

FOCUS ON CANADA'S HOUSING MARKET

April 25, 2019

There's no millennial hollowing-out of Canada's largest cities

Future housing demand still poised to grow despite high costs

There's no evidence to suggest that high housing costs are gutting the ranks of millennials in Canada's most expensive cities. The number of people aged 20-34 is growing at a healthy clip in Vancouver, Toronto and Montreal. Yet it's also true that more young individuals are leaving these cities for nearby areas, and we can presume that housing costs are a big factor. But for every millennial leaving a major Canadian city for more affordable digs in the same province, there are between seven and 12 millennials moving in from another country or province. Vancouver, Toronto and Montreal continue to be magnets for young, mobile talent. This is the dominant force shaping the urban demographic make-up, not the loss of millennials priced out of the market. Despite some churn in the prime household-forming population, future housing demand isn't under threat in Canada's largest cities.

The millennial population is growing in Canada's three largest cities...

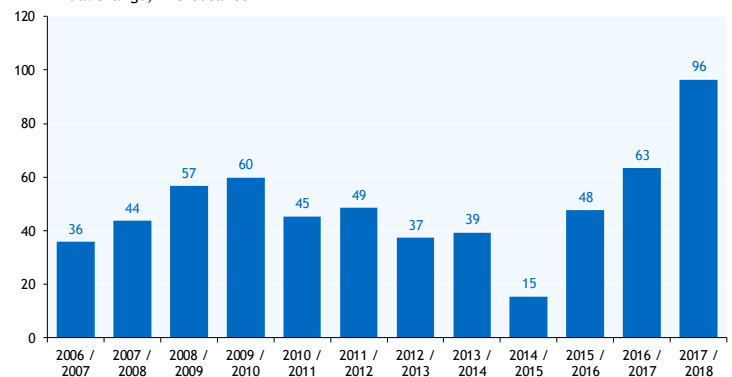
Concerns that high and rising housing costs might gut the millennials' ranks in Canada's most expensive cities have been greatly exaggerated. Apart from a short-lived slowdown in 2015 resulting from changes in the temporary foreign worker program, the population aged 20-34 in Vancouver, Toronto and Montreal has grown solidly over the last dozen years. That cohort in fact swelled by 96,000 (or 2.9%) in these three cities in 2018, by far the strongest increase of the past 12 years. Toronto led the way with a 58,000 rise (up 4.1%), followed by Montreal (up 22,000 or 1.4%) and Vancouver (16,000 or 2.4%).

...and keeping pace with growth in other age groups

There's no sign that millennials are becoming under-represented in the three cities. Their share of the total population has remained largely constant over time—rising marginally from 21.8% in 2006 to 22.1% in 2018 overall in Vancouver, Toronto and Montreal. And these levels lie slightly above the 20.3% and 20.4% shares for all of Canada over the same periods. So millennials are in fact slightly *over*-represented in the largest cities, especially in Vancouver and Toronto where their share of the population stood at 22.8% last year.

Increase in 20-34 population: Vancouver, Toronto, Montreal

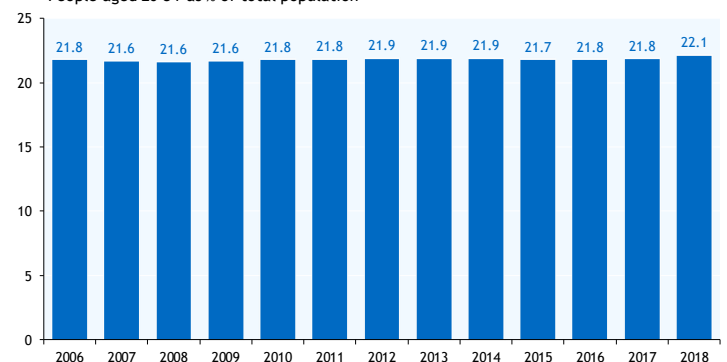
Annual change, in thousands



Source: Statistics Canada, RBC Economics Research

20-34 share of population: Vancouver, Toronto Montreal

People aged 20-34 as % of total population



Source: Statistics Canada, RBC Economics Research



More millennials are leaving town for other areas of the same province...

