

Canadian
Home Builders'
Association



Performance and Trends:

The Housing Supply Deficit - Not Enough Homes for Families with Young Children

Abstract

The Millennial generation is now having children, leading to a ‘baby boomlet’ that will continue to grow over the next decade, spurring continued increasing demand for family-friendly, ground-oriented homes in markets from Montreal to the West Coast. And though it was once thought that Baby Boomers would be downsizing at this time, that is not happening. The housing supply deficit is most notable in relation to mid-density ground-oriented attached homes such as rowhomes, stacked townhomes and the like, in walkable communities close to transit. This ‘missing middle’ of new home supply particularly impacts younger families seeking their first home, where affordability is critical. In Canada’s most dynamic economic centres, these factors, plus significant immigration, have led to a chronic and significant shortage of the homes in the greatest demand. If the current trends continue, Canada will be an estimated 300,000 family-oriented units short over the next decade. This supply shortage, already underway, is a major force behind rising prices for ground-oriented homes in Vancouver, the Greater Toronto Area and elsewhere. Policy actions by governments at the Federal, Provincial and Municipal level are required to unblock the supply shortage of “the missing middle” in housing.

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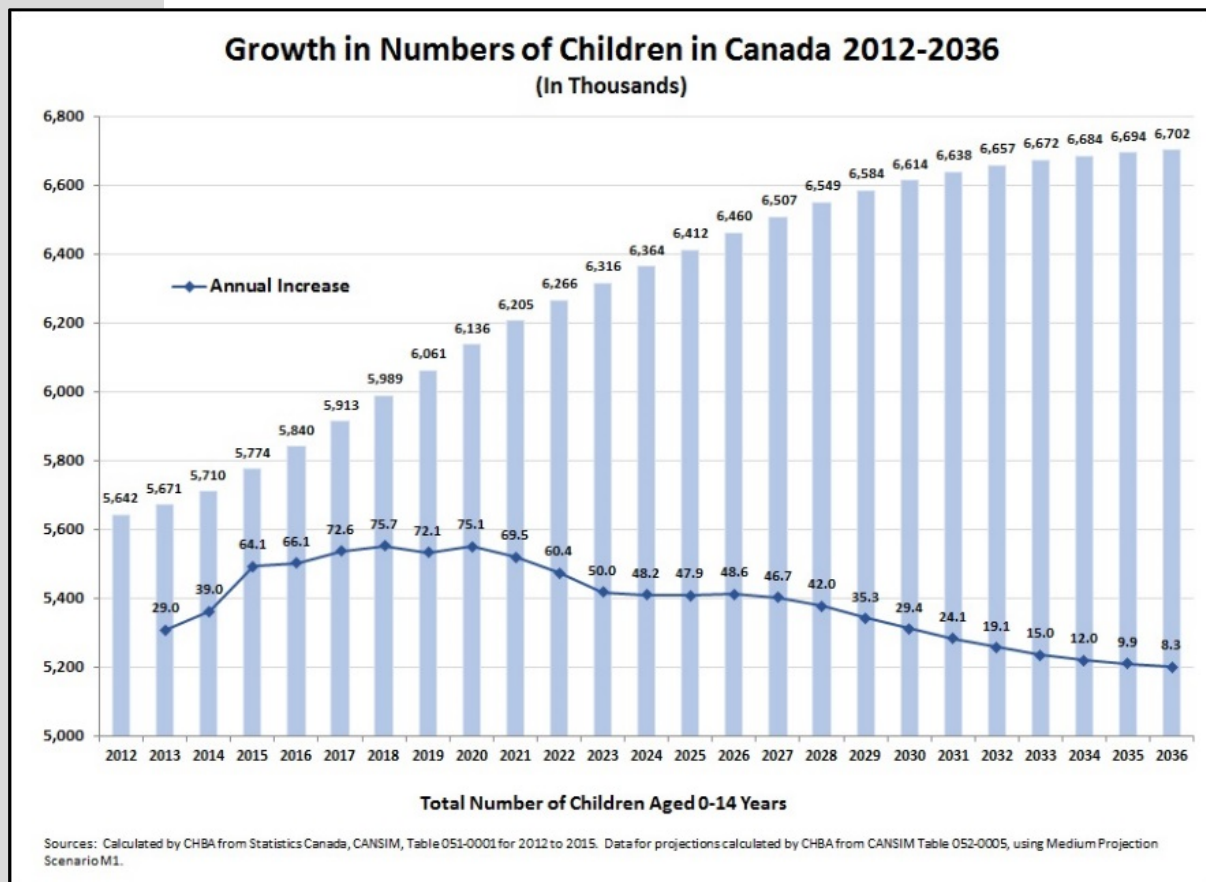
A New Demographic Pattern is Taking Shape in Canada – the “Baby Boomlet”

A remarkable demographic trend is underway in Canada which promises to have significant impacts on housing demand over the next 5 to 12 years, the start of which we are already seeing. In addition to large numbers of Baby Boomers entering retirement (but not necessarily downsizing, at least not yet), the big factor is the

growing influence of the “Millennial generation” – many now adults aged 25 to 34 – seeking family-oriented housing¹. More children are now being born to Millennials, and their impact on the market is growing rapidly in significance.²

Between 2000 and 2016, numbers of births in Canada rose by up to 66,000 per year—a 20% increase. From July 1, 2015, to June 30, 2016, 393,000 babies were born in Canada, a high not seen since 1992-93, more than two decades previously. This “baby boomlet” is already affecting housing

Chart 1



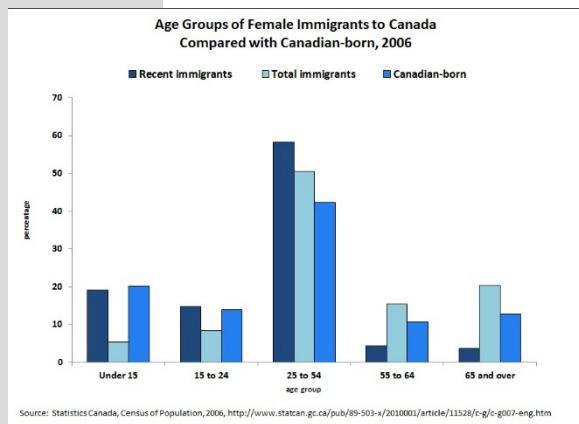
¹ The consensus definition of the Millennial generation is those born between around 1982 and 2004, so now aged between 14 and 34 in Canadian Census age cohorts.

² For the past two years, CHBA has been working with Altus Group, Statistics Canada and CMHC on this emerging demographic issue. The main findings of this work are presented here.

demand and will shape everything from school attendance to residential markets for the next decade.³ The largest net increases in numbers of births are occurring in urban regions from Ontario west.

