

## Demographic Trends and Alberta's Housing Market

### Summary

Barring significant changes in affordability, housing demand will continue to be driven by the rate of household formation in the long-run. Household formation, in turn, is affected by demographic trends such as migration, population ageing, and a rising number of smaller, non-traditional households. Given an ageing population, migration, in particular international migration, is expected to become an increasingly important source of population growth and household formation in the long-run. However, migration is expected to mitigate but not completely offset the impact of an ageing population. As a result, household formation is expected to continue rising albeit at an increasingly slower pace. Household formation is expected to average around 25,000 in the long-run, a moderation from the 30,000 recorded in the recent boom.

### A look back on Alberta's housing booms

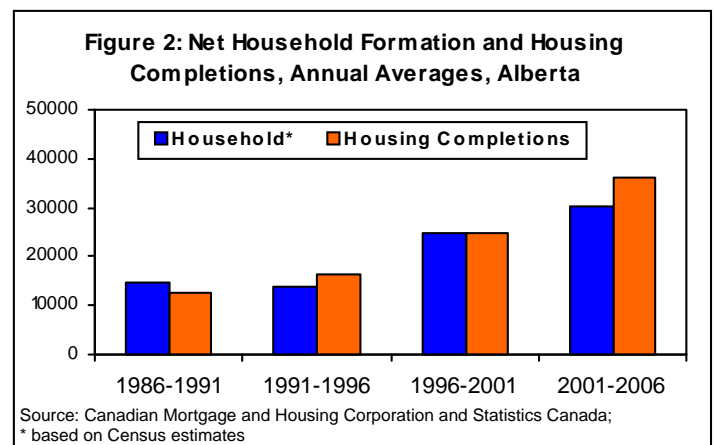
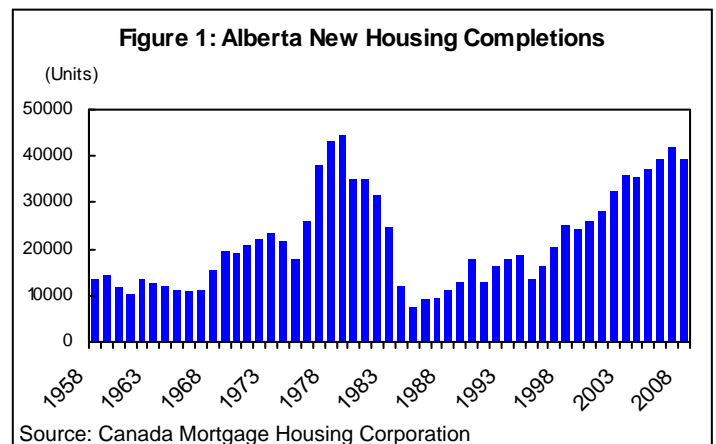
Since 1957, Alberta has experienced two housing booms. The first boom occurred in the late 1970s when the number of new homes built peaked at almost 44,500 units in 1979, more than double the level in 1970 (see Figure 1). The second boom occurred at the beginning of the current decade. Annual housing completions have surpassed 30,000 units since 2002, reaching a record high of nearly 42,000 units in 2007.

While economic factors such as strong employment growth, healthy income gains, and declining interest rates (particularly in the recent boom) played an important role, demographic factors are also widely recognized as key drivers affecting the housing market. In particular, housing demand is influenced by household growth, which in turn is affected by factors such as migration and fertility rates.

### Household Formation and the Housing Market

The pace of residential construction activity is driven by household formation. As shown in Figure 2, higher net household formation in the province has been accompanied by stronger residential construction activity over the past two decades.

From 1996 to 2001, the net increase in the number of households in Alberta averaged 24,985 annually, up



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from the average of 13,757 (an increase of 12.8%) recorded during the period 1991 to 1996. This was followed by a growth of 13.8% during the period 2001 to 2006.

While residential construction activity has always been close to the rate of household formation, the gap between the two widened considerably in the recent period (also in Figure 2). From 2001 to 2006, housing completions in Alberta averaged 35,964 units annually, higher than the average of 30,419 for household formation. This suggests that there was overbuilding in Alberta's housing market in recent years.

