BANKING ON THE BOOMERS?

Atlantic CMAs Population (Age 20-29 & 60-84) vs. Apartment Demand
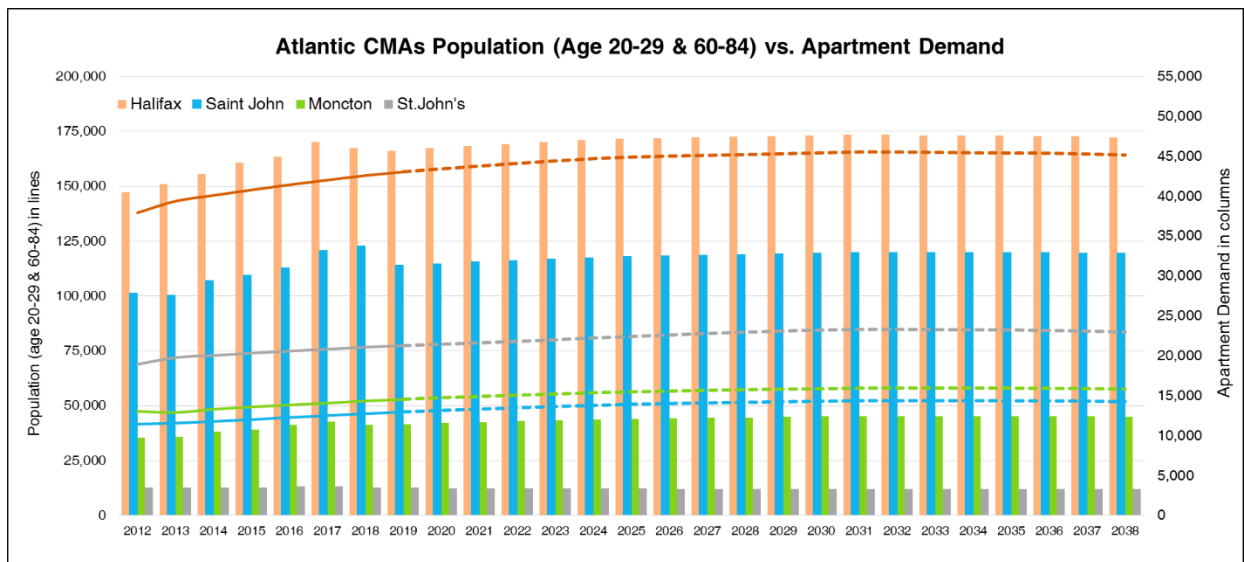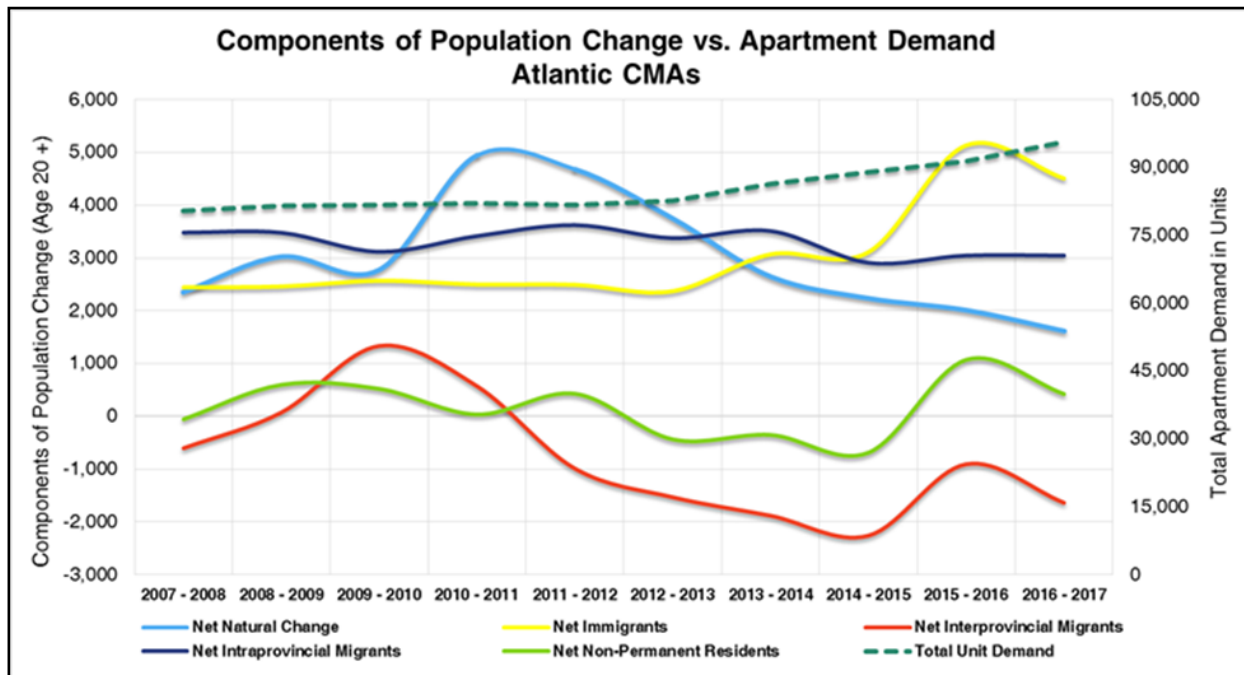
Source: Statistics Canada, CMHC, Turner Drake & Partners Ltd.