Increased births among Millennials are being reinforced by patterns of international and internal migration, and what tend to be the typical ages of those arriving immigrants (Chart 2). Whether immigrating from outside Canada or moving from one province to another within Canada, the bulk of those migrating are in the prime child-bearing age groups.

Chart 2

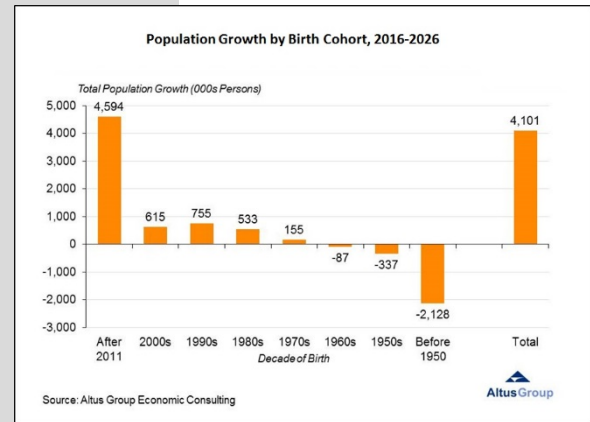


Increasing Numbers of Family Households with Young Children

Over the next 10 years, family households with children under 14 years old (born after 2011 and hence already school-aged now) will form a significantly larger share of total

household growth, as illustrated in Chart 3 below.

Chart 3



Various analysts have contended that planning policy, shifting consumer preferences, or diminishing affordability have been primarily responsible for declining single-family housing production in favour of higher-density condominium apartments during the past decade. While these factors have certainly had some impact, demographics would suggest that they were *not central* to the underlying trend. Far more significant was the past decade’s “baby bust” and corresponding lull in family household formation.

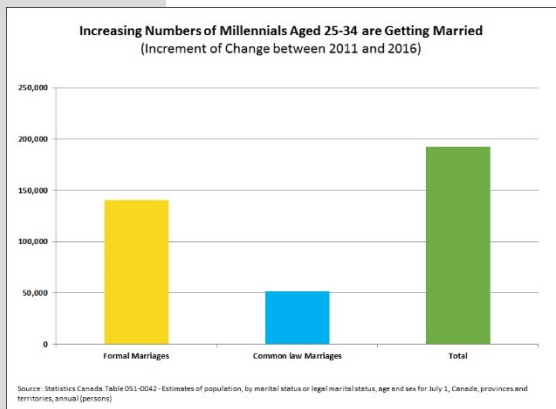
According to Statistics Canada, “between 2006 and 2011, couples with children living at home continued to fall as a share of all census families. In 2011, 39.2% of census families were couples with children, whereas 44.5% were couples who did not

³ Statistics Canada produces routine reports on births, by province and Census Metropolitan Areas. These are available at: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo04a-eng.htm>.

have children, a widening of the gap first observed in 2006”.⁴

However, since that time, the trend has been reversing. More Millennials have been forming couples’ households as they get older—in 2016, there were almost 300,000 more married couples than in 2011 (Chart 4).

Chart 4



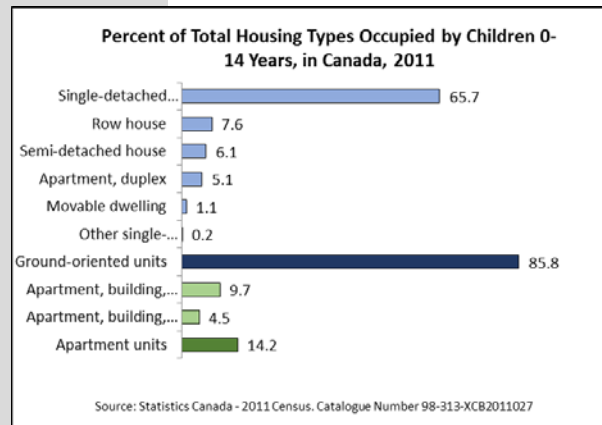
The Shift Underway in Family Housing Demand

Based on Statistics Canada projections, the percentage of couples with children overall has also been growing. Family-oriented housing demand has rebounded accordingly, especially in the major urban regions, a trend likely to be confirmed by the 2016 Census. Between 2016 and 2026, numbers of new family households with children are projected to *more than double* to some 37,000 net new households per year, accounting for over 20% of total household growth. This change will

continue to create significant shifts in the profile of houses being sought by homebuyers. As Chart 5 shows, households with children have traditionally, and overwhelmingly, chosen ground-oriented and single-family homes (85.8%) in all markets across Canada.

Some consumer surveys indicate the desire to be in these dwelling types is even higher than that. For example, CHBA’s “Home Buyer Preference Survey” published in 2016, surveying buyers of both low-rise and high-rise homes, shows that 95% of homebuyers want ground-oriented homes. Yet for a variety of zoning, regulatory and other reasons, there is not enough new low-rise housing being produced.

Chart 5



As a result, the supply of new low-rise housing in the Greater Toronto Area (GTA), especially of detached, single-family homes, has reached record-low levels, resulting (not surprisingly) in record-high prices. The same holds true in Vancouver.

⁴ Statistics Canada (2012), *Portrait of Families and Living Arrangements in Canada*.

See: <http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-312-x/98-312-x2011001-eng.cfm>.

In the GTA, monthly research conducted by Altus Group found that at the end of 2016 there were 1,878 new low-rise homes available for purchase, of which 742 were single-family detached homes. Ten years ago, there were 17,529 low-rise units available for purchase, of which 11,602 were single-family detached homes. This represents a decrease of 89% for low-rise housing availability overall, and 94% for single-family detached homes. As the CEO of Building Industry and Land Development Association (BILD) states: *“Housing is selling as quickly as the industry can bring it to market, and the lack of developable land that is serviced with infrastructure, excessive red tape, out-of-date zoning and NIMBYism are hindering our ability to bring more to the market.”*

