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PERSPECTIVES

ON LABOUR AND INCOME

The residential construction industry

Construction has three broad components: residential; non-residential; and engineering, repair and other activities. Residential consists of buildings intended for private occupancy: detached; semi-detached, duplex or row houses; apartments; cottages; and mobile homes. The focus here is mainly on residential construction over the 1980 to 2004 period.

Developments in the construction industry determine the diversity of the Canadian household stock. Not only does a dwelling provide shelter, but for owners it also becomes a major asset. In acquiring this asset, a household pays the builder's profit, interest on any mortgage, and property taxes. At the same time, homes normally appreciate in value. Homeowners can then borrow against their equity to meet unexpected expenses, diversify into other investments, or generate income during retirement. They can also transfer the dwelling as an asset to their heirs.

In addition, residential construction contributes to the overall economy, both directly and indirectly. It generates employment and demand in financial and other services, other goods-producing industries and utilities.

Definitions

Residential structures are single-family homes (completely detached on all sides); semi-detached, duplex, or row housing; apartments; cottages; and mobile homes.

Residential construction investment can be divided into new housing, alterations and improvements to existing dwellings, and transfer costs (the value of services relating to the sale of dwellings—largely real estate commissions).

The **value of a building permit** covers materials, labour, profit and overhead. Land is not included. Legal fees, surveying fees and accrued interest may sometimes be included. Repairs requiring no permit are excluded.

Family income consists of income received during a calendar year by all family members aged 16 or over. It includes wages and salaries, net income from selfemployment, investments, government transfers, pensions, alimony, and scholarship. Income in kind is excluded.

A **mortgage** is any debt that uses the home as collateral.

Disposable income is personal income less income tax and deductions for C/QPP and EI.

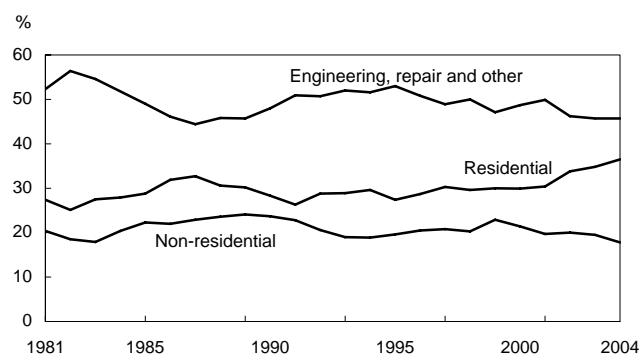
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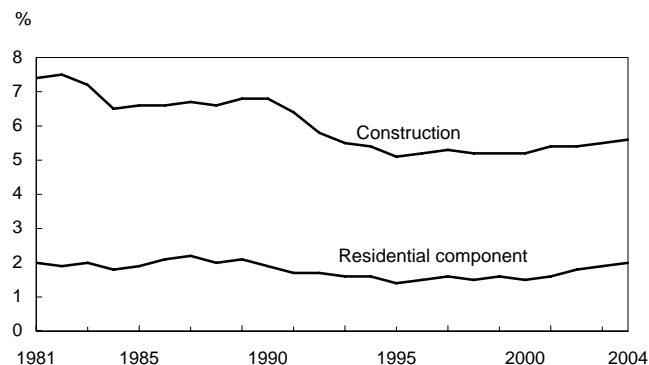
Construction industry components



The residential share of the construction industry grew from 27.4% to 36.5% between 1981 and 2004. These gains were at the expense of non-residential construction as well as engineering, repair and other construction activities. The latter category accounted for nearly half of the total industry.

