HOUSING MARKET INFORMATION

Housing Supply Report

CANADIAN METROPOLITAN AREAS

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Bob Dugan
Chief Economist

Aled ab Iorwerth
Deputy Chief Economist

Kevin Hughes
Deputy Chief Economist

Market Advisory Representatives

Francis Cortellino
Senior Specialist
Montréal / Ottawa

Jordan Nanowski
Senior Specialist
Toronto

Taylor Pardy
Senior Specialist
Calgary / Edmonton

Braden Batch
Senior Specialist
Vancouver

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Housing Supply Report
in select Census Metropolitan
Areas (CMAs)

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Welcome to the Housing Supply Report

This report positions housing supply as an important element in efforts to advance housing affordability. It supports CMHC's aspiration that everyone in Canada has a home that they can afford and that meets their needs.

What is the Housing Supply Report?

The *Housing Supply Report* provides regular insights on new housing supply in Canada's major cities and urban areas. These insights can help us understand the supply responsiveness that we know contributes to price escalation and housing affordability challenges.

What you'll find in this report

In this edition, we examine new housing construction trends in Canada's 6 largest census metropolitan areas (CMAs) — Vancouver, Calgary, Edmonton, Toronto, Ottawa and Montréal. We examine trends within and across markets using analysis themes such as:

- trends in housing starts and completions for the first 6 months of the year;
- the evolution of construction costs and capacity constraints and their effects on production; and
- demand-side developments that impact supply trends.

The primary data source for this work is CMHC's Starts and Completions Survey, which collects data on monthly residential construction activity. In this edition we discuss housing supply in terms of new construction, as this is necessary to expand the housing stock.

Understanding the gaps between housing supply trends and future needs

We believe this analysis will help identify characteristics, approaches and innovations in new housing supply that will best contribute to a diverse, abundant, and affordable supply of housing.

More homes and a diversity of housing options to meet current and future households' needs (size, amenities, style, etc.) are key elements to reduce the upward pressures on prices and rents.

These insights will allow industry participants to better understand the gaps between housing supply trends and future needs. This will help make precise decisions to help improve housing affordability.

Providing useful insights to the housing industry

The *Housing Supply Report* is designed to provide useful insights to various audiences:

- Policymakers at different levels of government will find the comparison across CMAs useful in enhancing their perspective on the different ways housing supply is delivered across Canada.
- Builders and developers will find these topics to be of interest as they seek to identify current housing needs and future opportunities.

Link to ongoing work on housing supply

In June 2022, CMHC published its first report[1] on housing supply gaps. This report provided estimates of the additional supply required — beyond current trends — to restore housing affordability by 2030 in Canada and the provinces. An update to this influential work was released in September[2] and further work on this topic is scheduled for release in early 2024.

We'll continue to share new data, indicators and insights exploring different aspects of the delivery of housing supply in Canada. To stay current on our recent (and soon-to-be-released) work, please subscribe[3] to our housing newsletter.

Your feedback

We want to make this report a critical tool in providing data and analysis to support a diverse and abundant supply of housing in Canada. But we can't do this without your feedback.

Let us know what you want to see.

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Overview of residential construction in Canada's largest CMAs

In the first half of 2023, strong growth in Toronto and Vancouver housing starts was largely offset by declines in other centres, including a large downturn in Montréal. Elevated apartment starts drove first-half gains, but this likely isn't sustainable. Developers are facing challenges caused by higher construction costs, shortages of skilled labour and increased financing costs due to higher interest rates.

HIGHLIGHTS

- Total housing starts across the country's 6 largest census metropolitan areas (CMAs) increased slightly in the first half of 2023. Significant changes were observed for individual dwelling types and CMAs.
- Notable strength in apartment starts offset declines in all other dwelling types (single-detached, semi-detached and row homes). Apartment starts were concentrated in Toronto and Vancouver. This led to strong growth in total starts in those CMAs, offsetting lower starts in other CMAs, particularly Montréal.
- As a result, in Toronto and Vancouver, housing starts in the first half of 2023 were well above levels observed over the past 5 years. In most other large centres, meanwhile, they were below these levels.
- Montréal tends to build more small and low-rise apartment structures than Toronto and Vancouver. Because of their smaller size, these structures take less time to plan and build. The decline in housing starts in Montréal was, therefore, more reflective of the recent deterioration in financial conditions.
- Elevated rates of apartment construction are not likely to be sustainable due to various challenges facing developers. These challenges include higher construction costs and higher interest rates.
- Significant increases in construction productivity are critical to addressing the country's affordability and housing supply crisis over the longer term. The level of new construction activity remains too low.

Significant changes that mostly offset each other led to a small increase in total housing starts

Over the first 6 months of 2023, total starts in the 6 largest CMAs increased by 1% when compared to the same period in 2022.

There were much bigger changes at the dwelling-type level and the CMA level. However, these changes mostly offset each other, resulting in the small overall increase recorded. As Table 1 shows, a 15% increase in apartment starts offset large declines for all other dwelling types, including a 25% decline in single-detached housing starts. The increase in apartments was so impactful because this dwelling type accounted for nearly three quarters of all housing starts in the first half of 2023.

Table 1: Housing starts by dwelling type, first half of 2023, and percentage change from same period in previous year, Select CMAs

	Single-detached		Semi-detached		Row		Apartment		Total	
	Units	% change	Units	% change	Units	% change	Units	% change	Units	% change
Vancouver	1,511	-4%	560	1%	1,062	-0%	14,325	68%	17,458	49%
Calgary	2,513	-13%	806	5%	1,281	37%	3,506	-1%	8,106	-0%
Edmonton	2,077	-34%	380	-19%	985	4%	1,630	-38%	5,072	-29%
Toronto	2,271	-21%	116	-66%	2,181	-25%	21,200	58%	25,768	32%
Ottawa	663	-45%	72	-45%	675	-45%	2,164	38%	3,574	-18%
Montréal	488	-54%	96	-72%	139	-76%	5,204	-57%	5,927	-58%
Total	9,523	-25%	2,030	-22%	6,323	-17%	48,029	15%	65,905	1%

Source: CMHC

Table 1 also shows that growth in apartment starts was mostly confined to Vancouver and Toronto, with growth rates over 50% in both centres. Purpose-built rental apartments and condominium apartments both contributed, with rental starts reaching a multi-decade high in Toronto. This reduced the impact of the general weakness in single-detached, semi-detached and row starts that was widespread across CMAs.

Ottawa was the only other centre to see growth in apartment starts. However, it wasn't enough to prevent total starts from declining due to lower ground-oriented starts (which include single-detached, semi-detached and row homes). Still, this growth did help prevent Ottawa from seeing as large a decline in total starts as Edmonton and Montréal saw.

The decline in Montréal was particularly notable, as it was obvious across all dwelling types. Additionally, it was large enough to offset much of the growth in Vancouver and Toronto at the overall 6-CMA level.

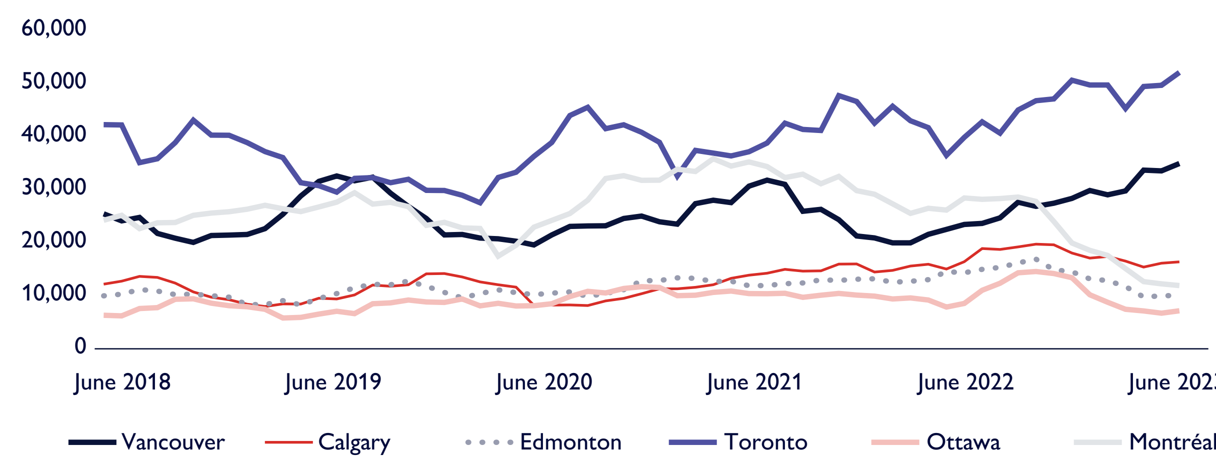
Calgary stood between these extremes by stabilizing at the record-high level of starts of 2022. The level of housing starts held steady in Calgary mainly because gains in row starts offset weakness in other categories. This was notable, given the widespread declines in row starts in most other large CMAs.

As a result, housing starts over the first half of the year in Vancouver, Toronto and Calgary trended above levels observed during the 5 previous years (see Figure 1). In Montréal, Edmonton and Ottawa, they trended lower.

The generalized weakness in starts of ground-oriented homes, especially single- and semi-detached homes, reflects weakening demand for this typically more expensive housing type in a period of elevated interest rates. This weakening demand is likely driving the trend toward increased starts of apartments, which are relatively more affordable, in the high-priced housing markets of Vancouver and Toronto.

As reported in our *2023 Rental Market Report*[4], Vancouver and Toronto had, in 2022, the lowest vacancy rates for purpose-built rental apartments among the 6 largest CMAs. Vacancy rates for condominium rental apartments were also low. This indication of strong rental demand likely encouraged the construction of increased supply of both purpose-built and condominium units in Vancouver and Toronto.

Figure 1: Housing starts — seasonally adjusted at annual rates* selected CMAs



*Six-month moving average.
Source: CMHC

Following are more detailed highlights for each CMA, starting with those where housing starts increased. See the dedicated reports for each CMA for further analysis, including detailed coverage of supply trends at the sub-CMA level.

Toronto recorded the highest number of housing starts in the first half of 2023 (25,768 units, up by 32% compared to the first half of 2022). These figures were driven entirely by apartment starts. Notably, purpose-built rental apartment starts reached a multi-decade high. Condominium apartments also contributed to higher apartment starts, but less so than purpose-built rentals.

Many projects started in the first half of 2023 would have been financed during the more favourable macroeconomic and financial conditions of 2022. This is due to the time it takes for apartment projects, which tend to be larger in the Toronto CMA, to become starts. We expect the pace recorded by Toronto in the first half of 2023 to slow by the end of the year, reflecting higher material, labour and financing costs.

Vancouver had the second highest number of starts (17,458 units, up by 49%), also concentrated in apartments. Higher starts of purpose-built rental apartments and condominium apartments both contributed. The larger contribution came from a near-doubling of condominium starts when compared to the first half of 2022 (up by 91%). We expect the pace of apartment starts to slow in Vancouver in response to the same factors listed above for Toronto.

Calgary held steady (8,106 total starts, no change) at the record high of 2022. Rental apartment starts accounted for over 50% of all apartment starts in Calgary over the first 6 months of 2023, a notable first for the CMA. This is encouraging news for purpose-built rental supply and affordability in Calgary.

Montréal saw the largest decline in housing starts (to 5,927 units, down by 58%). This was the lowest level of starts recorded for the first half of a year in Montréal in 26 years. All housing types saw significantly lower starts. Condominium apartments and purpose-built rental apartments both saw large declines.

The level of housing starts in Montréal continues to retreat from its 2021 peak. Montréal tends to build more small and low-rise apartment structures than Toronto and Vancouver. Because of their smaller size, these structures take less time to plan and build. The decline in housing starts in Montréal was, therefore, more reflective of the recent deterioration in financial conditions.

Edmonton had the second largest percentage decline in housing starts among the 6 CMAs (to 5,072 units, down by 29%), after Montréal. Apartment starts recorded the biggest decline among housing types. For the first time in decades, over half of the units under construction in Edmonton are purpose-built rental apartments. While this shift is positive news for the purpose-built rental supply outlook, it's tempered by the fact that rental starts and condominiums both still declined.