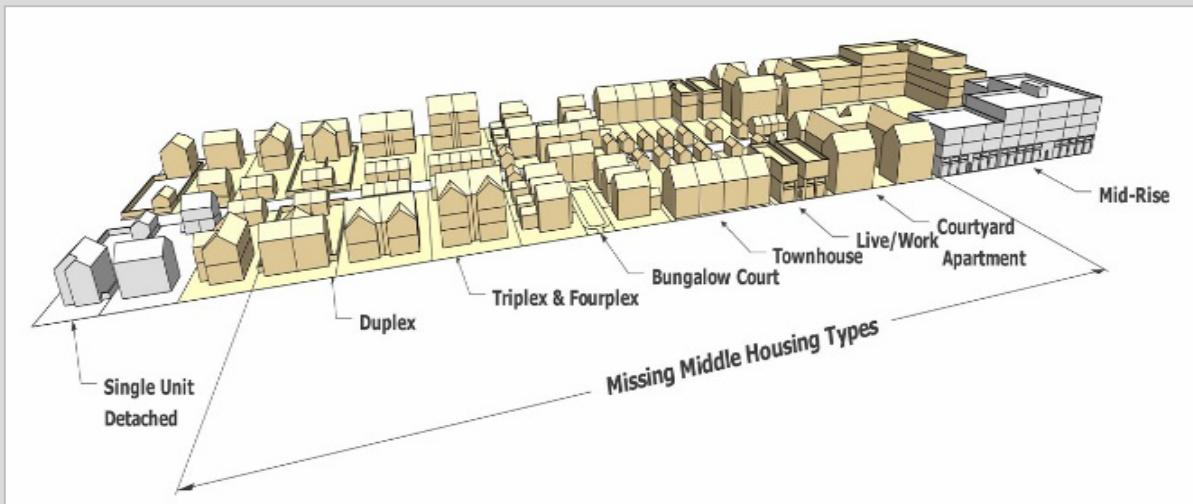
In Vancouver, similar conditions exist. One obvious indicator is the number of low-rise homes in Metro Vancouver today compared to a decade ago. Due to demolitions and redevelopment, today there are over 17,000 fewer single-detached houses in the City of Vancouver compared to a decade ago.

That’s a reduction of about 20%. The Bank of Canada’s Financial System Review also recognizes the supply issue in Vancouver, noting that inventories of newly completed and unoccupied units remain near their lowest levels in 10 years. Prices for the remaining stock, which are in very high demand, reflect this reality.

The “Missing Middle”

What is in particularly short supply is what some housing planners call “the missing middle” (Figure 1). The “missing middle” represents the forms of housing most sought today for entry-level housing. It includes the various forms of low-rise attached houses (townhomes, duplexes, stacked back-to-back townhomes, low-rise mixed-use buildings, etc.) that allow for smaller houses on smaller lots, while still providing the interior space and layout (smaller but well designed, comfortable, and usable) and the all-important ground-access, that are sought by most Canadians,

Figure 1: “Missing Middle” Housing Types in Major Urban Markets



Source: <https://pricetags.wordpress.com/2012/04/03/the-missing-middle-new-housing-types-for-a-changing-city/>

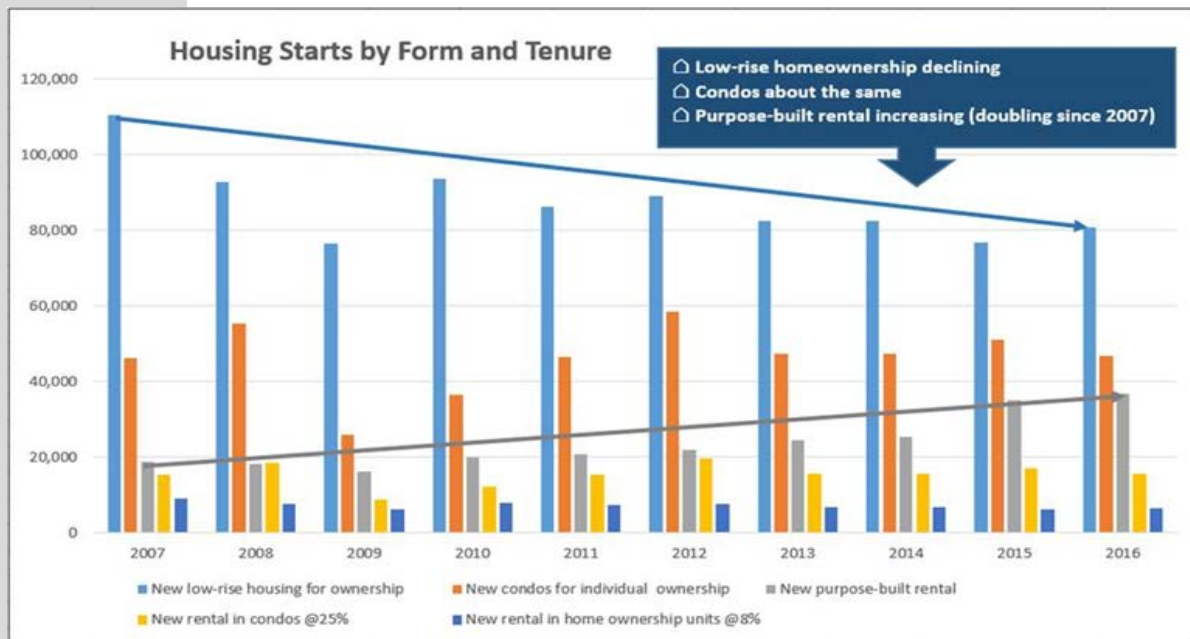
particularly those with families. The “missing middle” provides densities that support business and service amenities, enabling walkable communities. If properly linked to public transit and auto-sharing services, this housing format can reduce the number of parking spots needed to service the community. “Missing middle” homes can also blend beautifully with single family homes—as they have done historically—if zoning will permit it. Sufficient supply of typical “entry-level” housing that was available to previous generations is often not available in the urban regions of today that are most impacted by current demographic demand—we need the “missing middle”.

Between 2007 and 2016, the annual start rate of ground-oriented dwellings in Canada *declined* by almost 27%. There was an uptick in ground-oriented purpose-built rental units, but it amounted to fewer than a thousand new units annually.⁵ As Chart 6 shows, the construction of low-rise housing for homeownership is in serious decline.

Boomers Downsizing? Not Necessarily...

There are currently about ten million single-family dwellings in Canada, about 56% of which are occupied by Baby Boomers or

Chart 6



⁵ CMHC starts data do not cover the full range of ground-oriented dwellings, omitting low-rise apartment forms. Only single-detached, semi-detached, and row-house/townhouse formats are included. In brief, the stacked-townhouse format and other similar “missing-middle” and entry-level housing types, including laneway houses, secondary suites, etc. may be entering the range of choice in some markets, but the data currently do not capture them.

older generations. Municipal planners have been anticipating a major transition as Baby Boomers gradually move out of their single-family homes, freeing them up to be "recycled" to younger households.

