

# Housing Market Conditions and Outlook

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# Presentation Outline

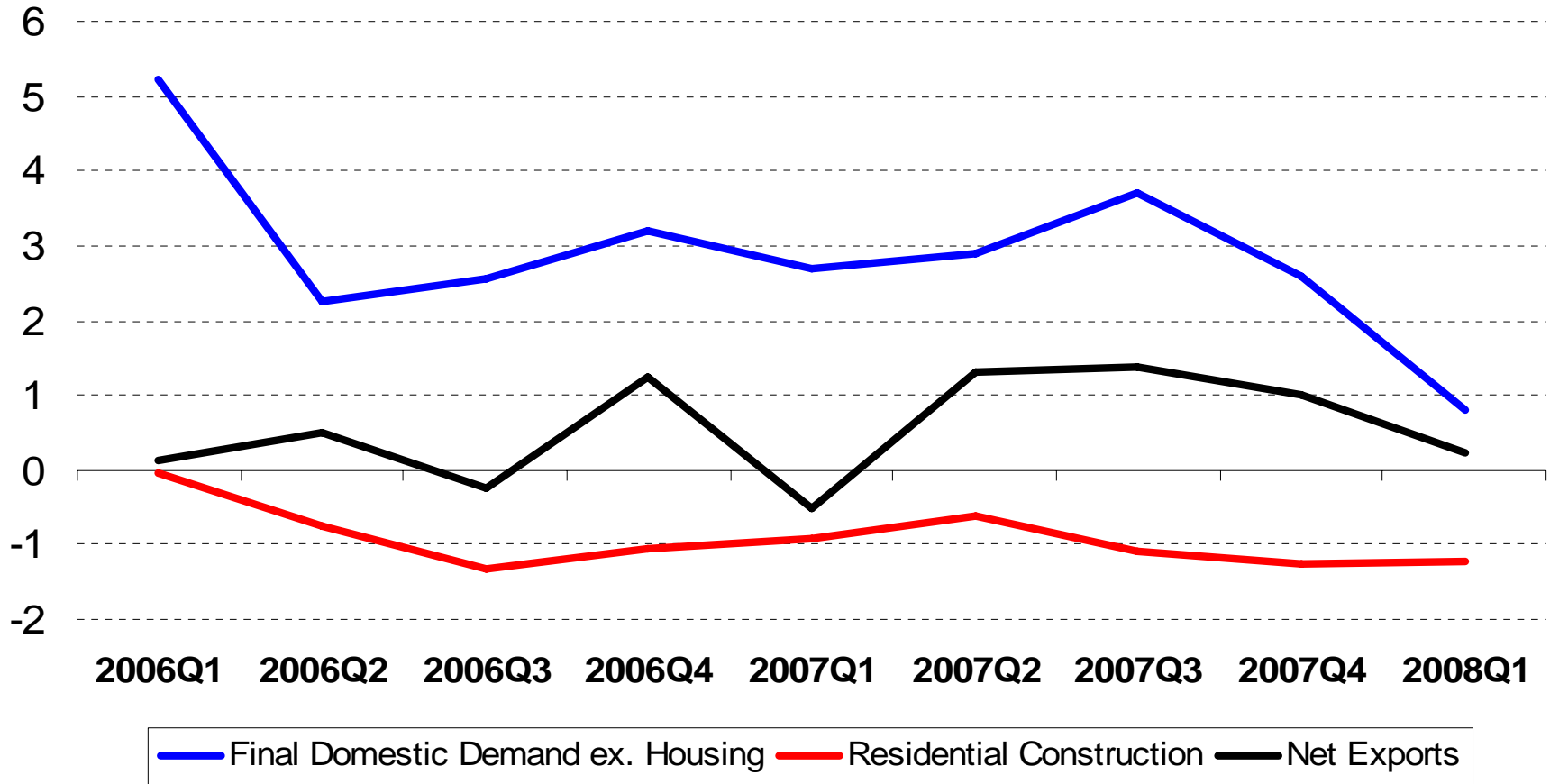
- **Drivers of housing demand**
  - **Economic conditions**
  - **Interest rate outlook and household debt**
  - **Demographic trends**
- **Housing Market Outlook**
  - **Existing home market**
  - **New home market**
  - **Rental market**

# Presentation Outline

- **Drivers of housing demand**
  - **Economic conditions**
    - **U.S. Economy**

# Housing market has been the key source of drag for the U.S. economy

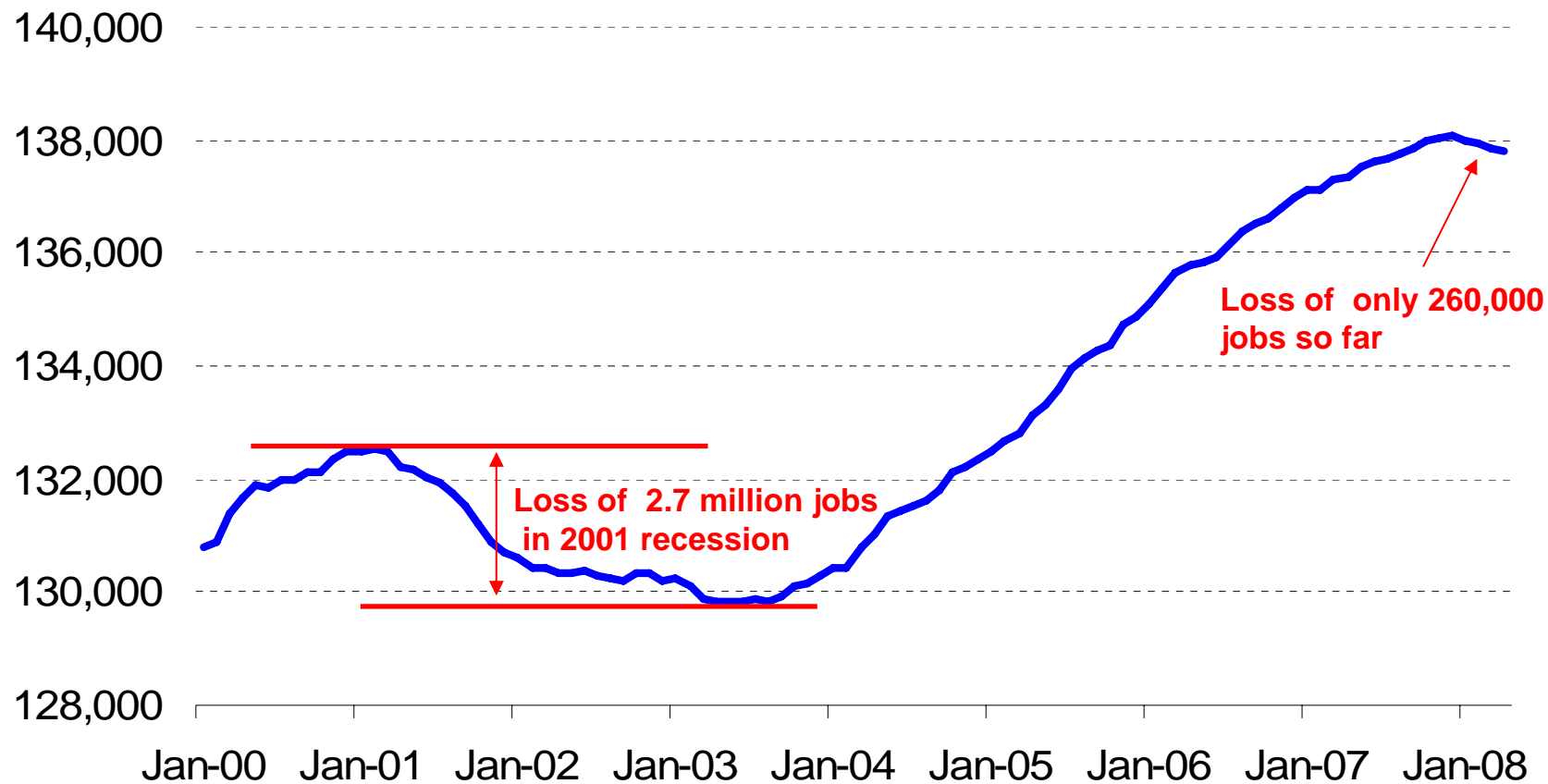
Percentage point contribution to GDP growth



Source: US Bureau of Economic Analysis

# Very little spill-over into U.S. labour market

U.S. Employment  
(thousands)

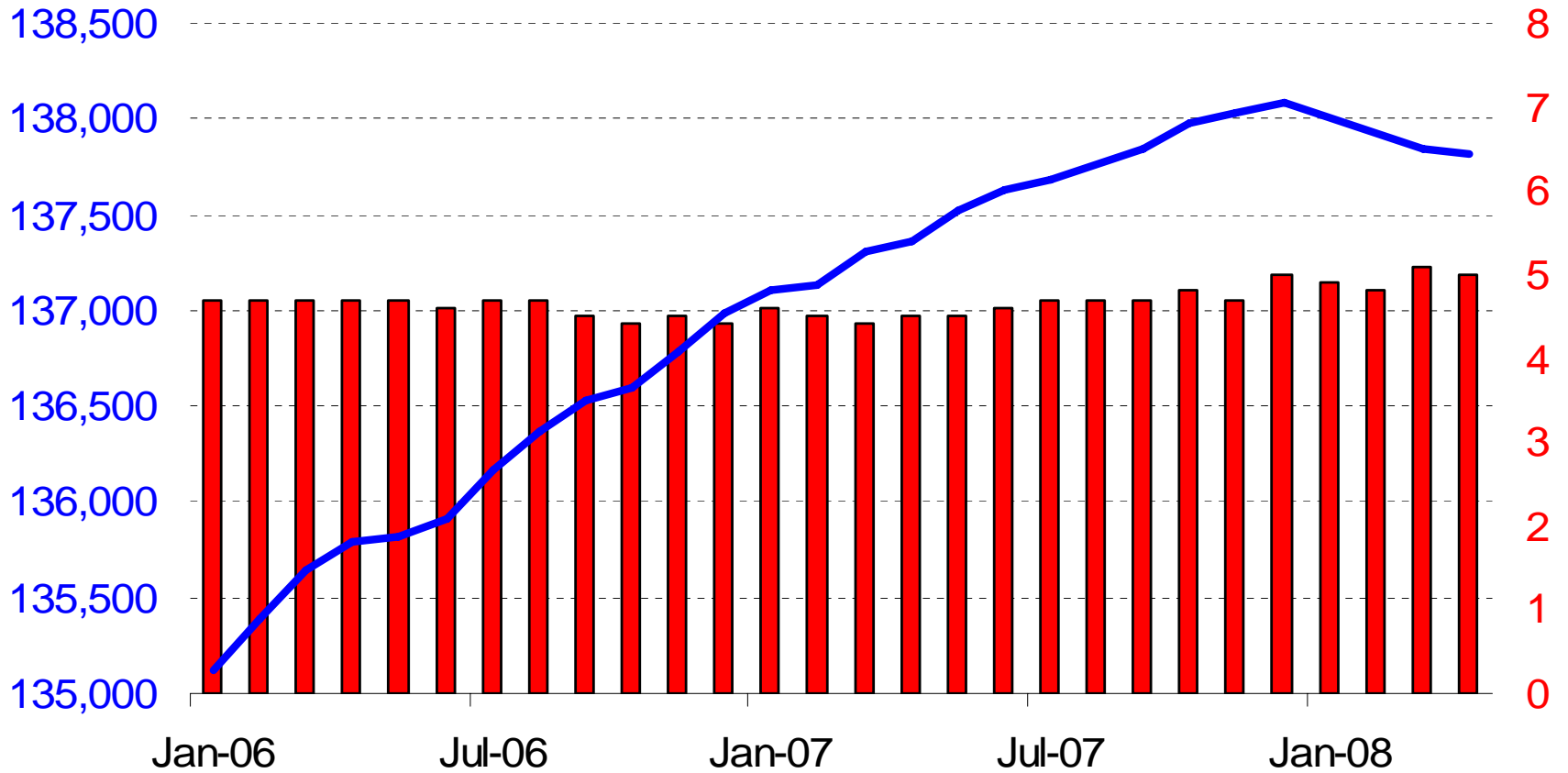


Source: US Bureau of Labour Statistics

# Very little spill-over into U.S. labour market

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(thousands)

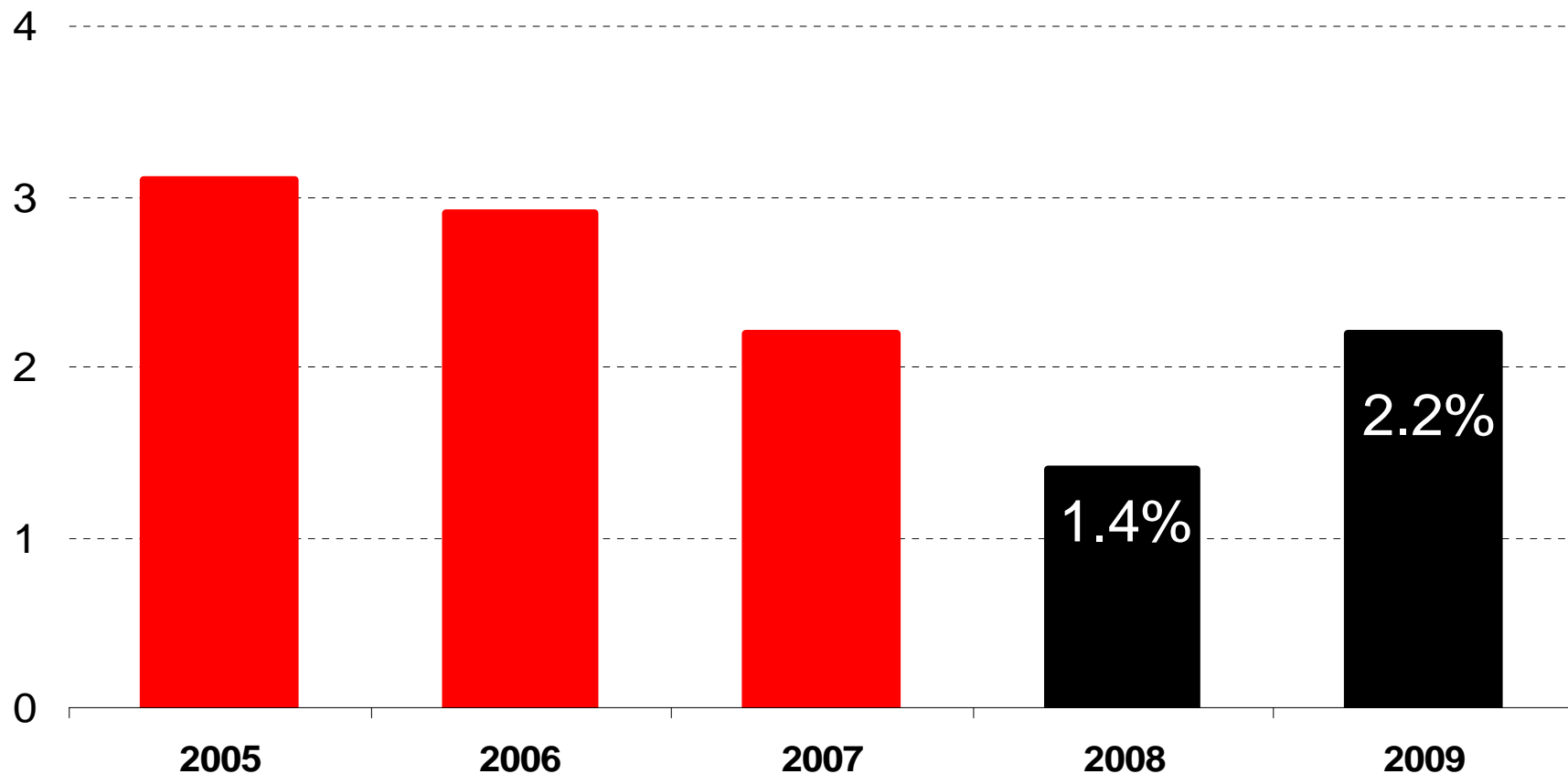
U.S. Unemployment  
Rate (per cent)



Source: US Bureau of Labour Statistics

# U.S. growth will be sluggish in 2008 and pick up slightly in 2009

U.S. GDP Growth  
(per cent)



Source: US Bureau of Economic Analysis, CMHC Forecast

# US Economy

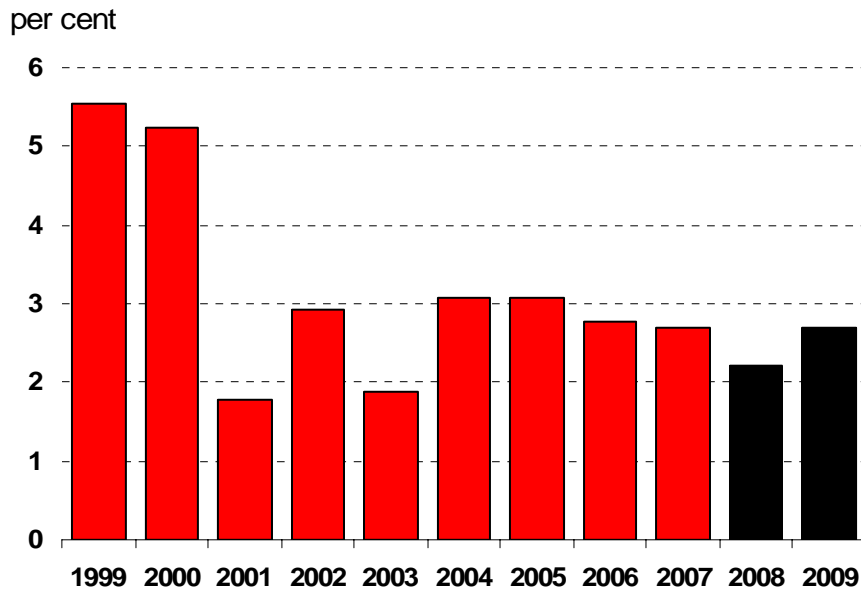
- **U.S. GDP growth has slowed. The weakness is concentrated in the housing sector.**
- **U.S. consumer spending has been supported by strong income growth and high employment levels. Net exports are also strong due to the weak U.S. dollar.**
- **U.S. housing slump and the financial market crisis will slow U.S. economic growth in 2008**
- **Fiscal and monetary policy will provide offsetting strength**

# Presentation Outline

- **Drivers of housing demand**
  - **Economic conditions**
    - U.S. Economy
    - **Canadian Economy**

# U.S. Economy will slow which will hold back Canadian economic growth

## Real GDP Growth



- GDP growth slowed in the final quarter of 2007. Slower growth was due to weaker net exports, reflecting a slower U.S. economy and a high dollar. Excluding the drag from net exports, the Canadian economy continued to grow at a strong pace in 2007.
- The high dollar and a sluggish U.S. economy will continue to hold back export growth in 2008. As a result Canadian GDP growth in 2008 revised down to 1.8 per cent.
- Domestic demand will remain strong. Consumer spending will be supported by low interest rates and strong labour markets. Corporate profits, low interest rates and competitive pressures will drive business investment.