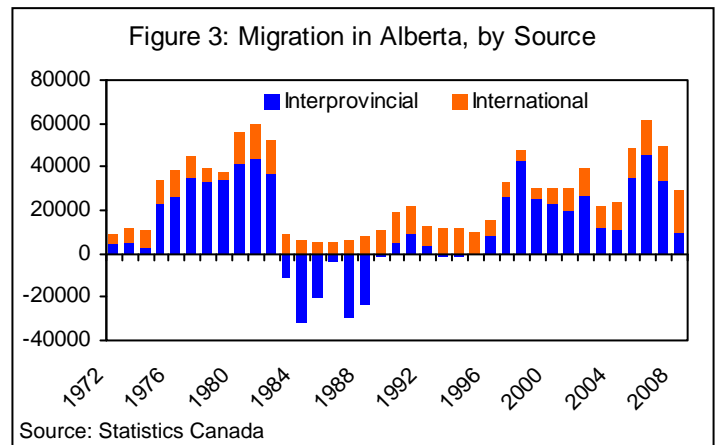
### What Drives Household Formation?

Holding other factors constant, a more rapidly expanding population tends to have higher household formation and therefore stronger residential construction activity compared to a slower growing population. Household formation is largely influenced by three demographic factors: migration flows, population ageing due to declining fertility rates and longer life expectancy, and trend towards smaller, non-traditional households.

### Migration: A key source of population growth

Alberta's strong economic growth (owing to the resource boom) was the main reason behind strong migration flows into the province. Net migration reached a record high of over 67,000 in the 2006 census year as interprovincial migration surged to nearly 46,000 people. However, escalating house prices and strengthening economic activity in neighboring provinces led to a sharp slowdown in net interprovincial migration in 2007 and 2008 (see Figure 3). Nonetheless, total net in-migration has accounted for almost 60% of the province's annual population increase on average since 2000, higher than in previous decades.

While Alberta's population growth has been traditionally driven by interprovincial migration, international migration (which is comprised of permanent<sup>1</sup> and non-permanent residents) has also become an increasingly important component, particularly in recent years (also in Figure 3). The volume of people coming to Alberta from outside the country more than doubled from 2005 to a record level of 37,173 in 2008. This is due to increased demand for foreign workers arising from labour shortages in the province. The number of interprovincial migrants, on the other hand, has moderated significantly since peaking in 2006. This trend is expected to continue in the long-term given Canada's ageing population.



According to Statistics Canada's latest population projection, international migration will account for close to a third of Alberta's

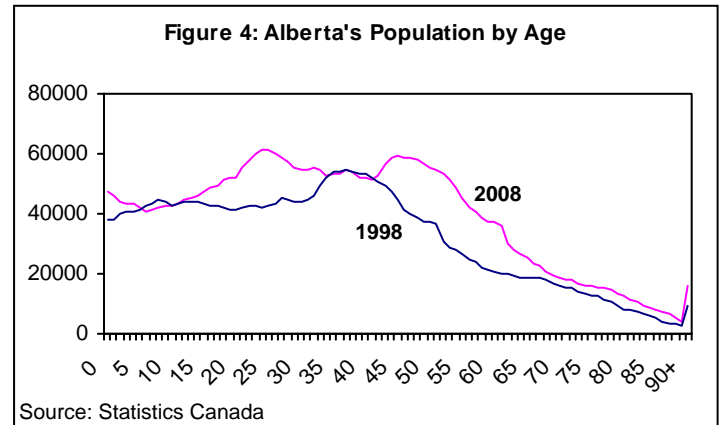
<sup>1</sup> Permanent residents are largely comprised of immigrants who come into Canada under three categories: family class, economic class (which includes skilled and business immigrants and provincial/territorial nominees) and refugees. Non-permanent residents are made up of non-Canadians who are holders of temporary work or study permits along with their dependents and people who have claimed refugee status.

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population increase by 2020, more than double the share of interprovincial migration<sup>2</sup>. Hence, household formation as well as housing choices will be affected by international immigration in the long-run.

