

HOUSING MARKET INSIGHT

Saguenay CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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"The weak population growth characterizing the Saguenay metropolitan area will continue to slow the pace of residential construction over the coming years. However, the rapidly aging population is generating new housing needs. This could promote the construction of new adapted dwellings or stimulate investments in home renovation."



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Demographics and housing market: a look at residential construction in the Saguenay area

According to the latest population projections¹, the Saguenay area could be the only census metropolitan area (CMA) in Quebec to see its population decrease over the next 15 years. This outlook effectively brings to mind the period of population decline experienced by the area for more than a decade starting in the early 1990s. Weak demographic growth therefore remains a very current issue and a fundamental consideration in understanding future housing market trends in the area. This report takes a look at the population trends in the Saguenay CMA and their effects on the new home market, that is, on residential construction.

Over the next 20 years, with the aging population and low net migration, the pace of new household formation will slow down significantly. The need for new housing will probably not be as great in the area, which will limit the rate of residential construction. However, while the rapid aging of the population contributes to curbing demographic growth, this factor also gives rise to new housing needs. Seniors will therefore play an increasingly important role in housing demand, whether this leads to a rise in the construction of new dwellings adapted to the needs and preferences of older people or to an increase in home renovation spending.

From the outset, it is important to specify that the demographic environment in the Saguenay area obviously has an impact on the overall housing market, not just on residential construction. In particular, the population dynamics also affect the resale market in both the short term and the long term.

However, in order not to make this report too voluminous, the demographic aspects related to the Saguenay CMA resale market will be discussed in a subsequent issue of Housing Market Insight, as they are worthy of special attention. This issue takes a first look at demographics, specifically focused on residential construction.

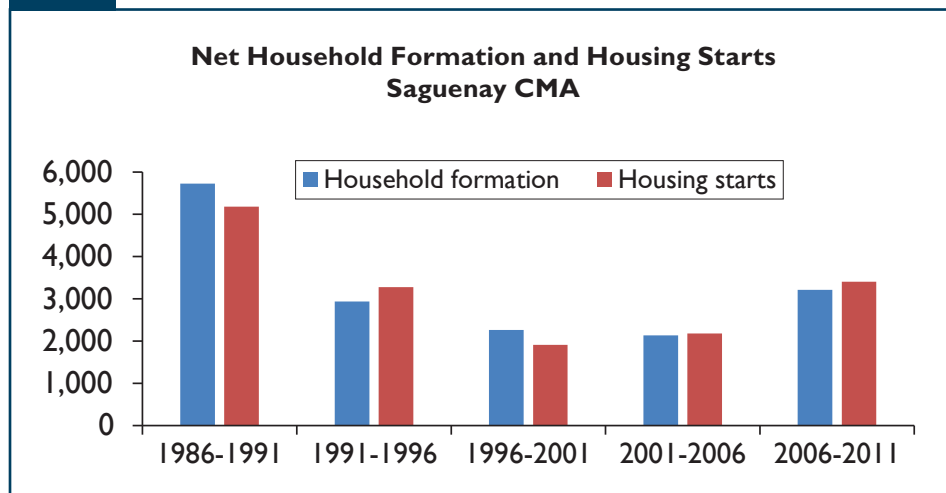
Residential construction follows the pace of household formation

The population and, more particularly, households are at the heart of the housing market. By definition, a household is a person or group of persons occupying a dwelling. The growth in households over time therefore entails an increase in the housing supply. Over the long term, the number of dwellings started should tend toward the number of new households. As such, the pace of residential construction in an area is closely linked to net household formation.

This relationship between residential construction and net household formation in the Saguenay CMA is highlighted in figure 1. For the period from 1986 to 2011 overall, there were on average 651 new households formed annually. The pace of residential construction was at a similar level, with an annual average of 638 units started.

Since the data from the 2016 Census² are not yet available, the exact number of new households formed in the Saguenay area over the past

Figure 1



Sources: Statistics Canada (special compilation), Institut de la statistique du Québec and CMHC; calculations: CMHC.

Table 1 - Changes (%) in Population and Households in Quebec's Six CMAs

	Between 1991 and 2006		Between 2006 and 2021(p)	
	Population	Households	Population	Households
Ottawa-Gatineau CMA*	22.1	37.6	23.5	32.0
Sherbrooke CMA	13.2	30.7	15.8	23.8
Montréal CMA	11.1	21.4	16.7	19.5
Québec CMA	9.2	25.0	15.5	20.8
Trois-Rivières CMA	2.2	17.9	10.7	17.7
Saguenay CMA	-6.9	12.9	3.5	10.5
Province	8.0	21.1	13.7	18.3

Sources: Statistics Canada (Census, 1991 to 2006, and National Household Survey, 2011) and Institut de la statistique du Québec; calculations: CMHC; p: projections.

