

New Canadians Add to Canada's Housing Boom

- Immigration is a significant force in Canada's housing market, underpinning growing rental and homeownership demand, elevated new construction, and ongoing urban population densification.
- As Millennials move past their prime household formation years beyond the middle of the next decade, immigration is emerging as a key driver of Canada's medium- and longer-term housing outlook.

IMMIGRATION A GROWING FORCE IN CANADA'S HOT HOUSING MARKET

Immigration has become a major force in supporting the extended boom in Canada's housing market. The number of new immigrants to Canada totaled almost 300,000 last year, up from an average of 260,000 over the prior decade, and registering the highest level in almost a century (chart 1). A similar number of arrivals is anticipated this year.

Immigration levels are set to move even higher. Ottawa recently announced an increase in its annual immigration target from 300,000 this year to 310,000 in 2018, 330,000 in 2019, and 340,000 in 2020. The federal government's Advisory Council on Economic Growth last year recommended boosting Canada's annual immigration target to 450,000 by 2021 in order to address skilled labour shortages, increase international knowledge and networking, and assist with longer-term economic and fiscal challenges of an aging population. Ottawa, for now, is proceeding with a more modest, though still significant, version of the Advisory Council's recommendation.

The number of non-permanent residents in Canada also has increased sharply. Canada's non-resident population has doubled over the past decade to almost 900,000 (chart 2). The net annual increase topped 100,000 in the twelve months to July. The surge has been fairly evenly split between more foreign workers and more international students.

This inflow too could rise further in coming years, as the federal government moves to streamline foreign-worker application procedures, free trade agreements with labour mobility provisions such as CETA are implemented, and campuses continue to ramp up international recruitment efforts. Non-permanent residents are becoming a growing source of immigrants, with attendant Canadian work experience and/or post-secondary education. Roughly 20–30% of foreign workers and international students are transitioning to permanent resident status, usually within five to ten years of arrival, based on the latest available data.

As Millennials move past their prime household formation and homebuying years beyond the middle of the next decade, immigration could move from a key source to a dominant source of new household formation and housing demand. Net immigration accounted for about two-thirds of Canada's population growth between 2011 and 2016. This share is expected to rise to 70% over the coming decade, and to 75% from 2026–2036.

CONTACTS

Adrienne Warren
416.866.4315
Scotiabank Economics
adrienne.warren@scotiabank.com

Chart 1

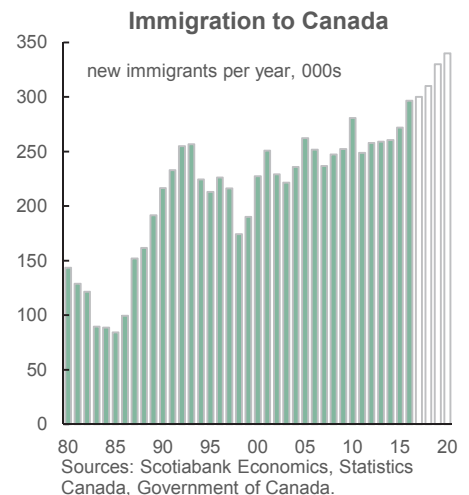
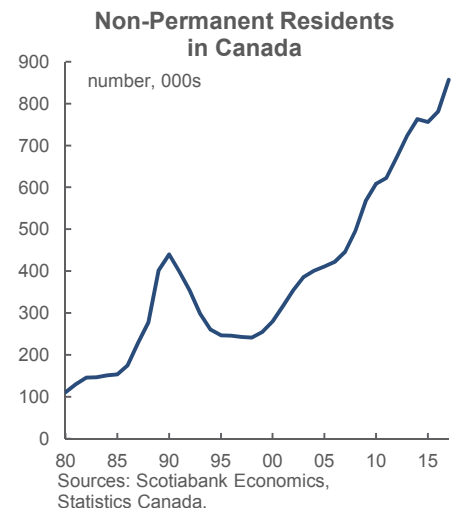


Chart 2



ELEVATED HOUSEHOLD FORMATION AND HOUSING STARTS

The latest population and household projections from Statistics Canada and CMHC, prepared prior to the release of Census 2016 counts, peg average annual household formation in Canada during 2016–2021 at around 170,000. These estimates assume a steady immigration rate of 7.5 per 1,000 population, and a target of 865,000 non-permanent residents by 2021. Taking into account Ottawa’s current immigration rate target of roughly 9.0 per 1,000 by 2020, and the current higher number of non-permanent residents, we estimate annual household formation will likely be closer to 185,000–190,000 over this period.

Household formation is the dominant driver of the demand for new residential construction. To meet underlying demographic requirements, housing starts (rental plus ownership) would need to average around 200,000 annually through 2021. The sustainable level of housing starts typically exceeds household formation due to demolitions, second home purchases, and foreign buying activity (chart 3).

STRONG RENTAL MARKET DEMAND

Pressure on already drum-tight rental markets in many Canadian cities, primarily in British Columbia and Ontario, will continue. The majority of new immigrants to Canada initially settle into rental accommodation, as likely do most non-permanent residents. Of recent immigrant households in 2011, 64% were renters.

As we argued in a recent [report](#), more rental supply will be needed. Notwithstanding increased new purpose-built apartment completions and rising investor-leased condominium supply, the average vacancy rate for purpose-built rentals has dropped to 1.0% in Toronto and 0.9% in Vancouver, well below the 3% level typically considered balanced (chart 4). The comparable availability rates for rented condominiums is just 0.7% and 0.6%, respectively. In addition to immigration, rental demand is being fueled by Millennials moving out of their parents’ home and an aging population.

