

Housing construction to cool: CMHC

But party continues for resales

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OTTAWA -- The housing construction boom will slowly cool this year and over the rest of the decade, despite expectations that 2007 will be another record year for existing home sales, the federal housing agency forecast Tuesday.

"Although fundamental factors such as high employment levels, income gains and low mortgage rates remain supportive of strong demand, housing starts will resume a gradual downward trend in 2007," said Canada Mortgage and Housing Corp. chief economist Bob Dugan. "The lower demand for homeownership will be mainly due to the rise in mortgage carrying costs and the erosion of the pent-up demand that built up during the 1990s."



CREDIT: National Post

Construction of new homes will slow this year while sales of existing homes will reach a new record, the Canada Mortgage and Housing Corp. reported Tuesday.

Builders in Canada will start construction on 213,425 housing units this year, down 6% from 227,395 last year, and a peak of 233,431 in 2004, CMHC forecast. The pace will slow further to 200,175 units in 2008, and continue to decline over the following three years to 188,300 by 2011, a level CMHC said is more consistent with demographic fundamentals than this decade's rapid pace of construction.

CMHC's forecast decline in Canadian home construction comes despite its expectation that sales of existing homes this year will increase to a record 487,500, a 0.9% increase, fuelled by the continuing housing boom in Alberta.

Activity in western Canada will also keep upward pressure on housing prices this year, which nationally are forecast to rise 9.6% before easing to an increase of 4.9% in 2008, led by price increases in Alberta of 26.1% this year and 9.7% next year.

However, a separate report Tuesday by a major Canadian bond rating agency reinforced the view that the Canadian housing market, unlike that in the U.S., should remain relatively healthy, especially since the default rate on mortgages in Canada is less than half of what it was a decade ago.

However, that is at least in part due to strong increases in housing prices, said DBRS in an overview of the Canadian mortgage market, suggesting that a downturn in prices, as has occurred in the U.S., would also likely result in an increase in defaults in Canada.

"An increasing property value allows homeowners in financial difficulty to sell their property or obtain an equity takeout, thereby cashing in on their increased equity and avoiding a mortgage default," DBRS noted.

It suggested that another reason the mortgage market here remains healthier than in the U.S. is that sub-prime mortgages, available to people with less-than-perfect or no credit histories and that have helped undermine the U.S. housing market, remain rare here.

"The more conservative nature of Canadians and the lack of interest deductibility for taxes also suggest that the mortgage loans are paid down faster than in the United States, potentially resulting in lower defaults ... ," DBRS noted.

Despite the cooling of the housing market, CMHC said demand for homes will be supported by healthy growth in the Canadian economy and employment, which in turn will attract a steady inflow of immigrants throughout this period.

Provincially, CMHC said that only Saskatchewan will see an increase in homebuilding activity this year, although activity will remain at historically high levels in Alberta, British Columbia and Manitoba.

CMHC forecast starts will rise to 3,850 from 3,715 in Saskatchewan, but fall to 34,700 from 36,443 in British Columbia, to 47,000 from 48,962 in Alberta, to 5,000 from 5,028 in Manitoba, to 68,000 from 73,417 in Ontario, to 43,775 from 47,877 in Quebec, to 3,700 from 4,085 in New Brunswick, to 4,650 from 4,896 in Nova Scotia, to 625 from 738 in Prince Edward Island, and to 2,125 from 2,234 in Newfoundland and Labrador.

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