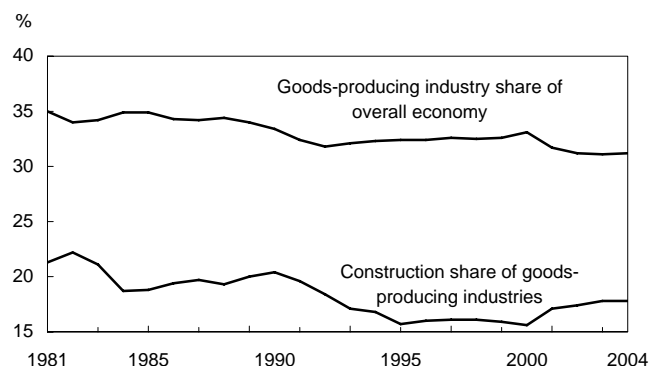
Residential construction contracted following the recessions of 1980-81 and 1990-91. Since 2000, its share of the industry has inched steadily upwards in line with falling bank rates and relatively stable inflation and unemployment.

Shares of GDP



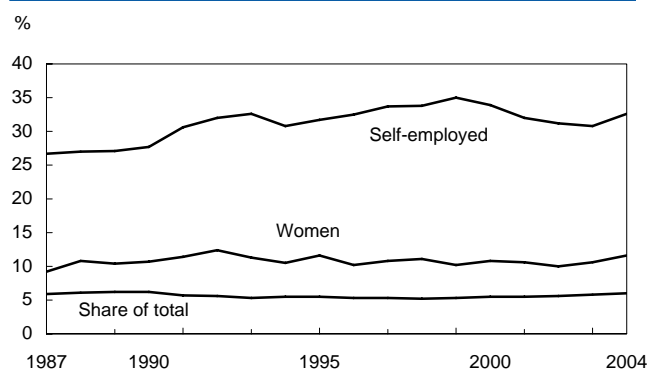
Even though the construction industry grew, its relative share of GDP fell from 7.4% in 1981 to 5.6% in 2004. While GDP rose 88% over this period, the construction industry increased only 41% (1997 dollars). However, the residential component performed better than the overall industry, its share of GDP remaining close to 2% throughout the period. Output in residential construction increased by 87%, from \$11.4 billion to \$21.3 billion, fuelled by greater housing demand, new technology, and rising real estate prices.

Share of construction in goods-producing industries



Construction is a goods-producing industry, along with agriculture, forestry, fishing, mining, oil, gas, utilities, and manufacturing. Overall, these industries accounted for 31.2% of the economy in 2004, compared with 35.0% in 1981. Construction's share among goods-producing industries fell from 21.3% in 1981 to 15.6% in 2000, but climbed to 17.8% by 2004, largely because of gains in the residential component.

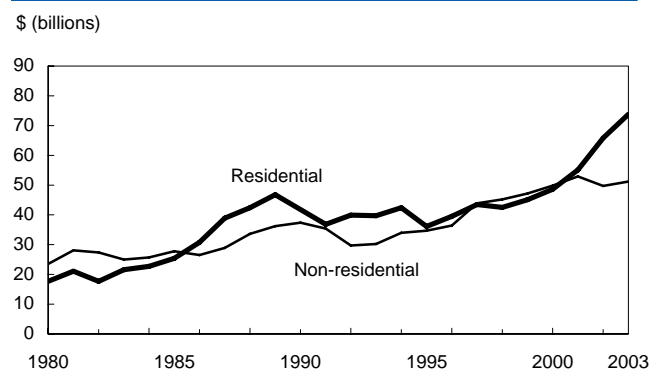
Construction employment



The construction industry employed 953,000 persons in 2004 compared with 729,000 in 1987, representing 6.0% and 5.9% of total employment in each respective year. Men dominated the industry, but women made some gains as their representation inched up from 9.2% in 1987 to 11.6% in 2004. Women's share of total employment rose from 43.0% in 1987 to 46.8% in 2004.

The self-employed represented 32.6% of the construction industry in 2004, compared with 26.7% in 1987. Construction probably offers better opportunities for self-employment than most industries and is comparable to business, building and other support services.