* Quebec part of the Ottawa-Gatineau CMA

five years cannot be known for the moment. However, the estimates are pointing to a slowdown in net household growth, as residential construction reached peaks between 2011 and 2013. An analysis of this particular situation is presented in the box entitled "Residential Construction from 2011 to 2016" at the end of this report.

Saguenay area has the lowest rates of population and household growth among Quebec's six CMAs

A number of events can lead to the formation of new households, such as a young person leaving the family home to move into an apartment, a couple who separates or a family who comes to settle in the area. In general, population growth, by increasing the pool of potential households, supports the formation of new households³.

From 1991 to 2006, the Saguenay CMA posted the weakest population growth among Quebec's six CMAs (see table 1). In fact, the population declined by nearly 7 per cent over these 15 years (compared to a rise

of 8.0 per cent for the province). The Saguenay area also recorded the lowest growth in households among the metropolitan areas across Quebec, with a gain of 12.9 per cent (+21.1 per cent for the province)⁴.

While the Saguenay CMA population did start rising again after 2006, the rate of growth remains slow. According to the reference scenario of the population projections of the Institut de la statistique du Québec (ISQ), from 2006 to 2021, the Saguenay area will once more record the weakest population and household growth among Quebec's six CMAs (see table 1). In fact, this population growth scenario may even perhaps be rather "optimistic," since the latest available data⁵ indicate that the population in the area declined again in 2015.

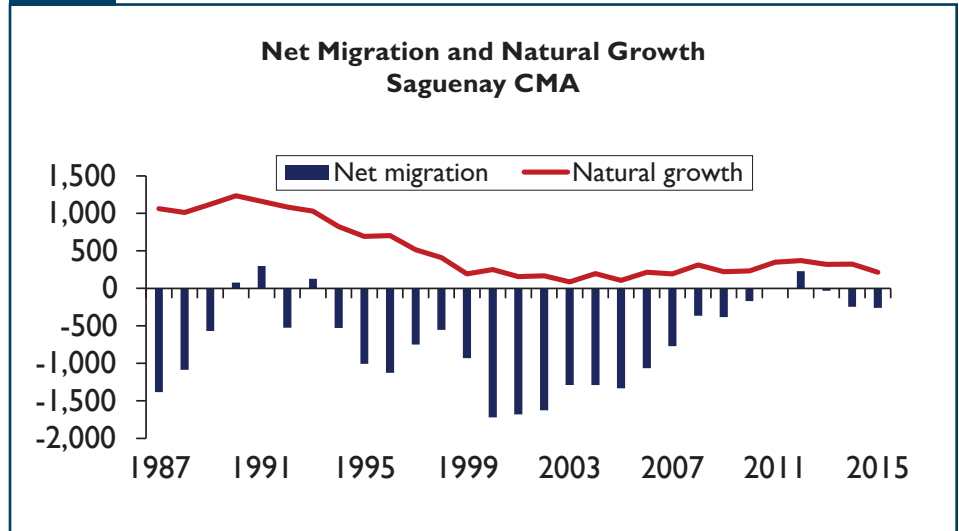
From 1991 to 2006: weak growth as a result of migration losses and slower natural increase

Population growth can come from two sources: natural increase and migratory increase⁶. The weakness of these two factors in the recent history of the Saguenay area was the cause of the decline in the population that lasted from 1994 to 2007 (see figures 2 and 3).

With the aging of the population, the number of births was on a definite downward trend in the early 1990s, while deaths were on a slightly upward trend, which resulted in a marked decrease in natural growth. These trends were not limited to the area, although they were particularly significant there. In fact, the decline in natural growth was observed across the province and the country.

