occurring in the early postwar years had significant repercussions on the shape of the residential land development industry in this country. First, the supply of pre-war housing lots soon disappeared in the face of strong demand pressures for new housing. Second, municipalities outside Quebec responded by shifting the financing burden of land development to the private land development industry.

A Growing Concern about Lot Supply

Many municipalities appear to have exhausted their available supply of serviced lots, and the capacity of existing trunk services had been reached by the early postwar years.[12] The National Housing Act (NHA) was amended in 1949 to allow for the public assembly of residential land (under a joint federal-provincial initiative).

However, often a prolonged lag occurred between the time CMHC made commitments for land assembly projects and the subsequent production of serviced lots. During a speech in 1952, the federal minister responsible for CMHC stated that "up to date, some 3,500 acres, involving 14,000 lots are being prepared for servicing under the provisions of Section 35."[13] Yet, Peter Spurr was to document later that only 4,528 lots were approved during the 1950–54 period and only 7,697 lots were approved during the entire decade of the 1950s.[14]

Land assembly activity was also undertaken under Section 19 of the 1944 NHA. Four projects, containing 910 lots, started in 1947 and one in each of the subsequent three years.[15] A total of 1,952 lots were initiated under this Section.

Given estimates of the need for 22,000 acres of residential land per year Canada-wide, it is clear the federal involvement in land development was relatively minor between 1945 and 1954.[16]

Municipal Finances a Constraint

At the end of the war, many municipalities had available supplies of serviced land, as well as extra capacity in their services, including education. However, this situation soon changed:

> The continued growth of residential construction at record levels ate up this surplus, and it was not long before virtually every new house in the average municipality meant new roads, new sewer, new water, new school buildings and generally an extension of the municipality. At the same time, costs were rising, the expense of administration was increasing with resultant effect upon taxes, and in recent years the money markets have not been to the liking of the municipalities.[17]

Municipalities responded to these pressures for residential land in a number of ways: by requiring developers to instal services in their subdivisions at their own expense; by discouraging small houses; by discouraging residential development in general; or by requiring a cash contribution be made to the local school board.

Prepaid Services Became the Rule, with Quebec the Main Exception

The shift to prepaid servicing, for which the land developer pays the cost of installing roads, sewers and related services instead of the homeowner paying over a number of years through local improvement charges, was largely a product of the 1950s. By 1960, two-thirds of the lots for NHA-financed houses had prepaid services.[18] The main exceptions were Quebec and, to a lesser extent, British Columbia.

Many municipalities also responded to the financial pressures of growth both by requiring developers to front-end the cost of extending trunk services to their lands and by increasingly imposing lump sum charges per lot developed (often referred to as lot levies or imposts). With the burden of financing shifting from the municipality to the developer, many municipalities began to demand higher levels of services from the developer.

The result of this fundamental shift in the method of funding the provision of municipal services to new subdivisions was a substantial increase in the capital funds required by land developers.

EVOLUTION OF THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY: TWO CASE STUDIES

To understand how the land development industry evolved over the postwar period, it is useful to examine two markets for which information is readily available—Ottawa and Winnipeg. In the former case, an MA thesis by Harold Watson, which covered the 1950–75 period in Ottawa, is the primary information source; for Winnipeg, a number of sources are used.

The Evolution of the Ottawa Residential Land Development Industry, 1950–75

The structure of the Ottawa residential land development industry changed considerably over the 1950–75 period in the following ways:

- Ottawa had a sizable number of land developers in the early 1950s.

  In the Ottawa area (the City of Ottawa and the townships of Nepean and Gloucester), a total of 98 residential land developers were active during the first half of the 1950s. While most of these developers were small (half of them developed fewer than 25 lots in total during the five-year period), several larger developers were in existence as well, with two firms developing more than 300 lots each during this period. Despite the existence of larger firms (the largest four firms developed 30 percent of the lots), the existence of a number of small firms indicated "the development industry in Ottawa was structurally large and yet competitive."[19]

  Two important events in the early 1950s had significant implications on the longer-term evolution of the residential land development industry in Ottawa. Before 1952, the City was responsible for virtually all aspects of subdivision construction, from design through sewer construction.[20] However, this scenario began to change in 1952. Second, the Ottawa area was subjected to containment pressures, to discourage development in the greenbelt, both from the Ottawa Planning Board and the federal government, through the Federal District Commission, the predecessor of the National Capital Commission, and CMHC.[21]

- Concentration increased in Ottawa through to the early 1970s, then reversed in the late 1970s.

The residential land development industry in the Ottawa area became increasingly concentrated over the 1955–75 period (Table 27). The share of total lots receiving municipal approval by the four largest firms tripled from 30 percent in the first half of the 1950s to 89 percent in the first half of the 1970s. The total number of developers declined sharply from 98 in the early 1950s to eight in the early 1970s.

Table 27. Structure of the Residential Land Development Industry Ottawa, 1950–75

	1950–54	1955–59	1960–64	1965–69	1970–75
Number of subdivisions	122	118	61	29	17
Number of developers	98	90	37	16	8
Market share of four largest developers (%)	30	45	53	63	89
Developers by Size (Lots):[a]					
2–10	16	13	3	3	1
11–25	33	28	9	3	1
26–50	27	12	7	1	0
51–100	9	21	6	2	1
101–300	11	14	8	4	2
301–1,000	2	2	4	3	3
Total	98	90	37	16	8

Source: Harold Watson, The Residential Land Development Industry: Selected Case Studies of Concentration in Local Markets, 1950–75, *Table 5–1. An MA thesis submitted to the University of Western Ontario, 1979.*

[a] Total lots developed during the five-year period.

However, in the late 1970s, in response to the buoyant market conditions existing during the mid-1970s, subdivision activity increased in terms of the number of applications submitted and the number of firms involved. Larger developer firms not previously involved in the Ottawa market, such as Cadillac Fairview and Headway, entered the market during this period.

- Large number of small firms left the Ottawa market from the mid-1950s to the mid-1970s.

Watson provides unique data for the Ottawa market on the number and size of land development firms entering and leaving the industry over the 1955–75 period. (See Table 28.) During the late 1950s, a significant number of new firms entered the land development industry, and a significant number left, which was true for all size groups of developers. In contrast, during a downturn in demand in the early 1960s, few firms entered the industry, and a sizable number left. This was particularly true for the smallest firms (which developed fewer than 26 lots in total over a five-year period), whose number dropped from 49 in the early 1950s to only six in the late 1960s.

Watson concluded: "It would therefore appear that there has been some significant barrier to entry operating on a long term, preventing smaller producers from entering the Ottawa market."[22]

- There were reasons for increased concentration in the Ottawa land development industry.

Actions and policies of municipalities and the federal government in the Ottawa area, and to a much lesser degree market conditions, appear to be the factors behind the significant reduction in the number of land developers operating in the Ottawa area between 1955 and 1969.

The reasons for the concentration identified by Watson include the following:

Table 28. Turnover of Residential Land Development Firms Ottawa, 1955–75

	Total Number of Lots Approved During Five-year Period			
	2–25	26–50	51–100	101–1,000
1955–59				
Number of firms at beginning of period	49	27	9	13
Number of firms entering	33	9	15	9
Number of firms exiting	41	24	3	6
Number of firms at end of period	41	12	21	16
1960–64				
Number of firms at beginning of period	41	12	21	16
Number of firms entering	8	6	4	7
Number of firms exiting	37	11	19	11
Number of firms at end of period	12	7	6	12
1965–69				
Number of firms at beginning of period	12	7	6	12
Number of firms entering	5	0	2	3
Number of firms exiting	11	6	6	8
Number of firms at end of period	6	1	2	7
1970–75				
Number of firms at beginning of period	6	1	2	7
Number of firms entering	2	0	0	2
Number of firms exiting	6	1	1	4
Number of firms at end of period	2	0	1	5

Source: Harold Watson, The Residential Land Development Industry: Selected Case Studies of Concentration in Local Markets, 1950–75, *Table 5-5. An MA thesis submitted to the University of Western Ontario, 1979.*

- The prohibition on building new housing in the greenbelt restricted the supply of land for new housing. In 1955, CMHC refused to provide NHA financing for new housing in the greenbelt, and in 1958, the federal government began to acquire 42,000 acres of greenbelt land;

- The shifting of servicing costs to land developers was also a factor. In 1952, the City of Ottawa began requiring developers to pay set fees for sewers, watermains and bituminous asphalt roads. In 1957, the developer had to post a bond to cover the costs of these services. In addition, before 1957, developers could instal either culverts or storm sewers, the latter financed through local improvement charges. Beginning in 1957, the developer had to prepay the construction of all internal storm sewers. The City then introduced lot levies in 1961;

- More complex subdivision processing procedures meant a longer time period for getting land on the market, as well as increased uncertainty as the procedures increased the opportunities for development applications to be refused; and

- Demand for houses was weak in the early 1960s. This downturn in the demand for new houses coincided with the contraction and increased concentration in the land development industry. It appears that large firms were better equipped to withstand the downturn.

The Evolution of the Winnipeg Residential Land Development Industry

The Winnipeg residential land development industry experienced a marked transformation in the three decades following the Second World War. This transformation was characterized in the following ways:

- Winnipeg had no formal private land development industry for nearly a decade after the war.

  During the first decade of the postwar period, almost all homebuilding in Winnipeg was undertaken on lots acquired by municipalities through tax sales in the 1920s and 1930s.[23] The lots were often sold quite cheaply as municipalities competed to attract new residents.

- Large land developers increased in number in Winnipeg.

  Winnipeg witnessed the rise of five major private-sector land developers over the two decades beginning in the 1950s.[24] Two of these developers, Quality Construction and Metropolitan Construction, were also large-scale builders constructing houses at the rate of several hundred per year. One developer, Ladco (the Land Acquisition and Development Company) was a co-operative of 38 builders established in 1956. Simkin's Construction

Company, the predecessor to British American Construction Materials (BACM) and subsequently bought out by Genstar, started to develop land in the early 1950s. Winnipeg Supply and Fuel also entered the land development business in the 1950s.

Simkin's Construction appears to have been the first large developer to enter the Winnipeg market. It developed primarily in Transcona and the Kildonans (each large developer in Winnipeg tended to have its own area). The company was incorporated as a general contractor in 1948 and entered the fields of highway construction, earthmoving and gravel crushing in 1950–51. At this time, suburban municipalities in Winnipeg were land rich because of tax-forfeited land, but cash poor (many had gone bankrupt). Simkin's apparently arranged a deal to front-end servicing costs for municipally owned land. Simkin's expanded its operations during the early 1950s and purchased Model Homes to be its construction arm. It continued to grow in size and undertake larger projects. In 1967, BACM, as the company was then known, acquired Engineered Homes (BACM was subsequently acquired by Genstar).

Quality Construction (now Qualico Developments Ltd.) was incorporated in 1951 and initially engaged only in homebuilding. With its rapid expansion, the company became concerned with assuring it had a secure supply of building lots. Quality was one of the founders of Ladco and for many years obtained the bulk of its lots from Ladco. However, Quality had acquired some small land parcels and serviced them in the 1950s for its own use. In 1969, Quality experienced difficulty obtaining lots from Ladco and began to purchase large parcels of land and instal services; it developed its first major subdivision in 1973.

■ Winnipeg was still characterized by the dominance of large development firms in the early 1970s.

By 1973, the "big four" in Winnipeg (Ladco, Qualico, Metropolitan and BACM) were producing over 80 percent of the residential lots built on each year.[25] The market share of these companies was enhanced by the city's policy that land tracts closest to the built-up area had to be developed first (after 1973 this became mandatory).

The big four developers owned just one-third of all vacant land between the built-up area and the perimeter highway in the City of Winnipeg at the end of 1976 (Table 29). However, this proportion is somewhat misleading since their share of land expected at the time to be developed over the next 10 years was considerably higher.

Table 29. Ownership of Vacant Land Between the Built-Up Area and the Perimeter City of Winnipeg, December 1976[a]

Owner	Acreage	Percent of Total
Big four developers	10,200	32
Manitoba Housing & Renewal Corp.	3,200	10
City of Winnipeg/Province of Manitoba	2,000	6
47 private companies, owned by 31 speculators	2,600	8
Two individual speculators, 350 acres each	700	2
416 individuals, under five acres each	800	3
187 individuals, five to 10 acres each	1,400	4
367 individuals, over 10 acres each	11,100	35
Total	32,000	100

Source: The Winnipeg Land Prices Inquiry Commission, Report and Recommendations, *1977, p. 52.*

[a] Includes the St. Norbert land tract.

Land prices had increased rapidly in Winnipeg between 1972 and 1976. However, the Winnipeg Land Prices Inquiry Commission found no evidence that this was due to developer conspiracy. Instead, the Commission concluded:

> The very strong demand caused all house prices, new and old, to rise sharply. Despite considerable increases in construction costs, it became very profitable to build houses for sale at the prevailing price levels. Builders sought to increase substantially the number of houses they built, and therefore looked for a greatly increased number of building lots on which to erect them.
>
> The number of available building lots increased—more houses were built between 1972 and 1976 than in any five-year period of the previous two decades—but even more were being demanded. The lot supply did not increase more rapidly than it actually did primarily because:

1. Planning regulations restricted new subdivisions to land contiguous to the built-up area.

2. The switchover from "Metro" to "Unicity" brought the approval process to a virtual halt for about a year. Once in operation, the new approval process was more time-consuming and involved greater uncertainty than the former process.

3. Delays occurred in the installation of necessary public works, largely because of capital constraints.

4. Because the scale of the demand that materialized was not anticipated, some preparatory arrangements were inadequate.

The failure of supply to increase as rapidly as demand was responsible for sharp increases in price.[26]

Lessons from Ottawa and Winnipeg

The lesson from the Ottawa and Winnipeg case studies is that government actions, particularly those at the municipal level, combined with market forces are primary determinants of the structure of the residential land development industry. Through their imposition of large upfront financial and servicing requirements, lengthy land approval processes and restrictions on the amount and phasing of land permitted for development, municipalities promote large land development firms. Market conditions (for example, the downturn in Ottawa in the early 1960s) can reinforce these trends.

THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY IN OTHER MUNICIPALITIES

Some literature is available on the structure of the land development industry in urban markets other than Ottawa and Winnipeg; however, this information is not as thorough, particularly about the time periods covered.

Smaller Land Developers Prevalent in Vancouver

Work by Michael Goldberg and Daniel Ulinder in the mid-1970s (Table 30) showed that the structure of the land development industry was quite different in British Columbia than in either Ottawa or Winnipeg, with the industry being characterized by a large number of smaller firms.