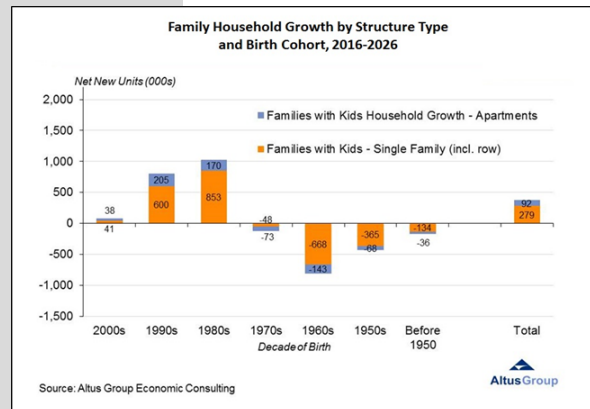
Yet, for reasons to be explored further here, such a trend is not a "sure thing". Baby Boomers may well stay on in their homes longer than expected, and may in substantial numbers actually start to occupy even *more* space as they "age in place". The 2011 Census showed that almost 3.9 million households, many of whom were born in the 1950s and 60s, are staying on in single-family dwellings as empty-nesters and even lone individuals.⁶

While some "recycling" is likely to take place in the next decade, growing evidence suggests this will be less than many expect. Many 'Boomers' intend to remain in their current family homes indefinitely. The move to "downsize" into other types of housing is simply not materializing at the level anticipated.

As a result, the numbers of single-family dwellings that younger families demand will not come through the resale market, especially in the fastest-growing urban areas. Accordingly, it is estimated that only about half the requirement for single-family homes for younger generations will be met by "recycled" units vacated by 'Boomers' or others born before 1961 (Chart 7).

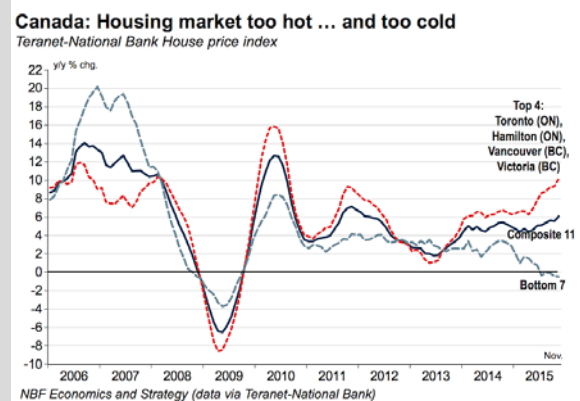
Combining all of these factors, Altus Group estimates **there will be a shortfall of up to 300,000 new ground-oriented dwellings over the next decade.**

Chart 7



As demand continues to outstrip supply, creating a growing deficit of ground-oriented homes, upward price pressure will continue to mount in selected markets, and create significant disparities between markets—the top 4 municipal housing market cities will continue to have accelerating price escalation, the middle 11 grow steadily, and the bottom 7 will drop dramatically (Chart 8).

Chart 8

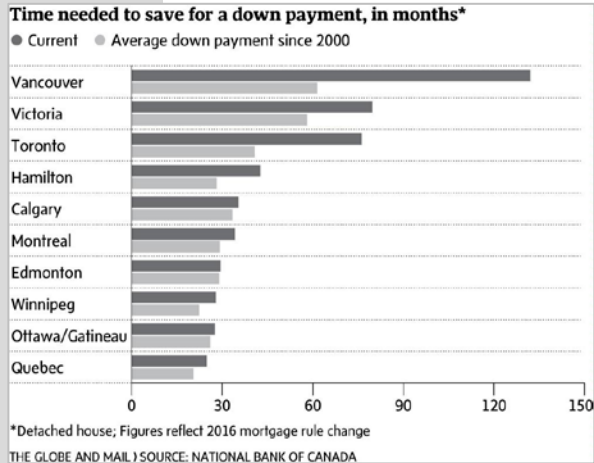


This is most clearly evident in Toronto and Vancouver where affordability has progressively moved out of reach to all but

⁶ Noted University of Toronto demographer David Foot has a range of information resources regarding Baby Boomer trends on his Website: <http://www.footwork.com/index.asp>.

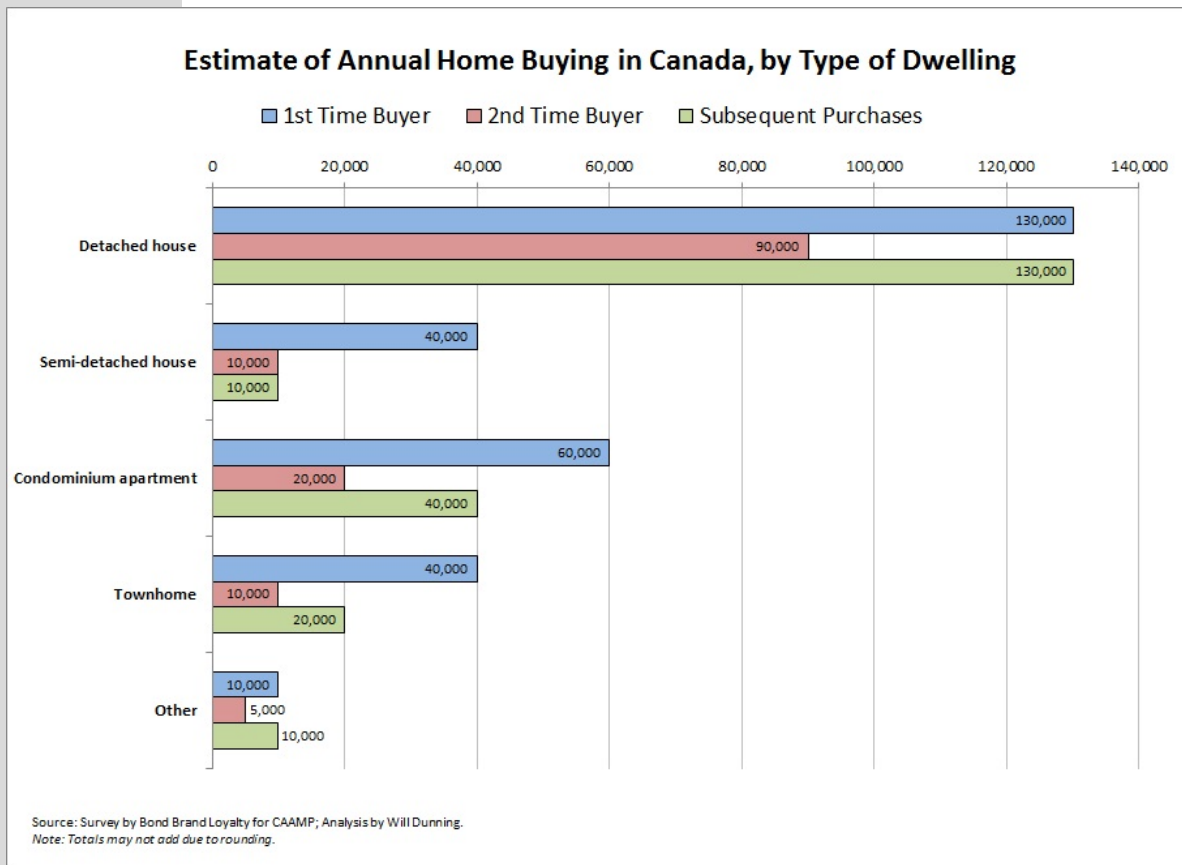
the most well-off first-time buyers and markets appear to be dominated by those with substantial equity stakes.