GROWING HOMEOWNERSHIP AND CREDIT DEMAND

Immigration also adds to the demand for new and resale homes, and mortgage credit. Based on Census 2011 data, more than one-third of newcomers owned their home, and 8 out of 10 of these homeowners held mortgages compared with 6 out of 10 non-immigrant homeowners. Historically, homeownership rates among immigrant households have risen fairly quickly in the years following landing, nearing the level of non-immigrant households with 10–15 years.

Strained housing affordability, primarily in British Columbia and the Greater Golden Horseshoe, has raised the homeownership bar for new immigrants. At the same time, a greater focus on economic-class immigrants and strong labour markets are supportive. The unemployment rate for core working-age recent immigrants has fallen steadily in recent years, and at a faster pace than for Canadian-born workers. The improving labour market performance of recent immigrants likely reflects a favourable skills mix and high levels of educational attainment. Over half of immigrants aged 25–64 who arrived in Canada between 2011 and 2016 had a bachelor’s degree or higher, compared with just under one quarter of the Canadian-born population.

Affordability will remain a key consideration for many new Canadians. Recent immigrants typically have higher unemployment rates and lower household incomes than other Canadians. Competition for more affordable entry-level homes, including condominiums, townhomes and semi-detached homes, is expected to remain strong.

Chart 3

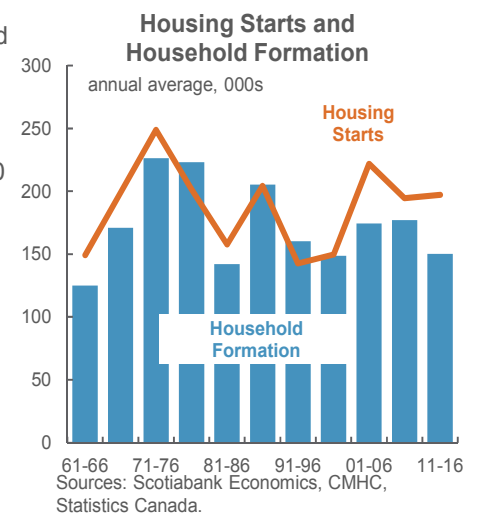


Chart 4

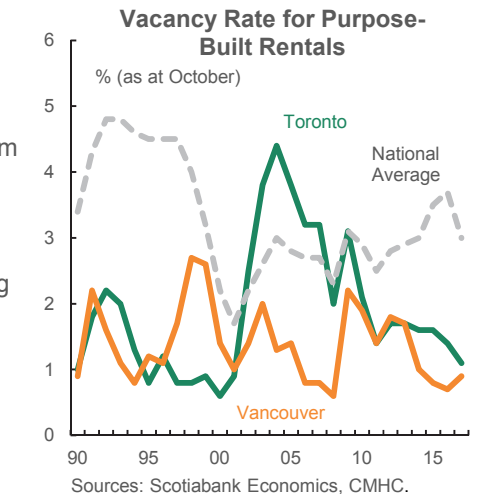
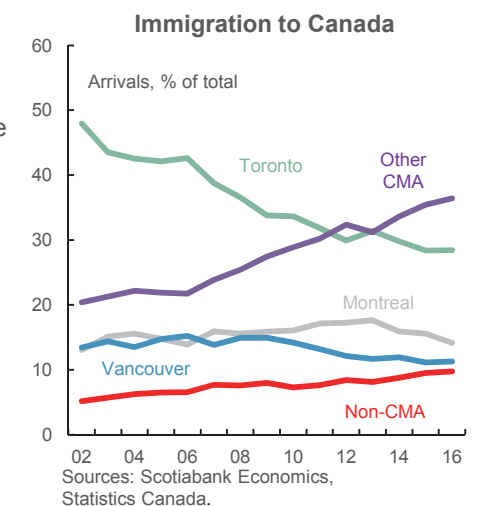


Chart 5



ONGOING URBAN POPULATION DENSITY PRESSURES

The majority of immigrants to Canada settle in the largest CMAs, as do most non-permanent residents. Of the 1.2 mn immigrants that came to Canada between 2011 and 2016, 56% resided in the three largest metropolitan areas—Toronto, Montréal and Vancouver—and a rising share landed in Calgary and Edmonton (table 1). These cities are expected to continue to attract the largest number of new immigrants for the foreseeable future, contributing to solid household formation growth and increased housing demand.

Meanwhile, a growing proportion of recent immigrants are settling in mid-sized centres and smaller communities, most notably in Atlantic Canada and the Prairies (chart 5). The shift in settlement patterns is being influenced by active provincial government immigration policies, though it may also reflect relatively better housing affordability. Immigration is having a larger influence on housing markets in more Canadian cities than in the past.

INTERNAL MIGRATION ADDING TO BC AND ONTARIO HOUSING DEMAND

Interprovincial migration flows also are a major driver of housing demand. Internal migration patterns are typically more cyclical than international migration, influenced in large part by relative economic conditions. In absolute numbers, British Columbia and Ontario have been the major beneficiaries of the net outflow of residents from Alberta to other provinces following the 2014 oil price shock, providing an additional strong lift to housing markets in these regions (chart 6).