Source: CMHC, adapted from Statistics Canada (CANSIM ID)

# Slower GDP growth in the fourth quarter of 2007 was due to weak net exports

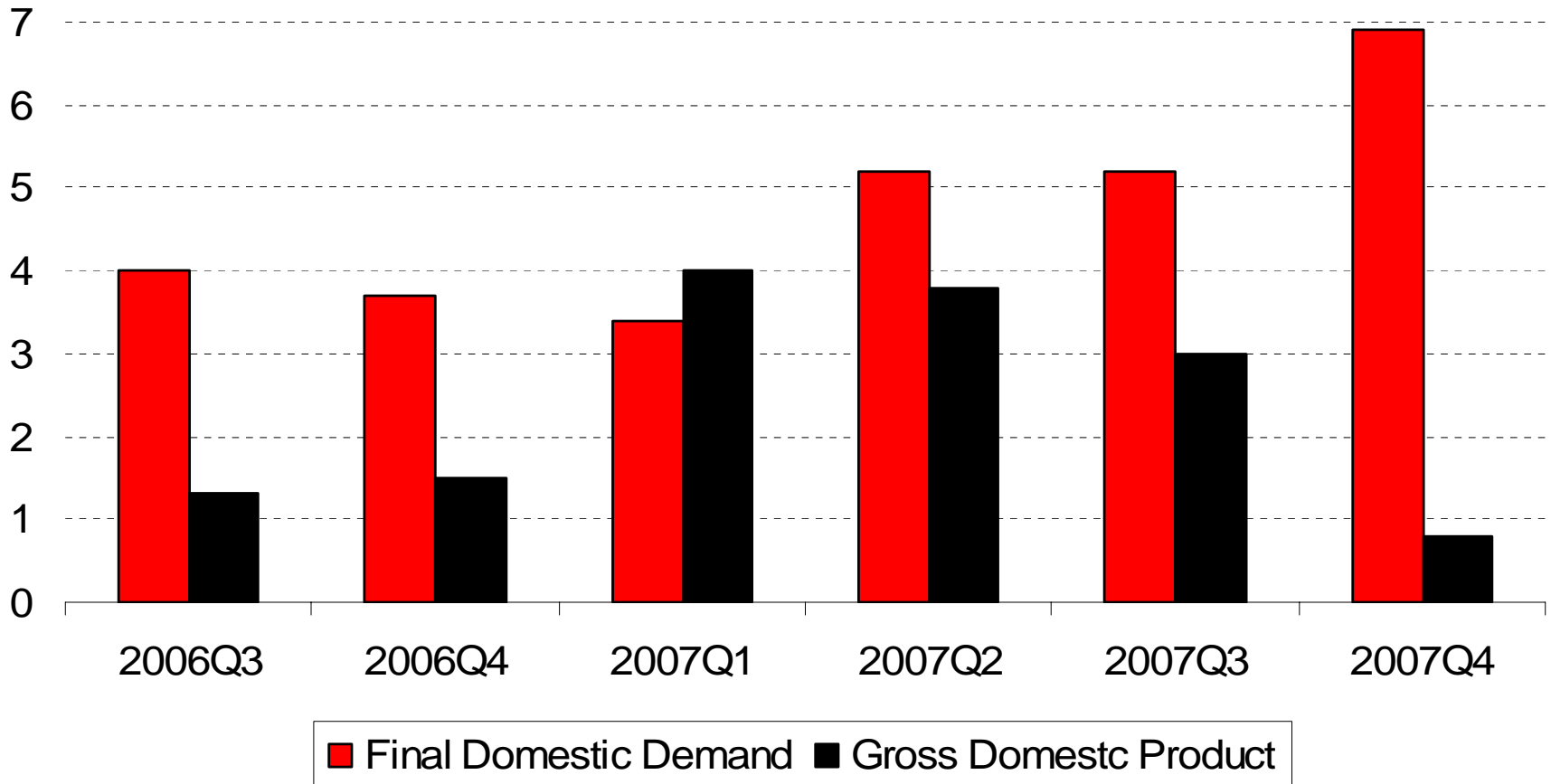
Fourth Quarter of 2007		
	Actual Contributions to GDP growth	GDP growth without drag from net exports
Consumer spending	4.1	4.1
Government Spending	1.5	1.5
Investment		
Residential	0.2	0.2
Non-Residential	0.0	0.0
Machinery and Equipment	0.8	0.8
Inventory Investment (business)	0.6	0.6
Net Export	-6.4	0.0
Exports	-3.0	0.0
Imports	3.4	0.0
Statistical Discrepancy	0.1	0.1
<b>GDP</b>	<b>0.8</b>	<b>7.2</b>

Final Domestic Demand

Source: Statistics Canada

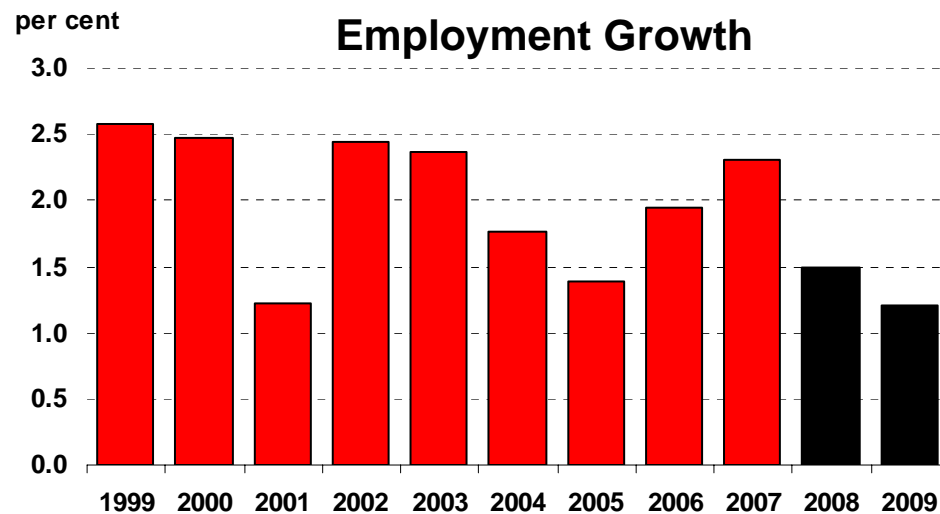
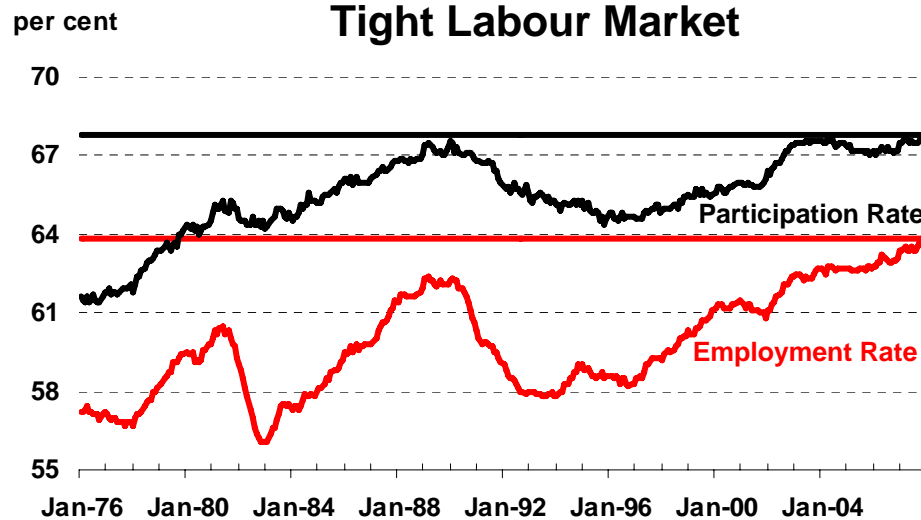
# Final domestic demand has outperformed GDP growth consistently in recent years

Per cent



Source: Statistics Canada

# Tight labour market means job growth will be constrained



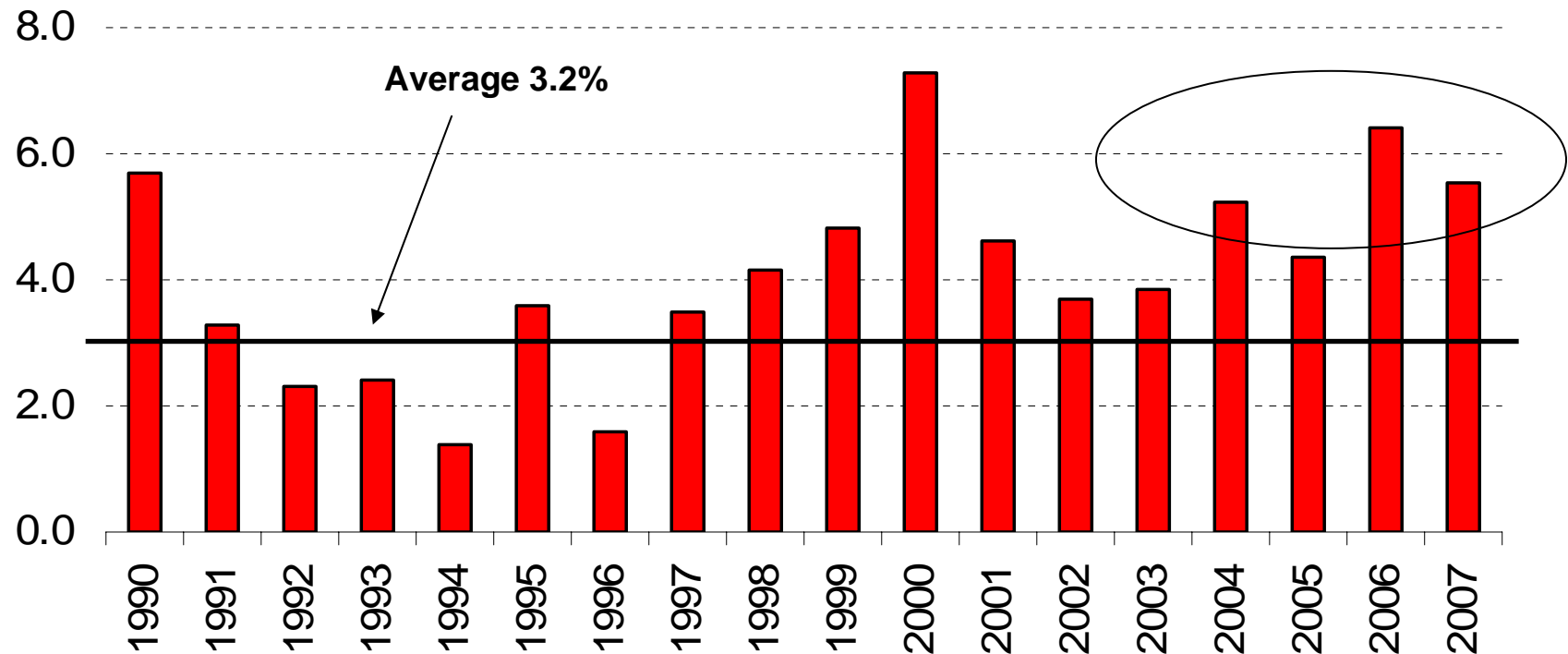
- Both the employment to population ratio and the participation rate are near record levels. This suggests that the labour market is fairly tight.
- Given the tight labour market, growth in disposable income will remain strong.
- Employment growth will slow, but will remain strong enough to keep the unemployment rate near 6.0% in 2008 and 2009.

Source: CMHC, adapted from Statistics Canada (Labour Force Survey)

# Tight labour markets are driving strong income growth

Personal Disposable income Growth

Per cent



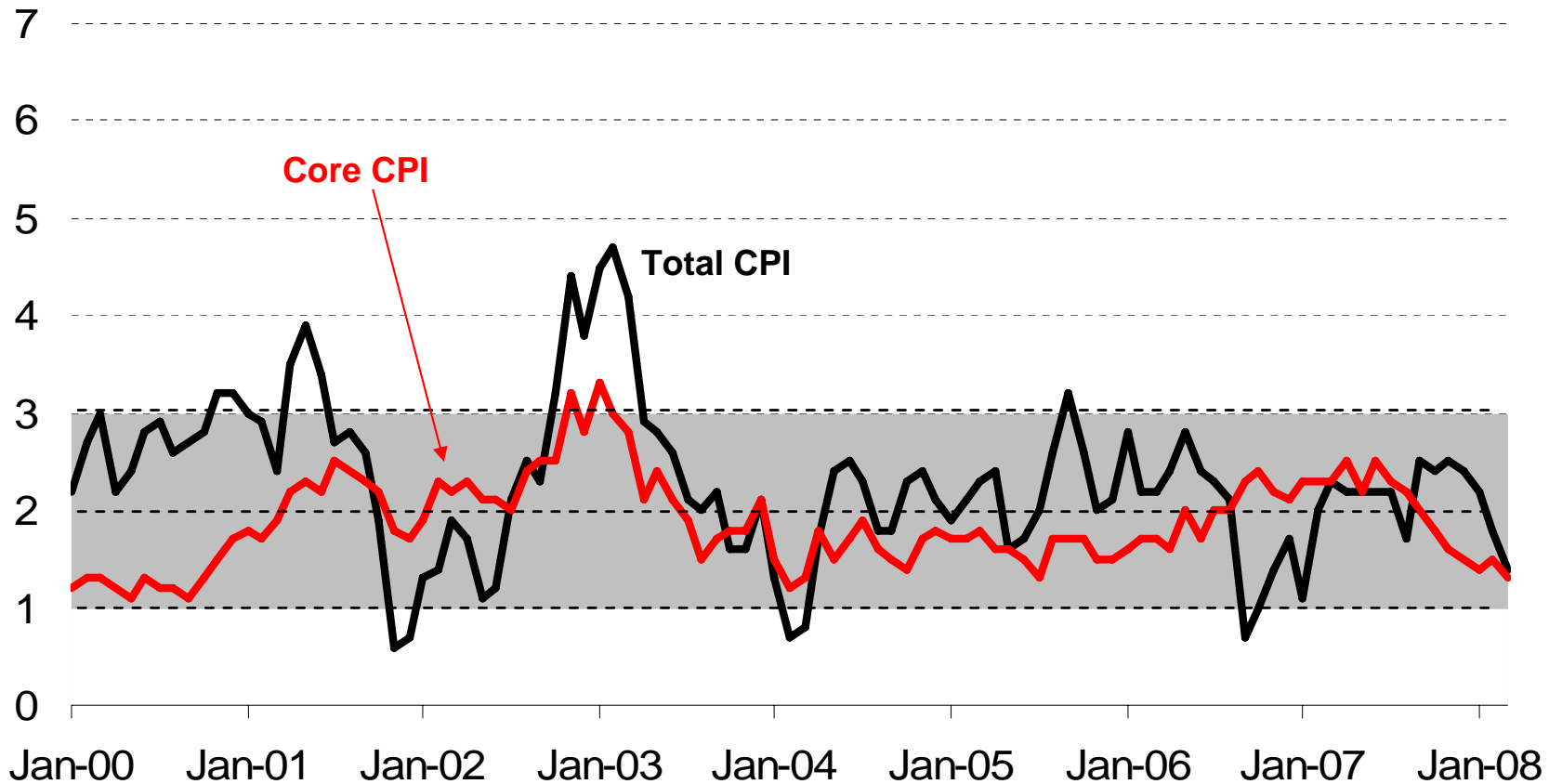
Source: CMHC, adapted from Statistics Canada

# Presentation Outline

- **Drivers of housing demand**
  - Economic conditions
  - **Interest rate outlook**

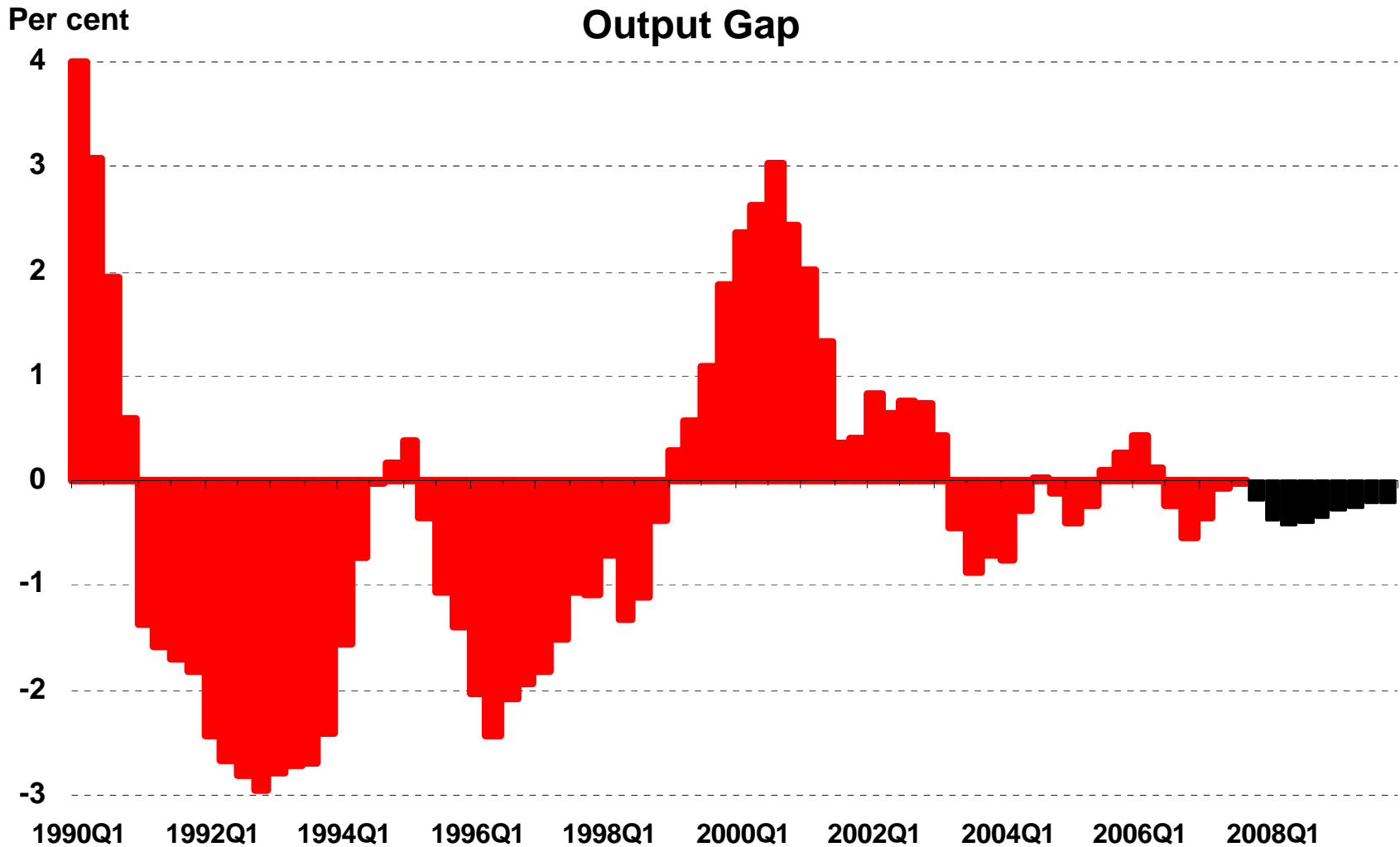
# Inflation is in the bottom half of the target range