Table 30. Residential Land Developers by Size of Operations British Columbia, 1972 and 1975

Average Annual Lots Subdivided Over Last 3 Years	1972	1975
	Percent	
1–15	39	34
16–35	17	27
36–75	22	14
76–150	22	11
More than 150	0	14
Total	100	100

Source: Michael A. Goldberg and Daniel D. Ulinder, "Residential Developer Behaviour: 1975," Housing: It's Your Move, *Volume II, 1976. University of British Columbia, p. 278.*

Their research also found a high degree of linkage between homebuilding, apartment development and the land development function. Of all the firms surveyed in 1975 who undertook at least one of these functions, 94 percent reported some involvement with land assembly and 85 percent reported some involvement with site planning and subdivision design.[27]

Goldberg and Ulinder also discovered that options were used as a cost-saving and risk-reducing device by land developers, as well as by single-family and apartment homebuilders, in their purchase of land. British Columbia developers in the mid–1970s also were concerned about the apparent long delays in approvals.

In 1970, Price attempted to determine why Vancouver lacked the large-scale homebuilders active at the time in Calgary, Toronto, Winnipeg and Ottawa. He attributed it to the expense and difficulty of assembling large land tracts in the Vancouver area (an explanation that would appear to apply to the under-representation of large land developers as well). This is partially because the average farm size in the Vancouver area (Fraser Valley) was just 38 acres in the early 1970s, considerably below the average farm size of 121 acres in Montreal, 139 acres in Toronto, 199 acres in Ottawa, 300 acres in Edmonton and 668 acres in Calgary.[28]

The City was the Largest Developer in Edmonton in the First Half of the 1970s

The residential land development industry in the Edmonton area had become highly concentrated by the early 1970s. During the 1970–73 period, the six largest developers accounted for three-quarters of all single-family lots developed. A unique feature in Edmonton, compared to most other market areas, was that the City of Edmonton itself was the single largest land developer during the 1970–73 period, accounting for 29 percent of all lots developed. (See Table 31.)

Table 31. Developers of Single-Family Lots by Size of Operation[a] Edmonton Sub-Region, 1970–76

Developer	September 1970–August 1973 Number of Lots	September 1970–August 1973 Percent of Total	September 1973–August 1976 Number of Lots	September 1973–August 1976 Percent of Total
City of Edmonton	1,905	29	3,007	19
BACM	189	3	2,630	16
Abbey Glen	1,786	28	2,188	14
Qualico	b	b	1,636	10
Alldritt	392	6	1,076	7
Melcor	293	4	1,002	6
Nu-West	b	b	711	4
Belvedere	279	4	599	4
Trader's	179	3	541	3
MacLab	55	1	494	3
Other developers	1,406	22	2,245	14
Total	6,484	100	16,129	100

Source: Richard Cook, Lot Prices and the Land Development Industry in Edmonton, Canada, 1971–76. *A thesis submitted to the University of California, Berkeley, 1977, p. 27.*

[a] Data for single-detached lots are used as an approximation for single-family lots.

[b] Not one of the 10 largest developers in 1970–73.

Lot development was still concentrated during the 1973–76 period, although slightly less so than during the previous three years. The six largest producers accounted for less than 72 percent of all lots developed. Once again, the City of Edmonton was the single largest developer, with 19 percent of the market. (The city's lot production consisted entirely of the large Mill Woods project in southeast Edmonton.) Two new firms had entered the ranks of the top 10 developers in this period — Nu-West of Calgary and Qualico of Winnipeg. The number of serviced lots developed during this period was more than double the number three years earlier.

According to Richard Cook, during the 1970–76 period the Edmonton residential land development industry experienced a tremendous growth in assets and increased vertical integration into homebuilding and other areas, horizontal expansion into other market areas and joint ventures among the largest firms.[29] Some examples of consolidation include the acquisitions of BACM by Genstar in the late 1960s and of Abbey Glenn by Genstar in August 1976, respectively. Abbey Glenn in turn had been created just three years earlier through the merger of Western Realty and Great Northern Capital (Great Northern controlled Home Smith Properties). In 1976, Genstar was the giant in the Edmonton land development industry. Nu-West's role in Edmonton was largely through its ownership of 48 percent of Carma (Nu-West's ownership share climbed from 18 percent in 1969 to 48 percent by 1976). As noted in the next major section, Carma was launched as a co-operative land venture owned by a number of homebuilding firms.

Cook concluded that the change in the financing of services from municipal to developer financing, which occurred in the last half of the 1960s, was an extremely important factor limiting the number of residential land development firms. He also concluded that the shift from the subdivision of smaller land parcels to large parcels was a factor as well.

A Number of Large Residential Land Developers in Toronto

By mid-1955, a number of substantial residential land development firms had emerged in Toronto. In Etobicoke, Home Smith Properties, which had owned 1,500 acres since the early 1900s, was developing the Kingsway area. E.P. Taylor was developing the famous Don Mills development in North York, and his company, Canadian Equity and Development, was assembling land in Toronto Township for what eventually became Erin Mills. Gordon Shipp was active in the western part of the Toronto area, as was McClintock in Scarborough. A predecessor of Bramalea Limited assembled a large land tract for the new town of Bramalea in Chingacousy Township (now part of the City of Brampton).

Through the late 1950s and early 1960s, the number of large land developers in the Toronto area increased. According to Jeremy Rudin in a study of the land development industry in the Toronto area, "It is not difficult to see a relationship between the growing involvement of all levels of government in the land development process and the concomitant growth of large land development corporations."[30] An important consideration here was the effort to channel growth to areas where trunk services were available (Metro Toronto stopped approving septic tank subdivisions in 1955).

In general, similar factors encouraging the concentration of land development by fewer and larger firms were at work in Toronto as in Ottawa.

A great deal has been written about the Toronto area residential land market in the 1970s. A pre-eminent characteristic of the market appeared to be the large market share accounted for by large development firms. However, this perception was later documented to be erroneous, as the market share of these firms was much less than thought.

In 1972, Michael Dennis and Susan Fish referred to "the size and power of the firms that have taken over the land development field."[31] They noted that three firms alone—Bramalea Development Corporation Ltd., Canadian Equity Ltd. and S.B. McLaughlin—each owned in excess of 5,000 acres on the western fringe of Toronto. Other major landowners at the time were George Wimpey (Canada) Ltd., Monarch Construction Ltd., Richard Costain (Canada) Ltd., Markborough Properties Ltd. and Victoria Wood Development Corporation. Dennis and Fish related the land holdings of the six leading developers (18,000 acres in 1971) to the residential land requirements projected by CMHC for the Toronto market over a 10-year period (19,600 acres) to indicate the extent of concentrated ownership.

As Muller commented a few years later on the work of Dennis and Fish:

> The implicit conclusion is that the largest developers control over 90 percent of future residential land requirements. This approach is clearly misleading, since it ignores all but 1,600 acres held by developers other than the top six. Clearly it is the share of the largest developers in the ***total*** developable land in the area which is relevant to the study of concentration.[32]

In 1977, J.R. Markusen and D.T. Scheffman undertook a systematic analysis of the ownership of land in the Toronto area within a 30 to 45-minute commuting distance of the core and which could have access to trunk services in the next 10 years.[33] They found that the six largest firms controlled 40 percent of the vacant land, though in specific municipalities the concentration was higher (62–67 percent for Brampton, Markham, Mississauga and Pickering, etc.).

They concluded that the measured level of concentration was not sufficient to allow monopolistic behaviour:

> In the opinion of the authors, it cannot be concluded on the basis of the evidence on concentration that we have presented that exercised market is an important characteristic of the Toronto land market. We base this opinion on the data and our belief that the cross run elasticity of demand for the land in adjoining municipalities is probably quite large.[34]

Markusen and Scheffman's assumption about a high cross elasticity of demand for residential land among municipalities within the Toronto area has been the subject of some criticism. However, subsequent events suggest the assumption is reasonable.

Muller concludes: "In brief, land ownership is far less concentrated than popular belief has it, but it is equally far from being unconcentrated, particularly in subregional markets."[35]

Concentration of the ownership of potentially developable land is only one aspect of the land equation; this is the source of land in the longer term for land developers. The supply of serviced lots is the actual product of the land development industry, and land developers and the owners of potentially developable land are not necessarily the same.

Muller found large land developers were active in the Toronto market in the mid-1970s, but there was no great dependence on large firms (as Watson showed was the case in Ottawa). Of the 18,734 single and semi-detached lots registered between 1973 and mid-1975 in the Toronto Census Metropolitan Area, the four largest firms accounted for 33 percent, the largest six firms for 43 percent and the largest 10 firms for 54 percent of the lots. The largest developer was the combination of Wimpey-Markborough, which had registered 12 percent of the lots (these two firms were linked by Muller because the two companies had some of the same directors). (See Table 32.)

An agency of the Ontario Government—the Ontario Housing Corporation—was the fourth largest developer during this period. Smaller, mostly private companies accounted for the remaining nearly 50 percent of the lots registered.

Muller explored possible barriers to entry that could account for the existence of the relatively large number of large development firms in Toronto. He found the clearest barrier was ownership of land, particularly land scheduled for development by planning authorities.[36] He also concluded there was some evidence of economies of scale for firms developing on a community scale.

Table 32. Largest Registrants of Single-Family Building Lots, Toronto Census Metropolitan Area, 1973–June 1975

Name	Number of Lots	Market Share (%)
Wimpey-Markborough	2,203	11.8
Bramalea	1,532	8.2
Cadillac-Fairview	1,481	7.9
Ontario Housing Corp.	1,032	5.5
Deltan-Morenish	925	4.9
Consolidated Building	912	4.9
Victoria Wood	645	3.4
Monarch	547	2.9
Woodbridge West	427	2.3
West Hill Redevelopment	325	1.7
Sub-total	10,029	53.5
Other	8,705	46.5
Total	18,734	100.0

Source: R.A. Muller, The Market for New Housing in the Metropolitan Toronto Area, *Ontario Economic Council, 1978, p. 95.*

Note: Data for single-detached and semi-detached lots are used as an approximation for single-family lots.

THE GROWTH OF BUILDER-OWNED CO-OPERATIVE LAND DEVELOPMENT COMPANIES

The late 1950s saw the establishment of several builder-owned co-operative residential land development companies in which a number of builders in a given market area banded together to assure an adequate land supply. These companies included Ladco in Winnipeg, Carma in Calgary and Buildevco in Kitchener.

Established in 1955, Ladco consisted of 38 members, 32 of which were small builders. Its first development was a 750-acre site called Windsor Park. Its board of directors consisted of four directors appointed by four large builder members and three directors appointed by Builders Investments, a holding company of the Winnipeg Housebuilders' Association, which consisted of 32 small builder stockholders.[37] As discussed previously, Ladco gradually came under the ownership of one company and expanded into homebuilding in 1969.

Carma became the most widely known of the builder-owned co-operative land development companies. It was established in Calgary in 1958 by approximately 40 homebuilders. At the time, small builders were encountering trouble acquiring serviced land because most land development was undertaken by large firms primarily for their own use.[38] Carma developed 275 lots in 1958 and proceeded to grow rapidly. From 1958 to 1971, it sold a total of 10,000 lots in Calgary alone (an average of 769 per year). Carma subsequently expanded its operations to Vancouver, Edmonton, Prince George and Hamilton. Carma eventually became 48 percent-owned by Nu-West. However, Gluskin argued that the control by Nu-West was theoretical since, in practice, Carma sold land at market prices and only one-quarter of its lot production was acquired by Nu-West.[39] Carma exists today, but its scale of operation has been sharply curtailed.

Buildevco (Builders' Land Development Company) was established in the late 1950s by 33 of the 45 builder members of the Kitchener affiliate of the then National House Builders' Association. The new firm bought and quickly developed two small parcels; it then purchased the 1,400-lot Stanley Park site. By the mid-1970s, Buildevco's builder membership had been reduced to two. There was also a builder land co-operative established in Sarnia.

For the most part, these builder-owned land development companies did not have long-term survival rates as co-operative land ventures. The short-term time horizons of the builder members appeared to be a major factor contributing to the lack of success of the co-operative ownership approach.

MODUS OPERANDI *OF THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY*

Studies about how land developers structure their internal operations or how they operate have not been comprehensive. From the information base available, it is virtually impossible, given the diversity of the industry, to provide a representative discussion.

Based on the literature reviewed and interviews conducted, the information presented is intended to provide some limited insight into developer behaviour.

A Tale of Two Companies in Halifax

In the early 1950s, Commodore Construction was established by five individuals in Halifax for the sole purpose of land development; none of the principals had a land development or building background.[40] They obtained funds to buy land from the profits on the sale of the Commodore apartments, an existing project they had purchased a few years earlier as an investment. They purchased a farm in Dartmouth and paid 15 percent down; the farmer took back a mortgage for the remainder. Services consisted of water, septic tanks, gravel roads and open drainage ditches. There was no bridge connection between Dartmouth and Halifax at the time, only a car ferry. They targeted the lower end of the market initially and built 10 houses on speculation for the Department of National Defence (DND). With the opening of the MacDonald Bridge in 1956, demand for land in Dartmouth picked up considerably.

In 1958, they purchased more land from the farmer, bringing the total acreage of Commodore Park to 60 acres. Initially, they hired a contractor to build the houses since they were primarily involved with land development. However, they were not making much money, so they hired their own foreman in 1958. They moved into homebuilding reluctantly since they wanted to remain primarily land developers. Commodore eventually diversified into industrial land development. By the mid-1970s, their land supply was exhausted, and they left the residential land development business altogether.

Clayton Developments was established in 1960 by four wealthy partners who saw an opportunity to make money in land development, as well as to reinforce their own business interests (for example, Lloyd Shaw was in the brick manufacturing business, and Lloyd Alan was in road building). They purchased a piece of property from the estate of a person whose last name was Clayton—hence the name Clayton Park. The original purchase comprised approximately 100 acres, but the land parcel grew to about 300 acres. The principals went to Don Mills to view the results of a planned community of the type they wanted to create in Halifax. They hired Toronto-based Project Planning Limited (the firm that had designed Don Mills) to design and, for the first few years, manage the development of Clayton Park. Outside builders were brought in to build houses under strict architectural controls. Later, Clayton Developments built houses themselves to expedite the sale of serviced lots.

In the 1970s, the company bought from 500 to 600 acres in Dartmouth, which became Colby Village. While still operating primarily in the Halifax area, the company is an integrated real estate company. Its activities in the mid-1980s, in addition to residential land development, include townhouse and apartment construction, retail development and property management.