Ontario has been a net beneficiary of interprovincial migration since mid-2015, after losing population to other provinces from 2003 through 2014. British Columbia is witnessing its strongest internal in-migration since the mid-1990s. However, these population inflows appear to have peaked in BC and are expected to crest in Ontario as Alberta's strengthening economic recovery pulls some migrants back into the province, leading to a more balanced regional housing market performance.

IMMIGRATION'S ENDURING ECONOMIC IMPACT

Immigration has been a significant contributor to strength and duration of Canada's almost two-decade long housing cycle upswing. As Millennials age past their prime household formation and homebuying years beyond the middle of the next decade, immigration could emerge as a dominant driver of new rental and homeownership demand. The settlement patterns of newcomers in turn will impact regional housing market dynamics, and urban population density pressures.

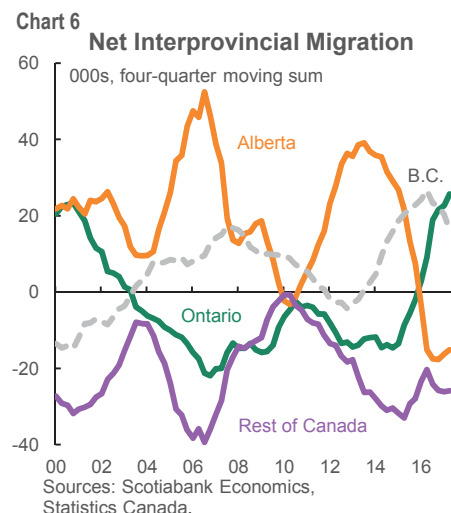
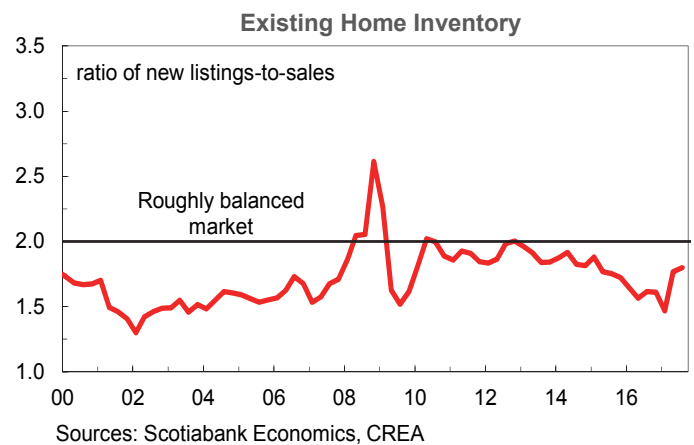
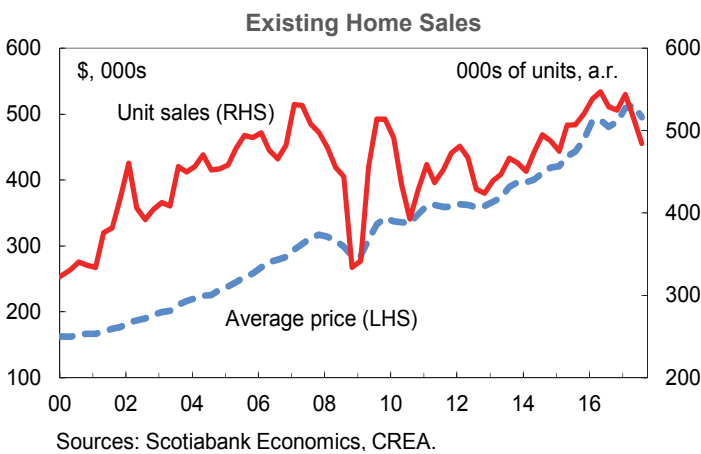
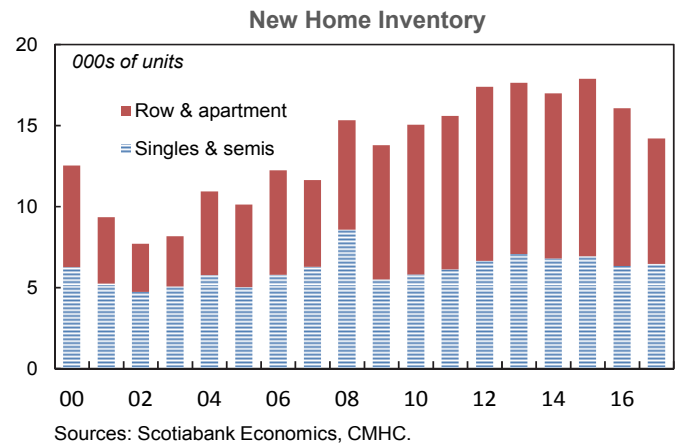
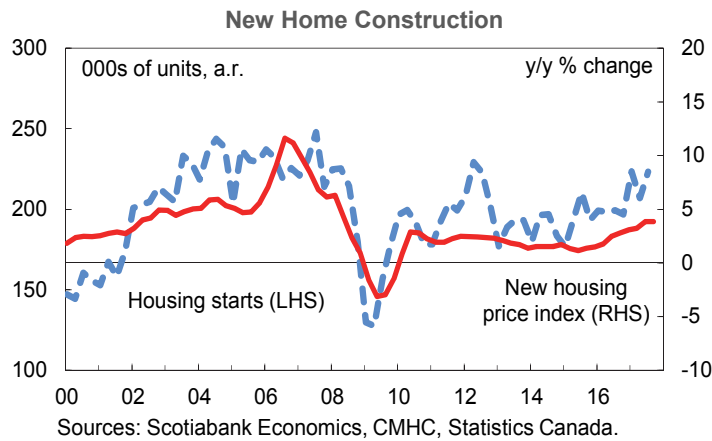