Steady representation in the population doesn't mean young adults are impervious to high housing costs. An increasing number are packing up and moving to another part of their province, often not very far away. There were 13,200 more millennials leaving Vancouver, Toronto and Montreal to areas within the same province than millennials making the opposite move last year. That net outflow more than tripled since 2015. The increase was almost eight-fold in Vancouver.

...where housing is more affordable

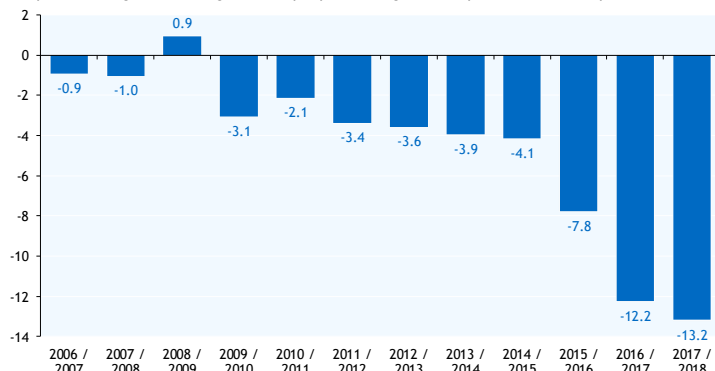
Most of the people leaving the Greater Toronto Area, for example, are going to cities within a (long) commuting distance—mainly Hamilton-St. Catharines, Oshawa, Kitchener-Waterloo-Guelph and Barrie. The net loss in the GTA's population (all age categories included) to these cities totalled 31,000 in 2017. This was almost double the loss three years earlier. While we don't know for sure who is leaving and why, it's reasonable to assume the search for more affordable housing is a big factor (job prospects in destination cities are likely also a draw). Buying a home is between 25% and almost 50% cheaper in the southern Ontario communities to which many Torontonians flee. Similar dynamics are at play in Vancouver where a net outflow of 5,800 people was recorded in 2017 against Abbotsford-Mission, Chilliwack and Victoria—all within a couple hours' drive (and ferry) from Vancouver. Buying a home in these communities came at discounts of 30% to 50% relative to Vancouver prices.

Millennials coming from abroad more than make up for the intraprovincial losses

The number of millennials bidding farewell to Canada's big cities pales in comparison to the number of their peers flocking in. In 2018, net immigration added a total of 76,300 young adults aged 20-34 to populations of Vancouver, Toronto and Montreal. There were also an additional 28,200 net non-permanent residents (mostly students and temporary workers) coming in from abroad and 3,800 net migrants moving from other provinces. In total, Canada's three largest cities saw a net inflow of 108,400 millennials from other countries and provinces last year. So for every net millennial lost to other cities in the same province, Vancouver, Toronto and Montreal collectively gained roughly eight net millennials from abroad or other parts of the country. That ratio is as high as 12 in Vancouver and Montreal, while it is seven in Toronto. These migration flows confirm that Vancouver, Toronto and Montreal continue to draw young, mobile talent from around the world.

Net 20-34 intraprovincial migration: Van., Toronto, Montreal

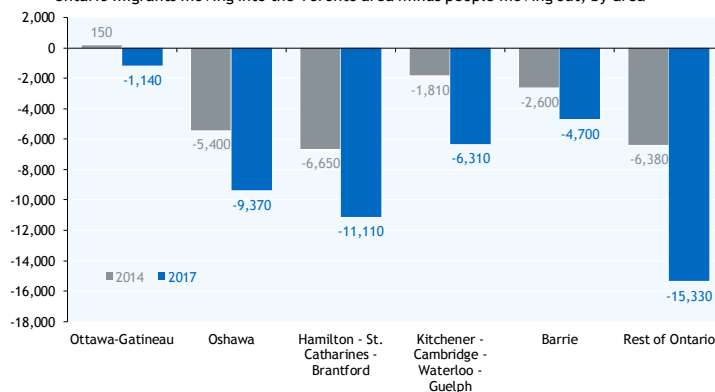
In-province migrants moving in minus people moving to other parts of the same province, in 000s



