Altus Group

HOUSING REPORT

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COVID-19 to Dent Renovation Spending, a Vital Driver of Canadian Economic Activity

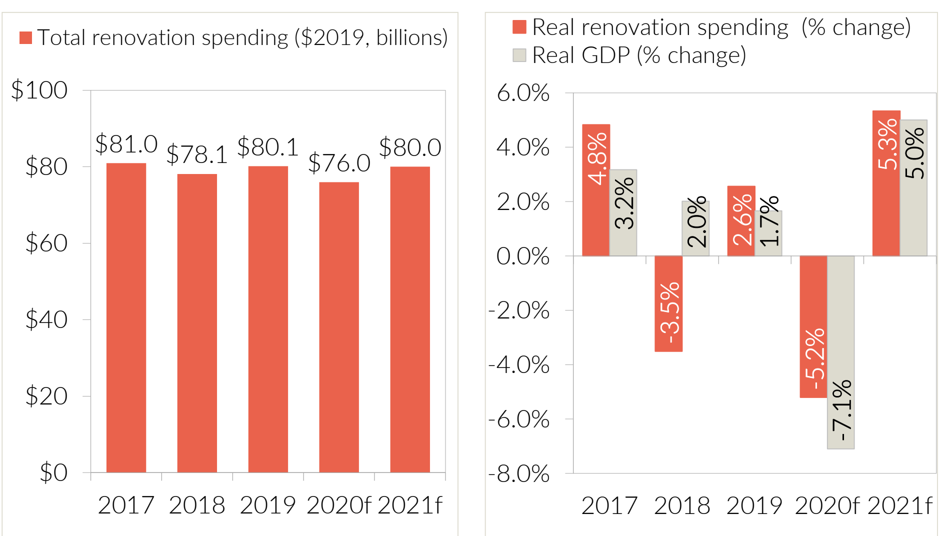
Before the COVID-19 pandemic, Canada's home renovation spending was on the ascendency, growing in all but two of the last 20 years. In this issue, we provide our annual outlook for this key economic sector.

Key Renovation Facts

- Total residential renovation spending reached an estimated $80.1 billion in 2019, a 2.6% increase in real terms over 2018 (Chart 1), growing faster than the economy. This result represented a rebound from a 5.1% decline in 2018.
- Home renovations are a bigger segment of the Canadian economy than new homebuilding (Chart 2, next page).
- Renovation spending, which on average has achieved a higher rate of growth than the overall economy since 2014, will not be immune to the effects of COVID-19 containment restrictions. Renovation spending is forecast to decline in 2020, though not as significantly as the overall economy.

Chart 1

Home Renovation Spending Growing Faster Than the Canadian Economy



Source: Altus Group based on Statistics Canada data

Highlights

- Residential renovation spending in Canada reached about $80 billion last year – growing at a stronger pace than the overall economy
- More dollars spent on renovating homes than building new ones
- 3 out of every 4 renovation dollars spent on upgrades
- Renovation spending is an importance source of revenue for home improvement retailers
- Homeowners aged 35-64 account for 80% of HELOC renovations borrowing
- Fewer homeowners planning renovations than a year ago – as pandemic erodes consumer confidence
- Renovation spending expected to decline in 2020 – but recover next year

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3 Out of Every 4 Renovation Dollars Spent on Upgrades

Total renovation spending includes both upgrades, that are considered capital expenditures (i.e. alterations, improvements and conversions), and repairs, considered current expenditures. In 2019, the value of upgrades to Canadian homes totalled $61.2 billion – virtually matching spending on new home construction. When the $18.9 billion in repairs are added in on the renovation side, total renovation spending in 2019 accounted for 58% of all residential construction spending. The patterns do vary by region (see page 4). Since 2017, new home spending has exceeded renovation spending in B.C. and Alberta.

Per unit, estimated total renovation spending equates to about $5,500 in 2019 – 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.

HELOCs an Important Source of Borrowing for Renovations

Altus Group estimates suggest at least $14 billion of new borrowing was done by Canadian homeowners for the purposes of renovations in 2019. Secured financing – using products such as home equity lines of credit (HELOCs) or refinancing a mortgage to a larger amount – accounted for 6 in 10 dollars borrowed.

