

Armchair Analyst: Household Growth and New Home Construction

In the last instalment of the Armchair Analyst, we delved into population growth and its components. We learned that BC is a population growth leader in Canada and that 70 per cent of population growth in the province is attributable to immigration. In this issue we delve further into the impact of population growth in relation to the housing stock and new home construction activity.

Home building activity waxes and wanes with overall market conditions. The availability and cost of credit are important, as are the state of the economy, employment and consumer confidence. However, over the long and medium term, population growth and related household formation are key drivers of the level of residential construction activity. The Armchair Analyst would be wise to monitor the number of new homes being built in relation to population and growth in household formations.

An aging population and slowing birth rate is expected to reduce the average household size from 2.63 in 1990 to 2.39 by 2030. There are about 2.49 individuals per household in BC today. A good rule of

thumb is that for every 1,000 additional people in the province, approximately 400 new households will be formed. However, household size can vary from region to region as well as with the proportion and characteristics of recent and future migrants. Since each new household presumes an individual dwelling*, careful scrutiny of the proposed and existing supply of new homes can reveal if the housing stock is expanding too rapidly or not fast enough to satiate demand.

It is a tall order for home builders to accurately match their production with consumer demand. In the case of large multi-family developments, the interval between conception and completion of a project can take as long as three years. A short-term contraction in consumer demand, like during a recession, can quickly turn an undersupplied market into one that is vastly oversupplied. However, post-recession consumer demand can turn on a dime with cautious home builders unable to expand production quickly enough. This occurred between 2001 and 2003; home builders simply couldn't increase their capacity fast enough to meet a sharp



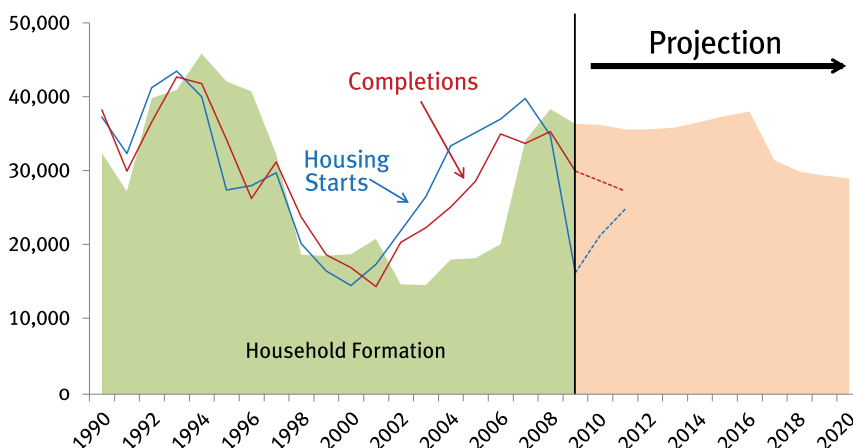
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upturn in demand. This led to projects selling out in hours, competing bids on homes and rapidly rising prices.

In the long run, the housing stock typically expands proportionally to household growth. The current level of BC housing starts will remain relatively low compared to household growth over the next year as the inventory of newly completed and unoccupied units first needs to be drawn down. After that, home builders will once again need to ramp up production in the face of a growing population. The Armchair Analyst should note that the lag between rising consumer demand and the ability of home builders to expand the housing stock with completed units can potentially trigger escalating home prices.

Household Formation: British Columbia

Source: CMHC, BC Stats, BCREA Economics



**A region popular with recreation and second home buyers may experience greater demand than household growth suggests. In addition, household growth can also be accommodated by slack in the rental market and the conversion of existing housing, such as the addition of basement suites and carriage homes.*