Altus Group

special DOUBLE ISSUE

HOUSING REPORT

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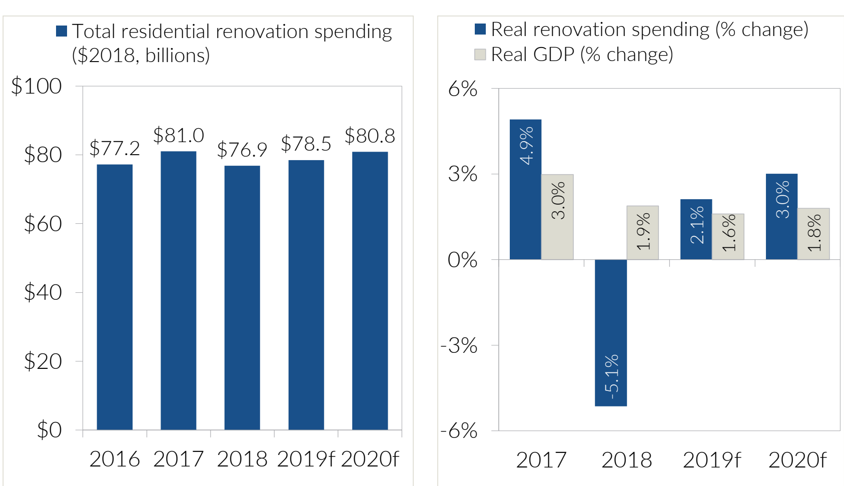
Home Renovation Spending in Canada to Grow Faster than the Overall Economy

Our annual look at the renovation sector, typically published each Spring, was delayed this year, as we analyzed revised historical data from Statistics Canada. The good news, however, is that at the same time the historical revisions were introduced, StatCan also expanded the scope of the residential renovation data (adding more detail and geographies), and also added coverage of renovation spending in the non-residential building sector. As a result, we are happy to share this special double issue on the renovation sector in Canada. Key highlights include:

- Total residential renovation spending faltered in 2018, dropping to an estimated $77 billion (Chart 1), a 5.1% decline in real terms from 2017 (-2.1% in current dollars). The last time renovation spending in Canada didn't increase was in 2011 and the last time spending posted an annual decline of this magnitude was in 1995. As discussed later, Alberta played a key role in the plummet.
- So far, 2019 has been doing a bit better - as a result we are forecasting a modest increase of 2.1% in real terms, slightly ahead of forecast economic growth.
- A variety of factors will be in play next year – some positive, some negative, as discussed later in this report. On net, however, we expect residential renovation spending to be up by about 3% in real terms in 2020.

Chart 1

Some Pickup in Home Renovation Spending in Canada After a Somewhat Disappointing 2018



Source: Altus Group based on Statistics Canada data

Highlights

- Canada-wide home renovation spending is back on an upward path, after stumbling in 2018
- About 1 in 3 residential improvement dollars are spent on apartments – including spending by owner-occupants, tenants and landlords
- Drop in U.S. home renovation spending negative for Canadian building product exports
- Immigrants have a higher incidence of borrowing for renovations, but their average borrowing is lower
- Renovation spending on non-residential buildings is growing, providing increased opportunities for renovation professionals and building product manufacturers/ suppliers

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Mixed Results by Region Last Year

A sharp drop in Alberta was the main culprit behind softer Canada-wide residential renovation spending last year (Chart 2), accounting for about three-quarters of the overall dollar decline. The fall-off in Alberta appears to be a combination of the weak housing market conditions in general, but also the run up and run down of investment following the devastating 2016 fires in Fort McMurray. B.C. and Manitoba were the only regions to post stronger real renovation spending in 2018.

About 1 in 4 Residential Renovation Dollars for Repair Work

Total renovation spending includes both upgrades that are considered capital expenditures (i.e. alterations, improvements and conversions) and repairs, considered current expenditures. In 2018, the value of alterations and improvements totalled $56.2 billion (Chart 3), with about one-third of that spent on apartment units. A "mere" $1.8 billion was spent on conversions. At just under $19 billion, repairs accounted for about one-quarter of total residential renovation spending.

Charts with additional detail on 2018 renovation spending by region and larger market areas are provided later in this report.

Total renovation spending in 2018 equated to an average of about $5,400 per dwelling unit – that's across the base of both owned and rented units and includes units that incurred renovation expenses as well as those that didn't.