Strong growth in home equity during the past decade enabled more homeowners aged 35-49 to capitalise on HELOCs for renovations. About 36% of total borrowing with HELOCs for renovations was done by homeowners aged 35-49 (Chart 3) – an increase from 28% in 2017.

Renovators Major Source of Home Improvement Retail Sales

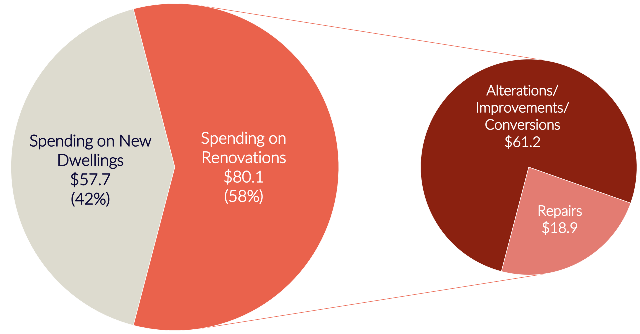
Home improvement retail sales trends are closely related to renovation spending as renovation spending and home improvement retail sales are strongly correlated (0.97). Given that renovation spending is an importance source of revenue for home improvement retailers, expect a notable decrease in home improvement retail sales this year.

The pandemic has resulted in a sharp decline in HELOC interest rates and 5-year mortgage rates (Chart 4). Both borrowing rates are forecast to hover around historic lows over the next two years, boosting future reno spending.

Chart 2

More Dollars Spent on Renovations than New Homes

Canada, $2019, Billions

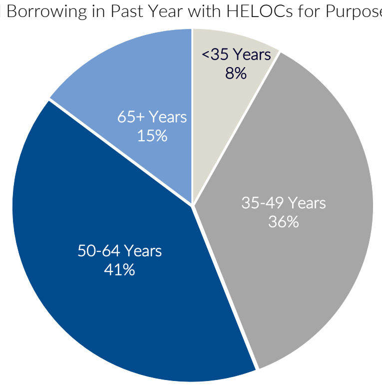


Source: Altus Group based on Statistics Canada data

Chart 3

Homeowners Aged 35-64 Account for Nearly 80 Percent of HELOC Borrowing for Renovations

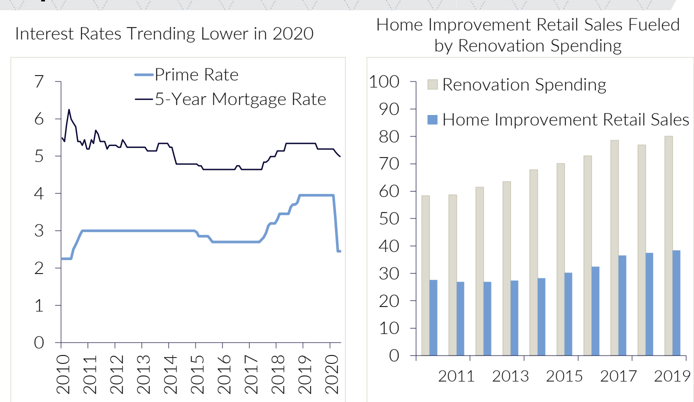
% Share of Total Borrowing in Past Year with HELOCs for Purpose of Renovations



Source: Altus Group, The FIRM Survey

Chart 4

Renovation Spending a Vital Source of Home Improvement Retail Sales



HELOC interest rates are typically prime rate plus between 0.5% and 2%.
Source: Altus Group, Bank of Canada and Statistics Canada

Renovation Intentions Lower Than Last Year

No doubt influenced by the pandemic, Altus Group's homeowner renovation intentions index has plunged (Chart 5), as plans to renovate are running well below a year ago at the Canada-wide level, but still generally on par with readings earlier in the decade.

With the exception of Atlantic Canada, homeowners in most regions report lower renovation intentions than last year.

Renovations Intentions vs. Homebuying Intentions

Altus Group tracks both renovation and homebuying intentions on an on-going basis in our FIRM Survey. An analysis of this information shows lower intentions to renovate this year, primarily among those homeowners not also intending to move. Intentions to undertake larger renovations (based on homeowners agreeing completely or somewhat that they are planning renovations of $10k plus) in the next year are down from last year while intentions to buy another home are virtually unchanged (Chart 6). Only 2% of current homebuyers are planning to do both – these homeowners may either be planning significant renos to prepare their current home for sale, or planning sizeable renovations on their next home.