Per cent

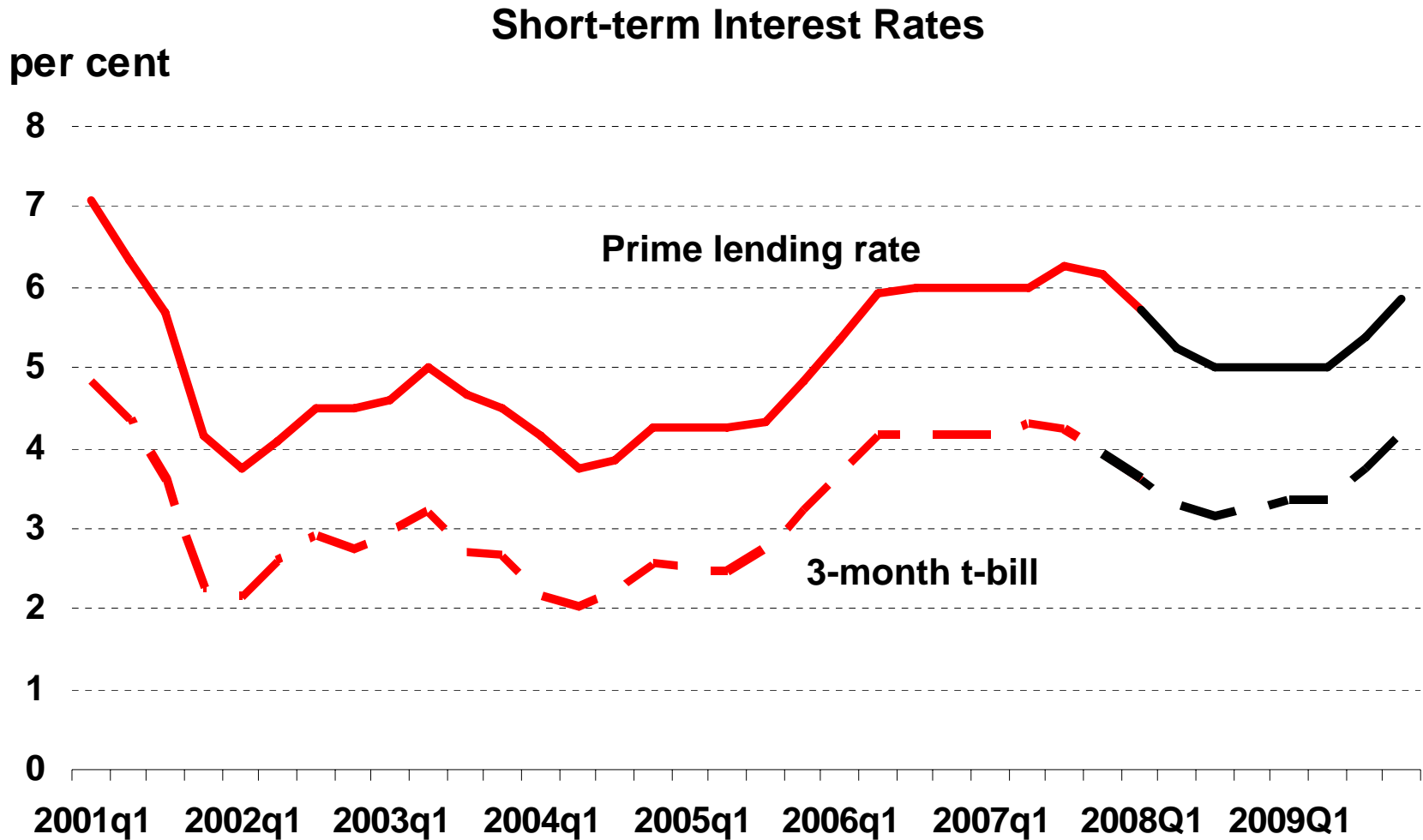


Source: CMHC Estimate

# Excess capacity in Canada's economy will make room for interest rate cuts



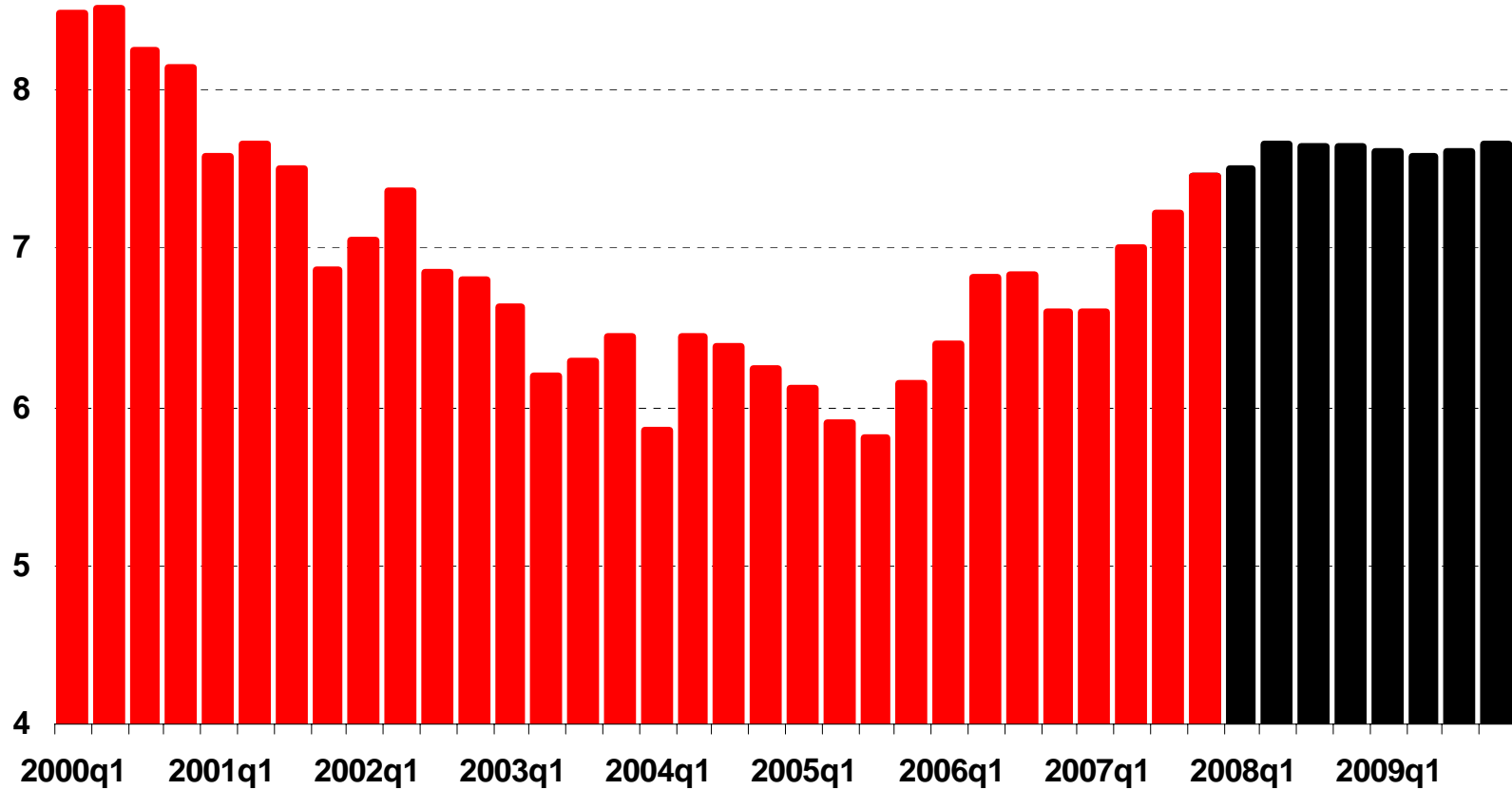
# Short-term interest rates will continue to move lower early in 2008



Source: CMHC forecast, Bank of Canada, Statistics Canada

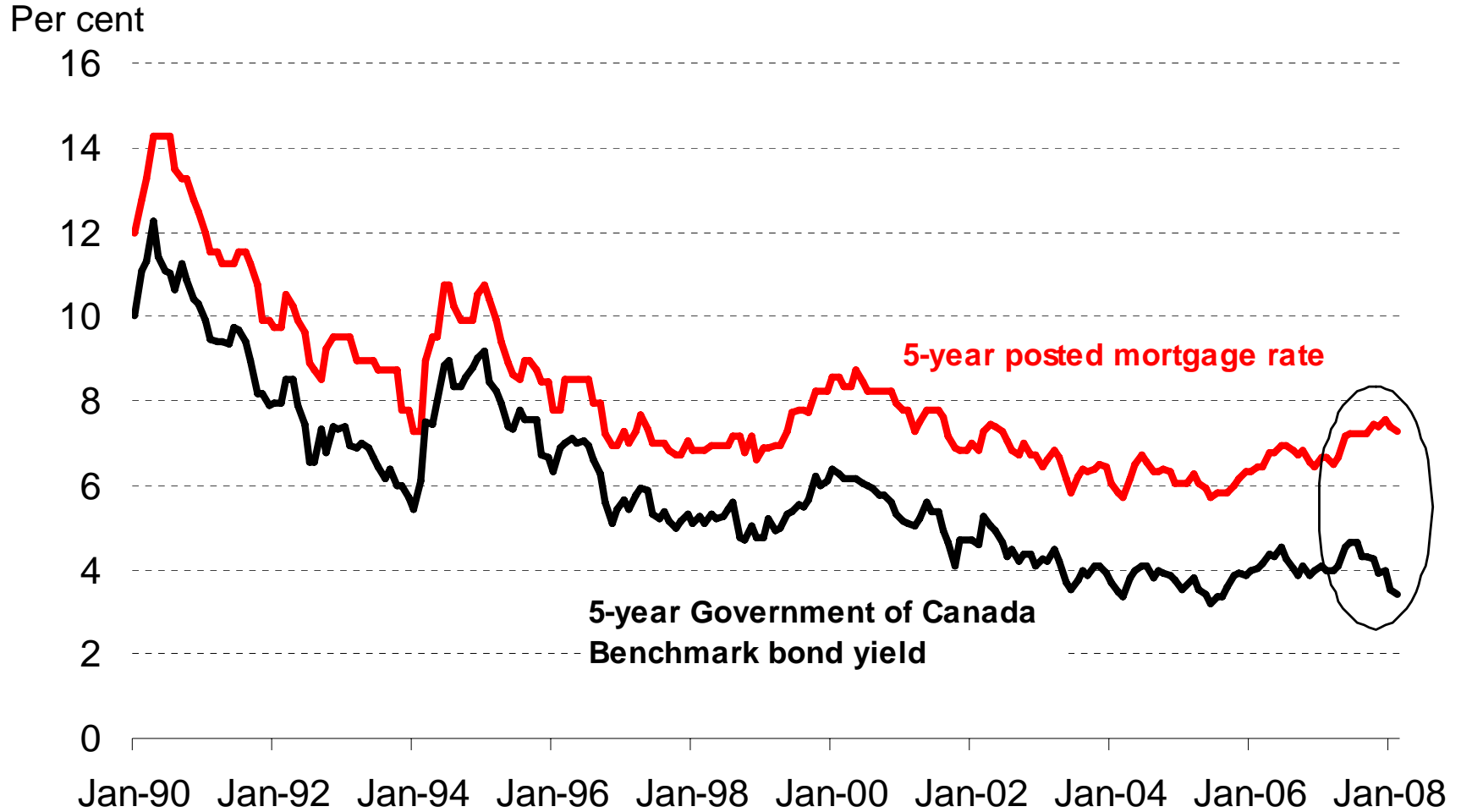
# Mortgage rates will remain low, but will edge slightly higher in 2009

per cent  
9



Source: CMHC forecast, Bank of Canada, Statistics Canada

# mortgage rates has increased since August 2007



Source: Bank of Canada, Statistics Canada

# Rates will remain very low by historical standards

per cent



Source: CMHC Forecast, Bank of Canada, Statistics Canada

# Canadian Economy

- **Canadian GDP growth has slowed. The weakness reflects slower growth in our main trading partner – the U.S. and a high Canadian dollar**
- **Labour market is tight which has put upward pressure on incomes. Growing incomes and high employment rates will support consumer spending.**
- **Stimulative monetary policy will prop up growth in 2009. Mortgage rates remain low.**
- **Domestic economic conditions will continue to support home ownership demand.**

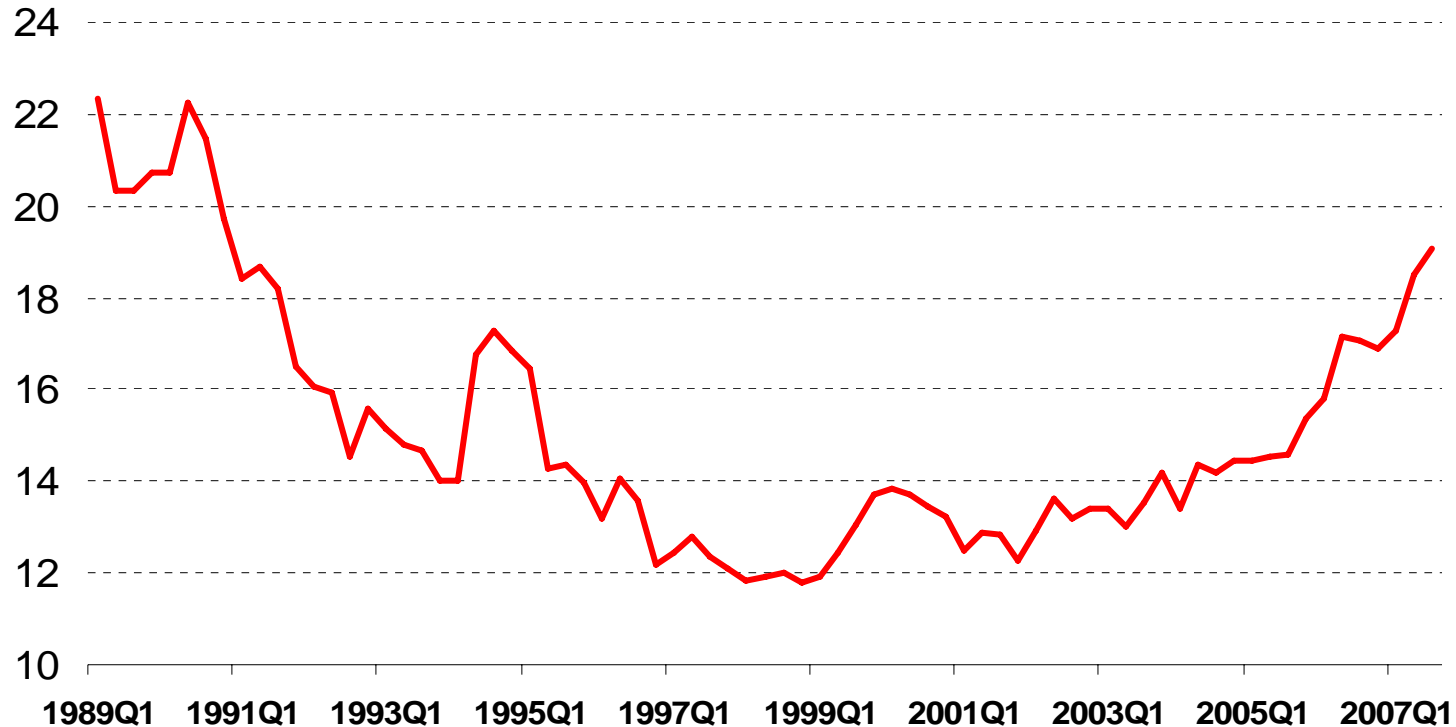
# Presentation Outline

- **Drivers of housing demand**
  - Economic conditions
  - **Household debt**

# rates caused debt service costs to rise in 2006 and 2007

## Mortgage Payment as a Percentage of Income

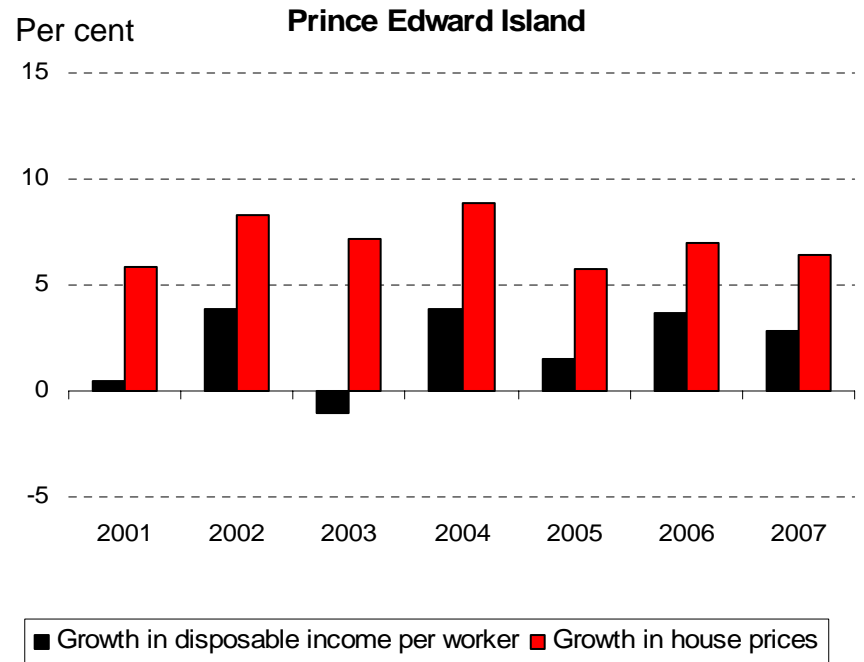
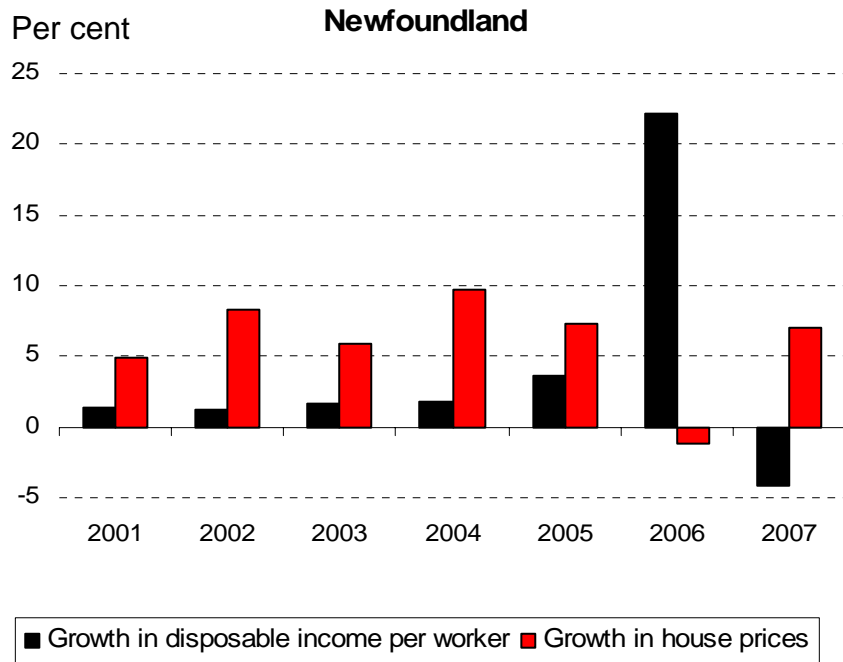
Per cent



