



Housing market dodging worst of U.S. meltdown

Report sees 'scant evidence' of supply glut

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There is "scant evidence" of a significant supply overhang in Canada's residential real estate market, in contrast to what's happening in the United States, says a report released Monday by Scotia Economics.

The Real Estate Trends report, authored by Adrienne Warren, senior economist with Scotia Economics, said the inventory of completed but unsold new homes, while edging higher across most major markets in Canada, remains relatively low from a historical perspective both for single-detached and multi-family developments.

"The volume of homes for sale in Canada's resale market has also been moving up, and combined with softer demand, has lifted the national ratio of new listings to sales from an average of 1.6 in 2007 to 2.0 in June," said the report.

"This shift from the strong seller's market of recent years to essentially balanced conditions points to a cooling off period in which home prices should rise in line with general inflation."

But the report said there are significant regional differences with new listings-to-sales ratios in several of Canada's previously hottest markets such as Saskatoon, Calgary and

Vancouver "now favouring home buyers, with greater inherent downside price risk."

In the report, Warren said the realignment in residential construction toward sustainable levels is just beginning in this country. Between 2001 and 2006, Canadian housing starts averaged 222,000 units on an annual basis, well above underlying household formation of 175,000.

"This overbuilding has continued in 2007 and the first half of 2008," said the report. "A widening gap between new construction and household formation is evident across all provinces, and has contributed to the gradual rise in unsold new homes in recent years."

The report said that while Canadian homebuilding has cooled since the

spring, overall starts continue to outstrip sustainable long-term demand.

Last week, Canada Mortgage and Housing Corp. in its third-quarter Housing Market Outlook forecast a decrease in Canadian residential construction to 215,475 units in 2008 from 228,343 in 2007. The agency also said existing home sales are expected to fall by 11.9 per cent in 2008 to 458,300 units. In 2009, the trend will continue with a decrease to 446,600 units. For 2008 and 2009, MLS price growth will remain above inflation. Prices will reach \$317,450 (up 3.3 per cent) in 2008 and \$327,000 (up three per cent) in 2009.

Data released last week by the Canadian Real Estate Association showed existing home sales through MLS across the country in 2008 until the end of July were down 13 per cent compared with the same period in 2007. Also the average sale price was up 2.2 per cent to \$338,586. In Calgary year-to-date, sales were down by 30.1 per cent and the average price was off by 0.1 per cent to \$414,213.

In an interview with the Herald, Warren said the housing market in Alberta, and in the West in general, has been little bit ahead of the rest of the country.

"It heated up more. Reached bigger peaks reflecting the strength of the economy and it cooled off a little bit sooner," said Warren. "In Calgary and Edmonton . . . you've been essentially in a buyer's market for the past year as opposed to just moving into that area at the national level."

She said Calgary and Edmonton have been a "good way" through the adjustment and now we're heading back toward a balanced market.

"I think the next area that you're looking at as more of a risk factor would probably be Saskatoon and Regina, which actually had their boom and demand a little bit later and they're still in that process of catchup in terms of supply."

The Scotia Economics report said the slump in U.S. homebuilding shows no signs of abating despite an over 50 per cent drop in housing starts from their early 2006 peak.

Warren also said a massive over-supply of unsold homes south of the border will keep downward pressure on both prices and construction.

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