Capital expenditure in construction

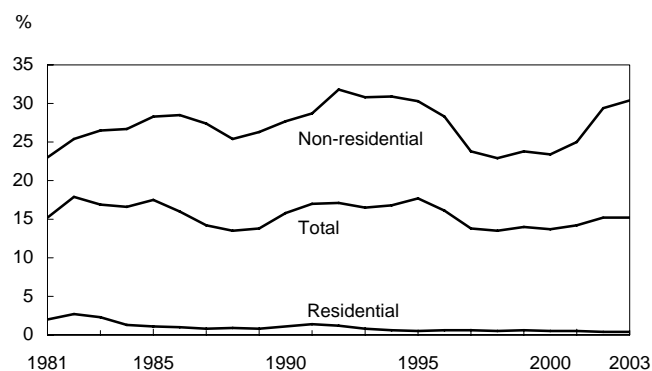


Between 1980 and 2004, capital expenditure in residential and non-residential construction (excluding machinery and equipment) rose from \$41.1 billion to \$138.7 billion. However, the relative proportions changed quite dramatically, residential accounting for 43.1% of total capital in 1980 compared with 60.9% in 2004.

Not surprisingly, capital expenditure in construction drops during recessionary periods as investors become concerned that a slump in the housing market will not provide the desired return on investment. Expenditure fell by \$4.0 billion in 1982-83 and \$9.6 billion in 1990-92. On the other hand, when the economy is performing well, housing demand may accelerate, spurring an injection of capital. After 1998, expenditure in residential construction rose steadily, reaching \$42.0 billion in 2004.

Some of the growth in capital expenditure may be attributed to the rising demand for housing resulting from an increase in the number of households over time (from 8.8 million in 1980 to 13.2 million in 2004). Residential capital expenditure (in current dollars) per household rose from \$2,000 in 1980 to \$6,400 in 2004. Corresponding values for the non-residential sector were \$2,700 and \$4,100.

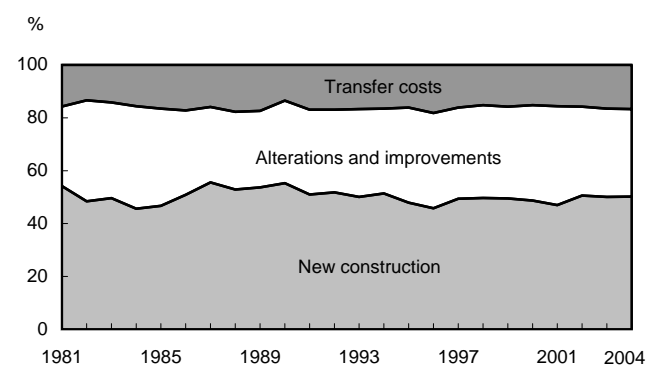
Public expenditure in construction



Almost all capital expenditure in residential construction is financed by the private sector, the public sector contributing just 2.0% in 1980 and 0.4% in 2003. The residential market is controlled by market forces, which determine house prices, builder profit margins, quantity and location.

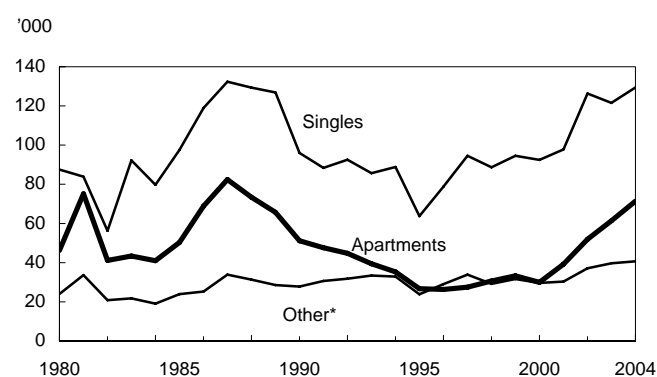
On the other hand, governments provide much of the capital for non-residential construction, which includes schools, hospitals and nursing homes. The public sector was responsible for 30.4% of capital expenditure in this area in 2003 compared with 23.0% in 1980. Public-sector investment in non-residential construction played an important role during the recessionary periods of the early 1980s and the 1990s, when its share of capital expenditure rose.

