

COVID-19: Population Growth and Housing Demand

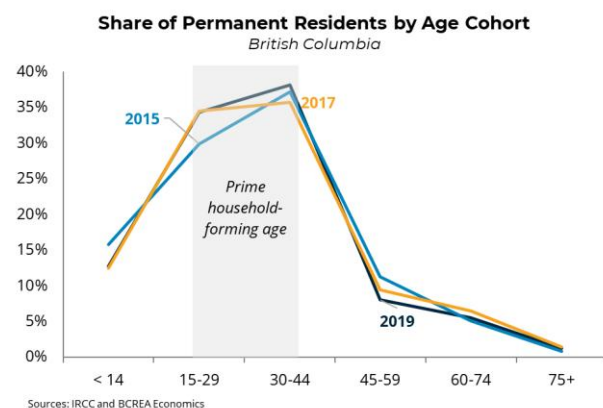
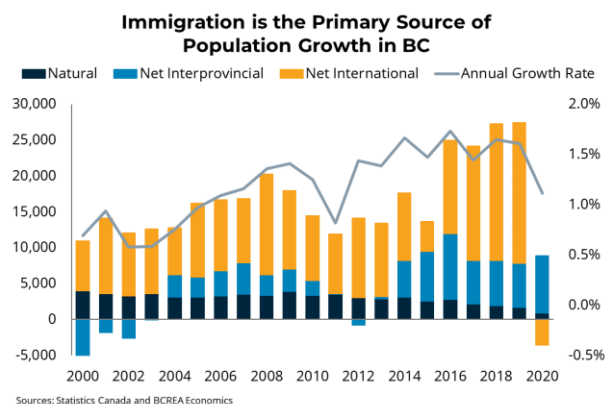
Summary Findings:

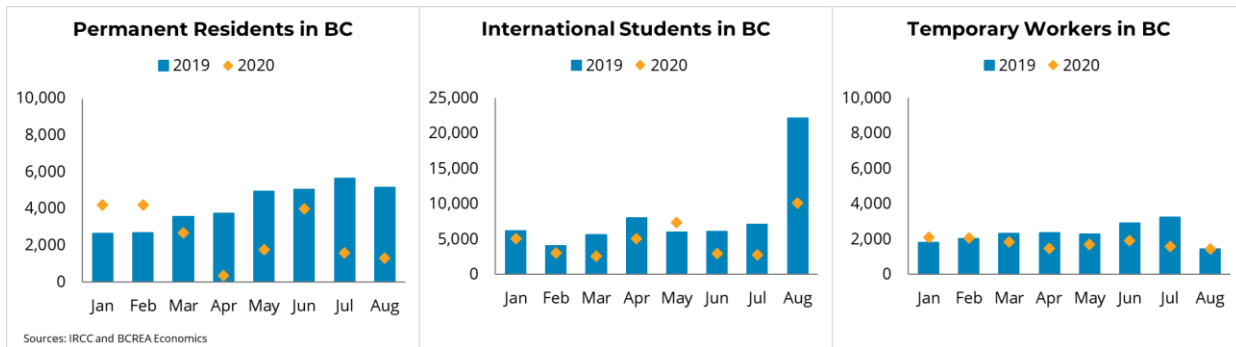
- Immigration is the most important driver of population growth in BC, with a growing share within the prime working-age and household-forming demographic.
- The global pandemic has resulted in a sharp drop in immigration and consequently BC reporting one of the lowest quarterly increases in population growth since 2011.
- In the short term, the impact of lower population growth will weigh most significantly on the rental market due to a significant reduction in international students and new permanent residents.

Introduction

While business cycle factors such as employment growth and interest rates drive housing demand in the short run, long-term demand is all about population growth and demographics. In BC, the most important contributor to population growth has been international migration (immigration). In the last five years, immigration has made up two-thirds of BC's annual population growth. Given that the natural rate of population growth (births minus deaths) has been on the decline, immigration is vital to replacing our rapidly aging population and growing the labour force. Also, immigration enriches our cities by bringing individuals with new skills, innovative ideas, and international networks.

A significant component of immigration is made up of permanent residents. About two-thirds of permanent residents are admitted into BC through the Economic category, typically comprising skilled workers and entrepreneurs. The remaining one-third are admitted through the Family and Refugee categories. About two-thirds of these permanent residents are currently within the prime working-age and household-forming demographic (25 to 44) or will be in the next 5 to 10 years.





Impact of COVID-19 on Immigration

In the second quarter of 2020, travel restrictions to contain the spread of the COVID-19 virus and delays in application processing times resulted in BC reporting one of the lowest quarterly increases in population growth since 2011.