Sources: CMHC, CREA, and Statistics Canada

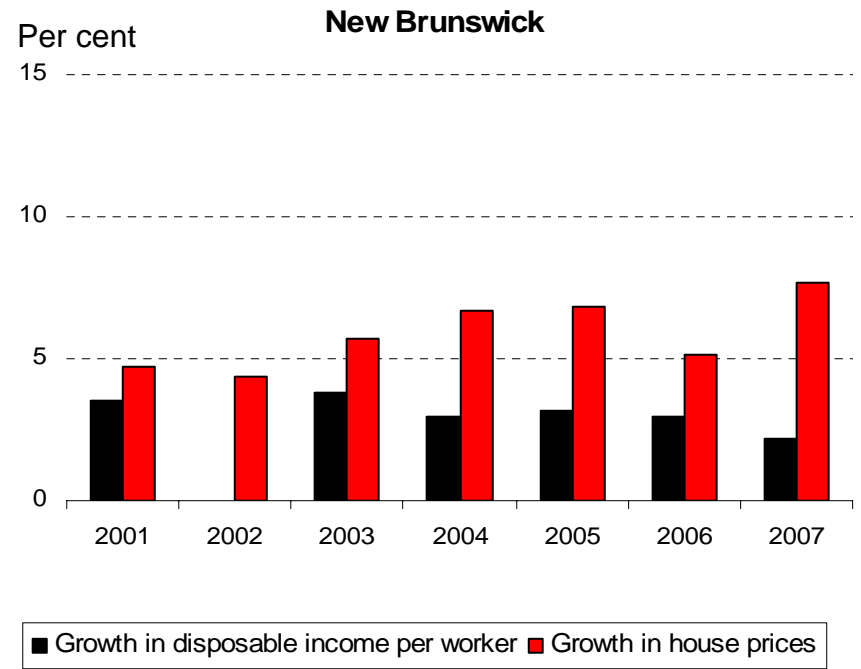
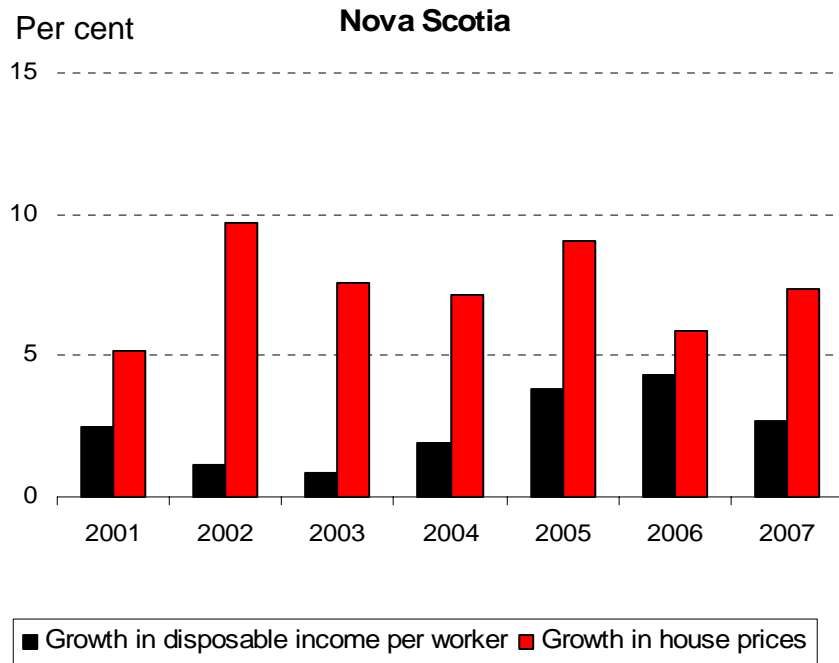
**Note:** Mortgage payment assumes a 25% down payment and 25 year amortization. Income is personal disposable income per 2 worker household.

# rates caused debt service costs to rise in 2006 and 2007



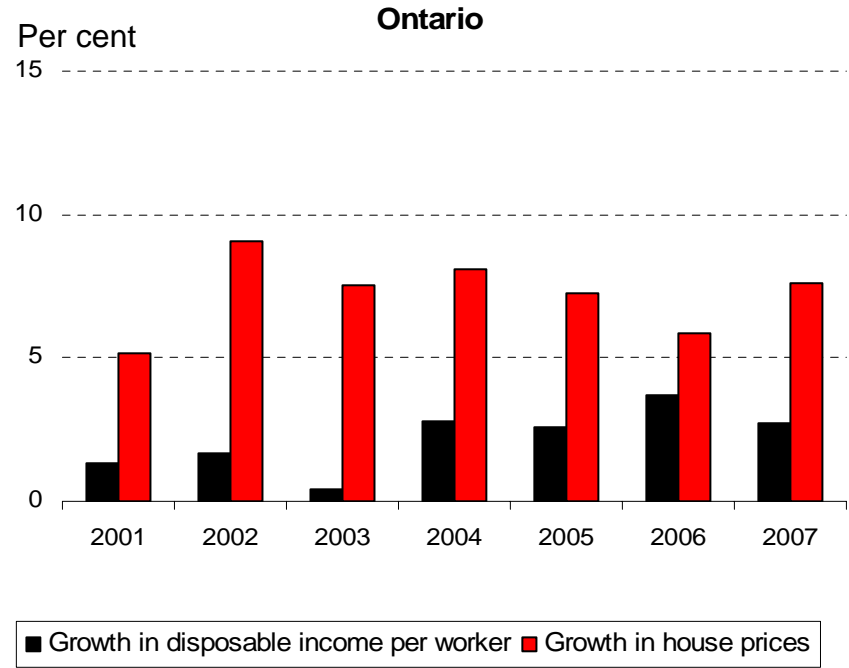
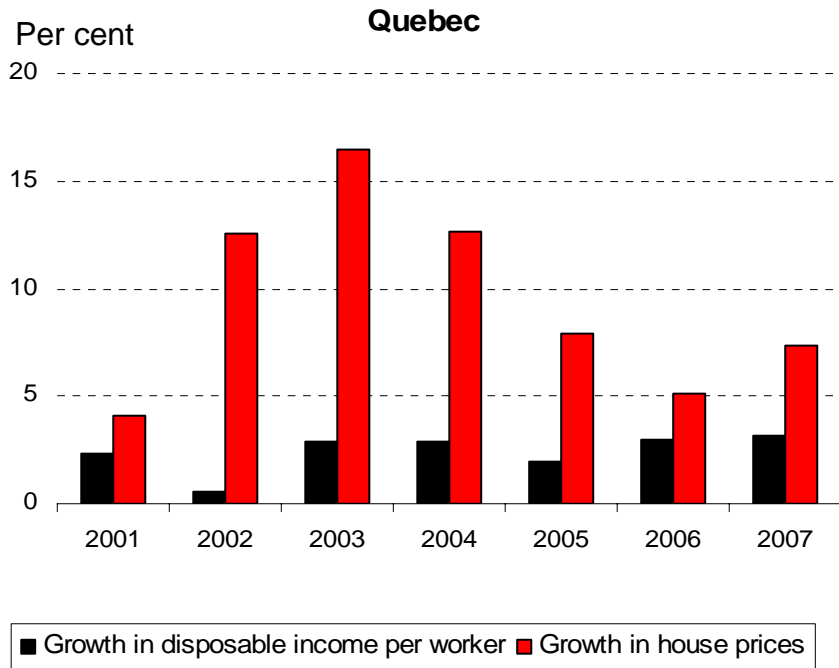
Sources: CMHC, CREA, and Statistics Canada

# rates caused debt service costs to rise in 2006 and 2007



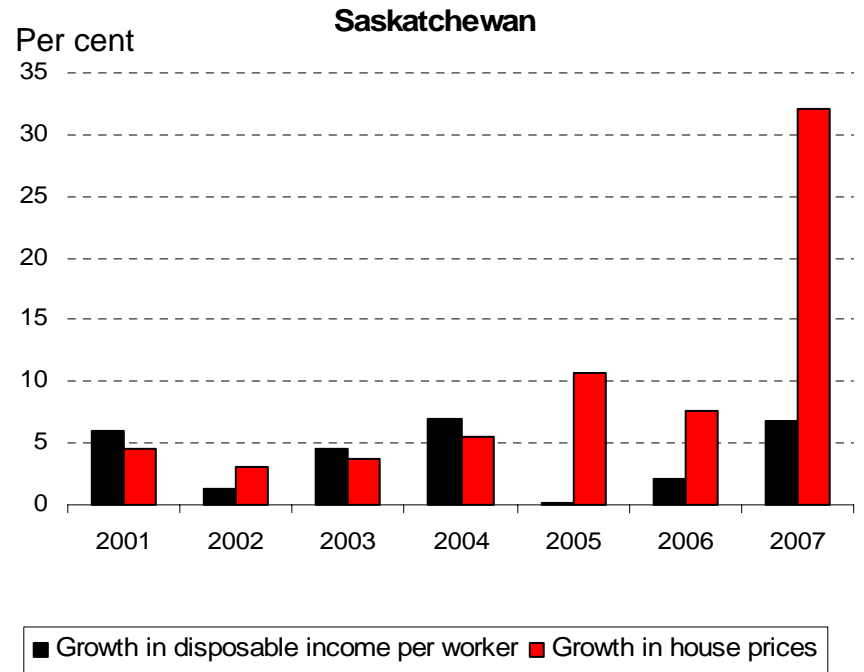
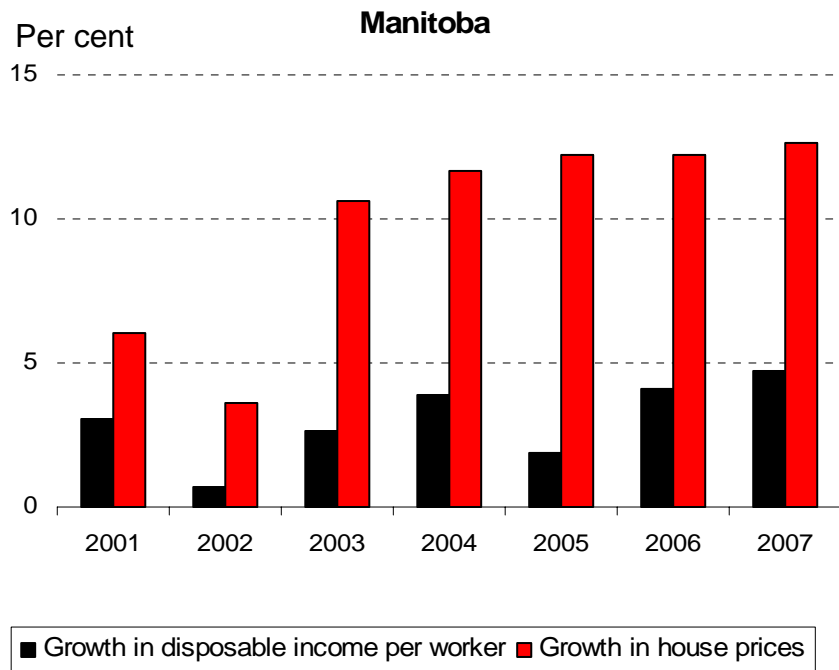
Sources: CMHC, CREA, and Statistics Canada

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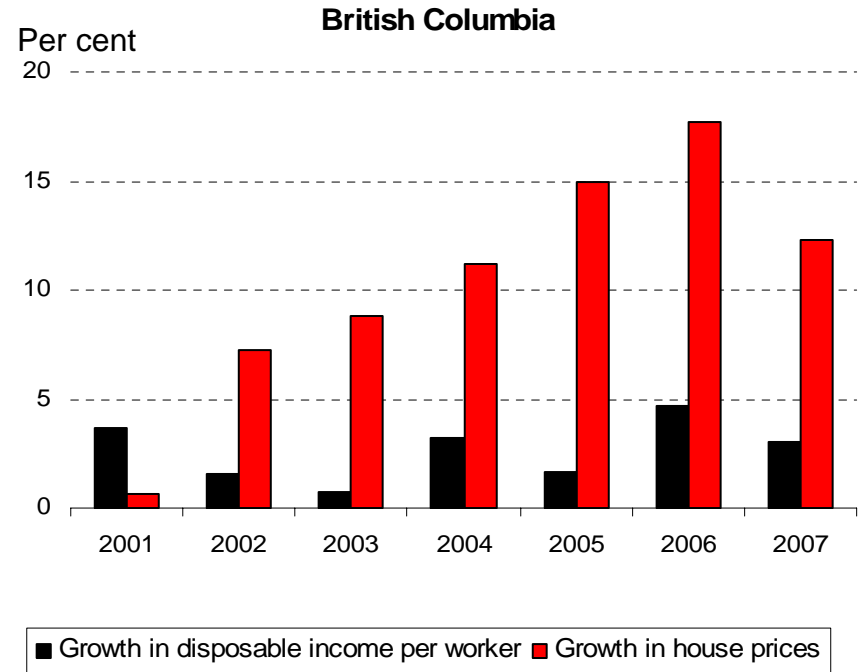
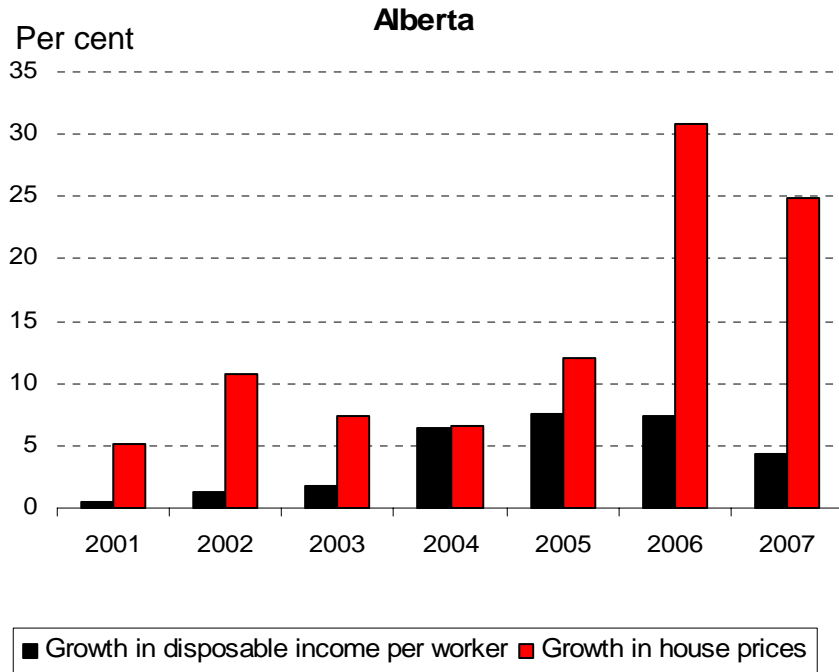
Sources: CMHC, CREA, and Statistics Canada

# rates caused debt service costs to rise in 2006 and 2007



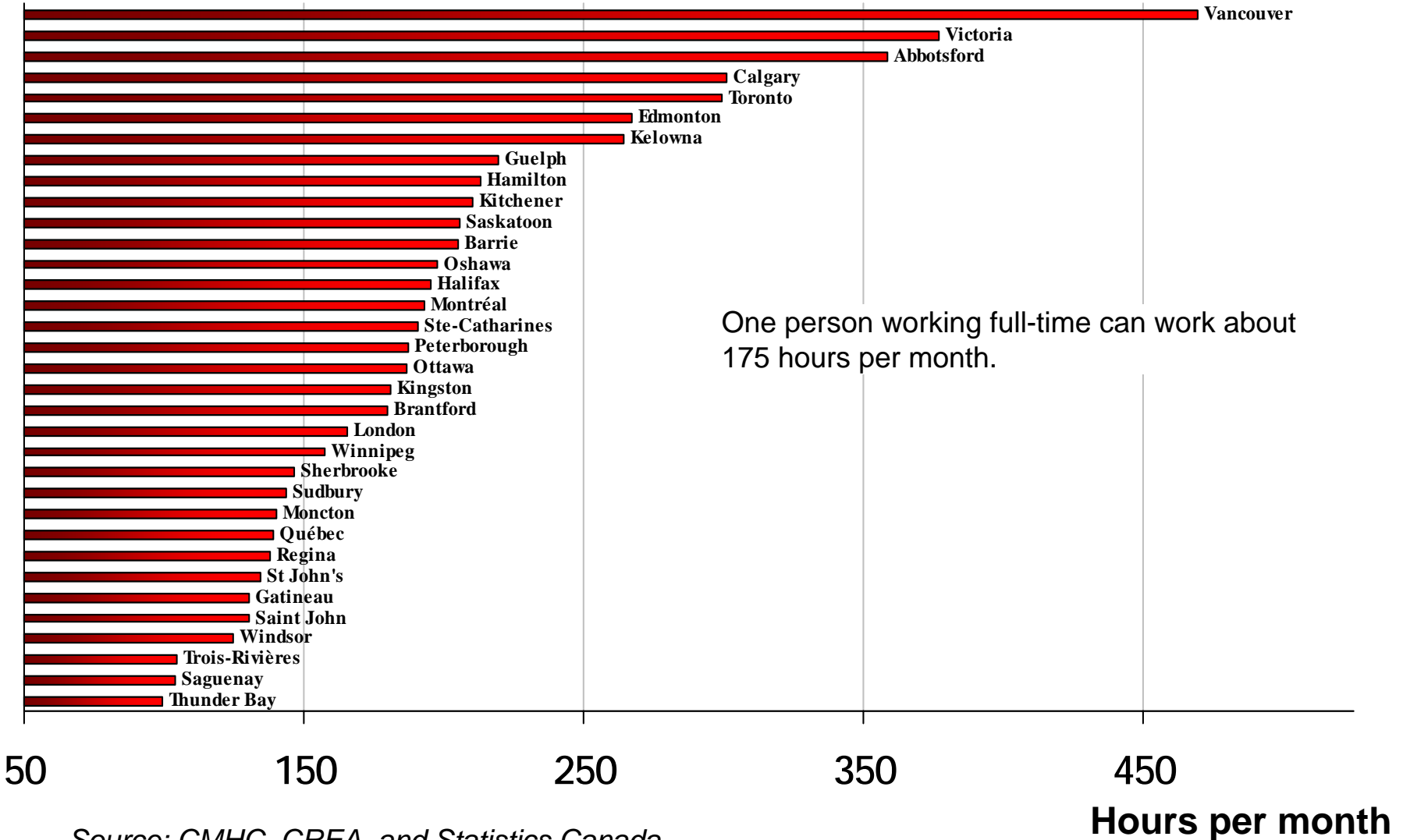
Sources: CMHC, CREA, and Statistics Canada