Marketing Strategies of Large Winnipeg Land Developers

The 1977 Winnipeg Land Prices Inquiry Commission provides a concise overview of the marketing strategies of the big four land developers in Winnipeg: Metropolitan Construction produced lots exclusively for its own building subsidiaries; Quality Construction sold some lots to raise cash or when such sales enhanced its marketing strategy; Ladco reserved half to three-quarters of its lots for its building arm; and BACM sold about three-quarters of its lots to other builders. The big four also sold lots to each other to diversify the operations of their building arms geographically.[41]

A Comparison of Toronto and Montreal Land Developers

In 1974, James Kearns completed a comparison of land development industries in the Toronto and Monteal areas and their decision-making processes, based on a small sample of land development firms (a total of 10 firms in the Toronto area and seven in the Montreal area).[42]

Characteristics of the firms operating in these two market areas included the following:

- Average age of firm

  The land development industry in both areas was largely a postwar phenomenon, with the average age of firms surveyed being 21 years in Montreal and 25 years in Toronto.

- Extent of homebuilding

  Eight of the 10 Toronto firms were also single-family homebuilders, as were all seven of the Montreal firms.

- Number of employees

  Half the Toronto developers had over 50 employees, as did three of the Montreal firms.

- Size of land banks

  On average, Toronto developers had much larger land banks than their Montreal counterparts.

- Non-residential development activity

  Most firms in both markets had diversified into non-residential real estate development.

- Publicly owned versus private corporations

  Half the Toronto respondents were publicly owned companies compared with only one of the Montreal respondents.

Kearns concluded that the firms in the two market areas were surprisingly similar, with the exception of their land holdings. He suggested that the methods for financing local services in the two market areas (prepayment by developers in Toronto and local improvement charges in Montreal) helped account for the development firms being larger in Toronto (because of their higher capital requirements).

Kearns also examined the companies' decision-making processes. He found, for example, that smaller companies were able to make decisions about land purchases more quickly as often the decision is made by one individual. In deciding which parcel of land to purchase, Toronto firms were more likely to consider provincial and municipal policies affecting the land and its serviceability, while Montreal firms concentrated more on growth trends and physical features of the land. This likely reflected the more dominant role of the planning process in Toronto.

The majority of Toronto developers financed land purchases with a vendor take-back mortgage, and there appeared to be little use of options. The vendor mortgage was not used as frequently in Montreal, although the use of options was extremely common.

Another difference between the two markets was the considerably shorter time between purchase and development in Montreal "because the governmental approval procedure is simpler and less time-consuming."[43]

The relationship between land developers and outside builders was much closer in Montreal than in Toronto. The majority of Montreal developers that sold lots to other builders also marketed the builders' homes (four out of five). Kearns concluded that attempts by developers to undertake advertising and marketing for the builders in their subdivisions appeared to have failed in Toronto.

FINANCIAL ASPECTS OF THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY

The large upfront capital requirements for land developers—an attribute of most parts of the country (with Quebec being the notable exception)—have been discussed previously. This section briefly reviews the economics of land development and the profitability of land development activity.

The Economics of Residential Land Development

Two examples from the literature illustrate the mechanics of land development economics—Ira Gluskin considered a large land developer in Toronto and Geoffrey Taylor a smaller land developer in Vancouver.[44] These examples are as follows:

- Gluskin's hypothetical Toronto land developer:

  Gluskin considered a hypothetical developer who had acquired a total of 2,500 acres over the 1960–70 period.

  He assumed that the average cost of this land, including carrying charges, was $11,200 per acre in 1970 (for a total cost of $28 million). It was financed by 20 percent equity and 80 percent debt. The annual cost of holding this land was $2.8 million (interest costs of $1.8 million, mortgage repayment of $0.2 million, property taxes of $0.3 million and administration and consultant costs of $0.5 million).

  The developer developed 125 acres in 1973. Of this, 100 acres were net of roads, parks, etc. Density was four lots per net acre, and the sales price was $25,000 per lot. Servicing costs were $9,000 per lot. His total before tax profit in 1973 was $4.8 million on sales of $10 million, or 48 percent. His return on total equity was 86 percent. Hence, the development of the first 125 acres proved extremely profitable.

  However, Gluskin provided a couple of caveats. First, developers generally must purchase much more land than they plan to develop since they have no guarantee that municipalities will allow them to develop all their land when they want to develop it. "We believe the situation in land development is analogous to drilling for oil, a hit or miss proposition."[45] Second, the developer faces a large cash shortfall between the time the land is acquired and when it is developed. The example here assumed not only that the developer could borrow 80 percent of the acquisition costs (few lenders would provide more than 50 percent funding) but also 100 percent of the annual carrying costs. Only a large blue chip company such as Cadillac Fairview could have access to these terms.

- Taylor's hypothetical Vancouver land developer:

  Taylor examined the economics of developing 100 single-detached lots in Delta in the mid-1970s. For 100 lots, approximately 30 acres would have to be acquired at a cost of $600,000 ($20,000 per acre). Servicing costs and interest costs would be an estimated $11,250 per lot. Total costs of acquisition and debt servicing would be $2,055,000 ($20,550 per lot). The 100 lots could sell for $3.2 million ($32,000 per lot), providing a profit of $1.1 million over a 36-month period.

  Taylor also noted the need for considerable upfront capital. Also, a 36-month sales period was an assumption only—to the extent that approvals or servicing take longer or the marketing period is lengthened owing to competition or weak demand, the profitability picture would be much less positive.

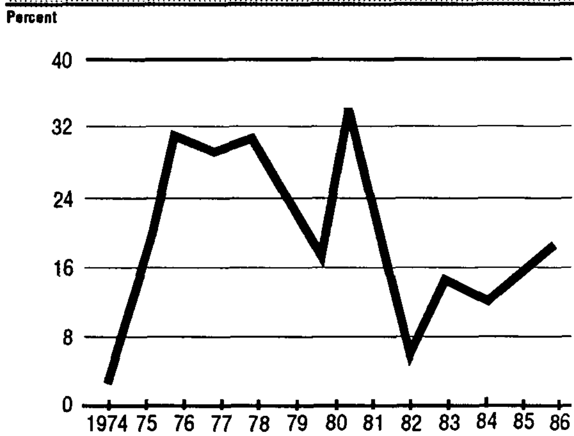
The Profitability of Residential Land Development

While industry-wide financial data are not available for residential land developers, the record of two public companies, Coscan Limited and Carma Developers, provides some insight into the profitability of the land development business.

- The Coscan (formerly Costain) experience:

  Coscan Limited is primarily a residential building and land development firm whose operations were centred in Ontario during the 1970s, although it did operate in Alberta and the United States. Until recently, the company was controlled by Costain Group PLC in the United Kingdom. Its land development operations were extremely profitable in the late 1970s, though the magnitude of profits are overstated in the accompanying graph (Figure 15) because general overhead is not included as an expense (it was not possible from available data to separate land development overhead from overhead for other aspects of Coscan's operations). Between 1977 and 1979, land profits, including general overhead as a proportion of land revenues, were in the vicinity of 30 percent. Certainly, Coscan's land development operations were much more profitable than its homebuilding operations during this time.

FIGURE 15. GROSS PROFIT MARGIN ON LAND SALES[a] COSCAN LIMITED,[b] 1974–86



Source: Coscan Limited, 1986 Annual Report.

[a] Land profits and general overhead as a proportion of land revenues.
[b] Formerly Costain Limited.

Gross land profits, including overhead as a proportion of land revenues, plummeted with the 1981–82 recession to just seven percent. While profit margins have risen in concert with the improved post-recession housing market, the 1986 profit margin on land sales (21 percent) is still significantly below the levels achieved in the last half of the 1970s.

- The Carma experience:

As shown in Table 33, the operations of Carma Developers, a residential land development firm based in Calgary, indicate that land development can be very profitable, although this is not always the case, as the data for 1967–68 illustrate. The profitability of Carma was extremely high in the mid-1970s, whether expressed as land profits and general overhead as a proportion of land revenues, which is consistent with the Coscan data already presented, or after allowing for overhead expenses (this calculation can be undertaken for Carma since the firm was largely a land developer in the 1970s).

The return on shareholders' equity for Carma was also very high during the 1971–76 period—60 percent or more for all years. This was considerably above the rate of return on equity achieved by single-family homebuilders during this same period.

TABLE 33. PROFITABILITY OF RESIDENTIAL LAND DEVELOPMENT CARMA DEVELOPERS, 1967–76

	Gross Profit Margin on Total Land Sales	Gross Profit Margin on Residential Land Sales[a]	Pre-tax Profits as % of Gross Revenues	Pre-tax Profits as % of Equity
1967	9.0	b	4.2	n.a.
1968	15.5	b	9.3	n.a.
1969	19.0	b	14.4	66.2
1970	16.1	b	11.8	34.1
1971	25.2	24.1	19.0	59.9
1972	31.0	26.5	27.6	89.6
1973	34.6	31.1	29.4	64.9
1974	38.7	34.4	32.5	63.2
1975	42.2	38.2	35.6	74.0
1976	40.6	35.0	35.7	73.2

Source: Ira Gluskin, Background Study 8.A: Review of Corporate Performance, *a background study for the Federal/Provincial Task Force on the Supply and Price of Serviced Residential Land, 1977, Tables 21, 22 and 25.*

[a] Land profits and general overhead as a proportion of land revenues.
[b] Figures for residential land only not available.

Carma subsequently experienced financial difficulties in the early 1980s because of high interest rates and the downturn in the Alberta housing market where Carma's land holdings were concentrated.

The experience of Carma and many other residential land development firms in the early 1980s shows that leverage is a dual-edged sword. When times are good, with serviced land prices rising and interest rates low, borrowing most of the upfront capital required to purchase, carry and service raw land can result in extremely high profit margins. The reverse, of course, holds true in times of weak demand, high interest rates and falling land prices.

CONCLUSIONS

In contrast to the single-family homebuilding industry, the residential land development industry has gone through a major transformation in many market areas over the postwar period, and is now essentially a private-sector industry. Immediately after the war, much of the developed land was provided by municipalities that had acquired the land through tax defaults in the 1930s, as well as the 1920s in the Prairies.

The structure of the industry has tended to become much more concentrated over the postwar period, though this is not an attribute of every major market area. Factors leading to this include the shifting of servicing costs to the land developer, a longer and more complex subdivision process and constraints on the amount of developable residential land imposed by municipalities. Also, some economies of scale are evident in the land development industry. Over the postwar period as a whole, Quebec has generally been an exception to this concentration trend, as has the Vancouver area.

Lot prices appear to have been closely related to market conditions during the postwar period. Collusive pricing practices by large land developers do not appear to have been a prevalent characteristic of the industry, even though this was a frequent claim during the early 1970s. Land costs in Quebec during the 1980s are being affected by an increasing trend to shifting the financing of land servicing to developers/builders, a trend that occurred much earlier in other provinces.

At times the residential land development business has been extremely profitable, but it is also very risky. Land developers face risks because they often gamble on whether or when a municipality will allow their land to be developed. The leveraged nature of the land development business and, often, the long lead times required to develop the land mean that land developers are susceptible to shifts in the demand for land and fluctuations in interest rates.

CHAPTER FOUR
THE APARTMENT DEVELOPMENT INDUSTRY

Apartment developers are a diverse group: They include firms that assemble land and construct rental apartment projects for their own portfolios; firms that sell completed rental projects to investors; and firms that construct condominium apartment projects for sale to owner-occupants. These firms may initiate new apartment projects or be involved as general contractors in the actual construction process. In some instances, apartment development is the firm's only business, while other firms are more diversified (they may build houses, develop land or construct non-residential projects as well).

Unfortunately, much less literature is available on the structure and mode of operation of this sector of the housing industry than that on single-family homebuilders or even residential land developers. The size, scope and depth of this chapter reflects this scarcity.

Over the postwar period, particularly since the 1960s, a considerable proportion of apartment development has consisted of social housing projects initiated by government or non-profit organizations. The private housing industry has become involved in these projects either as a general contractor or by providing a turnkey project to the sponsor.

This chapter is restricted to examining private-sector rental and condominium apartment developers.

O.J. Firestone in 1951 described rental developers in the following manner:

> The entrepreneur building or purchasing new rental accommodation is guided solely by economic considerations, mainly the returns he expects from his investment. If present conditions and the economic outlook are favourable, demand for additional rental accommodation in given localities apparent, prevailing rentals high enough to allow the amortization of the initial capital cost within reasonable time, residential land and means of financing obtainable, and construction resources plentiful, entrepreneurs may be willing to embark on rental housing construction in the expectation of making a profitable investment. If the combination of the above mentioned factors is less favourable some entrepreneurs who were considering residential investment may not proceed with their projects.[1]

THE APARTMENT DEVELOPMENT INDUSTRY AT THE END OF THE SECOND WORLD WAR

Limited Apartment Construction

During the 1942–44 period, an average of only 15,600 multiple units per year were constructed across the country—equivalent to about one-third of all housing starts during these years. Many of these multiple units were in fact triplexes, double duplexes and other small buildings constructed in Quebec.

A trend to rental occupancy was exibited in the two decades before the Second World War, which Firestone attributed to "the growing urbanization and industrialization of Canada's economy."[2] This trend was interrupted in the early 1940s when "the setting of rental ceilings made the building of rental accommodation less attractive" and by "the sale for owner occupancy of many single homes which had been taken over by lending institutions in the 'thirties following default in payments by owners of the property."[3] A large number of rental dwellings had been built by Wartime Housing Limited in the first half of the 1940s, but these were mostly single-family houses.

Limited Interest in Apartment Construction

Most of the literature dealing with the housing market in the mid-1940s concerns the methods for reducing the overall cost of single-family houses by introducing assembly line construction techniques. The limited concern for rental housing centred on the need to provide accommodation for returning servicemen (essentially single-family houses it appears) and, to a much lesser degree, with the plight of lower-income renters, which the private sector could not accommodate without government assistance.

Apartment Development Industry Small in the 1940s

From the paucity of references to rental apartment developers in the literature, it is reasonable to infer that although some companies engaged in developing apartment projects in the mid-1940s, almost all these firms were quite small in size.

THE APARTMENT DEVELOPMENT INDUSTRY IN THE 1950s AND 1960s

The Origins of the Apartment Development Industry

No comprehensive information is available on the structure of the apartment development industry in the 1950s and 1960s.[4] However, observations gleaned from interviews conducted for this study provide some insight; the impression is that at the time the industry was rudimentary but that the groundwork was being laid for future growth by many small firms.

In Edmonton, Capital Management Ltd. entered the apartment development industry in the early 1950s when it began building three-storey walk-ups, most of which had six to 12 suites (apartment buildings of 17 suites were considered to be large at that time). The company had started out in 1947 building single-family houses.

Smith Agencies in Winnipeg built its first apartment building in 1948 and thereafter tried to construct one building (of about 30 units each) every year. The apartment buildings were frame walk-ups. In the early years, Smith Agencies bought sites from the City of Winnipeg and financed the projects through the NHA with 20 percent equity. At times, the firm undertook its own general contracting. Smith Agencies had started in the insurance industry, but in the 1950s became involved in marketing homes.