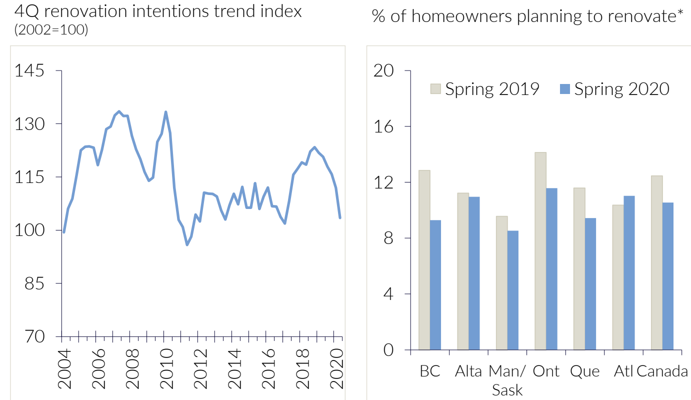
Renovation Spending to Decline as Pandemic Defers Home Upgrades

Subdued home sales in 2019, economic weakness in the Prairie Provinces and elevated interest rates slowed renovation spending growth in 2019. The economic shock brought on by the COVID-19 pandemic has forced homeowners to postpone home upgrades, pointing to a decline in home renovation spending across Canada this year with a recovery next year (Chart 7):

- The decline in renovation spending is expected to be most significant in Quebec, Alberta, Ontario and Saskatchewan.
- Renovation spending in the Atlantic Provinces is not expected to decline as dramatically as last year.
- B.C. is project to experience the most muted decline in renovation spending.

Chart 5

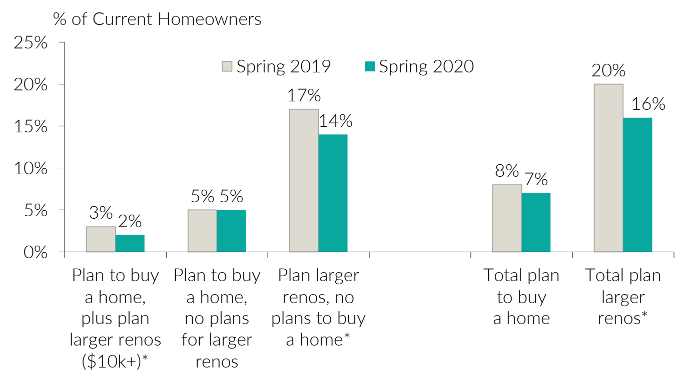
Homeowner Renovation Intentions Down in Most Regions



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

Chart 6

Larger Renovation Intentions Down Among Current Homeowners, Homebuying Intentions Unchanged



* 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 7

Renovation Spending Projected to Decline in All Regions

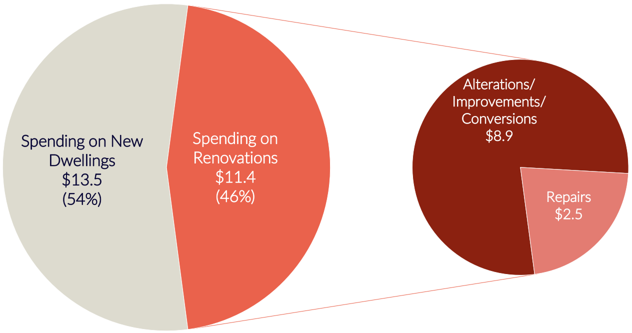
	2019 Spending		Growth in Spending*		
	Billions	% *Distribution*	2019	2020f	2021f
			% Change		
B.C.	$11.4	14.2	3.7	(2.3)	5.5
Alberta	$5.9	7.4	(4.6)	(6.3)	(1.4)
Saskatchewan	$2.0	2.5	(5.5)	(5.2)	2.1
Manitoba	$2.6	3.3	2.1	(3.6)	2.5
Ontario	$34.2	42.7	4.3	(5.6)	7.1
Quebec	$19.3	24.1	4.5	(6.4)	5.8
Atlantic	$4.4	5.5	(7.3)	(3.7)	1.4
Canada**	$80.1	100.0	2.6	(5.2)	5.3

