

HOUSING MARKET INSIGHT

Hamilton CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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“The echo generation have outnumbered the baby boomers which meant the purchasing behaviour is about to shift as the echo generation moves into its prime spending years. Given that many individuals within the echo generation will be putting off significant milestones like marriage and children, the number of one person households is projected to trend higher.”



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Impacts of the Echo Generation on the Housing Market in Hamilton

Highlights

- The echo generation has been increasing faster than the baby boomer generation since 2012. Much of the estimated increase in the echo generation has been the result of strong net intra-provincial migration. The echo generation is poised to reshape Hamilton's economy and housing market activity.
- First-time buyer demand has shifted from single-detached homes to row houses and condominium apartments mostly due to elevated house prices.
- The proportion of first-time buyers choosing fixed mortgage rates has been trending lower since 2012. The downward trend in fixed mortgage rates could be that many buyers anticipate mortgage rates to remain at historically low levels for an extended period.

Introduction

This report examines the impacts of demographic changes on the housing market in Hamilton. The report focuses on the so called children ('echos') of Baby Boomers, born between 1972 and 1992¹; stereotyped as ethnically diverse children of the computer age, comfortable with digital communications, moderately conformist, and untroubled by the generation gap. According to 2011 Census data, the children of baby boomer generation accounted for 27 per cent of the Hamilton Census Metropolitan Area (CMA) total population. These people were aged between 19 and 39 in 2011. The echo generation is an example of a demographic trend with the potential to significantly influence the housing market.

¹ Source: Statistics Canada, Health Statistics Division, Vital Statistics.

The debate between home ownership and rental continues for the echo generation, with contrasting arguments clouding the decision process. Strong house price growth has strengthened rental demand and delayed homeownership for many in the echo generation, who instead opt to rent, double up with roommates, or live with parents. However, potential is everything in today's housing outlook. The echo generation matters to the housing market; the decisions about renting or buying directly affect housing demand and the economy.

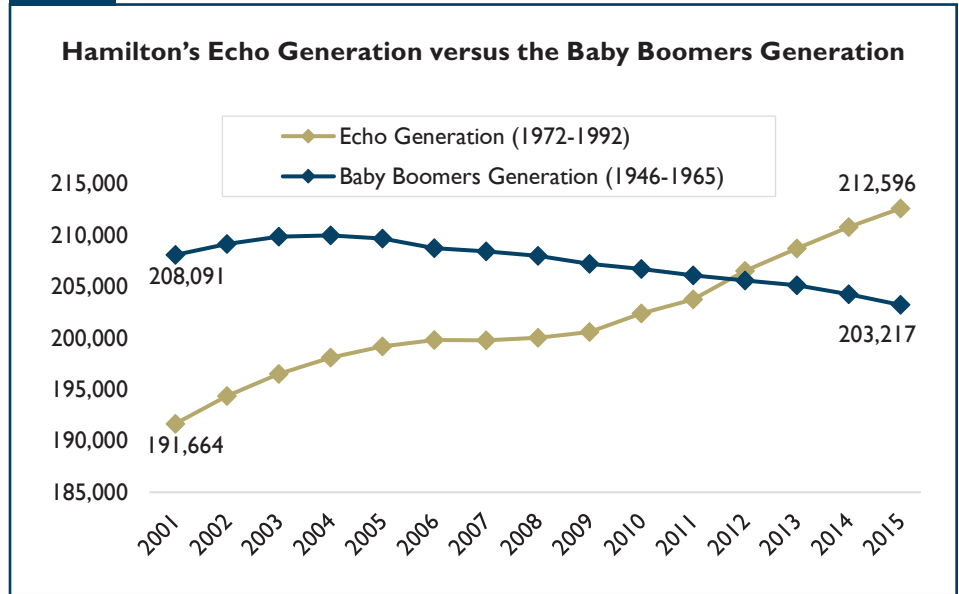
Demographic trend describes the composition of a population, such as age, race, gender, income, migration patterns and population growth. These factors influence how real estate is priced and what types of properties are demanded. Major changes in the demographic composition can have a large impact on the housing market for several decades. The echo generation grew faster than the baby boomer generation in 2015, according to Statistics Canada population estimates.