Table 1 - Immigration, Non-Permanent Residents, Household Formation and Housing Starts by Major CMA

	2006–11 Immigration		2011–16 Immigration		2011–16 Net Non-Permanent Residents		2011–16 Household Formation	2011–16 Housing Starts
	Flow	% share	Flow	% share	Flow	% share		
CANADA	232,583	100.0	242,415	100.0	31,542	100.0	150,293	197,369
Toronto	76,349	32.8	71,386	29.4	12,043	38.2	29,241	38,495
Montréal	37,946	16.3	35,854	14.8	2,821	8.9	13,912	18,720
Vancouver	31,025	13.3	28,507	11.8	5,304	16.8	13,630	20,407
Calgary	14,140	6.1	18,651	7.7	-214	na	11,138	13,042
Edmonton	9,986	4.3	15,703	6.5	-222	na	10,271	13,733
Winnipeg	9,054	3.9	10,492	4.3	1,342	4.3	3,047	4,223
Ottawa - Gatineau	8,084	3.5	7,578	3.1	1,569	5.0	5,946	7,787
Saskatoon	2,293	1.0	3,717	1.5	400	1.3	2,094	2,993
Hamilton	3,755	1.6	3,485	1.4	759	2.4	2,232	2,684
Regina	1,630	0.7	3,239	1.3	256	0.8	1,779	2,323

Sources: Scotiabank Economics, Statistics Canada, CMHC.

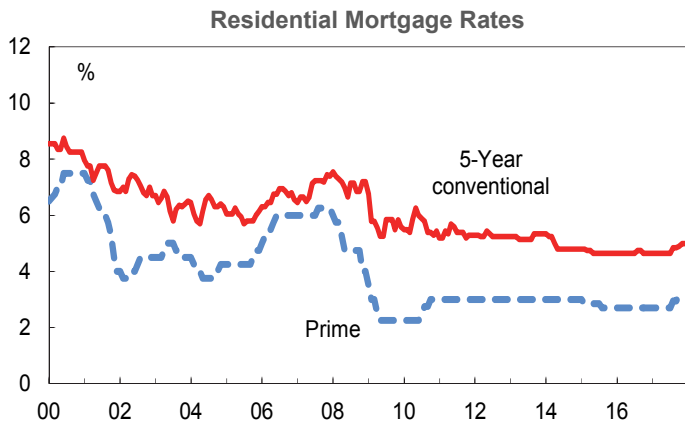
CANADIAN RESIDENTIAL MARKETS



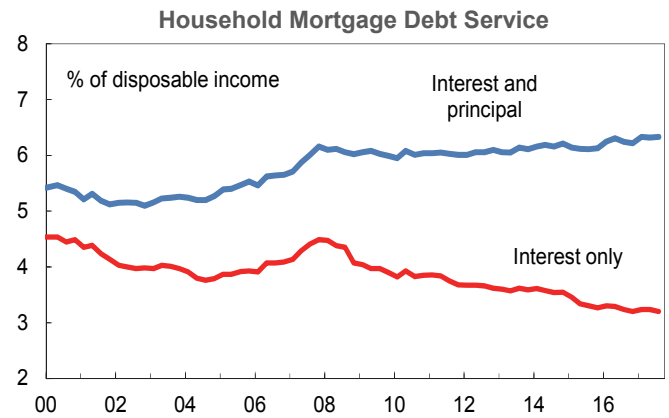
Housing Starts								
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2010	190	26	27	6	6	60	51	13
2011	194	26	26	7	6	68	48	13
2012	215	27	33	10	7	77	47	13
2013	188	27	36	8	7	61	38	10
2014	189	28	41	8	6	59	39	8
2015	196	31	37	5	6	70	38	8
2016	198	42	25	5	5	75	39	8
2017ytd	221	43	30	5	8	82	46	9
2017f	216	42	29	5	7	80	44	9
2018f	202	40	28	5	7	74	40	8
2019f	192	36	28	5	6	71	38	8
<i>(units, nsa)</i>	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2010	15,217	9,262	9,959	29,195	6,446	22,001	2,390	1,816
2011	17,867	9,292	9,332	39,745	5,794	22,719	2,954	1,923
2012	19,027	12,841	12,837	48,105	6,026	20,591	2,754	2,153
2013	18,696	12,584	14,689	33,547	6,560	15,632	2,439	1,734
2014	19,212	17,131	13,872	28,929	5,762	18,672	1,757	1,230
2015	20,863	13,033	17,050	42,287	4,972	18,744	2,599	985
2016	27,914	9,245	10,036	39,027	5,298	17,834	2,305	833
2017ytd	24,961	11,206	11,655	39,988	6,945	23,053	6,187	702

Sources: Scotiabank Economics, CMHC. Year-to-date data are expressed at seasonally adjusted annual rates.

