

## HOUSING AND CONSTRUCTION

### 7.1 Housing supply and costs

#### 7.1.1 House-building activity

Dwelling starts totalled 199,785 units in 1986, 20% higher than the 165,826 starts reported in 1985, and represent the busiest year for residential construction since 1978.

The pattern of starts during the year was heavily influenced by interest rate movements. Mortgage rates rose from a range of 9.75% to 11.75%, depending on mortgage terms, at the start of the year to a range of 11.75% to 12% in February, dropped to a range of 9.75% to 11% in June, and stabilized thereafter. In response, the seasonally adjusted annual rate of starts averaged 167,000 in the first quarter but advanced strongly in the second and third quarters to as high as 226,000 in September, then dropped to 207,000 in December.

The expansion in residential construction in 1986 continued the broadly based rebound that started in 1985. All types of housing recorded higher starts levels. Fueled by strong buyer confidence, the continuation of economic growth, and the lowest mortgage rates since 1979, single-detached starts increased 22% to 120,008, the highest level since 1976.

Other developments in combination with the economy and interest rate factors were responsible for the 19% jump in multiple-unit starts to 79,777. The key developments were tight rental markets (vacancy rates averaged 1.6% in 1986), renewed interest in low-rise rental buildings among small investors, especially in Quebec (partly as a result of the \$500,000 capital gains tax exemption), and expanded condominium activity, particularly in British Columbia and Ontario.

Housing completions are a lagged function of housing starts. Accordingly, the rebound in starts that began in the second half of 1985 and continued into 1986 caused completions for 1986 to rise to a seven-year high of 184,605.

#### 7.1.2 Construction, land and housing costs

The new housing price index moved up 8.5% between 1985 and 1986. In relation to the 4.2% inflation rate over the same period, new house prices

in real terms increased 4.2% in 1986. The strong rise in the index in 1986 coupled with smaller increases in 1984 and 1985, more than compensated for declines in 1982 and 1983. As a result, an average-priced new house in 1986 was 4.4% more expensive than in 1981. In comparison, the Consumer Price Index rose 32.5% during the same period.

Residential building materials costs, labour wages, and land costs rose 7.9%, 2.5% and 5.7%, respectively, in 1986. The disparity between these rates of input cost increase and the 8.5% rise in house prices implies some increase in builders' profit margins, particularly in Ontario.

The behaviour of house prices at the metropolitan level varied considerably. The two largest increases were 16.6% in Toronto, Ont. and 14.5% in Kitchener, Ont., while prices in British Columbia showed the least upward movement, rising 0.5% in Vancouver and dropping 5.1% in Victoria. After declining by a total of 20.2% from 1981 to 1985, prices in Edmonton, Alta. increased 7.3% in 1986.

As in 1985, the increase in shelter cost was higher for rented than for owned accommodation, but the difference narrowed. According to the Consumer Price Index, the respective rates of increase were 4.1% for renters and 3.7% for owners. Among components of the cost of owned accommodation, the most noticeable increase reported was for replacement cost, which rose 8.9%. As a result of the fall in world oil prices, water, fuel, and electric costs dropped 2.2%.

### 7.2 Housing markets

#### 7.2.1 Provincial trends

Starts at the provincial level, in 1986, reflected the national trend, increasing in all provinces except New Brunswick. The rate of increase ranged from under 2% (Alberta and Newfoundland) to over 41% (Prince Edward Island). The variability was a result of differences in economic performance, net interprovincial migration flows, and provincial housing cycles. Because of booming activity in the two largest provinces, Ontario and Quebec, where