Structural Change in the Housing Industry

Report No. 1

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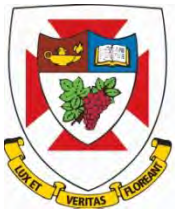
by Lynda H. Newman
1984

The Institute of Urban Studies



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Lynda Newman

TABLE OF CONTENTS

LIST OF TABLES

EXECUTIVE SUMMARY

A vitally important housing issue in the next two decades is the projected diminished need for new house construction. This long-term trend when combined with the present situation of dramatically reduced new house construction has far-reaching implications for the new housing industry. The primary and most obvious change that can be expected is the shift of activity from new construction to the rehabilitation of existing residential stock.

The study was undertaken to examine both the short-term and long-term implications of reduced new house demand on the housing industry and from this information consider appropriate public policy intervention. The research objectives were identified as:

* To critically examine and document changes in the demographic structure and housing market situation, which are likely to lead to contraction of the new residential construction industry in the Canadian and local Winnipeg context.

* To examine structural changes which are occurring in the Winnipeg housing industry and their effects.

* To consider alternative functions for the new house industry.

* To consider the appropriate prospective role of public policy intervention at the federal, provincial and municipal level to mitigate the negative effects of industry contraction and fragmentation.

To fulfill these objectives the following steps were taken:

1. A literature review was conducted to identify macro-economic factors affecting the housing industry in the 1970's and early 1980's; to consider changes which have occurred or are now taking place due to these factors; and to discover the effects these factors are having on the structure of the housing industry.

2. Government policy at the federal, provincial and municipal levels as it relates to long-term and short-term change in Canadian housing activity was reviewed. Particular attention is given to the effects of housing policy on production. Demographic trends and their implications for the Canadian, Manitoban and Winnipeg housing markets are evaluated.

3. To further the discussion and to extend it to consider future change, a more detailed examination has been made of the Winnipeg housing industry. Three primary data sources were used:

   a) building permit data for the City of Winnipeg
   b) capital cost allowance (MURB) data for the City of Winnipeg
   c) data generated from questionnaires and interviews.

   The first two sources were used to develop information on industry activity by location, value, building type and time period. The questionnaire and interview data, from local industry participants, provided both factual and perceptual information on the Winnipeg housing market; the organization of the local industry and individual businesses and the government policy context.

The findings indicate that a variety of factors are causing a dramatic change in new house demand on both a short and long-term basis. Change in government policy, economic conditions, and demographic trends have and will continue to cause decline in new construction activity. Short-term economic conditions are forcing the industry to reduce construction activity to levels well below those implied by long-term forecasts. The review of the Winnipeg housing market indicates that the industry has only recently recognized the

need to react to present circumstances rather than wait for recovery. The local industry also displays fragmentation which is primarily due to varying perspectives of what are the problems and what are the solutions. While one group of firms continues to promote suburban growth and to seek means of increasing new house demand, others are interested in diversifying their activities and seeking new markets either locally or elsewhere.

This study demonstrates the need for a variety of solutions to address a variety of problems. Solutions must address:

1. Housing demand for new construction both short-term and long-term.
2. Structural reorganization of businesses and the industry to allow for temporal change, diversification or expansion with an overall goal of industry stability.
3. Alternative functions for the new residential construction industry.
4. Development of knowledge and skills for industry members to undertake new activities.
5. Industry capability to develop realistic demand forecasts.

Following the strong expansionary trend of the 1970's, the 1980's will be a transition period for the housing industry as it moves toward a size and organization in keeping with long-term demand and production levels.

The following recommendations are made to address both short-term and long-term issues. Government and industry must assume responsibility for instituting change and change must affect industry organization, housing market conditions and residential money markets. Government, at the federal level, must create stability and consumer confidence while the provincial and municipal levels must take a more active role particularly in creating investor confidence and in providing assistance to low and moderate income households. The industry must consider long-term stability and pursue new marketing, construction and management styles which will allow greater flexibility in their operations and housing product in keeping with consumer need.

Present economic circumstances pose conditions which are extremely difficult for the housing industry to cope with. Adjustments, sufficient to cope with a prolonged period of inflation and monetary restraint, are considered undesirable as the industry would be reduced dramatically in size and production capability.

Of importance to the success of long-term stabilization and of particular importance for dampening dramatic short-term swings in new house construction is the establishment of accessible and stable supplies of both mortgage and capital funds for residential activity. It is recommended that a new and separate residential mortgage market be established by the private sector, with public sector support, which will stabilize interest rates and renew consumer confidence.

An immediate short-term increase in demand would result and long-term stabilization of demand would be promoted. Stabilization of demand must be accompanied by stabilization of supply of new housing units and rehabilitation and renovation services. To this end, it is recommended that a residential capital funds market be established by the private sector with initial government support.

It is also recommended that the home improvement industry be thoroughly reviewed and steps, to improve its operation, be taken by both government and the housing industry.

The housing industry has demonstrated its propensity for short-term planning and government has responded to the resulting problems with selective, short-term solutions which failed to encourage market stability or changes in industry organization and operation. The final recommendation is for greater government/industry consultation and action to create a responsive but stable housing industry that can effeciently meet the long-term housing demands of Canadians.

1.0 INTRODUCTION

A vitally important housing issue in the next two decades is the projected diminished need for new house construction. Population and household formation projections for Canada suggest that because population growth will be modest and because of predicted changes in the age structure of the population, it can be expected that there will be an overall reduction in the demand for new housing and that the nature of that demand will change.

Government housing and economic policies also require consideration. On a short-term basis, the housing industry has found it necessary to deal with rapid swings between growth and decline as government action stimulated or dampened demand. On a long-term basis, government has since the 1940's, continuously encouraged the growth of the housing industry by stimulating both housing supply and housing demand. Government housing policy indicates a move away from major intervention in coming years. Economic policies show changes indicating monetary restraint and strict anti-inflation measures. For the housing industry, the expectation is for dramatically reduced new house construction in the short-term and reduced production in the long-term.

These circumstances have far-reaching implications for the new housing industry. The primary and most obvious change that can be expected is a contraction of the industry. Another likely change is the shift of activity from new construction to the rehabilitation of existing residential stock.

1.1 Objectives of the Research

* To critically examine and document changes in the demographic structure and housing market situation, which are likely to lead to contraction of the new residential construction industry in the Canadian and local Winnipeg context.

* To examine structural changes which are occuring in the Winnipeg housing industry and their effects.

* To consider alternative functions for the new house industry.

* To consider the appropriate prospective role of public policy intervention at the federal, provincial and municipal level to mitigate the negative effects of industry contraction and fragmentation.

1.2 Research Questions

The questions addressed in this study are:

1. Federal policy and programs - What are the effects on the industry of present policy? What is policy likely to be in the 1980's and how will it influence the housing industry?

2. Local differentiations - What influence are provincial and municipal policies having on the housing industry? What will they be in the 1980's? What other local factors affect the industry and how?

3. Government intervention - Should government, at any of the three levels intervene in structural change in the housing industry? What form should intervention take?

4. Cyclical change - How has the housing industry dealt with rapid growth and decline in the past?

5. Long-run change - Does the industry perceive a need to plan for long-term changes in the housing industry? If so, what changes do they expect to make? Do they perceive a need for government support in making these changes?

6. Winnipeg housing industry - What is the present state of the local housing industry? How has it changed since 1972? What changes can be expected in the 1980's?

7. Winnipeg housing market - What are the opportunities and alternatives for the housing industry in Winnipeg? Will the 1980's see changes in these?

1.3 Structure of Report

Section 2 consists of a literature review. Macro-economic factors which have affected the housing industry in the 1970's are considered. Changing economic circumstances are identified by several authors who indicate the effects of these changes on the housing industry. Government policy interventions are reviewed.

Section 3 reviews government policy at the federal, provincial and municipal levels as it relates to long-term and short-term change in Canadian housing activity. Particular attention is given to the effects of housing policy on production. Demographic trends and their implications for the Canadian, Manitoban and Winnipeg housing markets are evaluated.

Section 4 outlines the methodology, findings and conclusions of the research conducted to determine if structural change was occurring in the Winnipeg housing industry. Perceptions of change were also solicited from industry participants.

Appendix A provides a detailed outline of research findings which are summarized in Section 4.

2.0 LITERATURE REVIEW

The purpose of the literature review was to identify macro-economic factors affecting the housing industry in the 1970's and early 1980's; to consider changes which have occurred or are now taking place due to these factors; and to discover the effects these factors are having on the structure of the housing industry. A statement made by Joseph Chung in his study Cyclical Instability in Residential Construction, is most appropriate to this report and touches on many of the factors to be considered in the literature review.

> . . . . it is generally accepted that the long-run growth of housing stock depends on the increase in demand for housing, which is a function of demographic factors and price, income and credit variables. It is also generally accepted that the short-run cyclical fluctuations in residential construction are principally determined by the availability of credits, the builder's expected profit and government policies, especially monetary policy and those of federal housing authorities such as the CMHC. (Chung, 1976:21)

Literature on several subject areas has been reviewed and will be considered under the following headings:

1. Economic Cycles and Stabilization Policy
2. Monetary and Interest Rate Policies
3. Tax Legislation and Investment Trends

2.1 Economic Cycles and Stabilization Policy

The economy historically demonstrates cycles of growth and decline. The various sectors of the economy also exhibit cyclical

patterns which do not alway coincide with general economic trends. Chung (1976) and Swan (1975) demonstrate that the construction sector exhibited anti-cyclical behaviour over the period 1949 to 1971. Matthews (1979b) discusses this anti-cyclical behaviour and the effects on the housing sector of using the construction sector for economic stabilization.

> . . . . fluctuations are undesirable since the boom or bust cycles increase housing costs, bankruptcies, and inefficiencies can lead to under-capitalization in the long run allocation of resources for housing. However, unless a housing contraction is extremely severe or prolonged, long run resource allocation is unlikely to be significantly affected and there is little reason to specifically stabilize the residential construction sector. But, if contractions are likely to be excessive as a consequence of an extraordinarily strong application of monetary policy for general macro-economic purposes (for example, for exchange rate puroses), the use of specific anti-cyclical housing policies is justified. (Matthews, 1979b)

Terry (1980) presents information on why the housing sector was particularly suited for use as an instrument of economic stabilization. Significant factors are the high labour content; strong use of domestic supplies; multiplier effect; and national scope. Terry finds that the anti-cyclical behaviour of the construction sector changes in the late 1960's to a pro-cyclical behaviour. This occurred due to institutional changes which altered the Canadian mortgage market and the shift of government housing activity away from market housing financing to social housing provision.

> The shift in the pattern of behaviour . . . . means that the government can no longer rely on the housing sector to counteract automatically the ups and downs in the general economy. (Terry, 1980:15)

2.2 Monetary and Interest Rate Policies

Federal monetary policies greatly influence residential construction due to the interest sensitivity of housing demand and supply. The series of reports produced by the Economic Council of Canada (Chung, 1976; Keyes, 1975; Ludwig, 1975; Swan,1975) touch on this issue repeatedly when discussing the instability of the construction sector. A report on CMHC briefly explains the monetary and interest rate adjustments that occur during economic cycles.