Graham Lount established C.E. Lount Construction in Winnipeg in 1947 to build single-family houses. In 1954, he built his first rental project of 240 townhouses under CMHC's limited dividend program. Lount switched to apartment construction, never building single-family houses again. C.E. Lount Construction is a predecessor of Shelter Corporation of Canada Limited, a large real estate corporation with operations across Canada and in the U.S. In 1982, Shelter Corporation managed a rental property portfolio in excess of 17,900 units.

As previously noted, Campeau in Ottawa started building walk-up apartments in 1951 (sixplexes), which he sold to generate cash for land development.

Brandon Construction started building, for sale, triplexes and fourplexes in 1951 in Ville St. Laurent. The triplex unit was popular in Montreal at this time as the buyer usually occupied a large unit in the basement and rented the other two units.

Adrien Letoureau started building both single-family houses and small apartment buildings in Montreal in 1952 (his father was in the lumber business and owned apartment land in Montreal, which was plentiful and cheap then). He constructed buildings containing 16 flats in Rosemont.

Growth of Large Number of Developers

The rental apartment development industry blossomed during the 1955–69 period.[5] The growth of large firms appears to have coincided with the introduction of new technology for high-rise buildings. But it was likely not an accident that new technology was introduced at a time when rental accommodation was in strong demand.

In the Toronto area, firms that eventually constructed several thousand rental apartment units, including Greenwin, the Meridian Group, Belmont, Cadillac and Dennis, began to prosper. The evolution of Cadillac Development Corporation Ltd. (now part of Cadillac Fairview Corporation Ltd.) provides some insight into the growth of these rental development firms. By 1976, Cadillac had a total rental portfolio of nearly 17,000 rental apartment suites, mostly in the Toronto area,[6] with the first buildings constructed in 1958.

Most rental apartment buildings built in the 1960s in the Toronto area were NHA financed. One ex-CMHC official who was interviewed reported that in the early 1960s, CMHC was moving rental properties through the insurance underwriting process on an assembly line basis. Most of the projects requesting mortgage insurance were fairly standard 200-unit slab buildings.

Heathcliffe Developments was founded by Herb Stricker in 1964. With the help of financial partners, he built his first rental project, a 280-unit high-rise project. At this time, rental projects started generating positive cash flows two or three years after completion.

A number of medium-sized builders moved into rental construction in the 1960s, drawn by the market opportunity they foresaw and the ability to shelter income realized from other building operations from income taxes.

In Montreal, CMHC's limited dividend program generated the construction of thousands of mostly walk-up units during the late 1950s and 1960s. The developers of these projects were varied, ranging from single-family builders to persons with no housing experience. Ultimately, many of these units reverted to CMHC when their owners defaulted. Various reasons have been given for this situation, including poor construction quality, rent controls and CMHC's strict restrictions on allowable expenses and rents. It would also appear that many builders made their money on the construction of the projects and had little, if any, equity in them—therefore little long-term interest in retaining the buildings.

Shelter Corporation became the major apartment developer in Winnipeg. Marlborough Developments also began constructing apartments in Winnipeg in 1962, building about 8,000 units by the mid-1980s.

THE APARTMENT DEVELOPMENT INDUSTRY IN THE 1970S

If the 1970s and, perhaps, the first 12 or 13 years after the war were the golden era for single-family homebuilders, the period from the late 1950s to the early 1960s was the golden era for apartment developers. The decade of the 1970s proved to be a difficult period for apartment developers.

Economics of Rental Construction Deteriorates—Particularly in the Mid-1970s

A study by Clayton Research found that a progressive deterioration occurred in the economics of new rental investment in Canada between the early 1960s and the 1980s. The decline in the ratio of rents to debt service payments on newly built rental units was especially pronounced during the mid-1960s, the mid-1970s and the early 1980s.[7]

Ira Gluskin also illustrated the deterioration in the economics of rental construction between the mid-1960s and mid-1970s.[8] (See Table 34.) In his illustration, the expected per unit rate of return on equity generated by a hypothetical new standard rental project in Toronto declined from 16 percent in 1967 to three percent in 1972; the rate of return turned negative by 1976.

TABLE 34. ECONOMICS OF DEVELOPING A HYPOTHETICAL HIGH-RISE RENTAL APARTMENT PROJECT, TORONTO AREA

	Year of Completion		
	1967	1972	1976
	Dollars		
Construction cost per suite	12,000	16,000	25,000
Equity (20% of total cost)	2,400	3,200	5,000
Gross rent per year	1,920	2,400	3,360
Operating expenses (45% of gross rent	864	1,080	1,512
Debt service[a]	672	1,216	2,400
Net cash flow	384	104	(552)
Return on initial equity (%)	16	3	-11

Source: Ira Gluskin, Cadillac Fairview Corporation Limited: A Corporate Background Report, *Royal Commission on Corporate Concentration, 1976, Table 71.*

[a] Assumed mortgage interest rate: seven percent in 1967; 91/2 percent in 1972; and 12 percent in 1976.

Gluskin estimated that for rental construction to be financially viable in 1976, rents would have had to increase by 30 percent. Clayton Research Associates Ltd. reached a similar conclusion in a February 1984 study.[9] The gap between the rent necessary to cover costs on new rental properties and provide a reasonable return on equity and market rents was attributed to "the combination of dramatically increased financing and construction costs and constrained market rent increases due to rent controls and government private rental subsidy programs."[10]

Federal Government Provided Substantial Subsidies to New Rental Housing

In an attempt to restore the profitability of new private rental investment and increase the production of new rental housing, the federal government introduced two new initiatives in 1974 and 1975.[11] These initiatives were as follows:

- Assisted Rental Program (ARP), which provided annual subsidies (in later years, interest-free loans) to rental developers; and
- The MURB (Multiple Unit Residential Building) provision of the *Income Tax Act*, which restored the capital cost allowance tax shelter for individual investors in new rental buildings, started within a designated period.

In addition, several provinces piggybacked or launched separate rental assistance programs to spur rental construction.

As a result of these initiatives, apartment starts surged in 1976 and 1977, and conditions in the rental market improved—rent increases moderated, and vacancy rates increased. The price of this improvement was a significant direct (ARP) and indirect (MURB) subsidy to rental investors. However, the underlying economics of rental investment continued to deteriorate because market rents were not rising rapidly enough to make unsubsidized new rental investment a viable proposition. In effect, the subsidies helped to camouflage the problem.

Rent controls, which had been put in place in all 10 provinces by the end of 1975 as part of the federal government's Anti-Inflation Program, clearly had a negative effect on the volume of new rental construction in the late 1970s. While newly built rental projects were exempt from controls, the projects still would have had to operate in an overall rental market in which prevailing rents were lower than they otherwise would have been; moreover, many prospective rental developers probably feared that new rent projects would be subjected ultimately to rent controls.

Many Rental Apartment Developers Cut Back Production; Others Exited the Industry

As Firestone correctly pointed out in 1951, rental developers have to expect to earn a competitive rate of return on rental investments, else they will invest elsewhere. This occurred during the mid- and late 1970s. High (for the time) interest rates and the unlikely prospect of obtaining rents high enough to cover the increased costs (rent controls were a factor) resulted in apartment development firms cutting back on rental production or leaving the industry altogether.

The growth in Cadillac Fairview's rental portfolio illustrates this. (See Table 35.) The number of units added per year in the mid-1970s amounted to less than 40 percent of the number added a decade earlier.

Table 35. Growth in Rental Apartment Portfolio Cadillac Fairview Corporation, 1964–76

	Increase in Units
Before 1964	2,084
1965	1,129
1966	1,637
1967	1,774
1968	1,723
1969	1,522
1970	593
1971	1,284
1972	1,152
1973	670
1974[a]	341
1975	481
1976	605

Source: Ira Gluskin, Cadillac Fairview Corporation Limited: A Corporate Background Report, *Royal Commission on Corporate Concentration, January 1976, Table 73.*

[a] 14-month period.

During the mid-1970s, Cadillac Fairview remained a large apartment builder and condominium developer in the Toronto area. According to Muller (see below), Cadillac Fairview was the second largest Toronto apartment condominium developer during the 1973–75 period. In 1975, on a general contracting basis, the company started construction of two senior citizens buildings with a total of 730 suites on behalf of the Metropolitan Toronto Housing Authority.

Syndication Becomes Popular

Individuals have always been a source of investment funds for new rental housing. Before the income tax reforms of the early 1970s, tax advantages were substantial for higher income individuals to invest in rental housing (as well as other types of rental real estate). A large number of rental apartment developers constructed projects, mainly small projects, for sale to individual investors.

However, in 1971, this tax advantage, particularly as it related to the deduction of losses (by claiming a capital cost allowance on a building as a deduction against other income), was removed. This provision was returned to the Income Tax Act in 1974 (the Multiple Unit Residential Building or MURB provision) as a temporary measure, receiving various extensions up to 1982.

Since the economics of rental investment were not attractive to the apartment development industry, even with government subsidies, firms looked for other avenues of profit. As one interviewee stated, "We couldn't make money building for ourselves, so we turned to the rental market—the high-income individual investors."

Several companies expanded their operations considerably by syndicating rental projects to individual investors. Abacus Cities, Qualico, Imperial Group, Headway, Shelter Corporation, Creson, Assaly and Mastercraft all became active in the syndication business. Numerous smaller companies across the country also got involved in syndicating rental apartment projects.

The popularity of MURBs to the apartment development industry is tabulated by Newman and Clatworthy in the following data relating to the 1975–80 period in Winnipeg:[12]

- MURB applications containing a total of 11,969 rental units were approved;
- Eighty percent of the MURB units were apartments; and
- Twenty-five firms accounted for just 28 percent of these units (that is, a large number of MURBs were developed by small firms).

The syndication firms offered a variety of MURB packages. Ownership could take the form of an undivided interest in a total project or the ownership of a particular condominium unit. The syndicators often provided a variety of extras, such as cash flow guarantees and mortgage interest rate writedowns for fees that qualified for income tax deductions as current costs. The packages were designed to provide individual investors with large income tax write-offs in the initial years of their investment. However, this exposed investors to a larger rush over the medium to longer term.

The Apartment Condominium Industry in Toronto

While the Toronto market had a number of large condominium apartment developers in the mid-1970s, they did not control the market. The four largest firms built only 49 percent of all condominium apartments registered during the 1973–75 period. The next six largest firms accounted for 32 percent of the production, as shown in Table 36.

Interestingly, only one of these firms, Del Zotto Enterprises (now operating under the name Tridel), is still in the condominium development business.

Table 36. Largest Condominium Apartment Developers Toronto, 1973–75[a]

Name of Developer	Total Units	Market Share (%)
Kuhl Group	1,179	15.3
Cadillac-Modular	1,044	13.6
Flemingdon Park Condominiums	910	11.8
Del Zotto Enterprises	646	8.4
Duffins Creek Group	621	8.1
River Dell Holdings	588	7.6
Westbury Group	534	6.9
Victoria Wood	302	3.9
Arsando	223	2.9
Halliwell Terrace	198	2.6
Other developers	1,455	18.9
Total	7,700	100.0

Source: R.A. Muller, The Market for New Housing in the Metropolitan Toronto Area, *Ontario Economic Council, 1978, Table 30.*

[a] Based on registered condominium projects.

THE APARTMENT DEVELOPMENT INDUSTRY IN THE FIRST HALF OF THE 1980s

The apartment development industry experienced a number of significant changes through the first half of the 1980s.

Collapse and Recovery of Apartment Starts

The volume of apartment starts declined sharply during the early 1980s, reaching a 23-year low in 1984, because the dismantling of government rental subsidy programs, very high interest rates and a recession-induced decline in the demand for new rental housing brought about a decline in rental apartment construction.

The production of new apartments recovered in 1985 and again in 1986. The increases were concentrated in Quebec (owing almost entirely to rental starts) and, to a lesser extent, in Ontario where condominium starts particularly in 1986, provided the momentum. The Atlantic provinces and Manitoba recorded more modest increases in apartment starts. In British Columbia, a pronounced shift in the mix of apartment starts from rental to condominium tenure took place during the 1984–86 period.

The marked rise in apartment starts in Quebec in 1985 and 1986 appears to have been in large part because of the re-entry of individual investors into rental apartment investment. In addition, some successful single-family builders appear to have built small apartment projects as a way of reducing income tax liability on their single-family building operations.

In Ontario, particularly in the Toronto area, the sale of new apartment condominiums literally exploded in mid-1986 as apartment developers responded to a demand for lifestyle housing. The demand from households intending to occupy the unit they purchased soon was reinforced by investors buying condominiums, as well as some first-time buyers who were being priced out of the single-family housing market at the time.

Syndicators Remain in Ottawa Rental Market

The ending of the MURB provision of the Income Tax Act in 1982 resulted in most rental apartment syndicators leaving the rental apartment industry. The exception was Ottawa, where a few large syndicators continued to market, and sell, new rental units to individual investors. In addition, one large developer continued to build rental projects for its own portfolio.

CMHC reported in early 1985 that Ottawa had over 1,400 rental units constructed without direct subsidies during the preceding 12 months.[13] Approximately one-half of these units were started by the syndication firms.

The CMHC report also described the way in which these syndicators operated:

> The remaining units have been built with the goal of selling them to private individuals as a tax shelter, with management to be retained by the developer. The attraction, according to one brochure, is that soft costs can still be deducted against other income. As well, the purchaser receives a rental guarantee for the first years.[14]

The sales of these syndicated rental projects coincided with rising house prices in the Ottawa market.

A small number of Ottawa-based syndication firms became active in the Toronto market in 1985 and 1986, again at the time of increasing house prices.

Several Large Condominium Apartment Developments Emerge in Toronto

The explosion in condominium apartment sales in the Toronto area was led by several large firms, of which the most prominent was Tridel Corporation. Tridel sold 1,756 apartment units in the Toronto area in 1986, more than twice the number of any other firm. However, Tridel accounted for only 14 percent of all apartment units sold in Toronto that year, reflecting the large number of apartment developer firms operating during this boom period. The top 10 developers accounted for just over half of the units sold in this market during 1986. (See Table 37.)

CONCLUSIONS

The size and structure of the apartment development industry reflects underlying market conditions. When demand for new rental apartments is buoyant (that is, when vacancy rates are declining and real rents are rising), the industry expands to meet this demand.

Similarly, when demand declines, the industry declines correspondingly. The size and structure of the industry also is affected by government involvement in the marketplace; subsidy programs tend to stimulate expansion of the industry while restrictive legislation, such as rent controls, create the opposite effect.

Table 37. Major Condominium Developers Toronto Census Metropolitan Area, 1986

Company	Condominium Units Sold: Units	Condominium Units Sold: Percent
Tridel Corporation	1,756	14
Bramalea Limited	818	7
Graywood Developments	810	6
Teron International	719	6
Auro Group	571	5
Menkes Developments	563	4
Strasscorp	560	4
Greenwin-Horizon Dev.	498	4
Camrost Group	431	3
Ronto Development Corp.	405	3
Sub-total	7,131	56
Other developers	5,500	44
Total	12,631	100

Source: Clayton Research Associates based on data from Brethour Research Associates.