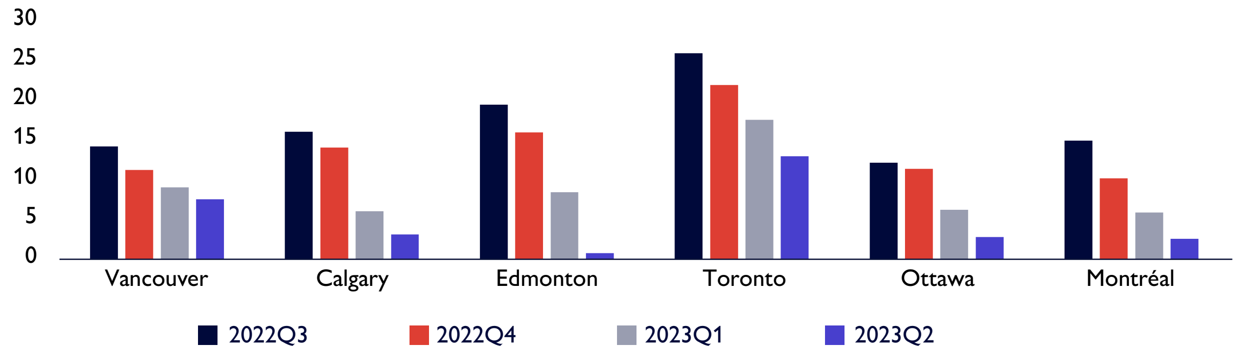
Ottawa housing starts declined (to 3,574 units, down by 18%). This was due mainly to lower single-detached starts, which declined at the fastest pace observed in Ottawa in over 25 years.

Higher construction costs remain a major challenge for residential construction

According to Statistics Canada's Residential Building Construction Price Index (RBCPI), construction costs continued to increase in the first 2 quarters of 2023. However, they did so at a slower pace relative to recent highs (see Figure 2).[i]

[i] According to Statistics Canada, the Index measures "change over time in the prices that contractors charge to construct a range of new commercial, institutional, industrial and residential buildings." Additionally: "The contractor's price reflects the value of all materials, labour, equipment, overhead and profit to construct a new building. It excludes value added taxes and any costs for land, land assembly, building design, land development and real estate fees."

Figure 2: Change (%) in residential* building construction price index from same quarter in previous year



*Single-detached houses, row houses and apartment buildings.
Source: Statistics Canada, Table 18-10-0276-01, Building construction price indexes

Earlier peaks reflected a period of rapid escalation in construction costs in 2020 and 2022. In those years, all major centres saw an escalation in the material, labour and equipment costs of new home construction. This escalation largely reflected strong demand for new housing and renovations during the COVID-19 pandemic, which drove up demand (and prices) for labour and materials. It also reflected supply chain disruptions caused by the pandemic.

In 2023, growth in construction costs has slowed to varying degrees across all major centres, but remains elevated in Toronto and Vancouver. This reflects the different trends in housing starts over the first half of the year. Cost growth remains elevated in Toronto and Vancouver due to the strong pace of housing starts there. In contrast, it has slowed much more in the centres that saw steady or declining starts.

This cost growth is a major challenge to the sustainability of the strong apartment construction trends in Toronto and Vancouver.

Additionally, these costs are reflected in the price (or rent) of units coming onto the market. As a result, their ongoing growth remains a source of negative pressure on housing affordability for potential buyers and tenants across all 6 markets. This is true even though cost growth has slowed from previous peaks.

What's driving the difference between apartment construction trends in Montréal and those in Vancouver and Toronto? Is the first-half strength in Toronto and Vancouver sustainable?

In addition to the higher costs of construction captured by Statistics Canada's RBCPI, there are other sources of rising cost pressures on new residential construction. Two major sources of cost pressure are: higher interest rates and reduced access to credit. The first factor has increased the cost of borrowing to build new construction projects. And simply getting access to credit has also become more difficult as credit standards have tightened in the commercial real estate sector.

Previous work by CMHC has shown that the responsiveness of housing supply to a change in demand varies between urban centres. The first[5] and second[6] editions of the *Housing Supply Report* found that:

- Vancouver and Toronto tend to build larger and taller apartment structures compared to other centres, particularly Montréal; and
- construction time is strongly related to the average height of a building. The lower-rise form of apartment development in Montréal results in shorter construction times, especially in comparison to Vancouver and Toronto. Market intelligence indicates that planning time is also shorter in Montréal for the same reason.

All of these factors imply that:

- many of the projects started in early 2023 in Toronto and Vancouver would have been financed in 2022, when rates and financing costs were lower; and
- projects started at the same time in Montréal would have been more aligned with conditions in early 2023, when rates and financing costs were increasing.

In addition, the share of total starts accounted for by rental apartments is much larger in Montréal than in Vancouver or Toronto. This has likely also contributed to Montréal's faster response to higher financing costs in the first half of the year.

This is because, unlike condominium developers, rental developers generally can't raise capital through pre-construction sales. This lack of an alternative financing source likely increases the responsiveness of rental starts to rapid changes in financing rates. And such a situation would be amplified in Montréal, due to the high share of rental starts.

According to market intelligence gathered by CMHC, some developers are now having more difficulty financing existing projects because of higher construction costs and interest rates. This will likely place downward pressure on the number, size, and scope of future projects.

Market intelligence further indicates that some construction projects have been delayed this year, due to the challenges facing new construction. This is consistent with the increase in the average number of months of construction it took to complete a project observed in most CMAs between the first half of 2022 and the first half of 2023.

Table 2 shows that the number of months of construction increased the most in Toronto, by almost 3 months from the first half of 2022. While Vancouver saw a slight downtick, construction time there remains the longest across the 6 largest centres. These higher construction times likely reflect the negative impact of the various challenges facing builders and developers in bringing new units to the market.

Table 2: Average months of construction*, first half of 2023 and change from same period in previous year, select CMAs**

Region	H1 2022	H1 2023	Change (number of months)
Vancouver	15.8	15.7	-0.2
Calgary	8.7	9.4	0.7
Edmonton	8.4	9.5	1.2
Toronto	12.7	15.5	2.9
Ottawa	11.8	11.6	-0.2
Montréal	8.0	9.3	1.2
Average	10.9	11.8	0.9

*Average across all dwelling types, including single-detached, semi-detached and row homes, as well as apartments.
**Figures have been rounded to the nearest tenth and may therefore not add up exactly.
Source: CMHC

There are also indications that demand for new construction (on the homeownership side) isn't keeping pace with newly completed supply. Table 3 shows that the inventory of completed and unsold dwellings increased by nearly 50% between the first half of 2022 and the first half of 2023.

Apartments saw the biggest increase, led by Montréal, Vancouver and Toronto. This is another challenge to the sustainability of the high levels of apartment starts observed in Vancouver and Toronto in the first half of 2023. Growing inventories may pose a challenge to future developments because of:

- less capital being available to developers due to increased or prolonged carrying costs for unsold inventory;
- downward price pressure on newly built homes from high unsold inventory; and
- challenges associated with the repayment of existing construction loans.

Lower inventories of unabsorbed (completed and unsold) apartment homes in Calgary and Edmonton, on the other hand, suggest that builders in these Prairie CMAs have the demand to expand apartment construction, but may be constrained by supply-side challenges.

Table 3: Percentage change in completed and unsold inventory between first half of 2022 and first half of 2023, by dwelling type, select CMAs

Region	Single-detached	Semi-detached	Row	Apartment	Total
Vancouver	65.5%	1.3%	78.2%	51.7%	131.0%
Calgary	21.5%	10.3%	-17.6%	-18.5%	6.4%
Edmonton	132.3%	64.2%	257.7%	-20.8%	84.9%
Toronto	15.8%	14.3%	-65.5%	45.1%	-5.8%
Ottawa	3.9%	163.6%	83.6%	10.0%	40.0%
Montréal	8.7%	-13.9%	36.6%	134.7%	52.2%
Total	52.6%	41.7%	31.0%	57.0%	48.7%

Source: CMHC

Purpose-built rental units now account for a higher share of apartment starts in most centres

Table 4 shows that purpose-built rental units accounted for an increased share of total apartment starts in most centres in the first half of 2023. This is when compared to the average level of starts they accounted for over the previous 5 years (2018 to 2022).

The exceptions were Vancouver and Montréal, which have seen relatively little change in the shares accounted for by different apartment tenure types. All other centres recorded major shifts toward purpose-built rental starts and away from condominium starts. Calgary and Edmonton reported particularly large increases in the share of purpose-built rental starts, followed by Toronto and Ottawa.

Table 4: Percentage of apartment housing starts by tenure type, first half of 2023 and previous 5-year period, select CMAs

	Share of apartment starts by tenure type (%)			
	Condominium		Rental	
Region	H1 2023	Average 2018–2022*	H1 2023	Average 2018–2022*
Vancouver	64.5	64.6	35.5	35.4
Calgary	33.3	67.6	66.7	32.3
Edmonton	3.2	39.4	96.8	60.6
Toronto	69.9	82.5	30.1	15.8
Ottawa	43.3	56.0	56.7	43.2
Montréal	31.0	32.4	67.2	66.3

Source: CMHC

Note: Percentages may not add to 100% since some apartments have other tenure types.

*Average is for the first half of each year only.

As mentioned above, both condominium and purpose-built rental apartment starts contributed to the elevated gains in apartment construction in Vancouver and Toronto between January and June of 2023. Starts for other housing types, meanwhile, declined over the same period. These dynamics were, in part, the result of t the low affordability of other housing types in comparison to apartments.

There was also a shift in the composition of starts within the apartment category. This reflects a similar dynamic as discussed above, since rental apartments are generally more affordable than condominiums. Rental apartment starts accounted for a greater share of overall apartment starts in the first half of 2023 when compared to the previous five-year period.

Low vacancy rates and rent increases in several urban centres are other significant factors that have encouraged developers to build more rental housing. Market intelligence suggests that incentives offered by different levels of government have encouraged developers to opt for purpose-built rental apartments over condominium apartments.

Implications for our outlook

Economic challenges will likely slow the pace of apartment starts in Toronto and Vancouver in the second half of the year. This would be consistent with the forecast from our Spring 2023 *Housing Market Outlook*. In that report, we projected a slowdown in housing starts by the end of 2023 from 2022 levels. This slowdown would be a result of weaker economic conditions and higher interest rates in 2023.

The latest housing starts data is consistent with this outlook. In July and August 2023, the seasonally adjusted annual rate of housing starts registered large cumulative declines in Toronto and Vancouver.

The gains recorded by purpose-built rental supply in the first half of this year will likely be reflected in the survey universe of rental units in our next *Rental Market Report*. However, the direction and strength of changes in vacancy rates and rent growth remain uncertain, since rental demand growth may continue to outpace rental supply growth across Canada's largest markets.

Our outlook, which forecasts strong rental demand, reflects the higher barriers to homeownership caused by high prices and high interest rates. These factors are part of the reason for increasing rental demand. Another factor are high projected immigration flows, since new immigrants are very likely to choose rental housing.

Despite increases in some centres, the overall level of new construction activity remains too low to address the country's affordability and housing supply crisis over the longer term. Significant increases in the construction industry's productivity will be critical to ensuring supply can be increased to address this crisis over the longer term.

Recent supply-side policy announcements

On September 14, 2023, the Government of Canada announced legislation that would remove the federal component of the goods and services tax (GST) on new purpose-built rental housing projects.

This legislation adds to other recent policies that will help counteract the challenges to increasing housing supply identified in this report, including higher construction costs and interest rates. In particular, it will help improve the viability of purpose-built rental projects and stimulate the construction of much-needed rental housing across the country.

While this legislation will help, the challenges related to housing supply and housing affordability remain significant. These challenges are reflected in the need for 3.5 million more units by 2030 to restore affordability to levels seen around 2004, according to our latest Housing Supply Gaps estimate.[7] Increasing construction meaningfully will require the involvement of both the private and public sectors.

We will continue to monitor developments around housing policy and share new data, indicators and insights exploring different aspects of the delivery of housing supply in Canada.

VANCOUVER

"Metro Vancouver starts jumped, driven by strong activity in the multi-family segment in the first half of 2023. Still, supply-constraining factors are visible on the horizon."

HIGHLIGHTS

- Purpose-built rental starts reached new quarterly highs, with close to 3,200 units started in the second quarter of 2023.
- Condominium apartment starts nearly doubled as developers remain optimistic about future market demand.
- Rising costs of labour and materials and tight lending conditions continue to negatively affect project starts.
- Existing multi-family projects that are underway may be delayed due to higher costs of materials, financing, and labour.