Softer U.S. Renovation Spending

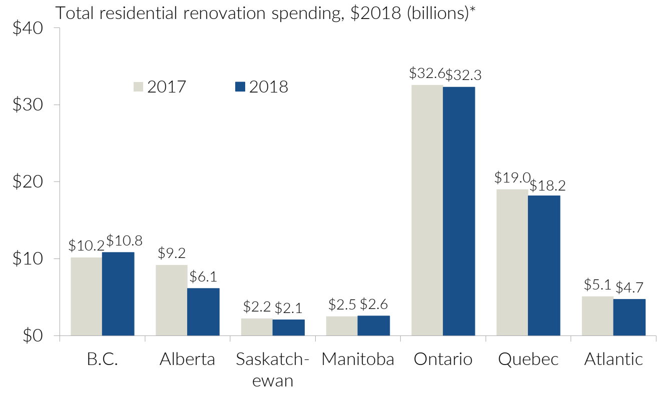
Many Canadian building product manufacturers and suppliers export their products to the U.S. market, so tracking renovation trends south of the border is also important.

After languishing in the post financial crisis era, residential renovation spending in the U.S. picked up quickly over the mid 2013 to mid 2018 period (Chart 4), before plunging again in the Spring of 2018. Signs of stabilization in recent quarters are encouraging.

Note: StatCan data on Canadian renovation spending in this article is from Investment in Building Construction (Table 34-10-0175-01) and Maintenance and Repair Expenditures in Housing (Table 34-10-0095-01)

Chart 2

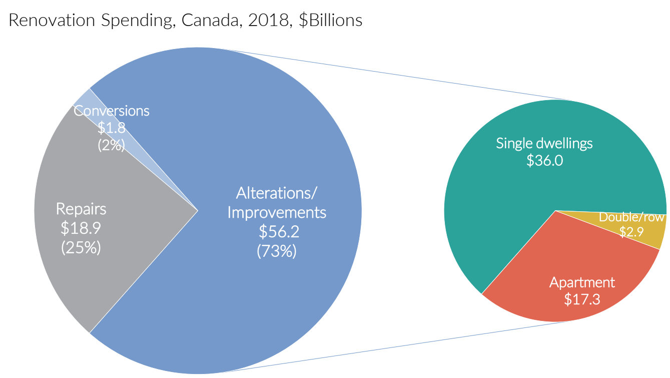
Fall-off in Alberta Home Renovation Spending Accounted for Most of Last Year's Softness



* Includes alterations/improvements, conversions and repairs
Source: Altus Group based on Statistics Canada data

Chart 3

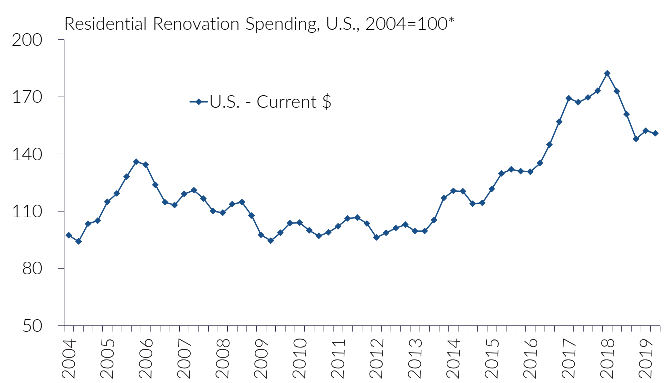
About 1 in 3 Residential Improvement Dollars are Spent on Apartments



Source: Altus Group based on Statistics Canada data

Chart 4

U.S. Renovation Spending Also Down Last Year



* Excludes repairs
Source: Altus Group based on data from U.S. Bureau of the Census

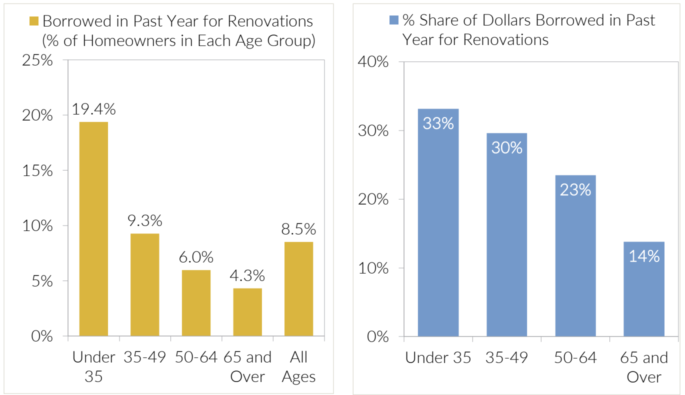
About $17 Billion in Home Renovation Related Borrowing Last Year

Financing for home renovations is a big business in Canada. Almost 9% of homeowners borrowed in 2018 for home renovations, according to Altus Group's FIRM Survey (Chart 5), with the average borrowing about $19,000. We estimate the total market size of new borrowing for home renovations in 2018 was about $17 billion.