The industry's output and *modus operandi* also reflect the dictates and opportunities of the marketplace. When owning newly built apartment projects was a financially attractive option in the late 1950s and through the 1960s, developers often built for their own portfolio; a number of very large developer-investor firms thus emerged. When the federal government promoted tax shelter investment in rental accommodation, apartment developers shifted their focus to syndication. With the recent growth of the owner-occupant condominium market, more developers have entered this segment of the apartment market.

CHAPTER FIVE
THE RESIDENTIAL RENOVATION INDUSTRY

The residential renovation industry in the mid-1980s is, in many respects, at a similar stage of its evolution as the single-family homebuilding industry was in the late 1940s and the apartment development industry was in the early 1950s. Most renovation firms are small, and turnover is high. It is more a "master craftsman" industry, with little in the way of mass production or modern management techniques.

To some observers, residential renovation is not even a real industry. While in the broad sense, renovation is the current growth sector of the housing industry, much of this work is undertaken by property owners (homeowners and landlords) or by special trade contractors not considered a part of the housing industry. In 1986, it was estimated that renovation firms undertook only 30 percent of all residential renovation spending. However, in dollar terms, the amount of renovation work undertaken by these firms is substantial—some $4 billion in 1986 alone.

Some confusion concerns the meaning of the term "residential renovation firm." In its 1980 Standard Industrial Classification, Statistics Canada refers to renovators as firms (establishments) primarily engaged in residential additions, major improvements and repairs, renovation, rehabilitation, retrofitting and conversions involving more than one trade. The key phrase is "more than one trade." Statistics Canada thus excludes special trade contractors having only one line of business (for example, roofing, paving, electrical work); this is the delineation followed in this study. In contrast, CMHC has included special trade contractors involved in renovation work as part of the residential renovation industry in two recent surveys of this sector of the housing industry.

THE RESIDENTIAL RENOVATION INDUSTRY UP TO THE 1980s

Little information on the residential renovation industry has been produced in this country until recent years.

Federal Government Encouraged Conversions in the Early 1940s

The conversion of larger residential structures into self-contained apartments was a significant source of new housing in the 1940s, particularly during the war years and the period immediately following. In the 1940s, 9.2 percent of all housing completions on average (at the time, completions were defined to include conversions) were conversions.[1] Conversions reached a peak of 14.7 percent of all completions in 1944.

The federal government encouraged conversions through the 1943 Home Conversion Plan whereby the Minister of Finance was authorized to lease large dwellings suitable for conversion to self-contained apartments. The federal government made arrangements for the renovation work.

Renovations—Not an Insignificant Proportion of Housing Output in the Mid-1940s

Firestone indicated that total renovation spending, though small, was still a fairly significant component of residential construction in the mid-1940s, but that most of this spending was for repairs and maintenance. In 1946, total residential construction spending, excluding land, amounted to $517 million. Of this total, $105 million was for repairs and maintenance (20 percent) and only $22 million for major improvements (four percent). The spending on conversions is not available for 1946, but data for 1948 indicates it was comparatively small, at 2.3 percent of total spending on new construction in that year.[2]

No Formal Residential Renovation Industry

While no data are available on the structure of the renovation industry in the mid-1940s, the interviews conducted for this study provided some insight into the rudimentary nature of the industry at that time. Excerpts of the interviews follow:

- In Halifax:

Renovators were really handymen in those days. If you needed some work done, you called up a handyman to get the odd job done. Most of these people were carpenters, and there was absolutely no organization.

During the 1940s, my father built larger houses and did remodelling on a cost plus basis. At one time, my father had 52 different jobs going. There was a lot of re-modelling work after the war by people like doctors who bought older houses in the South End. Types of work included changing the doors and windows, changing bathrooms around.

- In Montreal:

Renovation, I always did some, being a small builder operating mostly in the City of Montreal. Much of it was commercial. I fitted naturally in this business of renovation. You almost exclusively used sub-trades and artisans.

Large Interest in Renovation in the Early 1960s

The early 1960s was not good for the single-family homebuilding industry, with demand considerably lower than in the last half of the 1950s. Hence, an increased interest in renovation appeared natural. In May 1960, *National Builder* proclaimed: "Renovation and remodeling in all its aspects could be a life-saver for the building industry in Canada this year."[3]

National Builder stressed that renovation work could provide large revenues and that it ranged from a $50 paint job to a $10,000–$15,000 extension, but that builders would have to go out and get the business ("it won't come to you"). Renovation was said to have two advantages over new construction: It was not hampered as much by financing difficulties, and it usually ensured a fair profit for a good job.

Canadian Builder, in December 1962, also had considerable praise for renovation: "Never before has the repair-renovation market been so important to homebuilders and building contractors."[4]

In 1963, Canadian Gypsum sponsored a two-day seminar on remodelling, called "Blueprint for Profit," at the Halifax national conference of the industry association now known as the Canadian Home Builders' Association.

In the early 1960s, the federal Department of Labour launched its "Do it Now" campaign to promote renovation.

Requisites for Successful Renovators

In the early 1960s, a major single-family homebuilding firm, Consolidated Building Corporation, established a separate division to work in the home renovation market (the division was called Home Modernization Services). Its assistant general manager noted some of the pitfalls of the renovation business and the keys to success in a 1962 article in *Canadian Builder*:[5]

- Contractors must be able to supply exciting and creative plans;
- A thorough knowledge of building codes must be demonstrated—at the time, Home Modernization Services was working in 15 municipalities in the Toronto area, each with its own building code;
- Cost estimating is particularly difficult but extremely important;
- Efficient scheduling is a must; and
- It is necessary to follow the specification outlined in the contract and to supervise the trades' work to ensure they meet the specifications.

Clearly, the renovation business was recognized as a hands-on business involving ongoing contact with the customer.

One-quarter of Small Single-family Builders Involved in Renovation in the Early 1970s

A survey of builder members of the Canadian Home Builders' Association in mid-1971 found that about one-quarter of small builders were involved in residential renovation.[6] However, few medium-sized or large builders undertook renovation work. Moreover, only 3.5 percent of the builders surveyed regarded home improvement or rehabilitation as their "most important activity."

THE RESIDENTIAL RENOVATION INDUSTRY IN THE 1980s

Several sources of survey information are available on the structure and *modus operandi* of the residential renovation industry in Canada in the 1980s. However, as surveys are quite diverse in terms of geographic coverage, definition of the industry and survey methodology severely limits their comparability.

- Survey of the Toronto renovation industry by Donald Caskie[7]

  This study, conducted in late 1982 and early 1983, was based on personal interviews with officials of 38 renovation firms that were members of the Renovation Council of the Toronto Home Builders' Association. These firms were medium-sized and large renovators and included few, if any, special trade contractors.

- Review of the Alberta home renovation industry by Reginald Copithorne[8]

  This review involved a mail survey of home renovation contractors (a firm in the renovation business for at least one year) conducted in 1984 in the Province of Alberta. Construction trades in the renovation business were not included. A total of 175 questionnaires were mailed out, with 33 responses received.

- Statistics Canada's census of residential general contractors[9]

  This annual census provides industry structure and financial information on general contracting firms specializing in residential repairs; much more limited information is available (for the year 1984 only) on a sub-sample of firms undertaking additions, alterations and improvements. These data exclude special trade contractors specializing in renovation work.

- CMHC's national residential renovation survey[10]

  CMHC conducted a mail survey in late 1986 of a sample of 3,125 residential renovation firms, including special trade contractors, listed in the Yellow Pages across Canada. The overall response rate was 36 percent.

- CMHC's study of the residential renovation industry in Nova Scotia[11]

  This 1986 study surveyed 488 firms involved with residential renovation, including special trade contractors, in the Province of Nova Scotia. The response rate was 21 percent.

- Survey of rehabilitation contractors in Ottawa by John Clark[12]

  Conducted for CMHC in 1981, this limited survey used building permit data to identify contractors involved in residential renovation in Ottawa. Twenty-five contractors were then interviewed about their business.

THE STRUCTURE OF THE INDUSTRY

Few Medium-sized or Large Renovation Firms

Comparatively few medium-sized or large renovation firms operate in Canada; only 45 firms with revenues of $2 million or more in 1984 specialized in either residential repairs or additions, alterations and conversions —equivalent to only 14 percent of the number of new single-family homebuilders with revenues of $2 million or more.

Firms specializing in residential repairs are typically small, with almost 90 percent of all such firms having total revenues of less than $250,000 in 1984.[13]

Although comparable data are not available on the number of firms specializing in additions, alterations and conversions whose total revenues in 1984 were less than $250,000, an examination of information from other surveys provides some insight into the share of this part of the renovation industry accounted for by very small firms.[14] (See Table 38.)

Caskie's survey of Toronto renovators indicates that about one-third of the renovation firms surveyed had

Table 38. Number of Firms Specializing in Residential Renovations and New Single-Family Homebuilding by Size, Canada, 1984

	Area of Specialization		
	Renovation		New Single-family Homebuilding[a]
Revenues	Repairs	Additions, Alterations and Conversions	
Under $250,000	3,322	n.a.	n.a.
$250,000–$499,999	308	31	1,260
$500,000–$749,999	80	25	548
$750,000–$999,999	19	33	216
$1 million–$1.99 million	20	56	372
$2 million–$9.99 million	20	22	271
$10 million and over	1	2[b]	46[b]
Total	3,770	n.a.	n.a.
Sub-total $250,000 and over	448	169	2,713

Source: Statistics Canada and estimates by Clayton Research Associates.

[a] Data for firms specializing in single-detached construction are used as an approximation for single-family builders.
[b] Estimate.

gross revenues of less than $250,000 in 1981, even though his sample was biased to larger firms.[15] Of those firms with gross revenues of $250,000 or more, about one-third had sales over $1 million. Clark's Ottawa study produced similar results—20 percent of the renovation contractors reported gross revenues of less than $200,000 in 1980.[16]

The survey of renovators in Alberta shows a significantly larger proportion of smaller renovators. In 1984, almost three-quarters of the home renovation contractors surveyed had revenues less than $250,000.[17] However, of those firms with revenues more than $250,000, one-third had output of more than $1 million, which compares to Toronto.

Larger Established Firms More Likely to be Incorporated

Statistics Canada data from the census of residential general contractors indicate that in 1984, 55 percent of the firms specializing in residential repairs were sole proprietorships, a further 38 percent were incorporated companies and the remainder were partnerships.[18] Similar information for firms specializing in improvements (additions, alterations and conversions) is not available.

The survey of Nova Scotia renovators found that 42 percent of the firms were sole proprietorships and 50 percent were incorporated.[19]

The survey of Toronto renovators found a substantially higher proportion of firms were incorporated (89 percent). All of the unincorporated firms were less than five years old, and most had revenues of less than $100,000.[20] Caskie observed:

> For several firms, the pattern was to start out as unincorporated businesses and to become incorporated as they grew in experience and in assurance that the business would survive.[21]

In Ottawa, 84 percent of the firms surveyed in 1981 were incorporated; the remainder were sole proprietorships (most of the sole proprietorships were firms with gross revenues less than $200,000).[22]

Newer, smaller firms are more likely to be sole proprietorships whereas larger, more established firms generally are incorporated.

More Firms Entering the Renovation Sector

With increased demand for residential renovation work, the number of firms entering the renovation sector has increased.[23]

The residential renovation industry is relatively easy to enter, as Caskie notes:

> The cost of starting a renovation firm is relatively small compared with the costs for other types of business requiring inventory, plant and machinery, office space, permanent personnel, etc. This ease of entry, indeed, is a significant reason for these entrepreneurs' entry into the industry. It is possible to start a business using the home as an office and recruiting personnel only for each commissioned project. Equipment can be minimal and a vehicle, such as a pick-up truck, can be leased or purchased at relatively low cost.[24]

Many new firms in the residential renovation industry are formed by tradespersons or other persons previously involved in some aspect of the construction business.[25] Other persons in the renovation industry include those skilled in architecture or engineering, business management, marketing, finance and design.[26]

Firms involved primarily in building new homes are recognizing more and more the opportunities available in the renovation sector. A 1971 survey of CHBA builder members found that about one-quarter of the small builders were involved in residential renovation, though few medium-sized or large builders did any renovation work.[27] A similar survey undertaken by CHBA in 1984 found that a significantly larger proportion of its members—more than one-third—did some renovation work.[28] The proportion of firms involved in renovation was particularly high in the Atlantic provinces, where two-thirds of the respondents indicated they undertook some renovation work.

There is a Core of Established Firms

Despite the ease of entry and exit, the rate of turnover appears low for residential renovation firms.[29] As a result, a core of firms in the business are fairly well established.

CMHC's national survey of the renovation industry found that almost 70 percent of the firms surveyed had been in the renovation business for at least six years; close to 40 percent for more than 10 years. Firms in the regions east of Manitoba tended to have been in business for longer periods of time than those in the western provinces.[30]

The survey of Toronto renovators found a higher concentration of newer renovation firms—55 percent of the firms surveyed in 1981—had been in the renovation business for five years or less.[31] Smaller firms tended to have been in business for shorter periods of time than larger firms—two-thirds of the firms with gross revenues less than $250,000 had been in business for five years or less, compared to about 45 percent of firms with gross revenues of $250,000 or more. The increased interest in the renovation market that developed in Toronto in the late 1970s is a factor behind the newer nature of its firms.[32]

Renovation Firms Generally Operate in One Geographic Area

Renovation firms tend to work within limited geographic areas.[33] The necessity of becoming familiar with different municipal regulations and procedures that affect renovation work is one factor behind this, as it is for firms in the new homebuilding industry. Other reasons include:[34]

- Higher costs of travel to and from job sites;
- Desire to work with familiar tradespeople, suppliers and sub-contractors; and
- Increased costs of marketing.

Some movement has been made in recent years to the franchising of renovation firms.[35] One group currently in existence has 70 franchises nation-wide; other similar groups exist regionally in Ontario and British Columbia.

The main thrust behind the franchising of renovation firms appears to be an attempt to improve the industry's image. The chain establishes guidelines for customer service to develop uniformity of service. In return for a franchising fee and monthly fees, a contractor receives help with marketing and management.