Housing starts jump higher despite multiple challenges

New home construction in Metro Vancouver continued to trend upward in the first half of 2023. Housing starts were significantly higher, at 17,458 units, compared to 11,710 units at the same time in 2022. Despite increasingly difficult financing conditions, strength in the multi-family high-rise segment across Metro Vancouver drove the bulk of additional activity this year. However, this trend shows some differences between geographic sectors and markets.

Most of the additional activity was driven by apartment starts in the municipalities of:

- Vancouver
- Surrey
- Langley Township
- Burnaby

These 4 municipalities accounted for over 76% of total apartment starts in Greater Vancouver.

On the other hand, apartment starts in Coquitlam and New Westminster fell when compared to relatively strong activity in the previous 2 years.

The construction of semi-detached homes has quickly become popular in the City of Vancouver, with 430 starts, a figure over 4 times the preceding 10-year average. This trend emerged in 2020, as pricier single-detached homes were replaced by more affordable and denser housing types.

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This shift followed a blanket change in zoning policy in late 2018 by the City of Vancouver. The change allowed nearly all lots zoned for single-detached homes to be redeveloped for semi-detached units. However, semi-detached construction is still primarily located within the City of Vancouver, which accounted for 77% of total semi-detached starts so far this year.

Purpose-built rental starts continue to increase

Rental-oriented construction hit a new quarterly high in the second quarter of 2023 as developers continued to overcome several challenges facing the industry. When compared to the first half of 2022, rental starts were 38% higher despite higher costs of capital. These projects were likely financed closer to late 2022, before the recent interest rate hikes by the Bank of Canada.

As well, government programs continue to be cited as a main driver for increasing rental construction. These programs allow lenders to offer better financing terms that increase project viability.

Of the 5,089 rental starts that took place in the first half of 2023, 77% of them were in 3 cities:

- Vancouver
- Burnaby
- Surrey

The rental market is tight because of strong migration to Metro Vancouver. That fact, along with higher mortgage rates, is delaying the movement of some renters to homeownership. These dynamics are continuing to encourage developers to build more rental housing.

Construction of secondary suites and laneway homes was mostly flat compared to the first half of 2022. While these units help to alleviate the shortage of rental supply, they're also affected by higher interest rates. This is because the construction of these units is more likely to be financed by smaller operators, including individual landlords.

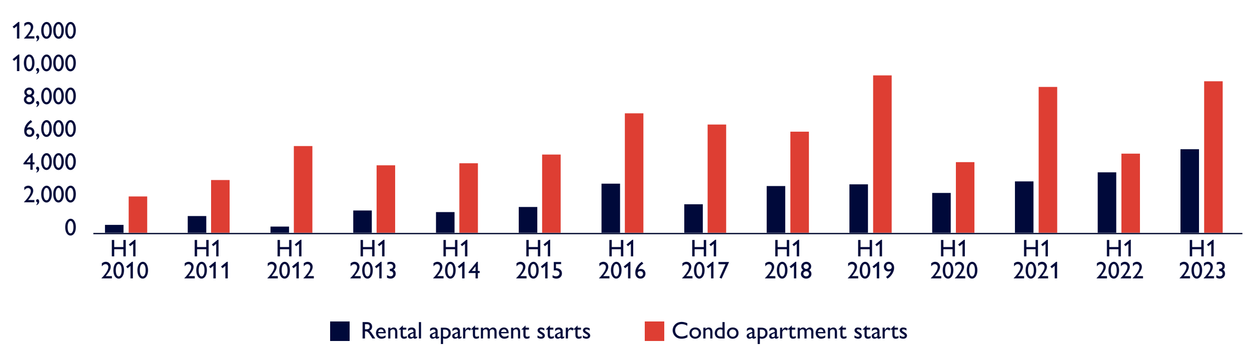
Condominium starts jump in Burnaby and Surrey

While higher interest rates have affected demand, some condominium developers remain optimistic about future market conditions, opting to proceed with construction despite limited presale activity. Condominium apartment projects saw strong growth of over 91%, with major projects starting in Surrey and Burnaby. In Greater Vancouver, new condominiums numbered 9,236 units as of June 2023. This figure, recorded in only the first half the year, has almost reached the 9,917 units started in the whole of 2022.

Burnaby and Surrey, respectively, saw over 2 and 3 times the number of condominium units started compared to purpose-built rental apartments. The City of Vancouver was the only municipality in the CMA to see purpose-built rental apartment starts outpace condominium apartment starts in the first half of 2023.

While condominium apartment starts greatly eclipsed rental apartment starts, rental apartment construction is likely to continue trending higher. In the near term, rental apartments will likely make up a greater share of total apartment starts. With high financing rates causing potential condominium projects to become harder to complete, developers will look toward rental projects backed by government support.

Figure 1: Rental apartment and condo apartment starts



Source: CMHC Starts and Completions Survey

Tight lending conditions and labour markets hold back new activity

Increasing labour, materials, and capital costs have led to some developers putting projects on hold. The lack of skilled trades labour has also contributed to developers extending their pre-construction timelines. In British Columbia, the average hourly wage in the construction industry in the first half of 2023 rose 7% compared to the same period in 2022 according to Statistics Canada's Labor Force Survey.[8] At the same time, concrete prices also jumped by over 12% in Vancouver on a year-over-year basis (see the Building Construction Price Index[9])

In some cases, because of higher loan rates, developers that are holding land that they acquired several years ago find that servicing a smaller land loan to be the better option in current conditions.

These developers are more likely to be smaller-sized operators, with less equity available to make up a capital shortfall, given higher rates. They're less likely to be able to finance their own projects and are much more reliant on institutional lending.

There have been cases where the higher interest rate environment has led to stalled projects and developer insolvency. However, these cases were limited in scale, affecting overly leveraged operators.

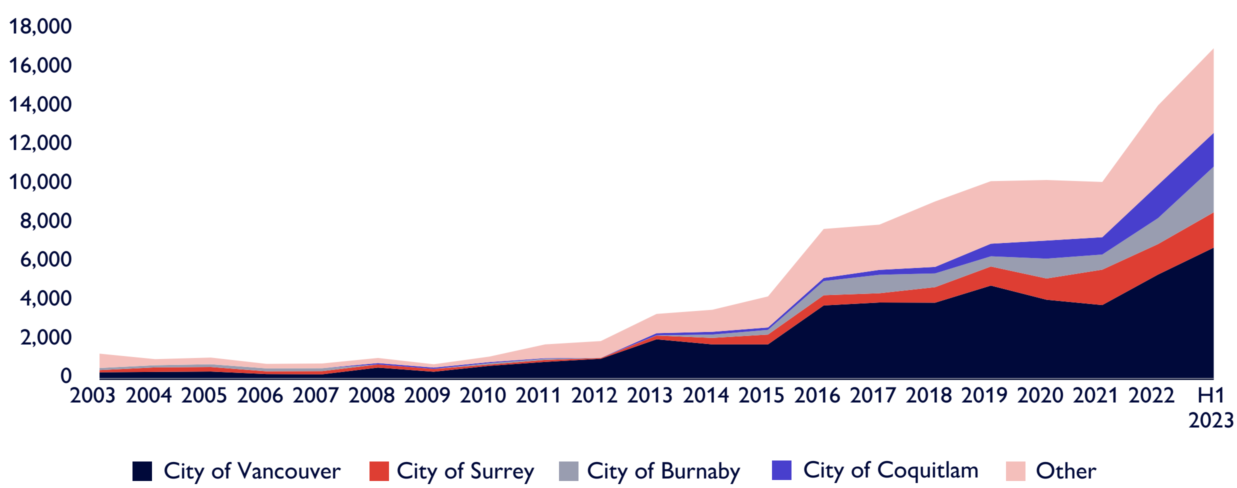
Inventory under construction continues to hit highs across the region

The inventory of units under construction reached 56,819 units in Metro Vancouver, an increase of over 15% compared to the end of 2022. While some of this increase is driven by elevated starts activity, some units may have been delayed because of difficulty in securing appropriate labour.

With this record level of units under construction, capacity for building more will likely be limited. On a per capita basis, the highest volume of apartment units under construction are in Vancouver and Burnaby, followed by Surrey and Coquitlam.

The fastest-growing segment of units under construction were purpose-built rental units. With 17,205 units under construction, this segment grew by over 20% compared to the end of 2022. Although rental apartment developments take more than a year, on average, to complete, these upcoming units will help to alleviate some pressures in the rental market. However, this segment needs continued support if it is to reach affordability.

Figure 2: Rental units under construction, Vancouver CMA



Source: CMHC Starts and Completions Survey

EDMONTON

"Housing starts in the Edmonton CMA declined in the first half of 2023 due to the negative impact of higher interest rates on both the demand and supply of housing."

HIGHLIGHTS

- Housing starts declined in the first half of 2023. Higher interest rates and an increase in unsold inventories of new single-detached homes caused builders to start construction on fewer units.
- Construction costs, which peaked in the first quarter of 2023, and labour shortages are likely posing a challenge to housing projects under construction and causing delays in completion.
- Achieving homeownership has become more challenging for certain prospective buyers, resulting in elevated inventory levels, with the majority (65%) of units being single-detached homes.

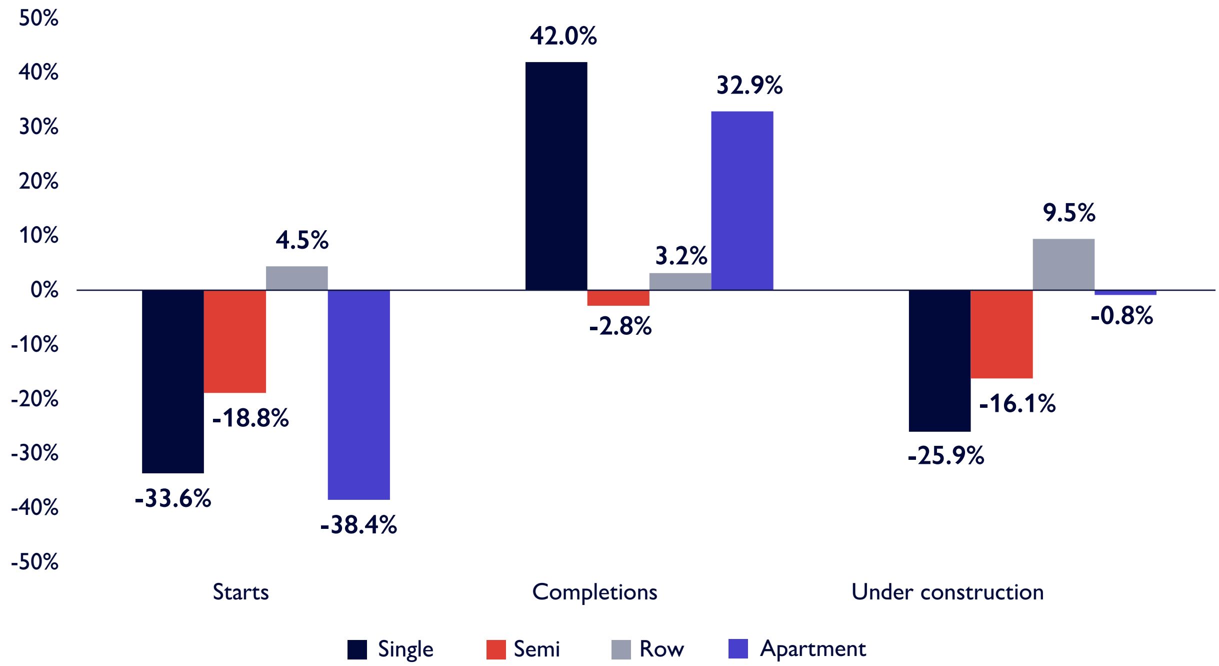
Housing starts declined in the first half of 2023 amid a slowdown in housing market activity

Total housing starts in the Edmonton CMA declined by about 30% in the first half of 2023 compared to the same period in 2022. The slowdown in starts within the CMA is one of the most significant in the country. This indicates that the impact of high interest rates (which produce challenging financing conditions) was particularly strong on Edmonton's housing market activity.

Market intelligence suggests that developers are building fewer units or cancelling potential projects due to low traffic of prospective homebuyers and higher inventories of new single-detached homes. Also, builders have shown some flexibility in accommodating potential buyers who are exploring alternative lending solutions in order to successfully close on transactions.

The decrease in construction activity was recorded in almost all municipalities in the CMA. An exception was St. Albert, where more purpose-built rental apartments were started in the first half of 2023. In line with construction trends in Edmonton, single-detached homes accounted for the highest share of total housing starts. This was despite this housing type recording a decline of about 34% compared to the same period in 2022.