> When economic activity expands, the demand for loanable funds exerts upward pressure on interest rates. This adversely affects the availability of private funds for housing because the mortgage - bond yield differential will decline as a result of the increased non-housing demand for funds and this induces financial institutions to reduce the proportion of their new investments flowing into housing. Reinforcing this reduction is a general slowdown in the flow of funds into financial institutions as primary security yields rise. At the same time as mortgage availability declines, the rising mortgage rate reduces the demand for new housing since the demand for housing is more sensitive to interest rates than demand in other investment sectors. The anti-cyclical income forces usually outweigh the pro-cyclical income forces causing residential construction to fluctuate in an anti-cyclical manner.
>
> These fluctuations are generally reinforced by monetary policy which usually becomes restrictive in the sense that monetary demand accelerates more quickly than the money supply during economic expansions. These restrictions increase upward pressure on interest rates and generate a sharper and more prolonged contraction in residential construction activity. Moreover, monetary policy exerts a disproportionate impact on residential construction because of the high sensitivity of both demand and supply of funds in this sector to changes in the interest rate. (Matthews, 1979a:25, 26)

The effects of high mortgage interest rates take several forms. From the Financial Post come the following statements:

> The instability of interest rates in 1980 had a severe impact on the mortgage market. Total mortgage financing fell significantly. (July 12, 1980)

> Record high interest rates have caused developers to shift their attention to commercial projects which they view as more adaptable than residential projects. (January 31, 1981)
>
> High interest rates are also proving disastrous for investors such as pension funds . . . As well, the small investor is stymied by interest rates of 17 - 18%, making purchasing and developing of real estate very difficult. (January 31, 1981)

Commenting on rental construction, Freiser (1980) finds a combination of high mortgage interest rates and rent control has made new rental projects not viable financially for investors.

Two categories of problems face consumers. The City of Winnipeg (1981) found that homeowners renewing mortgages are finding it necessary to alter family budgets to allow a greater portion of their funds to go to housing. The second problem, and the one with the greatest influence on currently slumping demand, is the difficulty facing households who wish to enter the homeowners market for the first time. Renaud (1982) identified first-time buyers as the consumer group experiencing the greatest difficulty.

2.3 Tax Legislation and Investment Trends

Investment in residential property is affected by several factors including interest rates, economic and demographic trends, and government policy such as tax legislation. With unstable mortgage rates and reduced loan terms, an analyst prediced that in 1980 "investors wil be increasingly attracted to government and energy related bonds, with mortgages being regarded as hassle-ridden and offering only a marginally better return." (Financial Post, July 12, 1980)

Investment has also shifted into commercial projects and into American markets.

> Builders should emphasize a reverse strategy, that is de-capitalizing long-term speculative investment in favour of short-term activity that can be financed as expense items, for instance, custom building, renovation and energy conservation. The same approach would also include more equity and less debt financing. Builders should also look at diversification, either geographic, or into stronger markets such as commercial building. (Ripley, 1980:1)

Westell (1981) notes that investment in American real estate is large scale and that five of the ten largest developers in the United States are Canadian. Jarrett (1981) points out that American tax law encourages investment of all kinds through tax savings while Canadian tax law stimulates savings both business and personal.

In both the United States and Canada, a prolonged period of high interest rates and tight monetary conditions has reduced real estate investment of all types. (Ripley, 1980) Jarrett (1981) and Cawdrey and Prefontaine (1980) find that the rate of personal savings has risen from 5% in 1970 to 10.5% in 1980. The 1970's saw a continued increase in acquisition of both financial assets and liabilities relative to after-tax income but recent trends show a shift in composition of financial assets reflecting a "generally increasing preference for liquidity." (Jarrett, 1981:x) According to Cawdrey and Prefontaine, this occurred because:

> . . . . high rates of unanticipated inflation and high variability in inflation appear to have sustained high rates of personal saving through their effect in both eroding real

> personal-sector wealth and undermining consumer confidence. The tax treatment of savings, high rates of unemployment and various demographic trends are also identified as factors that contributed to the rise in the personal savings rate during the 1970's. (1980:45)

Kalymon, reviewing profits in the real estate industry, concludes that "investors are inadequately compensated for the uncertainties and the above average risks characteristic of the industry." (1978:ix) With declining residential activity, reductions in residential prices and uncertain financing conditions, residential real estate in the 1980's is a high risk industry where profit is not ensured.

It is the author's position that much of the risk characteristic of the industry is due to the industry's structure and mode of operation. As pointed out by Chung (1976), the industry operates with little capital investment. Planning is short range and commonly based on ability to finance a development and short-term profit maximization outweighs long-term income stability. To reduce risk and thus stabilize investment both internal operations and external economic factors must be addressed.

The major real estate tax shelter of the 1970's was the multiple unit residential building or MURB. The MURB allowed individuals "to write off capital cost allowance (depreciation) and some or all of other soft costs (legal and accounting fees, realty taxes levied by municipal governments and even landscaping costs) against personal income." (Weiss, 1981:132) MURB's encouraged syndication. "The

most popular method of syndicating tax shelters today is through limited partnerships or the sale of condominium units." (Green, 1982:27)

Richard Bird (1980) reviewed a wide spectrum of tax incentives for investment in the Canadian tax system. He concluded that the present system of incentives does not significantly increase investment and that costs and benefits of incentives are leading to inequities which taxation is supposed to eliminate. Jarrett (1981) agrees with Bird regarding the lack of effective investment incentives in Canada's tax system.

MURB's, while maintaining a level of rental production in the 1970's which may not have existed otherwise, has added to the present rental housing dilema. Green, considering the federal government's proposed changes to tax shelters, states:

> As a result of all these proposed changes, I see a reduced amount of residential construction starts after 1982, which means that unless there are new incentives or there is the introduction of rent controls, rents will probably escalate sharply, enhancing the cash flow and therefore, the value of existing MURB'S. (1982:39)

2.4 Conclusion

Recent years have seen a prolonged period of inflation in which interest rates and the exchange rate have been used by government in an attempt to stabilize the economy. The housing industry has been greatly affected by the application of these policies as the production figures in Section 3.1.1 show. No measures have been taken by

government to stimulate housing demand. On the contrary, federal government spending restraints have reduced the number of housing programs and subsidies and necessitated the use of private funds for most developments. With the withdrawl of programs in the late 1970's government has, in fact, eliminated several of the methods available to it to use housing funding as an instrument of micro-economic stabilization. Considering this, it can be expected that the amplitude of building cycles is likely to increase and that trough periods may become extended. It is also important to note that the capacity to regulate housing supply now rests with less direct tools such as tax policy. One could argue that these instruments although indirect do influence supply in predictable ways and often quite quickly. The concern for a housing policy analyst would be that they cannot be targetted to achieve specific results. From an housing economist's point of view they are thus very inefficient.

3.0 GOVERNMENT POLICY: 1935-PRESENT

The thrust of federal policy from the mid-1930's to 1954, has been to stimulate housing demand and create a business environment in which the residential construction industry could grow, thus ensuring housing supply. Direct influence was exerted by Canada Mortgage and Housing Corporation (CMHC) operating under the National Housing Act (NHA). Indirect influence was exerted using the mortgage market and monetary policy.

In the mid-1950's policy expanded to deal with availability of funds for residential construction. Government initiatives succeeded in increasing the number of sources of funds and the overall supply of mortgage funds. In the late 1960's, the emphasis shifted to social policy and income redistribution. Rapid increases in federal and provincial social housing programs and unit production continued until the mid-1970's. Sharp reductions in both homeownership and rental assistance programs have occurred since that time.

The federal government has also significantly affected the mortgage market through monetary policy. In 1980, chartered banks and trust companies dominated residential mortgage loans with 66 percent of the market. (See Table 1) Chris Terry explains the changes in government regulations which resulted in the dominance of these two types of lenders.

* in the 1967 Bank Act revision, the 6% ceiling on bank mortgage rates was lifted, and banks were allowed into the conventional mortgage field;

TABLE 1

All Residential Mortgage Loans Approved by Lending Institutions
by Type of Lender, Canada, 1972-1980 (Dwelling Units)

Period	Chartered Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other Companies	Total
1972	78,603	36,353	100,321	67,850	16,885	300,012
1973	97,906	44,766	130,734	62,998	14,105	350,509
1974	72,335	25,870	88,621	53,369	9,986	250,181
1975	94,897	33,263	119,628	73,662	15,049	336,499
1976	87,956	41,776	128,785	67,190	19,241	344,948
1977	130,380	62,403	178,672	90,539	18,705	480,699
1978	131,717	39,936	157,108	78,834	16,067	423,662
1979	121,124	39,187	132,642	78,162	14,173	385,288
1980	92,831	36,446	105,399	52,521	13,904	301,101

Notes: In 1976, there was a 50/50 split in financing between new and existing units.
In 1978, 1/3 of all funds went to new units while 2/3 went to existing units.
In 1980, the funds were 28% new units and 72% existing units.

Source: C.M.H.C. Canadian Housing Statistics, 1979. Derived from Table 35, p. 29.

* five year terms were extended to NHA loans;

* the NHA rate was freed to allow it to follow the market;

* CMHC reduced its activity in the provision of funds for market housing in favour of increased emphasis on subsidized operations.

> The results of these changes were most important as they related to the activities of chartered banks. Following 1967, they rapidly re-entered the mortgage markets which they had left in 1960 when rates rose beyond their statutory 6% lending ceiling. (Terry, 1980:12)

Other changes in mortgage lending have occurred and can be noted from Table 1. From 1972 to 1977, a significant upswing in dollars committed to residential mortgages occurred and was then followed by a sharp decline. Also to be noted is the distribution of funds between new and existing units. In 1976, the funds committed were evenly split between new and existing, but by 1980 28 per cent of funds went to new housing and 72 per cent to existing housing. (Canadian Housing Statistics, 1979:29). Again, a combination of direct and indirect influences have caused the recent decline in lending and the shift from new to existing units.

The federal government has been instrumental in the long-run growth of the housing industry while provincial and municipal influence has been limited, particularly in the years prior to 1967. In Manitoba, provincial activity has primarily consisted of administration of federal programs and implementation of complimentary programs.

> ... previous activity in terms of both policy and program formulation has tended to be dominated by the federal government. To a large extent federal dominance in housing was assured through manipulating the structure of housing funding; a structure which developed as a system of con-

> ditional grants and loans tied directly to universally applied federally designed programs. Although some provincial and municipal input has occurred in establishing federal policy and programs, this input has been marginal and the role of lower levels of government has been directed primarily toward the implementation and administration of federal program alternatives. In essence the province and municipality were relegated to selecting a mix of housing programs which best suited their perceived needs. (Institute of Urban Studies, 1979:41)

While provincial intervention through housing programs has been limited, provincially imposed rent controls have affected the rental housing market. Rent controls are now being reintroduced in Manitoba and it is expected that controls combined with other factors will mean a continued slump in rental construction. The following quote illustrates some of these additional factors:

> Because of the multiple-unit residential building (MURB) program and other incentives, Winnipeg developers substantially overbuilt houses and apartments at a time when the city was in a slump in the late 1970's..... there has been virtually no apartment construction in Manitoba for two years because of oversupply and uncertainty about the future of MURB programs. As a result, apartment vacancy rates have been falling sharply in Winnipeg and Brandon, Manitoba's second largest city. Winnipeg's vacancy rate has dropped to 3.5 per cent from 4.3 in the past year and may decline to 1.5 per cent by fall, Canada Mortgage and Housing Corp. officials say. (Globe and Mail, April 12, 1982:R16)

Municipally, activity has concentrated on zoning and development plan review. Significant suburban expansion occurred in the 1970's and existing inner city housing declined in quality. In the 1974 Survey of Housing Units conducted by CMHC, Winnipeg's housing was second only to Montreal for poor condition . The City of Winnipeg, with provincial funding, established a municipal non-profit housing corporation in 1977 with a mandate to rehabilitate existing housing. Its activity has been limited.