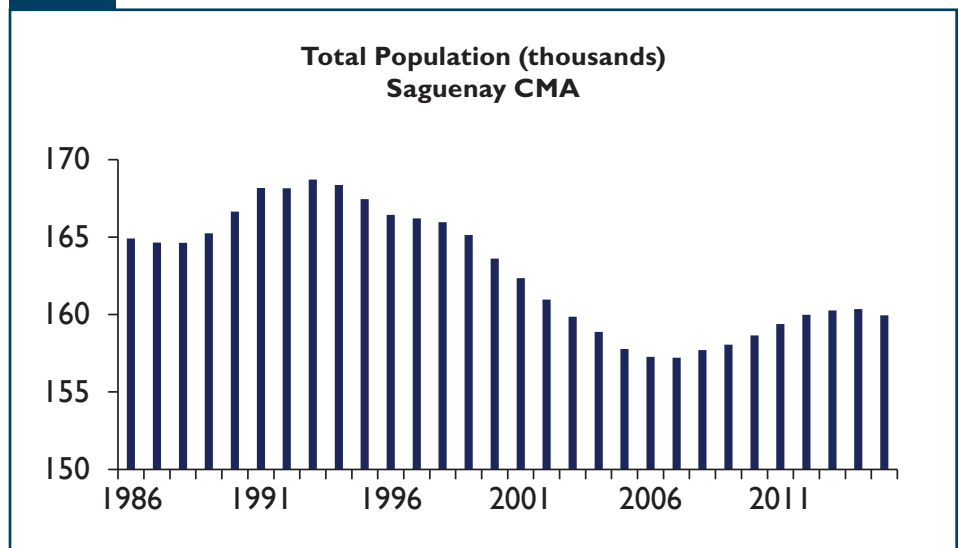
However, in many areas of Quebec and Canada, population growth was supported by the influx of migrants, whether through interregional, interprovincial or international

Figure 2



Sources: Statistics Canada and Institut de la statistique du Québec; calculations: CMHC.

Figure 3



Sources: Statistics Canada and Institut de la statistique du Québec; calculations: CMHC.

migration. But this was not the case in the Saguenay CMA—or in the overall Saguenay–Lac-Saint-Jean administrative region—where negative net migration levels have been recorded year after year. This has been largely due to the fact that many young people have been leaving the CMA for other areas of Quebec.

Increase in net migration turns the tide

Had these trends in natural growth and migration continued at the same rate, the population in the area would have likely kept declining⁷. However, starting in 2007, natural growth stabilized and, especially, net interregional migration significantly increased, such that the population began rising again slightly in 2008. Based on these new observations, the demographic outlook improved

considerably. But net migration became negative again in 2013, which contributed to a new slowdown in population growth.

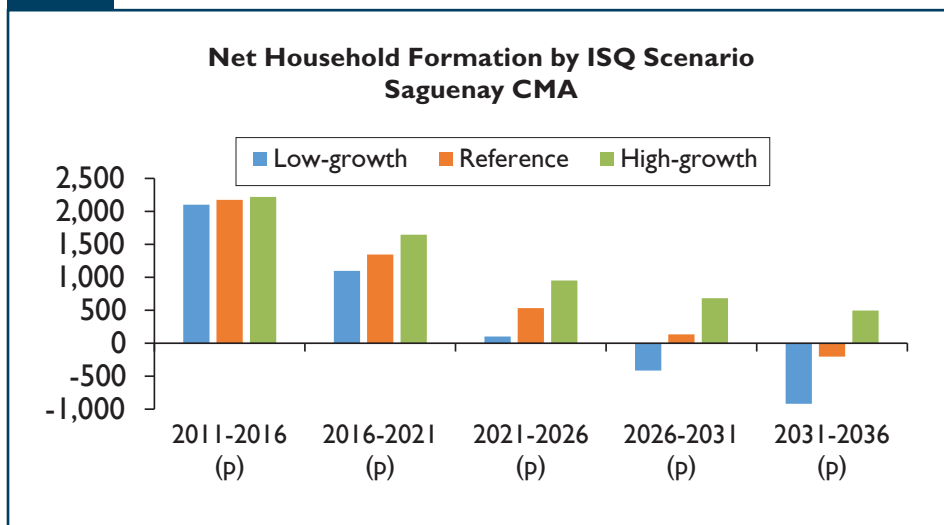
Over the next 20 years, the aging of the population in the Saguenay area will be increasingly marked. The annual number of deaths should exceed the annual number of births within the next 10 years or so. Natural growth will then become negative. In this context, the area's capacity to keep its residents and attract new people, whether they be individuals returning to the region or newcomers, will be a determining factor for future demographic growth. This appeal will be partly dependent on the economic strength of the area relative to that of other regions. In any case, the Saguenay CMA should continue to experience rather weak population growth compared to the other metropolitan areas in Quebec.

