

Recession resets housing expectations

-  Article
-  Comments (16)
- 

HEATHER SCOFFIELD
GLOBE AND MAIL UPDATE
MAY 19, 2009 AT 7:36 PM EDT

OTTAWA — The market for new homes won't return to pre-recession levels even when the economy picks up again, marking a sharply lower reset from the construction that fuelled the real estate boom across Canada, the federal housing agency projects.

Housing starts have topped 200,000 units for several years, hitting 211,056 in 2008, amid seemingly insatiable demand and rising values that pushed up the wealth of homeowners.

But this year, Canada Mortgage and Housing Corp. said yesterday in a long-range forecast, construction is expected to sink to 141,900.

The agency projects something of a rebound next year, to 150,300, followed by a climb to 176,800 units by 2013.



CMHC says housing starts are expected to decline to 141,900 this year – down from 211,056 last year.



“We do not expect housing starts to return to the 200,000-plus-unit pace of recent years,” the CMHC outlook said. “Rather, housing starts will remain in a range that is consistent with demographic fundamentals over the 2010 to 2013 levels.”

That's not such bad news, however.

The frantic building of the past few years won't return because the slump in Canada's housing market won't

be so long and deep as to build up significant demand, CMHC said. So when the economy improves, home builders won't have to jump into overdrive to meet the demand of hungry buyers.

CMHC said the outlook for the market is uncertain in the short term, largely because of economic volatility.

Much of the recovery depends on how the labour market fares over the coming months.

This is because even with low mortgage rates, home buyers want job security before taking on a bigger mortgage, economists added.

“Mortgage rates are very attractive. But if you don't have any confidence that your job is going to be there in six months, then the low mortgage rates won't be a draw, “ said Bob Dugan, CHMC's chief economists.

The market, he said, has moved from a sellers market to a buyers or balanced market for the long term.

Home prices and sales of existing homes are likely to follow similar trends, CMHC added in its report.

The national average price for a home is projected to fall 6.8 per cent this year to \$283,100 before stabilizing next year, CMHC predicted.

It sees the number of houses resold through the Multiple Listing Service declining to 357,800 units this year, from 433,990 in 2008, but increasing slightly next year to 386,100 units.

Part of the reason for the feverish pace of home building in recent years was rampant demand in Western Canada, CMHC said. Now, the West faces deeper declines in home construction than the rest of the country – although Ontario is also facing steep drops. “Realistically, a lot of the home building and development companies in Canada were operating beyond their ability in terms of peak production,” said Paul Boskovich, a development manager with Genstar Development Co., which serviced and sold 1,000 lots a year in Calgary at its peak between 2005 and 2007. This year it will not service any lots, and expects to sell 300 to 400.

Still, he expects this year and the next several to be painful, as the industry attempts to coax buyers back into the market with car giveaways, limited-time discounts on lot prices and even offers to subsidize mortgage payments. One company he knows has offered to cover the cost of buying a home for a year; another has offered to help on mortgage payments for three.

The idea that housing starts won't again retain their peak levels “wouldn't necessarily be a huge concern,” he said. “I think for our industry, in Calgary anyway, it's getting back to a sustainable sort of normal number. But we're still depressed and trying to get through the next couple of years.”

Across the country, housing starts are expected to decline 32.8 per cent this year, with a 53-per-cent drop in Alberta, a 42.5-per-cent slide in British Columbia and a 50.2-per-cent decline in Saskatchewan. Ontario's home construction activity is expected to be 31.6 per cent lower this year than in 2008.

Next year, all provinces should see some increase in building activity, CMHC predicted, and nationally, home construction activity will pick up by 5.9 per cent.

For single detached homes, Saskatchewan and Ontario will see the biggest declines this year, while British Columbia and Alberta are expected to lead the rebound next year.

As for home prices, they will likely be stable in Atlantic Canada this year, but in decline everywhere else, especially in British Columbia and Alberta – where prices had risen the most in previous years.

The CMHC projections are generally in line with forecasts from the private sector. While some economists see a deeper downturn in the housing market this year, most agree with CMHC that the market will stabilize by next year, and only gradually move back to housing activity that is consistent with long-term demographics.

Canada's growing population demands about 170,000 new homes a year. Given deterioration of old homes, the economy can sustain about 180,000 housing starts a year said Pascal Gauthier, TD economist.

He sees a much steeper drop in average home prices this year than CMHC because TD's outlook on the Canadian economy is gloomier than most. Like CMHC, however, he sees a slow recovery, but not a return to the days of more than 200,000 housing starts a year.

The CMHC forecasts are actually the midpoint of a wide range of expectations from the Crown corporation, reflecting the huge uncertainty about the direction of the Canadian economy, mortgage rates, employment and income.

CMHC's expectations for average home prices and the volume sales of existing homes are somewhat more pessimistic than projections made by the Canadian Real Estate Association last week.

CREA sees a 5.2-per-cent decline in the average home price in 2009. The association expects the number of homes sold to total 370,500 this year and 397,000 next year.

-  Article
-  Comments (16)
- 

Recommend this article? 10 votes

View the most recommended

SPONSORED LINKS

[Wall Street Journal Surveys Top Leadership Program...](#)

Get Free WSJ Excerpt: "It's Intense at the Top."
Sponsored by Tuck Executive Edu...
tuckleadership.com

[Order Your Free PEI Golf Guide Today!](#)

Escape to Prince Edward Island, Canada's #1 Golf Destination.
www.tourismpei.com

Driving It Home



Beware of jumping on the ethanol bandwagon

Small Business



How the game changed for a Toronto startup

Travel



Istanbul: 'You're seeing the future'

Campus



Enriched programs: right for your child?

The Download Decade



If piracy is wrong, why does it feel so right?

© Copyright 2009 CTVglobemedia Publishing Inc. All Rights Reserved.

CTVglobemedia

globeandmail.com and The Globe and Mail are divisions of CTVglobemedia Publishing Inc., 444 Front St. W., Toronto, ON Canada M5V 2S9
Phillip Crawley, Publisher