In the late 1970's the City undertook the development of a new planning policy statement. Plan Winnipeg, in its first draft form, stated

> The future of the city now lies in its existing neighbourhoods and infrastructure and not in the suburban periphery. In short, the major issue to be faced within the context of long range development planning has become:
>
> > What is the most effective strategy for encouraging the maintenance and revitilization of older established neighbourhoods? (1980:E.P. 6)
>
> The encouragement of high density, non-family residential development is recognized as the most important component in the renewal of Winnipeg's downtown. (1980:E.P. 14)

Suburban development would be restricted to tracts of land previously approved for development and now fully serviced.

The second draft of Plan Winnipeg, which is being considered for approval, withdraws from this strong central city position and allows for more suburban development. It is speculated that strong pressure from land development and construction industry sources led to this change. Also evident is the difficulty municipal officials would encounter in controlling suburban development. Presently, the City has approved and committed funding to serviced suburban land to meet needs to 1995. Other means than land development would be necessary to control construction.

Another initiative which should be considered is the tri-level government agreement called the Winnipeg Core Area Agreement. Again the emphasis is on central city improvement. In housing, government programs and funds are available for residential upgrading and infill housing. If rail relocation occurs, additional land may become available for new residential construction. Planning is still occurring. Implementation of some programs has started. The influence of this initiative on the

housing industry is still to be determined. At present, the industry appears skeptical about the benefits they can gain from this program.

3.1 Housing Production: 1972-1980

3.1.1 Housing Programs and Production

A review of housing production data for the period 1972 to 1980, shows the short-run trends which housing policy and programs can create. Table 2 indicates housing starts by type for Canada, Manitoba and Winnipeg. In Canada, dwelling starts rose from 249,914 in 1972 to 273,203 in 1976 and declined to 158,601 by 1980. Manitoba and Winnipeg did not experience the same peak of production but have experienced the recent dramatic drop in starts. Single-detached dwellings and apartments were most significantly affected.

As Table 3 shows, a major increase in government sponsored housing occurred in the early 1970's. Between 1974 and 1977, 51 per cent of all housing starts were sponsored under government programs. A peak in production occurred in the mid-1970's with a significant decrease in the late 1970's. Several programs were discontinued - AHOP, ARP, Section 43 Public Housing, while others underwent major changes - Non-Profit and Cooperative Housing. All of the changes represented a withdrawl of government from housing production; direct lending; and long-term subsidization of homeowner and moderate-income rental units.

3.1.2 Demographic Trends and Production

The rate of growth of the Canadian population has been declining.

TABLE 2

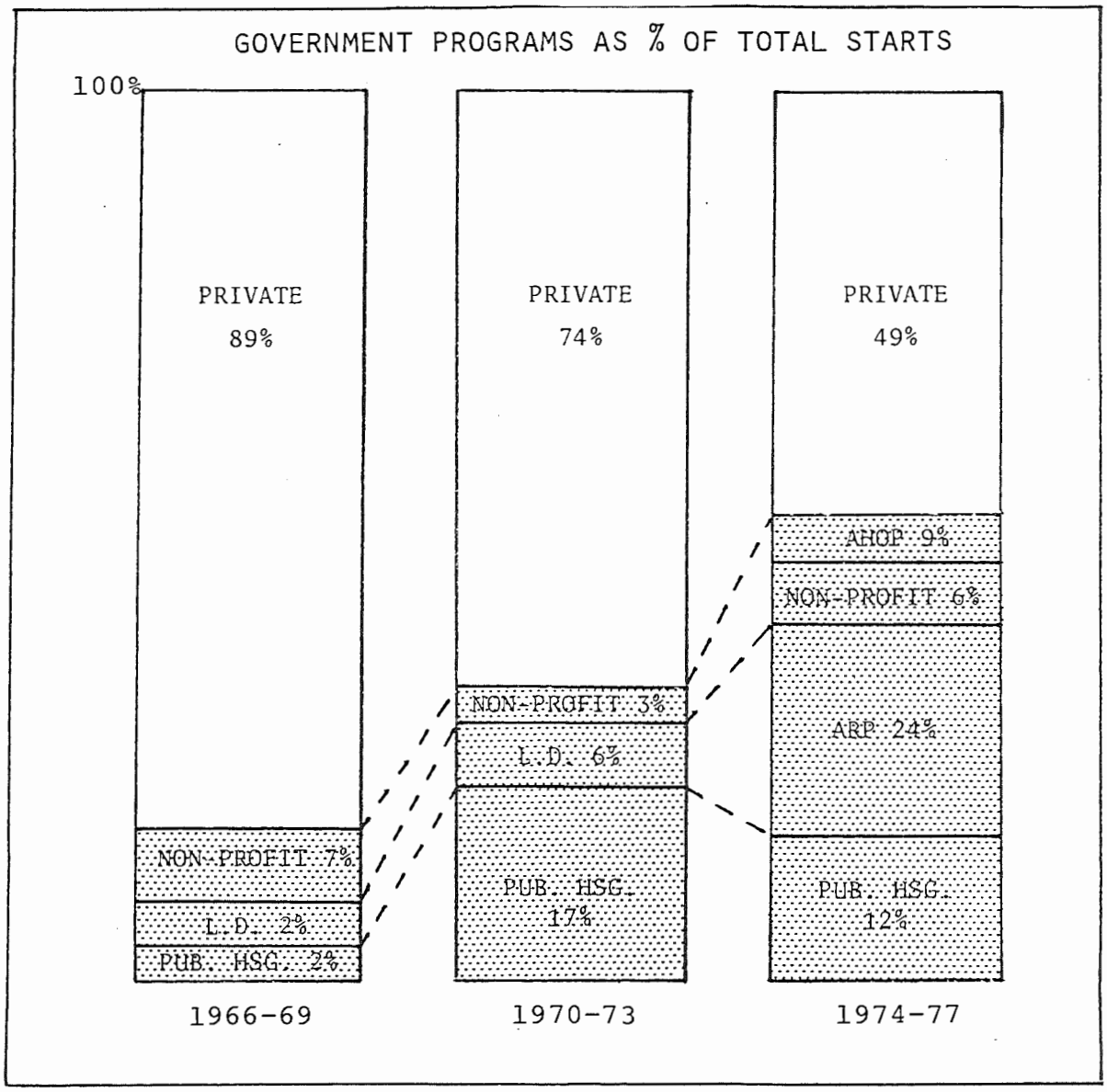
Dwelling Starts by Type and Area, 1972-1980 (Dwelling Units)

Area + Type	1972	1973	1974	1975	1976	1977	1978	1979	1980
Canada									
Single-Detached	115,570	131,552	122,929	123,929	134,313	108,029	110,029	109,117	87,721
Semi-Detached & Duplex	13,649	13,235	11,023	15,403	15,890	18,373	19,932	16,296	11,149
Row	16,980	17,291	14,932	21,763	33,676	26,621	20,379	13,249	11,402
Apartment	103,715	106,451	74,025	70,361	89,324	92,327	77,327	58,387	48,329
Total	249,914	268,529	222,123	231,456	273,203	245,724	227,667	197,049	159,601
Manitoba									
Single-Detached	4,889	5,816	5,405	4,334	4,726	4,193	3,999	2,944	1,623
Semi-Detached & Duplex	852	448	617	555	574	834	1,423	234	34
Row	435	93	303	268	1,105	884	1,035	363	151
Apartment	5,892	5,174	2,427	2,688	2,934	3,499	5,664	2,231	789
Total	12,068	11,531	8,752	7,845	9,339	9,410	12,121	5,772	2,597
Winnipeg									
Single-Detached	2,925	3,061	2,665	2,381	2,927	2,424	2,485	1,514	1,000
Semi-Detached & Duplex	788	268	557	510	558	799	1,395	222	26
Row	236	93	287	264	859	684	928	363	151
Apartment	5,185	4,276	2,119	2,139	2,374	2,446	4,898	1,992	491
Total	9,134	7,698	5,628	5,294	6,718	6,353	9,706	4,091	1,668

Source: C.M.H.C. Canadian Housing Statistics, 1979. Derived from Tables 10, 12, 13, pp. 10, 12, 13.

TABLE 3

Government Sponsored Housing Production



Source: Peter Barnard Association (1979). Housing in Winnipeg. Winnipeg: Winnipeg Development Plan Review. Exhibit 1.14. Derived from: Canadian Housing Statistics, Special C.M.H.C. Printout, NHA Activity

Reduced natural growth and migration have led to this trend and a low level of growth is expected to continue. As Table 4 shows, population growth for Canada is expected to be approximately 1 per cent per annum to the end of 1991. For Manitoba, it is expected to be less than 1 per cent per annum. Of particular interest in the population trends, is the shift of population from the 15-24 and 24-34 age groups to the older age groups. (See Table 5) This shift has direct influence on the formation of households and thus the demand for new housing units.

The early 1970's saw a dramatically increasing rate of household formation which resulted in increased housing demand. Demographic trends and socio-economic factors contributed to the high levels of new family formation. The maturation of the post-war "baby boom" generation greatly increased the rate of family formation as did the "undoubling" of families previously sharing accommodation, the increase in number of family units caused by divorces and the decisions of young and old to maintain independent households.

Current projections indicate a decline in the rate of household formation to 1991. (See Table 6) The annual rate of formation for Canada in 1991, is expected to be one half that of 1971.

> Net household formation in the high housing demand age classifications is expected to decline. The brunt of the unfavourable demographic forces should begin to hit the single family market just before the middle of the 1980's and consequently single family housing starts can be expected to decline substantially after that. Overall, net housing requirements are expected to peak in 1981 at 237,000 units and then decline steadily over the decade to 165,700. (Matthews, 1979b:7)

As has been illustrated above, housing requirements can not be solely predicted on demographic trends. Sociological and economic

TABLE 4

Population, Canada, Manitoba, 1971-1991

(000's ; annual percentage change)

		Canada		%	Manitoba	%
1971		21,568.0			988.2	
				1.3		0.7
1976		22,992.6			1,021.5	
			P1	2.2		0.8
			P2	0.9		0.5
1981	P1	25,311.5			1,061.5	
	P2	24,036.2			1,048.9	
			P1	2.0		1.1
			P2	1.1		0.7
1986	P1	27,810.9			1,119.3	
	P2	25,375.9			1,084.6	
			P1	1.7		0.9
			P2	0.9		0.6
1991	P1	30,177.6			1,169.0	
	P2	26,582.9			1,114.8	

P1 - Based on most optimistic set of assumptions concerning growth

P2 - Based on least optimistic set of assumptions concerning growth

Source: Statistics Canada Catalogues 91-201(1980) 91-517(1975)

TABLE 5

Population Change By Age: Canada

(000's)

AGE	1976-81	1981-86	1986-91	1991-96
15-24	223.1	-404.5	-556.6	-66.7
25-34	562.8	430.6	225.0	400.0
35-44	404.5	674.1	560.7	423.9
45-64	201.2	245.8	403.0	719.3
65+	230.5	272.3	330.7	256.0

Source: C.M.H.C. Strategic Plan, 1980, unpublished (private communication).

