Altus Group

HOUSING REPORT

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Summer 2021

Record Home Sales and Positive Income Effects Driving a Surge in Renovation Spending

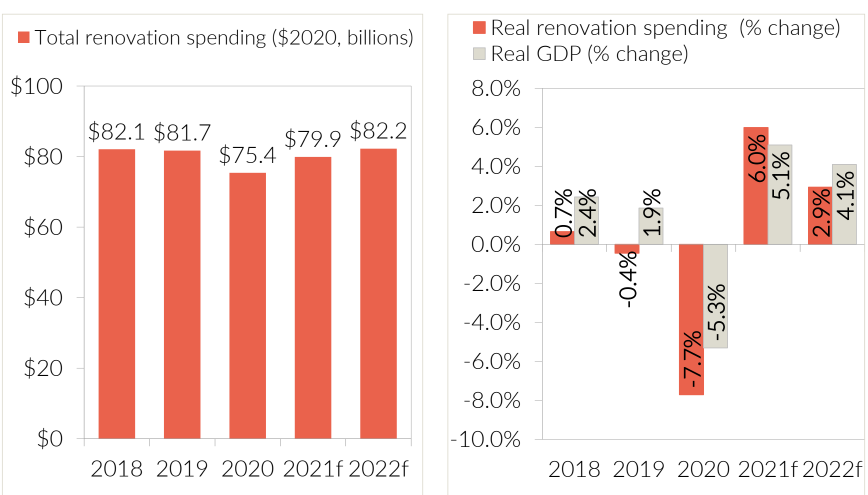
Canada's home renovation spending grew in 18 of the 20 years before COVID but recovery from the 2019 slump was upended last year by a sharp Q2 decline despite a quick rebound. In this issue, we provide our annual outlook for this key sector.

Key Renovation Facts

- **Total residential renovation spending was an estimated $75.4 billion in 2020**, a 7.7% decrease in real terms over 2019 (Chart 1), decreasing at a faster pace than the economy. This result is similar to 2019 when renovation spending decreased slightly as economic growth slowed.
- **Home renovations are a bigger segment of the Canadian economy than new homebuilding** (Chart 2, next page).
- **Renovation spending, which grew at a faster pace than the overall economy** from 2014 to 2017, has not been immune to the effects of COVID-19 economic disruptions, particularly during the first half of 2020. Renovation spending has since accelerated and is forecast to increase in 2021 **well in excess of 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 was over $75 billion in 2020 – decreasing at a faster 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
- Robust renovation spending contributing to surge in building products prices
- Greener Homes Grant to help spur renovation spending but impact likely to be limited in 2021
- Renovation spending expected to increase in 2021 and 2022

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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 2020, the value of upgrades to Canadian homes totalled $52.4 billion – just 12.5% lower than spending on new home construction. When the $21 billion in repairs are added in on the renovation side, total renovation spending in 2020 accounted for 56% of all residential construction spending. The patterns vary by region (see page 4), but B.C. is the only province where new home spending exceeds renovation spending.

Per unit, estimated total renovation spending decreased to $5,200 in 2020 – 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.

Renovators Major Source of Home Improvement Retail Sales

Renovation spending is an important source of revenue for home improvement retailers, which are a vital source of supplies for do-it-yourself renovation projects (Chart 3). Given its strong correlation with home improvement retail sales, higher renovation spending this year is fuelling a surge in home improvement retail sales.

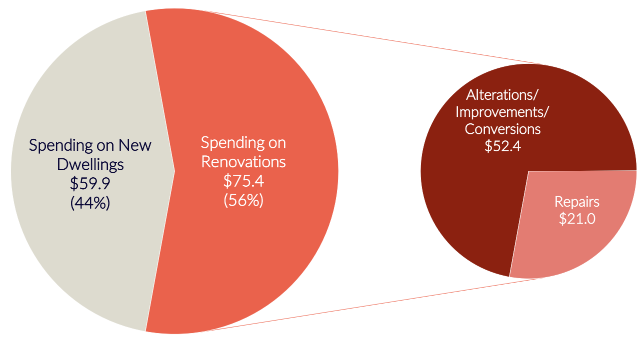
Remarkable Recovery in Renovation Spending

Renovation spending is back with a vengeance and has also been setting new quarterly records (Chart 4). Renovation spending has soared since Q2 2020 – increasing in each of the last three quarters and significantly above pre-pandemic quarterly spending. This performance is a remarkable recovery considering that no one would have expected renovation spending to bounce back so vigorously from the sharp decline occasioned by lockdown restrictions during the first half of 2020.

