

# HOUSING MARKET INSIGHT

## Province of Quebec



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: June 2016

*“The magnitude of the wave of baby boomers passing shortly in the 75 years and over age group gives rise to one of the most critical issues for the future of the housing market in Quebec: what will be the residential trajectory of this cohort over the next years? Will it resemble that of the previous generation or will it stand out?”*



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## The characteristics of Quebec households that will shape tomorrow's market

*To understand the future prospects of the housing market, it is essential to take a deeper look at one of its lead actors: the household. And inspection of Statistics Canada census data reveals several relevant characteristics and trends, namely those related to household type, size and tenure. By using this information along with demographic projections for Quebec, we can identify trends that will likely shape the market of tomorrow.*

*With respect to household composition, a sharp decrease is observed in the proportion of family households. The magnitude of population aging in Quebec will contribute to the upward trend in the number of households of small size. In this perspective, it can be expected that the need for smaller sized units (and those adapted to the age of the occupant) will therefore increase. As for household tenure types, although there is a downward trend in the share of renter households, it is likely that the aging of the population will put an end to it, for, as they age, many households will be increasingly drawn to life in rental apartments, the characteristics of which could appear better suited to their needs. And as for the forecasted decline in household formation, it would be wrong to infer from it a proportional decline in new residential construction, as the wave of baby boomers passing shortly in 75 years and over age group will likely lead to demand that the current market cannot completely fill.*

## Foreword: why “Housing Market Insight”?

Why put the housing market under the magnifying glass? While it is true that one of the missions of the CMHC’s Market Analysis Centre is to communicate the major trends in the housing market, there is another, prior, mission which is to identify and understand the multiple elements and dynamics that shape them.

Experience teaches us that housing markets are very complex realities, which are no doubt determined by general trends, but also by specific influences. The knowledge of the latter is essential for anyone working in the field of housing.

## The household: a leading and complex market actor

While the housing market analysis which we call “short-term”, is that which covers a horizon of one to two years, is mainly based on conjunctural economic and demographic variables, longer term analysis longer relies primarily on the underlying demographic trends. This is the case, because the latter tend to be much more stable over time.

The present edition of Housing Market Insight will focus on one of the most basic demographic elements, one which is intrinsically linked to demand in the housing market: the household.

In order not to lose ourselves in this vast topic, we will look at patterns and trends that will have the most impact on the housing market. Following an inspection of the various parts of the definition of this concept, and their relevance to market analysis, we will focus our attention on the fundamental aspects of households, its type, its size and its tenure. We will identify their respective characteristics and show their impact on the supply and demand for housing.

Given the regional nature of the housing market, we will highlight regional characteristics when required.

Finally, we note that most of the data comes from the Statistics Canada Censuses.

## The household: A definition that says a lot

First of all, what is a household and how this concept is relevant to the housing market? Here is how Statistics Canada defines a household:

Household refers to a person or group of persons who occupy the same dwelling and do not have a usual place of residence elsewhere in Canada or abroad. The dwelling may be either a collective dwelling or a private dwelling. The household may consist of a family group such as a census family, of two or more families sharing a dwelling, of a group of unrelated persons or of a person living alone. Household members who are temporarily absent on reference day are considered part of their usual household.

The household universe is divided into two sub-universes on the basis of whether or not the household is occupying a collective dwelling or a private dwelling. The former is identified as a collective household while the latter is a private household.

Several elements of this definition deserve individual attention because they are all relevant to the market.

a. Household size: We understand from the definition that a household may consist of one or more persons. Indeed, households may consist of people living alone, an increasing trend in Quebec, which we will see later. As for households with several people, they may include families - with a greater or fewer number of members - and even cohabitants

with no particular ties. It is clear that an understanding of the trends in household size is a necessary condition for understanding tomorrow’s housing demand. When we talk of household size we are implicitly talking of dwelling size.

- b. Place of residence: the concept “usual” place of residence is also present in the definition. In order to be a Quebec household, it is thus necessary that Quebec be the usual place of residence. This is important because it helps us to estimate the share of the housing stock held by non-permanent residents.
- c. The act of occupation: it is added that the household is defined by the act of occupation. The household exists only when it occupies a housing unit. This is relevant because even if certain prerequisites for the occupation of a house are present (for example, the acquisition of a job), the absence of other conditions could block access (for example, presence of a non-market affordable or insufficient supply).
- d. The private vs. collective nature: The definition distinguishes between private housing and collective housing (housing within a community). Almost all Quebecers live in private dwellings. As for collective housing, these are health care facilities, correctional facilities and other forms of community based housing. According to the latest census, about 179,000 Quebecers lived in such institutions, the vast majority of which were health care facilities.
- e. The familial vs. non-familial nature: Finally, it is mentioned that the household can be configured in many ways, the two categories being family households and

non-family households (a complete list of subcategories is located in the annex of the article). As this element is linked to that of household size, it is also critical to housing demand.