Younger homeowners (under age 50) have a higher incidence of borrowing for home renovations than older homeowners, with their average borrowing only slightly lower. Overall, homeowners under 50 years of age accounted for almost two-thirds of total new borrowing for home renovations last year.

Chart 5

Younger Homeowners More Often Borrowing for Renovations



Source: Altus Group, The FIRM Survey, Winter 2019

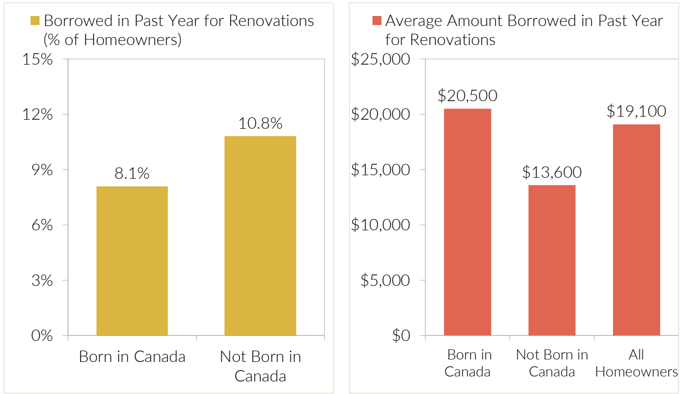
Immigrants More Likely to Have Home Renovation Related Borrowing – But Borrow Fewer Dollars on Average

Immigration levels have been rising in Canada, and current Federal government policy is for additional increases in the annual number of immigrants coming to this country.

Altus Group data (Chart 6) shows that homeowners who were not born in Canada have a higher incidence of borrowing for renovations than homeowners who were born in Canada, however, the average dollars that they borrow are much lower. In terms of the market for renovation financing, the implication is that more immigrants will boost the total need for renovation financing, but could dampen the average amount borrowed overall.

Chart 6

Immigrants Have a Higher Incidence of Borrowing for Home Renovations – But Borrow Less on Average



Source: Altus Group, The FIRM Survey, Winter 2019

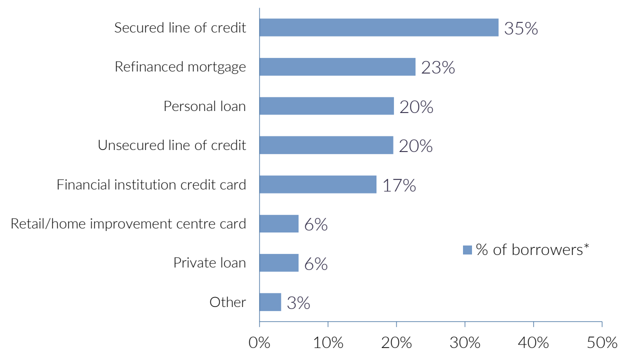
Range of Products Being Used to Borrow for Home Renovations

Using a secured line of credit (primarily home equity lines of credit i.e. HELOCs) was the top borrowing method for home renovations last year, followed by refinancing a mortgage to a larger amount, taking out a new personal loan or using an unsecured line of credit (Chart 7).

Credit cards and retail/home improvement centre cards (which typically have higher interest rates) combined were used by about 1 in 4 borrowers, although in some cases, this borrowing is likely short-term (for convenience and/or reward points) and may be later consolidated into typically lower interest rate mortgages and lines of credit.

Chart 7

Secured Lines of Credit Top Means of Borrowing for Renovations



* Adds to more than 100% as multiple responses possible
Source: Altus Group, The FIRM Survey, Winter 2019

The Outlook

Based on available data to date, 2019 residential renovation spending has already gained back some of 2018's loss. We expect when the year is over, we will have achieved growth in real residential renovation spending of just over 2.0%, with gains in all regions except Alberta and Manitoba (Chart 10).

Looking ahead to 2020, there are both negative and positive factors at play. Some of the headwinds expected to dampen potential renovation spending include:

- Renovation intentions are generally down (Chart 8). And it is not because more people are planning to move this year instead of renovating – both homebuying and larger renovation intentions are down (Chart 9).
- Global economic uncertainty is building, with forecasts being revised downward, which would have some negative impact on the Canadian economy as well.