Source: Statistics Canada, RBC Economics Research

Net bilateral intra-provincial migration: Toronto area

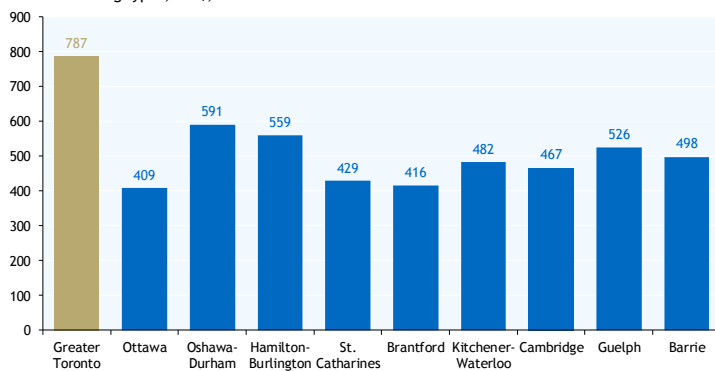
Ontario migrants moving into the Toronto area minus people moving out, by area



Source: Statistics Canada, RBC Economics Research

Average price of homes sold on MLS

All housing types, 000\$, 2018



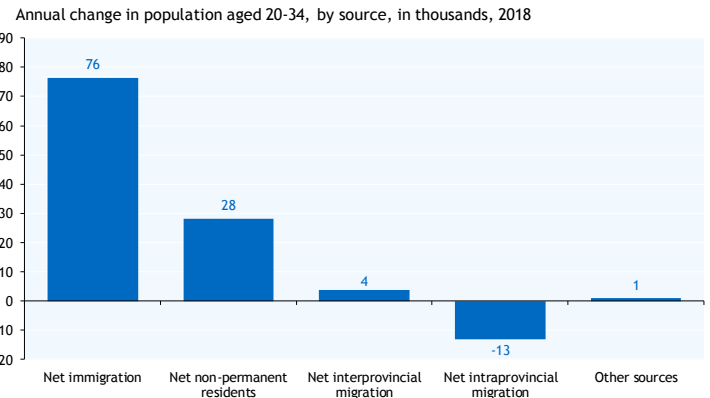
Source: Canadian Real Estate Association, RBC Economics Research



Higher immigration targets will keep the tap wide open

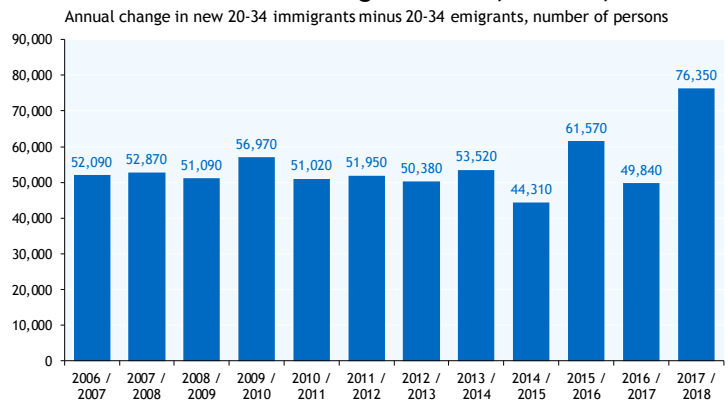
If anything, the inflow of millennial immigrants is poised to grow in the coming years. Canada will increase its annual immigration target from 330,000 in 2019 to 350,000 in 2021, and our largest cities will likely get the lion's share of newcomers. In recent years, Vancouver, Toronto and Montreal together welcomed approximately half of all new immigrants aged 20-34. We don't see this share really weakening in the period ahead—except perhaps temporarily in Montreal while the newly elected Quebec government trims immigration levels provisionally to improve immigrants' integration outcomes. All three cities benefit from thriving economies and cultural scenes. In our view, this will keep the net flow of young talented migrants strongly positive overall despite further growing losses of millennials to more affordable cities. Vancouver, Toronto and Montreal aren't being drained of people in their prime household-forming life stage. Housing demand isn't at risk of falling anytime soon. What could fall, however, is the rate of young households who own a home. High housing prices set an impossibly high bar to clear for many millennials to become homeowners in a big city. Expect a greater proportion of them to rent in the future.

Sources of millennials' growth: Vancouver, Toronto, Montreal



Source: Statistics Canada, RBC Economics Research

Growth in net 20-34 immigrants: Van., Toronto, Montreal



Source: Statistics Canada, RBC Economics Research