Let us now examine more closely some of the elements of this definition in using census data from Statistics Canada.

### The type and size of households

According to the Statistics Canada census data conducted in 2011, Quebec included almost 3.4 million households. About 64 per cent were family households and the rest non-family households. Table 1 portrays this:

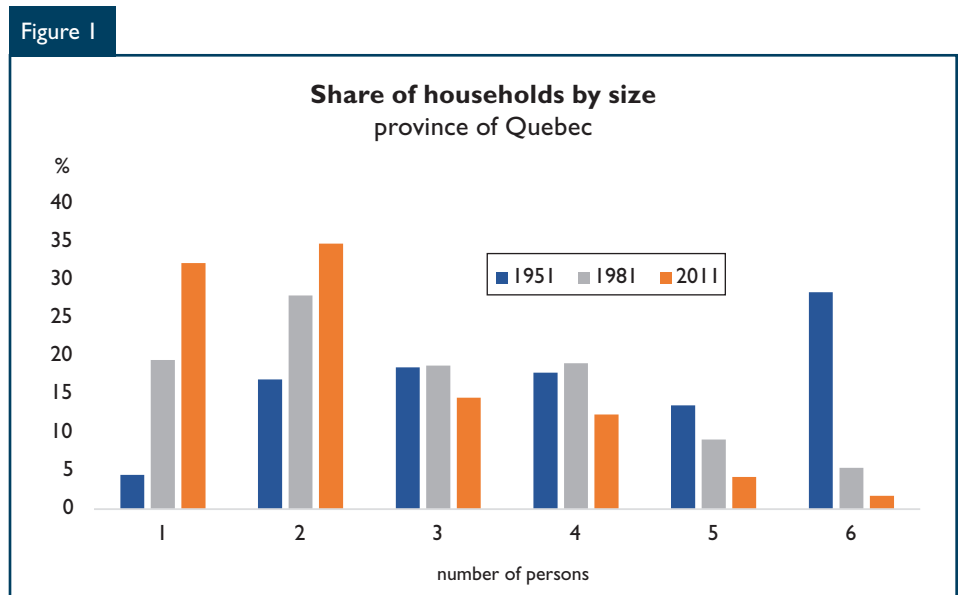
The share of family households has been following a downward trend since the post-war period (92 per cent in 1951). It is not surprising that almost all family households consisted of one family. In fact, less than 1 per cent of households consisted of two families, a proportion that has proven stable for about 40 years.

That said, it is important to note that the definition of a census family includes the case of a family that welcomes “non-family” individuals (for example, a widowed grandparent). This case, which some call intergenerational dwelling is of interest in the context of the demographic aging of Quebec. Insofar as this type of dwelling grows in popularity, the demand for housing more traditional housing units for the elderly could be reduced. However, at present, there is no evidence that this phenomenon is about to accelerate.

As the share of family-households declines, that of non-family households is therefore following the opposite trend. This rise is explained by the relative growth in the number

Table 1: Share of households by type						
Province of Quebec						
	Family Households			Non-Family Households		
	Made up of one family	Made up of two or more families	Total	Containing one person	Containing two or more persons	Total
1951	85.0	6.9	91.9	4.5	3.6	8.1
1956	86.4	4.8	91.3	5.0	3.7	8.7
1961	85.6	3.3	88.9	7.0	4.1	11.1
1966	83.9	2.2	86.1	9.5	4.4	13.9
1971	80.9	1.7	82.6	12.1	5.4	17.4
1976	79.3	1.0	80.3	15.5	4.1	19.7
1981	75.4	0.8	76.1	19.6	4.3	23.9
1986	73.0	0.7	73.6	21.7	4.7	26.4
1991	70.2	0.6	70.9	24.7	4.5	29.1
1996	67.8	0.6	68.4	27.3	4.3	31.6
2001	66.1	0.8	67.0	29.6	3.5	33.0
2006	64.9	0.8	65.7	30.7	3.6	34.3
2011	63.2	0.8	64.0	32.2	3.7	36.0

Source: Statistics Canada, Census.



Source: Statistics Canada, Census.

of households made up of people living alone. Barring a significant growth of intergenerational dwelling phenomenon (which would increase the average size of households), the accelerating population aging will easily support growth and the share of smaller households.