Chart 9



A further complicating factor in the “recycling” hypothesis is that many Baby Boomers are actually competing with families with children for ground-oriented units in established neighbourhoods. In brief, the blue bars in Chart 10 below are numbers of first-time buyers of different housing types, and the light green bars are third-time or more buyers, typically in their forties or older, and very often Baby Boomers. For single-detached dwellings, the survey indicates that third-time buyers are *equal in number* to first-time buyers. In contrast, first-time buyers are more numerous for most higher-density categories than are either second- or third-time buyers.

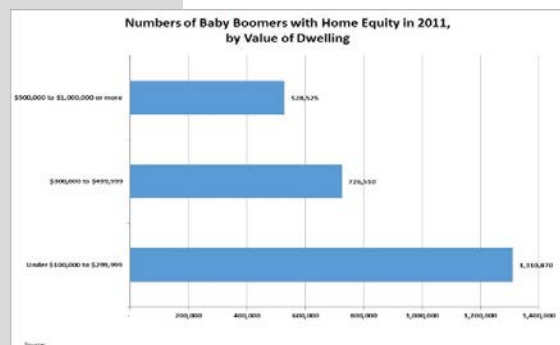
Chart 10



Corroborating the Canadian survey evidence, the U.S.-based “Demand Institute”, jointly operated by the Conference Board and Nielsen in the U.S., also found in surveys that the conventional wisdom that Baby Boomers will downsize and ‘head for a condo’ appears to be incorrect. Nearly two-thirds of Boomers said they wanted to “age in place” in homes and communities where they have often lived for a decade or more. Perhaps most surprisingly, the survey research indicated that many Baby Boomers were still seeking their “dream home.” Nearly half of those wanting to move (46%) planned to *increase the size of their home or spend more for a home the same size as what they have now.* Many who were living in smaller homes than they would like, or renting, were now acting on plans they had to delay as a result of the economic difficulties of the past decade.⁷

In Canada, as Chart 11 indicates, Baby Boomers can deploy very large amounts of equity in existing homes, beating out most other competitors. Over half a million had homes worth between \$500,000 and \$1 million in 2011. In most cases their equity position has surely improved since then.

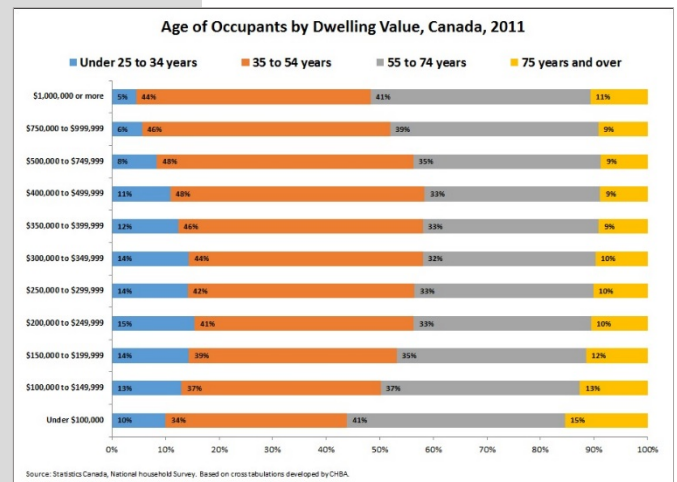
Chart 11



Source: National Household Survey, 2011

This situation is confirmed by Chart 12 below, which shows that Millennials have 8% or less of the total dwelling values in the over \$500,000 range and over. Over half of all those with homes worth \$1 million or more are Baby Boomers, or their parents. Just 5% are Millennials, most likely children of well-off parents and/or relatives who have left an estate or gifted them the equity while alive.

Chart 12

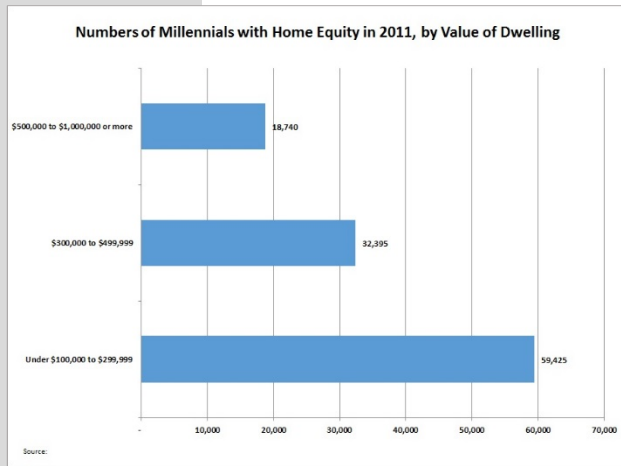


By contrast, as Chart 13 on the next page suggests, those in the Millennial generation are much less likely to be able to compete for family-oriented homes, for obvious reasons: limited equity and savings; substantial student debt; and lower employment earnings.

Just 18,740 among millions of Millennials had home values of \$500,000 or greater in 2011, compared to 525,525 Baby Boomers. Likely impacts of this situation in the most competitive housing markets are rather clear, though more data are required.

⁷ See: <http://www.nielsen.com/ca/en/insights/news/2015/most-baby-boomers-are-not-downsizing-quite-the-contrary.html>.