Figure 1: Annual growth rates of starts, completions and under construction units by dwelling types in Edmonton (H1-2023 vs H1-2022)



Source: CMHC Starts and Completions Survey

Apartment starts recorded the highest year-on-year decline due to excessive costs and supply chain issues that hindered the development of new units. A total of 1,630 apartment units were started in the first half of 2023, compared to 2,648 units during the same period in 2022.

A decline in this dwelling type poses significant challenges to supply and affordability for the Edmonton CMA. This is because apartments have become an alternative for potential homeowners who can't afford a home in other segments of the market or who may choose to remain in the rental market longer due to current financing conditions.

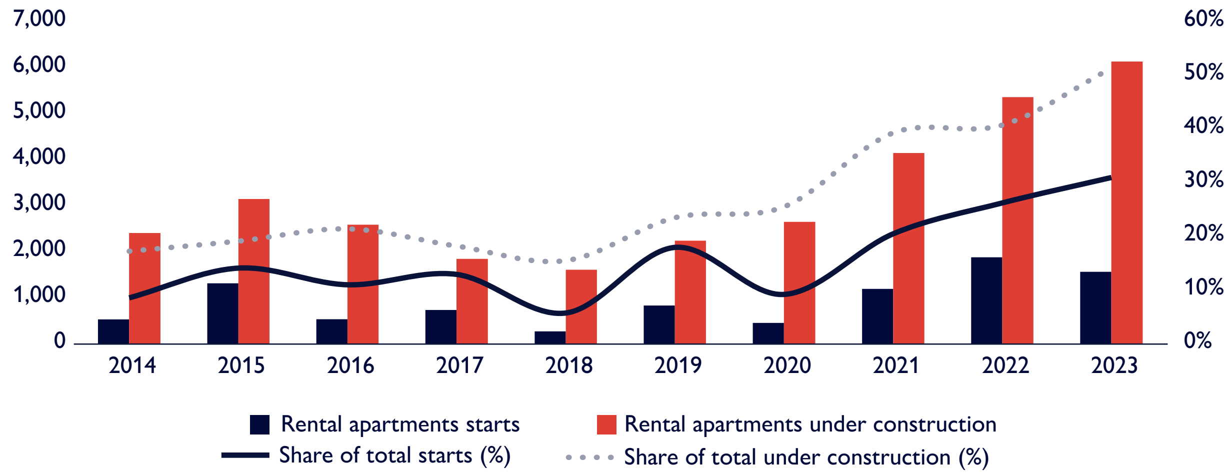
On the other hand, most of these apartments are rental units (instead of condominiums), which could help mitigate the impact of lower apartment starts overall. Purpose-built rental apartments accounted for about 96.8% of total apartments started in 2023.

These developments could provide much-needed supply to the rental market, where the vacancy rate has been declining because of higher demand than supply. Demand for rentals continues to grow due to population growth in the province of Alberta, which is driven by steady economic growth, employment opportunities and migration.

Ground-oriented projects with a smaller number of units continue to be the preferred housing type in Edmonton. Still, more changes to zoning rules could be expected as the City of Edmonton continues to push forward with its Zoning Bylaw Renewal Initiative. Final steps and public consultations are ongoing before the City Council votes in the fall.

If the Initiative passes, full implementation is expected to take effect on January 1, 2024. More details can be found in the October 2022[10] and the April 2023[11] editions of the *Housing Supply Report*.

Figure 2: Purpose-built rentals apartment starts and under construction in Edmonton (January 2014 – June 2023)



Source: CMHC Starts and Completions Survey

Higher construction costs and labour shortages slow ongoing construction and pose a challenge to supply

The total number of units under construction rose to 11,951 units in the first half of 2023, primarily driven by apartment units. For the first time in decades, more than half of all buildings under construction in the Edmonton CMA are purpose-built rental apartments.

A significant number of housing units are currently under construction. However, market intelligence suggests that high costs of construction and supply chain issues present challenges to the timely completion of these units. Financing issues are also a concern: it has become more difficult to meet financing conditions, and this has led to a higher number of cancelled transactions.

According to the Statistics Canada Building Construction Price Index, construction costs in Edmonton are high and have been increasing for the past few years. This has made it more challenging to develop financially viable housing units. This development is driven by:

- persistent supply chain issues;
- higher material costs; and
- labour shortages in the trades.

Discussions with industry stakeholders have also suggested that labour issues related to the shortage in skilled tradespeople seem to be worsening as the housing market begins to heat up in the province. In particular, industry stakeholders have reported their inability to keep up with building timelines.

Given these challenges, the average construction time in the first half of 2023 was 9.5 months, compared to 8 months in 2022. These challenges have been noted to delay the completion of construction projects by about 8 weeks in Alberta as a whole.

High inventory of completed and unsold units as the affordability of single-family homes decreases

The inventory of completed and unsold units in Edmonton grew by 85% in 2023, reaching a total of 2,273 units. This increase was largely driven by single-detached and row homes.

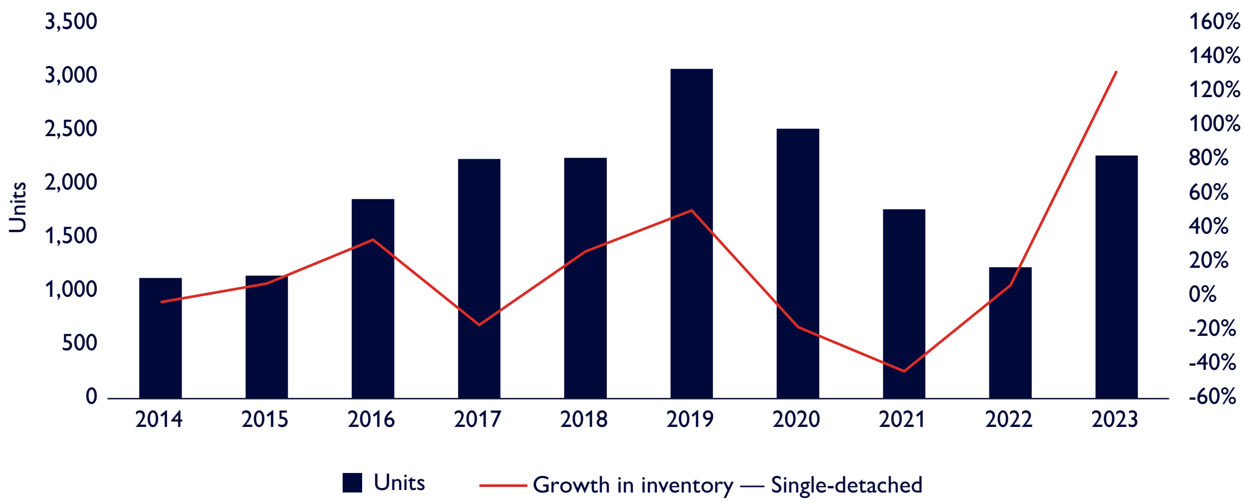
Higher interest rates and financing requirements have temporarily made the ownership of new single-detached homes unattainable for some potential buyers. This has resulted in the accumulation of inventories by builders, since the price point of this dwelling type is typically at the high end of the market.

The percentage of single-detached homes in the overall inventory of unsold units is currently at its highest level in 15 years. The proportion of apartment units, meanwhile, is at its lowest point within the same timeframe.

The demand for apartments has grown in recent months as the affordability of single-detached homes has decreased. This growth in demand is evidenced by the historically low inventory and vacancy rate of this dwelling type.

As in the previous year, the city of Edmonton accounted for the highest concentration of unsold inventories within the CMA, at 71%.

Figure 3: Completed and unsold inventory in Edmonton records significant growth (January 2014–June 2023)



Source: CMHC Starts and Completions Survey

CALGARY

"After a record year of construction in 2022, Calgary builders have kept construction activity near highs, supported by record population inflows."

HIGHLIGHTS

- Purpose-built rental apartment starts have overtaken condominium apartment starts for the first time. This trend is likely to continue as rental development incentives support project viability.
- Purpose-built rental starts hit quarterly highs, with large projects throughout the Northwest and city outskirts.
- Ground-oriented multi-family homes such as townhomes and duplexes continue to become more popular as an alternative to single-detached homes as prices and mortgage rates increase.

New housing starts keep pace with 2022 activity as Calgary continues to see record levels of population inflow

Housing starts in the Calgary CMA were stable in the first half of 2023 compared to the same period in 2022, as developers kept pace with a record year. Despite tight financing conditions and a shortage of skilled labour, developers were able to start a similar number of apartments (3,506 units). Single-detached starts, however, declined slightly, by 13%.

Housing demand from sustained near-record levels of net migration to Alberta continued to drive development activity. This strong level of migration was supported by a persistently strong economy in Calgary and relatively affordable homes compared to other major cities like Vancouver and Toronto. While Calgary's unemployment rate increased since 2022, the gap between its rate and Edmonton's shrank in recent months, further attracting economic migrants to Calgary.

With higher mortgage rates than previous years, potential homebuyers had more restricted budgets, especially those buyers looking to purchase single-detached homes, since they are likely to be the most expensive home type. The nature of single-detached construction allows for more flexibility and a quicker response to evolving market conditions compared to larger projects. Builders of single-detached homes are likely to slow planned building as demand is impacted.

The decline in single-detached construction was made up for by increases in similar ground-oriented multi-family homes such as row and semi-detached developments. These types, combined, make up for the deficit lost, with 2,087 units started in the first half of this year. This is an increase of over 23% compared to the same time last year.

Demand for semi-detached homes has increased in recent years as single-detached prices have begun to rise. Favourable R-C2 zoning has allowed for single-detached lots in the inner city to be redeveloped for denser semi-detached homes.

While row housing has also gained traction year-over-year, new developments were most likely found in greenfield developments closer to the city's boundaries in the Northeast and in the Southeast.

Rental apartments starts trend higher as developers react to higher rents, lower vacancies and supportive policies

Rental apartment construction in the first half of 2023 continued to climb, with 2,339 units started. This was an increase of over 35% compared to the same period last year. Rental developments in 2023 consisted of some smaller projects in the inner city and by Chinook, while larger projects were started:

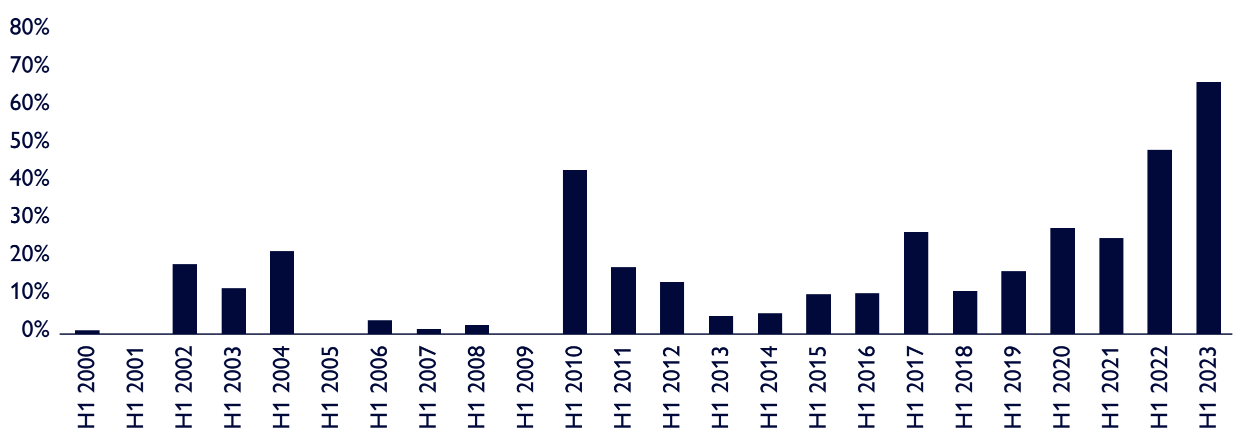
- on greenfield land to the east and to the north;
- in West Springs;
- in Brentwood; and
- near the University of Calgary.

A major shift toward rental developments occurred in late 2021, as developers recognized increasing demand for rental units in the city. Market intelligence suggests higher rent growth in Calgary versus Edmonton in recent quarters also signalled more renter demand to developers.

As interest rates rose, supportive government policies allowed developers to continue building rental units at favourable lending rates. These policies encouraged builders to prefer purpose-built rental construction over condominium units, especially given the difference in rates available.