Pace of household formation will slow down and limit residential construction

The household projections over the coming years are based, like the population projections, on the recent trends in fertility (number of children per woman), mortality (life expectancy), migration (immigration and emigration) and the interactions among these three factors. Another consideration is the propensity of individuals to form a household in relation to their age, that is, the headship rates by age group.

Obviously, these trends are not set in stone. There is a significant share of uncertainty with regard to future demographic changes, particularly in the case of migration. That is why various scenarios are assessed. The ISQ's latest population projections⁸ present three scenarios for net household formation

Figure 4



Source: Institut de la statistique du Québec (ISQ), *Perspectives démographiques du Québec et des régions 2011-2061* : Édition 2014; calculations: CMHC; p: projections.

from now until 2036: a reference scenario, a high-growth scenario and a low-growth scenario.

What the scenarios have in common is that they are all pointing to a slowdown in net household formation (see figure 4). This means that, in general, residential construction is also bound to slow down. According to two of the three scenarios, household formation could even be negative by 2036. This would result in a situation where the number of units in the area's housing stock would be permanently greater than the demand for dwellings. There would then, theoretically, be no need for new units.

However, household formation is not the only factor that has an impact on demand for new dwellings. Housing starts are also stimulated by other factors, such as changes in the housing needs and preferences of existing households⁹. Therefore, even if the total number of households is stagnant or decreases, new units could still be started by developers to provide dwellings that match the demand.

In particular, specific needs or preferences can arise among older households, in terms of design (such as smaller units or dwellings on one

level) or services (such as access to health care). Where all of these needs cannot be met by existing homes, residential construction would be supported by the demand for adapted units. In fact, since the demographic weight of seniors in the area will be increasingly significant over the coming years, housing demand will be greatly influenced by the needs of retired households.

Housing demand will be largely supported by the needs of older households

Over the next 20 years, the wave of baby boomers, now aged between 50 and 70, will continue to climb the age ladder and significantly increase the proportion of the population aged 75 and over. As a result, while household formation is bound to slow down overall, the number of households aged 75 or older will keep growing (see figure 5). This phenomenon will in fact extend to the entire province.

The Saguenay CMA population is already aging rapidly¹¹. The demographic weight of seniors will therefore be particularly significant there over the next two decades,

and their choices will have a major impact on the housing market. In fact, spending on housing will be largely supported by the needs of households aged 75 or older and could result in the construction of new dwellings or the adaptation of the existing stock.

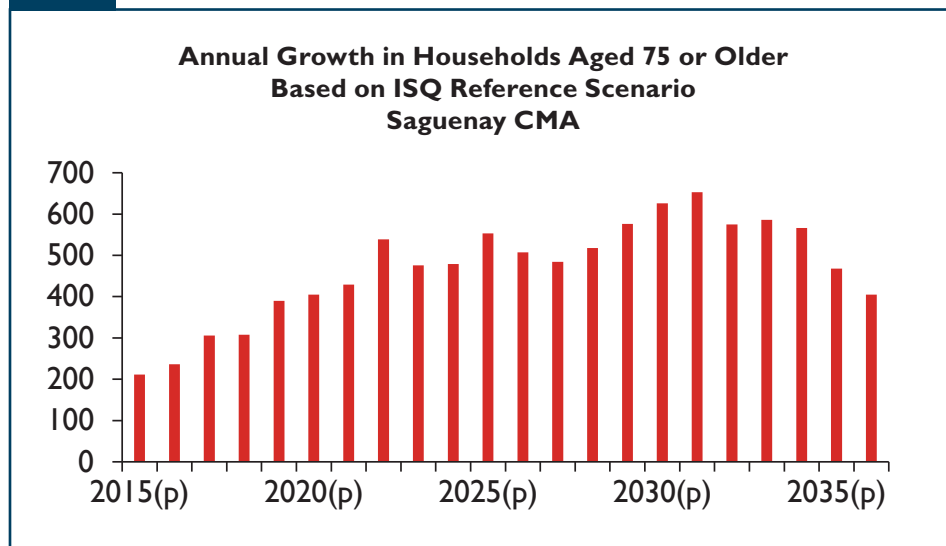
Aging population could promote rental apartment construction as well as renovation

The housing choices that tomorrow's seniors will make remain unknown. Clearer trends will only emerge over the coming years. Still, while it should be kept in mind that the preferences of today's and tomorrow's generations may be different, it is interesting to develop a profile of the potential housing demand based on current trends.