Chart 2

More Dollars Spent on Renovations than New Homes

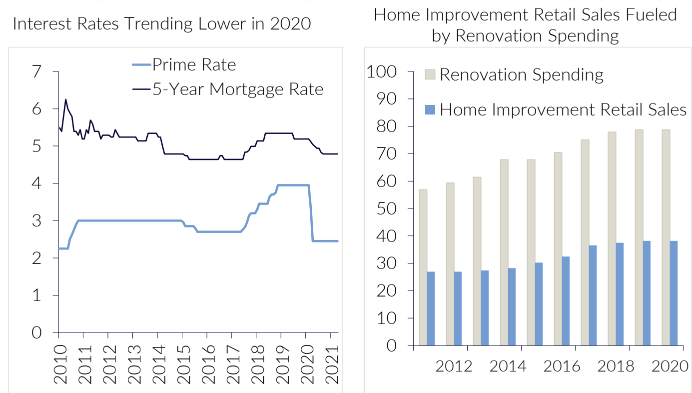
Canada, $2020, Billions



Source: Altus Group based on Statistics Canada data

Chart 3

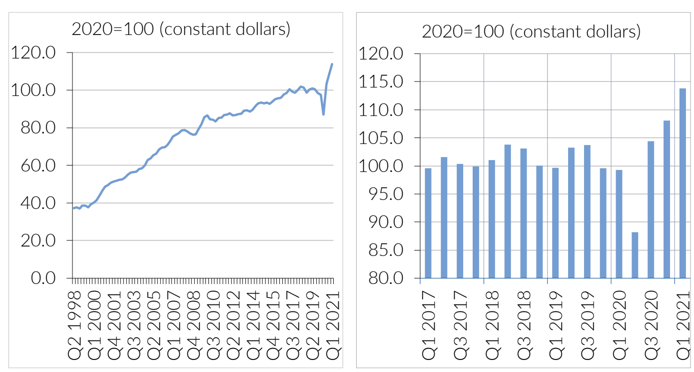
Renovation Spending a Vital Source of Home Improvement Retail Sales



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

Chart 4

Residential Renovation: Back With a Vengeance



Source: Altus Group based on Statistics Canada

Impact of Record Home Sales and Positive Income Effects on Renovation Spending

Home renovations is a bigger segment of the Canadian economy than new homebuilding and was $15.5 billion larger than new home construction spending last year. Sales of existing homes, a major impetus for renovation spending, reached a 40-year high in 2020 with some 550,300 homes sold (Chart 5). According to research by Altus Group on behalf of CREA, Canada-wide the average home sale generates about $17,300 in renovation spending over and above typical spending, suggesting that an estimated $9.5 billion of 2020 renovation spending was stimulated by home sales.

The momentum in home sales growth from the 2nd half of last year continued into 2021 with Q1 representing the highest volume of Q1 sales ever. This high level of sales, together with underlying pandemic effects, point to an increase in renovation spending this year (Chart 6).

- The increase in renovation spending is expected to be most significant in Ontario and Quebec.
- Renovation spending in the Manitoba and Atlantic Provinces is not expected to increase as significantly as last year.
- Alberta is project to experience the most muted increase in renovation spending.

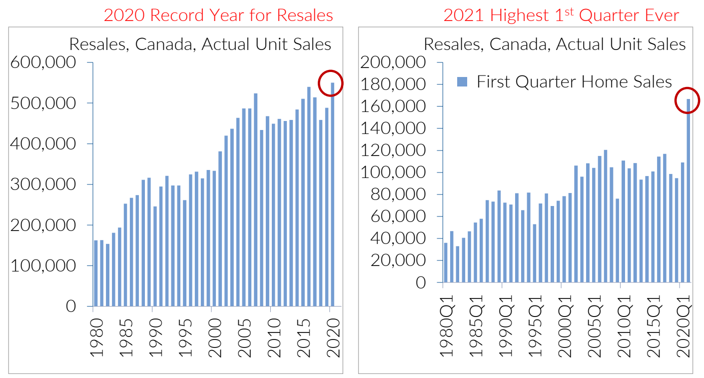
Pandemic effects boosting housing demand and renovation spending include record low HELOCs interest rates and 5-year mortgage rates, record high household savings, and exceptionally strong personal income growth in 2020 due to federal income supports that overcompensated for income lost because of the pandemic. Working from home also led to installation or expansion of home offices, larger home spaces and expedited home renovation projects.