* Adjusted for inflation ** Includes spending in the Territories
Source: Altus Group based on Statistics Canada data

Residential Construction Spending by Region

British Columbia

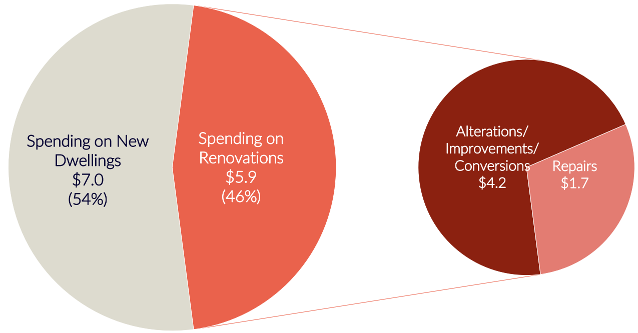
$2019, Billions



Source: Altus Group based on Statistics Canada data

Alberta

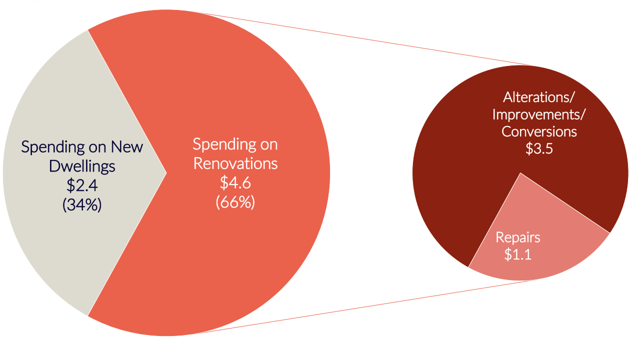
$2019, Billions



Source: Altus Group based on Statistics Canada data

Manitoba/Saskatchewan

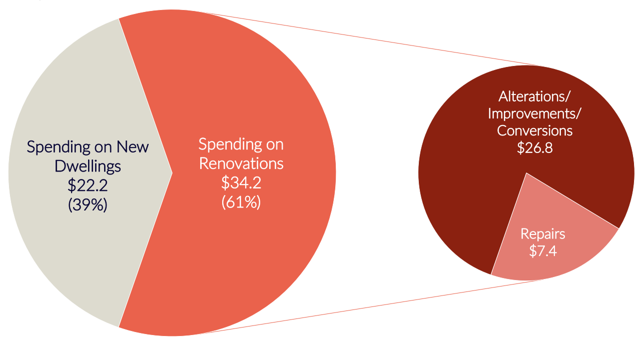
$2019, Billions



Source: Altus Group based on Statistics Canada data

Ontario

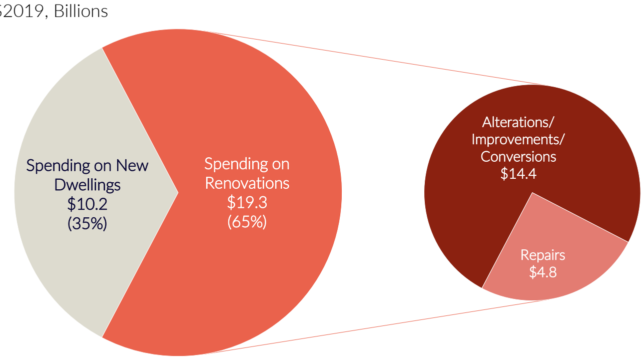
$2019, Billions



Source: Altus Group based on Statistics Canada data

Quebec

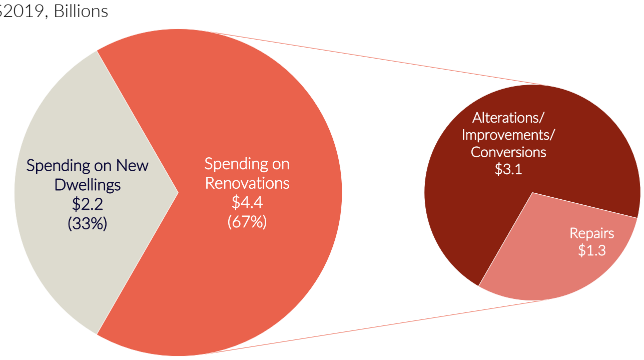
$2019, Billions



Source: Altus Group based on Statistics Canada data

Atlantic Canada

$2019, Billions



Source: Altus Group based on Statistics Canada data

Starts Recover in May

Canada-wide housing starts for the month of May were 195,500 units seasonally adjusted at annual rate (SAAR), up from the revised number for April, according to CMHC estimates. Starts surged in the single-family sector while also pushing higher in the apartment sector.