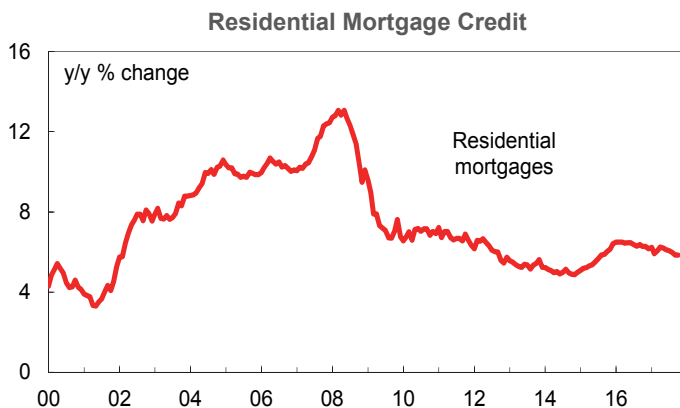
CANADIAN RESIDENTIAL MARKETS



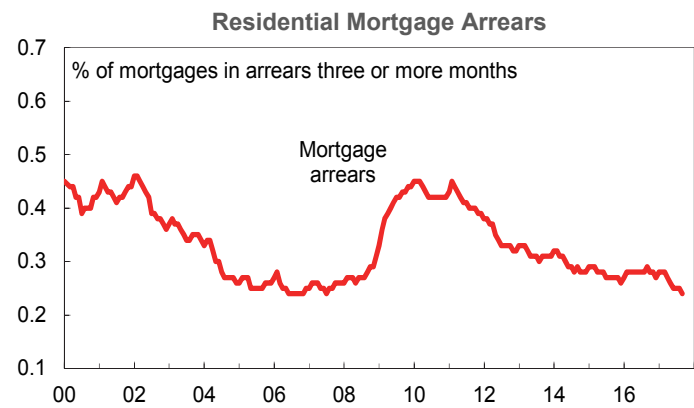
Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, CBA.

Home Sales

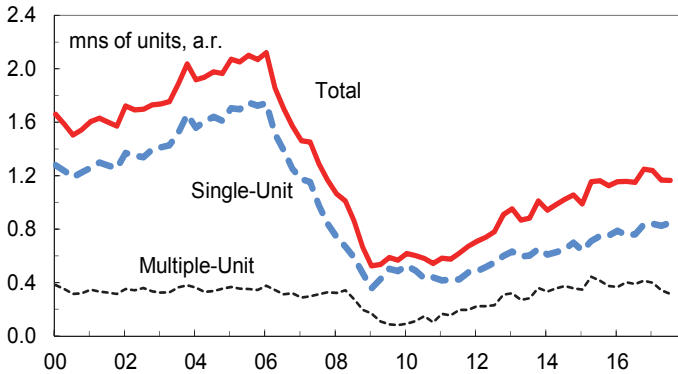
	Canada		British Columbia		Alberta		Man.-Sask.		Ontario		Quebec		Atlantic	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2010	339,636	437,498	505,511	74,555	352,488	50,030	232,270	23,885	343,679	185,840	242,257	80,024	193,030	22,731
2011	362,132	456,221	561,271	76,727	353,413	54,157	247,809	26,912	364,586	197,671	254,207	77,164	201,434	23,147
2012	363,115	451,272	514,849	67,634	363,342	60,588	262,723	27,602	383,602	194,568	264,096	77,372	209,130	23,050
2013	382,176	454,209	537,428	72,936	380,972	66,089	275,235	27,160	402,101	194,961	267,646	71,194	210,173	21,433
2014	407,374	477,848	568,391	84,054	400,594	71,783	282,973	27,530	429,866	202,434	271,212	70,620	209,773	20,969
2015	441,988	503,622	636,607	102,514	393,131	56,471	283,405	26,301	463,546	221,665	275,207	74,122	208,498	22,048
2016	489,909	535,138	691,111	112,211	394,512	52,166	287,485	25,895	534,866	242,383	283,306	78,145	206,256	23,728
2017ytd	506,551	514,159	700,529	102,980	396,821	56,293	288,255	25,407	577,408	222,405	296,010	82,417	208,700	23,981

	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2010	675,853	31,144	398,764	20,996	328,803	16,403	432,264	88,214	328,439	14,586	294,602	42,298	253,315	5,926
2011	779,730	32,936	402,851	22,466	325,595	16,963	466,352	91,760	344,496	15,059	309,341	40,354	260,461	6,106
2012	730,063	25,445	412,315	26,634	334,318	17,641	498,973	88,157	352,199	14,692	322,148	40,086	271,667	6,230
2013	767,765	28,985	437,036	29,954	344,977	19,552	524,089	88,946	358,592	14,013	324,141	36,491	275,187	5,170
2014	812,653	33,693	460,584	33,615	362,657	19,857	566,491	93,278	362,525	14,122	331,772	35,753	276,207	4,840
2015	902,801	43,145	453,814	23,994	369,536	18,227	622,046	101,846	368,521	14,849	338,072	37,935	284,897	4,940
2016	1,017,228	40,880	463,047	22,522	369,365	16,990	729,591	113,725	374,569	15,616	349,793	39,926	290,181	5,260
2017ytd	1,015,467	36,309	465,392	23,906	375,751	18,893	811,265	94,661	390,575	17,477	369,862	42,731	290,305	5,396

Sources: Scotiabank Economics, CREA, QFREB. Year-to-date data are expressed at seasonally adjusted annual rates.

