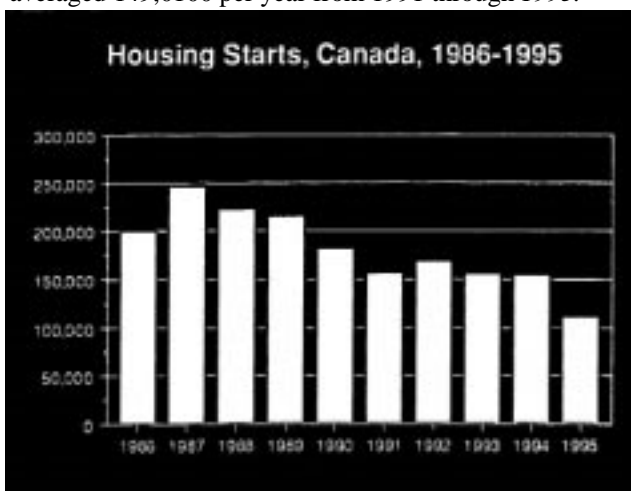




## The Long-Term Housing Outlook: Household Growth, 1991-2016

### Introduction

To date, the number of housing units built in Canada in the 1990s stands in marked contrast to the vigorous activity of the late 1980s. From a peak of nearly 246,0100 in 1987, housing starts fell to 111,000 in 1995, the lowest output since 1960, and averaged 149,0100 per year from 1991 through 1995.



Is the recent steep decline in residential construction indicative of the long-run outlook for housing? While annual variation in housing demand is largely the product of factors related to business cycles and the general state of the economy, demand in the long-run can ultimately be traced to changes in the size, age structure, and overall tendency of the population to form households. Household growth — the major source of housing demand — occurs as the population grows and ages, and as social and economic forces alter preferences for different living arrangements.<sup>1</sup>

This Research and Development Highlight provides an overview of some findings from a forthcoming CMHC report on household growth projections for Canada and the provinces in the period 1991-2016.<sup>2</sup> These projections illustrate how household growth would vary given different assumptions about where and how Canadians choose to house themselves over the next twenty years.

<sup>1</sup> Although household growth (the net increase in the number of households) is typically the major determinant of the requirement for new dwelling units, other factors — such as the need to replace units lost from the housing stock, to adjust for additional units created within the existing stock, and to allow for a normal number of vacant units — also influence the number of new units required.

<sup>2</sup> Projections refer to the middle of the year. thus, the projection period extends from July 1, 1991, to July 1, 2016. References to particular periods, such as 1996-2001, are understood to mean from the middle of the first year to the middle of the last.

## Scenarios

Household growth projections were developed from custom population projections specified by CMFIC and produced by Statistics Canada. The principal assumptions underlying these population projections were the following:

- a continuation of current fertility levels (1.7 births per woman);
- a medium increase in life expectancy;
- a continuation of current immigration levels (205,000 per year).

Population projections were transformed into household growth projections by applying different assumptions about the rate at which Canadians form households. Assumptions were based on historical trends during different periods. The high scenario assumes a stronger overall household formation trend, particularly among generations currently under the age of forty, than the low and medium scenarios, which are founded on weaker historical trends. To date, household formation by those under forty has lagged behind the levels achieved by preceding generations.

## Results

All scenarios point to a tendency for household growth to decline in Canada over the long-run. Annual household growth in 1991-1996 is projected to average about 147,000, a level consistent with the recent pace of residential construction. According to the low scenario, this level will then decline gradually over the next twenty years. In contrast, both the medium and high scenarios show household growth rising in 1996-2001 before dropping in later years. Growth under the medium scenario will raise the total number of households in Canada from approximately 10.3 million in 1991 to 14.1 million in 2016.

Average Annual Household Growth, Canada					
Scenario	1991-1996	1996-2001	2001-2006	2006-2011	2011-2016
Low	147,300	140,800	141,700	139,200	134,300
Medium	147,300	160,800	157,800	154,600	148,800
High	147,300	175,500	168,500	163,700	157,200