Immigration to BC, the largest component of population growth, was the lowest in 30 years in the second quarter of 2020 due largely to a reduction in study permits. All components of immigration fell significantly in the first eight months of 2020 compared to 2019 – permanent residents (-40%), international students (-40%) and temporary workers (-23%).

Based on annual permanent resident targets set by the federal government, which range from 341,000 to 361,000 over the next three years, and the share that BC typically receives each year, the province could fall short of its permanent resident admission level by 28 per cent (-13,350). Given the low admission levels this summer compared to the same time last year, this estimate is likely on the optimistic side.

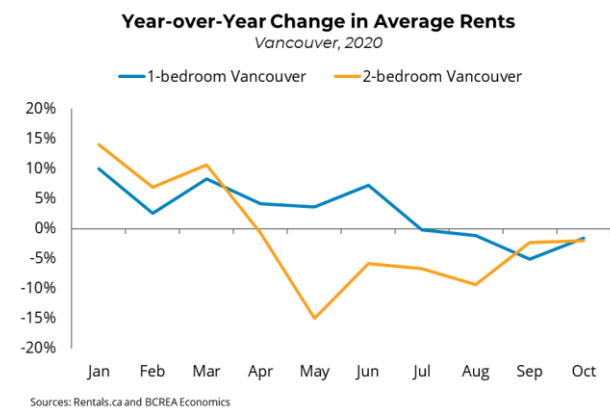
What Does This Mean for Housing Markets in the Short Term?

Rental Markets

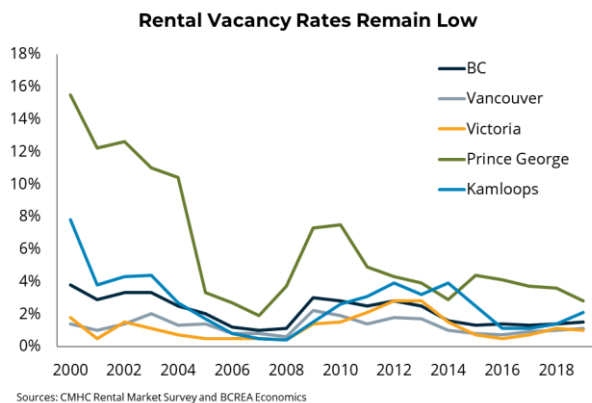
More immediately, the fall in study permits has weighed on rental markets due to travel restrictions which, with some exceptions, do not permit international

students to enter Canada. Year-to-date, study permits are down by 26,120 compared to last year, which is notable given that these students make up a considerable share of demand in the rental market. Meanwhile, new permanent residents, who are also consumers of rental housing stock, are down by 13,240 year-to-date.

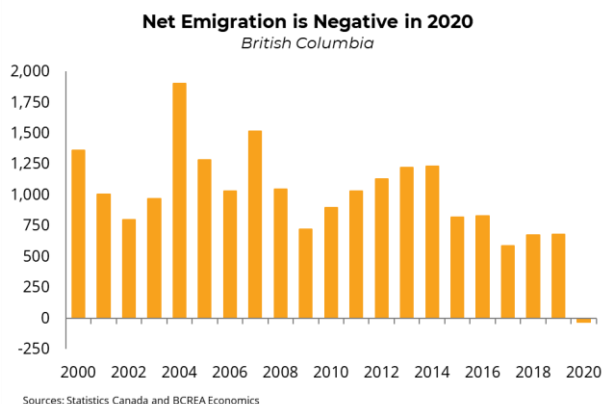
Since the start of the pandemic, average rental rates are falling in Vancouver. This trend has persisted for one-bedrooms, while two-bedrooms might be showing early signs of trending back up as people spend more time at home and demand larger units, especially since rental rates have come down.



To some limited extent, the impact of a decline in international students and permanent residents could be absorbed by existing demand. Rental vacancy rates sat at near-historic lows in many regions at the end of last year.



Moreover, due to travel restrictions, net emigration this year is negative for the first time since 1990 when data became available, as the number of returning Canadians exceeds the number of Canadians moving abroad. In other words, people are staying put. This means that housing stock has not been freed up, as would typically be the case.



