



The Long-Term Housing Outlook: Preliminary Projections, 1991-2016

Introduction

Day-to-day variation in the demand for housing tends to obscure the long-term outlook. Such fluctuations reflect changes in interest rates, housing prices, consumer confidence, and other factors related to business cycles and the general health of the economy. In the long-run, however, housing demand can be traced ultimately to changes in the size, age structure, and behaviour of the population. Household growth — the major source of housing demand — occurs as the population grows and ages and as social and economic forces alter preferences for different living arrangements.

This Research and Development Highlight presents some preliminary projections of potential housing demand (household growth) for Canada in the 1991-2016 period. Results were derived from population projections recently produced by Statistics Canada. These preliminary projections illustrate how household growth would vary under different assumptions about how Canadians will house themselves over the next 25 years.

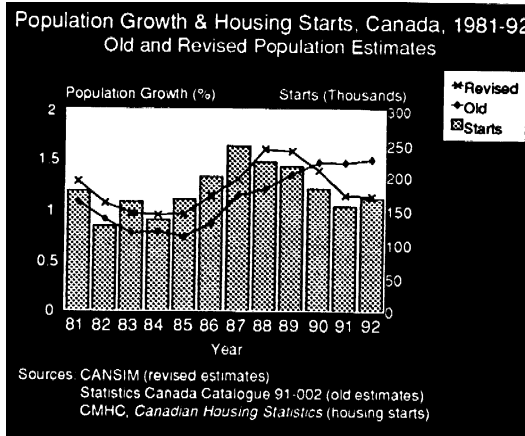
PLEASE NOTE: Projections described in this highlight are preliminary. They do not reflect recent changes to government immigration targets. Final projections for Canada and the provinces will be developed and published in 1995.

Definition of Potential Demand

Potential housing demand refers to the projected annual growth (the absolute change) in the number of households. While household growth is typically the major determinant of the requirement for new dwelling units, other factors — such as the need to replace units lost from the housing stock, additional units created within the existing stock through conversions, and allowance for a normal number of vacant units — also influence the number of new units required. As well, projections do not consider the cyclical short-term impacts of economic factors such as those described above. As such, potential demand projections should not be construed as a forecast of housing starts but as long-term projections reflecting a particular set of largely demographic assumptions.

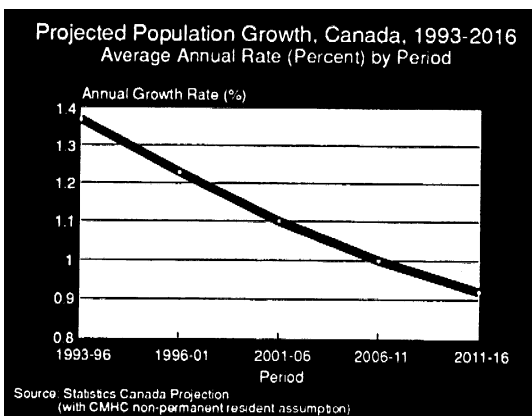
Background

CMHC published potential housing demand projections in 1991. Three developments since then point to the need to update these projections. First, Canada entered and is now recovering from a prolonged recession. Second, 1991 census data describing recent housing choices of Canadians became available. Third, Statistics Canada revised its method of producing population estimates, replacing its old historical series with a substantially different set of numbers. Clearly,



revisions to historical data can affect the outlook for population growth, since population projections use the most recent estimates as the starting point for applying fertility, mortality, and migration assumptions — assumptions that are themselves derived in large measure from historical population trends.

Unlike the old population series, the revised series incorporates adjustments to account for people missed by the census and includes estimates of the size of the population of non-permanent residents and of the number of Canadian citizens returning from residences abroad.² The effect of these additions is both to increase the estimated size of the population and to alter its rate of growth.³ Of particular interest, the revised growth figures for the 1980s and the early 1990s match the pattern of actual housing market activity more closely than the old series, with the period of peak growth roughly coinciding with the boom in housing starts in the late 1980s.



Population Outlook

By applying fertility, mortality, and migration assumptions to the revised population estimates, Statistics Canada recently produced a new set of population projections. CMHC selected one of these scenarios as a base for generating potential housing demand projections. The principal assumptions distinguishing this base population scenario were the following:

- continuation of current fertility levels (1.7 births per woman);
- medium growth in life expectancy;
- annual immigration of 250,0100.~

Under these assumptions, the July 1st population of Canada is projected to increase from 28.8 million in 1993 to 37.0 million in 2016. Of particular note, the projected annual rate of population growth declines throughout the projection period from an average of just under 1.4 percent in the 1993-96 period to 0.9 percent in 2011-16.

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- 1 These projections were described in a report titled *Potential Housing Demand Projections: Canada and the Provinces, 1986-2011* and in Issue 6 of Research and Development Highlights.
- 2 Non-permanent residents are composed of five groups: persons claiming refugee status; persons holding a student authorization (foreign students, visa holders); persons holding an employment authorization (foreign workers, work permit holders); persons holding a Minister's permit; non-Canadian born dependents of the above.
- 3 The 1991 census recorded a Canadian population of 27.3 million on June 4, 1991. According to revised estimates, the population on July 1, 1991 was 28.1 million.
- 4 To reflect recent trends, CMHC postponed the 1993-95 decline in the non-permanent population assumed by Statistics Canada to 1995-97.