Given the past failures of similar franchising attempts, the viability of such endeavours is doubtful. Reasons cited for these failures have included the inability of the group to prove to its members that it is worth the franchising fees, problems keeping members once they become established and getting members to individually reflect the group philosophy.[36]

MODUS OPERANDI *OF THE RESIDENTIAL RENOVATION INDUSTRY*

Firms Undertaking Residential Renovation Work Generally Involved in Other Types of Work

Most firms involved in residential renovations derive at least part of their revenues from other types of work. Canada-wide, about 50 percent of the firms surveyed in 1986 by CMHC who were involved in the residential renovation industry generated at least one-quarter of their revenues from other types of work.[37]

Over half the residential renovation firms surveyed in Toronto were also involved in non-residential renovation; one-third also did new home construction.[38] In Alberta, 45 percent of the renovation firms surveyed were also involved in new home construction; about one-quarter of the renovators indicated that new home construction accounted for more than 50 percent of their work.[39]

Most Renovation Firms Have Few Employees

All these surveys indicate most renovation firms employ few people, the average is probably somewhat less than five persons.[40] Correspondingly, most firms contract out at least part of the work.[41] In Toronto, all the renovation contractors surveyed indicated they used sub-contractors to some degree; company personnel were involved mainly in on-site supervision, carpentry and general duties, such as cleaning up and moving materials.[42]

Variety of Job Sizes

Renovators undertake a wide range of jobs. Although no Canada-wide data are available on the distribution of residential renovation work by size of job, an examination of two of the area-specific surveys provides some insight.

In Alberta, 70 percent of the renovation contracting firms surveyed indicated that the average job in 1984 was valued at less than $10,000; only nine percent of the firms undertook jobs having an average value of more than $30,000.[43]

Toronto renovators said they accepted a variety of job sizes. However, few very small firms (those with gross revenues less than $250,000), worked on projects worth more than $50,000.[44]

Many renovation firms can do several projects at a time, but smaller firms are more limited in the number of projects they can undertake simultaneously. Only one-sixth of the Toronto firms having gross revenues less than $250,000 indicated they could do more than six projects at a time, compared to about 40 percent of the larger firms.[45] Over half the smaller firms stated they could undertake only one to three projects simultaneously.[46]

The Renovation Process

Several stages apply in general to any individual renovation job:

- Getting the job

Most renovation firms do not have to conduct extensive formal marketing campaigns as word-of-mouth is the most common means of obtaining business.[47] Renovators rely primarily on satisfied customers to inform other potential clients.[48]

Ads in the Yellow Pages are also an important marketing method.[49] Other, though less important, means of acquiring jobs include flyers, newspaper advertisements, referrals from architects or designers, signs on work sites and involvement in industry organizations.[50]

Once initial contact is made with the potential client, estimates are prepared and bids submitted where necessary.

Most residential renovation firms offer written contracts for their work.[51] The main pricing arrangements used are set price and cost plus. In set price arrangements, the client and renovator both know upfront the final cost of the work. Under cost plus arrangements, an allowance is made for materials and labour, plus a markup for overhead. Set price arrangements appear to be preferred by both renovators and clients.[52]

Some of the major problems identified by Caskie among Toronto renovators in "getting the job" included the following:[53]

— unfair competition from incompetent or
— unscrupulous firms;
— customer relations;
— marketing;
— preparing estimates and bidding; and
— establishing a performance record.

- Financing the job

Various methods are used by renovators to finance jobs.

In Toronto, Caskie found that most firms (90 percent) used cash flow to some degree to finance their operations. Lines of credit (with banks, suppliers and trades) were also an important source of funds, with 40 percent of the renovators using these sources. Equity was also used at times, mainly when no provision had been made for advances from clients.[54]

Most renovators (about two-thirds) surveyed by Caskie required cash advances from clients. Weekly or monthly payment schedules were used by most to help finance the progress of the work.[55]

- Planning and performing the job

Any general renovation job might comprise several types of work. Therefore, work must be scheduled so that the right people and materials are at the job site at the proper time.

If sub-contractors are required, they must be arranged for; materials must be acquired as well. Many firms prefer to maintain ongoing relationships with the same sub-contractors and material suppliers.

Problems encountered by renovation firms interviewed by Caskie in running a renovation job included:[56]

— cash flow and financing;
— scheduling;
— customer relations;
— dealing with sub-trades; and
— shortages of sub-trades and materials.

- Follow up

Written guarantees are less common than written contracts. Nation-wide, only 39 percent of the respondents to CMHC's survey of renovators indicated they guaranteed their work in writing.[57] In Toronto, 90 percent of the renovators surveyed indicated they guaranteed their work; however, less than half of these provided written guarantees. Generally, guarantees were for one year or less.[58]

If the customer is not satisfied with the completed work, renovation firms at times have problems collecting any outstanding moneys.[59]

FINANCIAL ASPECTS OF THE RESIDENTIAL RENOVATION INDUSTRY

Profits Can be Made in Residential Renovation

The composition of residential renovators' costs is similar to that for new single-family homebuilders; payments to sub-contractors and the cost of materials account for the majority of total costs for both.[60] (See Table 39.)

However, renovation firms rely to a somewhat lesser extent on sub-trades than do new single-family homebuilders. In 1984, payments to sub-contractors accounted for about one-quarter of the total costs of firms specializing in residential repairs and 38 percent of the

TABLE 39. COSTS AND PROFITS OF FIRMS SPECIALIZING IN RESIDENTIAL RENOVATIONS AND NEW SINGLE-FAMILY HOMEBUILDING CANADA, 1984, PERCENT

	Area of Specialization			
	Renovation		New Single-family Homebuilding[a]	
Cost and Profit	All Repair Firms	Addition, Alteration and Conversion Firms with Revenues of $250,000 or More	All Firms	Firms With Revenues of $250,000 or More
Sub-contracts	26.3	38.0	38.3	40.5
Materials	29.9	28.0	24.0	23.0
Wages and salaries	13.3	11.4	7.7	7.1
Land	1.1	5.3	8.2	9.2
Other direct costs	8.1	3.4	5.9	5.5
Overhead	14.9	11.6	12.4	11.9
Profit	6.4	2.3	3.5	2.8
Total	100.0	100.0	100.0	100.0

Source: Statistics Canada.

[a] Data for firms specializing in single-detached construction are used as an approximation for single-family builders.

total costs of larger firms specializing in residential additions, alterations and conversions. The comparable proportions for single-family homebuilders were higher (41 percent for firms with revenues of $250,000 or more and 38 percent for all firms).

Because of a lower reliance on sub-contractors and that renovations do not have a land cost component, wages and salaries form a larger share of the total costs of renovation firms than for single-family homebuilders.[61]

Like the average new single-family homebuilder, the average renovation firm was profitable in 1984. Firms specializing in residential repairs appear to have done particularly well, making an average before-tax profit margin of 6.4 percent. In reality, this may not have been the case: The data on repair firms include numerous small firms; their profits are generally overstated, as the working owner often does not include market-level payments to himself under wages and salaries.[62] The before-tax profit margins of the larger firms specializing in additions, alterations and conversions (2.3 percent in 1984) are more likely representative of renovation firms in general.

None of the surveys of firms engaged in renovation contain information on the profit picture of firms located in various geographic areas. However, for renovation firms interviewed in the Toronto study, the "good potential for profits" was the most often cited reason behind the decision to start a renovation firm.[63]

CONCLUSIONS

The residential renovation industry is the newest recognized segment of the housing industry. Although renovation spending has always occurred, it began to expand rapidly in the early 1970s. Only in recent years have these firms come to be regarded as an industry as much of the renovations were undertaken either by property owners or by special trade contractors. In fact, considerable debate has been generated about what types of firms are renovators.

At present, the residential renovation industry comprises almost entirely small and a few medium-sized firms. In many respects, it is similar in nature to the single-family homebuilding industry immediately following the Second World War. The current industry structure reflects the diversity of work classified as renovations and the small size of most renovation jobs. In addition, the geographically dispersed markets and differing local regulations tend to inhibit the realization of economies of scale.

Given the past and expected future growth in residential renovation activity, regularly produced information on the amount and composition of renovation spending and the characteristics of the renovation industry is needed. There is also a need for a precise delineation of the industry and the firms that make up the industry.

CHAPTER SIX CONCLUSIONS

The conclusions of the five preceding chapters are consolidated in this chapter.

OUTPUT OF THE HOUSING INDUSTRY

In both aggregate level and composition, the housing industry has experienced dramatic shifts in output over the past 40 years. These shifts include: a sustained upward trend in total new housing construction over the first 30 years of the postwar period, followed by a decline over the next decade; a rise and decline in apartment construction; and a more roller coaster pattern of single-family construction compared to the strong sustained upward trend in residential renovation output, particularly since the early 1970s. New housing construction showed renewed vitality in the mid-1980s.

These past trends in housing industry output are the product of the economic, demographic and government housing policy environment, both nationally and regionally, in which the housing industry has operated over the postwar years. Major features of this environment include the rise and aging of the baby boom generation followed by the baby bust generation, the sustained income growth that characterized the 1960s and 1970s, the huge backlog in demand created by the Great Depression and the Second World War, the active role played by CMHC (the federal government's housing agency, created the beginning of 1946 by legislation passed in 1945), the volatile interest rate situation in the early 1980s and the 1981–82 recession and its subsequent recovery.

THE SINGLE-FAMILY HOMEBUILDING INDUSTRY

The single-family homebuilding industry has shown a high capability for adjusting to the changing marketplace. In times of expanding demand, the number of firms in the industry has increased, with large firms accounting for a greater share of the industry's output; the converse has occurred when demand has declined.

The single-family homebuilding industry continues to be characterized by a large number of small firms building less than 25 houses per year, a much smaller number of medium-sized firms building 25 to 100 houses per year and only a handful of large firms building more than 100 houses per year. Most large builders are still small compared with average-sized firms in many other goods-producing industries, suggesting an absence of substantial economies of scale (that is, an inverse relationship between costs per unit and the number of houses built). Various efforts at creating a super single-family building firm (a large-scale firm operating in numerous major market areas) have failed. The medium-sized and large firms account for most of the industry's output, however.

The structure of the single-family homebuilding industry varies widely across the country. All major urban markets have a large number of small firms, reflecting the ease of entry into the industry that has been a characteristic over the entire postwar period. Less uniform is the role played by large builders. Some major markets, such as Toronto, Ottawa and Winnipeg, have a number of large builders who account for more than 40 percent of all single-family houses built by the housing industry; others, such as Montreal and Vancouver, are conspicuous by the absence of a contingent of large builders. In large part, these structural differences reflect local market differences, such as differences in land ownership patterns or the regulation of the building and land development processes. However, in no instance is the industry structure such that a limited number of large firms have the power to control prices or market share.

Mobile home manufacturers have failed to become an established force in the single-family homebuilding industry, though they did excel briefly in the early 1970s.

The financial returns from homebuilding are closely related to market conditions and the competitive environment. Generally, homebuilding was very attractive from a financial perspective in the mid-1970s but has been much less so in the 1980s.

THE RESIDENTIAL LAND DEVELOPMENT INDUSTRY

In contrast to the single-family homebuilding industry, the residential land development industry has gone through a major transformation in many market areas over the postwar period. Now, it is essentially a private-sector industry. Immediately following the war, much of the land was provided by municipalities who had acquired the land through tax defaults in the 1930s, as well as the 1920s in the Prairies.

The structure of the industry has become much more concentrated over the postwar period, though this is not an attribute of every major market area. Factors leading to this concentration include the shifting of servicing costs to the land developer, a longer and more complex subdivision process and constraints on the amount of developable land imposed by municipalities. Also, some economies of scale are evident in the land development industry. Over the postwar period as a whole, Quebec generally has been an exception to this concentration trend, as has the Vancouver area.

Lot prices appear to have been closely related to market conditions during the postwar period. Collusive pricing practices by large land developers do not appear to have been a prevalent characteristic of the industry, even though this was a frequent claim during the early 1970s. Land costs in Quebec during the 1980s are being affected by the increasing trend to shifting the financing of land servicing to developers/builders, a situation that occurred much earlier in other provinces.

The residential land development business at times has been extremely profitable, but it is also quite risky. Land developers face risks because they often gamble on whether a municipality will allow their land to be developed. Because of the leveraged nature of the land development business and, often, the long lead times required to develop the land, land developers are susceptible to shifts in the demand for land and fluctuations in interest rates.

THE APARTMENT DEVELOPMENT INDUSTRY

The size and structure of the apartment development industry reflects underlying market conditions. When demand for new rental apartments is buoyant (that is, when vacancy rates are declining and real rents are rising), the industry expands to meet this demand. Similarly, when demand declines, the industry experiences a corresponding contraction. The size and structure of the industry is also affected by government involvement in the marketplace; subsidy programs tend to stimulate expansion of the industry while restrictive legislation, such as rent controls, have the opposite effect.

The industry's output and *modus operandi* also reflect the dictates and opportunities of the marketplace. When owning newly built apartment projects proved financially attractive in the late 1950s and through the 1960s, developers often built for their own portfolio. Consequently, a number of very large developer-investor firms emerged. When the federal government promoted tax shelter investments in rental accommodation, apartment developers shifted their focus to syndication. With the recent growth of the owner-occupant condominium market, more developers have entered this segment of the apartment market.

THE RESIDENTIAL RENOVATION INDUSTRY

The residential renovation industry is the newest recognized segment of the housing industry. While renovation spending has always occurred, it began to expand rapidly in the early 1970s. Only in recent years have the firms involved come to be regarded as an industry since much renovation activity was undertaken by property owners themselves or by special trade contractors. In fact, considerable debate has been generated over what types of firms are renovators.

At present, the residential renovation industry comprises almost entirely small and a few medium-sized firms. In many respects, the industry is similar in nature to the single-family homebuilding industry immediately after the Second World War. The current industry structure reflects the diversity of work classified as renovation and the small size of most renovation jobs. In addition, the geographically dispersed markets and differing local regulations inhibit the realization of economies of scale.

Given the past and expected future growth in residential renovation activity, there is a need for regularly produced information on the amount and composition of renovation spending and the characteristics of the renovation industry. A more precise delineation of the industry and the firms constituting it also is needed.

NOTES
WORKING PAPER ONE

INTRODUCTION

1. Government departments or agencies and third-sector non-profit groups acting as their own developers or general contractors created somewhat of a dilemma for this study since they undertake the same functions as private-sector builders and developers, but their motivations are not the same (for example, there is no emphasis on profits). They are considered to be within the purview of the current study, though the focus is clearly on the private sector.

2. Whether the renovation industry should be defined to include all firms undertaking renovation work, including those involving only one trade (plumbers, roofers, pavement installers, etc.) is a matter of debate. CMHC's recent surveys of the renovation industry have included these special trade contracting firms.

3. This is discussed further in Chapter One.

4. The delineation of the housing industry will vary according to the task. If the emphasis was on the construction process, for instance, special trades might be considered part of the industry.

5. Cyclical instability in residential construction is examined in Working Paper Three: *The Housing Industry and the Economy*.

CHAPTER ONE

1. Land costs as a proportion of total costs (land plus construction) of single-family homes and apartments are estimated at 22.5 percent and 13.5 percent, respectively. These figures are based on the most recent statistics available from CMHC and Statistics Canada, with adjustments being made for differences in the coverage of these sources.