# rates caused debt service costs to rise in 2006 and 2007



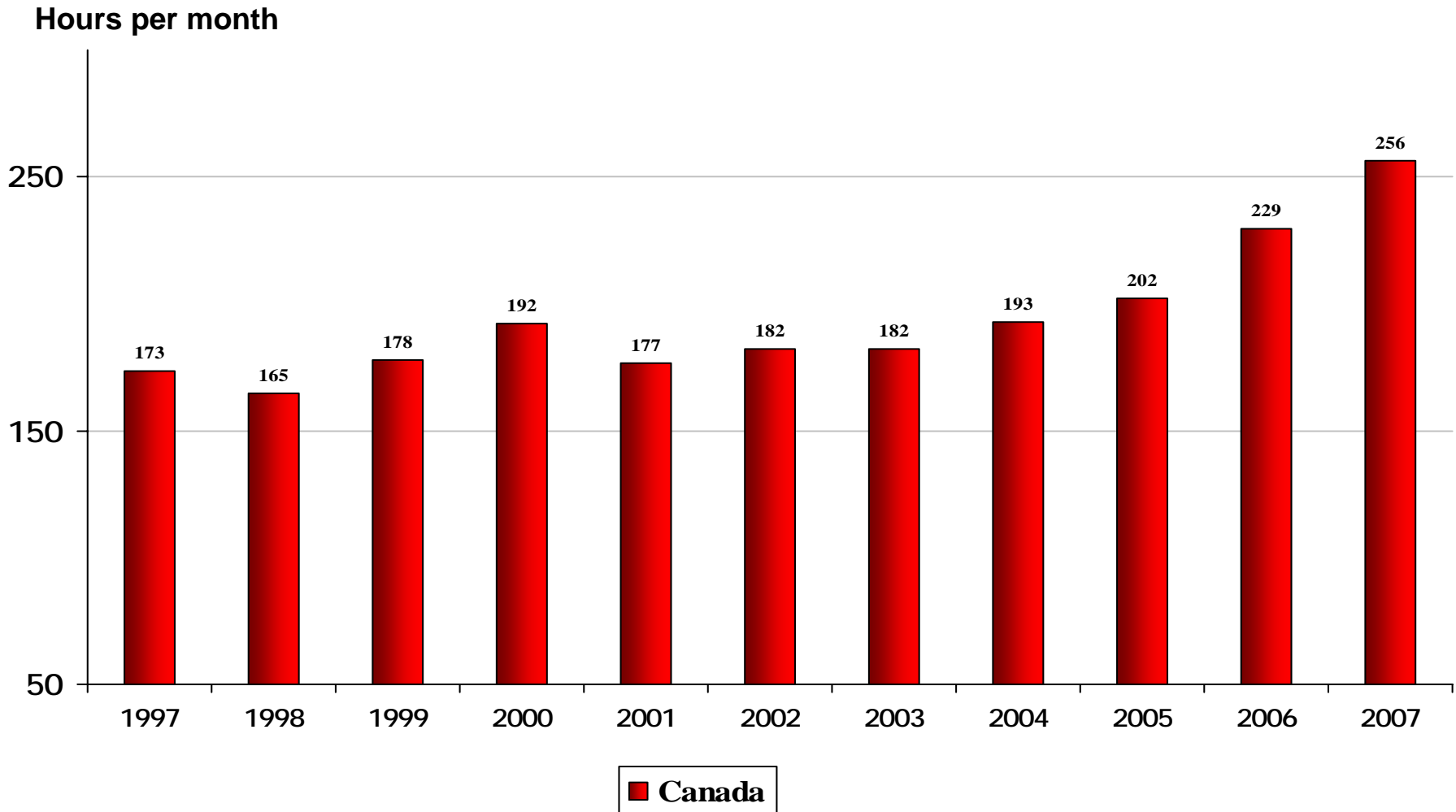
Sources: CMHC, CREA, and Statistics Canada

# Number of work hours needed to OWN at the average hourly wage by centre (2007)



Source: CMHC, CREA, and Statistics Canada

# Number of work hours needed to OWN at the average hourly wage



Source: CMHC, CREA, and Statistics Canada

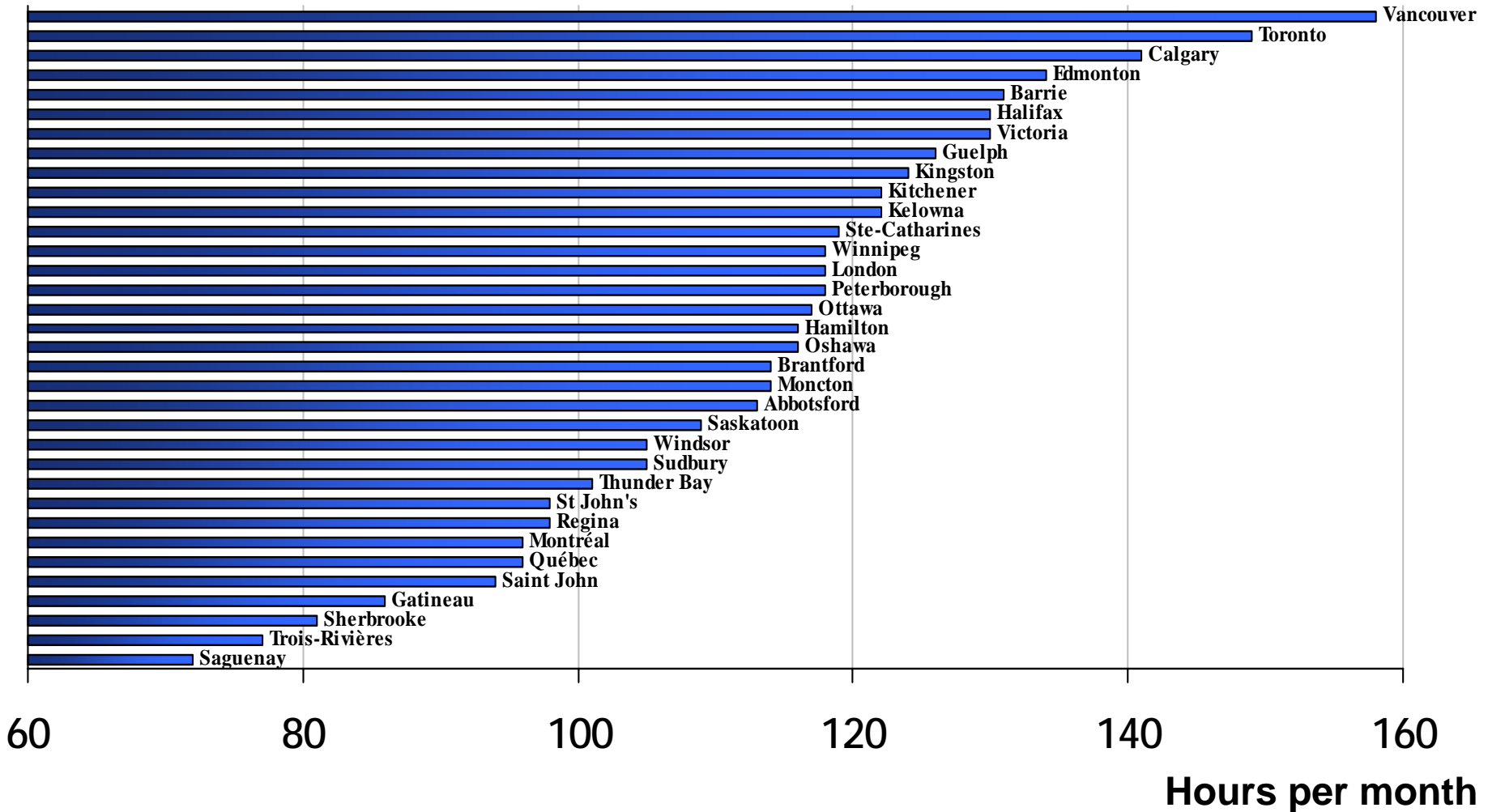
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# Hours of work required to own increased most in Western Canada between 2005 and 2007



Sources: CMHC, CREA, and Statistics Canada

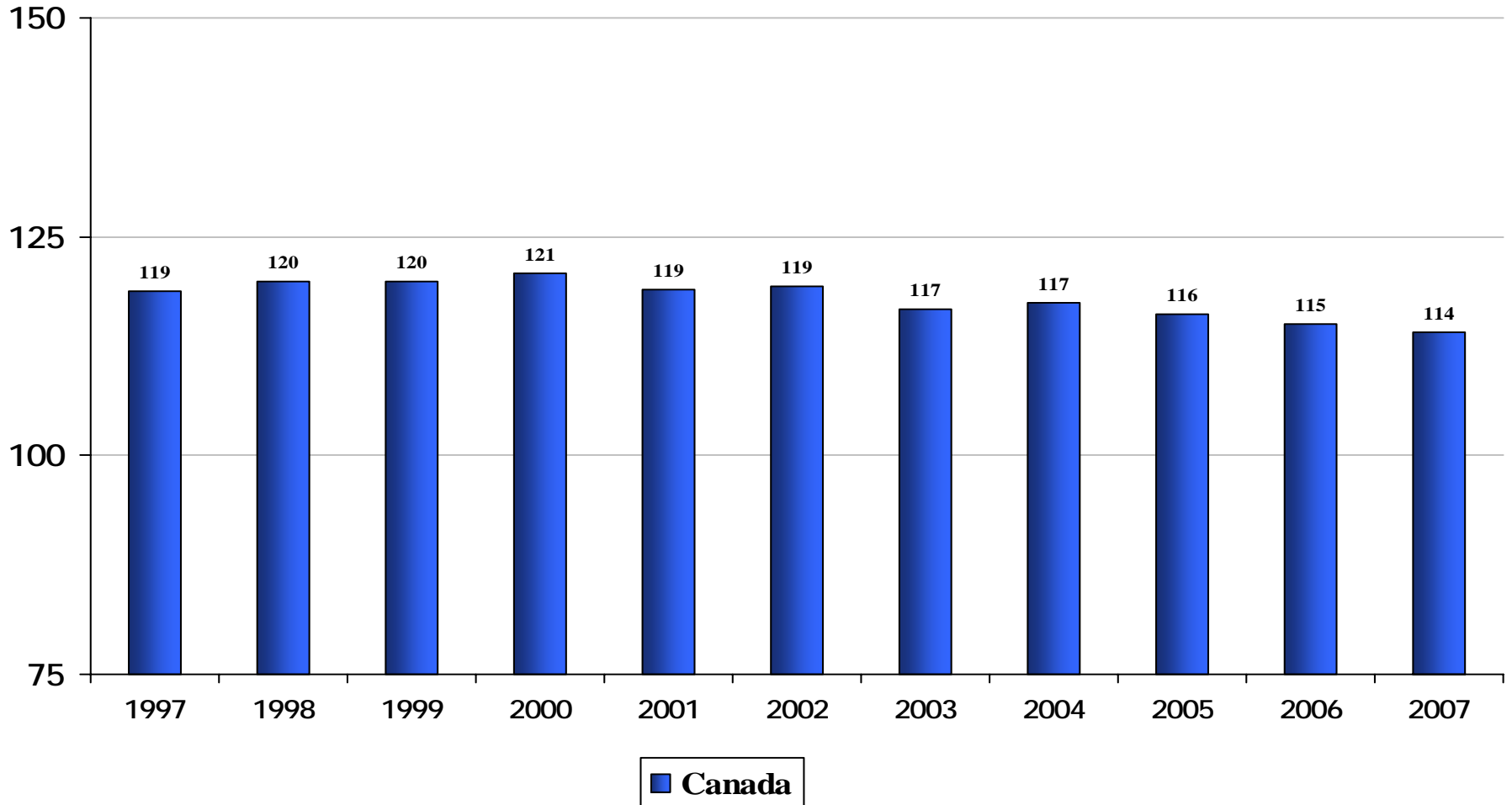
# Number of work hours needed to RENT at the average hourly wage\* by centre (2007)



Source: CMHC, and Statistics Canada

# Number of work hours needed to RENT at the average hourly wage

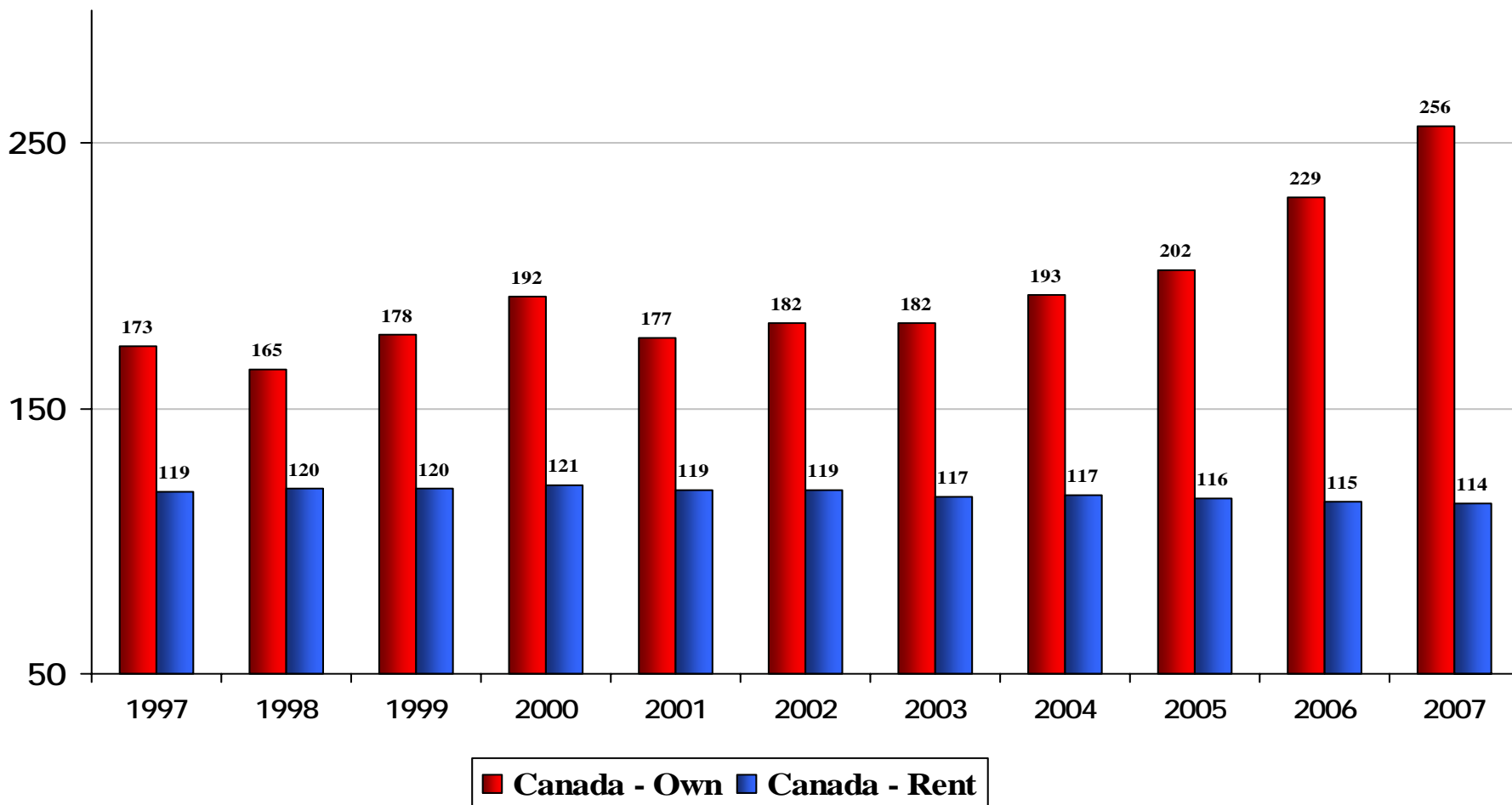
Hours per month



Source: CMHC, and Statistics Canada  
CANADA MORTGAGE AND HOUSING CORPORATION

# The gap between the number of work hours needed to OWN and RENT has been increasing since 2001

Hours per month



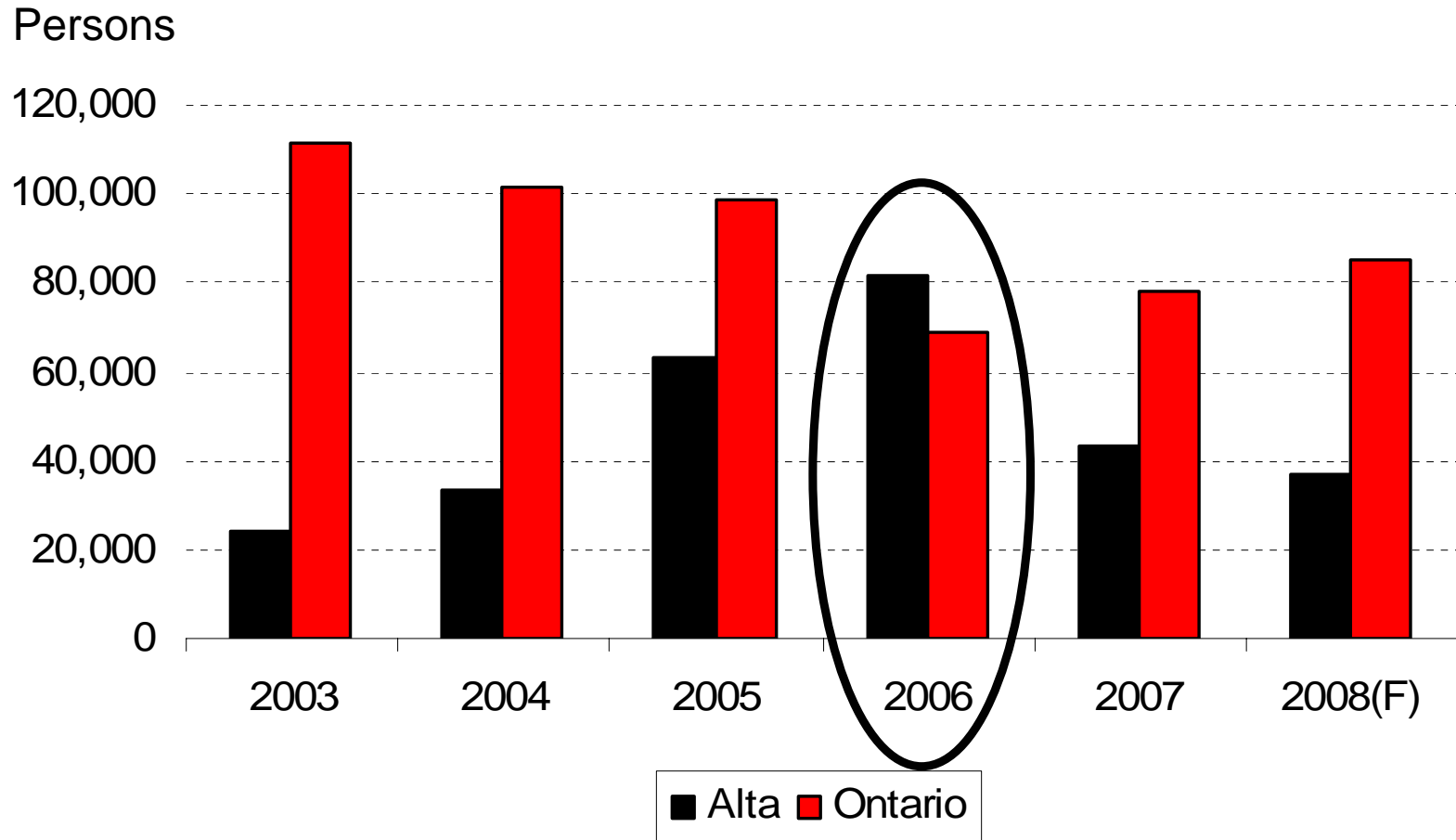
Source: CMHC, CREA, and Statistics Canada