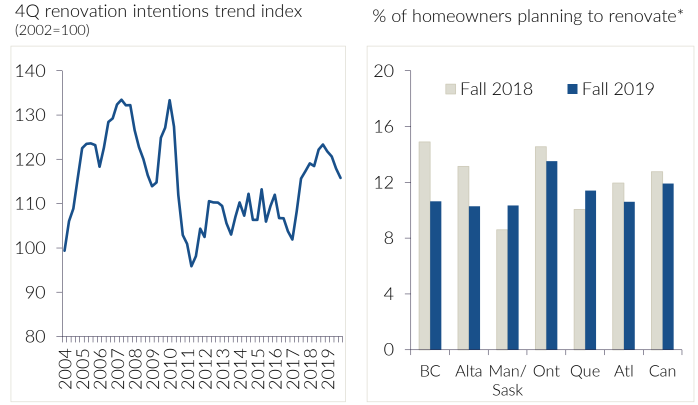
But there are also promising factors:

- Higher home sales. Even though our FIRM Survey shows weaker homebuying intentions this fall than last year, we believe that actual home sales will be higher in 2020 than in 2019, as some of the pent-up demand that built up as potential buyers saved longer to be able to qualify for a mortgage under more stringent stress tests is released. That's important to the renovation forecast, as average homeowner renovation spending is higher around the time that homes are traded, as those who are selling homes spruce them up to go on the market, and those who are buying make modifications to adapt the homes to their specific wants and needs.
- The potential for lower interest rates which would result in lower financing costs.
- Some rebound in Alberta, after the sharp drops in recent years.
- Federal government promised incentive for interest free loans for up to $40,000 to undertake energy efficient retrofits. As the program is not yet in place (perhaps there will be more details in the 2020 budget), and less attractive than a grant or tax credit, we expect the impact on 2020 to be positive, but moderate.

On the whole, we expect growth in real renovation spending of about 3% in 2020, with all regions sharing in the increase.

Chart 8

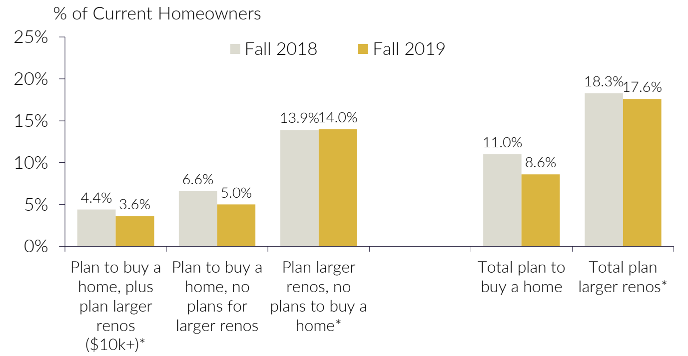
Homeowner Renovation Intentions Trending Down



* Agree completely plan to undertake renovations of $5k or more in next year (4Q average)
Source: Altus Group, The FIRM Survey

Chart 9

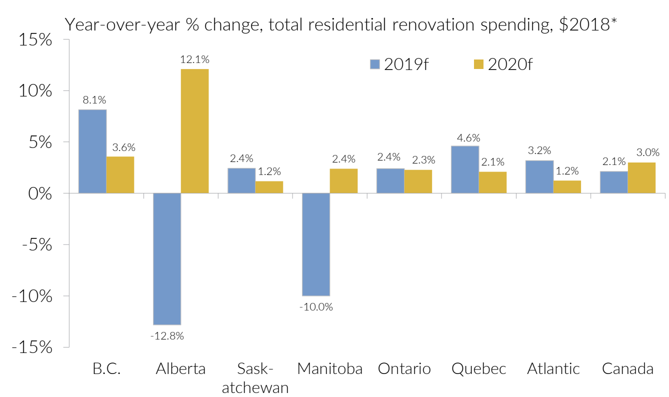
Both Homebuying and Larger Renovation Intentions Down Among Current Homeowners



* Plans for larger renos based on agree completely or agree somewhat plan to undertake renovations of $10k or more in next year
Source: Altus Group, The FIRM Survey

Chart 10

Some Improvement in Home Renovation Spending in All Regions Next Year



* Includes alterations/improvements, conversions and repairs
Source: Altus Group based on Statistics Canada data

Non-Residential Buildings Provide Additional Opportunities for the Renovation Industry

While this is a "housing report", we think it is important for residential renovation professionals and the building products industry to also have an understanding of renovations in the non-residential sector, as there is crossover potential between the sectors.

The extent of renovation work in the non-residential buildings sector is much smaller than residential renovations (Chart 11) – but at $20 billion of work last year, it is still a massive market segment. More than half of this work is on commercial buildings (e.g. offices, retail properties, warehouses, hotels, etc.).

Note that the data here are for alterations/improvements only, and do not include repairs.

Renovation Spending on Non-Residential Buildings Has Been Growing

While StatCan data suggest that residential renovation spending was down last year in current dollar terms, the decline was entirely offset by higher renovation spending on non-residential buildings (Chart 12), emphasizing our earlier point about the potential to service both the residential and non-residential renovation sectors.

