

## Canadian housing boom over, but no bust on the horizon: CMHC, Scotiabank

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TORONTO - Canada's housing market boom is over but it won't be followed by the kind of bust that has characterized the U.S. subprime meltdown, say two real estate reports released Thursday.

Canada Mortgage and Housing Corp. forecast Thursday that new home construction in Canada will slow to 214,650 units this year, from last year's 228,343, with seven out of 10 provinces registering declines. As well, the national housing agency says sales of existing homes are expected to fall by 8.5 per cent.

The downward trend will continue in 2009, CMHC said, with housing starts dipping to 199,900 and existing home sales crumbling another 2.3 per cent to 465,000 units.

"Most of the pent-up demand that built up during the 1990s has now been fulfilled and residential construction activity will gradually move in line with Canadian demographic fundamentals," said CMHC chief economist Bob Dugan.

"These factors will continue to exert downward pressure on housing starts."

In a separate report, the Bank of Nova Scotia forecasts overall sales 15 per cent below last year's record levels, with home prices increasing on average about five per cent.

"Cracks are appearing on the new home front as well," the bank said, as demand for new residential building permits has fallen sharply and price increases are moderating as inventories of unsold homes trend higher.

But despite the cooling trend, both reports said Canada's housing market remains healthy and activity this year, while off last year's record levels, will be strong by historical standards.

No U.S.-style meltdown is in the cards, said Scotiabank economist Adrienne Warren.

"First, home prices in Canada are not substantially overvalued," she pointed out. "Second, there is still little evidence of widespread speculative home buying that often accompanies the late stages of a housing boom."

As well, Canada's real estate market is not overbuilt and households are not excessively indebted, she added.

"At the end of the day, we predict a soft landing for the Canadian housing market, with somewhat lower sales and construction, and a period of relatively flat inflation-adjusted home prices."

CMHC's Dugan pointed to strong economic fundamentals such as employment levels, rising incomes and low mortgage rates as providing solid foundations for residential housing this year.

The CMHC forecast sees average home prices rising 5.1 per cent this year and 3.3 per cent in 2009, after average annual increases of about 10 per cent from 2002 to 2007.

"The faster and longer home prices climb, the greater the risk of an eventual price correction," noted Warren.

Both reports predict the cooling trend will be most pronounced where the market was the hottest, the West, although both say activity there will remain strong by national standards.

Calgary and Edmonton "have officially moved into buyers' markets," Scotiabank wrote.

"More generally, however, economic conditions continue to favour the resource-rich markets in the West over manufacturing-dominated centres in Central Canada. Regina and Saskatoon are currently in the strongest sellers' position nationally."

CMHC says prices of existing houses will rise this year by 9.3 per cent in B.C., 3.6 per cent in Alberta, 26.1 per cent in Saskatchewan, 13.5 per cent in Manitoba, 3.5 per cent in Ontario, 4.7 per cent in Quebec, four per cent in New Brunswick, five per cent in Nova Scotia, three per cent in Prince Edward Island and 10.5 per cent in Newfoundland and Labrador.

The inflation-adjusted average resale home price registered its first quarterly decline in seven years during the first three months of this year, according to figures released Wednesday by the Canadian Real Estate Association.

Scotiabank cautioned that there is downside risk to the soft-landing scenario, particularly if tight credit conditions and the U.S. economic downturn intensify, impacting Canadian output and incomes.

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