

Renovations: transitioning from a nomadic way of life to a more settled one

Quebecers are known to be the Canadians who move house most often as summer approaches. But now they seem to have found a way to change their decor without changing their address, based on growing renovation spending in recent years. Are Quebecers switching from a nomadic lifestyle to a more settled one? It's hard to say; but there are many reasons for carrying out renovations, and the sums of money involved are considerable. The factors supporting this activity are still with us, and chances are that Quebecers will keep renovating in the years to come, and that the monetary value of renovation spending will keep rising in 2014 and 2015, eventually surpassing \$16B annually.

RENOVATIONS: AN EXPENSE AND AN INVESTMENT ROLLED INTO ONE

It is worth taking a close look at renovations to find out the ins and outs of them. A glance at table 1 gives us a general idea. Renovations are in fact a hybrid creature consisting of expenses and investments. On the expenses side, we count the funds spent on repairs and maintenance intended to keep properties in good condition and preserve their appearance. Investments, meanwhile, are alterations and improvements that help increase the value or the useful life of the building.

From a monetary standpoint, the amounts invested in alterations and improvements are greater than those earmarked for repairs and maintenance. In 2012, these two

types of work accounted for 76% and 24% of spending, respectively. In fact, during the years 2008 to 2012, investments accounted for three quarters of the monetary value of renovation projects in Quebec.

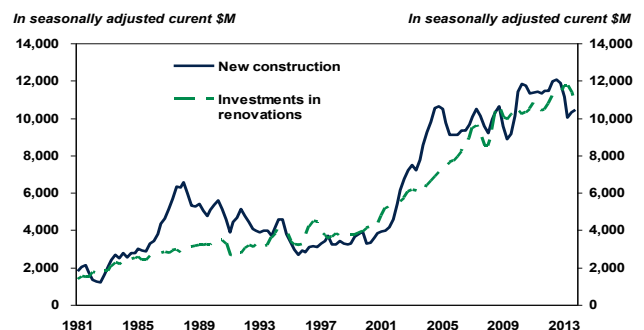
Furthermore, if we compare the value of investments alone with that of new construction, we find that, according to the national accounts, the value of renovation investments surpassed that of new builds in 2013 (graph 1). This finding holds true whether we use current dollars or constant dollars (no price effect). Thus, the renovation market is not to be taken lightly. A look at graph 1 also tells us that since 1981, growth in renovations has been steadier than that of investments in new builds.

**Table 1 – Renovations:
2 types**

Category	Type of work	Goal
1. Expenses	Repairs and maintenance	Keep the property in good condition and preserve its appearance
2. Investments	Alterations and improvements	Increase the value or the useful life of the building (including an addition, e.g. new room, garage, etc.)

Sources: Canada Mortgage and Housing Corporation, Renovation and Home Purchase Report, 2012 and Desjardins, Economic Studies

Graph 1 – At the end of 2013, investments in renovations surpassed those in new construction



Source: Institut de la statistique du Québec

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

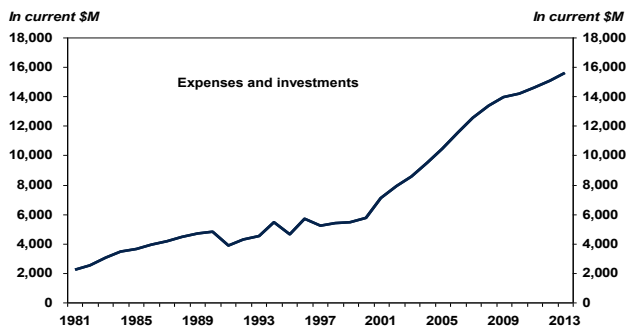
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Finally, renovations may be viewed from another perspective. If we add up renovation expenses and investments (in current dollars) and compare that total to Quebec's GDP, we note that the share accounted for by renovations has been growing almost without interruption since 2001. In 1981, that percentage was 2.7%, and it has dipped to a low of 2.5% a few times in the past 30 years. In 2013, it stood at 4.3%. By comparison, the amounts invested in new builds accounted for 2.9% of GDP that year. It should be noted that, since 1993, the proportion of GDP accounted for by renovations (including both investments and expenses) has always been greater than that of new builds, except in 2004.

QUEBECERS' ENTHUSIASM FOR RENOVATIONS

Graph 2 provides an overview of the fast growth in both components of renovation combined, over more than 30 years. We note that, apart from the 1990s decade, which was particularly challenging from an economic point of view, renovation spending has been heading up. We observe a definite acceleration in the 2000s. In fact, between 2000 and 2013, total renovation spending soared from \$5.76B to around \$15.60B, i.e. 2.7 times more.