Household size has also undergone a marked evolution. The percentage of households with two people, at most, went from just 20 per cent in 1951 to nearly 70 per cent in 2011. Figure 1 illustrates this evolution.

As is often the case, regional differences exist. In the centers of higher population like Montreal and Quebec, the share of one-person households is higher.

Knowing that household aging leads to the reduction of its size, the magnitude of population aging in Quebec will undoubtedly increase the number of households made up of one person. It seems unlikely that alternative living arrangements (such as intergenerational housing) will influence the upward trend in the number of households of one person and the number of households of small size. In this perspective, it can be expected that the need for smaller sized units (and those adapted to the age of the occupant) will therefore increase.

## The household tenure type

Analysis of census data relating to the tenure type of Quebec households reveals two often quoted results: the percentage of Quebec households that rent is significantly higher than the Canadian average, however it has been in gradual decline since the postwar period. In 1951, an estimated 51 per cent of Quebec households were renters compared to 34 per cent for Canada as a whole. Over a sixty year period, the proportion has declined to about 40 per cent in Quebec and to 31 per cent for all of Canada. Table 2 shows a regional breakdown of the proportion of households by tenure in the 2011 census:

As for the type and size of households, large differences exist within Quebec, which tend to be relatively stable over time (between 1951 and 2011). The rate of renter households peaks on the island of Montreal (62 per cent) and attains a minimum in the Lanaudière region (24 per cent).

**Table 2: Share of households by tenure (2011)**

Administrative regions of Quebec			
	Homeowner	Renter	Households
Lanaudière	76.1	23.9	433,901
Gaspésie—Îles-de-la-Madeleine	75.5	24.5	95,206
Chaudière-Appalaches	73.5	26.5	397,133
Laurentides	73.2	26.8	518,664
Côte-Nord	72.3	27.7	96,569
Bas-Saint-Laurent	70.5	29.5	201,600
Outaouais	69.4	30.6	345,027
Montérégie	69.3	30.7	1,383,294
Laval	68.9	31.1	372,495
Centre-du-Québec	67.4	32.6	225,971
Saguenay—Lac-Saint-Jean	66.9	33.1	274,286
Abitibi—Témiscamingue	66.3	33.7	144,887
Mauricie	61.8	38.2	260,407
Estrie	61.7	38.3	301,058
Capitale-Nationale	58.4	41.6	668,948
Nord-du-Québec	47.7	52.3	40,291
Montréal	37.9	62.1	1,872,136

Source: Statistics Canada, Census.

These regional differences and their slow evolution over time can be explained among other things by differences in the local industrial base, by the relative cost housing as well as by the structure of the housing stock, all of which are important factors and relatively slow to change.

It is likely that the aging population will put an end to the downward trend in the rental rate of Quebec households. Several aging households will increasingly be attracted to life in rental apartments, as some of its features could appear more suited to their needs: ease of maintenance, flexibility and community life. And although it is likely that the growing presence of condominiums will compete with rental apartments, the impact may be limited given the smaller size of the condominium stock and real estate administration requirements associated with this tenure type. To maximize their

competitive power, such buildings will need to accommodate the more specific needs of older households (for example, the presence of elevators and ease of financial administration).

## Household formation

Since the household is identified to a housing unit, it is normal in the context of housing market analysis, to examine the outlook for net household formation, as it provides an idea of potential additional demand. We can divide the sources of household formation into two categories, “internal” and “external”.

The internal source is that coming from the population within a region. We can think of the children of a family, reaching adulthood and leaving the nest to settle elsewhere for the pursuit of further studies or following the acquisition of a job. There is also