### *A much younger age profile*

Given that younger people tend to be more mobile, migration has become a key source of growth in Alberta's young, working age population (see Figure 4). Over a quarter of migrants who move into Alberta from other provinces and abroad are in the household formation years of 25 to 34. This is particularly important since majority of first time homebuyers are from this age group. According to the 2006 census data, the homeownership<sup>3</sup> rate for households with a primary maintainer aged 25 to 34 was 51.5%, more than double that of households with a primary maintainer aged 24 and under.



During the period 2002 to 2006, net in-migration averaged 41,600 annually, with approximately 25,800 coming from other provinces and 15,800 from outside the country. During this period, the number of people aged 25 to 34 grew at an average of 2.6% (or almost 12,000 people) every year, a significant increase from virtually no growth five years earlier.

### *Other characteristics of international immigrants*

Given that international immigration will become an increasingly greater component of Alberta's population growth in the coming years, their socio-demographic characteristics will have a significant influence on the housing market. This section focuses on socio-demographic characteristics of permanent residents as migrants in this category are more likely to have a longer term impact on the housing market (compared to temporary residents). According to Citizenship and Immigration Canada, there were 24,195 permanent residents who chose to settle in Alberta in 2008. This comprised 9.8% of the national number, up from 6.4% in 1998.

First, international immigrants tend to gravitate toward large, urban areas. In 2008, about 85% of Alberta's newcomers settled in Calgary and Edmonton. In fact, Calgary has been attracting a greater share of newcomers in Canada over the last ten years. In 2008, 5.2% of Canada's immigrants settled in Calgary, up from 3.4% in 1998 and the fourth highest after Toronto, Montreal and Vancouver. Given that house prices are relatively more expensive in metropolitan areas, immigrant homeowners are also twice as likely as their Canadian-born counterparts to live in condominiums<sup>4</sup>.

<sup>2</sup> Projections used in this spotlight are based on the medium growth, medium interprovincial migration trend scenario by Statistics Canada. Even in a high interprovincial migration scenario, the share of international migration in Alberta's population growth is expected to surpass that of interprovincial migration by 2021. See *Population Projections for Canada, Provinces and Territories: 2005-2031*, Catalogue No. 91-520-XIE (Ottawa: Statistics Canada, 2005).

<sup>3</sup> Homeowners with and without mortgages, although majority are the former. See *Changing Patterns in Canadian Homeownership and Shelter Costs, 2006 Census*, Catalogue No. 97-554-X (Ottawa: Statistics Canada, 2008) p. 18.

<sup>4</sup> See p. 27 of reference in footnote 3.

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Second, immigrants typically bring their families when they arrive in Canada which results in a direct and rapid impact on household growth. About 63% of Canada's total permanent residents who arrived in 2007 are comprised of spouses and dependents. Immigrant households also tend to be larger and resemble traditional households<sup>5</sup> more so than non-immigrant households.

Third, Canada's immigrants have become increasingly educated. The proportion of immigrants aged 15 and older who have a university degree increased from 35.4% in 1998 to 42.9% in 2007. This is largely due to a surge in the number of master's or doctorate degree holders which has more than doubled during this period.

Given their direct impact on household growth, strong inflows of international immigrants will be a significant driver of housing demand in the long-term. However, the transition from renting to homeownership is shaped by a number of economic as well as policy variables which could influence the socio-demographic characteristics of immigrants. Although the rate of homeownership among immigrant households (particularly recent immigrants) is typically lower than the Canadian-born population, the gap between the two has narrowed considerably in recent years as immigrant homeownership rate has risen faster compared to their Canadian-born counterparts (See Table 1)<sup>6</sup>. Furthermore, homeownership rates have increased across all immigrant cohorts, although it has risen the fastest among those who have been in Canada for ten years or less.