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# Presentation Outline

- **Drivers of housing demand**
  - Economic conditions
  - Interest rate outlook and household debt
  - **Demographic trends**

# Total net migration to Alberta surpassed that in Ontario in 2006



Source: Statistics Canada

# Total net migration in Manitoba and Saskatchewan will support housing demand

## Total Net Migration

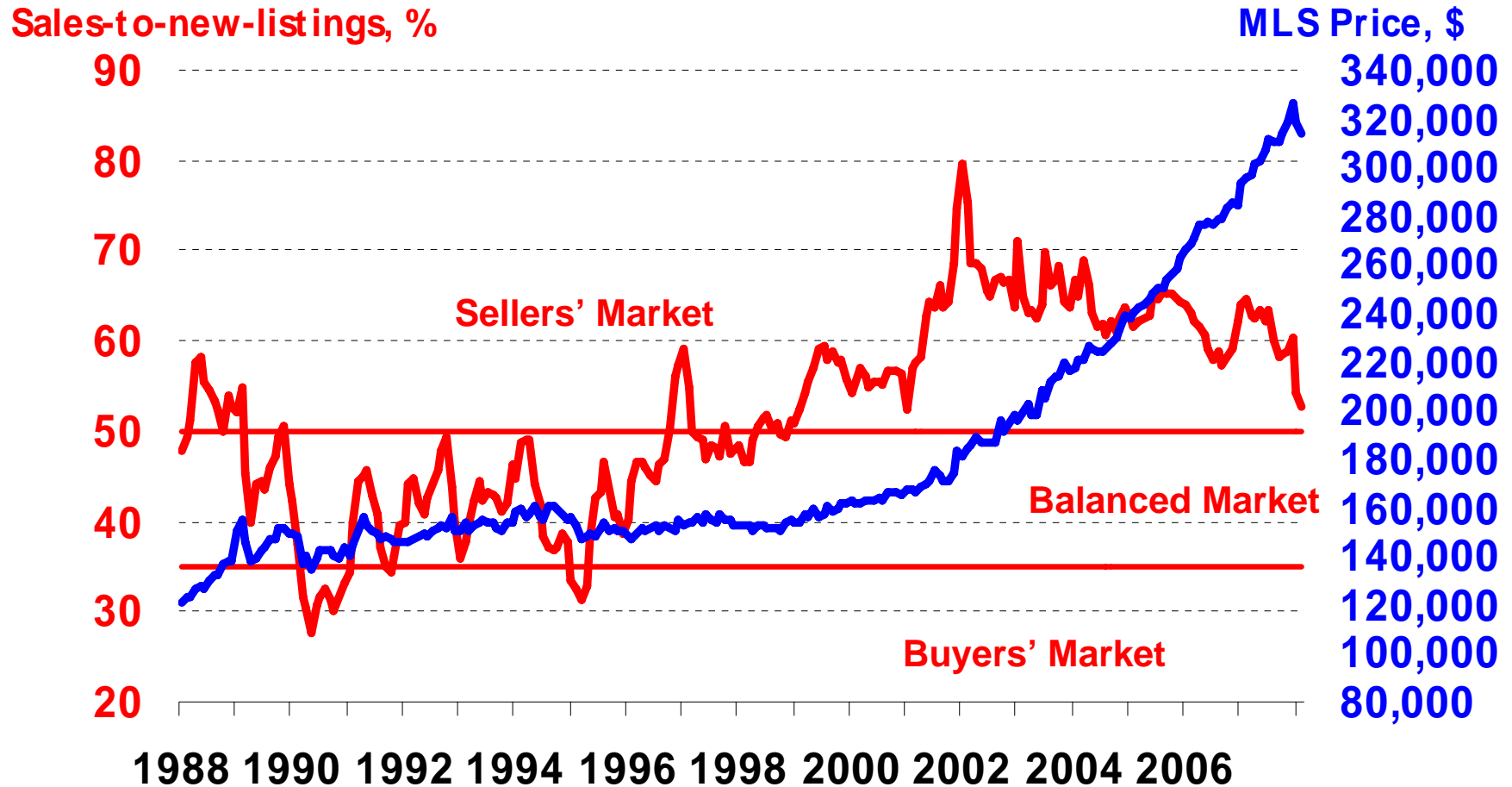
	2003	2004	2005	2006	2007	2008(F)
Nfld	-705	-2,438	-4,146	-3,539	-290	1,375
P.E.I.	343	44	71	49	868	500
Nova Scotia	1,548	-191	-2,259	-1,039	1,393	750
New Brunswick	-382	-83	-1,922	-2,276	2,592	2,075
Quebec	34,529	34,443	27,506	24,580	28,380	29,500
Ontario	111,197	101,730	98,768	68,759	78,217	85,500
Manitoba	3,438	3,739	-2,150	1,398	9,179	9,000
Sask	-3,280	-4,529	-7,945	-1,037	13,583	11,250
Alta	24,171	33,426	63,239	81,480	43,242	36,600
B.C.	35,850	39,721	48,444	48,276	52,999	56,350

Source: Statistics Canada

# Presentation Outline

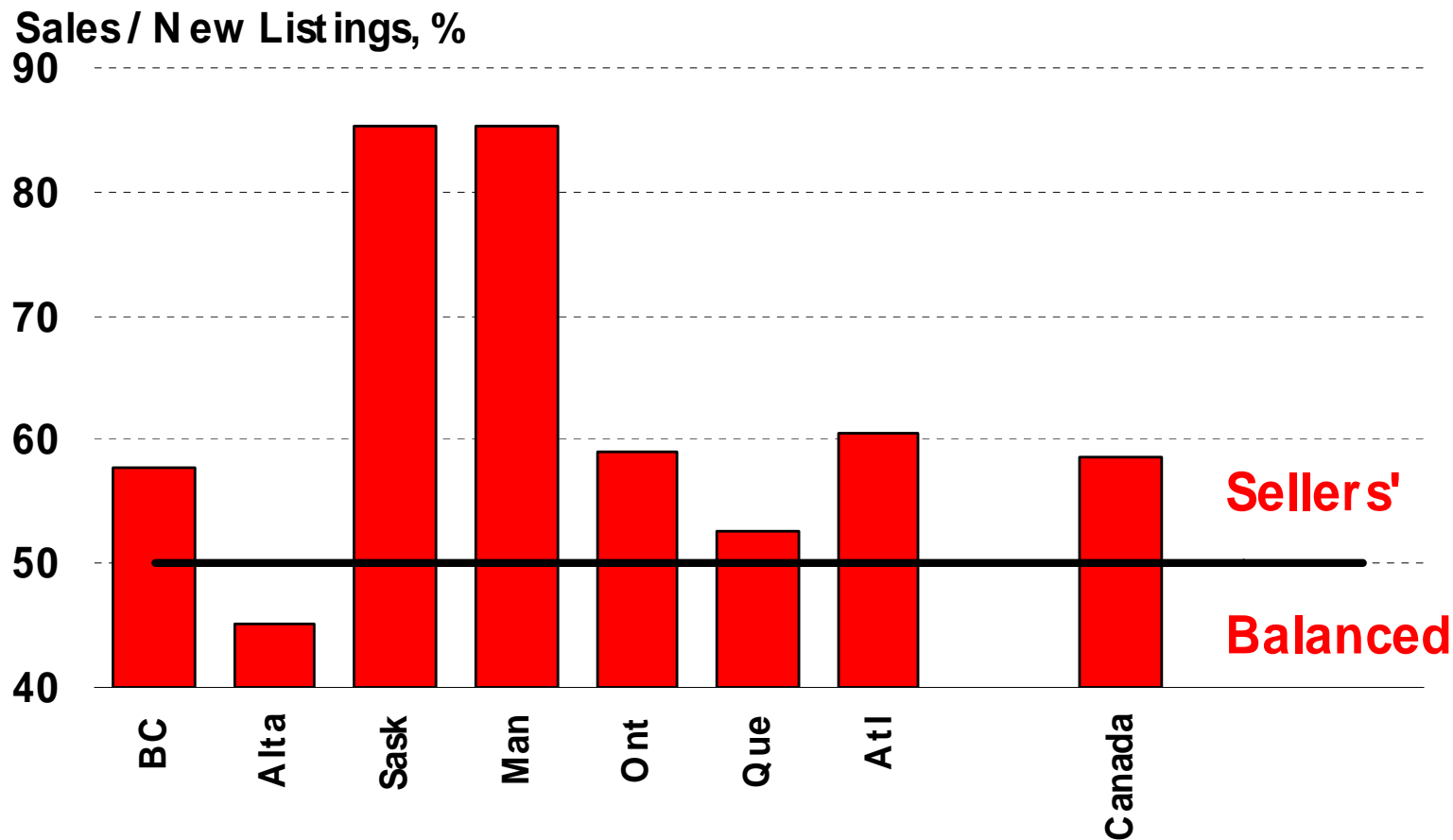
- Drivers of housing demand
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  - **Existing home market**
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# Sellers' market conditions imply further upward pressure on house prices



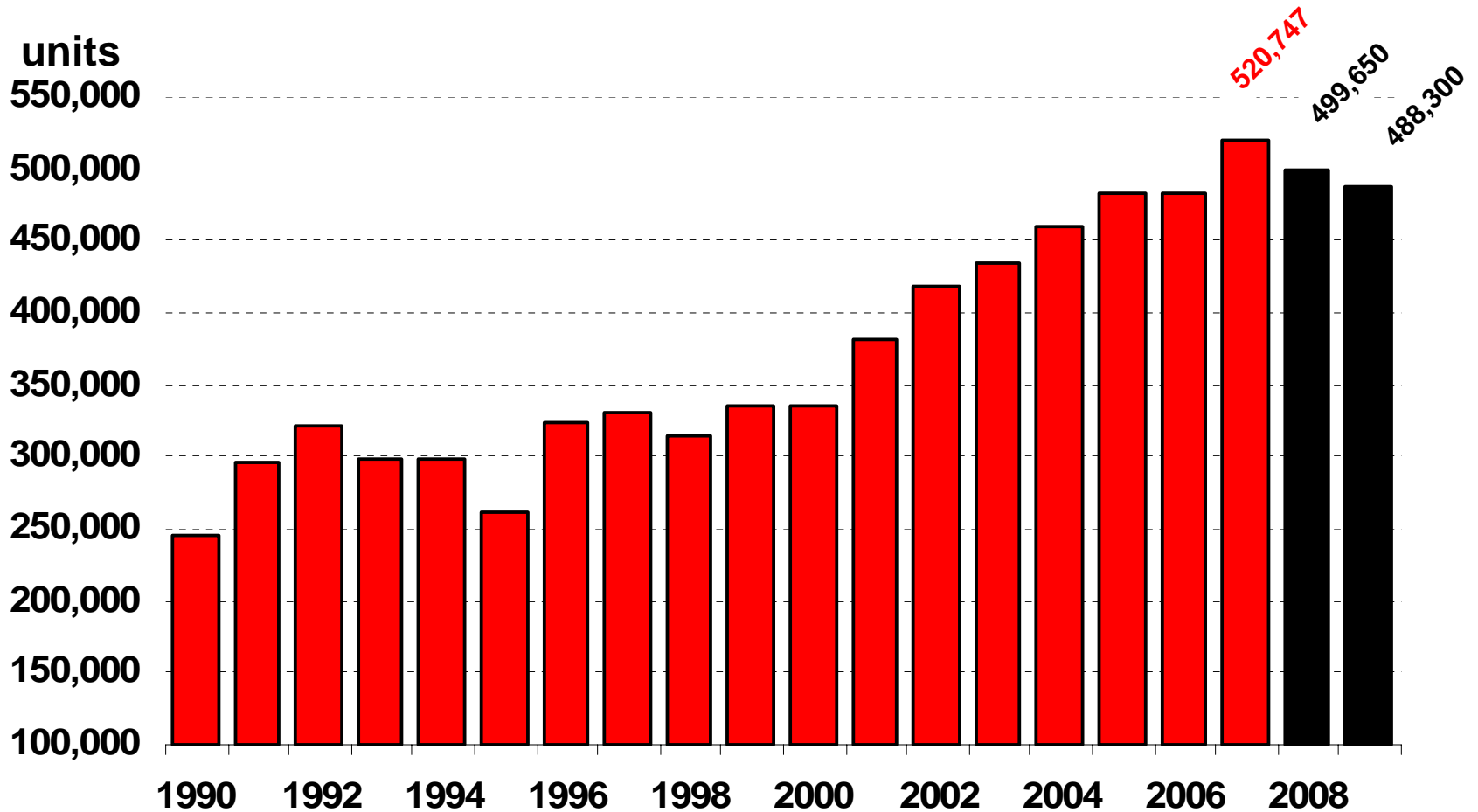
Source: CREA, CMHC

# The Strongest Housing Markets are in the Prairies, but not Alberta



Source: CREA, CMHC

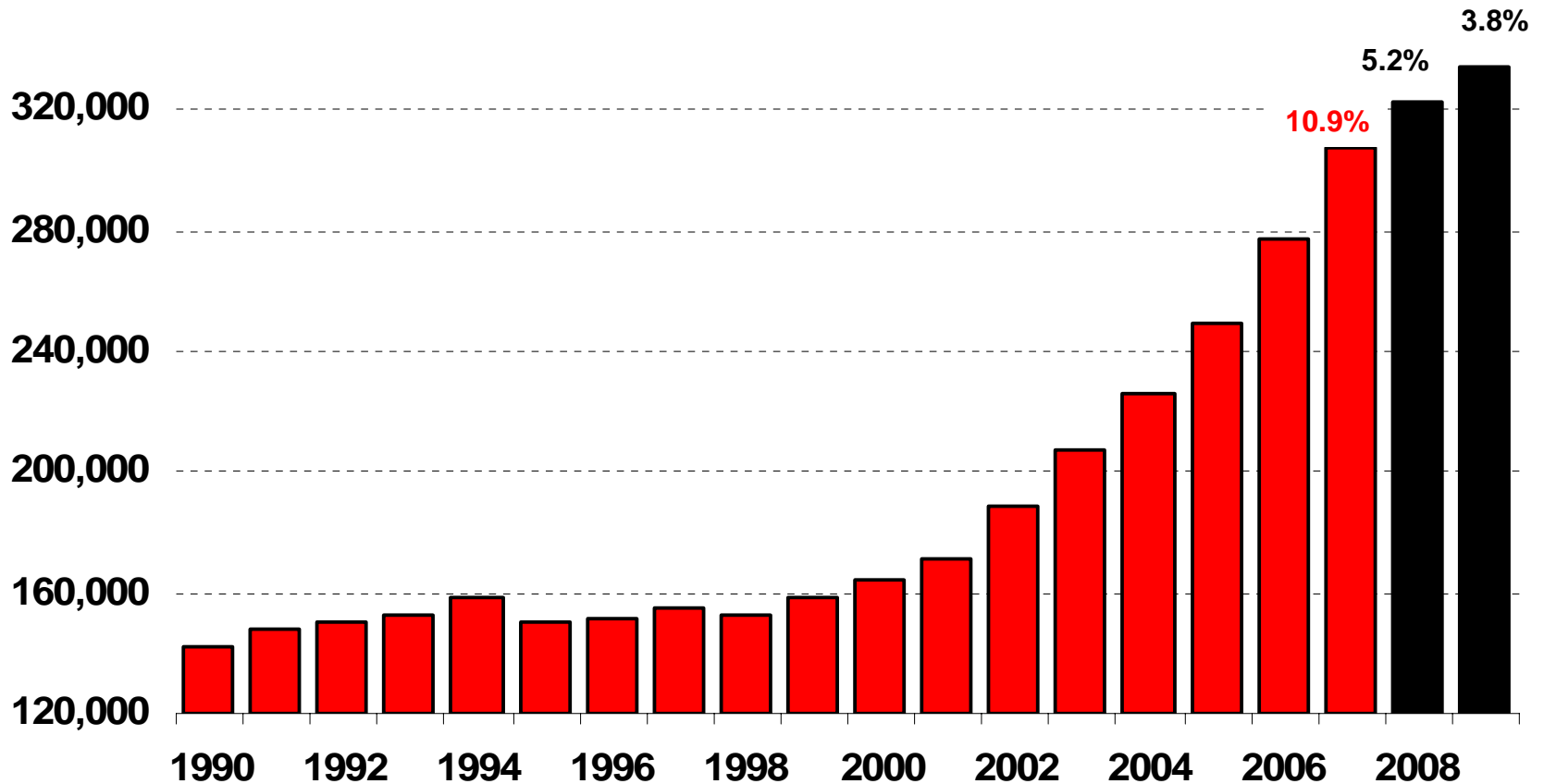
# Record MLS<sup>®</sup> sales for 2007



Source: CMHC Housing Market Outlook, First quarter 2008 Edition

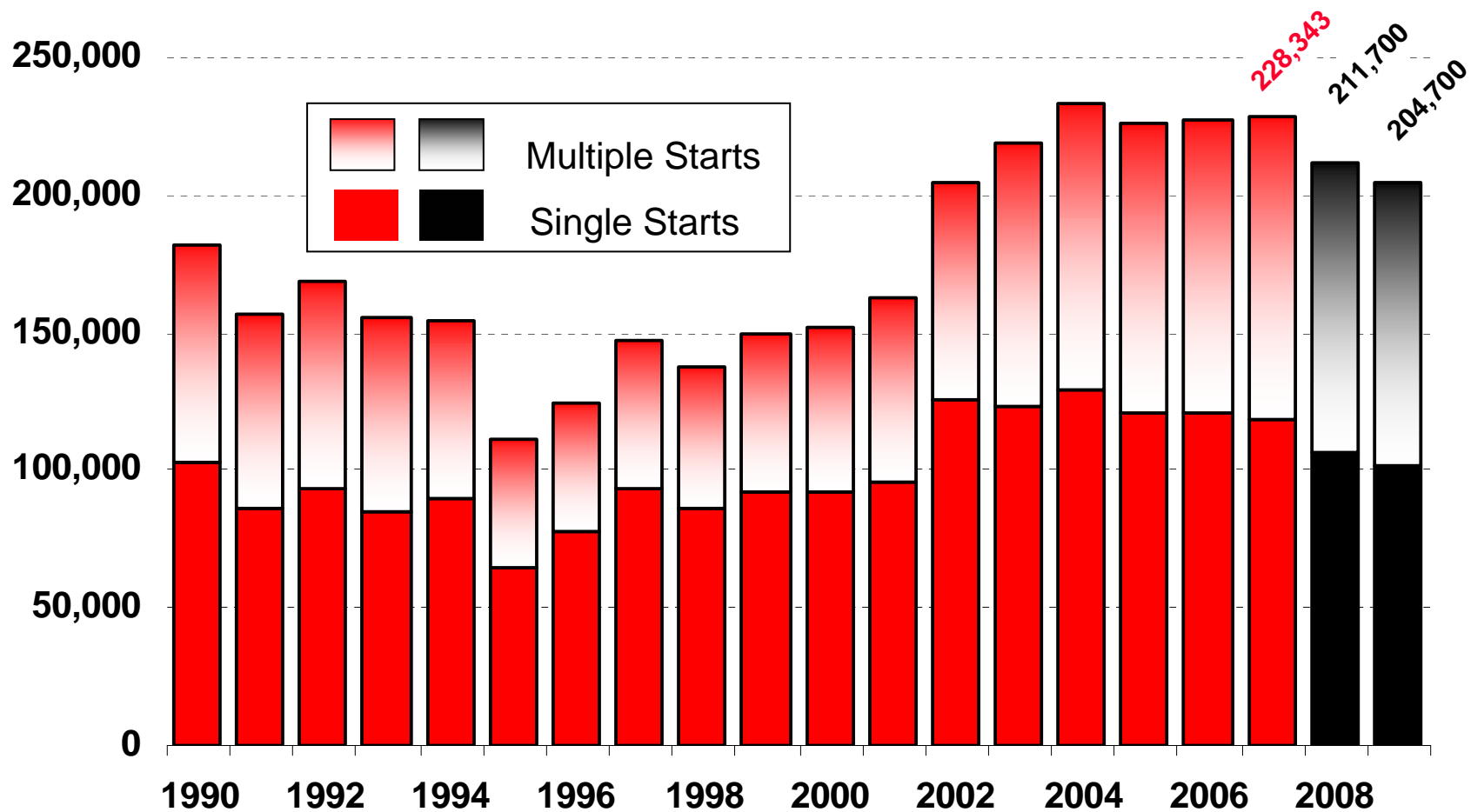
# As Market Moves Toward Balance, Growth in House Prices will Slow