For the first time, rental apartment starts made up more than half of total apartment starts in Calgary (Figure 1). This trend is likely to hold until year-end as demand for rental units remains high and favourable financing for rental projects continues to exist. Despite this strong activity in rental supply, we expect demand to keep pace and rental markets to remain tight in the near future as reported in the *Housing Market Outlook*, 2023 edition.[12]

Figure 1: Ratio of rental apartment starts to total apartment starts, Calgary CMA



Source: CMHC Starts and Completions Survey

Condominium construction falls as tougher financing conditions postpone projects

Condominium apartment construction saw a weaker first half of the year as new condominium starts fell by 35% to 1,167 units. Most of the projects started were close to the city periphery, in:

- West Springs and Springbank Hill to the west; and
- greenfield land to the north.

A major condominium development also began in the Beltline. This was the only major inner-city condominium development of the first half of 2023.

While condominium apartment sales and prices have increased so far this year, new projects depend on financing. It's likely that current condominium apartment projects were financed before the recent rate increases by the Bank of Canada.

These rate increases, along with increasing land prices and sustained rental development incentives, may make it less likely we'll see more development of condominium projects closer to the city centre in the near term.

Interest rate increases and labour shortages challenge increased supply

Recent interest rate increases by the Bank of Canada have made it more difficult for both developers and potential homebuyers to secure financing. For homebuyers, this affects those looking to buy more expensive single-detached homes, since they may struggle to get approval for larger mortgages.

Some developers may choose to slow down planned build-outs given higher uncertainty. For homebuilders, recent increases in interest rates have negatively affected project viability, especially for smaller-sized operators with less available equity capital.

Lower availability of skilled labour is also negatively impacting further new home construction. In Calgary, developers continue to be limited by a shortage of contractors. Supply chain issues also continue to slow development. Some estimates indicate projects being delayed for several weeks. Prices for building finishes in Calgary rose 12% over the past year according to the Building Construction Price Index.[13]

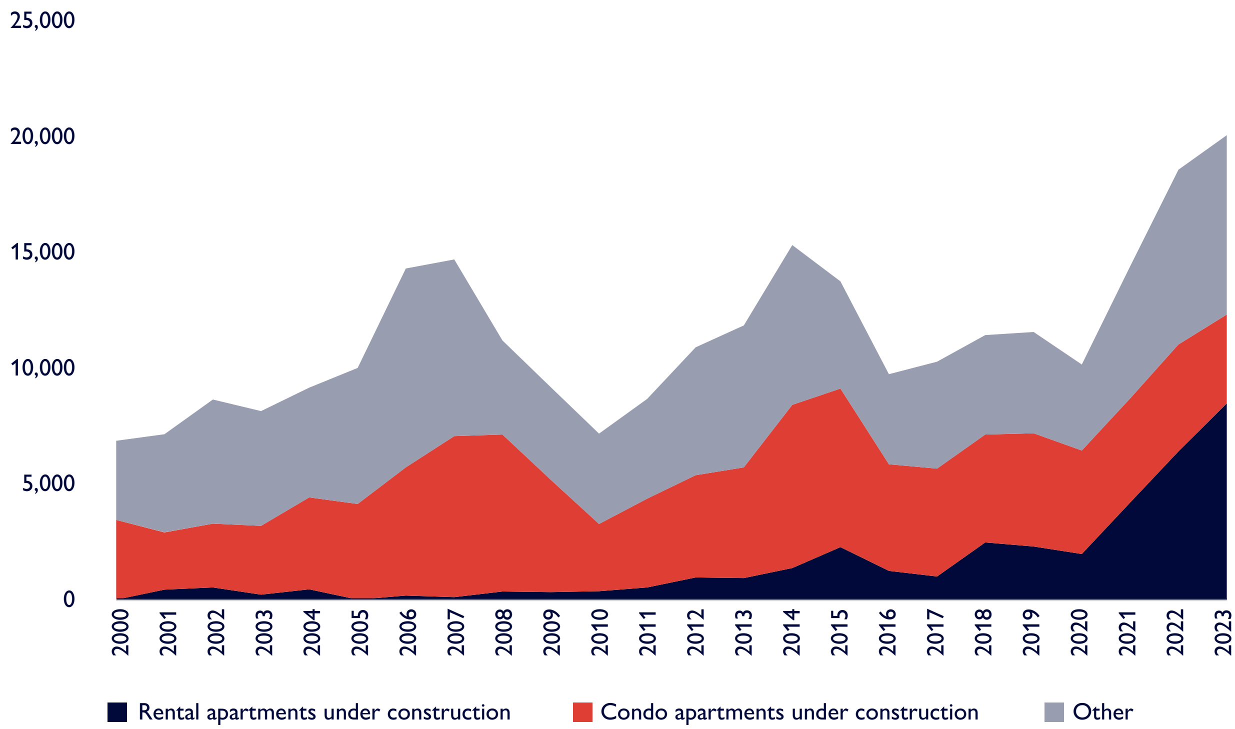
Supply chain and labour issues aren't new to Calgary in recent years. Still, their persistence is cause for concern in an environment where we need to deliver new housing supply at a quicker pace.

Inventory under construction hits new highs, driven by rental accumulation

The number of units currently under construction continued to grow in the first half of 2023, reaching a new high of 20,086 units. This growth was entirely driven by increases in rental apartments under construction, as that segment grew 32% compared to the end of 2022. On the other hand, the inventory of condominium apartments under construction shrank for the first time since 2020.

Record levels of construction may indicate a limited capacity for more housing starts, since existing equipment and labour are already in use. This situation will likely lead to continued upward pressure on construction costs. However, record numbers of rental units under construction will provide supply to help reduce the ongoing tightness in the rental market.

Figure 2: Total units under construction, Calgary CMA



Source: CMHC Starts and Completions Survey

TORONTO

"Housing starts over the first half of 2023 were at a record high. This pace of construction, however, seems unlikely to be sustainable."

HIGHLIGHTS

- Housing starts during the first 6 months of 2023 were at a record high, driven by surging apartment construction in the City of Toronto.
- Elevated condominium apartment pre-sales during the peak of the market (late 2021 and early 2022) translated into record starts of this housing type. Rental apartment construction also saw a significant increase as developers responded to tight rental market conditions.
- Despite recent strength in housing starts, elevated construction costs and interest rates likely present challenges for future projects.

Historically high housing starts over the first half of 2023

Over the first 6 months of 2023, the number of housing starts recorded in the Toronto census metropolitan area (CMA) was 25,768 units. This was a notable 32% increase over the same period in the previous year (19,520 units), and the highest number on record. Toronto was 1 of only 10 CMAs in the country to register more starts in the first half of 2023 relative to the same period in 2022.

Growth was entirely attributable to a strong increase in apartment starts in both the condominium and purpose-built rental segments. This uptick in apartment construction, however, was largely a reflection of previous, more favourable macroeconomic and financial conditions. It wasn't indicative of the recent uncertainty characterizing new home development, particularly since interest rates began increasing in spring 2022. This is due to the time it takes for apartment projects, which tend to be larger in the Toronto CMA, to become starts.

Record showing for condominium apartment starts despite many challenges

Following from the above, there's often a lengthy period of time between the launch of a condominium project (when units are first offered to buyers) and its eventual recording as a housing start. This is because developers must pre-sell most units (around 70%) in order to secure construction financing. Once financing is secured, there could be several months of site preparation before the building is captured as a housing start (when the foundation is built at the ground level).

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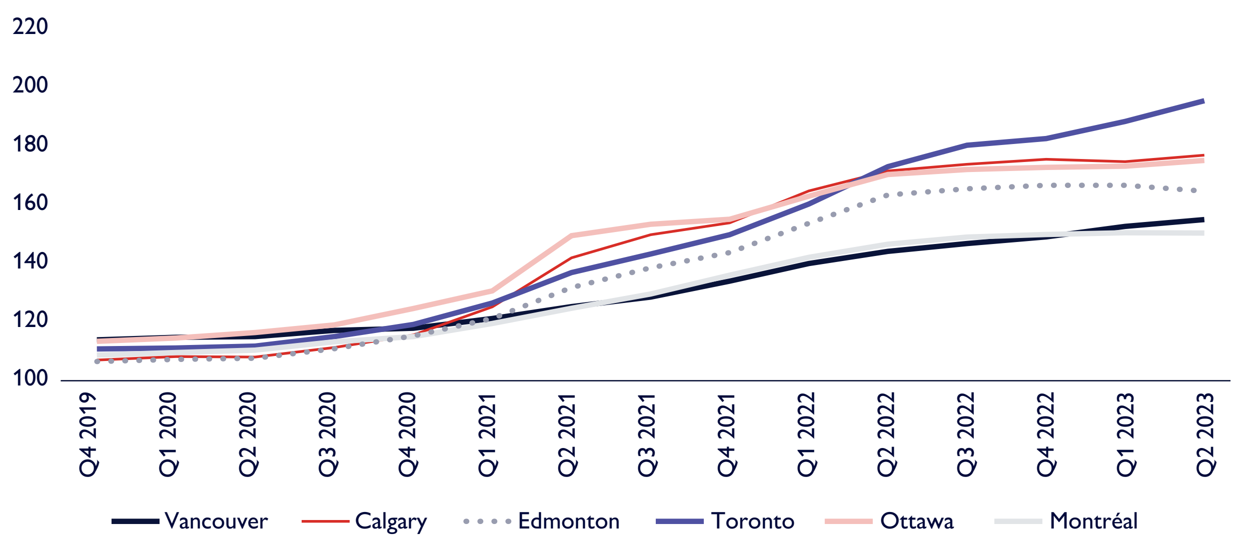
Elevated pre-construction unit sales that occurred at the peak of the market (in late 2021 and early 2022) translated into record condominium apartment starts over the first half of 2023. Over this period, 14,813 condominium apartments were started in the Toronto CMA, the vast majority of which were in the City of Toronto. This was a 24% increase over the year-before level (11,992 units).

While this was an encouraging and needed addition to supply, there are challenges for future developments:

- Higher mortgage rates resulted in a steep decline in unit sales of new condominiums (down 52% January to June 2023 relative to the same period in 2022 according to the Altus Group). This has made it more difficult for developers to achieve the sales necessary to access construction financing.
- Rising interest rates have led to increases in the debt-servicing costs of new projects.
- The strong pace of housing starts in Toronto, relative to other centres, has placed continued upward pressure on construction costs (materials, labour and equipment) (see Figure 1). These costs were up 13% in the second quarter of 2023 relative to the same period in 2022.
- From January to June 2023, condominium apartment starts outpaced completions by 5,170 units, adding to existing constraints on skilled labour capacity.

The above factors likely indicate fewer starts in the Toronto CMA in the future, since condominium apartments are the most-built housing type in the region. A decline in starts would be problematic for housing supply and affordability, especially given strong population growth. Fewer condominium apartments entering the market in the future also implies fewer rental options. This is because investor-owned condominiums remain a significant source of rental supply in Toronto.

Figure 1: Residential* building construction price index for select CMAs (2017=100)



*Single-detached houses, row houses, and apartment buildings.
Source: Statistics Canada

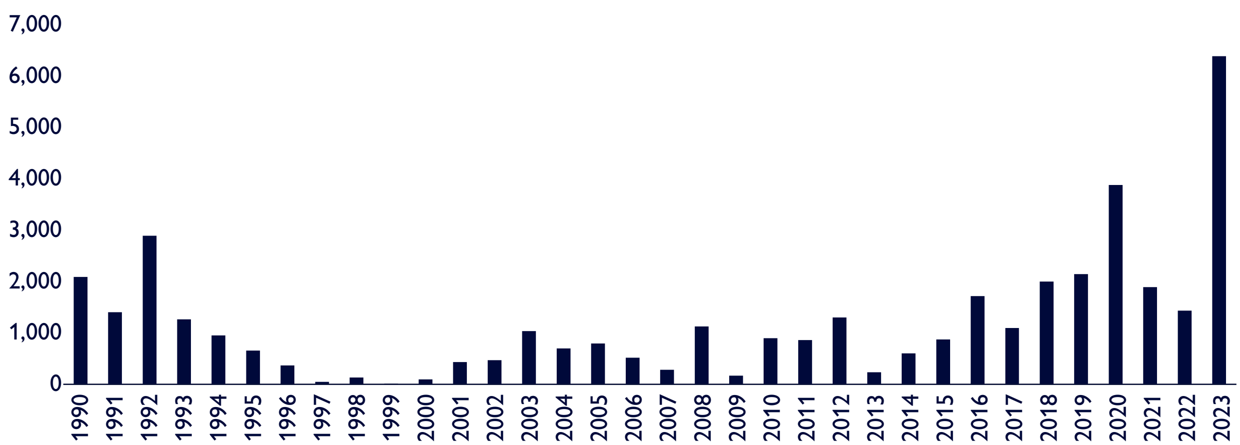
Rental apartment construction was at a multi-decade high, but also faces challenges

Purpose-built rental apartment starts over the first half of 2023 (6,387 units) were four-and-a-half times their year-before level (1,436 units). This was the largest number of rental apartment units initiated in the Toronto CMA over the last several decades (see Figure 2). As with condominium apartments, most units (72%) were started in the City of Toronto (concentrated in the downtown core). The remainder were in the York (13%), Peel (9%), and Durham (6%) regions.