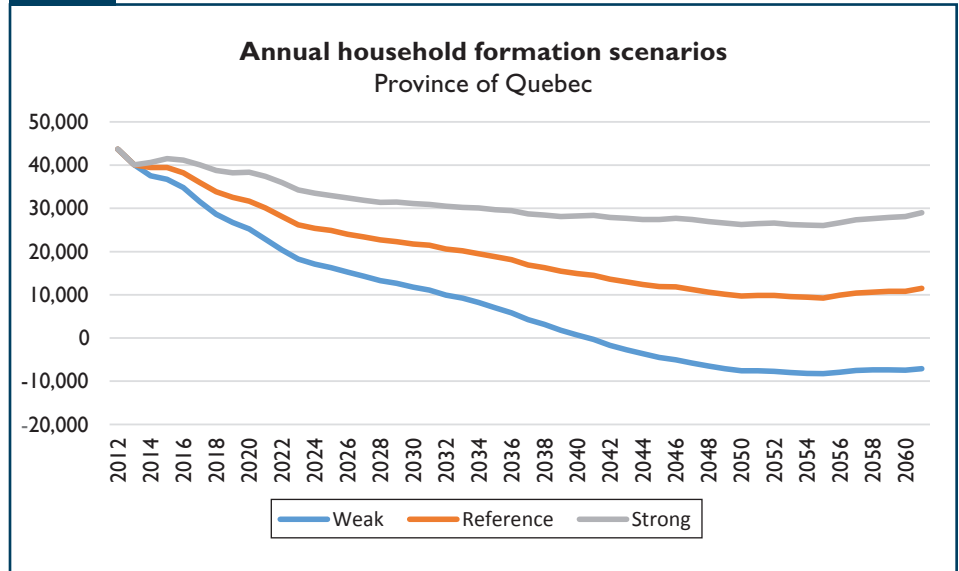
the case of separations and divorces. For these internal cases, the long-term outlook is made by taking into account the structure of the population and various trends, such as age structure, birth rate, death rate, marriage rate, etc.

The so-called external source is household formation from outside of a region, by way of migration, be it international, inter-provincial or intra-provincial. In the case of the province of Quebec as a whole, it will take into account only international and interprovincial migration, while for a city, it will also include inter-regional flows. Long-term trends take into account a wider spectrum of parameters: immigration targets of governments, inter-regional perspectives, etc.

The total, called total net household formation reflects the total formation as well as circumstances that induce the reduction in the number of households: the union of couples whose members were each in a one-person household, cohabitation during less favourable economic times, negative net migration.

According to the latest population projections of the Institut de la Statistique du Québec (ISQ), net household formation in Quebec is expected to decline over the coming decades. According to the ISQ's baseline scenario, it will go from about 43,000 households in 2011 to 30 000 in 2021. Figure 2 shows the annual household formation under three scenarios. Qualitatively, we note that the alternative scenarios are alike: a downward trend in household formation is projected until 2050. The assumptions underlying the different scenarios generate a more or less pronounced decline so that quantitatively, the annual range may reach 10,000 households. In the case of the weak scenario, the same result includes a net decrease of the number of households in 2041.

Figure 2



Source: Institut de la statistique du Québec.

Three highlights are worth noting:

1. Irrespective of the scenario, household formation will be lower in the coming decades.
2. According to the reference scenario, annual household formation will fall by about 15,000 units in ten years
3. It is expected that actual formation will fluctuate by several thousands of households around the baseline scenario

A question that naturally emanates from these observations relates the impact on residential construction. Will this lower household formation cause a decrease in housing starts?

In order to properly link household formation projections to additional housing demand, we must consider the *potential* nature of demand.

This is essential in any analysis of household formation. Indeed, the necessary conditions for household formation may be present, but not all the sufficient ones. For example, a young adult who landed a job could face an unaffordable housing market or a shortage of supply.

In the early 2000s, when the Montreal economy was growing rapidly, migrants, despite having found a job, had a difficult time finding housing, because the supply was not able to answer fast enough.

Besides the household formation outlook, it is essential to assess demand from existing households as well.

## Existing households

Since a household is defined by its dwelling, the phenomenon of household formation is thus linked to the growth of the housing stock, in other words to new construction. But to think that household formation would be the only source of new construction would be wrong. Additional demand could also come from existing households, insofar as the market could not meet their changing needs.

In this regard, there is a case that deserves special attention: that of households aged 75 and over. Why does this age group interest us? Because our knowledge of the behavior of the elderly teaches

us that it is at this moment in life when the need to change dwelling type starts to be felt. To follow the evolution of this age group is therefore a crucial task in the context of additional housing needs.

Inspection of the figure reveals two important facts:

1. Growth in the number of households aged 75 and over is about to accelerate significantly.
2. The number of households will remain at a relatively high level for several years.