In particular, one observation made in the Saguenay area, like in Quebec overall, is that people tend to return to the rental market when they retire, that is, around the age of 65. The 2011 Census data for the Saguenay CMA show that 28 per cent of households aged from 35 to 64 were renters, compared to 36 per cent of those aged from 65 to 74 and 49 per cent of those aged 75 or older (see figure 6). The higher proportion of renters among older households is partly attributable to homeowner households who, for a variety of reasons, dispose of all their property to move into a seniors' housing unit or a conventional rental apartment¹².

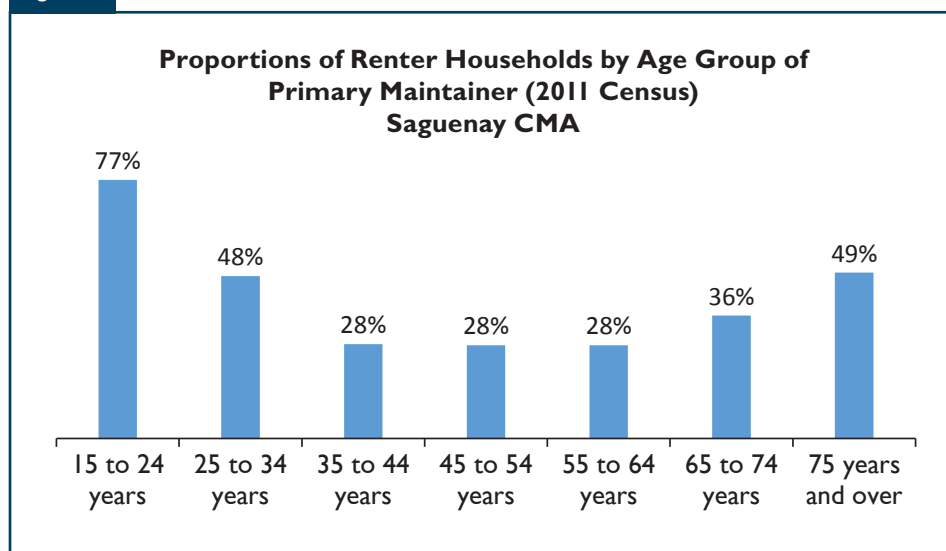
The Seniors' Housing Survey conducted in 2016 by CMHC revealed that 20.8 per cent of people aged 75 or older in the Saguenay CMA occupied spaces in seniors' residences. By assuming that this proportion will remain constant over the next 20 years, it is possible to estimate the potential demand

Figure 5



Source: Institut de la statistique du Québec (ISQ), *Perspectives démographiques du Québec et des régions 2011-2061 : Édition 2014*; calculations: CMHC; p: projections.

Figure 6



Source: Statistics Canada; calculations: CMHC.

for units in such rental projects (see table 2). Based on current population growth projections, the additional annual demand for seniors' apartments could be between 120 and 130 units over the next five years and between 160 and 210 units by 2031.

Seniors' rental apartment starts could therefore account for a relatively significant share of the residential construction in the Saguenay area over the next 20 years.

That being said, the "potential" nature of the demand should be emphasized, since older people could, of course, prefer housing options other than private seniors' residences, such as conventional rental apartments, condominiums, smaller single-detached houses or even new forms of housing that could be developed.

As well, part of the needs could be met by the existing housing stock, where some adaptations would be

performed, which would bring about an increase in investments in home renovations. For example, a large proportion of the conventional rental apartments in the area are contained in smaller projects (less than 20 units), which do not necessarily have the amenities sought by seniors, such as an elevator. Some modifications would be required to make these dwellings accessible.

In general, spending on home renovations in Quebec has risen steadily over the past 15 years and now exceeds spending for new housing¹³. Over the coming years, investments for the maintenance, repair and renovation of residential infrastructure should continue to play a key role in the housing market.

Conclusion

For this first issue of *Housing Market Insight—Saguenay CMA*, it appeared quite natural to take a look at a

Table 2 - Potential Annual Demand for Seniors' Housing Saguenay CMA	
Period	Potential Annual Demand (units)
2016-2021	Between 120 and 130
2021-2026	Between 160 and 180
2026-2031	Between 180 and 210
2031-2036	Between 160 and 210

Sources: Institut de la statistique du Québec and CMHC; calculations: CMHC.

fundamental factor for housing market trends: demographics. This factor is all the more relevant in that demographics clearly distinguish Saguenay from the other metropolitan areas in Quebec, given the significant migration losses that have contributed to the decline of the population in this area.