Capital expenditure in residential construction



New dwellings, alterations and improvements to existing dwellings, as well as transfer costs make up capital expenditure in residential construction. Between 1981 and 2004, new dwellings alone accounted for 46% to 56% of expenditure. Alterations and improvements accounted for 28% to 39%, and transfer costs the rest. In other words, most capital expenditure went to new housing.

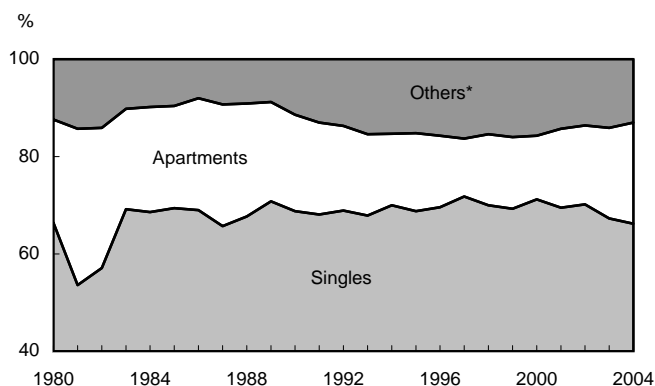
Residential building permits



* Includes doubles, rows, terraces, cottages and conversions.

The number of building permits issued rose from 157,800 in 1980 to 241,500 in 2004, equivalent to one permit per 56 households in 1980 and one per 55 households in 2004. Building activity has therefore kept pace with the increased number of households. A little over half of permits issued during these years were for single-family dwellings.

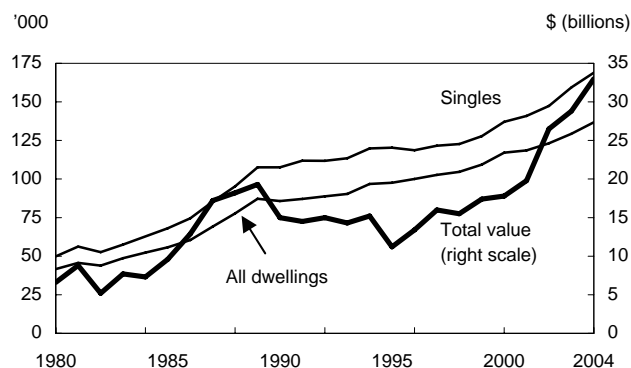
Residential building permits by type of dwelling



* Includes doubles, rows, cottages and conversions.

Except in 1981 and 1982, single-family dwellings accounted for 66% to 72% of the value of yearly building permits. Apartment units, on the other hand, showed considerable variability; their highest share was 32.1% in 1981 and lowest 11.9% in 1997. Since 2000 apartment construction has rebounded; the number of permits as well as its share of total permit value has been climbing.

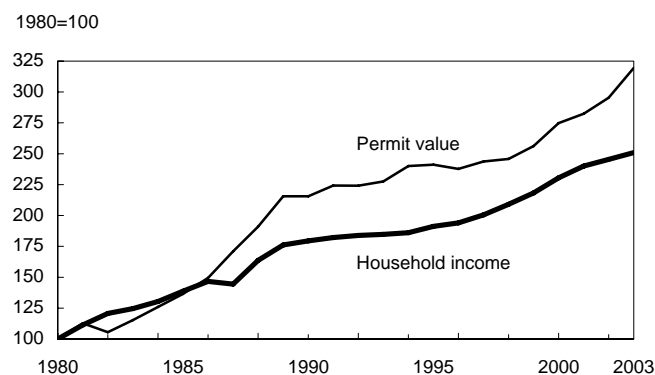
Average value of residential building permits



With a few exceptions, new home values have risen yearly. The average value of a permit issued for a detached dwelling more than tripled between 1980 and 2004, from \$49,900 to \$168,900. The average value of all permits increased from \$41,700 to \$136,800.