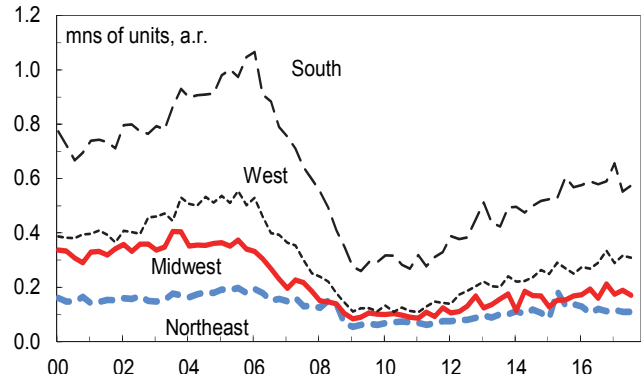
US RESIDENTIAL MARKETS

Housing Starts



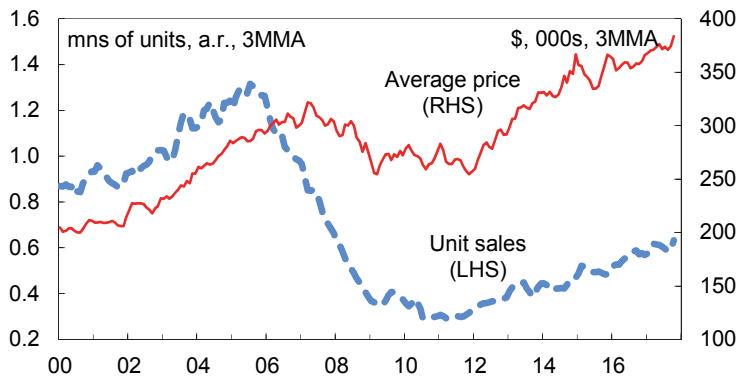
Sources: Scotiabank Economics, US Census Bureau.

Housing Starts by Region



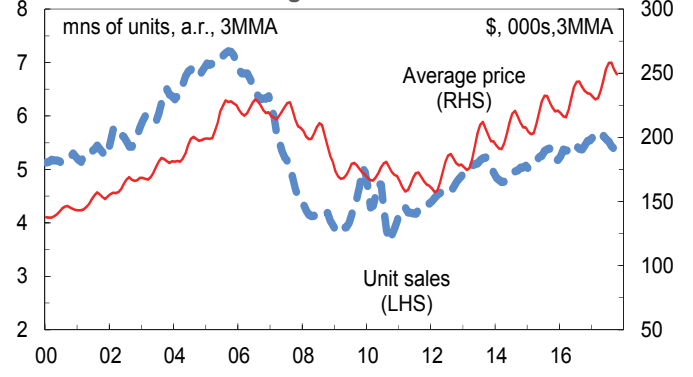
Sources: Scotiabank Economics, US Census Bureau.

New Home Sales



Sources: Scotiabank Economics, US Census Bureau.

Existing Home Sales



Sources: Scotiabank Economics, National Association of Realtors (NAR).

Housing Starts

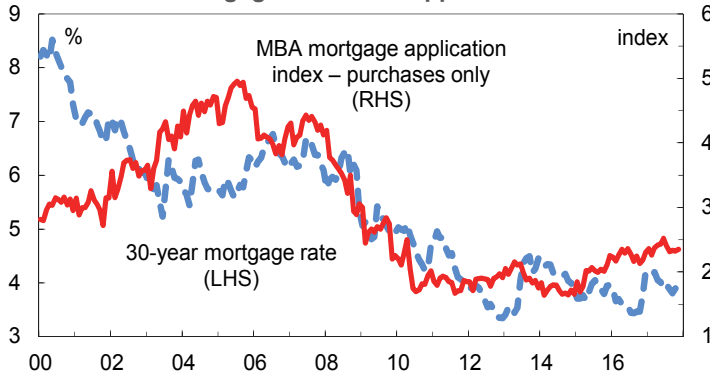
Permits

	Total	Singles	Multis	West	South	Midwest	Northeast	Total	Singles	Multis
	<i>(millions of units)</i>							<i>(millions of units)</i>		
2010	0.587	0.471	0.116	0.120	0.298	0.098	0.072	0.605	0.447	0.157
2011	0.609	0.431	0.178	0.133	0.308	0.101	0.068	0.624	0.418	0.206
2012	0.781	0.535	0.245	0.175	0.398	0.128	0.080	0.830	0.519	0.311
2013	0.925	0.618	0.307	0.215	0.464	0.150	0.097	0.991	0.621	0.370
2014	1.003	0.648	0.355	0.235	0.496	0.163	0.110	1.052	0.640	0.412
2015	1.112	0.715	0.397	0.266	0.556	0.153	0.138	1.183	0.696	0.487
2016	1.174	0.782	0.392	0.291	0.585	0.182	0.116	1.207	0.751	0.456
2017ytd	1.200	0.841	0.358	0.306	0.597	0.181	0.116	1.247	0.812	0.435
2017f	1.200									
2018f	1.250									
2019f	1.300									

Sources: Scotiabank Economics, US Census Bureau. Year-to-date data are expressed at seasonally-adjusted annual rates.

