

Population Significance: People Power and Affordability

It's been a difficult twelve months for BC's housing markets. No question. However, while we wait to hear the latest unemployment figures or government stimulus packages it might be fun, or perhaps even refreshing, to take a look at two things that are working in BC's favour. The first is population growth, without which the housing stock wouldn't need to expand; and housing affordability, the quiet redeemer of markets.

BC's population grew by an impressive 14,440 from October to January, second only to Alberta. This was the highest fourth quarter of growth since 1996. The largest contributor to this growth was international migrants, netting BC 10,255 individuals during the fourth quarter, 64 percent more than a year ago. In fact, net international migration broke the record books in 2008, even surpassing 1996 when the province experienced a significant influx of Hong Kong immigrants. However, weaker economic conditions have slowed migration from other provinces, as BC's economy is no longer the brightest light in the country. Net interprovincial migration fell to 6,450 individuals in 2008 from 15,520 in 2007, but nonetheless remained in positive territory.

Despite the current challenges in the economy, migration will become increasingly important over the coming decades as BC's population ages, and deaths begin to outpace births. By 2026/2027, migration may be the only source of population growth for the province. If BC Stats current population projections are any indication, the recent level of migration will be the norm and not an exception. Annual net migration is expected to range between 50,000 and 60,000

individuals over the long term. In twenty years, this could add another 1.27 million people to the province. This means that demand for housing will be robust over the long-term, despite the current weakness.

Housing affordability is the relative difference between household income and the carrying cost of ownership, in other words – your mortgage payment. Lenders typically limit the carrying cost to a maximum of 32 percent of the borrower's pre-tax income. Since incomes tend to grow very slowly compared to short-term changes in mortgage interest rates and home prices, the carrying cost of the average home in the market is a great indicator of housing affordability.

Many market watchers concentrate solely on home prices relative to income and ignore the impact of interest rate changes, which can be significant. You may be surprised to learn that while the average price of a home in BC is down 11 percent from a year ago, the carrying cost has actually declined 23 percent, the difference being lower mortgage interest rates.



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The combination of lower home prices and lower interest rates means buying a home in BC is now more affordable than at any time in the last three years, which coincidentally was the last time the carrying cost of housing made sense relative to income.

So, population growth is very much in BC's favour for at least the next few decades. This will keep our home-builders building despite brief downturns in the market. In addition, housing affordability makes a lot more sense today. A typical home buyer's mortgage payment has been slashed by nearly one-quarter over the last twelve months. No wonder so many potential buyers are kicking tires.

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Population Growth: British Columbia

Sources: BC Stats, P.E.O.P.L.E. 33 Model, BCREA