TABLE 6

Projected Household Formation,

Canada, Manitoba, 1971-1991

(annual percentage change)

		Canada %	Manitoba %
1971			
		3.72(actual)	2.72(actual)
1976			
	P1	3.12	2.17
	P2	2.82	1.64
1981			
	P1	2.67	1.86
	P2	2.45	1.34
1986			
	P1	1.68	1.01
	P2	1.51	0.47
1991			

P1 - Based on most optimistic set of assumptions

P2 - Based on least optimistic set of assumptions

Source: Statistics Canada Catalogue 91-517(1975)

factors are particularly important when distinguishing requirements by type of tenure and construction type. Table 7 indicates CMHC predictions of annual housing requirements for Canada to 1991. Most significant to note from this table is the large decline in total requirements from 1980 to 1991. This trend is accepted by the authors as generally valid, although the breakdown by rental and ownership is considered less reliable particularly when regional differentiations are introduced.

Like population growth, Manitoba's rate of household formation is expected to be less than the Canadian average and is projected to be less than 1 per cent per annum by 1991. (See Table 6)

Throughout the 1970's, the City of Winnipeg has continued to increase in population. However, the rate of growth is declining and is expected to continue to decline. (See Table 8) From 1966 to 1971, natural increase at 67 per cent accounted for a greater percentage of the population increase than did net migration at 33 per cent. (Divic, 1978:28) For Winnipeg, where present trends are expected to continue, declining rates of natural increase are most important to long-term trends.

> Winnipeg's growth rate will decline over the next 20 years. Both population and household growth are forecast to fall. From an average annual rate of close to 1% between 1971 and 1976, population growth will approach zero by 1999. Household growth, which averaged more than 4% annually between 1971 and 1976 will fall to less than 1% annually by the end of the century. As a result of these two trends, annual housing requirements are currently forecast to fall from an average of 6,300 units in recent years to a low of 1,100 units between 1996 and 1999. (Barnard, 1979:11)

TABLE 7

New Housing Requirements

Canada

YEAR	RENTAL	OWNERSHIP	TOTAL
1980	99,200	136,000	235,200
1981	97,000	140,300	237,300
1982	92,700	143,100	235,800
1983	87,700	145,300	233,000
1984	79,500	145,000	224,500
1985	69,700	144,200	213,900
1986	58,800	142,700	201,500
1987	47,400	141,600	189,000
1988	37,400	139,300	176,700
1989	28,900	136,800	165,700
1990	28,000	128,200	156,200
1991	29,500	120,100	149,600

Source: Market Analysis and Forecasts Division, C.M.H.C.

TABLE 8

Winnipeg Population - Actual and Projected

(000's; annual percentage change)

		Population		%
1972		550.0		1.85
1973		560.2		1.10
1974		566.5		1.09
1975		572.7		0.96
1976		578.2		1.15
1977		584.9		0.78
1978		589.5		
1986	P1	597.1		
	P2	610.0	P1	0.54
1999	P1	613.3	P2	0.72
	P2	632.0		

P1 - Based on projections in Peter Barnard Associate Study (1978)

P2 - City of Winnipeg Projections (1980)

Note: Recently released 1981 census data show Winnipeg's population as 584,842 which is an annual increase of 0.2% from 1976 but a slight decline from 1978.

Source: Statistics Canada. Catalogue 91-201 (1980).

In contrast are short-term trends which have been prompted by migration patterns. Winnipeg experienced a sharp decline in population in 1978 and 1979 due to out-migration. Table 9 shows projected household formation rates from Barnard's study.

The City of Winnipeg has projected that:

1. The mature central area neighbourhoods will lose 20% of of their population over the period 1976 to 1999.

2. The emerging, peripheral neighbourhoods will increase in population over the same time period.

3. The location of the majority of growth within the emerging neighbourhoods in the next five to ten years has, for the most part, already been committed through subdivision approvals.

(Information Winnipeg, 1980:4)

Table 10 indicates projected housing requirements for the City of Winnipeg.

3.2 Summary

The long-term trends indicate a slow but continual reduction in housing requirements will occur over the period 1980 to 1991. The nature of housing demand will change also. Changes in the age structure of the population are likely to result in the following developments: a diminished demand for rental housing, particularly amongst newly formed households and students; a reduction in demand from first time home buyers; less demand from families with young children; growth in the number of second and third time home buyers; and increased demand for self-sufficient and enriched housing facilities for the elderly.

Short-term trends are expected to be very volatile. With less

TABLE 9

Projected Household Formation, Winnipeg, 1976-1991

(000's; annual percentage change)

	Households	%
1976 (actual)	192.6	
1981	214.5	2.28
1986	233.8	1.80
1991	249.2	1.32

Note: 1971-1976 actual household formation rate was 3.26 annually.

Source: Peter Barnard Assoc. (1979) Housing in Winnipeg. Winnipeg: Winnipeg Development Plan Review, p. 23.

TABLE 10

Housing Requirements, Winnipeg, 1979-1991

	Units
1979-1981	5,900
1981-1986	4,400
1986-1991	3,600

Assumes 3% vacancy rate and population and household formation rates as in 2 previous tables

Source: Peter Barnard Association.(1979). Housing in Winnipeg. Winnipeg: Winnipeg Development Plan Review, p. 23.

direct government intervention, monetary and fiscal policy will be the major tools for affecting change in the housing sector. This can lead to prolonged periods of extremely low production, as we are now experiencing, and surges of short-term demand when monetary policies allow pent-up demand to be realized.

When short-term trends are combined with long-term trends, the outlook for the residential construction industry does not promise a quick recovery or recapturing of earlier high levels of activity. The housing industry, due to its present low level of activity faces the prospect of major structural changes and it seems evident that such change must be considered from two perspectives. The first is how the industry copes with short-run growth and decline and the second is, what plans for change exist or are needed to deal with long-run decline in production and change in demand. The following sections deal with these issues.

4.0 RESEARCH METHODOLOGY, FINDINGS AND CONCLUSIONS

The preceding chapters have examined the economic, and public policy context within which the housing industry has operated change in the industry during the 1970's has been considered. To further this discussion and to extend it to consider future change, a more detailed examination has been made of the Winnipeg housing industry. This portion of the study addresses many of the questions raised in Section 1.2.

4.1 Methodology

Several data sources were needed to fulfill the requirements of this investigation. Three primary sources were used:

1. Building data for the City of Winnipeg

   City of Winnipeg municipal building permit data was reviewed for the period 1972 to 1981 using monthly summary sheets. The following data were derived: total number of new units by housing type, location and permit value; permit value of residential renovations and repairs per month.

   Using daily summary sheets for the period 1979 to 1978, the following additional data were derived: name of permit applicant; information, as in above, by individual permit.

   These data are most useful when viewed in relation to the questionnaire responses. The building permit data provide a reference point from which to evaluate the group of respondents as well as providing additional information. Particularly helpful are the data generated on small and medium-sized builders, for these groups were poorly represented among questionnaire respondents.

2. Capital cost allowance (MURB) data for the City of Winnipeg

   This data source provides information for multiple unit residential construction activity for the period 1975 to 1980 for which tax shelters, called MURB's, were applied. (See discussion in Section 2). Data were developed by number of units by year, location, housing unit type, and grant applicant. Through use of these data, information on the participation of the housing industry in the MURB program can be determined as well as the influence of the program on multiple unit construction in the local market.

3. Data generated from a questionnaire and interviews

The questionnaire requested both statistical data and perceptual material from housing industry participants on:

a) past experience, 1972 - 1980
b) present activity, 1981
c) future expectations, 1982 - 1985
d) opinions on trends to the end of the 1980's.

Comparability of questions was maintained between the four sections to facilitate analysis.

The first two sources were used to develop information on industry activity by location, value, building type and time period. The MURB data were useful for determining builder involvement in initiating rental construction and the influence of government tax policy on rental development. From both sources was developed base data from which the industry through interviews and questionnaire responses, could be evaluated.

The questionnaire and interview data, from local industry participants, provided both factual and perceptual information on the Winnipeg housing market; the organization of the local industry and individual businesses; the government policy context. A broad range of issues were considered by the respondents and useful sights were recorded.

4.2 Findings

4.2.1 Building Permit Data

Some of the data collected from the minicipal building permits will be presented and discussed in conjunction with the questionnaire review. Additional findings are presented below.

From Table 11, it can be seen that, in the City of Winnipeg new house construction activity, between 1972 and 1981, has experienced major swings in production level. Apartment construction experienced two peak years -- 1973 and 1977. For single-detached construction, 1976 and 1978 were peak years. Semi-detached and duplex construction was greatest in 1977 and 1978. A major drop in production of all types of dwelling units occurred in 1979.

From 1972 to 1981, residential repair and renovation work has shown gradual growth. From Table 12, it can be seen that in constant dollars, value has gone from $10,114,450 in 1972 to $24,584,288 in 1982. This is an increase of 243%. Also from Table 12, it can be seen that new residential construction increased in value from $74,951,150 in 1972 to $1,129,116,140 in 1978 for an increase of 151%. In 1981, value had declined to $39,989,384 which is a decrease in value of 282% from 1978 and a decrease of 187% from 1972.

Residential repair and renovation's share of total residential value has increased significantly since 1979. This is due to the constant growth of this activity and the dramatic decline in new residential construction activity. (See Table 13). Despite the recovery in new construction in 1981, repair and renovation activity increased its portion of the market in that year.

Tables 14 and 15 indicate activity by size of construction company for the years 1979,1980 and 1981. The most dramatic change in number of active companies is in small companies - 119 in 1979 and 48 in 1981.