Over the next 20 years, in this environment of weak demographic growth and rapidly aging population, residential construction in the

Saguenay area is bound to adjust. For one thing, net household growth will slow down significantly, which will limit the need for additional dwellings. For another, the changing needs of an aging population will require the construction of new adapted dwellings or the modification of existing units. This could promote the construction of new rental units, particularly in private seniors' residences, as well as investments in the renovation of the existing housing stock.

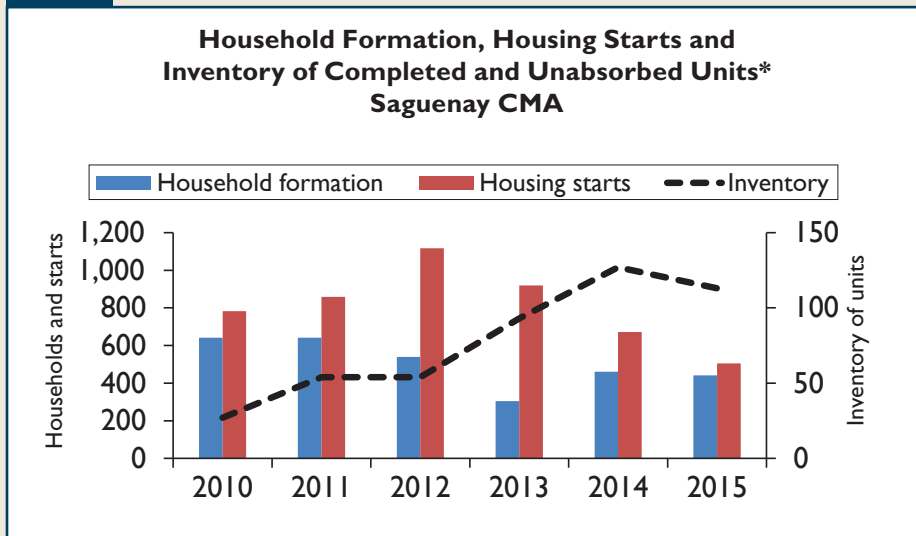
Residential Construction from 2011 to 2016

Since the growth in households entails an increase in the housing supply, the number of housing starts should be approximately equal to net household formation. However, this is a relationship where the pace of construction gradually adjusts to movements in demand attributable to the formation of new households.

As such, there are constantly short-term “imbalances”, which are apparent in the changes in the inventory of newly completed but unabsorbed dwellings. If housing starts exceed household demand, the inventory of unsold units increases. This is what seems to have occurred in the Saguenay CMA between 2011 and 2016.

After posting good growth between 2006 and 2011, net household formation experienced a marked slowdown starting in 2012, according to the estimates. However, the rate of residential construction did not decrease right away; in 2012, housing starts

Figure 7



Sources: Institut de la statistique du Québec and CMHC; calculations: CMHC.

* Inventory of completed and unabsorbed freehold and condominium units.

even reached their highest level in 20 years. Then, the inventory of completed and unabsorbed units (freehold and condominium) began rising toward a historically high level (see figure 7).

This surplus supply caused builders to slow down the pace, and the annual number of housing starts

has since steadily declined. In 2015, the inventory of completed and unabsorbed units began a downward trend. The rebalancing of inventories is expected to continue, which will keep limiting, over the short term, the rate of starts.

DEFINITIONS

Migratory increase, migratory balance or net migration

Migratory increase is the difference between the number of people who settle in an area and the number of people who leave that same area during a given period. Migratory increase is the sum of net interprovincial migration (migration between provinces), net intraprovincial migration (migration between regions of the same province), net international migration (immigration minus emigration), Canadians returning to Canada and temporary (non-permanent) residents—data added to the CANSIM database by the Statistics Canada Demography Division. The data on interprovincial and intraprovincial migration are obtained, in particular, by comparing addresses indicated over two consecutive years on personal income tax returns, kept in Canada Revenue Agency income tax files. The migration estimates are established using models; data drawn from income tax files are weighted in order to be representative of the overall population.

Natural increase

Natural increase is the difference between the number of births and the number of deaths during a given period. A positive natural increase over a certain period means that the number of births is higher than the number of deaths. If the number of deaths is higher than the number of births, the natural increase is negative.