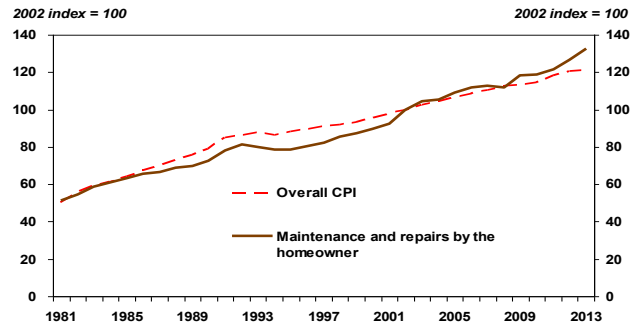
Graph 2 – Quebec - Renovations: a market almost constantly on the rise in the past 30 years



Sources: Canada Mortgage and Housing Corporation, Statistics Canada and Desjardins, Economic Studies

One might think that the cost of materials and/or labour might have played a role in this appreciation (graph 3) but, beyond that consideration, it should be noted that low interest rates have promoted access to home ownership. As may be seen in table 2, the rate of home ownership rose sharply during the 2000s, thus stimulating renovations. Between 2001 and 2011, that rate rose from 57.9% to 61.2% in Quebec. In Gatineau, where it is the highest, it increased from 62.4% at the beginning of the 2000 decade to 68.0% in 2011.

Graph 3 – Quebec: The maintenance and repairs price index has risen faster than the overall CPI



Sources: Statistics Canada and Desjardins, Economic Studies

Table 2 – The rate of home ownership rose sharply in the 2000s

Rate of ownership (%)	2001	2006	2011
Saguenay	62.3	63.3	64.1
Montreal	50.2	53.4	55.0
Gatineau	62.4	67.5	68.0
Quebec	55.5	58.6	59.7
Sherbrooke	51.9	53.5	54.9
Trois-Rivières	57.3	57.6	58.0
Total for Quebec	57.9	60.1	61.2

Sources: Statistics Canada and Desjardins, Economic Studies

Another factor that may have had some influence is the number of households with two breadwinners¹. A larger family budget makes it easier to consider undertaking renovations. Data on the subject from Statistics Canada show that the number of husband-wife families in Quebec (including married couples and de facto spouses) and two incomes grew considerably, by around 77%, from 1977 to 2011.

Furthermore, the annual growth in the monetary value of renovations appears to follow a nearly linear trajectory (graph 2). Yet, things look quite different if we examine renovation activity quarter by quarter. As one might intuitively suppose, the high point of investments is observed in the second quarter (from April to June), with a few rare exceptions. The low point lies at the beginning of the year, from January through March.

DIFFERENT NEEDS, MANY REASONS FOR RENOVATING

Why do people renovate? There are several reasons. First, the age and condition of the housing inventory must be considered. In 2011, the year for which the latest data are available², approximately 72% of homes had been built

¹ Statistics Canada, Distribution of total income, by husband-wife families, 2011 constant dollars, annual, Table 202-0105.

² Statistics Canada, National Household Survey, 2011

before 1991 in Quebec as far as the inventory of owner-occupied homes was concerned. For the entire home inventory (including rental units), that percentage was 76.4%. In short, around one quarter of homes were less than 20 years old. At the other end of the spectrum, around 24% of owner-occupied dwellings were built before 1961, making them 50 years old or more. That proportion was 27% for the total housing inventory. In itself, the age of a home dictates work, whether major or minor.

At the same time, the surge in home values during the 2000s promised homeowners an enticing return on their investment. Yet, the slower growth in existing home prices in recent years has not triggered any pullback in renovation spending; on the contrary, it has kept increasing, year after year.

The vitality of the resale market has certainly given a boost to renovations. When homes change hands, the new owners often want to make some changes to them to meet their needs. By way of a benchmark, the number of resales came to 52,492 in 2000 and reached 71,265 in 2013 (an increase of around 36%). During that period, a peak of 80,647 was reached in 2007, and the number of existing dwellings sold was over 75,000 from 2007 to 2012 inclusive. This boom gave support to renovation spending.

In light of deepening environmental concerns, and in the wake of rising energy prices (fuel oil in particular), the desire to make homes more energy-efficient has no doubt stimulated renovation spending. The aging of the population and the wish to grow old in one's own home sometimes necessitates major renovations for those who would avoid moving to a seniors' residence. This is another factor that may have promoted renovation spending.

Finally, in a survey conducted by the Canada Mortgage and Housing Corporation (CMHC) in 2011 and published in 2012³, the respondents who had carried out renovations and who resided in the 10 largest metropolitan areas of Canada said that they were motivated by a desire to update their home, increase its value or sell it in 74% of cases. The survey focused on households where the cost of work was at least \$1,000. The need for repairs was the second reason given (42%), followed by an intention to make the home more energy-efficient (29%). As may be seen from these results, there is no shortage of reasons to embark on renovations.

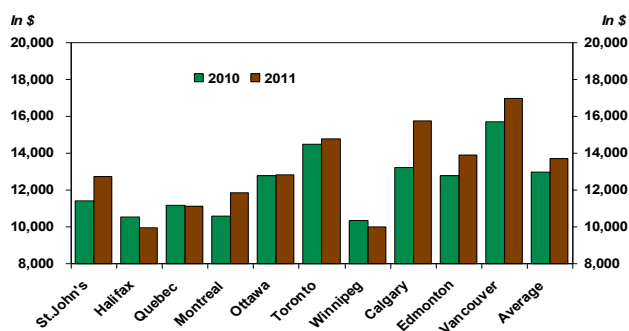
MAJOR RENOVATIONS

According to the CMHC's 2011 survey, 95% of the households that carried out renovations remodeled one or more rooms. The second type of work was painting and wallpapering (54%) and the third was the installation of plumbing fixtures and equipment (38%).