Non-residential building renovations have increased their share of the total building renovation pot (excluding repairs) from one-fifth in 2010 to just over one-quarter in 2018.

Office Renovations an Important Niche Market

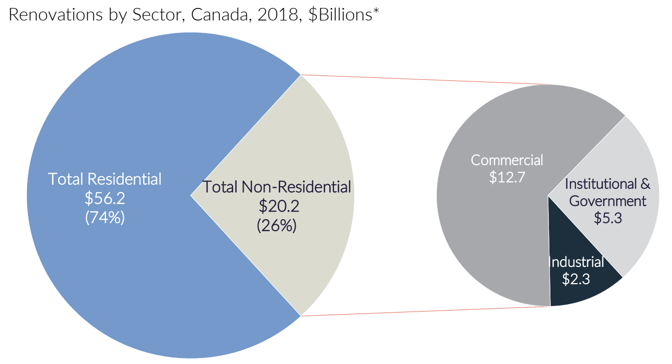
Canada-wide in 2018, about $6.2 billion was spent on office renovations – double the spending in 2010 (in current dollar terms).

More than 1/3 of that spending was in Toronto (Chart 13). Based on Altus Group data on the inventory of office space, the $2.25 billion of spending in Toronto last year represents an average spending of about $12 per sq. ft. (across all space, whether there were renovations or not last year).

Relatively high vacancy in Calgary's office market at present is likely playing a role in lower average per sq. ft. renovation spending than other markets, putting total spending in 2018 about 20% below the recent peak in 2014 (in current dollar terms).

Chart 11

Non-Residential Building Sector - Opportunities for Renovation Professionals and Building Products Industry

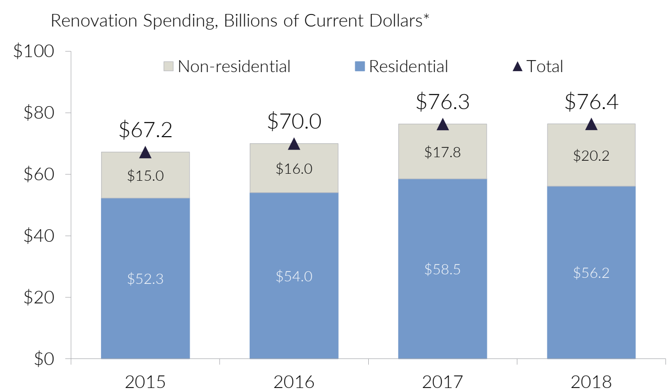


* Excludes repairs and conversions

Source: Altus Group based on Statistics Canada data

Chart 12

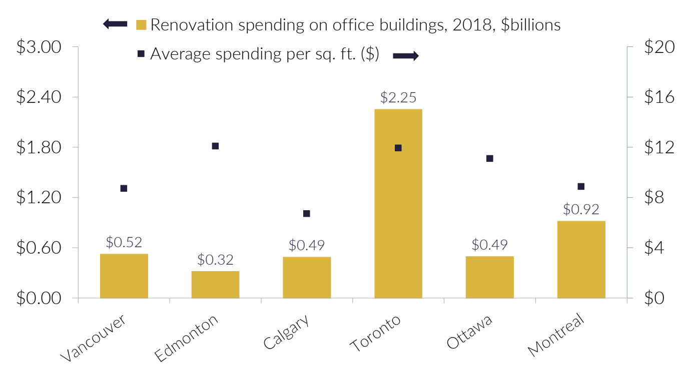
Stronger Non-Residential Sector Offset Dip in Home Renovations Last Year*



* Excludes repairs and conversions
Source: Altus Group based on Statistics Canada data

Chart 13

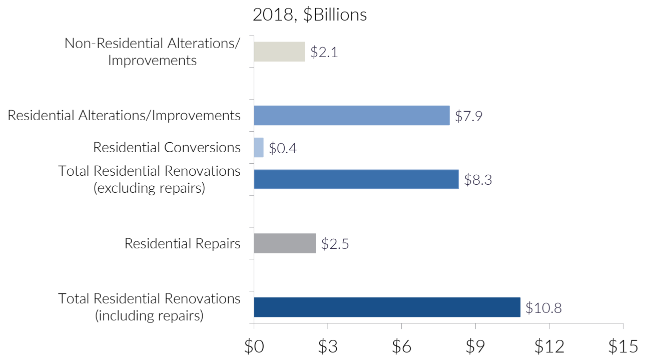
Office Renovations Sizeable Opportunity, in Particular in Toronto