In current dollars, total permits grew from \$6.6 billion in 1980 to \$33.0 billion in 2004 (from \$15.7 billion to \$33.0 billion in constant dollars). Permit values may be affected by factors other than inflation, such as housing demand and supply, location, labour, builder profit margins, and issues peculiar to the local market. Inflation had a great impact on building permits between 1980 and 1994, but much less thereafter.

Average permit value for a single-family dwelling and household income

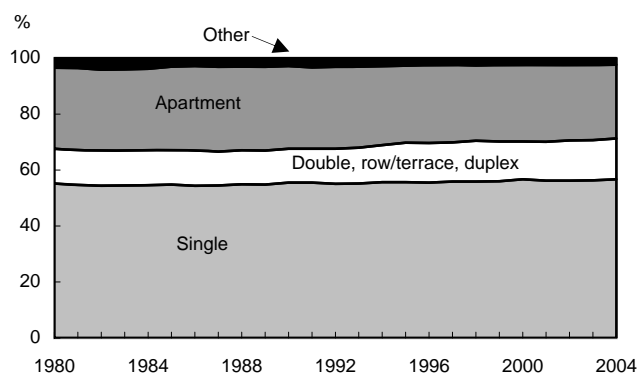


Note: Households include families and unattached individuals.

Household income did not keep pace with the rise in home values. The mean value of a permit for a single-family dwelling rose from \$49,900 in 1980 to \$159,400 in 2003 (a 3.2-fold increase), while mean family income rose from \$23,400 to \$58,700 (2.5 times). The mean value of a single family dwelling rose from 2.1 times the annual income of a household in 1980 to 2.7 times in 2003.

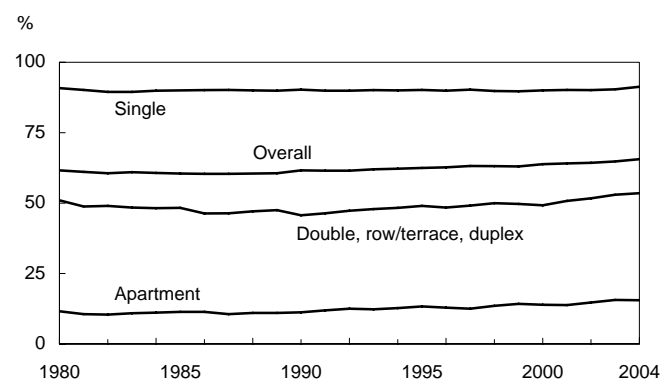
The gap in rates of increase between single-family home values and household income has widened since 1985. In the early 1980s, incomes rose faster than house values, mostly because of higher inflation. When price rises outpace growth in income, affordability becomes an issue, not only with respect to paying the mortgage, but also maintaining the home. Nevertheless, from 1980 to 2004, the overall rate of homeownership rose steadily, from 61.6% to 65.6%.

Distribution of households by dwelling type



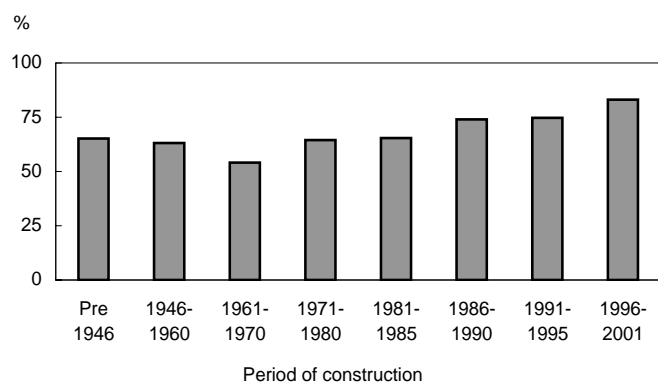
The distribution of households by type of dwelling changed little over the last 25 years. Just over half of households (55% to 57%) lived in single detached dwellings, 26% to 30% in apartment units, and the remainder in doubles, duplexes, row or terrace houses, or others such as mobile homes.

