

March 4, 2026

What support for the residential market in the coming years?

By Daren King

Summary

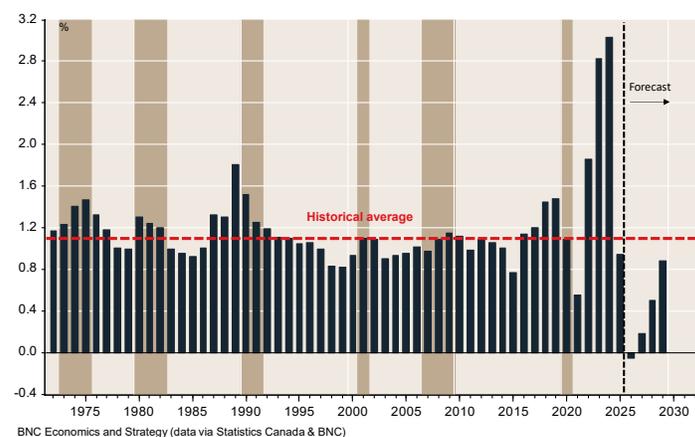
- The housing shortage in Canada is mainly the result of an unprecedented demographic shock between 2022 and 2024, a period during which the creation of households far exceeded new construction, significantly worsening housing affordability.
- Although dramatic, household formation could have been even stronger in recent years, given the increase in population. There is no denying that affordability issues and the difficult labour market, particularly for young people, have slowed household formation in recent years.
- However, our estimates suggest a pent-up demand of only 77,000 households, which is much less than the 208,000 estimated before Statistics Canada's recent revision of the number of households actually formed between 2022 and 2025. Despite the potential for this pent-up demand to be released, household formation over the next two years is likely to be the lowest on record due to the slowdown in immigration.
- The housing deficit that has accumulated since 2022 is significant, but it could gradually be absorbed by the end of the decade, given our population and household projections. However, this assumes that housing starts remaining close to their current level.
- This is where the main risk lies. The housing market is currently facing a paradoxical situation: moderation in demand is helping to improve affordability in the short term, but it is undermining the profitability of real estate projects and increasing the risk of a decline in supply, which could jeopardize a sustainable rebalancing without targeted public support.

A historic demographic brake

After recording record population growth for three years, from 2022 to 2024, Canada experienced another historic moment in the third quarter of 2025. For the first time in its history, its population declined compared to the previous quarter. This decline comes as the federal government seeks to reverse the trend of recent years by significantly reducing the number of non-permanent residents, which is expected to fall from 7.6% of the total population to 5% by the end of 2027. The Canadian population is therefore expected to decline slightly in 2026 and then essentially stagnate in 2027, which is unprecedented.

Canada: An unprecedented demographic slowdown

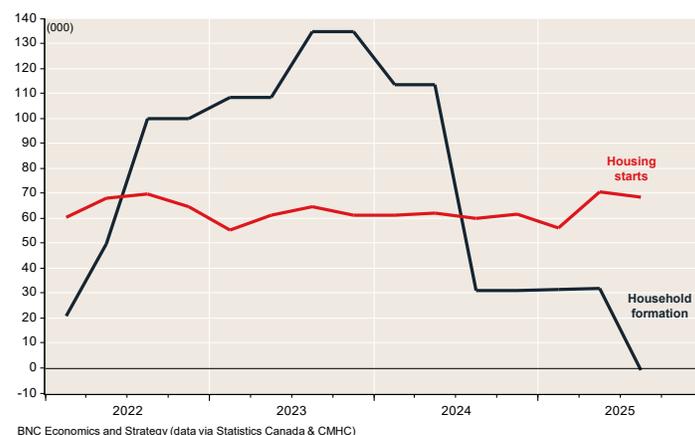
Annual population change (%)



The demographic brake imposed by Ottawa aims to ease pressure on the housing market following exceptionally rapid population growth between 2022 and 2024, which led to an increase in the number of households well beyond residential construction capacity. This dynamic contributed to amplifying the affordability crisis that the government is now trying to contain by limiting immigration. However, it is legitimate to question the impact of such a strategy on housing demand, as well as the risk that real estate developers will reduce their activities due to profitability issues. This would be an undesirable development in a context where supply is also one of the levers for mitigating the current imbalance.

Canada: What will happen to housing supply and demand?

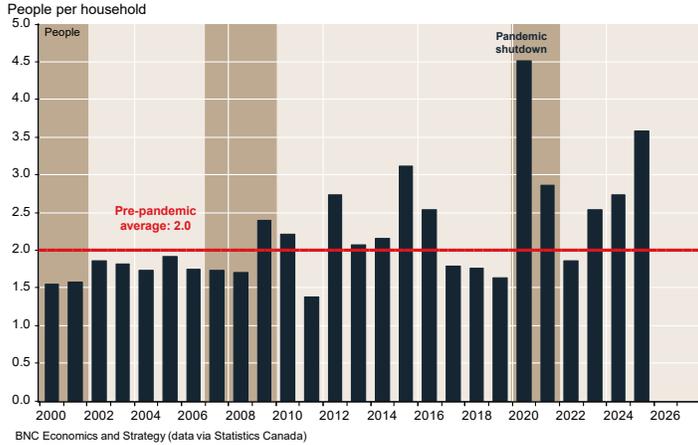
Household formation and housing starts. Quarterly



Household formation that could have been even stronger

Although spectacular, household creation could have been even stronger in recent years, given the increase in population. One way to illustrate this phenomenon is to measure the ratio of the number of people per household created. We can see that over the last three years, this ratio has been well above its historical average of 2, reaching a non-COVID peak of 3.5 people per household in 2025.

