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HOUSING

Why our housing market is better insulated

Canadian real estate may be cooling, but it's not crashing, ROB CARRICK writes, and we positively shine compared with slumping U.S. sales and prices



ROB CARRICK

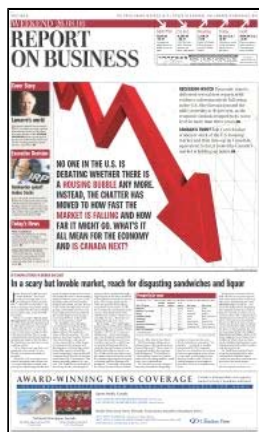
The Massachusetts real estate market is just the thing to cure any smugness Canadians might have about how much their homes have gained in value.

A blast of negative news about the U.S. housing market was released this week, including a report that Massachusetts home sales continued a slide in July that began last fall. But while prices held their own previously, they posted a 3.5-per-cent decline last month that was the worst setback in 13 years.

Sean Rooney, an agent at Boston's First Choice Realty, said sellers are getting frustrated. "They've seen people selling over the past year or so and getting that high price," he said. "Now, they're not getting the prices they're looking for."

Are Canadian homeowners heading for the same kind of shock about the value of their properties? It's hard to generalize about our housing market because of differences between hot and not-so-hot markets, but the answer on the whole seems to be no, if you judge by some key indicators.

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Before looking at them in detail, it's worth pointing out that the real estate market is important not just to homeowners who like to play the trivia game called What's My House Worth? The housing sector has a significant impact on the economy, both through construction and the sale of related goods and services. Also, many people have been borrowing against the increased value of their homes to finance renovations and other expenditures. If housing prices contract, that could dampen consumer spending.

The U.S.

Retail housing activity

Sales of existing homes in the United States fell sharply last month -- by 11.2 per cent from July, 2005. If you took this seasonally adjusted level of sales and extrapolated it over a full year, you'd end up with sales of about 6.3 million, which would be the weakest level since early 2004. Weakness is pervasive across the entire U.S. market. Figures from the National Association of Realtors shows that year-over-year regional sales declines ranged from 7 per cent on the low side in the South to 18 per cent in the West. Over all, the U.S. market is down about 12 per cent from its peak annualized sales level of 7.2 million homes reached last September.

Retail housing prices

Median housing prices held firm in the U.S. market in July, rising 0.9 per cent versus the level of a year earlier. But variations among regions and cities undermine the positive story told by the national numbers. Once you get past a 3.2-per-cent price gain in the South, you find small declines in the Northeast, Midwest and West. The Northeast, where you'll find Massachusetts, had the worst regional decline at 2.1 per cent.

Housing starts & building permits

Construction of new homes in the United States declined 2.5 per cent in July from June levels -- the lowest point in two years and the fifth decline in the past six months. Building permits, an advance indicator of future housing construction, fell 6.5 per cent to the lowest level since September, 1999. Evidence of a sagging new home market was seen this week in the 19-per-cent decline in third-quarter profit reported by Toll Brothers Inc., a major U.S. builder of luxury homes. Pulte

Homes Inc., the second-largest U.S. builder, recently reported a 29-per-cent drop in new orders.

Hottest & coldest markets

There's only a scattering of hot residential real estate markets, and on the whole they don't match up to Canada's busiest cities. By U.S. standards, Canada's weakest markets don't look half bad. The U.S. region with the most strength is the South, where housing prices in such places as Baton Rouge, La., and the Florida cities of Orlando, Ocala and Tampa-St. Petersburg-Clearwater have all risen between 17 and 27 per cent over the first half of 2006. A census of cold markets would have to include places like Danville, Ill., down 11.2 per cent in the first six months of the year; Dover, Del., off 8 per cent; and Massachusetts.

Canada

Retail housing activity

Resale activity fell in July, but by just 2.8 per cent on a seasonally adjusted basis. "It's a bit of a cooling off," said Craig Alexander, a Toronto-Dominion Bank economist who has been tracking Canada's residential real estate market for more than a year through a series of reports called Housing Bubble Watch. "The U.S. housing market is having a correction, the Canadian housing market is cooling." While the U.S. market has been in decline for months, Canada remains strong. The Canadian Real Estate Association has predicted total sales of 488,160 for 2006, which would be a 1-per-cent increase from last year and a sixth successive year of record gains. Next year, the association predicts a 3.3-per-cent decline, moderate in comparison to what's happening in the United States. In Canada, 11 of 25 markets actually reported flat or higher sales in July, and only four reported sales that were much worse than the average decline. Vancouver had the worst decline at 26.9 per cent.

Retail housing prices

The national average price increase here in Canada was 10 per cent, which looks great next to the inflation rate last month of 2.4 per cent. Regionally, west is best in the real estate market and east is least. "You're getting dramatic price gains in Alberta, remarkably strong gains in B.C., quite solid to strong in the rest of the West, and very modest growth in the rest of the country," Mr. Alexander said. Where Canada and the U.S. differ on pricing is in the fact that price declines were widespread south of the border last month, while prices fell in only two Canadian cities. Windsor, Ont., was down 2.9 per cent and Thunder Bay, Ont., fell 1.4 per cent.

Housing starts & building permits

The most recent report on Canadian building permits is for June and it shows a slight drop of 1.4 per cent from the May level for residential construction. Housing starts in July were pretty much even with June, which suggests a total of about 236,500 new homes projected over the entire year. That's extremely elevated," TD's Mr. Alexander said. "Based on population and immigration, it should be around 175,000. Anything over 200,000 is really, really strong." Another sign of Canada's relative strength against the U.S. is that the federal Canada Mortgage and Housing Corp. has twice had to revise its forecast for new home construction upward. The reason: lots of activity in the West, particularly Alberta, and nothing dramatic in other parts of the country.

Hottest & coldest markets

Calgary blows away just about any city in the United States right now. In July alone, prices surged 44.3 per cent from the same month last year. Edmonton, the second-ranked market by price increases, gained 33 per cent while Vancouver jumped 18.6 per cent. Huge increases such as these suggest a future correction like the U.S. market seems to be facing, but Mr. Alexander said the Vancouver market is the only one where high house prices have seriously crimped housing affordability. "Quite frankly, affordability in Calgary and Edmonton is not terrible," he said. House price gains of 40 per cent are absurd, but if you look at Calgary, its affordability is cheaper than it is in Montreal." Canada's coldest markets are probably Windsor and Thunder Bay, Ont.

When the doctors and the renovators are buying investments properties to speculate, then you know the market is out of touch. I haven't heard too much about that happening here in Canada.

FRANK CLAYTON, PRESIDENT

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