TABLE 11

New Construction Activity By Year and Dwelling Unit Type, 1972-1981
(No. of Units)

TABLE 12

Value of Residential Building Permits for City of Winnipeg
1972-1981 in Constant 1971 Dollars ($000,000's)

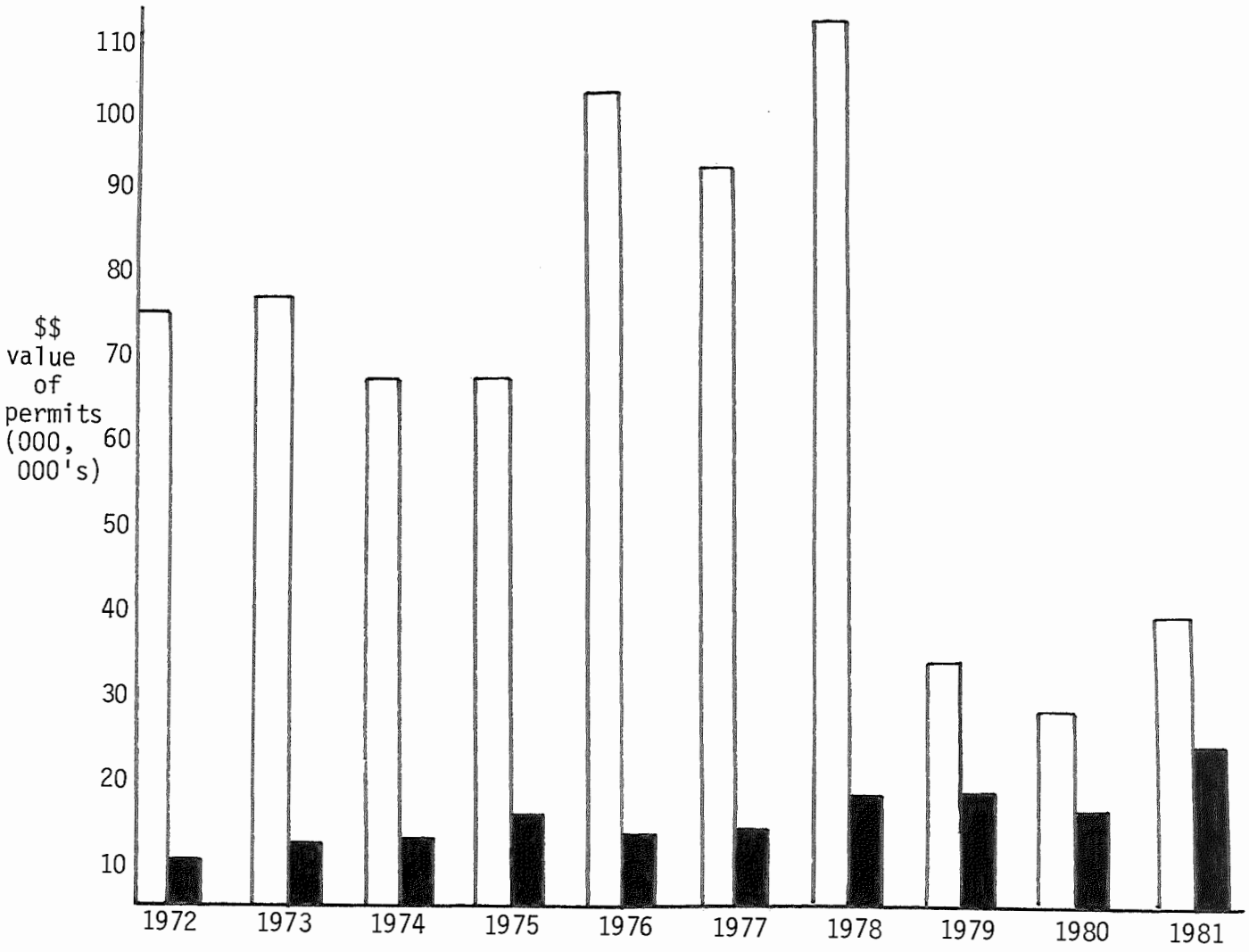


TABLE 13

New Residential Construction and Repair and Renovation Work as a Percentage of Total Dollar Value of Residential Construction in City of Winnipeg, 1972-1981 (Constant 1971 Dollars)

Year	New Residential Construction	Repair and Renovation Work
1972	88.1	11.9
1973	86.2	13.8
1974	83.2	16.8
1975	82.9	17.1
1976	88.0	12.0
1977	86.4	13.6
1978	86.2	13.8
1979	64.4	35.6
1980	62.2	37.8
1981	61.9	38.1

TABLE 14

Number of Residential Construction Companies
Active in New Construction
in City of Winnipeg by Size and Year, 1979-1981
(No. of Companies)

Size of Company / No. of Companies by Year	1979	1980	1981
Small	119	54	48
Medium	11	8	18
Large	22	8	11

Notes: Size of Company based on annual value of production:

small less than $500,000
medium $500,000-1,000,000
large $1,000,000+

Derived from building permit data.

TABLE 15

Total New Residential Activity Conducted in City of Winnipeg by Size of Company and Year (%)

% of Total City Activity by Year / Size of Company	1979	1980	1981
Small	11.2	7.1	8.5
Medium	7.9	6.4	15.3
Large	65.3	73.5	59.9
Total*	84.4%	87.0%	83.7%

Total* is less than 100% as municipal daily summary sheets do not always indicate a building contractor. A contractor may be involved or the owner or architect may be acting as contractor.

Two reasons are suggested:

a) closure of business

b) increase in value of construction thus redesignating them as as medium-sized companies.

The latter suggestion is supported by the questionnaire results which showed several builders who did not increase the number of units they were producing each year but had moved into costlier, custom homes, thus increasing the value of their production. The questionnaire results also supported the former suggestion. Many small companies that produced one or two houses per year had closed or were now acting as sub-trades to other companies.

Large companies also declined in numbers. Two reasons are suggested:

a) companies withdrew from the Winnipeg market

b) decrease in value of construction thus redesignating them as medium-sized companies.

Again, both suggestions are supported by the questionnaire results. The former is particularly true of rental construction companies. Both large and small companies have lost some of their share of the market while medium-sized companies have gained. The reasons given concerning number of companies by size also apply to share of activity by company size.

4.2.2 Capital Cost Allowance (MURB) Data

From Tables 16 and 17 , it can be seen that:

a) From 1975 to August, 1980, MURB applications were approved for 11,969 units.

b) 1977 was the year of greatest MURB interest at 4,190 units.

c) Fort Garry/Assiniboine Park was the area of greatest concentration at 3,855 units.

TABLE 16

MURB Applications in the City of Winnipeg
from January 1975 to August 1980

a) By Year and Area (Number of Dwelling Units)

	1975	1976	1977	1978	1979	1980 (to August)	Total
City Centre/ Fort Rouge	21	25	520	521	490	--	1,577
Lord Selkirk/ West Kildonan	181	630	584	190	140	--	1,725
St. Boniface/ St. Vital	24	190	1,215	180	176	--	1,785
East Kildonan/ Transcona	492	72	442	420	62	--	1,488
St. James/ Assiniboia	493	250	523	177	96	--	1,539
Fort Garry/ Assiniboine Park	478	738	931	1,489	244	--	3,855
Total	1,689	1,905	4,190	2,977	1,208	--	11,969

TABLE 17

b) By Year and Dwelling Unit Type (Percentage of Total Annual Units)

	1975	1976	1977	1978	1979	1980 (to August)	Total
Semi-detached/ Duplex	4.8	9.1	12.9	8.5	2.3	--	7.5
Row	5.9	17.3	20.1	0.4	11.8	--	11.1
Low-Rise Apartment	56.1	38.2	33.1	63.3	26.3	--	43.4
High-Rise Apartment	33.1	35.4	30.3	26.8	59.4	--	37.0
Other	0.1	0.0	3.6	1.0	0.2	--	1.0
% (Total # of Units)	100.0 (1,689)	100.0 (1,905)	100.0 (4,190)	100.0 (2,977)	100.0 (1,208)	100.0 --	100.0 (11,969)

d) Low-rise apartments at 43.4% and high-rise apartments at 37% accounted for the majority of applications over the time period, 1975 - 1980 (August).

Further information on applicants shows that:

a) 25 builders/land developers accounted for 3,377 units or 28.2% of the MURB applications in the City of Winnipeg.

b) 6 builders/land developers applied for more than 300 units each for a total of 2,054 or 17.27% of the MURB applications in the City of Winnipeg.

c) Of the 3,377 units produced by builders/land developers, 2,314 or 68.5% were apartment units.

d) 1977 was the only year of substantial building of all types of dwelling units by builders/land developers.

e) 1977 - 1978 were the peak years of production by builders/land developers of MURB units.

Considering the 21,099 dwelling starts in the City of Winnipeg from 1975 to 1980 for units other than single-detached (See Table 2) and assuming all applications proceeded through construction MURB's were applied to 11,969 units or 56.7%. Considering only apartment units, those with MURB's is 64.7%.

4.2.3 Questionnaire Results

Who responded to the questionnaire? Primarily building contractors responded and they represented 22 companies of various size, organizational form and construction activity. The majority have operated in the City of Winnipeg for at least 7 years and only 2 were formed in the last three years. These companies are active with 47% of the new construction market. Most of these companies are keenly aware of the short-term problems they face. Long-term trends and their meaning for the industry are less

well recognized. Most of these companies are adjusting operations due to present circumstances.

Who did not respond to the questionnaire? Land developers did not and small and medium-sized building contractors are under-represented From informal discussions with industry members, it is believed that firms experiencing the most difficulty coping with decline in construction activity did not respond. Also, those with developed land were unwilling to provide information they felt would endanger their competitive position. This is particularly true of medium-sized building contractors who operate only in the Winnipeg housing market.

The general feeling discovered when trying to obtain interviews is that there is an unwillingness to discuss business operations or the financial health of their companies. Most companies operate on a short-term or seasonal basis and the need for a long-term look at the industry was not considered necessary or beneficial to them.

4.2.4 Summary of Findings

Past experience, 1972 - 1980, found the housing industry growing with activity concentrated in suburban areas and new house construction. Short-term cycles occurred and were dealt with in an ad hoc fashion. 1979 was a year of sharp decline in activity and 1980 was also a poor year due to general economic conditions. The severity of the downturn forced many small or marginal operations out of business. The majority of firms considered the situation to be short-term and made adjustments to allow them to wait for an upturn in activity.

1981 found demand increasing and the industry expected a recovery. The type of activity was not significantly different from previous years. For the respondents, new construction dominated (See Table 18) and was primarily in new suburban tracts (83%). An adjustment, to compensate for high interest rates, was the greater reliance on custom or contract building (66%). Also, to deal with the high cost of borrowing money, land holdings were reduced. By mid-1981, the recovery ended and new construction activity was minimal.

Renovation and repair activity reached its highest level in 1981 and represented 38.1% of the total value of residential construction. Respondents indicated growth of this activity and a shift in operations to renovations and repairs by firms of all sizes.

Expectations for the 1980's are mixed:

1. None of the respondents expect new construction to reach production levels experienced in the 1970's.
2. Single-detached units will dominate in housing demand.
3. A short-term surge in apartment construction will occur if such projects become financially viable.
4. Renovation and repairs will continue to increase its share of the market.

Government housing programs that stimulate new house supply are not supported by the industry. Demand stimulus is preferred and recommended are measures which will provide home buyers mortgages at reasonable and stable interest rates.

The apartment market is considered to be in the most difficult situation. Major intervention by the government has caused the situation and will be needed to maintain a reasonable level of construction.

TABLE 18

Dollar Value of Work in City of Winnipeg
in 1981 for Questionnaire Respondents (22)
by Construction Activity

Question
3

	1981 $ value	% of Total
*New Construction	$46,331,086	91.9
Renovation Repair	$ 4,067,000	8.1
Total	$50,398,086	100.0

*Includes land

Note: Based on information obtained in Question 3 of Builders Questionnaire

Government support of renovation and repair activity is also recommended by the respondents.