Regional highlights for May include:

- Atlantic Canada starts rose in all provinces except for Newfoundland;
- Quebec starts came in ahead of last year's level, almost equally split between the Montreal CMA and the rest of the province, after no starts were recorded last month due to government-imposed COVID-19 closures;
- Ontario starts fell due to lower starts in the Toronto CMA, and to a lesser extent, in the other areas of the province;
- Starts dipped in both Manitoba and Saskatchewan;
- Alberta starts were down; and
- B.C. starts rose due to higher activity in the Vancouver CMA more than offsetting a dip in the other areas.

Housing Starts by Type and Area

	May 2019	April 2020	May 2020
	Total Starts (000s), SAAR		
Canada, Total	195.9	164.9	195.5
By Type of Unit			
Single-family	84.6	64.7	86.8
Apartment	111.3	100.2	108.7
By Area			
British Columbia	55.5	30.2	39.0
Vancouver CMA	*42.6*	*15.2*	*24.9*
Other Areas	*12.8*	*15.1*	*14.1*
Alberta	22.6	23.8	19.1
Saskatchewan	2.4	2.5	2.1
Manitoba	9.2	7.5	4.7
Ontario	49.2	94.5	57.6
Toronto CMA	*20.2*	*60.9*	*29.8*
Other Areas	*29.0*	*33.6*	*27.8*
Quebec	49.0	0.0	64.5
Montreal CMA	*25.5*	*0.0*	*32.9*
Other Areas	*23.5*	*0.0*	*31.6*
New Brunswick	2.3	2.5	3.4
Nova Scotia	3.6	2.7	3.6
Prince Edward Island	1.3	0.8	1.2
Newfoundland	0.7	0.5	0.3

Source: CMHC and estimates by Altus Group

Labour Force Indicators

	Employment Growth		**Unemployment Rate**	
	Jan-May 19-Jan-May 20-	May 19-May 20	May 2019	May 2020
	000s		*%*	
St. John's	-5	-11	7.9	10.5
Halifax	-6	-23	5.3	10.5
Quebec	-42	-87	2.8	11.9
Montreal	-75	-248	5.5	14.0
Ottawa	13	-24	5.4	7.7
Toronto/Oshawa	-42	-393	6.1	11.2
Kitchener-Waterloo	-4	-35	4.9	10.3
London	6	-9	5.1	11.7
Winnipeg	-6	-35	5.1	10.3
Regina	-9	-20	4.4	10.6
Saskatoon	-2	-14	6.0	12.4
Calgary	-41	-115	6.9	13.4
Edmonton	-48	-120	6.9	13.6
Vancouver	-75	-219	4.2	10.7
Victoria	2	-13	3.6	10.1

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

Resale Housing Market Indicators

	MLS Sales*			**Months of Inventory****	
	May 2019	May 2020	% Change	May 2019	May 2020
	Units				
St. John's	396	219	-45	n.a.	n.a.
Halifax	845	479	-43	n.a.	n.a.
Quebec	860	804	-7	9.3	7.7
Montreal	5,558	3,286	-41	3.6	4.2
Ottawa	2,441	1,364	-44	n.a.	n.a.
Toronto/Oshawa	9,950	4,606	-54	2.0	2.5
Kitchener-Waterloo	694	419	-40	1.5	1.4
London	1,146	668	-42	1.6	2.3
Winnipeg	1,617	1,241	-23	2.7	2.6
Regina	339	293	-14	6.6	6.0
Saskatoon	554	470	-15	n.a.	n.a.
Calgary	2,480	1,470	-41	4.4	5.8
Edmonton	1,978	1,157	-42	4.8	6.7
Vancouver	2,638	1,485	-44	5.6	6.7
Victoria	848	457	-46	3.6	5.6

* 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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