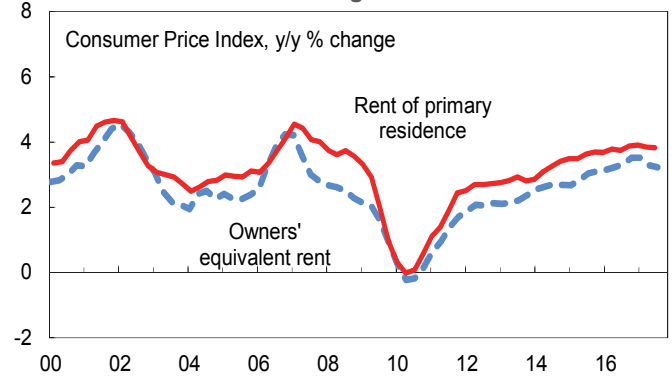
US RESIDENTIAL MARKETS

Mortgage Rates and Applications



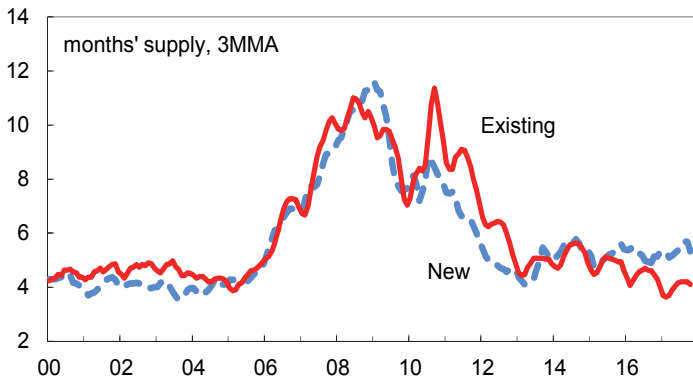
Sources: Scotiabank Economics, Mortgage Bankers Association (MBA), FHLMC.

Housing Costs



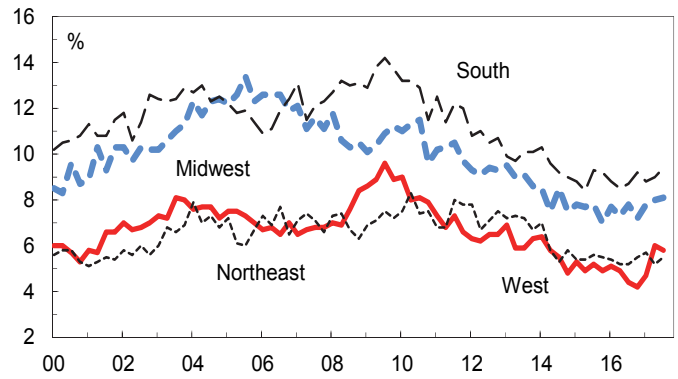
Sources: Scotiabank Economics, US Bureau of Labor Statistics.

New and Existing Home Inventories



Sources: Scotiabank Economics, US Census Bureau, National Association of Realtors (NAR).

Apartment Vacancy Rates



Sources: Scotiabank Economics, US Census Bureau.

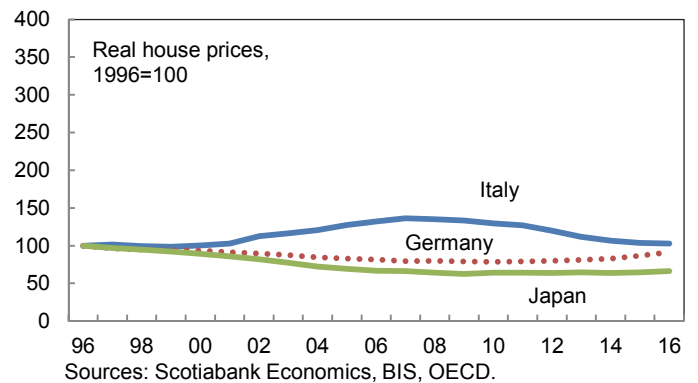
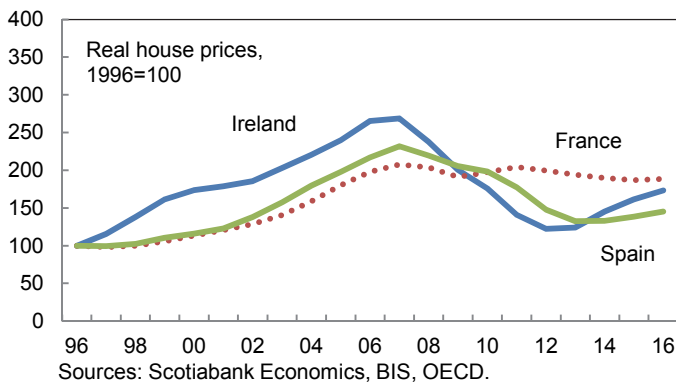
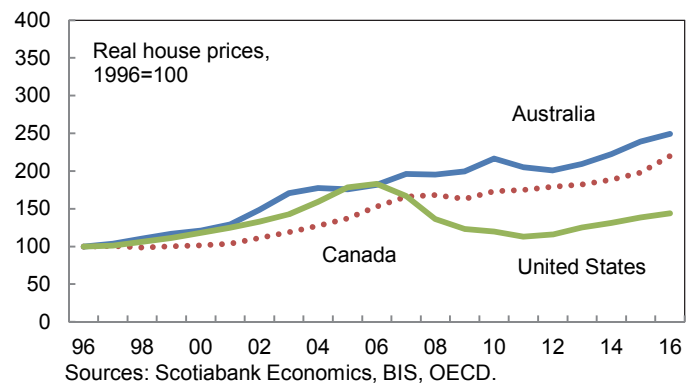
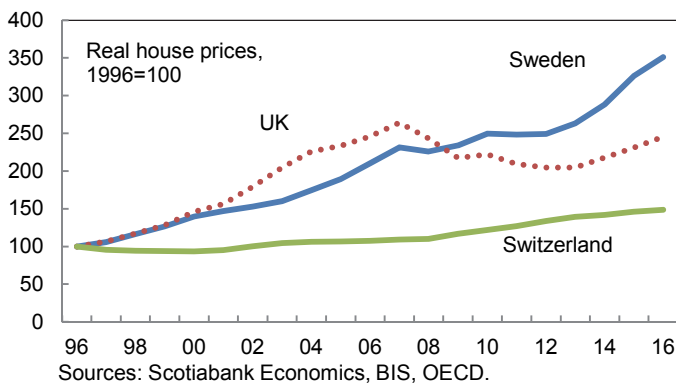
	Existing Home Sales							New Home Sales		
	Total	Avg Price (\$000s)	Months' Supply	West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)	(million units, saar, unless otherwise noted)						
2010	4.190	220.0	9.4	1.080	1.630	0.910	0.570	0.321	271.5	8.0
2011	4.260	214.0	8.3	1.130	1.680	0.910	0.540	0.306	263.4	6.6
2012	4.660	225.4	5.9	1.160	1.840	1.070	0.590	0.368	285.4	4.8
2013	5.090	245.5	4.9	1.190	2.050	1.200	0.660	0.430	319.3	4.7
2014	4.940	255.3	5.2	1.100	2.050	1.140	0.640	0.440	341.8	5.5
2015	5.250	266.4	4.8	1.170	2.160	1.240	0.700	0.503	348.6	5.2
2016	5.450	276.0	4.4	1.190	2.220	1.300	0.740	0.561	359.3	5.2
2017ytd	5.519	287.5	4.0	1.232	2.264	1.290	0.733	0.613	375.1	5.3