Chart 13



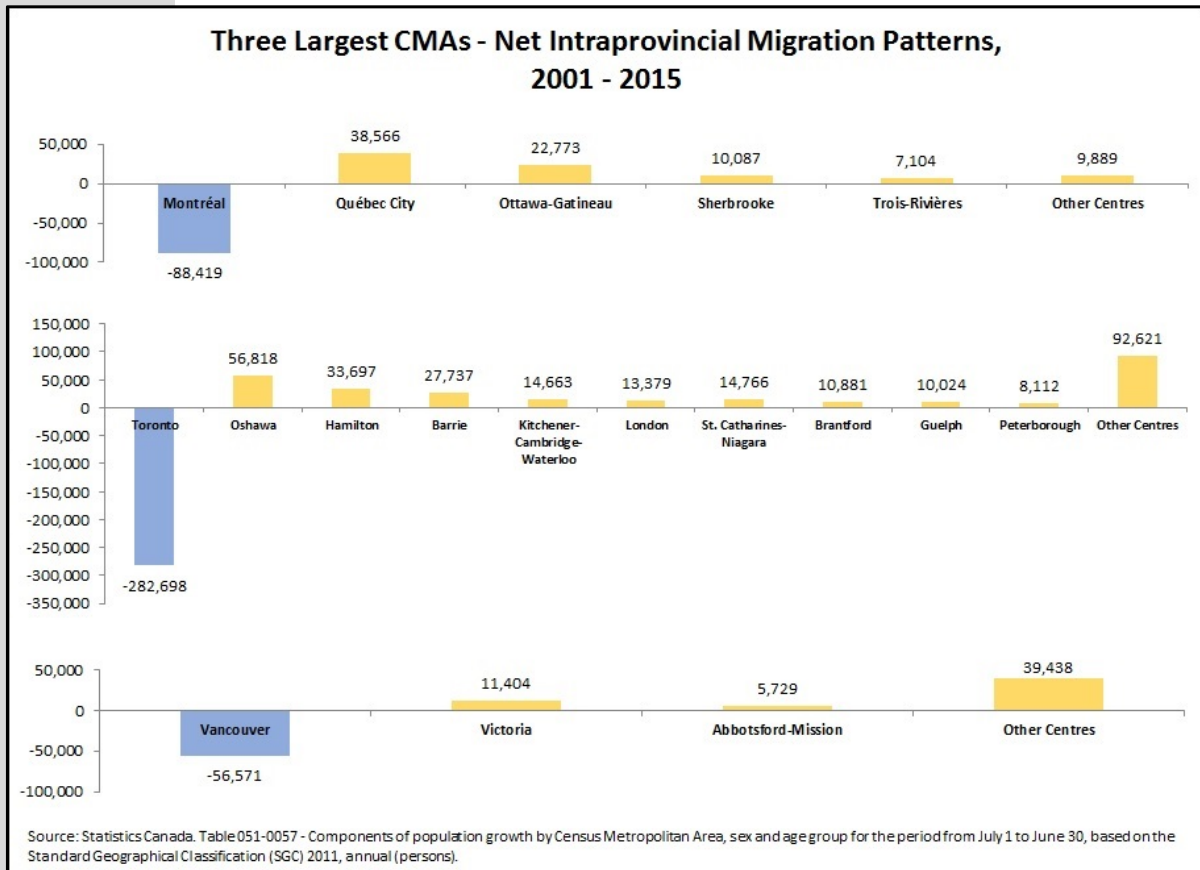
Victoria and Nanaimo in the case of Vancouver are also gaining new residents from this trend. As a result, working members of family households are commuting longer and longer distances.

What about the Supply of High-Rise Condos?

For one thing, the largest population centres seem to be “pushing out” those migrating within urban areas of their home province, with the Toronto and Vancouver regions most affected (Chart 14). Many have been moving to nearby centres, often beyond easy commuting distance, such as Barrie, Kitchener-Waterloo-Cambridge, Guelph, and Peterborough in the case of Toronto.

There is also a growing disconnect between prices for “ground-oriented” accommodation and high-rise housing, especially in the Greater Toronto and Vancouver markets, reflecting higher demand from families with children, increasing competition from Baby Boomers seeking to “up-size”, and foreign buyers (Chart 15). High-rise housing has only

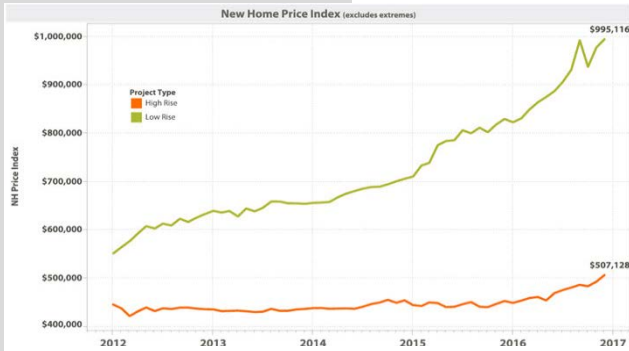
Chart 14



Source: Statistics Canada. Table 051-0057 - Components of population growth by Census Metropolitan Area, sex and age group for the period from July 1 to June 30, based on the Standard Geographical Classification (SGC) 2011, annual (persons).

increased slightly, low-rise has escalated dramatically. Chart 15 also shows how a supply response, as has been the case in high-rise construction in Toronto, can help to keep price escalation dampened.

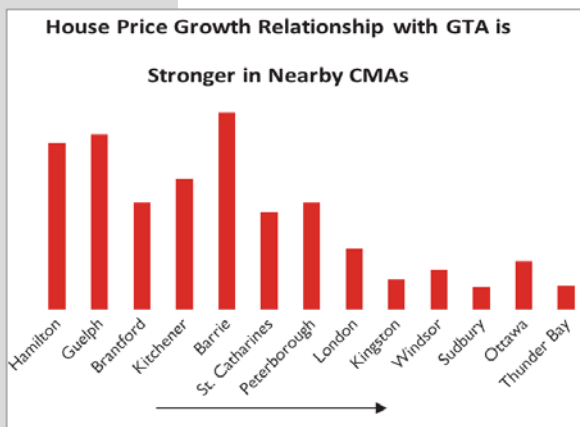
Chart 15: GTA New Home



Source: Altus Group, *My Informed Advantage Newsletter*, New Homes Price Index

Given the intraprovincial migration patterns shown in Chart 14 (previous page), it stands to reason that, as a recent CMHC Insight report on the Greater Toronto Area found, price pressures are spreading outward from the urban centres (Chart 16). CMHC attributed this trend to households

Chart 16



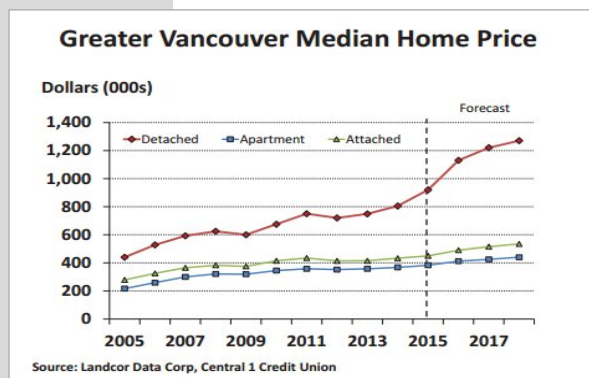
searching for increased affordability – the phenomena of “drive until you qualify”.

Similar price trends have been anticipated in Vancouver until recently, when government taxes on selected home purchases, coupled with stratospheric prices, combined to moderate prices.