The significant uptick in rental apartment construction in 2023 may be explained by a few different factors:

- Developers were responding to tight rental market conditions (the vacancy rate in the Toronto CMA stood at 1.6% as of our October 2022 Rental Market Survey), robust population growth, and eroding homeownership affordability.
- According to market intelligence gathered, the feasibility of purpose-built rental projects has improved thanks to government financing programs launched in recent years. A policy initiative to reduce development charges for rental projects in Ontario may also be helping.
- More construction resources were available to begin projects that were already financed. This was due to a multi-decade high in rental apartment completions over the first half of the year, following prolonged delays due to supply chain issues and labour shortages.

Figure 2: Purpose-built rental apartment starts from January to June (Toronto CMA)



Source: CMHC

Despite recent strength, rental apartment construction in Toronto also faces challenges. High land costs, construction costs and interest rates make it so that developers would need to set high rents to reach financial performance benchmarks. These rents, in many cases, would be too high for the market, preventing some projects from moving forward.

Additionally, the rapid rise in construction costs (see Figure 1) and interest rates has increased the amount of equity developers need to bring to a project. As such, those with insufficient capital can't build, while those building in the current climate may now have less capital available to put toward future projects.

These reasons confirm market intelligence indicating that some rental projects have been placed on hold until development conditions improve.

Ground-oriented housing starts declined

Apartments accounted for a record 82% of units initiated over the first half of 2023. Ground-oriented dwellings (single-detached, semi-detached and row homes), meanwhile, made up a declining 18% share. Over the first 6 months of 2023, starts of ground-oriented dwellings (4,568 units) were down 25% compared to the same period in 2022 (6,092 units).

The decrease in starts of ground-oriented dwellings, especially single- and semi-detached homes, reflects weaker demand for these dwelling types given their higher price points and an environment where mortgage rates are increasing. Suburban areas of the CMA that saw heightened demand during the pandemic saw the largest declines in ground-oriented starts. This was especially true in York Region and Simcoe County.

OTTAWA

“Housing starts declined in the first half of 2023, particularly in the freehold housing segment. Apartment starts increased, but not enough to cover the shortfall.”

HIGHLIGHTS

- Housing starts fell by 18% in the first half of 2023. The decline was concentrated in the freehold housing segment. However, construction activity increased for condominiums and purpose-built rental units.
- Skyrocketing construction costs slowed. While these costs continued to grow, they did so at a much slower pace than in 2022. Despite this trend, the construction industry is still operating at almost full capacity.
- Development intensity, that is, the number of units per structure built, is increasing for apartments. More apartment starts combined with fewer freehold housing starts has led to a sharp rise in overall development intensity.

Housing starts declined in the first half of 2023

In the Ontario part of the Ottawa-Gatineau CMA — hereafter called the Ottawa area — housing starts were down 18% in the first half of 2023 compared to the same period in 2022. However, the number of starts remains high because the decrease follows 3 years of record-setting levels of activity. For example, the number of housing starts in the first half of 2023 (nearly 3,600) outpaced starts from the same period in most years before the pandemic.

The decline in housing starts is concentrated in the freehold housing segment (single-detached, semi-detached and row houses) (-49%). In fact, the first half of 2023 had the fewest starts in more than 25 years for this segment. Price increases, followed by high mortgage rates, reduced demand for these types of new dwellings. As a result, construction continued its sharp slowdown.

The uncertainty surrounding rapidly rising financing costs also tempered builders’ willingness to start freehold units. In this situation, their priority is to sell completed units without accumulating inventory. However, demand has decreased enough that the inventory of completed and unsold homes still increased in the last year.

In line with our forecast, a large number of apartment projects were started in early 2023. Some projects that were delayed over the preceding few months were likely started this year. In the first quarter of 2022, the average time period between securing a building permit and starting construction reached a peak of 10.4 months.

Additional factors, such as the expectation of another interest rate increase, may also have contributed to some apartment project starts at the beginning of the year.

Condominium starts increased by 7%. Purpose-built rental starts, meanwhile, increased by 61%, posting record first-half gains. Some condominium projects that hadn't been started due to a lack of demand were replaced by purpose-built rental projects. Still, the expected impact of rising interest rates on housing starts should be felt over the course of the year.

Growth in these 2 segments, however, wasn't enough to offset the impact of declining freehold home starts on the total number of housing starts. This situation moves us further from the trajectory that residential construction needs to be on to restore affordability in the area.

The total number of completions remains high. It increased by 15% this year. This growth comes from units that were started last year, given that the average construction time for a building is currently nearly 12 months. This average is rising, partly because of the growing share of starts accounted for by apartment buildings, which take longer to build.

The impact of fewer housing starts on completions will therefore instead be felt over the coming quarters. When this happens, completions will decline and supply growth on the private market will slow accordingly.

Construction cost increases are slowing

Construction costs continue to grow, but at a much slower pace than in 2022. In the second quarter of 2023, cost growth was low from a historical standpoint. Statistics Canada's Building Construction Price Index showed an increase of 2.8% compared to the same period in 2022. One year earlier, growth was 14%.

While skyrocketing costs are growing more slowly, construction capacity in the area is still facing pressure, which includes labour shortages. Indeed, available labour remains limited, as the number of units under construction is very close to the peak recorded in 2022, despite a recent decline.

The number of units per structure continues to rise, supported by the growing share of apartment buildings

Increasing starts of large apartment buildings combined with declining starts of freehold housing has led to a sharp increase in development intensity on the market this year.

The average number of units per structure set a record in the first half of 2023, rising to 4.4 (compared to 2.7 in 2022) (see Figure 1).

Since 2014, development intensity (the number of units per structure built) has risen for apartments, especially purpose-built rental units. While rental apartment building starts had an average of around 20 units between 2014 and 2016 , the average was more than 70 units in 2022. Since the beginning of the year, the average number of units per structure started is more than 60.

This trend wasn't observed only in central neighbourhoods. While the majority of apartments were built within the Greenbelt, apartment construction outside the Greenbelt is also rising. Overall, this contributes to the densification of the Ottawa area.

At the sector level, the majority (53%) of apartment construction was concentrated in 4 sectors:

- Vanier
- Beacon Hill / Cyrville
- Alta Vista
- Downtown

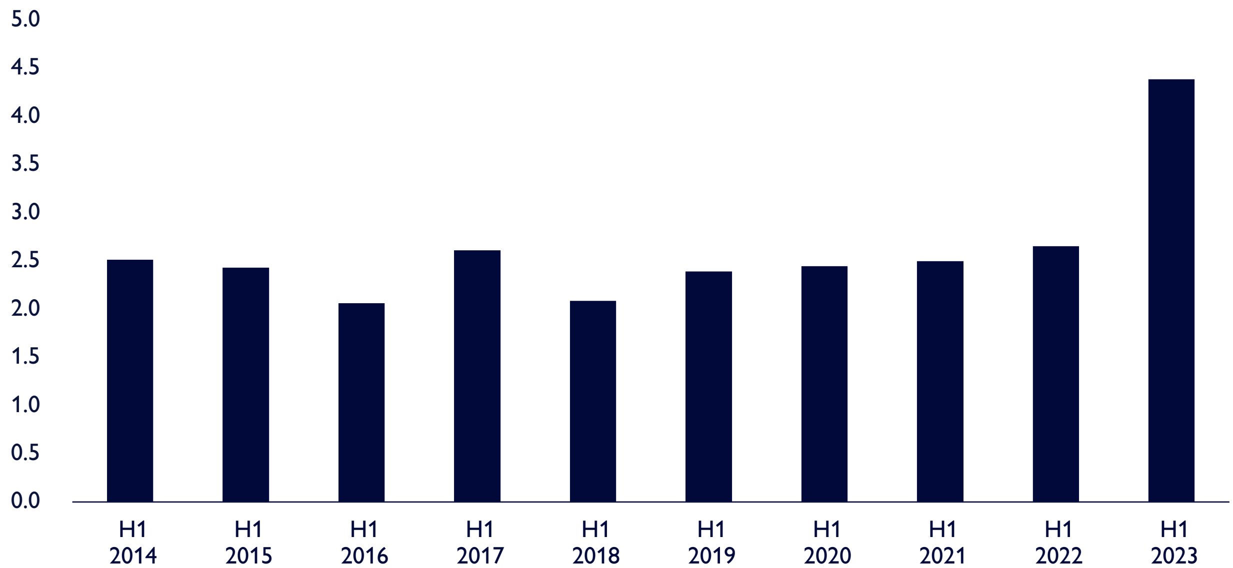
Two sectors outside the Greenbelt stood out — Orléans East and Kanata/Stittsville — with a 37% share of the housing starts.

In the first half of the year, the number of apartment starts outside the Greenbelt was double the average for the previous 5 years. This high level of activity is accelerating the densification of an area that is largely made up of low-density housing.

Two new sectors added to the CMA: Arnprior and Carleton Place

During the last census, the Arnprior and Carleton Place sectors were added to the Ontario part of the Ottawa-Gatineau CMA. These sectors are adjacent to area surrounding western Ottawa, which is on the outskirts of the CMA. Since the beginning of the year, all residential construction in these sectors has been in the freehold housing segment: 70 homes were started in Arnprior and 17 in Carleton Place.

Figure 1: Average number of units per structure, January to June, Ottawa CMA



Source: CMHC, Starts and Completions Survey

MONTRÉAL

"Housing starts declined by nearly 60%, making it harder to reach the number of starts needed to restore affordability on the Montréal real estate market."

HIGHLIGHTS

- During the first 6 months of 2023, housing starts declined by nearly 60% compared to the same period in 2022. This was the weakest half-year in 26 years. While rental housing still accounts for the majority of activity, only 3,500 units were started.
- This result makes it even harder to reach the number of housing starts needed to restore affordability on the Montréal real estate market — especially since the sharpest decline occurred in the rental housing segment, which saw its vacancy rate drop in 2022.
- Construction costs are levelling off. The overall number of units under construction has started to decline, easing pressure on the construction industry's production capacity.

Housing starts continue to decline, especially in the rental segment

In the first half of 2023, housing starts continued to decline, dropping by nearly 60% compared to the same period in 2022. After hitting record levels in 2021, activity reached its lowest point in 26 years during the first 6 months of 2023.

This decline contrasts with the situation in Toronto and Vancouver, where housing starts are still rising. The **Overview of residential construction in Canada's largest CMAs** section looks more closely at the differences between markets.

In Montréal, housing starts fell across all sectors of the CMA, dropping by 54% on the Island of Montréal and 60% in the suburbs. Laval, the North Shore and the South Shore all recorded similar declines.

Rental housing continues to account for the majority of starts. However, only 3,500 rental units were started in the first 6 months of the year. This is far from the 2021 peak level of more than 10,000 starts.

No rental apartments in seniors' residences were started in the first half of 2023. Activity in this market segment has been very weak for more than a year.