* Excludes repairs
Source: Altus Group based on Statistics Canada data

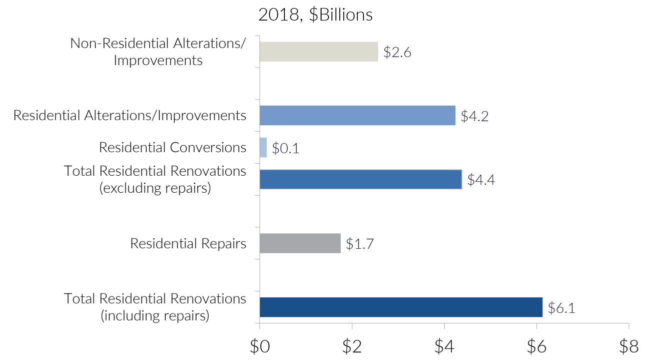
Renovation Spending, Regions

Renovation Spending, British Columbia



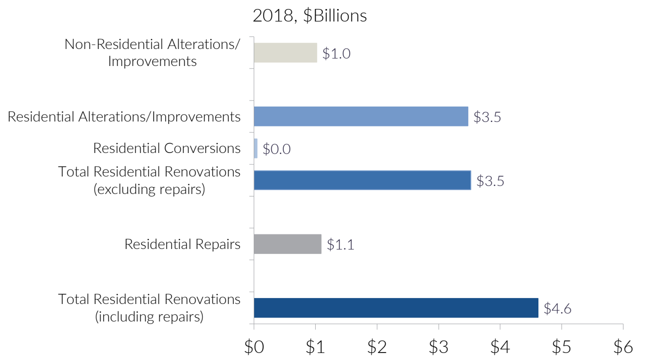
Source: Altus Group based on Statistics Canada data

Renovation Spending, Alberta



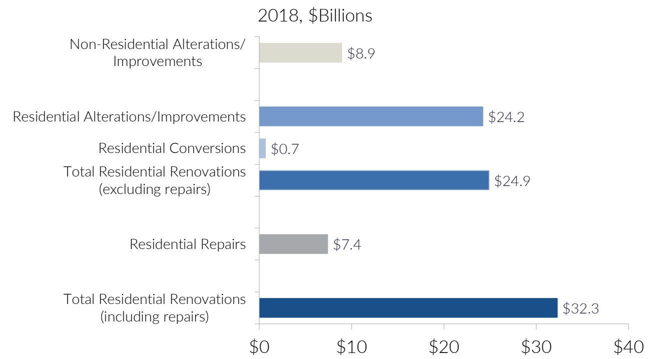
Source: Altus Group based on Statistics Canada data

Renovation Spending, Manitoba-Saskatchewan



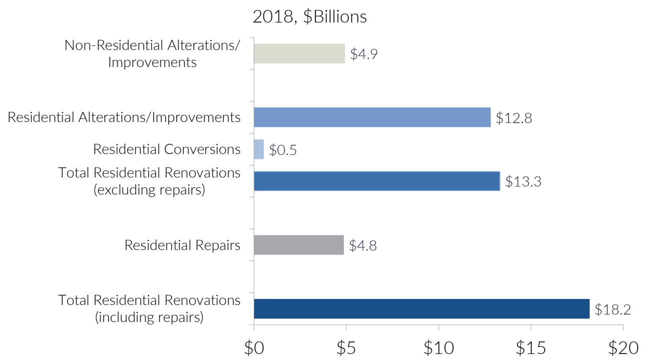
Source: Altus Group based on Statistics Canada data

Renovation Spending, Ontario



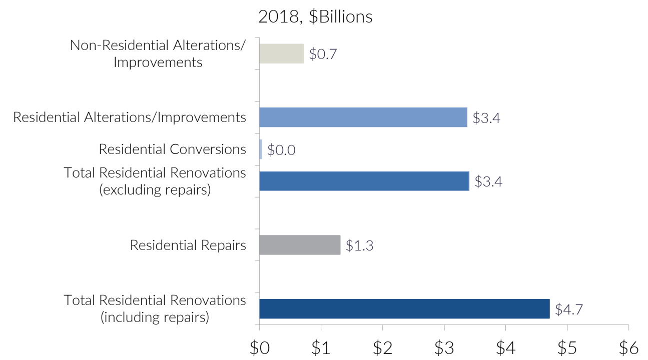
Source: Altus Group based on Statistics Canada data