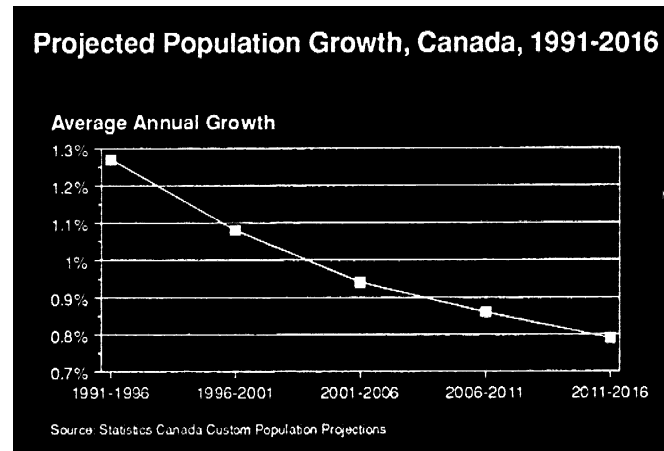
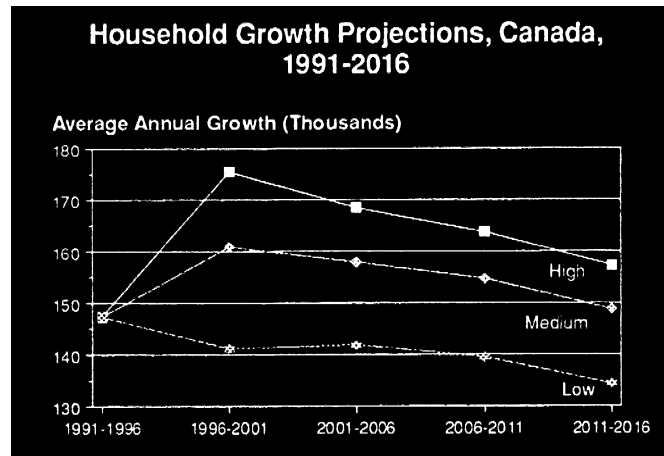
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The major factor underlying the downward trend in household growth in the long-run is declining population growth, largely the product of an aging population. The average annual rate of population growth is expected to drop from just under 1.3 percent in 1991-1996 to 0.8 percent in 2011-2016. The aging of the population means that the majority of the large baby boom group either already have or shortly will have formed independent households.

### Other Findings

The following results are evident in all scenarios.

- Households will continue to shrink in size, but not as rapidly as in the past. Between 1961 and 1991, the size of the average Canadian household dropped from 4 to 2.7 persons. According to CMHC's projections, average household size will range from 2.5 to 2.6 in 2016.
- The number of non-family households (people living alone or with other unrelated individuals) will grow more rapidly than the number of family households. The composition of households will therefore continue to shift in the direction of non-traditional household types.
- Aging of the baby boom, combined with the difficult labour market facing young Canadians, will dampen household growth among those under the age of 45. From 1991 to 2011, the number of households headed by this group will actually decline. Positive household growth will not return to this age group until the period 2011-2016.
- The ownership rate for all households will rise, but at a diminishing pace, before levelling off after the turn of the century. The pattern is indicative of the aging of the population, as well as the above-noted growth in non-family households. Non-family households are more likely to rent than family households.



## Conclusions

The projections described above show considerably different possibilities for household growth after 1996. According to the low projection, growth will decline moderately from current sluggish levels, but nonetheless will exceed the depressed volume of housing starts in 1995 by a healthy margin. In contrast, medium and high projections indicate potential for a rebound in household formation in 1996-2001, followed by resumption of a gradual decline over the long-run. Scenarios illustrate how growth would vary under different assumptions about how Canadians will house themselves in coming years. Projections do not reflect the cyclical effects of economic factors but rather a set of long-term and largely demographic assumptions.

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# CMHC Report

This Research and Development Highlight presents selected results from *The Long-Term Housing Outlook: Household Growth in Canada and the Provinces, 1991-2016*, a forthcoming CMHC report. Projections were developed for individual provinces and subsequently aggregated to produce Canada-wide totals. For each province, six alternative projections were generated. The six resulted from combining two interprovincial migration scenarios – one favouring the western provinces and the second the central provinces – with three alternative household formation assumptions. The latter assumptions incorporate results of research on the impact of labour market conditions on the rate of household formation among young adults.

PROJECTION ASSUMPTIONS – PROVINCIAL SCENARIOS	
Interprovincial Migration	Household Formation Trend
Western	Low
Western	Medium
Western	High
Central	Low
Central	Medium
Central	High

The report contains a complete account of provincial and national projections and of the assumptions used to produce them. It discusses population trends, household growth scenarios, household composition, and tenure and dwelling type choices. Canadian customers can order the report by calling 1-800-668-2642. Customers from outside Canada can call 1-613-748-21003.

The projections summarized in this issue of *Research and Development Highlights* were produced by the Social and Economic Policy and Research Division of Canada Mortgage and Housing Corporation (CMHC) in consultation with Market Analysis Centre. For further information, contact Roger Lewis, Social and Economic Policy and Research, at (613) 748-2797.

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