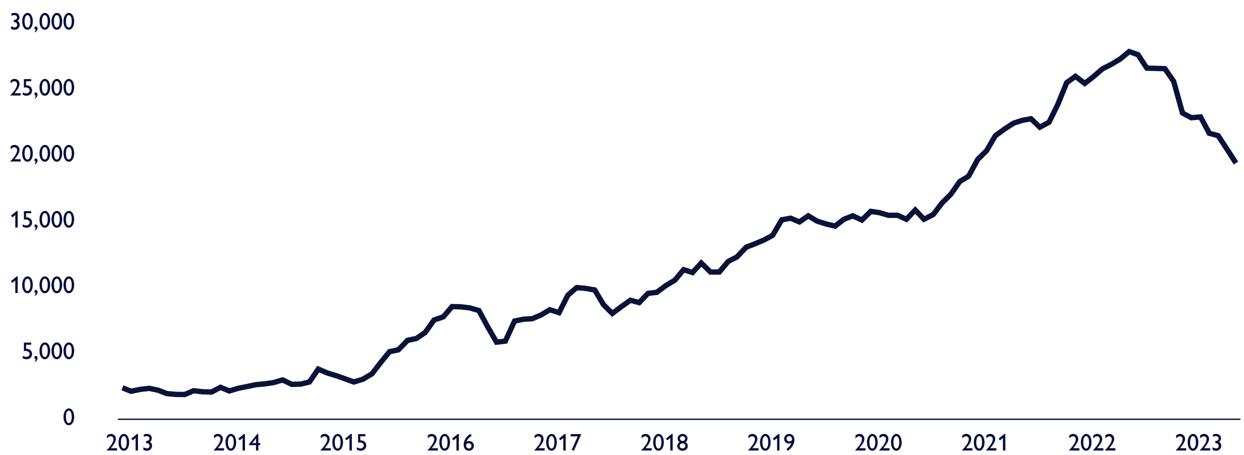
The increase in financing costs hasn't been helpful for maintaining a high level of starts in the rental housing segment. Higher interest rates are eating away at profits for new rental projects and can make a big difference in a developers' and builders' ability to undertake rental housing projects. Unlike condominium projects, rental housing projects can't raise capital through pre-construction sales, which are used to help fund new condominium projects.

This context has made it harder to reach the number of housing starts needed to restore affordability on the Montréal real estate market. This is even more true given the strong growth in demand on the rental market, which is being fuelled by rising migration and increasingly difficult access to homeownership. The rental vacancy rate in the Montréal area fell to 2% in 2022. Rental units are even scarcer in certain sectors of the suburbs and the Island of Montréal, where vacancy rates are close to 1%.

However, it will take some time for the rental market to feel the impact of fewer privately initiated units being added to supply. In fact, the number of rental units under construction remains high. In June 2023, nearly 19,500 rental units were still under construction. Although rental construction levels have been trending downward since June 2022, they remain historically high (see Figure 1).

Given the time it takes to complete a new building, there's a lag between unit starts and unit completions. Over the past 12 months, the number of rental units added to the market reached a record of 17,500. This means that the recent decline in rental housing starts will cause supply to increase more slowly in the coming quarters.

Figure 1: Units under construction, January 2013 to June 2023, Montréal CMA



Source: CMHC, Starts and Completions Survey

Demand for freehold units and condominiums declines, limiting the ability to undertake new projects

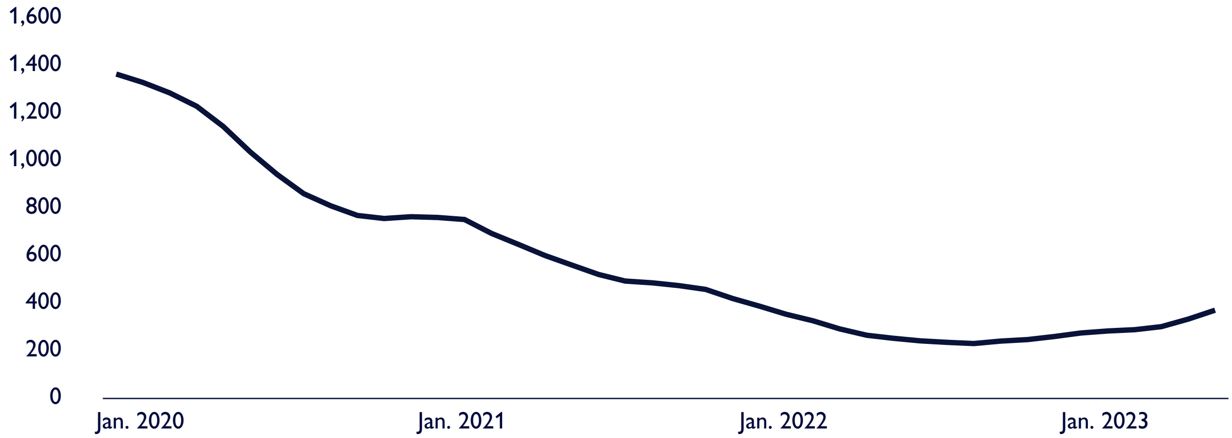
The decline in housing starts was notable in the freehold housing segment (single-detached, semi-detached and row houses) (-62%). In 2021, we saw renewed interest in this tenure type, driven by public health measures and new remote work opportunities that created a desire for larger homes, like houses. This trend is now reversing, and only 737 houses were started this year, the lowest recorded first-half level.

Condominiums are following a similar trajectory, with declining starts (-57%).

Rising mortgage rates, combined with prices that have remained high after growing rapidly, have weakened demand. Pre-construction condominium sales are low, delaying funding for projects in development. This context also discourages builders from undertaking new projects.

Demand for new condominiums also declined. In July 2022, the number of completed and unsold condominiums reached a low of 206. That number has more than doubled since, hitting 518 units in June 2023. This is the first time since the start of the pandemic that the inventory of this housing type has grown. Although the numbers remain low from a historical standpoint, their increase shows that these units are starting to take longer to sell (see Figure 2).

Figure 2: Completed and unsold condominiums, January 2020 to June 2023, Montréal CMA



Source: CMHC, Starts and Completions Survey
Note: 6-month moving average

Construction costs are levelling off

There's been some moderation in construction costs. The overall number of units under construction has started to decline. This drop is easing pressure on the construction industry's production capacity, and construction costs are adjusting accordingly.

Statistics Canada's Building Construction Price Index shows that construction costs have levelled off since the beginning of the year. Hard costs (materials and labour) and the cost of land account for the largest share of the cost of new housing projects.

In addition to construction costs and tighter lending conditions, external factors such as real estate development processes have affected construction capacity. To help clear this hurdle, the City of Montréal has announced a pilot project for a real estate advisory committee in 4 boroughs called the "*Cellule facilitatrice*."

This committee will provide support to real estate developers, including assistance with completing residential projects. The goal is to reduce planning times, improve predictability and streamline processes for developers. Ultimately, the objective is to accelerate supply growth on the private market.

Glossary: Important Definitions

Historical residential construction activity data are collected through CMHC's monthly **Starts and Completions Survey (SCS)**. Building permits are used to determine construction sites and visits confirm construction stages.

A **start** is defined as the beginning of construction on a building, usually when concrete has been poured for the whole of the structure's footing or an equivalent stage where a basement will not be part of the structure.

A **completion** is defined as the stage at which all proposed construction work on the building has been performed and is suitable for occupancy, although under some circumstances, a building may be counted as completed where up to 10% of the proposed work remains to be done.

Construction time is the amount of time (in months) elapsed between the start and completion of a structure. Note that construction time includes only the physical construction of the dwelling as defined above; additional steps in the development process, such as planning, obtaining permits, and site preparation, are not included.

Dwelling type

The definitions of types of dwellings (built form) used in the SCS are as follows:

A **single-detached** dwelling is a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

A **semi-detached** dwelling is one of two dwellings located side-by-side in a building, adjoining no other structure and separated by a common or party wall extending from ground to roof.

A **row** dwelling is a ground-oriented dwelling attached to two or more similar units so that the resulting row structure contains three or more units.

An **apartment and other** dwelling includes all dwellings other than those described above, including structures commonly referred to as duplexes, triplexes, double duplexes and row duplexes. In order to capture what constitutes apartment buildings, the analysis of apartment dwellings in this report is restricted to those having three or more units.

Additional definitions of types of dwellings (built form) used in the **Housing Supply Report**:

A **garden suite** or **laneway home** is a small detached dwelling usually located in the rear yard and is separate from the main house. In the case of a laneway home, the entrance will typically face the back lane behind the property.

A **self-contained** unit (or dwelling) refers to a residential unit (or dwelling) that contains a private kitchen, bath and living area.

A **secondary suite** is a self-contained dwelling located within the principal dwelling (such as in the basement) with a private entrance.

Tenure type (intended market)

The "intended market" is the tenure in which the unit is being marketed. This includes the following major categories:

A **freehold** unit is a residence where the owner owns the dwelling and lot outright.

A **condominium** (including Strata-Titled) is an individual dwelling unit which is privately owned, but where the building and/or the land are collectively owned by all dwelling unit owners. A condominium is a form of ownership rather than a type of house.

A **rental** unit is a dwelling constructed for rental purposes, regardless of who finances the structure.

Mixed forms of tenure within a given structure are also possible.

Other Concepts

For the purposes of this report, the following concepts have specific definitions:

A development's **intensity** is defined as the number of units per structure. A single-detached house with one unit would therefore have an intensity of one, while an apartment building with five units would represent a more intense form of development.

A related concept is **density**, which takes into consideration the amount of living space per lot area. Building height is simply the number of above-ground stories in the structure.

Building height is measured differently by individual municipalities in terms of meeting zoning restrictions. These often involve considerations such as the average height of a pitched roof, the inclusion of different roof structures in the calculations, and shadows created by the structure.

Endnotes

[1] https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-research/research-reports/accelerate-supply/housing-shortages-canada-solving-affordability-crisis

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[3] https://www.cmhc-schl.gc.ca/cmhc-enewsletters/subscribe-cmhcs-housing-updates

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[11] https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/market-reports/housing-supply-report/housing-supply-report-2023-04-en.pdf?rev=f0988ca5-6454-44da-8934-587d4a5650fe

[12] https://assets.cmhc-schl.gc.ca/sites/cmhc/professional/housing-markets-data-and-research/market-reports/housing-market-outlook/2023/housing-market-outlook-spring-2023-en.pdf?rev=5c29bc91-2310-435f-b2c9-b801866d0ede

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Alternative Text and Data for Figures

National Overview

Figure 1: Housing starts — seasonally adjusted at annual rates* selected CMAs

Period	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montréal
June 2018	25,505	12,252	10,039	42,351	6,356	24,287
	24,197	12,808	10,350	42,272	6,249	25,239
	24,820	13,700	11,220	35,166	7,626	22,713
	21,803	13,518	10,929	35,902	7,805	23,809
	20,900	12,441	10,256	38,954	9,398	23,865
	20,126	10,775	10,348	43,195	9,459	25,236
	21,423	9,774	10,068	40,370	8,646	25,659
	21,510	9,290	9,776	40,335	8,179	25,899
	21,605	8,444	8,392	38,965	7,977	26,383
	22,709	8,022	8,380	37,264	7,506	27,123
	25,413	8,521	9,121	36,137	5,849	26,461
	28,868	8,480	8,323	31,374	5,976	25,943
June 2019	31,631	9,582	9,528	30,816	6,596	26,820
	32,649	9,438	10,459	29,617	7,131	27,717
	31,753	10,199	11,549	32,211	6,688	29,487
	32,442	12,070	12,208	32,352	8,531	27,344
	29,395	11,831	12,133	31,390	8,702	27,696
	26,897	12,115	12,836	32,036	9,257	26,877
	24,630	14,200	11,835	29,934	8,882	23,325
	21,531	14,236	10,688	29,921	8,785	23,888
	21,604	13,598	9,653	29,021	9,456	22,856
	20,930	12,660	10,457	27,597	8,156	22,730
	20,799	12,121	11,163	32,359	8,625	17,513
	20,331	11,661	10,617	33,347	8,107	19,592
June 2020	19,638	8,222	10,276	36,364	8,178	23,008
	21,529	8,277	10,556	38,983	8,545	24,277
	23,143	8,306	10,782	44,061	9,903	25,567
	23,220	8,216	9,926	45,604	10,871	28,075
	23,250	9,085	10,490	41,566	10,587	32,175
	24,630	9,558	11,190	42,325	11,416	32,706
	25,096	10,425	12,880	40,905	11,767	31,827
	24,001	11,373	12,916	39,011	11,630	31,853

Period	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montréal
	23,550	11,355	13,423	32,651	10,066	33,930
	27,438	11,643	13,332	37,483	10,152	33,505
	28,073	12,123	12,736	36,966	10,695	35,916
	27,628	13,336	12,801	36,433	10,934	34,527
June 2021	30,745	13,922	11,935	37,217	10,475	35,319
	31,853	14,302	11,977	38,863	10,440	34,442
	31,083	15,036	12,333	42,622	10,520	32,337
	25,985	14,696	12,471	41,449	9,759	32,980
	26,349	14,754	13,071	41,234	10,142	31,173
	24,401	16,023	12,955	47,809	10,493	32,575
	21,345	16,061	13,178	46,705	10,169	29,890
	20,966	14,521	13,266	42,627	9,974	29,200
	20,043	14,842	12,600	45,815	9,434	27,415
	20,037	15,645	12,789	43,077	9,642	25,582
	21,642	15,984	13,096	41,762	9,241	26,557
	22,566	15,084	14,611	36,548	7,930	26,226
June 2022	23,517	16,470	14,378	39,935	8,598	28,513
	23,697	18,955	15,025	42,863	11,092	28,239
	24,739	18,784	15,410	40,724	12,423	28,393
	27,716	19,267	16,248	45,101	14,372	28,676
	26,917	19,784	16,960	46,849	14,625	27,855
	27,502	19,661	14,941	47,188	14,244	24,075
	28,423	18,119	14,583	50,736	13,464	20,001
	29,908	17,152	13,222	49,814	10,221	18,629
	29,100	17,455	12,916	49,825	8,815	17,660
	29,833	16,596	11,800	45,400	7,505	15,179
	33,752	15,447	9,817	49,543	7,174	12,708
	33,615	16,192	10,036	49,777	6,763	12,309
June 2023	35,006	16,433	10,120	52,194	7,227	11,975

*Six-month moving average.
Source: CMHC

Figure 2: Change (%) in residential* building construction price index from same quarter in previous year

Region	2022Q3	2022Q4	2023Q1	2023Q2
Vancouver	14.3	11.3	9.1	7.6
Calgary	16.1	14.1	6.1	3.1
Edmonton	19.5	16.0	8.5	0.8
Toronto	26.0	22.0	17.6	13.0
Ottawa	12.2	11.4	6.3	2.8
Montréal	15.0	10.2	5.9	2.6

*Single-detached houses, row houses and apartment buildings.
Source: Statistics Canada, Table 18-10-0276-01, Building construction price indexes.