Renovation Spending, Quebec



Source: Altus Group based on Statistics Canada data

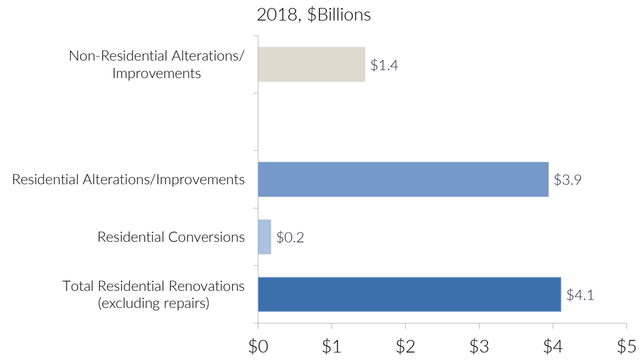
Renovation Spending, Atlantic Canada



Source: Altus Group based on Statistics Canada data

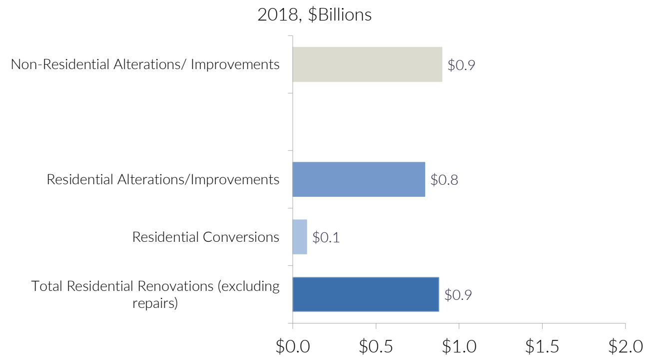
Renovation Spending, Selected Major Markets*

Renovation Spending, Vancouver CMA



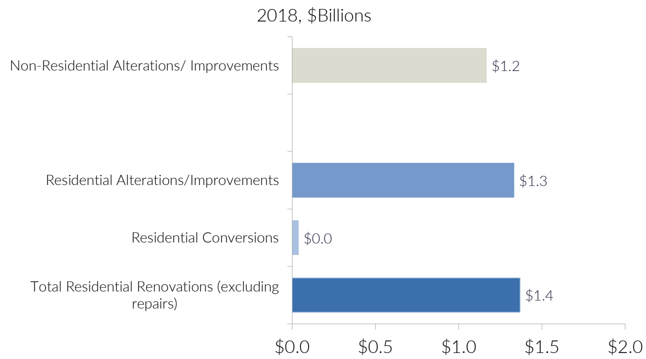
Source: Altus Group based on Statistics Canada data

Renovation Spending, Edmonton CMA



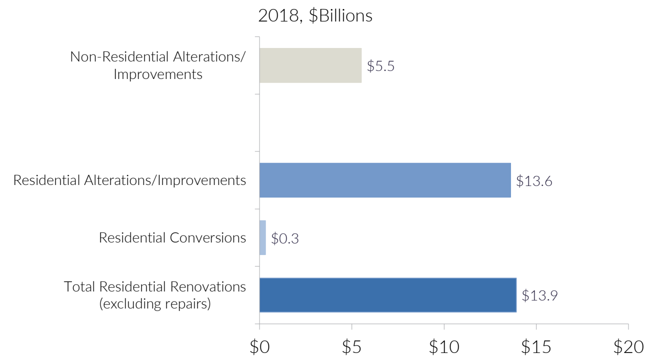
Source: Altus Group based on Statistics Canada data

Renovation Spending, Calgary CMA



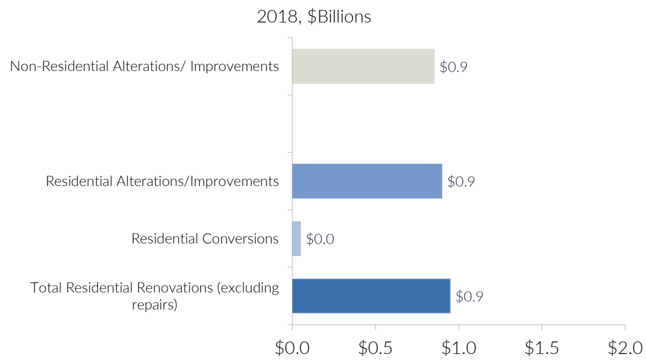
Source: Altus Group based on Statistics Canada data

Renovation Spending, Toronto CMA



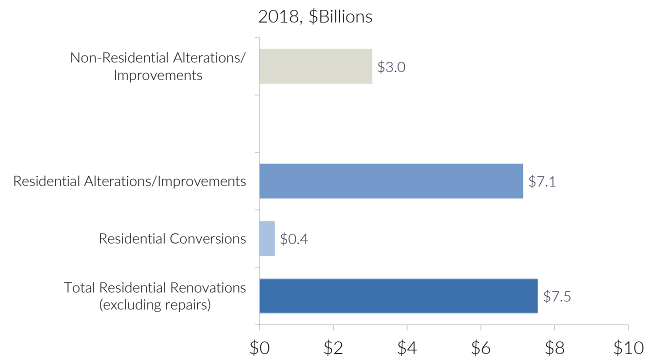
Source: Altus Group based on Statistics Canada data