**Table 1: Percentage of persons in private occupied dwellings owned by a household member by number of years since immigration, Canada, 2001 and 2006**

Number of years since immigration	2001	2006	Difference
	percentage		percentage points
Canadian-born population	73.1	75.3	2.2
Total immigrants	68.2	71.6	3.4
5 years or less	39.9	45.7	5.8
6 to 10 years	58.9	66.7	7.8
11 to 20 years	68.2	72.7	4.5
21 to 30 years	77.8	78.9	1.1
31 to 40 years	83.8	84.2	0.4
More than 40 years	84.4	85.0	0.6

Source: Statistics Canada, 2001 and 2006 Census of Population

Second, increasingly higher educational attainment should lead to better employment and income prospects and should translate to higher homeownership rates. However, this relationship may not always hold true for immigrants given that foreign credential recognition is a problem in Canada<sup>7</sup>. Nonetheless, education plays an important role in the labour market integration and subsequent improvement in the housing career of immigrants over time<sup>8</sup>. Finally, given their settlement patterns, it is likely that continued high levels of international migration will lead to increased urbanization in the province.

<sup>5</sup> Traditional households are defined as households comprised of married or common-law (husband-wife) couples with children.

Non-traditional households, on the other hand, include single-person, non-family, couple-only (including same-sex couples) and lone-parent households.

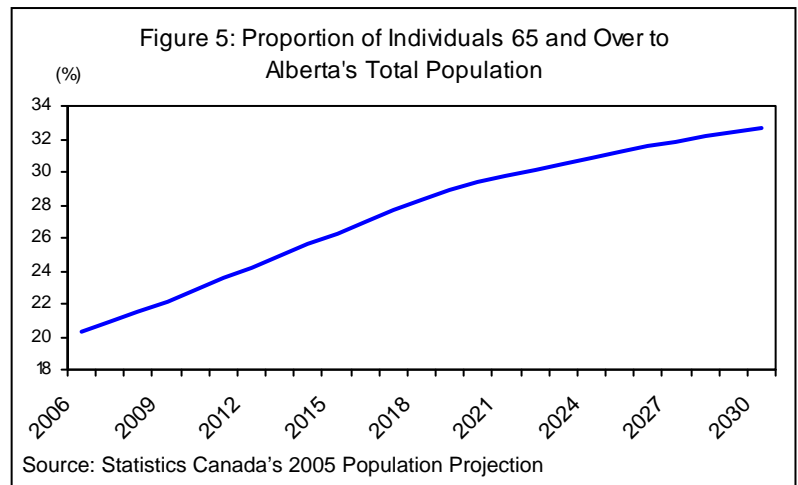
<sup>6</sup> See p. 27 of reference in footnote 3.

<sup>7</sup> Reitz, Jeffrey. *Educational Expansion and the Employment Success of Immigrants in the United States and Canada, 1970-1990*. In *Host Societies and the Reception of Immigrants* (La Jolla: Center for Comparative Immigration Studies, 2003)

<sup>8</sup> According to Statistics Canada's Longitudinal Survey of Immigrants to Canada (LSIC), immigrants under the economic class (those admitted into Canada on the basis of their skills and ability to contribute to the Canadian economy) experienced higher homeownership rates particularly after two to four years of settlement than immigrants in the refugee class. See *Settling In: Newcomers in the Canadian Housing Market, 2001 – 2005*, Socio-economic Series 09-002 (Ottawa: Canadian Mortgage and Housing Corporation, 2009).

## An Ageing Population

Given declining fertility rates and longer life expectancy, Alberta and Canada's populations are ageing. Between 1978 and 2008, the number of seniors in Alberta (population 65 and over) more than doubled from 149,130 to 374,206 and their share increased from 7.4% to 10.4%. As baby boomers (those who were born from 1947 to 1966) continue to move towards retirement, the population growth of this age group will accelerate in the coming years. According to Statistics Canada's latest population projections, the number of seniors in Alberta is projected to rise steadily over the next two decades, reaching around 869,000 or 21.4% of Alberta's total population by 2030 (see Figure 5). Moreover, there will be more seniors than people aged 15 and under by 2024.