Potential Housing Demand Assumptions

The relationship between population growth and household growth (potential housing demand) is not an exact one. Populations can house themselves in an infinite variety of ways (by grouping into an ever changing mixture of small and large households). The projections described below were produced by applying three different assumptions about the household forming behaviour (headship rates) of Canadians to the population projection discussed above.⁵

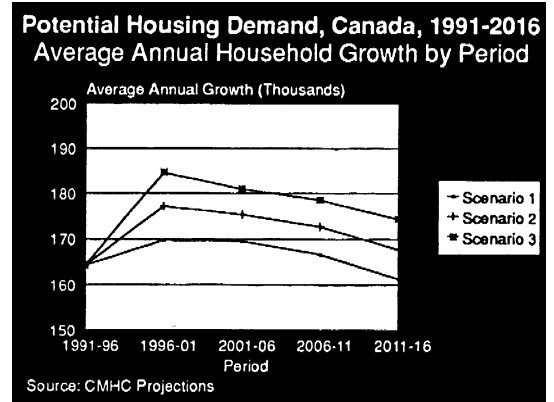
These assumptions were developed using a cohort approach, which projects the future behaviour of particular generations (cohorts) based on the actual changes exhibited by previous generations as they aged. For instance, changes in the propensity to head households of the cohort aged 35-39 would be projected through examining transitions experienced by older groups as they moved from age 35-39 to 40-44.

Potential demand scenarios were developed using cohort trends for three different periods: 1981-86, 1986-91, and 1981-91. The 1981-86 period resembled the experience of recent years in that it encompassed a recession and subsequent beginnings of recovery. Given the similarities between these two periods, the 1981-86 trend was used in all three scenarios to project household growth in 1991-96. The scenarios differ in the assumptions used for later years. At one extreme, the 1981-86 trend was maintained throughout the projection period; at the other, the more positive 1986-91 trend was applied in 1996-2016. A middle ground was obtained by using the longer-term 1981-91 trend in later years.

Summary of Household Projection Assumptions		
Scenario	Assumption In 1991-96	Assumption In Later Years
1	1981-86 cohort trend	1981-86 cohort trend
2	1981-86 cohort trend	1981-91 cohort trend
3	1981-86 cohort trend	1986-91 cohort trend

Results

All scenarios point to a rise in household formation in 1996-2001 and a gradual decline in later years as a result of the slowing population growth described above. Annual household growth in 1991-96 is projected to average around 164,010, a low level consistent with current housing market activity. Depending on the scenario, this level rises to anywhere from 170,000 to 185,010 in the 1996-2001 period. The recession-based 1981-86 trend (scenario 1) produces a much more moderate short-term increase and markedly lower potential housing demand in general than the more recent 1986-91 trend (scenario 3).



Average Annual Potential Housing Demand					
Scenario	1991-96	1996-01	2001-06	2006-11	2011-16
1	164,300	169,800	169,600	166,700	161,300
2	164,300	177,200	175,400	172,700	167,800
3	164,300	184,700	181,100	178,600	174,400

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⁵ Technically, these assumptions take the form of projected headship rates (the ratio of household heads to population in each age group), which are multiplied by the projected age-group populations to produce household projections.

Other Findings

The preliminary projections are consistent in many respects with the findings of earlier research. The following results are evident in all three preliminary scenarios.

- Average household size will continue to shrink but not as rapidly as in the past.
- The number of non-family households (people living alone or with other unrelated individuals) will increase faster than the number of family households. Thus, household composition will continue to shift in favour of non-traditional household types.
- The change in the number of households by age group (age of the household head) will be closely linked to the movement of the baby boomers from group to group as they age. The arrival of the first baby boomers in an age group will boost the number of households headed by that group. Accordingly, household growth by age group will peak at age **45-54** in 1991-2001, age 55-64 in 2001-2011, and age 65-74 in 2011-16.

Conclusions

The projections described above show considerable variation in projected household growth after 1996. Results illustrate how growth would vary given different assumptions about the behaviour of Canadians in the wake of the recent recession. Since they are all based on the same population scenario, projections do not examine the impact of different rates of population growth. Had several population scenarios been investigated, the range of projected demand would have expanded accordingly.

Work to produce final potential housing demand projections will begin late in 1994. Unlike the preliminary projections, final projections will include provincial detail as well as a national summary. Projected household growth for Canada will be the sum of projected growth in each province. The research will also include details on household composition, tenure choices, and dwelling type choices. Given the more comprehensive analysis and geographic detail, it is quite likely that final projections for Canada will differ from the preliminary results described above.

This issue of Research and Development Highlights has been produced as a result of work carried out by the Research Division of Canada Mortgage and Housing Corporation (CMHC). Any questions about the contents of this highlight may be directed to Roger Lewis, Researcher, Housing Requirements, at (613) 748-2797.

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