The industry will need to change in the 1980's according to respondents. Two areas of change are:

1. What they produce.
2. How they operate.

Under the former, energy efficient homes of good quality with amenities were mentioned. Also, alternative activities including renovations will be carried out. Under the latter, fewer firms of smaller size producing smaller quantities of new houwing units is expected. Employment in new house construction will decline and sub-trades will be used to a greater extent than in the 1970's.

Not discussed by the builders and developers but evident from the responses, is the continuing reliance on short-term forecasting, planning and profit maximization. In times of economic uncertainty and changing government policy, this type of philosophy can result in companies taking unnecessary risks. For example, the move of major Canadian developers to the United States during 1980 and 1981 was done very quickly with limited market information. Since 1981, there has been a slowdown in activity in the United States and several major Canadian corporations have experienced financial losses. Factors such as under-capitalization; reliance on short-range market data; and emphasis on short-term profit maximization are central to the structural problems facing the housing industry.

4.3 Conclusions and Recommendations

To identify the appropriate role of government and the residential construction industry, it is first advantageous to consider the present state of the housing sector in Winnipeg as indicated by the research findings. Table 19 presents a scenario which is a continuation of present trends. In this situation, government action could be characterized as:

Federal-

* maintain strict monetary and fiscal policies including:
  - high mortgage interest rates
  - withdrawl of programs and monetary commitment to housing sector.
* reduce investment incentives.

Provincial -

* rely on federal programs and monetary incentives and pursue secondary role of administrator on housing programs.
* institute rent controls.

Municipal -

* rely on other levels of government for housing sector support.
* pursue reactionary role on suburban development and upgrading of existing neighbourhoods.

The residential construction industry would continue present activities:

* pursue planning on a short-term, ad hoc basis
* maintain present operational structure and pursue new housing and suburban development objectives predominately;
* rely upon government to stimulate home ownership demand;
* withdraw from rental construction;
* continued slow growth of rehabilitation activity and little industry organization.

TABLE 19

Present Scenario of the Winnipeg Housing Sector
in the 1980's

Conditions
* pent-up homeownership demand
* unfulfilled rental housing demand and very low vacancy rate
* low and declining housing starts
* business closures
* rehabilitation and renovation at low level with little industry organization or efficiency
* industry specialized in new house construction which causes vulnerability to changes in demand
* industry fragmentation which reduces its ability to affect change and improve its operation
* withdrawal of government from housing activity and continuation of policies restraining housing demand and supply

The industry role indicates inertia and unwillingness to implement change that is needed based on long-term trends.

As Sections 2 and 3 indicate, a variety of factors are causing a dramatic change in new house demand on both a short and long-term basis. Change in government policy, economic conditions, and demographic trends have and will continue to cause decline in construction activity. Following the strong expansionary trend of the 1970's, the 1980's will be a transition period for the housing industry as it moves toward a size and organization in keeping with long-term demand and production levels.

Short-term economic conditions are forcing the industry to reduce construction activity to levels well below those implied by long term forecasts. Inertia, which is found in any industrial sector, is delaying the process of adjustment and the result has been business closures, bankruptcies and a general state of confusion. The review of the Winnipeg housing market (Sections 4, 5 and 6) indicates that the industry has only recently recognized the need to react to present circumstances rather than wait for recovery. The reaction has taken several forms including changes in operation, activity and markets. The construction industry, accustomed to swings in activity and with minimal capitalization, would be expected to be most capable of adjusting to present short-term economic trends. The industry shows an inability to make sufficient adjustment to successfully operate through the present period of reduced activity. Responsibility for this failure lies both with the industry and with limited public

sector initiative to address the situation. This largely laissez-faire government policy is creating hardship for the housing sector which has grown accustomed to government intervention.

To cope with present conditions, land developers have transferred their operations to new markets and reduced holdings locally. Small building contractors, who were building new housing on speculation, have diversified into renovations and repairs; began functioning as sub-trades to larger firms; specialized in custom houses; moved; or closed. Among the medium and large sized building contractors, reaction has been mixed. Some have diversified or expanded their markets; others have reduced their operations. This latter group displays the greatest inertia and this is due to several factors including:

1. They hold land in suburban areas of Winnipeg and have a financial commitment which requires development of this land.
2. Their financial position makes expansion to new markets difficult while their capital investment in new house construction makes diversification into renovations and repairs difficult.
3. They anticipate renewed house demand which they can efficiently fulfill.

The local industry displays fragmentation which is primarily due to varying perspectives of what are the problems and what are the solutions. While one group of firms continues to promote suburban growth and to seek means of increasing new house demand, others are interested in diversifying their activities and seeking new markets either locally or elsewhere. Both groups seek construction stability which will allow businesses to grow and realize a profit.

Evident from this study is the need for a variety of solutions to address a variety of problems. Solutions must address:

1. Housing demand for new construction both short-term and long-term.
2. Structural reorganization of businesses and the industry to allow for temporal change, diversification or expansion with an overall goal of industry stability.
3. Alternative functions for the new residential construction industry.
4. Development of knowledge and skills for industry members to undertake new activities.
5. Industry capability to develop realistic demand forecasts.

Government has, in the past, affected change in the industry and must continue to do so. Stabilization of housing demand and development of knowledge and skills for alternative industry functions are primary areas for government assistance. Alternative functions for the industry include:

1. Rehabilitation and renovation - particularly applicable to small and medium-sized operations.
2. Commercial construction - medium and large-sized firms with apartment construction expertise can most readily alter to this activity.
3. Large-scale, multi-use developments - large-sized firms are already active in development of suburban housing and town centres and can apply this expertise to downtown redevelopment in Canadian and American cities.

Of importance to the success of long-term stabilization and of particular importance for dampening dramatic short-term swings in new house construction is the establishment of accessible and stable supplies of both mortgage and capital funds for residential activity. Terry (1980) suggests the development of secondary mortgage markets through the creation of a Federal Mortgage Exchange Corporation. Renaud (1982) suggests the development of a separate residential

mortgage market by the private sector similar to those found in the United States, Britain and Germany. Both of these vehicles address demand side problems. Supply side problems of restricted capital funds must be addressed as well, otherwise, demand will exceed the capabilities of the industry to supply the product and will result in inflation of prices. Residential mortgage and capital markets can be established by the private sector with the encouragement of government using tax subsidies to investors.

Like other monetary policies, these markets are an effective tool for overall control of residential activity but are less effective in targetting activity for sub-groups. Rural and low income housing supply will require additional intervention through housing policy and programs as has been the case in the past.

Considering the need to increase production in the rental housing market, two approaches appear available to housing authorities. Firstly, government can assume greater control of supply by direct construction of units and by increasing supply side incentives such as tax concessions and grants to the private sector. To ensure affordability, rent controls would be applied.

The second and more favourable approach would remove supply side incentives and subsidize consumers. This approach when combined with a separate residential capital market can stimulate production by the private sector.

The following recommendations are made to address both short-term and long-term issues. Government and industry must assume responsibility for instituting change and change must affect industry organization housing market conditions and residential money markets. Table 20 presents a revised scenario which calls for improvement and stabilization of housing demand and supply and restructuring of the industry to stabilize and strengthen its operations in the long term. From this scenario, recommended roles have been prepared for both government and the industry. Government, at the federal level, must create stability and consumer confidence while the provincial and municipal levels must take a more active role particularly in creating investor confidence and in providing assistance to low and moderate income households. The industry must consider long-term stability and pursue new marketing, construction and management styles which will allow greater flexibility in their operations and housing product in keeping with consumer need.

It is considered impossible for the industry to make sufficient adjustments to successfully cope with present economic circumstances. It is also believed that selective interventions by government into the housing market, such as the $3,000 grant to home buyers, will not significantly increase homeownership demand or improve the situation of the new house construction industry. It is recommended that a residential mortgage market be established by the private sector which will stabilize interest rates and renew consumer confidence. Immediate short-term increase in demand would result and long-term stabilization of demand would be promoted.

TABLE 20

Revised Scenario for the Winnipeg Housing Sector

- Long Term Objectives and Recommended Government and Industry Role

Objectives	Government Role	Industry Role
* homeownership demand renewed to levels consistent with demographic and socioeconomic trends * new house starts increase to accomodate pent-up short-term demand and stabilize at levels consistent with long-term demand * rental demand matched by construction starts allowing for reasonable vacancy rate * resale housing market strengthened * rehabilitation and renovation activity increased and industry organization improved to allow efficient fulfilment of consumer demand * residential construction industry and businesses undergo restructuring to allow: .flexibility over time to deal with growth and decline; .diversification to other activities to supplement primary operation in slow periods; .expansion of markets; .development of new and innovative products and techniques to meet changing consumer needs and to stimulate changes in consumer preferences; .greater use of medium and long-range forecasting and planning. * residential mortgage and capital funds markets stabilized	Federal * stimulate homeownership demand: .stabilize mortgage market at reasonable interest rates; .strengthen third sector housing programs * stimulate rental construction: .implement means of bridging gap between economic rents and market rents i.e. subsidy to renters; .encourage investment in rental housing * stimulate industry capitalization and medium and long-range planning: .stabilize flow of capital funds * assist industry in development of knowledge and skills for alternative functions * strengthen rehabilitation programs Provincial * develop or expand policy and programs for: .assistance to renters; .social housing and rehabilitation; .knowledge and skills development for alternative functions Municipal * develop clear statements of policy for suburban development and upgrading of existing neighbourhoods * expand municipal non-profit housing corporation and encourage private third sector housing developments	* encourage and advise government on means to stabilize and reduce mortgage interest rates and to develop programs and policies to stabilize housing demand and supply * vigorously pursue production and construction technique development which will assist both new construction and rehabilitation industries * establish Renovations Council to co-ordinate, with government, industry growth and improvemnt * strengthen Manitoba Home Builders Association by making it more representative of various sizes of firms, activity groups, sub-trades and manufacturers * encourage knowledge and skills development among members in business management and alternative functions * co-operation of industry participants to affect internal change * pursue long-range forecasting, planning and business development

Stabilization of demand must be accompanied by stabilization of supply of new housing units and rehabilitation and renovation services. To this end, it is recommended that a residential capital funds market be established by the private sector with initial government support. It is also recommended that the home improvement industry be thoroughly reviewed and steps, to improve its operation, be taken by both government and the housing industry.

The housing industry has demonstrated its propensity for short-term planning and government has responded to the resulting problems with selective, short-term solutions which failed to encourage market stability or changes in industry organization and operation. The final recommendation is for greater government/industry consultation and action to create a responsive but stable housing industry that can efficiently meet the long-term housing demands of Canadians.

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Appendix A

Detailed Findings of
Winnipeg Survey

Builders' Response

The following describes the responses of 22 building contractors to the questionnaire. The 22 builders represents 16% of the total builders contacted (134). Table 21 identifies the respondents by size of campany and primary activity in 1981.

The sample can be viewed in relation to the total residential activity for 1981 in the City of Winnipeg. Data has been drawn from the municipal building permits for this purpose.

