

# Real Estate Monthly

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## Renovation Boom Expected To Continue This Year ... And Next

**C**anadians bought and fixed up their homes at a record pace in 2006, and one economist expects the renovation fervour to continue to grip the country through 2008.

According to Statistics Canada, investment in residential construction projects jumped 8.5 percent to a record \$79.8 billion from 2005, the eighth straight year-over-year increase. Spending rose on all three components of the report: new housing, renovations and, lastly, acquisitions.

In all, Statistics Canada said that Canadian renovation spending climbed by 8.7 percent to \$32 billion in 2006, accounting for 40.1 percent of the overall residential construction investment pie in 2006.

A study from CIBC estimates that that number will climb to a record high near \$35 billion this year. In 2004, Canadians spent \$28 billion fixing up their castles, or \$12,000 per household.

Another record year for renovations would certainly be good news for Canadian home retailers. With interest rates still low, shoppers will likely still choose to visit their local Rona Inc., Leon's Furniture Ltd., or Brick in search of new kitchen cabinets or a leather couch.

The CIBC believes that the renovation boom will finally start to slowdown by the end of 2008 or beginning of 2009. "By then, there will no longer be a sense

of urgency about renovating."

Economists agree that the other part of the housing equation — buying of new homes — is forecast to slowdown this year. Investment in new housing jumped by 9.2 percent to \$40.7 billion in 2006. Spending on single-family homes rose by 9.4 percent and 13.2 percent on apartments and condominiums.

Acquisition costs accounted for 8.9 percent of total investment, or \$7.1 billion, up 4.1 percent from 2005.

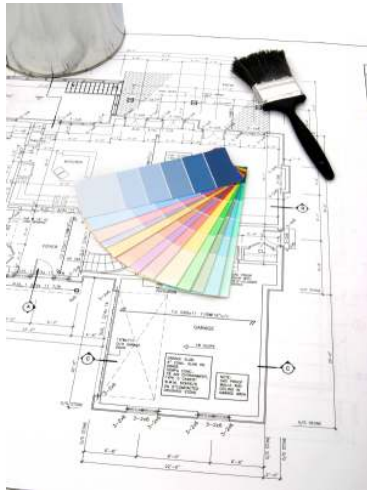
Statistics Canada said that the strong demand was driven by the "dynamic economy" in Western Canada, along with inter-provincial migration, increased employment, international immigration and the still relatively low mortgage rates.

However, high house prices were also a factor in the larger investment figure, as the number of housing starts was almost unchanged from the previous year.

In terms of provinces, Alberta and British Columbia led the 2006 gains with increases of 26.8 percent and 18 percent respectively. In Alberta, which remains more affordable than British Columbia despite the huge recent runup, most of the increase was in single-family homes, while British Columbia's rise was driven by single-family homes, apartments and condominiums.

Over on the East Coast, Prince Edward Island experienced a year-over-year decrease, falling by 2.7 percent.

In Ontario, overall investment in new housing was flat, but the renovation juggernaut continued. Spending on home renovations rose by 9 percent to \$1 billion, pushing total residential investment to \$29.4 billion, a 3.8 percent rise from the investment in 2005.



### Focus on Ottawa Home Sales

According to statistics just released by the Ottawa Real Estate Board (OREB), 1,032 homes were sold in February, compared with 647 in January 2007. There were 982 sales in February 2006.

"The average number of days that a home spent on the market dropped significantly from January to February, indicating that, after the usual winter lull, the Ottawa housing market is picking up again nicely," said OREB's President. "The average sale price of a home in Ottawa continues to rise, but the inventory of housing available below the average price remains strong, allowing plenty of opportunities for first-time buyers to enter the market and take advantage of still low interest rates."

The average price of the homes sold in February in the Ottawa area was \$264,566, an increase of 6.6 percent over February 2006.

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## How Aging Canadian Boomers Will Impact Housing Demand

There are lots of reasons why someone aged 55 or older might be ready to move from their single detached home to a condominium apartment, but a new study suggests that most baby boomers won't be ready to make that move for a few more years.

Canada Mortgage and Housing Corp.'s Intentions to Buy and Renovate survey from 2006 says that while older households (55 to 75 years of age) are likely to downsize after their children move out, "this data suggests that they generally prefer to stay in a single detached home rather than move to an apartment or other type of multiple unit."

An analysis in CMHC's Housing Now publication says more than half of these homeowners are mortgage-free, "so any financial motivation to downsize to a less expensive apartment or other type of multiple dwelling may be outweighed by the comfort and space of a single detached home in a family neighbourhood. However, the tendency toward apartment living does increase in the later retirement years, taking a sharp turn upwards after about the age of 75, when seniors increasingly begin to face challenges with daily activities or health."

Builders and housing analysts have been eying the aging homeowner population, trying to predict when the shift to smaller houses and condominiums will be most pronounced. CMHC's Canadian Housing Observer says that Canadians aged 55 or older currently account for about 15 per cent of homes bought in Canada, with seven per cent of purchases by people aged 65 or more. The Observer says that "all else being equal, the number of sales made to those aged 65 or more should at least double by 2031 in light of the expected doubling of the population of this group, and the share of sales attributed to buyers aged 55 or older should rise to one in four."

It suggests that builders will need to produce housing for this group that will address their housing and non-

housing needs, target a variety of budgets and be available in a range of locations, including established neighbourhoods where the buyers may have lived for a number of years.

But CMHC notes that households move less often as they age, so even though people 55 and over buy a significant number of homes, "the number of dwellings they purchase is actually small in relation to their weight in the general population."

Statistics Canada reports that in 2002, almost half of Canadian households had moved in the previous six years. The Observer says that "virtually all households maintained by those under the age of 30 had moved at least once, many probably more than once," but that only 30 per cent of households aged 55 to 64 and 20 per cent of senior households moved during that period.



The number one reason why people below the age of 55 moved was to find a larger house. For those 55 and older, people moved because their children had left, or because of the death of a spouse, or because they wanted to be closer to their extended family. Most people below the age of 65 did not cite health reasons for moving, but for those over 75, that was the main reason for moving.

CMHC says that the mobility patterns in the study indicate that "aging baby boomers will move gradually out of single-detached houses into other smaller types of dwellings, including condominiums and rental apartments. Because the vanguard of baby boomers only began turning 55 in the last few years, this movement is just beginning. Some of these baby boomers will make changes to their housing now, but many others will wait, preferring to stay in their present homes, adapting them as necessary."

The Intentions to Buy and Renovate Survey says that overall, 74 per cent of current homeowners intend to buy a single detached home.

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