

HOUSING MARKET INSIGHT

Prince Edward Island



CANADA MORTGAGE AND HOUSING CORPORATION

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"International migration is the key driver of housing demand in Charlottetown. It has lowered vacancy rates, brought new life to the resale market, and shows no signs of slowing. That being said, it has also reduced the supply of available housing options. As such, Charlottetown will require residential construction to grow in order to meet the housing needs of today's and tomorrow's Islanders."

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Migration & Housing: What It Means for Charlottetown

Residential construction is based on the simple need to house people – the more people there are, the more houses required. While this relationship has generally been true for Prince Edward Island (PE) over the last half century, the relationship is not as strong today as it once was. The following are a few of the findings:

- International migration has boosted the population of PE for the last ten years but has also coincided with rising out-migration;
- Housing demand has grown quickly as more international migrants are moving to and staying on the Island; and
- Rising levels of international migration and a slow expansion of the stock of rental housing has led some newcomers to other housing options, such as the resale market, but this solution will not last long-term.

International Migration Key to Population Growth

Historically, populations grew naturally, meaning that the number of births exceeded deaths. New households were then created through the division of existing households, whether that be from young adults moving into their own home or from dissolved relationships such as divorce. However, natural population growth has declined over the years. To illustrate, there were nearly twice as many births than deaths on the Island in the early 1970's, but this has fallen to a less than one birth to every death by 2015¹. Natural growth now adds little to the population.

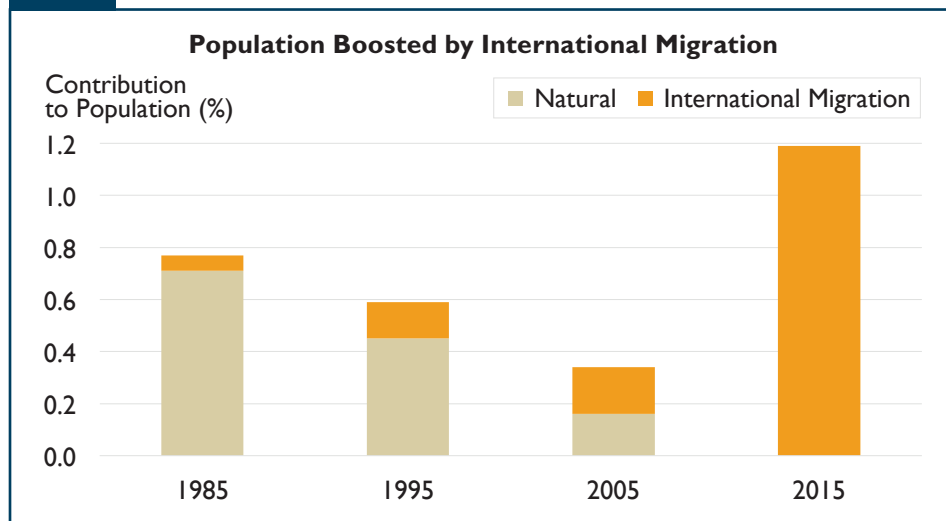
International migration, which refers to the net number of people moving across the provincial border to or from other countries², has propelled PE's population for the past ten years (Figure 1). An average of 1,560 international migrants have moved to PE each year over the past decade making PE the only province in Atlantic Canada to report continuous population growth over this period³.

International Migration Linked to New Rental Units, Sometimes

This robust level of international migration has impacted the province in several ways. For example, as international migration moved higher, so did the number of people moving off Island to other Canadian provinces such as Alberta, Ontario and British Columbia. This was likely due in part to the controversial Provincial Nominee Program that was in place at that time⁴. Tax filer data suggests that recent immigrants made up a sizeable portion of PE's recent out-migrants. Specifically, less than half of the tax-filing immigrants that came to PE between 2006 and 2010 were still in the province three years after their arrival.

This combination of strong immigrant inflows and their subsequent departure to other Canadian provinces greatly influenced the pace of construction for rental apartment units in Charlottetown. From 2007 to 2010, for example, international migration was ramping up faster than anticipated, such that twice as many international migrant families moved to Charlottetown in 2010 than in 2007^{5,6,7}. While there were 455 rental completions, which greatly exceeded the ten-year average of 99 rental units⁸, this was insufficient to meet the demand presented by these new international migrant families.

Figure 1



Source: Statistics Canada, CMHC. Calculations.

