

Subsection 2.—Housing Development in 1956-57

House-building activity in 1957, although lower than in the previous year, continued at a high level. Housing starts declined during the first quarter of 1957 but made a substantial recovery during the second quarter. This upward trend continued, though at a more moderate rate, throughout the remainder of the year and it appeared that total starts for 1957 would exceed 120,000 units. The decline from the level of 1956, when 127,000 units were started, was mainly a result of the continued scarcity of mortgage credit.

The shortage of mortgage funds was particularly acute for loans under the National Housing Act. In August 1957, the Government acted to ease the situation and made available \$150,000,000 for loans under the Act for moderately priced housing.

Housing completions, which lag starts by about six months, are expected to number about 117,000 units in 1957. In 1956 completions totalled 136,000, reflecting a carryover of some 79,000 uncompleted units from the record number started in the preceding year.

House-Building Activity.—Housing starts began to decline in the latter part of 1955 but the rate of decline was moderate until the fourth quarter when there was a sharp drop. This decline extended into the first quarter of 1957. A recovery commenced during the second quarter and the upward trend continued throughout the remainder of the year. Virtually all of the decline in housing starts in the two years 1956 and 1957 took place in the urban centres of 5,000 population or over. Starts in other areas were down only slightly. This disparity in the rates of new house building reflects differences in methods of financing such construction. Activity under the National Housing Act is largely concentrated in urban centres. With the shortage of mortgage money having its main impact on loans under the Act, house building in urban centres suffered more than in other areas.

The decline in activity under the National Housing Act was also reflected in the change in the proportion of starts represented by single-family dwellings. Starts of such dwellings represented 72 p.c. of the 1955 total but declined to 68 p.c. during the first nine months of 1957.

Corresponding with the record number of completions, expenditures on new housing construction reached a peak in 1956, amounting to \$1,574,000,000 compared with \$1,499,000,000 in the previous year. The estimated expenditure for 1957 was \$1,416,000,000.

Mortgage Lending.—The reversal during 1956 and 1957 in the upward trend which started in 1953 reflected in large measure shifts in the demand for investment funds. Between 1953 and 1955 capital investment for non-housing purposes showed no increase, mortgage funds for new housing were readily available, and housing starts increased by 35 p.c. From late 1955 to 1957, however, demand for long-term capital for non-housing purposes increased greatly and such investment outlets generally offered higher yields than mortgage loans. The volume of mortgage lending for new housing was reduced, and between 1955 and 1957 housing starts declined by 16 p.c. while investment for non-housing purposes increased by more than 50 p.c.

With the strength of demand for funds for mortgage loans weaker, relative to supply, in 1956 and 1957 than in 1955, mortgage lending by lending institutions declined. During 1956, lending institutions—comprising the chartered banks, life insurance companies, and loan and trust companies—approved mortgage loans for \$997,000,000 which was 17 p.c. below the amount for 1955. In the first six months of 1957, the decline from the previous year was 33 p.c. In both years, mortgage lending under the terms of the National Housing Act suffered the largest decline—in 1956 all of the decline was under the Act. In 1957, mortgage lending on existing housing and on non-residential property also declined. Conventional mortgage lending for new housing showed little change from 1955 to 1957. Starts were held as high as 127,000 in 1956 by virtue of the increase in that part of the housing program financed without the assistance of mortgage loans. Two factors effected the decline in institutional mortgage lending—the rise in interest rates and the position of the chartered banks at the end of 1955.

As competition for the available supply of investment funds increased through 1956 and 1957, interest rates also increased, reaching their highest levels in the postwar period. The maximum rate of interest chargeable on loans under the National Housing Act was