Total new construction activity was determined from the daily summary sheets of municipal building permits. Table 22 shows the residential construction activity in the City in 1981. It represents 100% of activity at 1,771 units. Table 23 shows the new house construction activity of the respondents in 1981. The 16 builders engaged in new construction produced 47% of the total annual activity at 840 units.

Tables 24 and 25 compare data from building permits to questionnaire results for size of building contractor and level of production. It can be seen that large builders are well represented and medium-sized builders have the poorest representation. Also, since such a small number of buulders represent a significant proportion of the total annual new house production, the sample may present a favourable picture of the local industry that existed in 1981.

The questionnaire sample includes 14 builders engaged in renovation and repair activities. Their work, totalling $4,067, 000 in permit value represents 56% of the total value of building permits issued in

TABLE 21

Respondents to Building Contractors' Questionnaire Based on
Size of Company and Primary Construction Activity, Winnipeg, 1981
(No. of Companies)

*Size of Contractor / Primary Construction Activity	Small	Medium	Large	Total
A. New Construction	4	1	3	8
B. Repair and Renovation	4	2	0	6
C. Mixed (Both A and B)	3	2	3	8
Total	11	5	6	22

* Size based on annual value of production: large - $1,000,000.+
medium - $500,000. - 1,000,000.
small - less than $500,000.

Derived from question #4 of builders' questionnaire.

TABLE 22

New Residential Construction Activity in City of Winnipeg by
Size of Building Contractor and Dwelling Type Constructed, 1981
(Derived from Building Permit Daily Summary Sheets)
(No. of Units)

Type of Dwelling Unit \ *Size of Contractor	Small (48 companies)	Medium (18 companies)	Large (11 companies)	Others**	Total (77 companies)	% of Total
Single-detached Dwelling Unit	151	265	951	273	1640	92.6
Row/Duplex	-	6	30	15	51	2.9
Apartment***	-	-	80	-	80	4.5
Total	151	271	1061	288	1771	100.0
% of Total	8.5	15.3	59.9	16.3	100.0	

* Size based on annual value of production: large - $1,000,000 +
medium - $500,000 - $1,000,000
small - less than $500,000

** Building Contractor not specified.

*** 'Foundations only' not included. Foundation permits represent an additional 148 units.

TABLE 23

New Residential Construction Activity in City of Winnipeg by
Size of Building Contractor and Dwelling Type Constructed, 1981
(For Questionnaire Respondents by No. of Dwelling Units)
(No. of Units)

Type of Dwelling Unit / Size of Contractor	Small (7 companies)	Medium (3 companies)	Large (6 companies)	Total (16 companies)	% of Total Units
Single-detached Dwelling Units	20	21	639	680	80.9
Row/Duplex	-	-	60	60	7.2
Apartment	-	-	100*	100	11.9
Total	20	21	799	840	100.0
% of Total Units	2.4	2.5	95.1	100.0	

* Activity carried over from previous year included.

TABLE 24

Questionnaire Respondents As Percentage of
Active Builders in 1981, City of Winnipeg
in New House Construction

Size of Contractor	A. No. of Active Builders Based on Building Permits	B. No. of Active Builders Based on Questionnaire	B. as a % of A.
Small	48	7	14.6
Medium	18	3	16.6
Large	11	6	54.5
Total	77	16	21.8

TABLE 25

Questionnaire Respondents Production as Percent
of Active Builders in 1981, City of Winnipeg

Size of Contractor	A Dwelling Units Constructed Based on Building Permits	B Dwelling Units Constructed By Questionnaire Respondents	B. as a % of A.
Small	151	20	13.2
Medium	271	21	7.7
Large	1,061	799	75.3
Other	288	-	-
Total	1,771	840	47.4

the City in 1981 for renovations and repairs. Again, a small number of builders represent a large proportion of the total activity.

The following is a summary of responses:

Length of Operation

The majority of companies were formed between 1970 and 1975 (13 of 22). Only 2 companies have started since 1979 and both are engaged in new construction and renovation. One is increasing its renovation activities annually. The other is a subsidiary of a large, local building firm active in new construction.

Legal Status

No relationship can be seen between legal status and the size and activity of the companies.

Present Activity (1981)

Primary Activity of Contractors

Primary activity by the building contractors was as follows in 1981:

8 of 22	new construction
6 of 22	renovation and repair
8 of 22	both activities

Type and Location of New Construction

The majority of new construction was single-detached units in 1981.

Small builders	100% single-detached units
Medium builders	100% single-detached units
Large builders	80% single-detached units

New construction activity in 1981, occurred, for the most part, in new suburban tracts. (See Table 26)

Small builders	61% suburban tract
Medium builders	57% suburban tract
Large builders	84% suburban tract

In 1981, the southern portion of the City experienced the greatest activity. (See Table 27, St. Boniface/St. Vital and Assiniboine Park/ Fort Garry, and Map 1).

Housing Demand and Production

Opinions on 1981 production level and housing demand show that:

For production level, 10 of 22 contractors rated it low or very low. An additional 6 contractors rated it average. Those rating production high noted a spring peak which was followed by very low activity for the remainder of the year. One contractor building multiples eligible for MURBs forecast 1981 as the last year of substantial building of multiples.

For housing demand, 17 of 22 contractors rated it as low or very low. Three contractors noted the spring peak and the upswing in buyers wishing to take advantage of MURBs.

Unsold Inventory

Unsold inventory was held primarily by large builders - 111 of 120 unsold units. All unsold units are single-detached units. The majority of builders only built on a pre-sold or custom basis in 1981. Large builders indicated that they were trying to reduce inventories due to high carrying costs.

Marketing Approach

In 1981, the majority of new housing was pre-sold or custom built.

Small builders	70% pre-sold units
Medium builders	52% pre-sold units
Large builders	66% pre-sold units

TABLE 26

New Residential Construction Activity in City of Winnipeg

By Size of Building Contractor and Location and Marketing Approach, 1981

(No. of Dwelling Units)

Location and Marketing Approach \ Size of Contractor	Small	Medium	Large	Total
New Suburban Tract *	11	12	671	694
Existing Residential Areas	2	9	118	129
Other (Usually rural)	5	-	10	15
Speculation	6	10	270	286
Custom/Contract Building	14	11	529	554

* Location of 2 units by small contractor not stated.

TABLE 27

New Residential Construction Activity in City of Winnipeg by Location and Dwelling Type Constructed, 1981

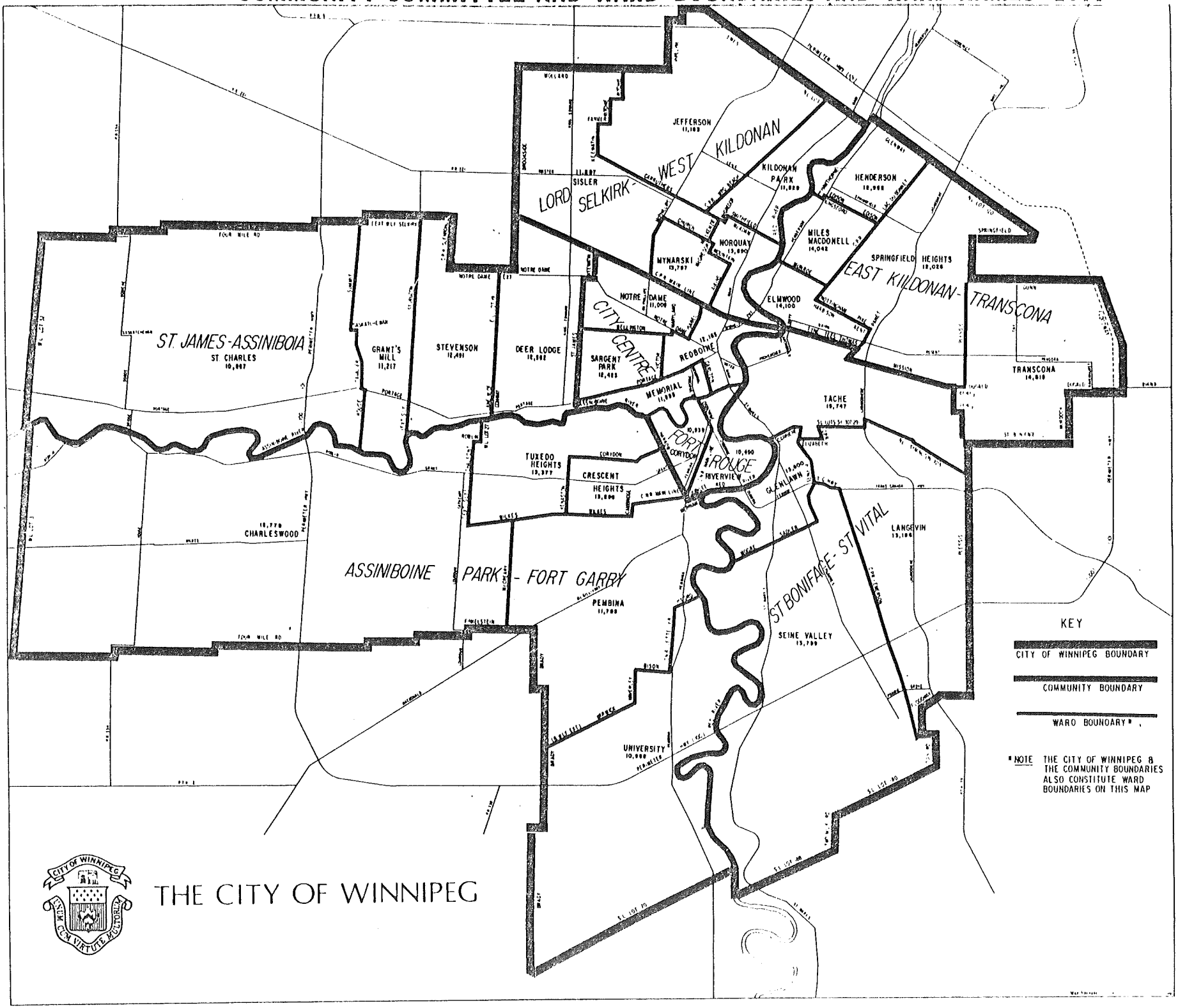
(Derived from Building Permit Daily Summary Sheets)

(No. of Dwelling Units)

Type of Dwelling Unit \ Location	City Centre/ Fort Rouge	East Kildonan/ Transcona	St. Boniface/ St. Vital	Assiniboine Park/ Fort Garry	Lord Selkirk/ West Kildonan	St. James/ Assiniboia	Total, City	Total by Type as % of Total, City
Single-detached Dwelling Units	12	377	341	652	242	16	1640	92.6
Row/Duplex	6	4	30	9	2	-	51	2.9
Apartment *	-	-	29	-	51	-	80	4.5
Total	18	381	400	661	295	16	1771	100.0
Total by Areas as % of Total, City	1	21.5	22.6	37.3	16.6	1	100.0	

* 'Foundations only' represent an additional 20 units in City Centre/Fort Rouge and 128 units in East Kildonan/Transcona

COMMUNITY COMMITTEE AND WARD BOUNDARIES AND WARD NAMES 1977



Planning Production

For the most part, decisions on when and where to build are based on annual or seasonal information (short-range planning) and on the ability of the builder to finance a project within a price range seen to be marketable. A majority of small builders built based on custom sales in 1981. Medium-sized builders were most speculative and determined construction volume on what they could afford to finance during 1981. (See Table 28)

Financing

Sources of financing in 1981 strongly favoured chartered banks - 16 of 22 builders using this service for part or all their financing. The period 1972-1980 showed a similar pattern. Large companies used insurance companies for financing which constituted a substantial share of funds expended on residential construction. Due to the poor quality of responses on the dollar value of funding sources, no percentage figures have been generated. (See Table 29)

Staffing and Organization

In 1981, the majority of companies had small staffs. Relative to the production volume and value, repair and renovation companies had larger staffs, indicating this work is more labour intensive and the propensity of these companies to maintain more core staff and use less sub-trades. Reasons can be speculated on:

1) Renovation work can occur throughout the year so permanent staff can be maintained more easily than new construction staff on seasonal employment.