Dollars



Source: CMHC Housing Market Outlook, First quarter 2008 Edition, CREA

# Housing starts poised to exceed 200,000 units for 7<sup>th</sup> consecutive year in 2008



Source: CMHC Housing Market Outlook, First quarter 2008 Edition

# Resale Market Summary

- **High sales-to-new-listings ratio will continue to create upward pressure on house prices, particularly in the west.**
- **Rising mortgage carrying costs will cause demand for home ownership to edge lower and existing home markets move toward more balanced conditions.**
- **As a result, the rate of increase in house prices will slow.**
- **The level of existing homes sales will decrease but remain high by historical standards in 2008 and 2009.**

# New Home Market Summary

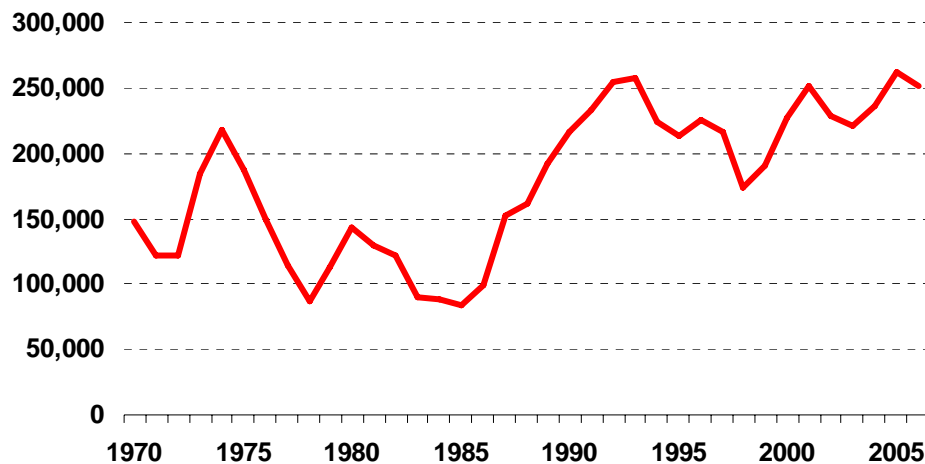
- **High volume of activity in resale market will continue to cause demand to spill-over into new home market, but this effect will become less pronounced in 2008.**
- **Pent-up demand is eroding and will cause starts to move more inline with demographic fundamentals.**
- **Rising mortgage carrying costs will cause demand for new homes to edge lower.**
- **Housing starts will trend lower in 2008 and 2009 as they head toward a soft landing. Nevertheless, starts will remain at high levels.**

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- **Housing Market Outlook**
  - Existing home market
  - New home market
  - **Rental market**

# Immigration is a key driver of population growth

Immigrants by tenure and period of immigration - Canada

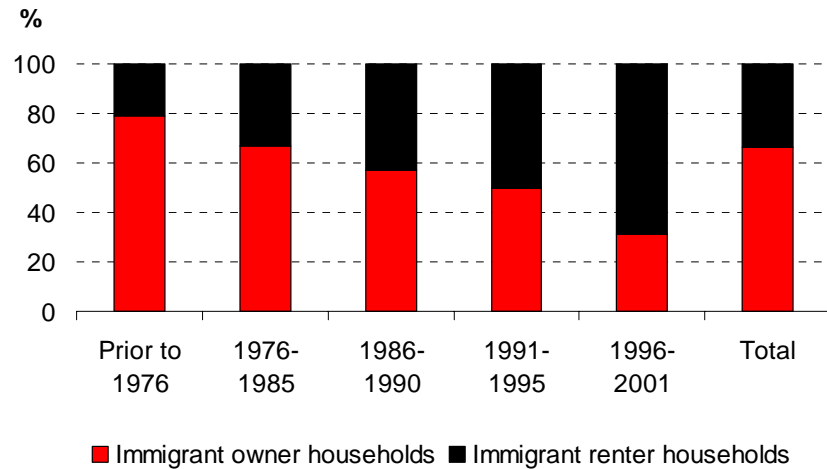


Sources: CMHC and Statistics Canada

- Immigration has been the main driver of population growth in Canada in recent years.
- Immigration has trended higher, although there was a short-lived decline due to global geopolitical instability in 2001.
- We expect the number of immigrants entering Canada to remain high this in 2007 and 2008.

# The majority of recently arrived immigrants are renters

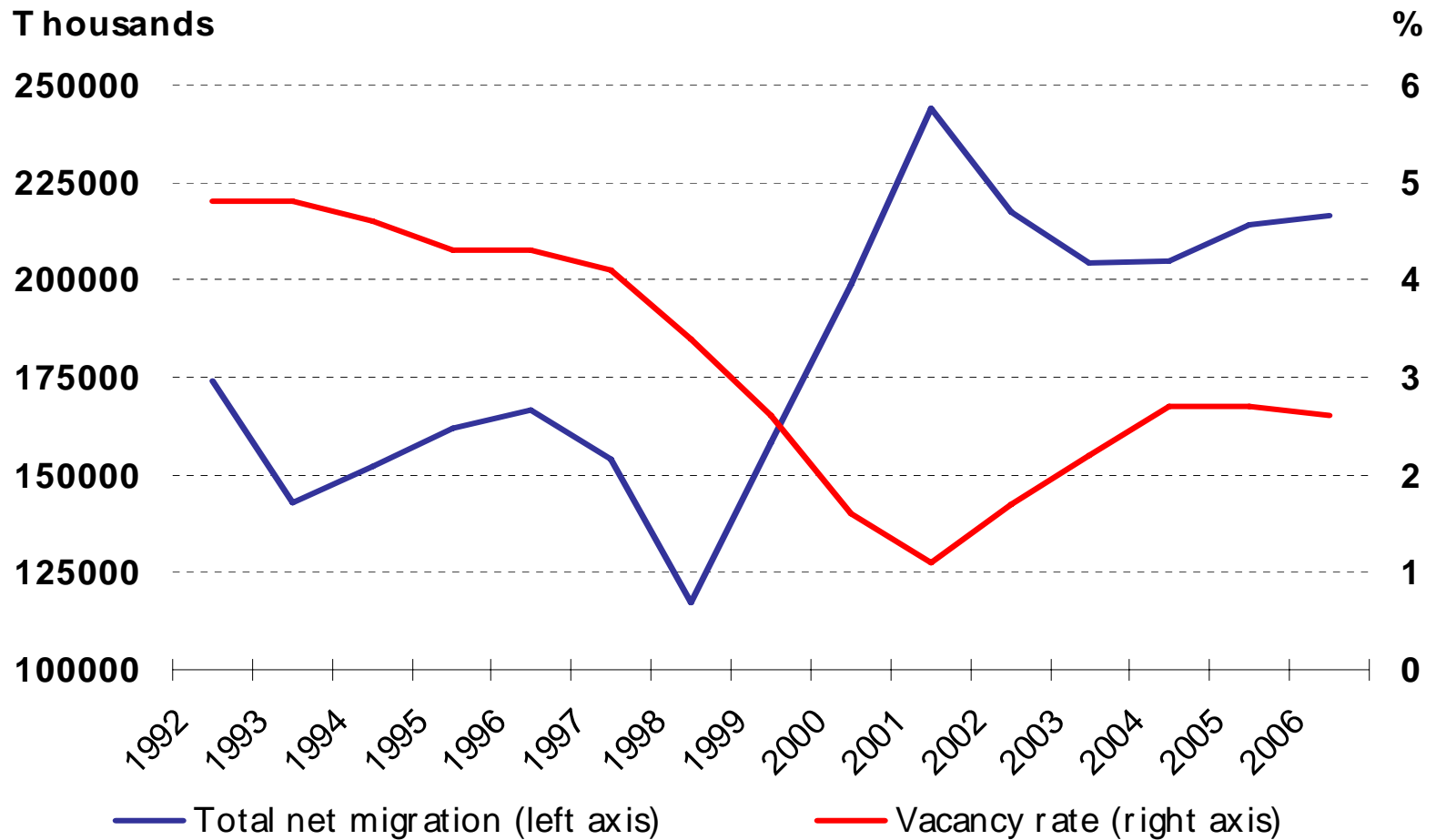
## Immigrants by tenure and period of immigration - Canada



- The majority of recent immigrants are renters. Therefore, higher immigration stimulates rental housing demand.
- As time passes, immigrants' tenure choice shifts toward home ownership.

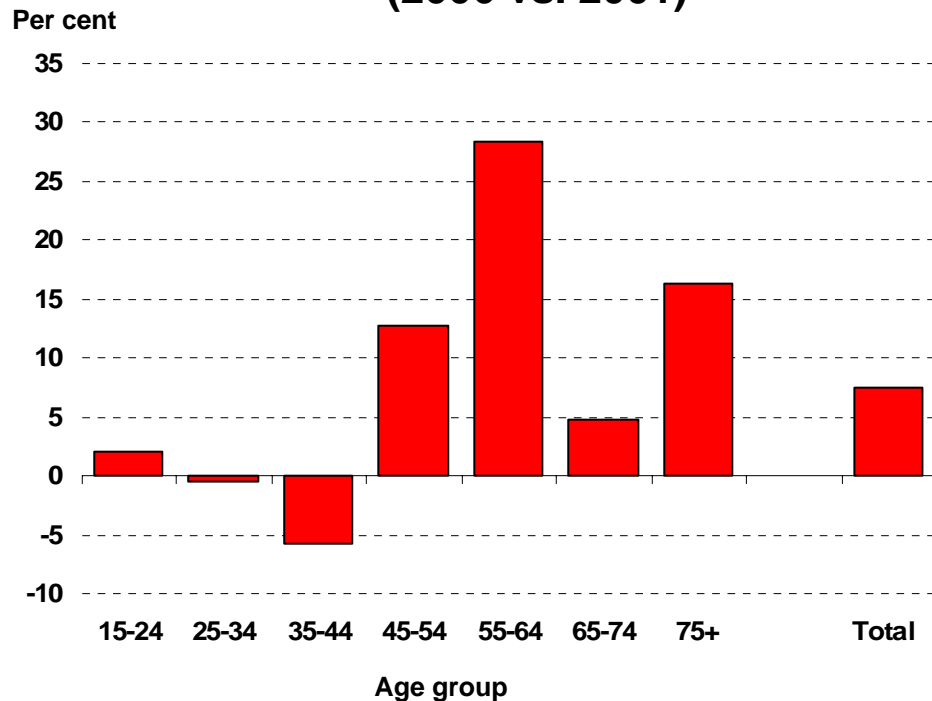
Sources: CMHC and Statistics Canada (Census 2001)

# The drop in total net migration in 2002 and 2003 decreased rental demand



# Strongest growth in households occurred in older age groups

**Household Growth by Age Group in Canada  
(2006 vs. 2001)**

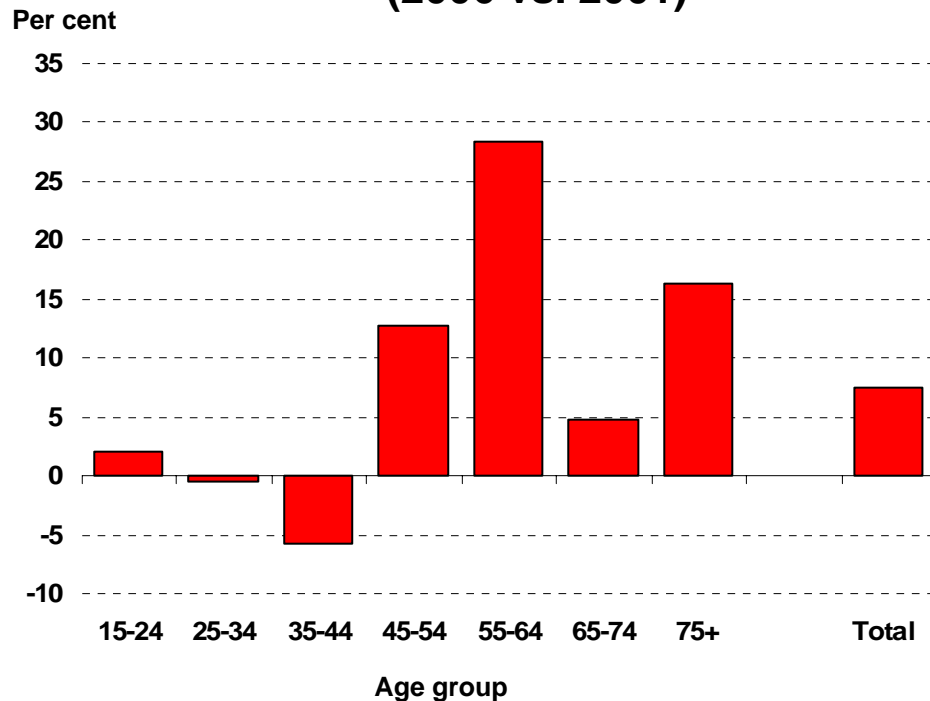


- The fastest growing segment of Canadian households is the 45 year and over age group.
- According to the 2006 Census:
  - less than 25 per cent of households aged 45 years and more were renters, while
  - 78 per cent of households under 25 years of age and 48 per cent of those aged from 25 to 34 years were renters.
- This will limit future growth in rental housing demand.
- Continued ...

Sources: CMHC, Statistics Canada (Census 2001 and 2006)

# Strongest growth in households occurred in older age groups

**Household Growth by Age Group in Canada  
(2006 vs. 2001)**

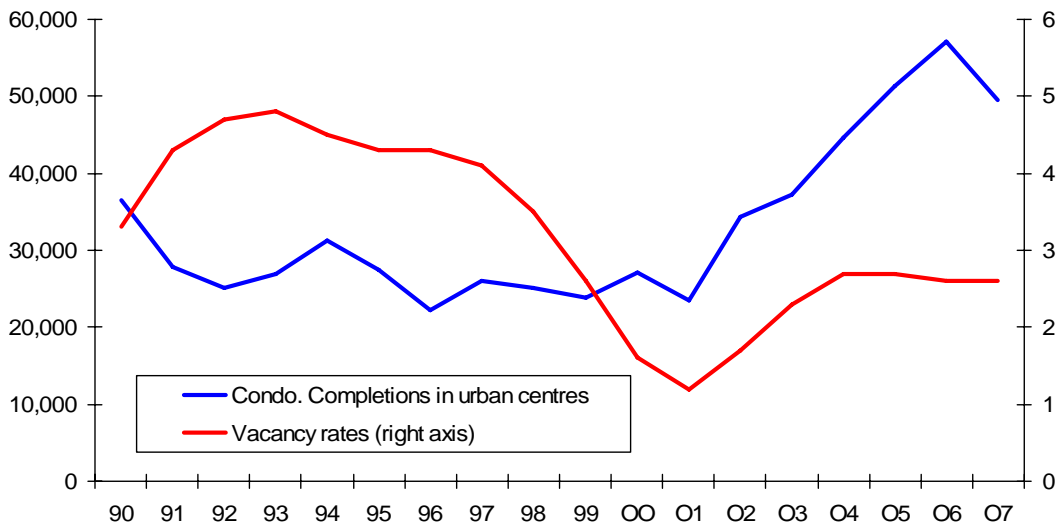


- In the last 25 years, the share of young adults (20 to 29 years of age) living with their parents increased significantly. This means that people in this age group contributed less to rental demand than in the past.
- In other words, more people in this age group enter the rental market at an older age and in some cases they go directly to the homeownership market.

Sources: CMHC, Statistics Canada (Census 2001 and 2006)

# Condominium construction: a big competitor for the rental market

Condominium completions vs. Vacancy rates\*



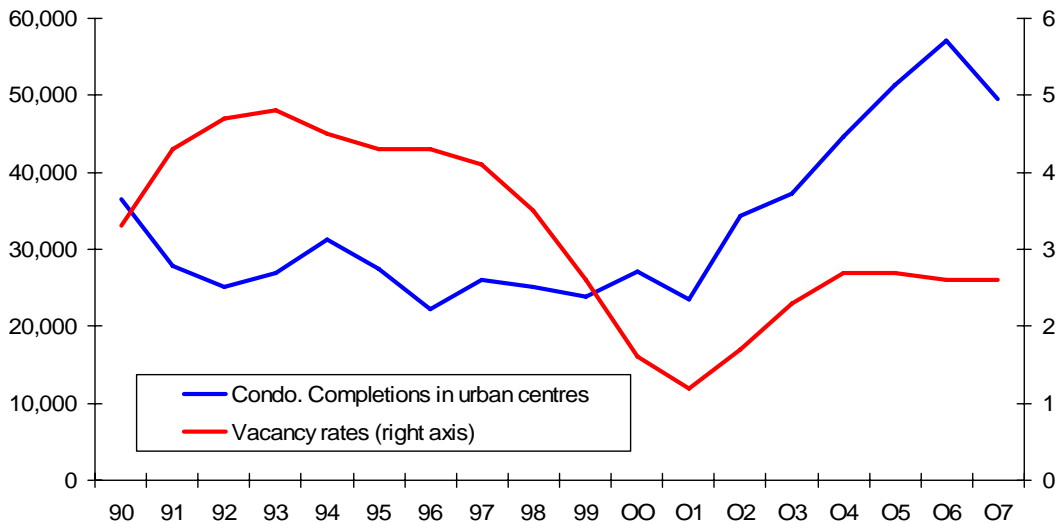
Source: CMHC

\*: Average of 34 Census Metropolitan Areas (CMA), Privately Initiated Apartment Structures (with at least 3 units)

- Condominium completions peaked in 2006. However, we can see a clear up trend since 2001 in Canada.
- Since 1994, condominium completions have been much higher than rental completions:
  - annually, there has been an average of about 20,000 more condo completions than rental completions.
- Continued ...