Given the scope of the renovations undertaken (\$1,000 or more), a considerable portion was entrusted to specialists. In 35% of cases, the respondents called in contractors to handle the entire job. Approximately 30% of respondents did some of the work themselves and called in skilled tradesmen to do the rest. 29% of the respondents did all the work themselves, and 5%⁴ purchased the materials and paid someone else to do the work.

According to the survey, which covered the 10 most highly populated metropolitan areas in Canada and renovations in the order of \$1,000 or more, it is estimated that the average value of renovation work was \$13,709 (graph 4). Those amounts were \$11,131 in the Quebec City CMA and \$11,844 in the Montreal CMA. Substantial though they were, they were still below the Canadian average. The highest average amounts were reported in Vancouver, Calgary and Toronto. Those three CMAs boasted a higher volume of resales than the national average that year, but other CMAs saw even more spectacular growth. The lively resale market is not the whole story.

Graph 4 – The average cost of renovations was lower in the Montreal and Quebec CMAs



Source: Canada Mortgage and Housing Corporation, *Renovation and Home Purchase Report*

³ CMHC, *Renovation and Home Purchase Report*, 2012, 12 pages.

⁴ Due to rounding, the total may not amount to 100.

GETTING YOUR MONEY'S WORTH...

Renovating to adapt a home to your needs is one thing. Renovating your home to increase its value for the purpose of selling it is another. Is it worth it? According to the RE/MAX Return on Reno Index ©, some renovations offer a better return than others. Depending on the value of the property and the type of work carried out, the return on investment varies.

For properties worth between \$140,000 and \$185,000, bathroom renovations (between 50% and 60%) generate a better return than kitchen renovations (between 40% and 50%). On the other hand, for properties worth between \$185,000 and \$250,000, kitchen renovations (between 50% and 60%) win out over bathroom renovations (around 40%). For homes worth between \$250,000 and \$400,000, the trend is the same, but in different proportions (between 50% and 60% and around 50%, respectively). Table 3 provides a glimpse of the return on investment upon the resale of a home. It clearly shows that some types of work generate a far better return than others.

Table 3 – Best return on investment at time of resale

•	Kitchens	45% – 55%
•	Bathrooms	30% – 50%
•	Windows	30% – 45%
•	Roof	35% – 45%
•	Floors	5% – 20%

Source: RE/MAX Return on Reno Index ©

STAYING ON BUDGET... OR NOT

Still according to the most recent CMHC survey (2011), nearly half (48%) of households that carried out renovations stuck to the budget they had allocated to that end. A little more than one third (37%) went over budget. A small percentage (around 10%) spent less than initially planned, and an even smaller percentage (around 3%⁵) did not set any specific budget.

In 2011, 81% of Canadian households that carried out renovations paid for them from their savings, with or without other supplementary funding. The second source of funds was mortgage financing, used by 15% of respondents. 11% of households opted to use a line of credit or a credit card to pay for some of the work. Respondents could give more than one answer. In light of the information gained from the survey, the CMHC states “68 per cent of the renovating households did not see their debt level increase as a result of renovations in 2011.”

NO IMMINENT SLOWDOWN

Are renovations on the verge of pulling back? Can they sustain this pace? In fact, all the conditions seem to be in place for renovation spending to increase even further in the next few years in Quebec, to the point of surpassing \$16B in 2014 and in 2015.

According to Statistics Canada’s latest National Household Survey covering 2011, Quebec’s housing inventory was assessed as follows: 25% of homes needed minor repairs and 7%, major repairs. Slow population growth means that fewer new homes will be needed, shifting the focus to keeping and improving existing homes. Concerns about sustainable development and energy conservation could also promote renovations of existing buildings. Population aging could generate spending on accommodations to live longer in the home, rather than promote the building of specialized residences. Furthermore, government programs such as LogiRénov, which was introduced this April, could also support renovation spending in 2014 and 2015. In short, in light of these findings, we believe that the total of renovation expenses and investments will continue to be greater than that of new construction for a few more years.

However, we must also take into account that a good deal of renovation work has already been carried out in the last decade, and that the pace observed in the 2000s will probably not be sustained. Moreover, we have recently observed a levelling off of the number of husband-and-wife families with two breadwinners. This source of support will continue to exist, but will play a lesser role. It is quite likely that expansionist factors will outweigh those that might hold activity in check in the next four to five years. On the other hand, with the aging population, the temptation to move may fade somewhat, in favour of renovating. Shall we see less nomadic behavior on July 1 every year? Time will tell.

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⁵ Due to rounding, the total may not amount to 100.