Where is the demand coming from? When is it going to end? Will there be tears when it does? Questions we are frequently asked as apartment blocks continue to sprout from the ground. Our Economic Intelligence Unit decided to take a look at the drivers behind apartment demand. First though, a look at the main source of demand, the Baby Boomers, generally defined as those born during the period 1946 to 1966. We have been tracking the impact of this group since the Fall of 1995 (*"Baby Boomers Bulge"* Newsletter Vol. 2 No. 53) and with input from Statistics Canada have been able to predict which geographic locations in Atlantic Canada, and market sectors, will be the winners and losers as this demographic transitions from being net spenders to net savers… from work force participants to retirees… and from house owners through apartment renters to nursing care dependants. In our Spring/Summer 2013 issue (*"End of the Line"* Newsletter Vol. 2 No. 96) we mapped their impact on average population age in each of the Atlantic Provinces. Our conclusions were later confirmed by the 2014 Ivany Report on the same subject, as it affects Nova Scotia (*"Sunrise… Or Sunset?"* Newsletter Vol. 2 No. 99). Our Spring 2018 issue focused on Nova Scotia to project the future impact on Independent, Assisted, Retirement and Nursing Home care (*"Seniors' Housing"* Newsletter Vol. 2 No. 112). Most recently our Summer/Fall 2018 issue looked at their influence on apartment unit prices (*"Apartments: A Golden Age"* Newsletter Vol. 2 No. 113). The first Baby Boomers reached the age of 60 in 2006, the oldest will reach it in 2026. Assuming that they start transitioning from home ownership to rental accommodation at age 60, and start exiting it in favour of extended care facilities at age 85, their peak impact will be between 2026 and 2031 albeit biased towards the earlier year given the impact of mortality rates. We therefore have about 7 years of increasing rental demand left from the Baby Boomer generation before demand from this source starts to decline. Fortunately the age cohort 60 to 84 is not the only source of rental demand; the 20 to 29 age group, immigrants (including intra and inter provincial migrants) and non-permanent residents represent important pools of renters.

We have graphed apartment demand and the potential renter population on the "Atlantic CMAs Population vs. Apartment Demand" Graph above. Only four Census Metropolitan Areas in Atlantic Canada (Halifax, Saint John, Moncton, St. John's) were utilised because data was not available for the smaller centres. The renter population comprises two cohorts, the 20 to 29 and the 60 to 84 age groups, and captures the Baby Boomers, Non Baby Boomers, immigrants and non-permanent residents. The actual (potential) renter population for the years 2012 to 2018 inclusive was sourced from Statistics Canada. It is represented on the graph by the solid lines. The apartment demand is represented by the vertical bars and is based on the total apartment universe in each community less the vacancy rate. CMHC provided the data for the years 2012 to 2018 inclusive. We regressed the actual (potential) renter population against actual apartment demand. In aggregate our renter population explained 85% of the apartment demand, and varied from a low of 44% (St. John's) to a high of 96% (Halifax). The corresponding figures for Moncton and Saint John were 87% and 51%. There was a 5% or less probability that the results arose by chance. The potential renter populations from 2018 to 2038 [shown as broken lines] were based on Statistics Canada Provincial Projection Scenario M5 (2009/2010 to 2010/2011 trends), disaggregated to the CMA level by applying the population ratios for 2011 and 2016, projected through the forecasting period. These potential renter population projections were utilised as the

independent variable in our regression analysis equation to estimate apartment demand for each community through to 2038 [shown as vertical bars]. Although rental demand from the Baby Boomers will peak circa 2026 the aggregate demand does not peak until 2031 (Halifax), 2032 (St. John's), 2033 (Saint John and Moncton) due, not to the growth of the 20 to 29 age group, but to the impact of immigration.