# Condominium construction: a big competitor for the rental market

Condominium completions vs. Vacancy rates\*



Source: CMHC

\*: Average of 34 Census Metropolitan Areas (CMA), Privately Initiated Apartment Structures (with at least 3 units)

- Condominiums are a relatively inexpensive form of ownership housing. Together with low mortgage rates, this has encouraged many renter households to move into home ownership.
- Moreover, many condos are purchased by investors who rent them out. These units compete with traditional rental units and have put upward pressure on vacancy rates.

# Condominium construction: a big competitor for the rental market

	Condominiums offered for Rent (2007)			RMS Universe
	Condo Universe	Rental Units	Percentage of units in rental	
Quebec	18,526	1,701	9.2	77,607
Montreal	88,488	7,959	9.0	475,954
Ottawa	19,669	3,706	18.8	60,392
Toronto	217,483	40,735	18.7	306,407
Calgary	30,109	6,447	21.4	38,150
Edmonton	28,104	6,888	24.5	61,824
Vancouver	140,594	31,382	22.3	104,315

Source: CMHC

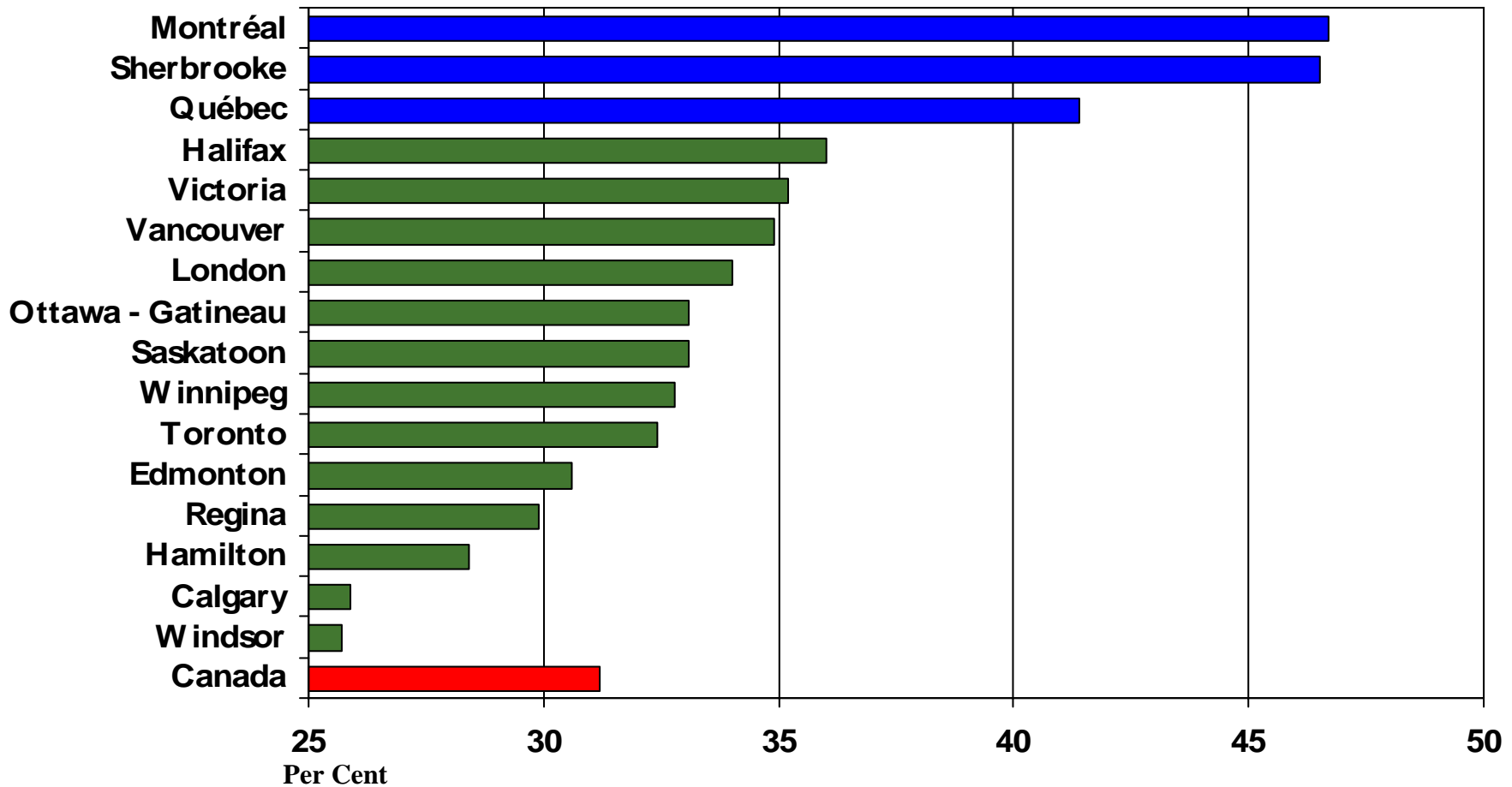
# Condominium construction: a big competitor for the rental market

	Vacancy Rate (2007)		Average 2 bedroom rent (2007)		
	Rented Condos	RMS	Rented Condos	RMS	<i>Difference</i>
Quebec	2.4	1.2	\$945	\$641	\$304
Montreal	3.8	2.9	\$1,082	\$647	\$435
Ottawa	0.5	2.3	\$1,119	\$961	\$158
Toronto	0.7	3.2	\$1,535	\$1,061	\$474
Calgary	0.7	1.5	\$1,217	\$1,089	\$128
Edmonton	1.5	1.5	\$1,052	\$958	\$94
Vancouver	0.2	0.7	\$1,435	\$1,084	\$351

Source: CMHC

# CMAAs – % of Households Renting

## Rental tenure rates highest in Quebec centres



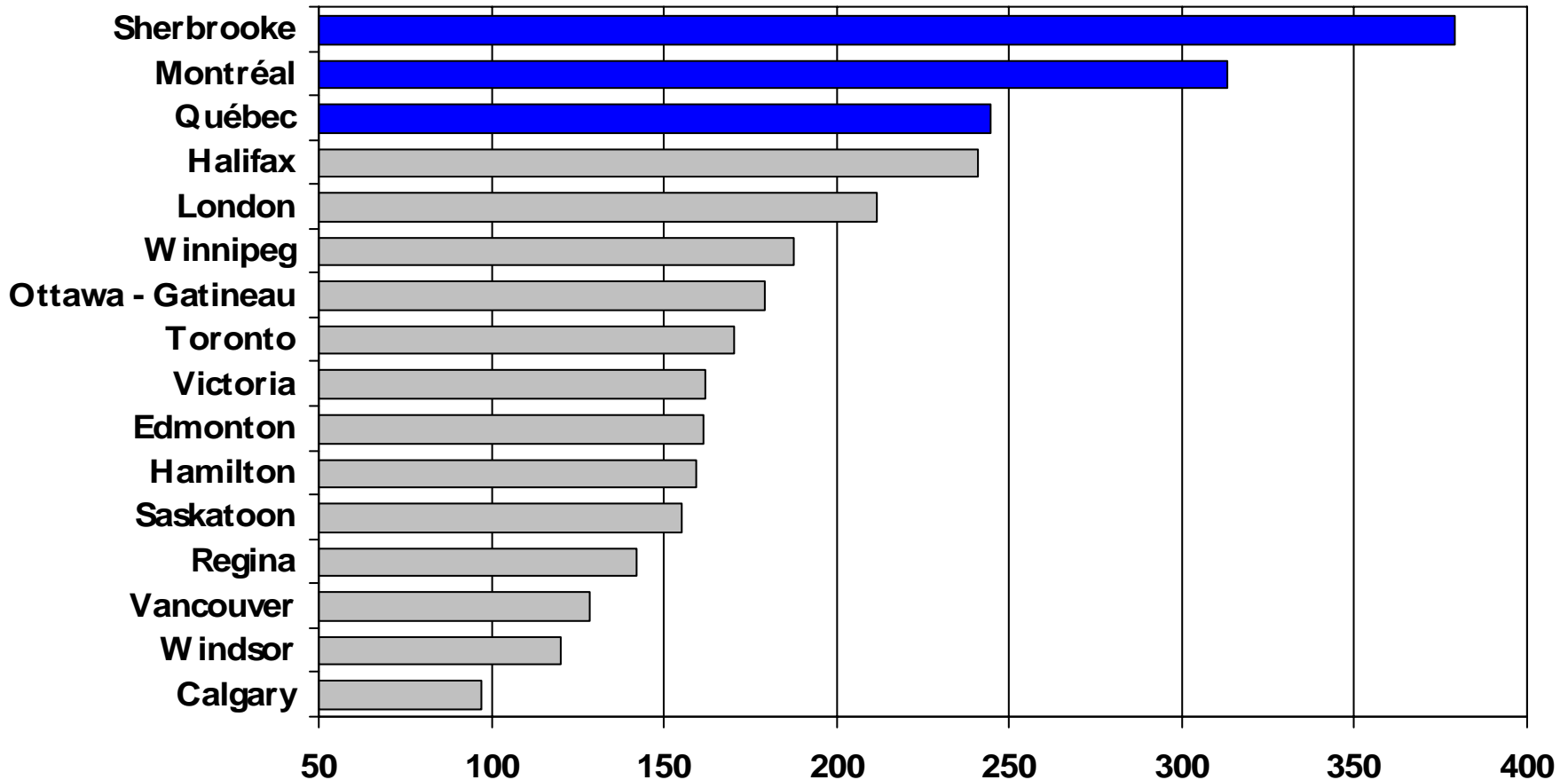
Source: Statistics Canada, 2006 Census

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# CMAAs - Rental Universe Per Household

Centres in Quebec have the largest universe relative to population

Rental Universe Per 1,000 Households

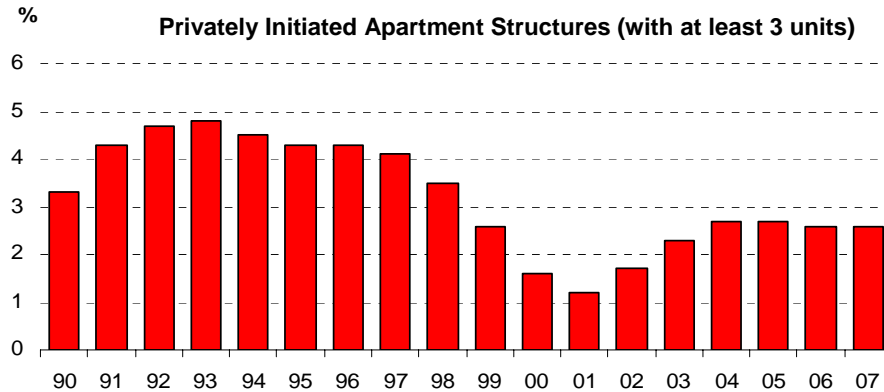


Source: CMHC 2006 Rental Market Survey, Statistics Canada 2006 Census, CMHC Calculation

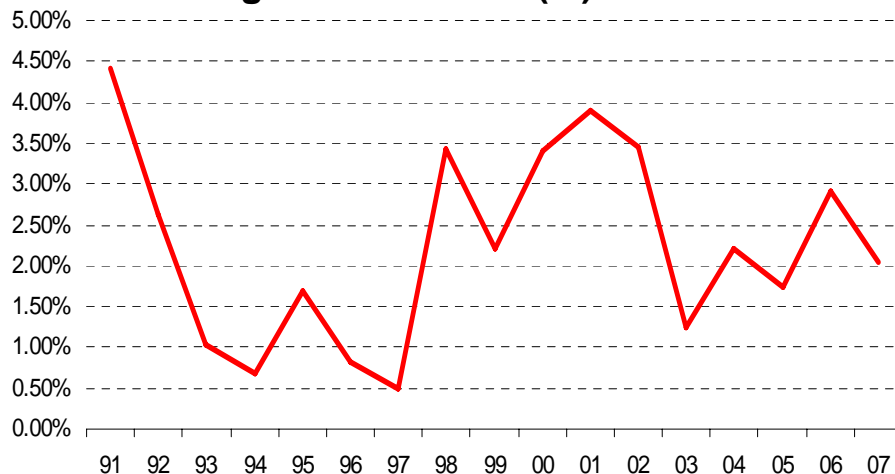
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# but have recently stabilized as have rent increases

## Vacancy rates in metropolitan areas\*



## Average rent increase (%) of 2-bedroom\*



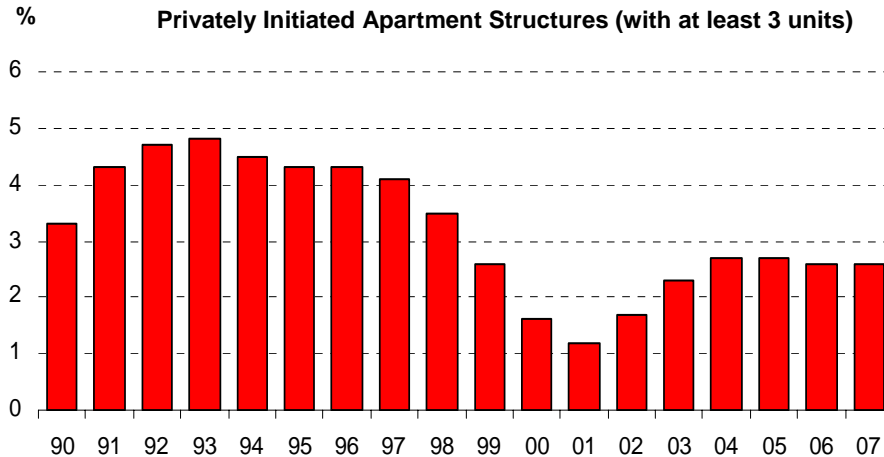
- Vacancy rates bottomed-out in 2001
- Vacancy rates have moved higher after 2001. However, the situation have stabilized over the past 5 years, given favourable economic conditions and access to ownership. Low mortgage rates, which have kept the gap between the cost of renting and owning a home low in many centres encouraged many households to make the switch from renting to owning.
- With a stabilized situation between 2 and 3 per cent, the rate of increase in the average rent for a 2-bedroom apartment stayed close to inflation.
- Continued ...

Source: CMHC

CANADA MORTGAGE AND HOUSING CORPORATION

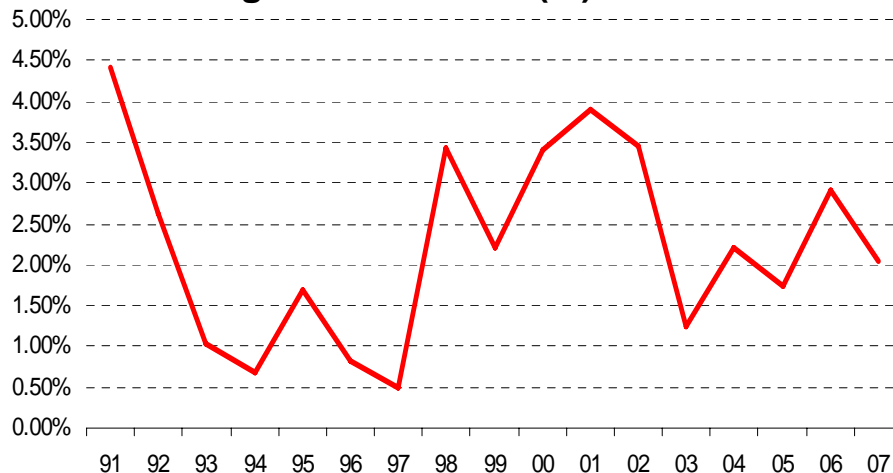
# but have recently stabilized as have rent increases

## Vacancy rates in metropolitan areas\*



- More recently, vacancy rates have stabilized.
- This partly reflects rising house prices, which are causing ownership costs to rise relative to renting. This will reduce the flow of renter households into homeownership.

## Average rent increase (%) of 2-bedroom\*



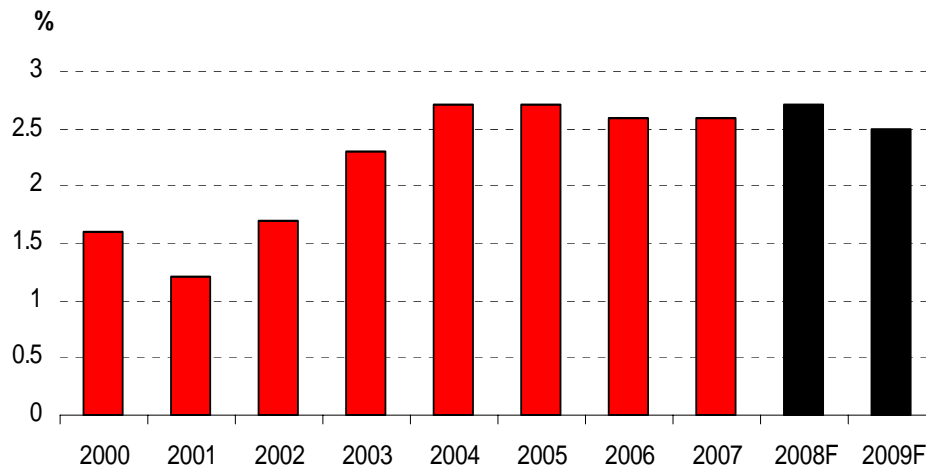
Source: CMHC

CANADA MORTGAGE AND HOUSING CORPORATION

\*: Average of 34 Census Metropolitan Areas (CMA).

# Vacancy rates will be stable near current levels for a few years

**Vacancy rates in metropolitan areas\***  
Privately Initiated Apartment Structures (with at least 3 units)



Source: CMHC  
f: CMHC's forecast

\*: Average of 34 Census Metropolitan Areas (CMA)

- The continued movement of some rental households into homeownership and continued growth in the supply of rental units and condos will put upward pressure on vacancy rates in many centres.
- However, this will be offset by growing rental demand due to high immigration levels and rising homeownership costs.
- Vacancy rates, aggregated across all metropolitan areas, are forecast to remain stable for the next two surveys. It will reach 2.7 per cent in 2008 and then edge lower to 2.5 per cent in 2009.