Rates of ownership by type of home



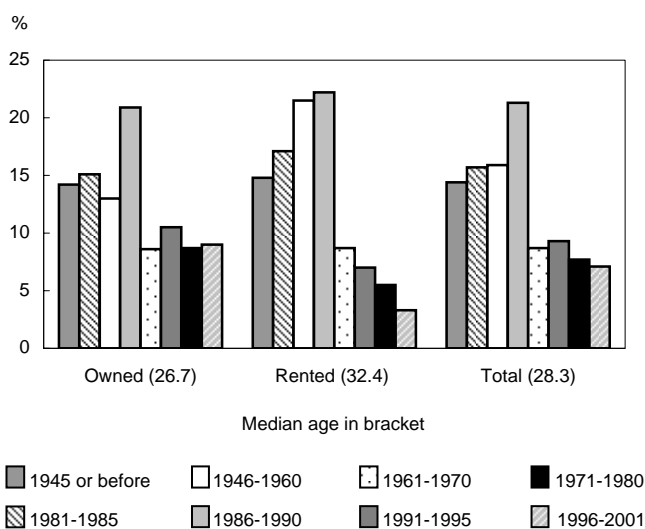
Of households in single detached dwellings, 90% were owners. This rate remained steady between 1980 and 2004. However, among those occupying apartment units, the ownership rate rose from 11.6% to 15.5%, representing an increase in condominium units. The rate for those owning semi-detached, duplex or row houses rose from 51.0% to 53.5%.

Homeownership and major economic indicators

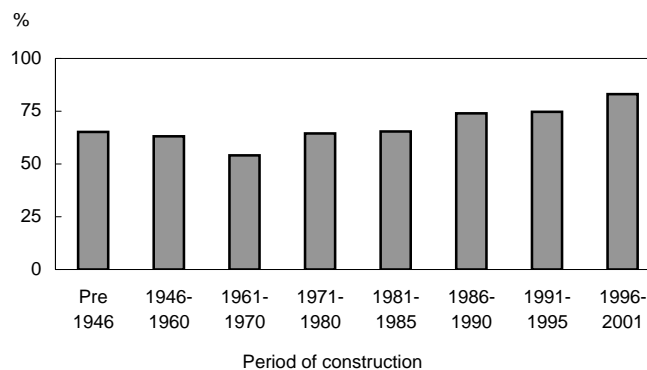


Most of the increase in homeownership rates has occurred in the last five years—up 2.5 percentage points compared with 1.4 points between 1980 and 1999. Contributing factors include consistent economic growth, the ability to buy a house with little or no down payment, a declining bank rate with correspondingly low mortgage rates, initiation of the Home Buyer’s Plan allowing first-time owners to borrow from RRSPs for a down payment, and the overall easy access to mortgage credit. As a result, the ratio of mortgage debt to disposable income for households has jumped nearly 10 percentage points in the last four years compared with a 23 percentage-point increase between 1980 and 2001.

Age of housing stock, 2001



Rate of ownership by age of dwelling, 2001



In the 2001 Census, the median age of dwellings occupied by homeowners was 26.7 years. Nearly 10% of these owners had bought their houses in 1996 or after. On the other hand, the median age of dwellings lived in by renters was 32.4 years. A plurality (a little over one-fifth) of owners as well as renters were living in 21 to 30 year-old structures. Of all households, both owning and renting, 14.4% lived in dwellings built in 1945 or before, and just 7.1% in ones built in 1996 or later. The median age of all occupied dwellings was 28.3 years.

Dwellings built more recently are much more likely to be owned than rented. Of those built from 1996 to 2001, 83.1% were owned, compared with 74.7% from 1991 to 1995. Nearly half of dwellings built in the 1960s were owned.