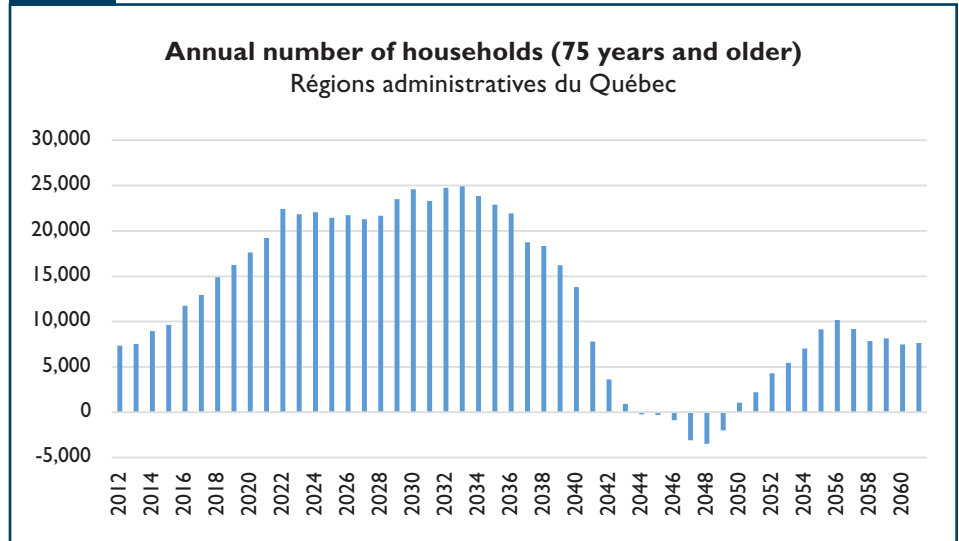
It is important to note that this is not household *formation*, but the transition of a demographic cohort (a group of people born at a given time) from one age group to another. It will easily be guessed that the wave shown in Figure 3 shows the shift of the baby boomer cohort into the 75 years and over age group.

The magnitude of the wave of baby boomers passing shortly in the 75 years and over age group gives rise to one of the most critical issues for the future of the housing market in Quebec: what will be the residential trajectory of this cohort over the next years?

At present, this question, though critical, does not have a clear answer. Several reasons explain the uncertainty:

1. Boomers will not necessarily reproduce the behavior of their parents and grandparents
2. There is a growing range of possibilities (existing in preparation and in the design phase) in housing for the elderly.
3. It is not clear that the baby boomers know exactly how they can reconcile their dreams and goals with their constraints.

Figure 3



Source: Institut de la statistique du Québec.

Despite the uncertainties that continue to hang over this question, it seems clear that given the importance of the wave, a significant number of tomorrow's seniors could change dwelling type. Should that occur, it is not certain that the current housing stock will be able to meet all the needs and preferences of the baby boomers. And therefore, the aging of the baby boomer cohort may lead to demand for additional housing.

## Conclusion

In order to provide greater depth of analysis to readers of its publications, CMHC's Market Analysis Centre established Housing Market Insight.

We chose to inaugurate the provincial edition of Housing Market Insight with a return to the grass roots. And so we decided to take a closer look at the household, in all its uniqueness and complexity. As a lead market actor, its needs, its preferences and its constraints are important, even decisive in the unfolding of the market.

By using this information along with demographic projections of Quebec, we can identify the trends that will

likely shape tomorrow's market.

With respect to household composition, a sharp decrease is observed in the proportion of family households. Moreover, the importance of population aging in Quebec will contribute to the upward trend in the number of households of small size. In this perspective, it can be expected that the need for smaller sized housing units (and those adapted to the age of the occupant) will therefore increase.

As for household tenure types, although there has been a downward trend of the rental rate, it is likely that the aging population will put an end to it, as several older households will be drawn to living in rental apartments, the characteristics of which could appear better suited to their needs.

And finally, with regard to the outlook of lower household formation, it could be wrong to infer from it a proportional decline in new residential construction, as the wave of baby boomers entering shortly into the 75 years and over age group is likely to create a degree of demand that the current market will not be able to fill.

## **ANNEX**

### **Classification of type of household (Statistics Canada)**

This classification was approved as a departmental standard on October 22, 2007.

#### **I Census family households**

##### **I.1 One family households**

###### I.1.1 Couple family

###### I.1.1.1 With children

###### I.1.1.1.1 With additional persons

###### I.1.1.1.2 Without additional persons

###### I.1.1.2 Without children

###### I.1.1.2.1 With additional persons

###### I.1.1.2.2 Without additional persons

###### I.1.2 Lone-parent family

###### I.1.2.1 Female lone-parent

###### I.1.2.1.1 With additional persons

###### I.1.2.1.2 Without additional persons

###### I.1.2.2 Male lone parent

###### I.1.2.2.1 With additional persons

###### I.1.2.2.2 Without additional persons

#### **I.2 Two or more family households**

##### **2 Non-census family households**

###### 2.1 One person households

###### 2.2 Two person households

###### 2.2.1 Related

###### 2.2.2 Unrelated

###### 2.3 Three or more person households

###### 2.3.1 All related

###### 2.3.2 None related

###### 2.3.3 Some related, some not related

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