Findings

Finding 1: Hamilton's echo generation has been growing faster than the baby boomer generation since 2012

The echo generation has been increasing faster than the baby boomer generation since 2012 (see Figure 1). This generational shift will continue to support the demand for apartments and townhouses, given the steady increase in house prices. Most individuals of the echo

Figure 1



Source: adapted by CMHC from Statistics Canada, Population Estimates by CMA

generation have come of age to move from rental accommodation into homeownership as they reach the 24-to-44 age group in 2016. According to data from CMHC², the average age of first-time buyers in Hamilton has been consistently around 36 years old during the period between 2005 and 2015. Fifty-three per cent were under 35 years old in 2015. The proportion of Hamilton's first-time buyers between the age group of 25 and 44 years old reached 75 per cent in 2015, up from 73 per cent in 2005.

Much of the estimated increase in the echo generation has been the result of strong net intra-provincial migration. Specifically, the proportion of net intra-provincial migration from the echo generation reached 52 per cent in 2015, up significantly from 2005. To a lesser extent, international migration has been supporting the growth in the echo generation. The yearly inflows of

newcomers to the Hamilton CMA have at times been volatile, partly due to weak economic growth in Hamilton as well as economic and political developments in immigrants' source countries.

Finding 2: Hamilton's proportion of first-time buyers purchasing single-detached homes trending down

Single-detached homes were the most purchased dwellings every year from 2005 to 2015. However, the proportion of first-time buyers that purchased single-detached homes in the Hamilton CMA was 62 per cent in 2015, down from 67.4 per cent in 2005. The proportion of semi-detached homes was seven per cent in 2015, down from 9.1 per cent in 2005. Meanwhile, the shares of row houses and condominium apartments increased to 22.1 and 8.9 per cent in 2015, from 16 and 7.4 per cent respectively in 2005 according to

² The report uses CMHC's high ratio mortgage data as a proxy for first time buyers. No comprehensive data is available on low ratio or conventional first-time buyer mortgages

CMHC’s data (see Figure 2). First-time buyer demand has shifted from single-detached homes to row houses and condominium apartments mostly due to elevated house prices. Lifestyle choices also help explain some of the structural shifts from single-detached dwellings.

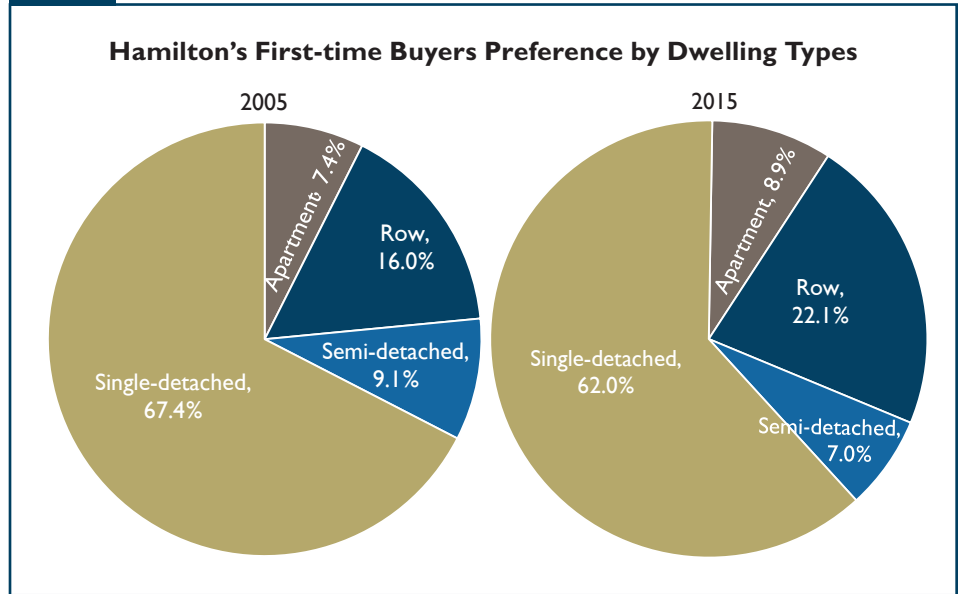
The proportion of Hamilton’s first-time buyers that lived in parental homes before purchasing their own home jumped to 22 per cent in 2015 from 17 per cent in 2005. The trend has been increasing steadily since the recession in 2008/09 according to CMHC’s data.

Another factor contributing to the shift in first-time buyer demand from single-detached homes to multi-unit housing has been the increase in the number of one person households. CMHC’s data shows the proportion of Hamilton’s first-time buyers that were married or in a common-law relationship before purchasing a house dropped to 50 per cent in 2015 from 56 per cent in 2005. The trend was flat between 2011 and 2013, but declining since then.