Condominium unit

A condominium unit is an individual dwelling unit that is privately owned but where the building and/or the land are collectively owned by all dwelling unit owners. A condominium is a form of ownership rather than a type of house.

Freehold unit

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

Net household formation

The change in the number of households between two years.

Start

A start is defined as the beginning of construction work on the building where the dwelling unit will be located, usually when the concrete has been poured for the whole of the footing around the structure, or an equivalent stage where a basement will not be part of the structure. Housing starts are enumerated as part of CMHC's monthly Starts and Completions Survey. Building permits are used to determine the location of construction sites, which are visited to confirm the stage in the construction process.

Headship rate

The headship rate is the proportion of people, by age group in the population, who are the primary maintainers of their households. A primary maintainer is the person in the household in charge of paying the rent¹⁴. According to data from the 2011 Census, 12.9 per cent of people aged from 15 to 24 were primary household maintainers, which is—unsurprisingly—well below, for example, the household headship rate among people aged from 35 to 44 (56.3 per cent)¹⁵.

ENDNOTES

- ¹ Institut de la statistique du Québec (ISQ), *Perspectives démographiques du Québec et des régions 2011-2061 : Édition 2014*, reference scenario.
- ² Statistics Canada, 2016 Census of Population. The data on population and dwellings should be available starting in February 2017.
- ³ Where the net growth in households is greater than the decline in the population, it is possible that the number of households in a given area can increase even if the population decreases.
- ⁴ The data reflect certain geographic changes over the censuses: the addition of Saint-Jérôme to the Montréal CMA in 1996, the addition of Magog to the Sherbrooke CMA in 2006 and the addition of four municipalities to the Saguenay CMA in 2011 (Saint-Félix-d'Otis, Sainte-Rose-du-Nord, Saint-Charles-de-Bourget and Saint-David-de-Falardeau).
- ⁵ All of the ISQ's population projection scenarios date from 2014 and are based on the demographic trends observed until the 2011 Census. However, the ISQ also produces population estimates annually using Régie de l'assurance maladie du Québec registration data. The latest estimate of the Saguenay CMA population (for 2015) dates from February 2016; however, this estimate is a preliminary figure. Very recent population estimates must be interpreted with caution, since they are likely to be adjusted once new information becomes available, particularly the results of the Census of Population conducted every five years by Statistics Canada.
- ⁶ See the "Definitions" section at the end of this report.
- ⁷ In the population projections released by the ISQ in 2009 (*Perspectives démographiques du Québec et des régions 2006-2056 : Édition 2009*), the fertility, life expectancy and migration trends determined according to the reference scenario were pointing to a continued decline in the population until 2031.
- ⁸ ISQ, *Perspectives démographiques du Québec et des régions 2011-2061 : Édition 2014*.
- ⁹ The need for new dwellings can also come, for example, from the demand for secondary homes and the requirement to replace units that have been destroyed (intentional demolitions, fires, etc.).
- ¹⁰ See the June 2016 issue of *Housing Market Insight—Province of Quebec* ("The characteristics of Quebec households that will shape tomorrow's market").
- ¹¹ The average age in 2011 was 40.9 years in the province of Quebec, compared to 42.6 in the Saguenay CMA and the Saguenay–Lac-Saint-Jean administrative region. The only areas in Quebec that had higher average ages were the Trois-Rivières CMA (43.3) and the administrative regions of Gaspésie–Îles-de-la-Madeleine (45.6), Mauricie (44.4) and Bas-Saint-Laurent (44.3). Source: ISQ, *Perspectives démographiques du Québec et des régions 2011-2061 : Édition 2014*.
- ¹² There are many factors that determine the housing choices of seniors. The results of a CMHC research project on this topic were published in a report entitled *Research Highlight: Analysis of Housing Choices and Changing Housing Needs of Seniors and Pre-seniors by Age Group* (May 2016).
- ¹³ According to Statistics Canada data on residential investment (CANSIM 026-0013). In 2003, spending in Quebec for new dwellings was estimated at \$6.3 billion, compared to \$6.1 billion for home renovations. In 2015, spending reached \$7.4 billion for new dwellings, versus \$12.3 billion for home renovations.
- ¹⁴ For a more specific definition of primary household maintainer, see <http://www12.statcan.gc.ca/nhs-enm/2011/ref/dict/households-menage020-eng.cfm>
- ¹⁵ ISQ data.

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