Demand for condominiums remains reasonably robust in larger urban markets. For example, a Conference Board of Canada report for the winter of 2015 says: “While the health of apartment condominium markets varies significantly by region, nowhere do we see a bubble about to burst.”⁸

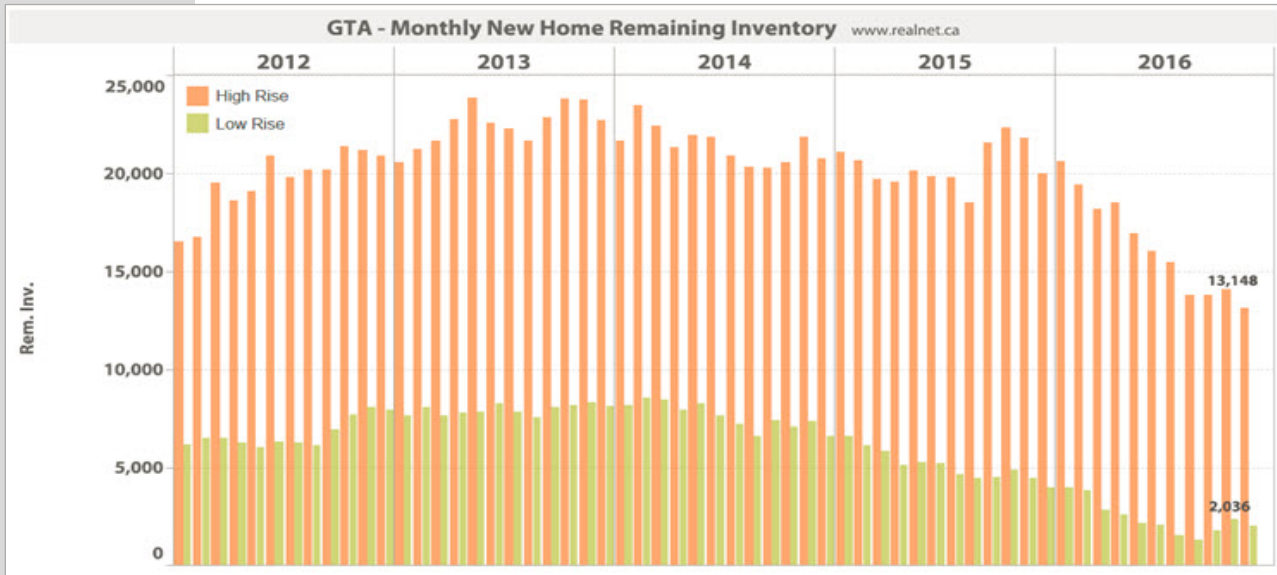
“Experts have consistently forecast a soft landing for [Toronto’s] apartment condominium market, and incoming data continue to support this view.” Stable condominium pricing in Toronto reflects this outlook. Indeed, one could argue that the large amount of condominium construction over recent years, which some considered

Chart 17



⁸ Conference Board of Canada (2015), *Insights Into the Apartment Condominium Market in Eight Large Canadian Metropolitan Areas*. Prepared for Genworth Canada.

Chart 18



Source: Altus Group, *My Informed Advantage Newsletter*

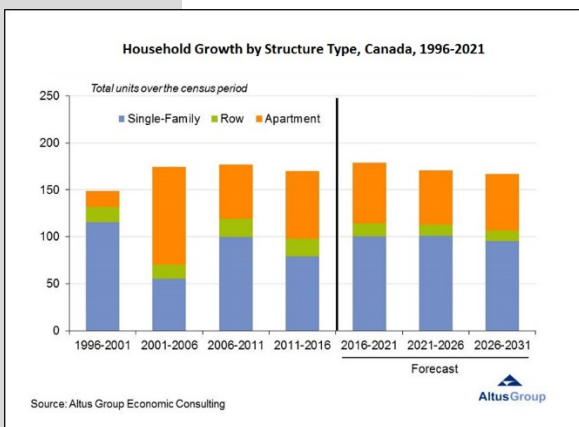
“overbuilding” or even “a bubble” has been a key factor in keeping prices of condominiums from following a similar trend to low-rise—this is in fact an example of a supply response keeping prices down.

For the future, longer-term demographic momentum will clearly increase demand still further for ground-oriented housing. This is particularly true in the Greater Toronto Area. Looking at the market over the next ten years, more new accommodation for

families with children will be required, and demand will lower somewhat for couples without children and younger unattached individuals.

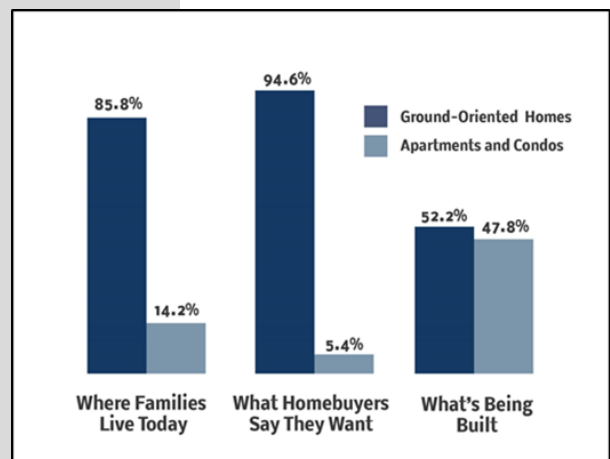
So why don’t more families just move into condominiums? There are several reasons why this is not happening, not the least of which is data presented below which show clearly Canadians’ home buying preferences. Canadian families seek ground-oriented housing. (Chart 20).