Renovation Spending and Rising Building Products Prices

Over the past year, there has been a steep and persistent increase in the price of building products such as softwood lumber and steel. Though these price increases were due to a confluence of factors, there is no mistaking the role of robust renovation spending since Q2 2020. For example, supply chain disruptions such as mill closures and logistical bottlenecks led to supply shortages of softwood lumber.

Chart 5

MLS Home Resales, Canada



Source: Altus Group based on CREA data

Chart 6

Renovation Spending Projected to Increase in All Regions Except B.C.

	2020 Spending		Growth in Spending*		
	Billions	% *Distribution*	2020	2021f	2022f
			% Change		
B.C.	$9.2	12.0	(9.2)	(5.4)	3.5
Alberta	$8.8	11.4	9.8	1.1	2.6
Saskatchewan	$1.8	2.3	(13.1)	1.9	2.2
Manitoba	$3.1	4.0	27.8	3.5	2.5
Ontario	$30.1	39.2	(6.3)	10.2	3.2
Quebec	$18.1	23.5	(4.1)	9.2	3.2
Atlantic	$5.6	7.3	12.7	3.8	0.9
Canada**	$76.9	100.0	(2.4)	6.0	2.9

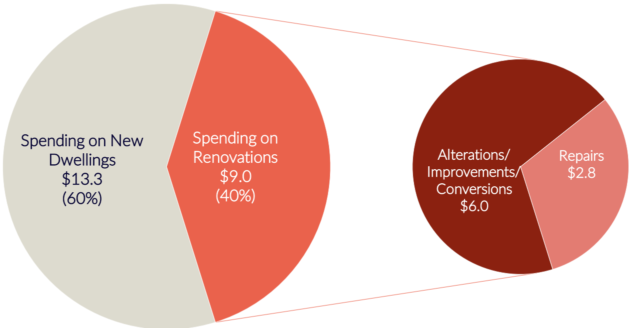
* Adjusted for inflation ** Includes spending in the Territories
Source: Altus Group based on Statistics Canada data

Supply shortages were worsened as demand fueled by vibrant renovation spending and new home construction outstripped supply, pushing wood prices higher over the last nine months. Lumber demand is more sensitive to renovation spending than new constructions given the relatively larger size of the home renovation industry and its higher wood products intensity. Residential renovation spending consists of notable DIY workmanship and building materials purchases. It also tends to be more wood oriented than new construction. Home renovations tend to feature kitchen and bathroom upgrades, conversion of basements into livable spaces, roof repairs and so forth. In contracts new construction is dominated by high-rise condominium construction, which has a high steel and glass component.