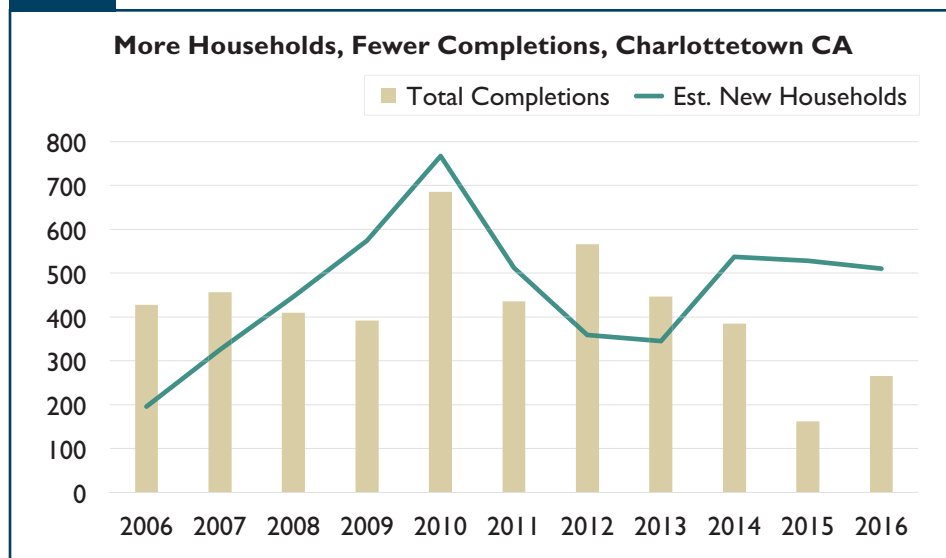
The apartment vacancy rate fell from 4.3 per cent in 2006 to 2.3 per cent in 2010⁹.

Over the next three years, an additional 665 new rental units completed¹⁰ in Charlottetown during a period that saw consistent year-over-year declines in international migration and growth in the number of people leaving the province. International migration levels fell off following the cancellation of the Provincial Nominee Program in 2011 while outmigration

grew alongside the controversy of the Program¹¹. By 2013, the apartment vacancy rate stood at 7.9 per cent, nearly double the ten-year average¹².

The Provincial Nominee Program was revised in 2014. A main focus was on keeping immigrants on the Island and it removed the investor stream from the Program. International migration quickly returned to PE, with more than 1,700 newcomers over the past two years, plus an additional 1,700 newcomers in the first six months

Figure 2



Source: CMHC, Statistics Canada, IRCC, CMHC Calculations.

of 2016¹³. This inflow of international migrants, however, has not been met with the same increase in construction activity to what was seen previously. As a result, apartment vacancy rates fell, reaching 4.2 per cent in October 2015. This depicts the growing disconnect between the number of families moving to Charlottetown and the number of new housing units being built (Figure 2). It also begs the question, where are all these new families living?

International Migrants Looking Beyond Rental, Beyond Charlottetown

According to intelligence gathered from local market experts, a growing number of international migrant families are choosing ownership over rental either immediately upon arrival or shortly thereafter. This additional demand acted as a catalyst to what was previously a sluggish resale market. Prior to 2015, the resale market was abundant in supply but demand was not very strong. As such, the mechanisms of buying and selling a home slowed down.

In light of little household growth from natural sources and a net outflow of Islanders to other Canadian destinations, this renewed interest in the resale market is being generated by international migrant families. The vast majority of immigrants are arriving under the Economic Class of the Provincial Nominee Program¹⁴. This means that they are coming with more resources in hand. This may be existing savings, job experience or both. As such, it appears that these new international migrant families might be in a better position to purchase a home upon arrival or shortly thereafter.

Resale activity in markets across PE began to pick-up in the second half of 2015 and have continued

to grow. There were 1,381 residential MLS® sales over the first eight months of 2016, a 29.5 per cent increase over year-to-date 2015 figures. This set a new record for MLS® activity. The average MLS® price for this period was \$215,107, 14.6 per cent above year-earlier figures.¹⁵

Nearly half of this resale activity has been in Charlottetown, Stratford and Cornwall, the three centres that make up the Census Agglomeration area. According to data from Immigration, Refugees, and Citizenship Canada, Charlottetown CA is the preferred area for new international migrants¹⁶ in PE, although data suggests that a growing number are looking beyond Charlottetown.

