



Changing demographics won't lower house prices, report says

Prices will double in next 20 years, CIBC report says

Mario Toneguzzi

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CALGARY -- Fears of a decline in future house prices sparked by demographic changes in Canada are greatly exaggerated, says a report released Wednesday by CIBC World Markets.

The report, *Much Ado About Nothing: Canadian House Prices Not Based on Demographics Alone*, says house prices in the country will double in the next 20 years.

"Despite downward pressure from demographic forces, on average, we expect house prices in Canada to double in the next 20 years," said Benjamin Tal, senior economist, CIBC World Markets. "Fears of a decline resulting from the downsizing and increased liquidations of houses by seniors and the falling number of first-time buyers are highly exaggerated."

Prices in Canada's bigger cities, however, will likely increase even more -- and at a much faster pace, he said.

"In the large cities (in Canada), they will more than double because we see that most immigrants go to large cities. We see most economic activity happening in big cities. That's the reality of the next 20 years where big cities will be the major economic engine of the country," said Tal.

The CIBC report looks at population growth between two cycles of housing prices, from 1987 to 2006, and from 2007 to 2026.

Between 2007 and 2026, the projected 167,000 net decline in the number of first-time buyers (Canadians between the ages of 25 and 44) is marginal, at best, said Tal. Since this age group is by far the largest contributor to overall housing demand, accounting for almost 68 per cent of all home sales, this relatively modest downturn will not significantly impact housing demand.

The largest decline (2.5 million) is projected for the 45 to 54 age group, as many baby boomers move to the next age bracket. The impact of this change is also expected to be limited, given that the 45 to 54 age group accounts for only 12 per cent of total housing demand. In fact, this moderate decline in housing demand will be partly offset by the strong increase in the age group 55 to 74 and its surprisingly high housing market activity -- largely reflecting purchases of vacation and investment properties.

Tal said the Canadian housing market will have extra supply of about 250,000 houses in the next 20 years but that translates into only 12,500 homes a year during that period.

And while housing market activity will fluctuate, the report projects the average house price will mirror the performance of the past two decades.

"Assuming a two-per-cent annual inflation rate, this means that house prices in Canada are expected to double by 2026," said Tal.

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