Residential Construction Spending by Region

British Columbia

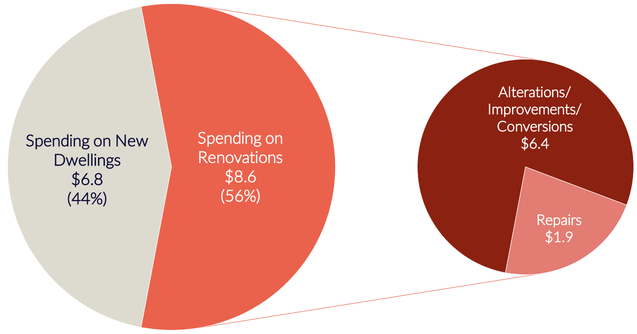
$2020, Billions



Source: Altus Group based on Statistics Canada data

Alberta

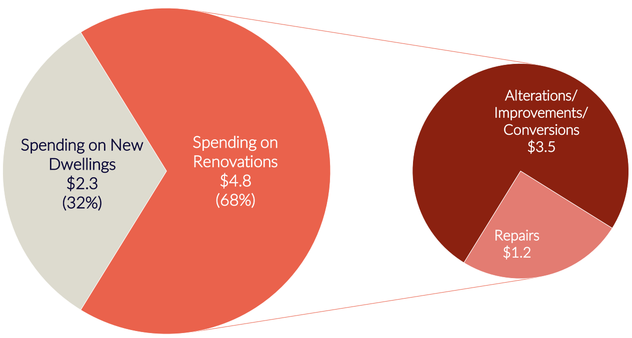
$2020, Billions



Source: Altus Group based on Statistics Canada data

Manitoba/Saskatchewan

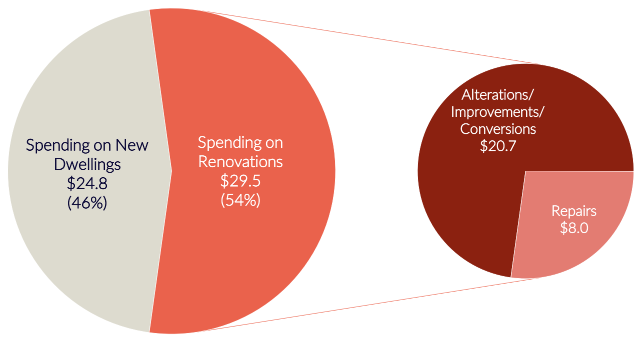
$2020, Billions



Source: Altus Group based on Statistics Canada data

Ontario

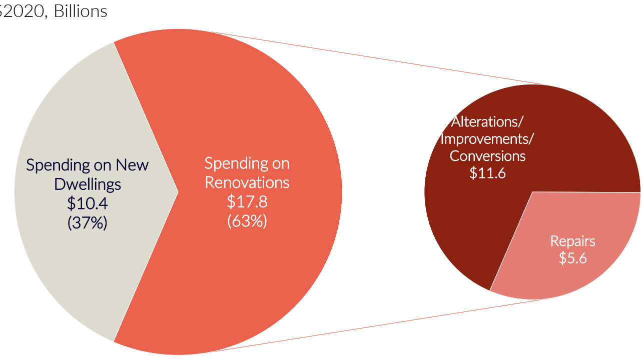
$2020, Billions



Source: Altus Group based on Statistics Canada data

Quebec

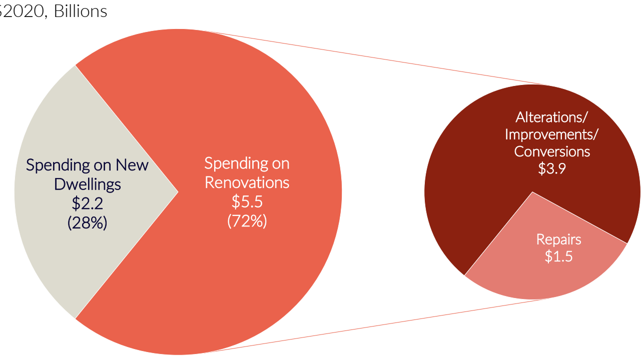
$2020, Billions



Source: Altus Group based on Statistics Canada data

Atlantic Canada

$2020, Billions



Source: Altus Group based on Statistics Canada data

The Effectiveness of Renovation Tax Incentives Like the Canada Greener Homes Grant

The federal government launched the Canada Greener Homes Grant (CGHG) program this May to help Canadians cut their home energy use. The program will provide up to $5,600 to finance energy guide evaluations and help homeowners make energy efficient retrofits to their homes. Though the CGHG will help to spur renovation spending across the country, its impact in 2021 is expected to be on the margins and its overall impact on renovation spending is expected to be limited due to a number of factors:

i) The CGHG is a $2.6 billion program over seven years, about $370 million a year that could leverage $1.9 to $6.6 billion in renovation spending annually. This could represent a boost to renovation spending of up to 8%, assuming that the grant only induces new spending rather than incentivize homeowners to redirect spending from other repairs or retrofits such as home offices or kitchen upgrades.

ii) the mid-year launch of the CGHG and the shortage of energy audit professionals, which will further delay the start of repairs will limit CGHG's impact on renovation spending in 2021.

iii) homeowners will not receive the grants upfront as they will be reimbursed after they have spent on energy efficiency renovation upgrades.

iv) The CGHG is only a fraction of the $40,000 interest-free loans for home energy retrofits announced in the 2021 Federal Budget.

According to the Government of Canada, the Home Renovation Tax Credit (HRTC) helped to increase residential renovation spending by an average of 18% from the second quarter of 2009 through the first quarter of 2010. It was also estimated that the HRTC pumped an additional $4.3 billion in renovation investment into the economy. Home renovation tax credits like the HRTC have been proven effective in stimulating renovation spending and broader economic activity in Canada. These types of government incentives are also effective in deterring renovation cash deals and generating government revenue by bringing underground renovation activity into the taxable formal space. Previous iterations of renovation tax incentives have also been close to revenue neutral taking into account the tax revenue generated from stimulated economic activity and the diversion of underground renovations into the formal sector. All told, given the effectiveness of renovation tax incentives like the HTCT in increasing renovation spending and tax revenues, federal and provincial governments should consider implementing a permanent renovation tax incentive like the HRTC, which is more efficient and not limited to specific types of renovations.

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DATA SOLUTIONS

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