In order to approximate the number of new international migrant families that decided to remain in Charlottetown, it was assumed that half of all MLS® sales and every newly completed home was purchased by a new international migrant family. While this is not a likely case, it was felt to create a conservative estimate of supply that accounted for unavailable data points such as vacant rental units, non-conforming suites, living with

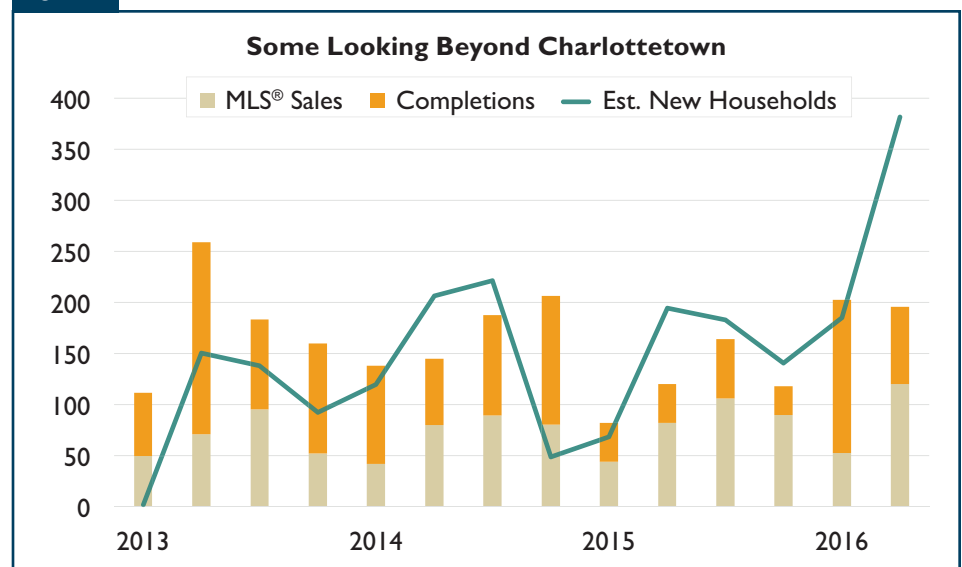
family, etc. This figure was then compared with the estimated number of new migrant families.

The above analysis concluded that the demand created by these newcomers outweighed the supply proxy nearly each quarter over the past two years (Figure 3). With an insufficient supply of houses in Charlottetown, it suggests that some would have looked elsewhere in the Province.

What to Expect Next

Going forward, it does not appear that international migration will slow on PE. Current levels have the potential to swell further from the commitments made under the Atlantic Growth Strategy¹⁷. Retention rates are poised to improve following earlier changes to the Provincial Nominee Program and the goals set within the Atlantic Growth Strategy. As a result, Charlottetown has entered a new era where the underutilized stock of existing homes and the stock of purpose-built rental units will no longer provide a sufficient supply of homes to meet the needs of newcomers. Charlottetown will require residential construction to grow in order to meet the housing needs of today's and tomorrow's Islanders.

Figure 3



Source: CMHC, PEI Real Estate Association, Statistics Canada, IRCC, CMHC Calculations.

ENDNOTES

- ¹ Statistics Canada. Table 053-0001 Estimates of births, deaths and marriages, Canada, provinces and territories, annual (number)
- ² $\text{Net International Migration}_t = (\text{Immigrant}_t - \text{Emigrants}_t) + (\text{Returning Emigrants}_t - \text{Net Temporary Emigrants}_t) + \text{Net Non Permanent Residents}_t$
- ³ Statistics Canada. Table 051-0005 - Estimates of population, Canada, provinces and territories, annual (persons)
- ⁴ http://www.huffingtonpost.ca/2012/05/09/pei-immigrant-provincial-nominee-program_n_1499502.html
- ⁵ Statistics Canada. Table 051-0037 International migration components, Canada, provinces and territories, quarterly (persons),
- ⁶ IRCC, Canada - Admissions of Permanent Residents by Intended Province/Territory of Destination and Immigration Category, 2000-March 2016.
- ⁷ Average household sizes were estimated using the ratio of spousal and dependants permanent resident admissions to principal applicant permanent resident admissions.
- ⁸ CMHC, Starts and Completions Survey.
- ⁹ CMHC, Fall Rental Market Survey.
- ¹⁰ CMHC, Starts and Completions Survey.
- ¹¹ http://www.huffingtonpost.ca/2012/05/09/pei-immigrant-provincial-nominee-program_n_1499502.html
- ¹² CMHC, Rental Market Survey.
- ¹³ Statistics Canada, Table 051-0037 International migration components, Canada, provinces and territories, annual (persons).
- ¹⁴ IRCC, Canada - Admissions of Permanent Residents by Intended Province/Territory of Destination and Immigration Category, 2000-March 2016.
- ¹⁵ Canadian Real Estate Board, Residential sales for January to June 2016. MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
- ¹⁶ IRCC, Canada - Permanent residents by intended province or territory and urban area, Q1 2014 to Q1 2016.
- ¹⁷ <http://news.gc.ca/web/article-en.do?mthd=advSrch&crtr.mnthndVI=&crtr.mnthStrtVI=&crtr.page=3&nid=1093849&crtr.yrndVI=&crtr.kw=&crtr.yrStrtVI=&crtr.dyStrtVI=&crtr.dyndVI>

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