2) Renovation work is increasing in volume which facilitates staff creation.

TABLE 28

Information Used by Builders to Determine When and Where to Build

1. Market Demand
   - sales volume
   - sales characteristics: price
     location
   - traffic in show rooms
2. Availability of Financing
3. Availability of Land
4. Price of Lots
5. Interest Rates
6. Activity of Other Builders
7. Unsold Inventory
8. Property Transfers

TABLE 29

Sources of Financing Reported by Building Contractors
for 1980 and 1972-80

Sources of Financing	# of Builders Reporting Use of Source 1981	# of Builders Reporting Use of Source 1972-80
Chartered Banks	16	15
Insurance Companies	3	2
Credit Unions	3	6
Trust Companies	2	2
Other		
Personal	2	3
Investors	1	2
C.M.H.C.	-	2
Contract draws	1	1

3) Nature of work requires quick action which can not always be done when coordinating sub-trades.

4) Sub-trades find work too limited in scale so price it excessively; this leads to builder using staff to accomplish work.

Use of sub-trades fluctuates greatly. The type of construction activity is a determinant in choosing to use sub-trades or maintain staff. Another important factor is the volume and stability of work. Several companies indicated that restructuring or 'leaning' of the companies was occurring to reduce overhead and allow them to react efficiently to changes in housing demand. This was most evident in companies concentrating in new construction. If staff is not maintained then sub-trades are used. A large number of sub-trades are being used even by small companies with limited volume.

Also interesting is the great variation in the proportion of total construction value accounted for by sub-trades which ranged from 1.0% to 96.1%. Many factors must be considered to account for this variation. The questionnaire does not allow for such a discussion which requires indepth information on the structure of the companies and any possible business ties to sub-trade, supply or other building companies to whom funds are being directed for work.

Review of 1972-1980

Production Trends

Small builders show the 1972-1980 trend in production as:

a) Fluctuating with definite decline since 1979.
b) Slow growth particularly for those in renovation.
c) Decline in new construction activity since 1979.

Medium-sized builders indicated:

a) Growth in renovation activities.
b) Decline in new construction in 1979-1980.
c) Shift to renovation to maintain level of activity.

Large builders indicated:

a) All companies showed growth from 1972 level.
b) In 1979-1980, 3 builders had a decline in activity.
c) Move into renovation and repairs.

Production level changes occurred due to:

a) Decline in demand due to high interest rates and instability of money market and population out-migration.
b) Normal economic fluctuations.
c) No speculative building and reduction of inventory due to money market.
d) Moving into special service areas such as insurance repairs and MURBs.
e) More competitive pricing and better quality work.
f) Move into renovation and repair work.

Location of New Construction Activity

The majority of builders indicated little change in where they built from 1972-1980. Companies tend to continue operations in certain sectors of the City or in either new suburban tracts or existing residential areas. From 1972 to 1978, large companies expanded operations as land was developed, thus encompassing more areas. The years 1979, 1980 and 1981 saw a contraction of areas of operation to one or two new suburban areas. Southern Winnipeg - St. Vital and Assiniboine/Fort Garry - dominated. Western Winnipeg was also active. Only two firms indicated that work outside Manitoba has been contracted to offset local declines in production.

Staffing and Organizational Changes

Changes in the companies from 1972-1980 were:

a) Increases in staff to mid-1970's and then reduction in staff.
b) Decline in company size and volume since 1979.
c) Steady or declining value of company since 1979.
d) Profits recorded until recent years of losses or 0% profit. Building to maintain staff and keep business active at present.
e) Renovations are the exception to the above with increasing volume and company size through entire period.

Housing Programs

Between 1972-1980, government housing programs were recognized as influencing the activity of 5 of the 22 builders as follows:

a) A.H.O.P. increased construction of row and duplex units in 1977, 1978.
b) A.H.O.P. shifted construction from single-detached units to row and duplex units.

Other Government Programs and Policies

Between 1972-1980, 10 of the 22 builders noted the following influences of other government policies:

a) MURBs shifted 1977 and 1978 construction to row and duplex units.
b) MURBs maintained builders of multiples from 1980-1982 but uncertainty reduced volume.
c) Interest rates and fiscal policies created uncertainty and reduced volume.
d) Insulation programs (CHIP) increased renovators' activities.
e) Provincial public housing decreased private rental demand and production. Many multiple unit builders moved West.
f) Rent controls reduced rental construction.

Future Activity (1982 - 1985)

Future Trends

The majority of building contractors see 1982 as a poor year for the industry with production declining 20 - 50%. The exception is the renovation and repair sector where improvements in volume are expected. Recent forecasts by the Manitoba Home Builders Association for 1982 are 800 dwelling unit starts which is approximately half of the 1981 level of 1,771. The MHBA forecast, made in April, is the third for the spring and shows steadily declining expectation on the part of the industry. The respondents' predictions were 571 units of which 446 would be single-detached units. It is expected that these estimates, made in March, would be somewhat reduced if made today.

Two builders expect to produce multiple units. The majority of the single-detached units will be pre-sold contracts or custom homes.

Housing production from 1983 to 1985 is expected:

a) To improve in volume for new construction but nothing comparable to 1970's levels.
b) Renovation and repair will increase in volume.
c) Some builders will move into renovation or increase the portion of their activity in renovation.
d) 2 builders are expanding West.
e) Expensive or large houses are seen as a primary market for small, custom home builders.

Housing demand from 1982-1985 is characterized as low or very low for single-detached, duplex and row units. Opinion is mixed on apartments with six builders seeing demand as high. The remainder indicated low demand. Several builders indicated that a single-detached housing need was building up and if housing can be obtained at reasonable and

stable interest rates, the demand will be very high. Several builders commented that apartment demand is high due to pent up single-family unit need. Apartment demand will decline if single-family units become available at mortgage terms first home buyers can afford.

Housing Programs and Other Government Activities

From 1982 to 1985, the influence of government housing programs is seen as minimal. Only 4 of 22 builders predicted housing programs would influence their activity. Federally, stimulus of homeownership demand and rental supply was expected. Municipally, the Core Area Initiative is expected to stimulate central city renovation and repair and infill construction while Plan Winnipeg deters suburban tract development. Provincially, social housing is expected to increase under the new NDP government. (May 11th budget proposal inclueds funding for social housing).

The influence of othe government programs is seen as significant. 13 of 22 builders predicted that tax and interest rate policies would influence thrir activity. Discontinuation of MURBs would reduce rental construction. Mortgage stability through creation of a residential mortgage market or stabilization of the gerneral market was seen as central to future activity.

Business Organization

Change in the building companies from 1982 to 1985 was not expected by many. 12 of 22 indicated no change. Several cited recent reductions in staff and other changes as being as far as they can go in adjusting to the new situation. 7 of 22 indicated changes would occur such as:

a) Reduce size.
b) Diversify to other activities and reorganize company to allow for production changes in activity and volume.
c) Carry out renovation and repair work only.
d) Custom build only.
e) Move West.

Opinions of the 1980's

The following comments are based on the responses of:

22 building contractors
2 land developers
2 residential sub-trades
1 government agency responsible for housing.

All respondents are from the City of Winnipeg and thus familiar with the local situation.

New residential construction companies are expected to change in the following ways in the 1980's:

a) Fewer companies in the local market.
b) Companies will be smaller and more cost-efficient.
c) Production will decline for each company.
d) Sub-trades will increase work while staff decreases.
e) Residential construction employment will decline.
f) Less speculative building.
g) Product will be smaller and more energy efficient and housing density will increase.

Factors affecting change will be:

a) Economic recession.
b) High interest rates and instability of rates.
c) Lower housing demand.

Factors affecting housing demand in the 1980's are expected to be:

a) Economic outlook which affects employment growth or decline and thus population migration and job stability.
b) Out-migration of young reducing household formation.
c) Interest rates affect affordability.
d) Inflation affects house prices.
e) Unstable interest rates affect consumer confidence in value of investment over time.

f) Consumer confidence in quality of product.
g) Rental costs compared to homeownership costs.
h) Availability of mortgage funds.
i) Government programs.

In response to whether patterns of residential investment will change, 2 respondents expected no change and 16 expected changes such as:

a) Long-term investments in residential property declining thus leading to mortgage market adjustments such as 6 month to 3 year mortgage terms only.
b) Housing as an investment will decline and be replaced by other commodities.
c) Savings will increase as investments decrease.
d) Investment will shift out of single-detached units to other types of homeowner units.

In response to whether consumer behaviour will change, 4 respondents expected no change and 20 expected changes such as:

a) Demand better quality product.
b) Purchase smaller houses with more amenities.
c) Become informed consumers doing more comparison shopping.
d) Energy efficiency and low maintenance will become priority items as consumers will be looking for long-term value.
e) Spend less on housing and put more money into other commodities.
f) Buy later in life.
g) Choose to remain in present house and upgrade it.
h) Purchase existing unit and renovate rather than purchase new unit.

When asked whether aware of demographic projections indicating declining long-term demand, 6 were aware while 6 were not and 2 indicated they were not sure the projections were correct. When asked whether their companies would be affected by the long-term decline, 15 believed so while 6 expected no effects and 3 did not know. Provincial and federal economic strategies were expected to greatly affect the residential building industry in the 1980's. One interesting statement was that the strategies would affect the consumers and not the industry. Nineteen (19) of the 27 respondents believe government should assist

the new house construction industry. All the suggestions are for stimulus to housing demand through tax benefits or consumer subsidies. Housing supply programs are viewed as destructive to the industry and thus undesirable. Suggested government action is:

a) Lower and stable interest rates on residential mortgages.
b) Tax deduction on mortgage interest.
c) Subsidies to first time home buyers.
d) Tax concessions to owners upgrading residential properties.

21 of 25 respondents expect the repair and renovation industry to grow in the 1980's.

Opinions on the state of Manitoba's economy in 1985 were mixed:

Much Better	1
Better	9
Same	7
Worse	2
Much Worse	2
Don't Know	4

Those who expected improvement noted that both federal and provincial action was needed. Change in federal fiscal policy and promotion of industrial expansion by provincial agencies were cited most often.