Finding 3: Fixed mortgage rates remain popular among Hamilton’s first-time buyers

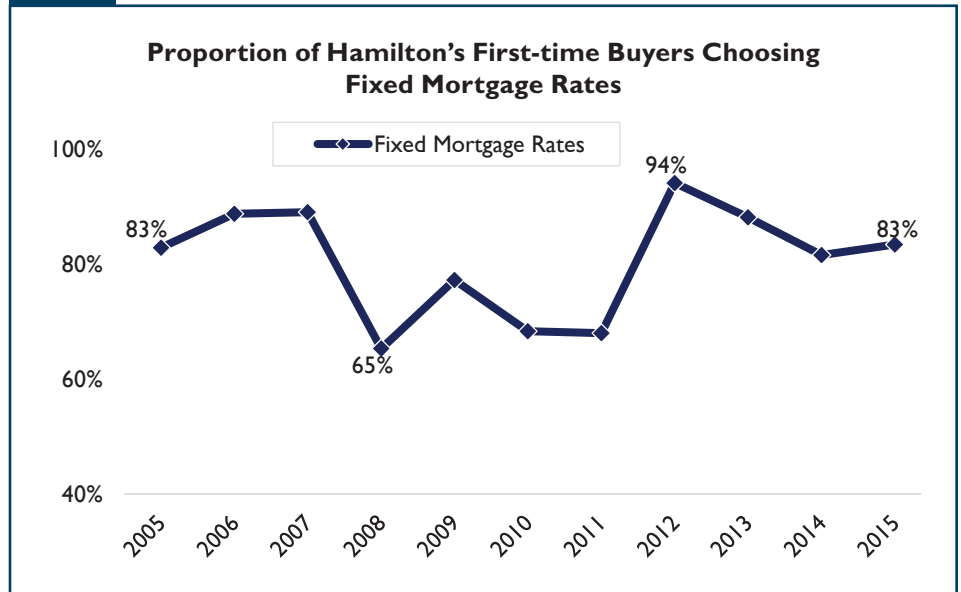
First-time home buyers are generally more risk averse and as a result, fixed mortgage rates have been the dominant mortgage term among Hamilton’s first-time buyers in the past 10 years. Despite remaining popular, the proportion of first-time buyers that chose fixed mortgage rates reached its lowest level of 65 per cent during the recession in 2008/09. From the recession year through 2011, the share of fixed mortgage rates was relatively unchanged. Following a spike in 2012, the proportion of first-time buyers choosing fixed mortgage rates has been trending lower (see figure 3). A plausible explanation for the downward trend in fixed mortgage

Figure 2



Source: CMHC

Figure 3



Source: CMHC

rates could be that many buyers anticipate mortgage rates to remain at historically low levels for an extended period.

Conclusion

Given that the size and age composition of the population are the main factors contributing to

household growth, the aging of Hamilton’s population over the next three decades will have important implications for housing industry professionals. For example, home builders are interested in gauging how future gains in the number of households will shape demand for new homes. Likewise, policy makers at all levels of government

are interested in assessing the consequences of future housing demand on economic activity and the provision of services.

In Hamilton, members of the echo generation have outnumbered the baby boomers which meant the purchasing power is about to shift as the echo generation moves into its prime spending years. These people were aged between 23 and 43 in 2015. They will be at the centre of buying and selling homes for decades to come. However, with homeownership affordability eroding and policy makers looking to cool housing markets, as a close substitute, the demand for rental accommodation will increase in the short term.

Out-of-town buyers continue to bolster home sales across the Hamilton CMA. The steady increase in price gap between Hamilton and the Greater Toronto Area (GTA) attracts more homebuyers from Toronto, particularly first-time buyers who are generally price sensitive. Specifically, the proportion of first-time buyers who moved in 2015 from the GTA to Hamilton increased to 36 per cent from 32 per cent in 2005, according to CMHC's data. Of those that moved from the GTA, 53 per cent bought single-detached homes, 28 per cent bought townhouses, 11 per cent bought apartments and eight per cent bought semi-detached homes. This suggests that first-time buyers priced out of the GTA markets are moving

to Hamilton to purchase a ground oriented dwelling, as the supply of these types of homes is limited in the GTA.

Between 2016 and 2026, we are expecting the number of one-person households to grow at a faster pace among the echo generation. These projections reflect the fact that many individuals within this cohort will be putting off significant milestones like marriage and children. Rising labour force participation among women will also contribute to gains in one-person households. This trend will continue to support the demand for condominium apartments and row houses at least in the short term.

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