

# Reflections on Housing

## Prepared by Altus Group for CHBA

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### New Economic Order and a Return to Normality:

- The Canadian housing market is performing well in late 2011, but the risk environment is elevated
  - There are both short-term and medium-to-longer term risks emerging
  - Builders should continue to look for opportunities and bring innovative products to market, but make decisions with the elevated risk environment in mind, and understand that the world has changed
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### Uncertain Times Call for Caution

Based on recent data, the Canadian housing sector is performing at a very sustainable pace:

- Some 190,000 new housing starts are expected in 2011, which is on par with 2010 and up 27% from 2009;
- Statistics Canada reports new home prices to be rising at a rate of about 2.3% - comfortably in line with overall inflation;
- CREA reports that resale housing markets remain “firmly entrenched in balanced territory” as the number of sales remains in line with a 10-year average and price growth in line with inflation.

This is good news for home builders, as solid market performance at a steady pace is favourable for business.

At the same time, however, a number of risk factors have emerged making future performance in the housing market less certain. Some of these risk factors can be considered short-term in nature, and therefore could be expected to affect the business environment for home builders over the next several quarters. These include the continued build up in household debt, deteriorating consumer confidence, slowing economic growth in Canada, and increased concerns about international economic events.

These risks and factors will likely have an influence on the housing sector over the medium to long-term, and should be on the radar of Canadian home builders as they plan for the years ahead.

### *The New Economic Order means more modest economic growth ahead*

What is becoming clear from the fall-out from the financial crisis and global recession in 2008-2009 is that the world economy is evolving into a New Economic Order, which will have implications on households and businesses in Canada.

In sharp contrast to a long period of spending and borrowing induced growth across developed and developing nations, governments in Europe, America and world-wide are emerging into what could be a very prolonged period of austerity and deleveraging.

While tough economic choices now may lead to brighter outcomes in the long-term, the consensus is that growth in the international economy will likely be very modest over the next number of years.

The Canadian economy appears to be performing better than many developed economies, but our dependence on exports, especially in the energy and manufacturing sectors, makes us very sensitive to international events.

**Caution in making medium-term business decisions is certainly warranted.**

**Expect more “normal” levels of new housing construction in Canada**

- Historically, the annual number of housing units in Canada fluctuates widely over time. Between 1980 and 2001, housing starts in Canada averaged 164,000 units per year and topped 200,000 in only three individual years.
- Between 2002 and 2008, the expansion period prior to the recent recession, housing starts averaged 221,000 units per year (over 200,000 in each year) – some 35% higher than the previous “normal” (see first Figure).
- Based on Census and other data, we know that this period of elevated building activity in the mid 2000s was not driven by an underlying structural shift in the demographics (the pace of household growth rose a modest 6% in the 2000s to 174,000 from 164,000 per year in the 1981 to 2001 period – see second Figure).
- By contrast, it is likely that a confluence of factors, such as increased ownership demand by young households, and a rise in second property ownership by baby boomers, combined to produce a period of elevated new housing demand.

Since the recession of 2009, demand conditions have quietly normalized and evidence points to demand for new housing more akin to the longer term average, rather than the elevated period in the years leading up to the recession:

- Trends illustrated in the CHBA Pulse Survey and other sources suggest that first-time buyer activity has receded significantly in the past two years, in part due to still-very-weak youth labour markets, and suggesting a reversal in the trend toward higher ownership demand by young households.
- While vacation home ownership may have elevated housing starts in the 2000s, it is unlikely to continue to have such an effect. Rates of vacation home ownership peak in the 55-64 age group. As baby

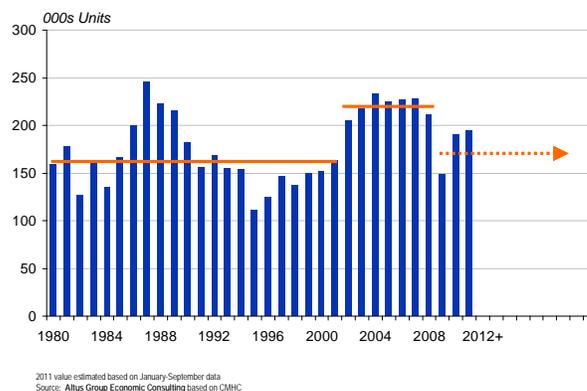
boomers begin to age out of this group, expect much less of a boost from second home demand.

Local markets across the country are not uniform, and will continue to be influenced by local factors, especially relative economic conditions and migration. Home builders in Canada have always had a strong record of responding appropriately to changing local demand conditions.

National trends also affect local markets. Builders should have realistic expectations over the next quarters and years ahead, and plan carefully given the New Economic Order.

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### Housing Starts, Canada



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### Housing Supply and Demand, A Long-term View, Canada