Components of Population Change vs. Apartment Demand Atlantic CMAs

Legend: Net Natural Change; Net Immigrants; Net Interprovincial Migrants; Net Intraprovincial Migrants; Net Non-Permanent Residents; Total Unit Demand

Since the "natural" Baby Boomer population will decline as it transitions into nursing care dependents, or dies, and given that the other element of the potential rental population, the 20 to 29 age cohort, is not large enough to replace those losses, the growth has to come from other potential renter groups. Immigrants are a major source of renter demand. Immigrants from abroad tend to rent for economic reasons or because they want to be certain of their work and living environment before putting down the roots exemplified by a home purchase. To some degree the same constraints apply to immigrants from other provinces (Interprovincial Migrants) or those moving from rural to urban areas (Interprovincial Migrants). The latter in particular are a force to be reckoned with… we looked at their impact in the Fall of 2014 (*"Rural to Riches"* Newsletter Vol. 2 No. 100). "Urbanisation" is part and parcel of the march to prosperity… "*no country in the industrial age has ever achieved significant economic growth without urbanisation*" according to a 2007 United Nations Population Fund report. (The bar for an "urban" community is very low; Statistics Canada define it as having a minimum population of 1,000 and a density of at least 400 people per square kilometre. By this definition Canada is 81% urbanised; comparable to dense European countries such as the United Kingdom [80%] and the Netherlands [84%]. However the Atlantic Provinces lag far behind at just 55% [2011]. There is a continued trend for people to migrate to the major metropolitan centres in Atlantic Canada, rather than the smaller communities, and we expect this will escalate as the population ages.) Immigrants from outside the country head for the larger centres as well, partly because of employment opportunities, but also because they frequently house a diaspora which can assist in sourcing employment, housing, schools, health care, etc. and alleviate the cultural transition. Non-permanent residents [green line], principally international university students and skilled workers, are an important renter group. Most universities have made great efforts over recent years to recruit overseas students; some now boast that 25% of their student body is from abroad. Although this program extends back four decades it has been assisted by the election of President Trump and the less friendly face presented by the United States. However local universities have to compete with those from other English speaking western countries for this market, many of whom are firmly entrenched. Universities in the United States and the United Kingdom, or those located in countries closer to the target market Asia, such as Australia, compete aggressively for students. Immigrants from all four sources (Interprovincial, Intercountry, Interprovincial, Non-permanent Residents) are key to combating the renter deficit as the Baby Boomers die or age into extended care facilities. This stark reality is demonstrated in the "Components of Population Change vs. Apartment Demand" graph on this page. The net natural change [light blue] shows the year over year change in the aggregate renter groups (20 to 29; 60 to 84 age cohorts) which continued to increase, but at a decreasing rate, post 2011. Net Interprovincial migration [dark blue line] is steady and should be a dependable source of renters for the foreseeable future given the still relatively low rate of urbanisation in the Region. Rising rents will eventually be a constraint and force the Baby Boomers out into bedroom communities within a 1.5 hours' drive time of the metro area. This is already happening in some provinces. Net Inter-provincial migration [red line] is more

volatile since it is driven by employment opportunity within the CMAs and elsewhere e.g. the oil boom in Alberta attracted migrants from Atlantic Canada, a situation which rapidly reversed itself as soon as the boom turned into bust. Immigration from abroad [yellow line] is the real story. The publication of "The Report of the Nova Scotia Commission on Building our New Economy" a.k.a. "The Ivany Report" in February 2014 [*"Sunrise… Or Sunset?"* Newsletter Vol. 2 No. 99] starkly outlined the future facing that province, and by extension the remainder of the Region, if action was not taken to improve immigration from abroad. The fertility rate in Atlantic Canada had fallen to 1.50 children per female, far below the 2.10 replacement rate necessary to maintain current population levels (this assumed no net gain from immigration). The problem was particularly acute in the Region because Baby Boomers were over represented. Following publication of The Ivany Report efforts were made to increase immigration from abroad with some success (see graph) helped in part by the Syrian humanitarian crisis and bolstered by the impact of the Trump administration in the United States. The positive effect of immigration, coupled with a still increasing Baby Boomer cohort of potential renters, has fuelled an increasing apartment demand [broken green line].

The big question is whether it will be possible to maintain immigration, including non-permanent residents (primarily foreign university students and skilled foreign workers), at the same rate as the last five years. That is required to replace the Baby Boomer demand after it starts to decline in seven years' time.