Given their sheer size and the fact that they are wealthier than later birth cohorts, the baby boomers are expected to have a significant impact on the housing market, particularly on the type of housing in demand. However, their impact will largely depend on their lifestyle preferences over the coming decades. While Canadian seniors have traditionally chosen to age in place<sup>9</sup>, there appears to be a growing market for empty nesters and retirees who are moving to condominiums and "lifestyle" communities. Recent data also shows that the second-house market is becoming popular among baby boomers and seniors<sup>10</sup>. Between 1999 to 2005, the number of Canadian households owning second homes, vacation homes or cottages rose by almost a quarter, with baby boomers (households with maintainers aged 45 to 64) accounting for almost three-quarters of the total increase<sup>11</sup>. These trends, should they continue, are expected to fuel activity in new home construction over time.

## Towards smaller, non-traditional households

According to Statistics Canada's census data, the average household size in Canada declined from 3.9 in 1961 to 2.5 by 2006. Moreover, there has been a growing number of non-traditional households in Canada. Selected census indicators on family and households also suggest a similar trend in Alberta (See Table 2 on next page). This has somewhat contributed to the growth in net household formation over time.

The rising number of smaller, non-traditional households is due to a number of factors, including longer life expectancy, higher divorce rates and couples delaying marriages and having children.

<sup>9</sup> This has resulted in the decline of institutionalization rate among seniors over the past two decades. See *A Portrait of Seniors in Canada*, Catalogue No. 89-519-XIE (Ottawa: Statistics Canada, 2006).

<sup>10</sup> *Housing the Boom, Bust and Echo Generations*, Socio-economic Series 77 (Ottawa: Canadian Mortgage and Housing Corporation, 2002), p. 2.

<sup>11</sup> *2006 Census Housing Series: Issue I—Demographics and Housing Construction*, Socio-economic Series 08-004 (Ottawa: Canadian Mortgage and Housing Corporation, 2008), p. 5. Data based on Statistics Canada's 1999 and 2005 Survey of Financial Security.

**Table 2: Census Trend for Alberta, Selected Family and Household Indicators**

	2006	2001	1996	1991	1986
Average household size	2.6	2.6	2.7	2.7	2.8
Total private households	1,256,195	1,104,100	979,175	910,390	836,130
% of one-person households	24.6	23.2	22.5	21.9	21.4
% of non-family <sup>12</sup> households	29.9	28.4	28.0	27.7	27.2
Total census <sup>13</sup> families	904,845	811,280	694,760	667,985	616,320
% of lone-parent families	14.4	14.4	12.9	12.4	11.8
% of couples (married and common law)-without children at home	38.8	36.7	35.2	34.5	32.7

Source: Statistics Canada, Census of Population

## Conclusion

Following the overbuilding undertaken in recent years, Alberta's housing market has experienced a cyclical downturn. However, housing demand is expected to recover and return in line with household formation in the long-run.

Housing demand is expected to increasingly rely on migration, particularly on international migration, as a significant proportion of migrants belong to the household formation years of 25 to 34. However, migration is only expected to mitigate but not completely offset the impact of an ageing population on the housing market mainly because of two reasons. First, migration is likely to decelerate significantly from the record pace registered during the recent boom period. Second, there is considerable uncertainty about the long-term trend in the lifestyle preferences of the baby boomers. Current trends show a growing number of baby boomers and seniors moving into condominiums and second-house market. Should this continue, housing starts are likely to be higher than household growth in the long-term. In addition, narrowing the gap in homeownership rates between immigrant and Canadian-born households would likely boost residential construction activity.

As a result, we expect net household formation to continue rising over the long-term, but at an increasingly slower pace. Assuming net interprovincial migration returns close to its historical average of around 15,000 and that international migration remains at current high levels, we expect household formation to average around 25,000 in the long-run, much lower than the 30,000 recorded in the recent boom.

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Prepared by Economics and Statistics.

<sup>12</sup> Statistics Canada defines a non-family household as people living alone or with other unrelated individuals.

<sup>13</sup> Statistics Canada defines a census family as a married couple (with or without children of either or both spouses), a couple living common-law (with or without children of either or both partners) or a lone parent of any marital status, with at least one child living in the same dwelling. A couple may be of opposite or same sex. 'Children' in a census family include grandchildren living with their grandparent(s) but with no parents present.