Vancouver

Figure 1: Rental apartment and condo apartment starts

Year	Rental apartment starts	Condo apartment starts
H1 2010	475	2,213
H1 2011	1,018	3,216
H1 2012	372	5,283
H1 2013	1,356	4,111
H1 2014	1,257	4,235
H1 2015	1,571	4,764
H1 2016	2,995	7,281
H1 2017	1,732	6,600
H1 2018	2,848	6,164
H1 2019	2,948	9,593
H1 2020	2,425	4,303
H1 2021	3,132	8,888
H1 2022	3,686	4,823
H1 2023	5,089	9,236

Source: CMHC Starts and Completions Survey

Figure 2: Rental units under construction, Vancouver CMA

Year	City of Vancouver	City of Surrey	City of Burnaby	City of Coquitlam	Other
2003	343	111	115	N/A	732
2004	367	226	115	N/A	314
2005	379	233	146	2	344
2006	255	142	146	2	234
2007	238	170	146	N/A	249
2008	585	164	N/A	66	269
2009	374	139	5	66	178
2010	681	66	70	50	290
2011	883	93	64	30	714
2012	1,038	44	6	9	851
2013	2,041	196	6	113	989
2014	1,780	338	165	146	1,129
2015	1,780	509	237	129	1,593
2016	3,785	531	728	162	2,521
2017	3,935	479	955	250	2,325
2018	3,922	806	703	336	3,370
2019	4,803	984	525	655	3,216
2020	4,083	1,094	1,015	931	3,124
2021	3,804	1,823	781	890	2,842
2022	5,379	1,565	1,338	1,707	4,096
H1 2023	6,762	1,818	2,350	1,741	4,354

Source: CMHC Starts and Completions Survey

Edmonton

Figure 1: Annual growth rates of starts, completions and under construction units by dwelling types in Edmonton (H1-2023 vs H1-2022)

Starts, completions and under construction by dwelling type — 2023

Type	Starts	Completions	Under construction
Single	2,077	3,381	3,322
Semi	380	492	644
Row	985	769	1,559
Apartment	1,630	2,551	6,426
Total	5,072	7,193	11,951

Starts, completions and under construction by dwelling type — 2022

Type	Starts	Completions	Under Construction
Single	3,127	2,381	4,486
Semi	468	506	768
Row	943	745	1,424
Apartment	2,648	1,919	6,477
Total	7,186	5,551	13,155

Type	Starts	Completions	Under construction
Single	-33.6%	42.0%	-25.9%
Semi	-18.8%	-2.8%	-16.1%
Row	4.5%	3.2%	9.5%
Apartment	-38.4%	32.9%	-0.8%
Total	-29.4%	29.6%	-9.2%

Source: CMHC Starts and Completions Survey

Figure 2: Purpose-built rentals apartment starts and under construction in Edmonton (January 2014–June 2023)

Year	Rental apartments starts	Share of total starts (%)	Rental apartments under construction	Share of total under construction (%)
2014	546	8.7%	2,421	17.4%
2015	1,329	14.2%	3,162	19.3%
2016	549	11.1%	2,604	21.5%
2017	748	13.1%	1,862	18.3%
2018	284	5.9%	1,623	15.6%
2019	847	18.1%	2,257	23.6%
2020	468	9.3%	2,664	25.7%
2021	1,207	20.6%	4,163	39.4%
2022	1,895	26.4%	5,377	40.9%
2023	1,578	31.1%	6,152	51.5%

Source: CMHC Starts and Completions Survey

Figure 3: Completed and unsold inventory in Edmonton records significant growth (2014–2023)

Year	Units	Growth (%)	Growth in inventory — single-detached
2013	1,294		
2014	1,129	-12.8%	-3.1%
2015	1,151	1.9%	7.7%
2016	1,867	62.2%	33.3%
2017	2,240	20.0%	-16.6%
2018	2,250	0.4%	26.5%
2019	3,080	36.9%	50.6%
2020	2,521	-18.1%	-17.8%
2021	1,770	-29.8%	-43.7%
2022	1,229	-30.6%	6.8%
2023	2,273	84.9%	132.3%

Source: CMHC Starts and Completions Survey

Calgary

Figure 1: Ratio of rental apartment starts to total apartment starts, Calgary CMA

Year	Ratio of rental apartment construction to total apartment construction
H1 2000	1%
H1 2001	0%
H1 2002	18%
H1 2003	12%
H1 2004	22%
H1 2005	0%
H1 2006	4%
H1 2007	1%
H1 2008	2%
H1 2009	0%
H1 2010	43%
H1 2011	18%
H1 2012	14%
H1 2013	5%
H1 2014	5%
H1 2015	10%
H1 2016	11%
H1 2017	27%
H1 2018	11%
H1 2019	17%
H1 2020	28%
H1 2021	25%
H1 2022	49%
H1 2023	67%

Source: CMHC Starts and Completions Survey

Figure 2: Total units under construction, Calgary CMA

Year	Total units under construction	Rental apartments under construction	Condo apartments under construction	Other
2000	6,888	12	3,449	3,427
2001	7,164	450	2,480	4,234
2002	8,661	546	2,751	5,364
2003	8,165	240	2,961	4,964
2004	9,182	463	3,969	4,750
2005	10,027	21	4,133	5,873
2006	14,324	188	5,550	8,586
2007	14,720	121	6,960	7,639
2008	11,216	368	6,782	4,066
2009	9,190	337	4,858	3,995
2010	7,199	382	2,907	3,910
2011	8,691	546	3,837	4,308
2012	10,916	975	4,424	5,517
2013	11,866	953	4,776	6,137
2014	15,335	1,384	7,045	6,906
2015	13,773	2,292	6,840	4,641
2016	9,761	1,259	4,613	3,889
2017	10,298	1,018	4,662	4,618
2018	11,452	2,489	4,666	4,297
2019	11,587	2,312	4,896	4,379
2020	10,177	1,992	4,473	3,712
2021	14,438	4,222	4,493	5,723
2022	18,594	6,426	4,620	7,548
2023	20,086	8,500	3,838	7,748

Source: CMHC Starts and Completions Survey

Toronto

Figure 1: Residential* building construction price index for select CMAs (2017=100)

Quarter	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montréal
Q4 2019	113.8	106.9	106.4	110.7	113.3	108.6
Q1 2020	114.7	108.1	107.1	111	114.4	109.5
Q2 2020	114.9	107.9	107.5	111.7	116.3	110.3
Q3 2020	117	111.2	110.8	114.9	118.9	113.1
Q4 2020	117.8	115.5	115.2	119.1	124.5	114.9
Q1 2021	121.1	125.1	121.1	126.4	130.5	119.4
Q2 2021	125.2	141.8	131.7	136.8	149.4	124.6
Q3 2021	128.4	149.7	138.4	143.1	153.3	129.5
Q4 2021	133.9	153.8	143.6	149.7	155	135.9
Q1 2022	139.9	164.7	153.6	160.2	162.9	142
Q2 2022	144	171.5	163.3	173	170.3	146.5
Q3 2022	146.7	173.8	165.4	180.3	172	148.9
Q4 2022	149	175.5	166.6	182.6	172.7	149.8
Q1 2023	152.6	174.7	166.6	188.4	173.1	150.4
Q2 2023	154.9	176.9	164.6	195.5	175.1	150.3

*Single-detached houses, row houses, and apartment buildings.
Source: Statistics Canada

Figure 2: Purpose-built rental apartment starts from January to June (Toronto CMA)

Year	Purpose-built rental apartment starts
1990	2,088
1991	1,401
1992	2,889
1993	1,263
1994	952
1995	658
1996	367
1997	47
1998	134
1999	13
2000	98
2001	436
2002	468
2003	1,034
2004	697
2005	798
2006	517
2007	285
2008	1,129
2009	170
2010	899
2011	863
2012	1,303
2013	238
2014	602
2015	875
2016	1,719
2017	1,097
2018	1,999
2019	2,144
2020	3,878
2021	1,892
2022	1,436
2023	6,387

Source: CMHC

Ottawa

Figure 1: Average number of units per structure, January to June, Ottawa CMA

Year (half-year 1)	No. of units per building
H1-2014	2.5
H1-2015	2.4
H1-2016	2.1
H1-2017	2.6
H1-2018	2.1
H1-2019	2.4
H1-2020	2.4
H1-2021	2.5
H1-2022	2.7
H1-2023	4.4

Source: CMHC, Starts and Completions Survey

Montréal

Figure 1: Units under construction, January 2013 to June 2023, Montréal CMA

Year	Rental units under construction
2013	2,378
	2,134
	2,274
	2,357
	2,211
	1,947
	1,891
	1,880
	2,159
	2,087
	2,075
	2,433
2014	2,150
	2,353
	2,488
	2,625
	2,686
	2,785
	2,986
	2,638
	2,667
	2,824
	3,810
	3,518
2015	3,311
	3,059
	2,835
	3,046
	3,453
	4,302
	5,120
	5,261
	5,993
	6,129
	6,598
	7,532
2016	7,767
	8,549
	8,537
	8,457
	8,249
	7,017
	5,855
	5,940
	7,449
	7,591

Year	Rental units under construction
	7,625
	7,912
2017	8,317
	8,094
	9,411
	9,995
	9,932
	9,818
	8,696
	8,031
	8,530
	9,033
	8,861
	9,562
2018	9,642
	10,148
	10,549
	11,348
	11,134
	11,848
	11,170
	11,164
	11,966
	12,310
	13,060
	13,320
2019	13,594
	13,959
	15,137
	15,258
	14,975
	15,445
	15,031
	14,806
	14,652
	15,168
	15,439
	15,114
2020	15,776
	15,667
	15,478
	15,473
	15,173
	15,874
	15,169
	15,546
	16,422
	17,071
	18,038
	18,433
2021	19,722
	20,376
	21,527
	21,997
	22,458
	22,674
	22,793
	22,153
	22,545
	23,897
	25,541
	26,025
2022	25,481
	26,002
	26,588
	26,915
	27,317
	27,900
	27,669
	26,636
	26,629
	26,601
	25,650
	23,245
2023	22,889
	22,945
	21,696
	21,513
	20,508
	19,431

Source: CMHC, Starts and Completions Survey

Figure 2: Completed and unsold condominiums, January 2020 to June 2023, Montréal CMA

Year	6-month moving average
Jan. 2020	1,364
	1,329
	1,285
	1,229
	1,144
	1,036
	942
	861
	810
	769
	756
	764
Jan. 2021	761
	753
	694
	649
	602
	560
	522
	493
	486
	474
	459
	420
Jan. 2022	388
	354
	327
	292
	266
	253
	242
	236
	231
	242
	248
	261
Jan. 2023	276
	284
	290
	302
	334
	371

Note: 6-month moving average.
Source: CMHC, Starts and Completions Survey