2. Several studies provide some insight into the relative size of the owner-builder sector, albeit piecemeal. A study by Orazietti (Nebo S. Orazietti, *The Changing Structure of the Housebuilding Industry and Its Performance: Kingston, Ontario, 1961–76*, Kingston: Queen's University, 1979, pp. 45–46) found that only one percent of the single-detached houses built in Kingston, Ontario, in the mid-1970s were constructed by owner-builders. In contrast, the proportion of new houses built by their owners in rural areas can be quite high. Rowe estimated that at least two-thirds or more of houses built in rural areas and small towns in parts of the Atlantic provinces were built by owner-builders (A. Rowe, *Housing in Rural Areas and Small Towns*, a draft paper prepared for CMHC as part of *Housing Progress in Canada Since 1945*, pp. 4–5).

   - Similarly, in rural areas of British Columbia, Skaburskis discovered that 61 percent of all new single-detached homes were built by their owners (Vischer Skaburskis Planners, *Rural Residential Subdivisions in British Columbia*, Ministry of Municipal Affairs (B.C.) and Canadian Housing Design Council, July 1981).

   - The proportion of owner-built housing is much lower in urban than rural townships, however. Fuoco estimated that in Kingston Township, an urbanized township adjacent to the City of Kingston, between 4.6 to 6.5 percent of all houses were owner-built during the 1978–82 period; in Portland Township, a rural township, the proportion was estimated to be much higher, at 41 to 65 percent (Russell F. Fuoco, *Owner-built Housing in Kingston Township and Portland Township: A Survey of the Experience 1978–82*, Kingston: Queen's University, 1983, p. 21). Fuoco estimated, based mainly on U.S. data, that some 20 percent of all single-detached houses built in Canada could be owner- built. This figure appears high; for the purposes of estimating the total output of the housing industry, it is assumed that 10 percent of single-family home construction is undertaken by owners.

3. For renovation, the proportion of work undertaken by those outside the housing industry is undoubtedly very large; however, the exact share is speculative. Statistics Canada estimates that 40 percent of all renovation work is undertaken by homeowners, but the split between housing

industry firms, as defined in this study, and special trade contractors is not known. For purposes of the study, work not undertaken by the homeowners is assumed to not have been split equally between the special trade contractors and the housing industry.

4. Before 1982, duplex units and two dwellings located side-by-side and joined below grade (linked housing) were included with semi-detached dwellings. These are now included with "apartment and other" and "single-detached" dwellings, respectively. "Apartment and other" includes triplexes and double duplexes, as well as apartments and duplexes.

5. Jill Wade, *Wartime Housing Limited, 1941–47: An Overview and Evaluation of Canada's First National Housing Corporation* (Vancouver: UBC Planning Papers, November 1984), pp. 3–7.

6. Lawrence Berk Smith, *The Postwar Canadian Housing and Residential Mortgage Markets and the Role of Government* (Toronto: University of Toronto Press, 1974), p. 61.

7. *Ibid.*, p. 67. This discussion benefited from Smith's detailed summary of economic conditions during the 1950s and 1960s.

8. D.B. Mansur, *Statement to the Standing Committee on Banking and Commerce of the House of Commons*, January 26, 1954, p. 3.

9. CMHC, *Housing in Canada: A Factual Summary* (Ottawa: CMHC, October 1950), Table 27.

10. Mansur, *op. cit.*, p. 4.

11. Humphrey Carver, *Compassionate Landscape* (Toronto: University of Toronto Press, 1975), pp. 107–108.

12. *Ibid.*, p. 112.

13. *Ibid.*, p. 134.

14. CMHC, *Submission to the Royal Commission on Banking and Finance*, August 1962, p. 19.

15. This discussion is taken from Clayton Research Associates Ltd., *Rental Housing in Canada Under Rent Control and Decontrol Scenarios: 1985–91*, prepared for the Canadian Home Builders' Association, 1984, Appendix B.

16. CMHC, *Canadian Housing Statistics*, 1979 (Ottawa: CMHC, 1980), Table 62.

CHAPTER TWO

1. It was necessary in some instances in this chapter to use data pertaining to single-detached construction to approximate single-family construction. Since most single-family construction is single-detached, it is believed this approximation will not seriously distort any conclusions drawn from the data.

2. Data for firms specializing in single-detached construction are used as an approximation for single-family builders. The data include firms specializing in renovation work (excluding repairs) on single-detached houses. The number of renovation firms is not considered large enough to distort seriously the conclusions drawn from the data. Only single-detached houses are considered here to lessen the likelihood of including firms doing only general contracting.

3. Only building permits issued in the names of builders are tabulated. The data are published by Statistics Canada in Catalogue 64–003.

4. Other factors affecting the structure of the single-family homebuilding industry are the land ownership structure and the characteristics of various municipal land approval processes.

5. J.R. Markusen and D.T. Scheffman, *Speculation and Monopoly in Urban Development: Analytical Foundations with Evidence for Toronto* (Toronto: Ontario Economic Council, 1977), p. 90.

6. Much of the discussion in this section is based on information pertaining to the homebuilding industry in general rather than single-family builders specifically. However, as the homebuilding industry at the time was dominated by single-family builders, this is not considered to significantly distort the analysis.

7. Leonard L. Knott, "Prefabrication and the Post-War House," *Canadian Business*, September 1943, p. 50.

8. Humphrey Carver, *Houses for Canadians* (Toronto: University of Toronto Press, 1948), p. 63.

9. CMHC, *Canadian Housing Statistics*, 1980 (Ottawa: CMHC, 1981), Table 1.

10. Advisory Committee on Reconstruction, *Housing and Community Planning*, Final Report of the Subcommittee (Ottawa: King's Printer, 1944), p. 151.

11. *Ibid.*, p. 223.

12. *Ibid.*

13. *Ibid.*

14. W.C. Clark, "Housing," *Dalhousie University Bulletins on Public Affairs* (Halifax: Imperial Publishing Company, 1938), p. 7.

15. *Ibid.*, p. 6.

16. *Ibid.*

17. Carver, *Houses for Canadians*, p. 66.

18. *Ibid.*, p. 125.

19. Humphrey Carver, *Compassionate Landscape* (Toronto: University of Toronto Press, 1975), p. 107.

20. The background on Wartime Housing Limited is derived from two sources: Advisory Committee on Reconstruction, *op. cit.*, Appendix D; and Jill Wade, "Wartime Housing Limited, 1941–47: Canadian Housing Policy at the Crossroads," *Urban History Review* (Winnipeg: Institute of Urban Studies, University of Winnipeg, June 1986), pp. 41–59.

21. Although WHL's mandate was for rental housing, virtually all the housing built was single-detached homes.

22. Jill Wade, *Wartime Housing Limited, 1941–47: An Overview and Evaluation of Canada's First National Housing Corporation* (Vancouver: UBC Planning Papers, 1984), p. 19.

23. O.J. Firestone, *Residential Real Estate in Canada* (Toronto: University of Toronto Press, 1951), p. 402.

24. CMHC, *Postwar Housebuilding in Canada: Cost and Supply Problems* (Ottawa: CMHC, 1951), p. 63.

25. CMHC, *Housing and Urban Growth in Canada* (Ottawa: CMHC, 1956), p. 16.

26. *Ibid.*

27. The profile of Rex Heslop Homes and Rex Heslop is based on Paul F. Thomas, *Rexdale—A Case Study in Suburban Industry* (Waterloo: University of Waterloo, 1968), pp. 35–37; and two articles written by Clifford Fowke in *National Builder* in December 1958 and January 1959.

28. Clifford Fowke, "Lessons that Spell Fortune or Failure for You in Project Building," *National Builder*, December 1958.

29. The profile of Campeau Corporation and Robert Campeau is based on interviews conducted for this study, including an interview with a retired long-time staff member. Campeau also commented on a draft of this profile.

30. The profile of Qualico Developments and David Friesen is based largely on an interview with Friesen.

31. This section presents a synopsis of a profile prepared by Langlais et Associés. Strictly speaking, Barone was not a single-family builder since he mainly built triplexes characterized by CMHC as "apartment and other."

32. *Canadian Builder*, May 1961, p. 29.

33. *Canadian Builder*, October 1963, p. 32.

34. *Ibid.*

35. *Canadian Builder*, September 1966, p. 36.

36. *Ibid.*, p. 37.

37. Edmund V. Price, *The Housebuilding Industry in Metropolitan Vancouver* (Vancouver: University of British Columbia, 1970). Price does not identify CBC by name, but it is apparent that CBC is the firm under discussion.

38. *Ibid.*, p. 95.

39. *Ibid.*, p. 96.

40. Clifford Fowke, "When HUDAC was the NHBA—Toronto Convention Revives Old Memories," *Canadian Building*, March 1979, p. 48.

41. These data pertain to builders obtaining NHA loans for new housing in a specified year and exclude non-NHA operations of builders and NHA activity where the loan was obtained by an owner who retained a builder to construct the house.

    Two independent data sources are available to verify the validity of the industry structure, as illustrated by the NHA data on builder loans. The number and size of single-family homebuilders has been determined using building permit data in studies of St. John's, Newfoundland, and Kingston, Ontario, for years overlapping with the CMHC data. These are: Nebo S. Orazietti, *The Changing Structure of the Housebuilding Industry and its Performance: Kingston, Ontario, 1961–76*, (Kingston: Queen's University, 1979) and *Report of the Commission on House Construction Costs in the City of St. John's, Newfoundland*, September 1964.

    No doubt, St. John's was characterized by a prevalence of very small builders in the early 1960s. The building permit data showed an average of 3.6 houses constructed per builder in 1960–63 versus the CMHC figure of 2.8 houses per builder.

    The data for Kingston covers a longer time span—the 1961–73 period. The building permit data indicate that builders are smaller than the CMHC data would suggest (for example, building permit data showed an average of 3.4 houses constructed per builder in 1963 versus 6.7 houses indicated by the CMHC data). Again, there is no doubt that the industry in Kingston is dominated by small firms.

42. Ira Gluskin, *The Cadillac Fairview Corporation Limited: A Corporate Background Report*, Royal Commission on Corporate Concentration, January 1976, p. 133.

43. *Ibid.*

44. R.A. Muller, *The Market for New Housing in the Metropolitan Toronto Area* (Toronto: Ontario Economic Council, 1978), Appendix E.

45. Michael A. Goldberg and Daniel D. Ulinder, "Residential Developer Behaviour: 1975," *Housing: It's Your Move*, Volume II, (Vancouver: University of British Columbia, 1976), p. 277.

46. Muller, *op. cit.*, p. 79.

47. *Ibid.*, p. 75.

48. Gluskin, *op. cit.*, p. 133.

49. *Ibid.*, p. 134.

50. *Ibid.*, p. 129.

51. Geoffrey H. Taylor, *Assessing Business Opportunities: A General Framework with Application to the House Construction Industry in Greater Vancouver* (Vancouver: Simon Fraser University, 1978), p. 12.

52. Much of the discussion here comes from Chapter Four of Working Paper Four, which presents a more exhaustive examination of the repercussions of the 1981–82 recession, and the subsequent recovery, on the single-family homebuilding industry.

53. Registration with the New Home Warranty Program is mandatory in Ontario, so in theory the data provide 100 percent coverage. However, as they are based on administrative records, some discrepancies between the actual date of entry and exit and when such movements were recorded might exist.

54. In Quebec, 308 new homebuilding firms obtained licenses in 1982. See Ministère de l'habitation et de la protection du consommateur, *Housing for Quebecers*, 1985, p. 27.

55. The Ontario New Home Warranty Program data regarding the year-to-year pattern in firms entering and exiting the industry differs somewhat from the Statistics Canada data, which indicated an increase in Ontario homebuilders between 1981 and 1982.

56. Joint Study Team on Mobile Homes, *Mobile Homes: Recommendations for Alternate Federal Government Actions*, September 1977, p. 26.

57. Statistics Canada, *Truck Body and Trailer Manufacturers* (Catalogue 42–217).

58. Langlais, Hurtubise et Associés, *Quebec House Builders Study: Summary*, September 1984, p. 8.

59. *Report of the Commission on House Construction Costs in the City of St. John's, Newfoundland*, September 1964, Table 19.

60. Muller, *op. cit.*, p. 101.

61. Currie, Coopers & Lybrand Ltd., *Firm Closures in the Residential Construction Industry* (Ottawa: CMHC, November 1981).

62. *Ibid.*, p. 18.

63. Lynda H. Newman and Stewart J. Clatworthy, *Structural Change in the Housing Industry* (Winnipeg: Institute of Urban Studies, University of Winnipeg, August 1982), p. 45.

64. *Ibid.*, p. 66.

65. C.J.B. Roberts, *A Survey of the Canadian Homebuilding Industry* (Ottawa: CMHC, 1971). Approximately 80 percent of the respondents reported single-family homebuilding to be the "most important" business activity.

66. Canadian Home Builders' Association, *Builder Survey of Economic and Housing Market Conditions*, May 1984, p. 9.

67. Taylor, *op. cit.*, pp. 3–10.

68. Sherman J. Maisel, *Housebuilding in Transition* (University of California Press, 1953).

69. Price, *op. cit.*, pp. 83–84.

70. *Ibid.*, p. 83.

71. *Ibid.*, p. 84.

72. Canadian Home Builders' Association, *Quarterly Builders' Survey of Economic and Housing Market Conditions*, May 1985, p. 4.

73. Muller, *op. cit.*, p. 105.

74. Lawrence L. Parker, *An Examination of Pricing Practices and Procedures in a Local House Building Industry* (Edmonton: University of Alberta, 1969), pp. 70–71.

75. Ministère de l'habitation, *op. cit.*, p. 27.

76. Langlais, Hurtubise et Associés, *Quebec House Builders Study: Summary*, September 1984.

77. Gluskin, *op. cit.*, p. 133.

78. Taylor, *op. cit.*, p. 60.

79. Firestone, *op. cit.*, p. 403.

80. CMHC, *Postwar Housebuilding in Canada*, p. 61.

81. Gluskin, *op. cit.*, p. 133.

82. Taylor, *op. cit.*, pp. 96 and 105.

83. The data include all homebuilders, not only single-family builders. Special tabulations were obtained from Statistics Canada for the 1981–84 period which isolated the operation of firms specializing in single-detached construction; however, there was little difference in the two data sets. To provide a consistent time series for the entire 1972–84 period, therefore, the all firm data were used. A comparison between profit margins during the 1981–84 period for all firms and firms specializing in single-detached construction is provided below:

Profit Margins of Homebuilding Firms Canada, 1981–84, Percent

Year	All Firms	Firms Specializing in Single-detached Construction
1981	4.9	4.7
1982	-0.3	-0.2
1983	3.0	3.1
1984	3.6	3.5

CHAPTER THREE

1. Advisory Committee on Reconstruction, *Housing and Community Planning*, Final Report of the Subcommittee (Ottawa: King's Printer, 1944), p. 225.