Renovation Spending, Ottawa CMA



Source: Altus Group based on Statistics Canada data

Renovation Spending, Montreal CMA



Source: Altus Group based on Statistics Canada data

* Repair data not available for the major markets

Starts Slip in July

Canada-wide housing starts for the month of July were 222,000 units seasonally adjusted at annual rate (SAAR), down from the revised number for June, according to CMHC estimates. Starts fell in the single-family sector and, in particular, the apartment sector.

Regional highlights for July include:

- Atlantic Canada starts retreated in all provinces;
- Starts were little changed in Quebec as a fall-off in the Montreal CMA was mostly countered by higher starts in the other areas of the province;
- Ontario starts nudged higher as a dip in activity in the Toronto CMA was more than offset by higher starts elsewhere in the province;
- Starts slipped in both Manitoba and Saskatchewan;
- Alberta starts inched lower; and
- B.C. starts eased due to a sharp falloff in the Vancouver CMA as well as lower starts in the remainder of the province.

Housing Starts by Type and Area

	July 2018	June 2019	July 2019
	Total Starts (000s), SAAR		
Canada, Total	202.2	244.4	222.0
By Type of Unit			
Single-family	93.0	93.0	90.4
Apartment	109.2	151.4	131.5
By Area			
British Columbia	43.2	61.8	50.7
Vancouver CMA	*25.3*	*41.5*	*31.8*
Other Areas	*17.9*	*20.3*	*18.9*
Alberta	30.0	31.6	29.2
Saskatchewan	3.3	2.9	1.6
Manitoba	9.4	10.1	7.0
Ontario	69.0	66.8	69.8
Toronto CMA	*39.9*	*34.9*	*32.9*
Other Areas	*29.1*	*31.9*	*36.9*
Quebec	36.3	54.3	53.6
Montreal CMA	*18.1*	*39.9*	*24.9*
Other Areas	*18.2*	*14.4*	*28.7*
New Brunswick	2.7	5.7	3.2
Nova Scotia	6.5	7.9	4.3
Prince Edward Island	0.5	2.2	1.8
Newfoundland	1.4	1.0	0.8

Source: CMHC and estimates by Altus Group

Labour Force Indicators

	Employment Growth		Unemployment Rate	
	Jan-Jul 18-Jan-Jul 19-	Jul 18-Jul 19	Jul 2018	Jul 2019
	000s		*%*	
St. John's	-2	3	8.9	7.7
Halifax	7	11	6.5	5.2
Quebec	15	15	3.8	2.3
Montreal	54	3	6.1	5.8
Ottawa	11	21	4.4	5.0
Toronto/Oshawa	105	116	6.0	5.7
Kitchener-Waterloo	-3	8	5.6	5.5
London	4	-15	5.4	5.8
Winnipeg	4	7	6.6	5.4
Regina	0	4	6.4	5.3
Saskatoon	3	4	7.1	5.9
Calgary	13	54	7.8	6.9
Edmonton	10	7	6.5	7.5
Vancouver	35	90	4.4	4.0
Victoria	6	-5	4.3	3.8

Based on seasonally adjusted 3 month averages
Source: Altus Group based on Statistics Canada data

Resale Housing Market Indicators

	MLS Sales*			Months of Inventory**	
	Jul 2018	Jul 2019	% Change	Jul 2018	Jul 2019
	Units				
St. John's	427	475	11	n.a.	n.a.
Halifax	604	717	19	n.a.	n.a.
Quebec	468	629	34	16.0	11.7
Montreal	3,201	3,698	16	6.6	4.6
Ottawa	1,619	1,865	15	n.a.	n.a.
Toronto/Oshawa	6,914	8,565	24	2.9	2.1
Kitchener-Waterloo	564	586	4	n.a.	n.a.
London	1,000	1,043	4	1.7	1.8
Winnipeg	1,304	1,365	5	3.8	4.2
Regina	319	314	-2	8.0	7.5
Saskatoon	504	459	-9	n.a.	n.a.
Calgary	2,033	2,172	7	6.0	4.9
Edmonton	1,723	1,907	11	6.1	4.8
Vancouver	2,070	2,557	24	5.9	5.6
Victoria	604	664	10	3.2	3.5

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association
** Active listings at month end divided by sales during the month. A 5 months inventory of resale product is considered to be a "normal" market.
Source: Altus Group based on data from The Canadian Real Estate Association and local real estate boards

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