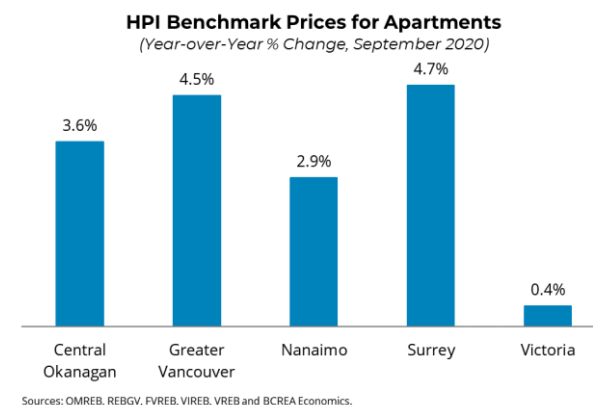
Lastly, interprovincial migration in the second quarter of 2020 increased by 29 per cent (7,940) year-over-year as residents from Ontario and Alberta moved to BC, a level of growth not seen since 2016. This could be a result of various factors such as retirement plans that have been sped up, people moving back home to ride out the pandemic, and students

¹ Statistics Canada. Table 46-10-0029-01 Property use of residential properties, by property type and residency ownership.

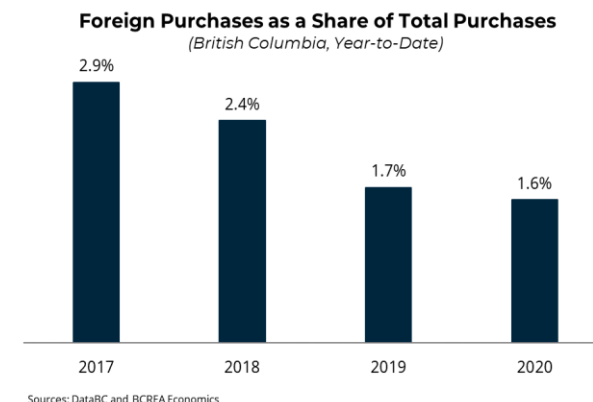
returning home given most classrooms have gone virtual.

Ownership Market

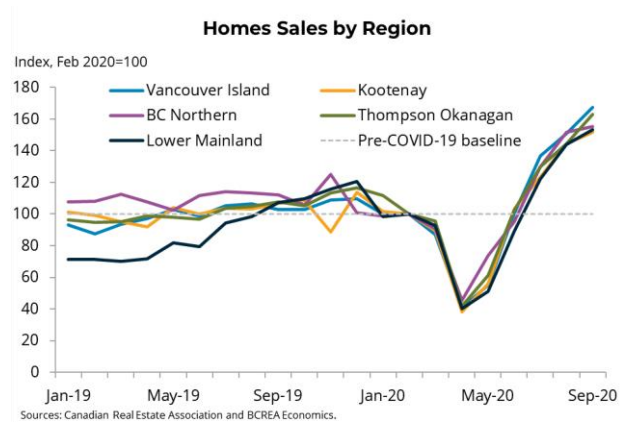
Persistent weakness in the rental market has potential spillover effects on the homeownership market, particularly for investor-owned homes. At least 40 per cent of investor-owned homes in BC are typically Vancouver apartments¹. There has been a significant increase in new apartment listings in Vancouver this year, which means investor-owned homes could be more at risk if the rental market in the region weakens. For now, apartment resale prices have been robust.



Travel restrictions have also meant fewer foreign buyers in the province, although foreign investment has been waning in recent years, with this year's number of purchases at its lowest – comprising 1.6 per cent of total BC home purchases in 2020 to date.



Despite falling immigration numbers and little activity from foreign investors, home sales have been very strong in BC. Much of the increase has been driven by pent-up demand from sales that did not occur during the spring due to containment measures, and record-low mortgage rates. The containment measures have also restricted spending, which has had the unusual effect of increasing household savings rates to a record high, fast tracking down payments.



Conclusion

Given the importance of immigration to population growth in BC, the longer that immigration remains depressed by the pandemic, the higher the eventual risk to the housing market becomes. However, there is no reason to believe that immigration will remain depressed in BC. The recent Speech from the Throne, laying out the federal government's new priorities, indicates Canada intends to increase immigration targets for 2021-2023. Also, Canada has invited 74,150 immigration candidates to apply for permanent residency this year, the highest year-to-date on record.

BC is a top destination for many people from around the world and is the second greatest recipient of immigrants to Canada. Furthermore, job growth in BC has been strong in recent years, especially in the thriving technology sector, which should make BC a continued destination for international students. Moreover, BC's relative success in handling the COVID-19 pandemic, particularly in areas outside of Metro Vancouver, may further enhance its attractiveness.

As a result, we anticipate that while the rental and investor condo markets may be challenged in the short term, an expected rebound in immigration means that demand will return when the pandemic dust settles.