2. *Ibid.*, p. 160.

3. *Ibid.*

4. *Ibid.*, p. 164.

5. W.C. Clark, "Housing," *Dalhousie University Bulletins on Public Affairs* (Halifax: Imperial Publishing Company, 1938), pp. 9–10.

6. Michael Gordon, *Urban Land Policy and the Provision of Housing in Canada 1900–85* (Vancouver: University of British Columbia, 1985), p. 65.

7. Peter Spurr, *Land and Urban Development: A Preliminary Study* (Toronto: James Lorimer & Company, 1976), pp. 143–147.

8. The Winnipeg Land Prices Inquiry Commission, *Report and Recommendations* (Winnipeg: Queen's Printer, 1977), p. 5.

9. O.J. Firestone, *Residential Real Estate in Canada* (Toronto: University of Toronto Press, 1951), pp. 419–422.

10. Gordon, *op. cit.*, pp. 66–67.

11. The NHA land price series is likely representative of national price trends through the 1950s and 1960s, but became less representative during the 1970s owing to a sharp decline in the share of new house construction, which was NHA-financed. For this reason, in 1980, CMHC stopped publishing land price information.

12. Gordon, *op. cit.*, p. 72.

13. Honourable Robert H. Winters, *Our Housing Problem*, a speech at the Annual Dinner of the Canadian Institute of Plumbing and Heating, October 22, 1952, p. 7.

14. Spurr, *op. cit.*, p. 273.

15. CMHC, *Housing in Canada: A Factual Summary*, Fourth Quarter, 1953 (Ottawa: CMHC, 1953), Table 23.

16. Gordon, *op. cit.*, p. 72.

17. Winters, *op. cit.*, p. 4.

18. CMHC, *Notes on Federal-Provincial Meeting on Housing and Urban Development* (Ottawa: CMHC, 1968), p. 86.

19. Harold John Watson, *The Residential Land Development Industry: Selected Case Studies of Concentration in Local Markets 1950–75* (London: University of Western Ontario, 1979), p. 141.

20. *Ibid.*, p. 167.

21. *Ibid.*, pp. 185–186.

22. *Ibid.*, p. 152.

23. The description of the Winnipeg land development industry is based on the Winnipeg Land Prices Inquiry Commission, *op. cit.*, pp. 15–21 and William R. Bloxom, *The Residential Land Conversion Process in Winnipeg* (Winnipeg: University of Manitoba, 1976), pp. 76–93.

24. Winnipeg Land Prices Inquiry Commission, *op. cit.*, pp. 17–18.

25. *Ibid.*, pp. 19–21.

26. *Ibid.*, p. 81.

27. Michael A. Goldberg and Daniel D. Ulinder, "Residential Developer Behaviour: 1975," *Housing: It's Your Move*, Volume II (Vancouver: University of British Columbia, 1976), p. 278.

28. Edmund V. Price, *The Housebuilding Industry in Metropolitan Vancouver* (Vancouver: University of British Columbia, 1970), pp. 87–88.

29. Richard Cook, *Lot Prices and the Land Development Industry in Edmonton, Canada, 1971–76* (Berkeley: University of California, 1977), p. 31.

30. Jeremy Rudin, *The Changing Structure of the Land Development Industry in the Toronto Area* (Toronto: Centre for Urban and Community Studies, University of Toronto, 1978), p. 9.

31. Michael Dennis and Susan Fish, *Programs in Search of a Policy* (Toronto: Hakkert, 1972), p. 323.

32. R.A. Muller, *The Market for New Housing in the Metropolitan Toronto Area* (Toronto: Ontario Economic Council, 1978), pp. 56–57.

33. Referred to in Muller, *op. cit.*, pp. 58–59.

34. J.R. Markusen and D.T. Scheffman, *Speculation and Monopoly in Urban Development: Analytical Foundations with Evidence for Toronto* (Toronto: Ontario Economic Council, 1977), p. 93.

35. Muller, *op. cit.*, p. 59.

36. *Ibid.*, pp. 99–100.

37. "Land Subdivision—A United Effort," *National Builder*, July 1956, pp. 9 and 22.

38. Ira Gluskin, *Background Study 8.A: Review of Corporate Performance*, a background study for the Federal/Provincial Task Force on the Supply and Price of Serviced Residential Land, 1977, p. 40.

39. *Ibid.*, p. 45.

40. The profiles of Commodore Construction and Clayton Developments are based on interviews with individuals who have been or still are involved with these companies.

41. Winnipeg Land Prices Inquiry Commission, *op. cit.*, p. 18.

42. James Kearns, *The Middle-class Housing Crisis: Land Costs and the Land Development Process in the Toronto Metropolitan Area* (Waterloo: University of Waterloo, 1974), pp. 47–86.

43. *Ibid.*, pp. 71–72.

44. Ira Gluskin, *The Cadillac Fairview Corporation Limited: A Corporate Background Report*, Royal Commission on Corporate Concentration, 1976, pp. 154–158 and Geoffrey Taylor, *Assessing Business Opportunities: A General Framework With Application to the House Construction Industry in Greater Vancouver* (Vancouver: Simon Fraser University, 1978), pp. 47–48.

45. Gluskin, *The Cadillac Fairview Corporation Limited*, p. 155.

CHAPTER FOUR

1. O.J. Firestone, *Residential Real Estate in Canada* (Toronto: University of Toronto Press, 1951), pp. 65–67.

2. *Ibid.*, p. 52.

3. *Ibid.*

4. The information in this section is based largely on the interviews conducted for this study.

5. The information in this section is based largely on the interviews conducted for this study.

6. Ira Gluskin, *Cadillac Fairview Corporation Limited: A Corporate Background Report*, Royal Commission on Corporate Concentration, 1976, pp. 115–118.

7. Clayton Research Associates Ltd., *Rental Housing in Canada Under Rent Control and Decontrol Scenarios: 1985–91*, prepared for the Canadian Home Builders' Association, 1984, pp. 26–28.

8. Gluskin, *op. cit.*, pp. 119–121.

9. Clayton Research Associates Ltd., *A Longer-term Rental Housing Strategy for Canada*, prepared for the Canadian Home Builders' Association, 1984, pp. 7–8.

10. *Ibid.*, p. 8.

11. *Ibid.*, pp. 7–9.

12. Lynda H. Newman and Stewart J. Clatworthy, *Structural Change in the Housing Industry* (Winnipeg: Institute of Urban Studies, University of Winnipeg, 1982), pp. 47–48.

13. CMHC, *Local Housing Market Report: Toronto*, April 1985, p. 7.

14. *Ibid.*

CHAPTER FIVE

1. O.J. Firestone, *Residential Real Estate in Canada* (Toronto: University of Toronto Press, 1951), pp. 66 and 490–491.

2. *Ibid.*, pp. 85 and 88.

3. "Renovation: Now's the Time to Enter This $800 Million Market," *National Builder*, May 1960, p. 45.

4. "Repair/Renovation: New Opportunities for You in This Booming Market," *Canadian Builder*, December 1962, p. 21.

5. *Ibid.*, p. 22.

6. C.J.B. Roberts, *A Survey of the Canadian Homebuilding Industry* (Ottawa: CMHC, 1971), various pages.

7. Donald M. Caskie, *The Toronto Renovators: The Structure of the Industry and the Operation of Its Firms* (Ottawa: CMHC, 1983).

8. Reginald R. Copithorne, *Review of Alberta's Home Renovation Industry*, a report prepared for Alberta Municipal Affairs (Edmonton, 1984).

9. Statistics Canada, special tabulations from the annual census of residential general contractors.

10. CMHC, *National Residential Renovation Industry Survey: Summary of Preliminary Findings* (Ottawa: CMHC, 1987).

11. CMHC, *A Study of the Residential Renovation Industry in Nova Scotia: Preliminary Results* (Ottawa: CMHC, 1987).

12. John Clark, *An Examination of the Characteristics of Rehabilitation Contractors: Pilot Study for Ottawa*, (Ottawa: CMHC, 1981).

13. Unfortunately, Statistics Canada's survey of residential general contractors does not provide data on the number of firms with total revenues of less than $250,000 specializing in additions, alterations and conversions.

14. See previous footnote.

15. Caskie, *op. cit.*, p. I–10. Caskie notes that 1981 was a good year for renovators and many large speculative renovators were in business. By 1982, he feels, the depressed nature of the speculative market would have caused many of these firms to leave the renovation sector, resulting in a downward shift in the distribution of gross revenues and a larger proportion of smaller firms.

16. Clark, *op. cit.*, p. 28.

17. Copithorne, *op. cit.*, p. 21. These data include only firms that had been in business for at least one year.

18. Statistics Canada, *Residential General Contractors and Developers*, Table 2 (Catalogue 64–208). As indicated previously, most repair firms are small, with total annual revenues of less than $250,000.

19. CMHC, *A Study of the Residential Renovation Industry in Nova Scotia*, p. 4.

20. Caskie, *op. cit.*, pp. I–13 and I–3.

21. *Ibid.*, p. I–3.

22. Clark, *op. cit.*, p. 28.

23. See Chapter One, p. 15.

24. Caskie, *op. cit.*, p. I–7.

25. Copithorne, *op. cit.*, p. 24.

26. Caskie, *op. cit.*, p. I–8.

27. Roberts, *op. cit.*, various pages.

28. Canadian Home Builders' Association, *Builder Survey of Economic and Housing Market Conditions*, May 1984, p. 9.

29. Actual turnover rates in the residential renovation industry are difficult to establish, owing to the lack of time series data from Statistics Canada's census of the residential general contracting industry and the various surveys examined for this study. In addition, smaller firms, which can enter and exit the

industry with relative ease, are not extrapolated from the Statistics Canada data and also are likely under-represented in most surveys. To the extent this occurs, any data on the average length of time in business may be overstated.

30. CMHC, *National Residential Renovation Industry Survey*, p. 2. The survey of the Nova Scotia renovation industry found that renovation firms had been in business for an average of 15 years (CMHC, *A Study of the Residential Renovation Industry in Nova Scotia*, p. 4).

31. Caskie, *op. cit.*, p. I–2.

32. *Ibid.*, p. I–1. Unfortunately, data are not available on the number of firms who left the industry since the late 1970s.

33. For example, it was found in Nova Scotia that most projects were undertaken in the firm's home municipality (CMHC, *A Study of the Residential Renovation Industry in Nova Scotia*, p. 4).

34. Caskie, *op. cit.*, p. II–4.

35. The information on franchising is from "Renovators' Image Hard to Repair," *Toronto Globe and Mail*, May 23, 1987.

36. *Ibid.*

37. CMHC, *National Residential Renovation Industry Survey*, p. 2. This survey covered all firms undertaking residential renovations, not only those firms specializing in this sector.

38. Caskie, *op. cit.*, p. II–2.

39. Copithorne, *op. cit.*, p. 46.

40. In Toronto, over three-quarters of the renovation firms had only one to five permanent personnel, including the owner; none had more than 20 (Caskie *op. cit.*, p. I–11). The Alberta renovators had an average of less than three employees, including full- and part-time (Copithorne, *op. cit.*, p. 24). CMHC's national renovation study found that firms involved in renovation employed an average of four full- and two part-time persons who were involved in actual renovation jobs. Quebec firms involved in renovation were a little larger, employing an average of five full- and two part-time workers (CMHC, *National Residential Renovation Industry Survey*, p. 3). Three-quarters of the firms interviewed in the Ottawa study employed less than three persons (Clark, *op. cit.*, p. 28).

41. The degree to which work is sub-contracted varies by the type of work. The Alberta survey found that the proportion of work sub-contracted ranged from only nine percent of framing work to over 80 percent of electrical and plumbing work (Copithorne, *op. cit.*, p. 25).

42. Caskie, *op. cit.*, p. IV–5.

43. Copithorne, *op. cit.*, p. 17.

44. Caskie, *op. cit.*, p. II–5.

45. *Ibid.*, p. II–6.

46. *Ibid.*

47. All the surveys reviewed indicated that most firms relied on word-of-mouth as their primary means of getting jobs.

48. Word-of-mouth is used more extensively by renovators than new homebuilders. In the Toronto area, for example, almost 90 percent of the renovation firms surveyed indicated they used word-of-mouth as a marketing tool (Caskie, *op. cit.*, p. III–3); however, Clayton Research's Fall 1986 Survey of New Home Buyers indicates that only about one-quarter of new homebuyers in the Toronto area were attracted to the subdivision in which they bought their new home owing to word-of-mouth. Newspaper advertisements and signs were a more effective marketing tool for the new single-family homebuilder.

49. See CMHC, *National Residential Renovation Industry Survey*, p. 4; and CMHC, *A Study of the Residential Renovation Industry in Nova Scotia*, p. 4. Advertising in the Yellow Pages was not an important marketing tool for Toronto renovators—only 11 percent felt this was an important method of marketing (Caskie, *op. cit.*, p. III–3).

50. Caskie, *op. cit.*, p. III–3 and Copithorne, *op. cit.*, pp. 26–27.

51. CMHC, *National Residential Renovation Industry Survey*, p. 6. Canada-wide, about two-thirds of the firms surveyed indicated they offered written contracts.

52. Caskie found that more than three-quarters of the renovators in Toronto used the set price method (Caskie, *op. cit.*, p. III–6); a similar proportion was evident for Alberta renovators (Copithorne, *op. cit.*, p. 40).

53. Caskie, *op. cit.*, p. III–12.

54. *Ibid.*, p. II–10.

55. *Ibid.*, p. IV–2.

56. *Ibid.*, p. IV–34.

57. CMHC, *National Residential Renovation Industry Survey*, p. 6.

58. Caskie, *op. cit.*, p. III–10.

59. *Ibid.*, p. IV–35.

60. These cost profiles relate to all costs incurred by the firms, not only those costs pertaining to their area of specialization. Unfortunately, separate data are not available for firms specializing in repair work with output of $250,000 or more or for smaller firms (output of less than $250,000) specializing in residential additions, alterations and conversions. Although this limits comparability of the data, the available information is useful as a general indicator of the relative cost profiles between renovation firms and new single-family homebuilders.

61. As indicated in the previous footnote, these cost profiles refer to all work undertaken by firms, not only work pertaining to their area of specialization. Therefore, renovation firms also undertaking new building would have land costs, as would renovation speculators who purchase properties for renovation and subsequent sale.

62. This is evident in the data for new single-family homebuilders as well. Profit margins are higher for all firms than for large firms only, which suggests that smaller firms have a greater profit margin than large firms; this appears unlikely.

63. Caskie, *op. cit.*, p. I–6. Two-thirds of those interviewed indicated the potential for profits was the main reason for starting their firm.