Sources: Scotiabank Economics, National Association of Realtors (NAR), US Census Bureau.
Year-to-date data are expressed at seasonally-adjusted annual rates.

INTERNATIONAL RESIDENTIAL MARKETS

International House Prices													
(Inflation-adjusted, y/y % change)													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	16Q4	17Q1	17Q2	17Q3
Australia	-0.3	2.2	8.5	-5.3	-2.1	4.1	6.4	7.4	4.2	6.1	7.9	8.1	---
Canada	1.4	-3.2	6.2	0.9	2.4	1.8	3.4	4.9	11.2	13.4	15.0	16.2	---
France	-1.9	-6.3	3.2	3.6	-2.4	-2.7	-2.1	-1.5	0.9	1.5	1.6	2.6	---
Germany	0.4	-0.7	-0.6	0.5	1.0	1.7	2.2	4.3	5.5	5.4	3.7	3.5	---
Ireland	-11.6	-15.7	-12.3	-19.7	-13.3	1.5	16.9	11.0	7.5	9.1	9.2	11.1	---
Italy	-0.7	-1.3	-2.9	-2.0	-5.7	-6.9	-4.6	-2.6	-0.7	-0.5	-1.5	-1.6	---
Japan	---	---	2.2	0.3	-0.8	1.3	-1.2	1.6	2.3	2.2	3.7	---	---
Spain	-5.3	-6.3	-3.5	-10.5	-16.8	-10.4	0.5	4.1	4.8	3.4	2.5	3.5	---
Sweden	-2.3	3.5	6.8	-0.4	0.3	5.5	9.6	13.2	7.6	5.0	5.1	6.7	---
Switzerland	0.9	6.2	4.2	4.2	5.2	4.2	1.8	3.1	1.6	1.5	1.2	1.5	0.3
United Kingdom	-7.8	-10.8	2.3	-5.7	-2.3	0.0	6.5	5.9	6.3	4.1	2.2	1.9	---
United States	-18.3	-9.7	-2.8	-5.7	2.6	8.3	4.7	5.4	4.0	3.4	3.0	4.3	---
Russia	9.1	-10.9	1.3	-27.0	9.5	-2.7	-6.0	-12.3	-11.6	-9.3	-8.4	-7.6	---
Brazil	15.8	19.4	19.0	11.6	6.1	2.8	0.2	-8.0	-10.3	-8.9	-7.0	-5.8	---
Chile	-8.9	1.5	6.0	2.0	2.3	6.2	1.8	4.3	-0.7	-0.6	---	---	---
Colombia	9.2	4.9	5.5	4.3	7.2	7.6	5.0	4.5	4.3	4.8	2.9	1.8	---
Mexico	-0.5	0.1	-0.3	0.8	0.7	0.0	0.4	3.8	5.1	4.0	0.2	0.7	---
Peru	20.7	14.0	9.3	13.2	17.5	13.7	9.2	2.6	2.4	3.1	-7.5	-2.7	---
China	0.2	1.9	5.4	-1.2	-3.2	3.2	0.6	-5.2	4.5	8.6	9.2	8.3	6.0
India	---	---	8.5	11.3	15.5	7.8	7.8	8.3	1.6	4.4	6.6	6.4	---
Indonesia	-7.7	-2.7	-2.2	-0.7	0.6	5.3	0.6	-0.8	-0.4	-0.9	-1.0	-1.1	---
South Korea	-0.6	-2.5	-0.5	1.2	0.7	-1.7	0.2	2.6	1.7	0.0	-0.8	-0.7	-0.8
Thailand	---	6.1	-0.5	0.5	0.3	5.5	3.8	3.5	1.2	-1.1	-1.8	-3.2	-0.2

Sources: Scotiabank Economics, Bank for International Settlements



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