Chart 19



Source: Altus Group Economic Consulting

Chart 20

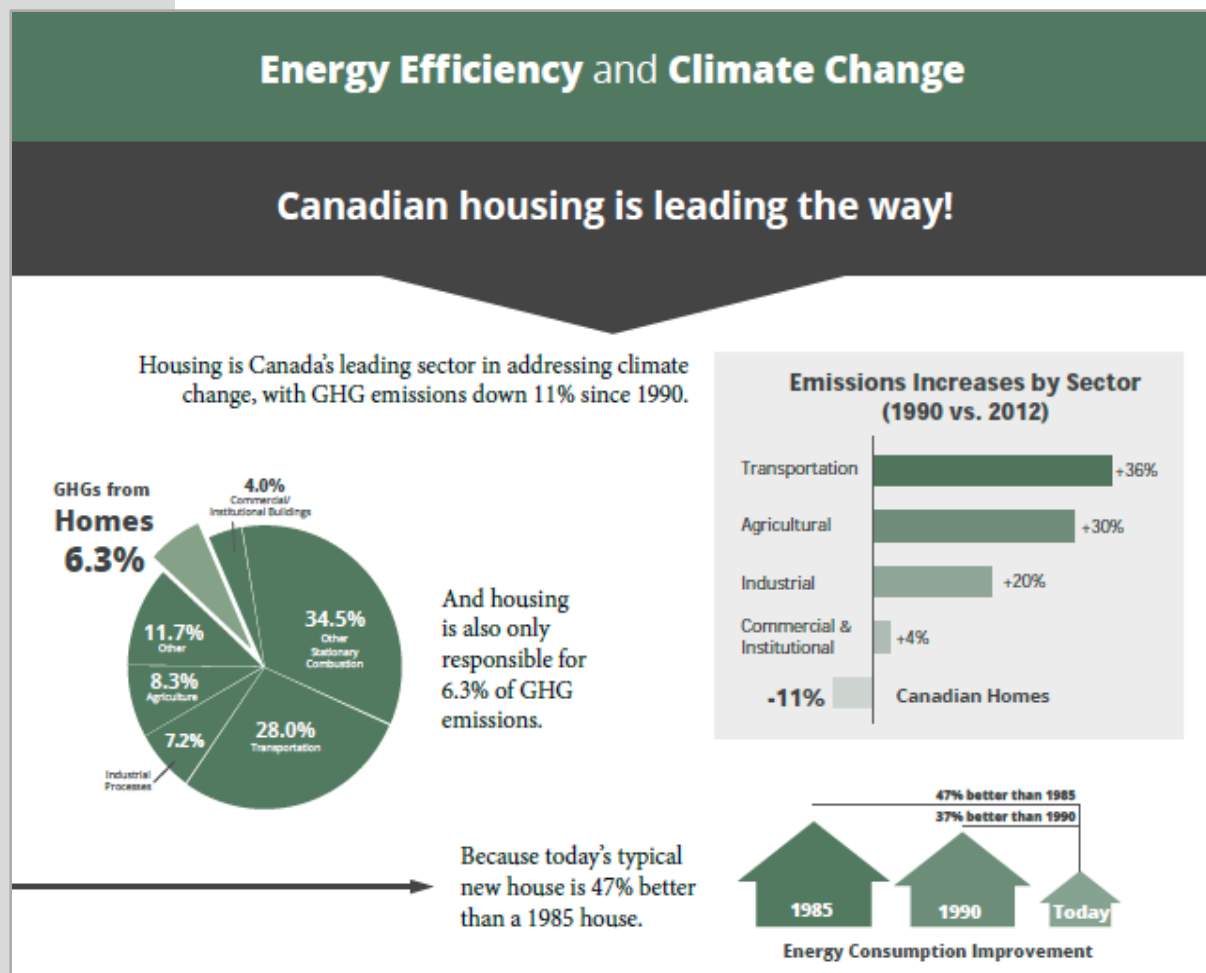


Given the dramatically increased energy performance of today's new housing (Chart 21), and the drive to expand and improve public transit services and ideally to produce more efficient personal vehicles, living outside of the urban core can still be a viable and "green" option.

More family-oriented high-rise condominiums could offer a potential solution for some families in the future, specifically those that wish to live closer to urban cores. But it is also important to note that while entry-level low-rise houses have been shrinking in size and increasing in connectivity to lower costs and improve affordability, that continuum does not translate to a last step of going to high-rise residential formats to improve affordability. Construction costs of high-rise residential

dwellings per square foot are higher than low-rise construction, and land prices zoned for high-rise reflect the added value from being able to build more units on the property. Hence while moving to a family-sized condo unit may make sense for some, in most cases it will not, due to affordability constraints. Low-rise alternatives can usually be delivered at a lower price on a per square foot basis.

Chart 21

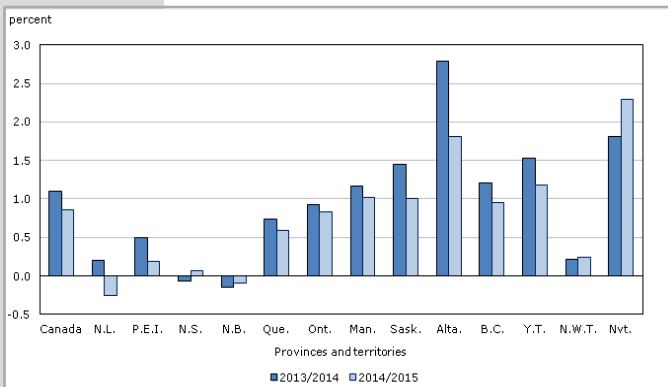


Regional Variation: Shortage from Central Canada West, Balance in the Atlantic Region

Of note is that growing requirements for new “family-oriented” or “ground-oriented” housing for families with children apply *only to provinces from Central Canada and the West*. Both numbers of births and population growth rates in Atlantic Canada have been following quite different patterns.⁹

There, the mix of new and existing family-oriented accommodation will be adequate for households with young children, given the slow or negative population growth shown in Chart 22. Indeed, one of the principal attractions of many communities in Atlantic Canada will be continuing price stability for family-oriented housing.

Chart 22



Source: Statistics Canada, *Annual Demographic Estimates*

CHBA Conclusions Based on the Evidence

A remarkable demographic trend—a “baby boomlet”—is underway; it is influencing a substantial number of Canadian housing markets and will continue to do so over the period from 2016-2026. Given Canadian consumer preferences, this will significantly increase demand for ground-oriented homes in various formats in communities in urban Quebec, Ontario and the West.

These demands will not and cannot be fully met by resale markets with homes “recycled” by Baby Boomers, so there will be increasing pressure to bring more new product to market. The long-term consequences of current trends for Baby Boomers and Millennial parents will be consequential for both groups. If Millennials are unable to establish equity stakes in the market they will be unlikely to meet the asking prices of Baby Boomers when they do want to sell.

Increasing numbers of births appear likely to require changes in the demographically-unsupported trend toward high-density high-rise condominium housing forms that have dominated many urban regions over the past decade. Medium-density low-rise housing forms are likely to increase in desirability, especially if coupled with transit services, accessible shopping and other services and amenities.

⁹ Statistics Canada (2015), *Annual Demographic Estimates: Canada, Provinces and Territories, 2015*. See: <http://www.statcan.gc.ca/pub/91-215-x/91-215-x2015000-eng.htm>.

CHBA Recommendations

1. Governments at all levels should reduce current barriers to increasing supply of low-rise housing and the “missing middle”, and focus on allowing for complete “family-oriented” communities.
 - This must also include recognizing that policies favouring excessive “intensification” (particularly high-rise construction) are no longer supported by demographic trends.
2. Investment in infrastructure, and particularly transit infrastructure, is essential for all levels of government.
 - Transit investment by the Federal government should be tied to proven transit-oriented residential development, ensuring proper density around transit nodes to promote affordability and maximum ridership, and to support mixed-income community development and the “missing middle”.
 - It is critical that the infrastructure investment at the municipal level not be funded via development taxes exclusively burdening new housing buyers and particularly first-time home buyers, further increasing the prices of entry-level housing and locking out still more millennials.
3. Non-subsidy forms of entry assistance to home ownership (that do not lead to over-leveraging) for well qualified Millennial couples with children and to immigrants should be expanded for entry-level housing.
4. Economists, policy analysts and demographers should revise household projections to highlight changes in family households over the coming ten years, and draw out their implications for housing production, housing form, renovation and conversion in different urban regions of the country. Government agencies and the private sector should develop, in more detail, a model of how, when and to what extent the older age demographic, especially boomers, will sell their homes to move to alternate accommodations, as well as the economics of the transfer process between generations.