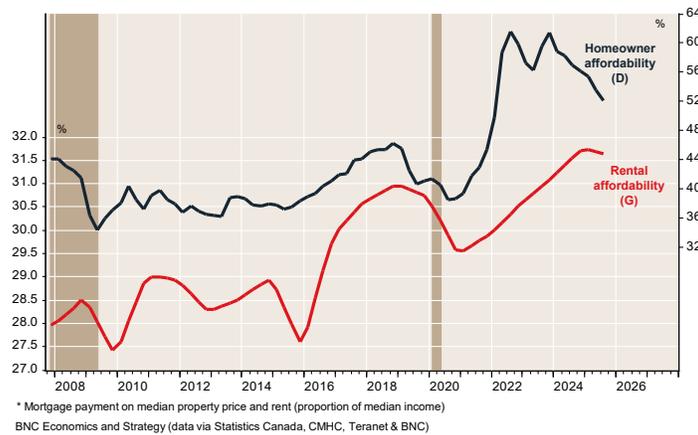
Canada: Strong demographics, households more moderate than expected



It is undeniable that affordability issues explain this abnormally high ratio. Home ownership has become much more difficult due to rising house prices and interest rates. What's more, rent increases have outpaced wage growth, which has also significantly reduced affordability for renters. As a result, young adults have extended their stay in the family home, shared accommodation has become more popular, and families have moved in together. All of these phenomena have temporarily limited demand for housing.

Canada: Housing affordability under pressure

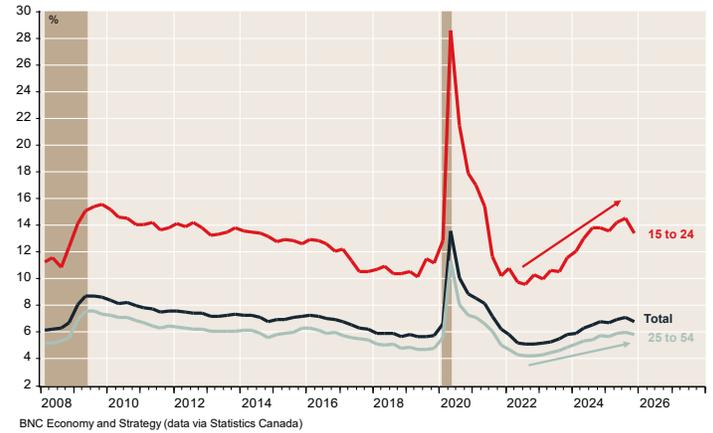
Property affordability indices* and rental housing affordability indices*



Another factor contributing to limiting household formation is the deterioration of the labour market that we have experienced in recent years, which has been particularly acute among young people. The unemployment rate rose by 5.6 percentage points among 15- to 24-year-olds between 2022 and 2025, compared with 2.3 percentage points for the population as a whole. This may have delayed the moment when young people left their parents' homes and accumulated a down payment to purchase a property.

Canada: Higher unemployment rate among young people

Unemployment rate by age group



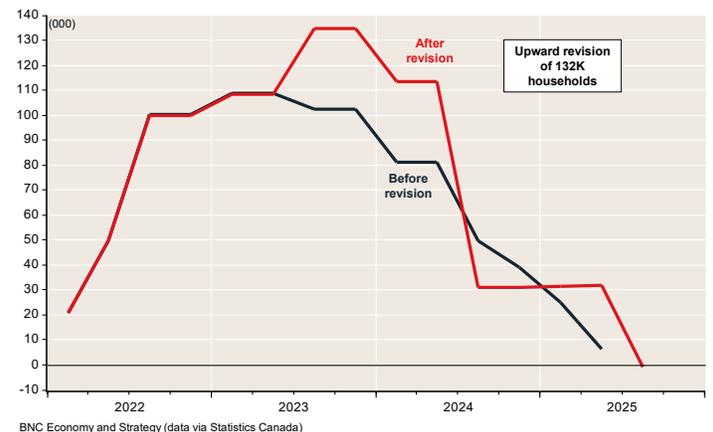
However, households that have not been formed in recent years could gradually emerge and support housing demand in the coming years, partially offsetting the slowdown in immigration. Affordability improved for the eighth consecutive quarter ([link](#)) in Q4 2025 and is expected to continue to grow in the coming quarters. For its part, the labour market is showing signs of stabilisation and our baseline scenario forecasts an improvement in conditions in the coming quarters, subject to a de-escalation of trade tensions with the United States ([link](#)).

Is pent-up demand for housing a significant factor?

To what extent will this potential pent-up demand offset weak population growth between now and 2027? Our findings have changed significantly in recent months with regard to the extent of pent-up household demand. In January, we were surprised by an upward revision of household formation in Canada in recent years. Prior to this revision, Statistics Canada estimated that 976,000 households had been added to the country between early 2022 and mid-2025, compared to 1,108,000 after revision, representing an underestimation of 132,000 households. This upward revision means that pressure on the real estate market in recent years has been greater than initially estimated, but also that latent demand for housing that could unfold in the coming years would be less than expected. It is therefore worth questioning the materiality of this potential support.

Canada: Household formation higher than initially estimated

Household creation before and after revision. Quarterly

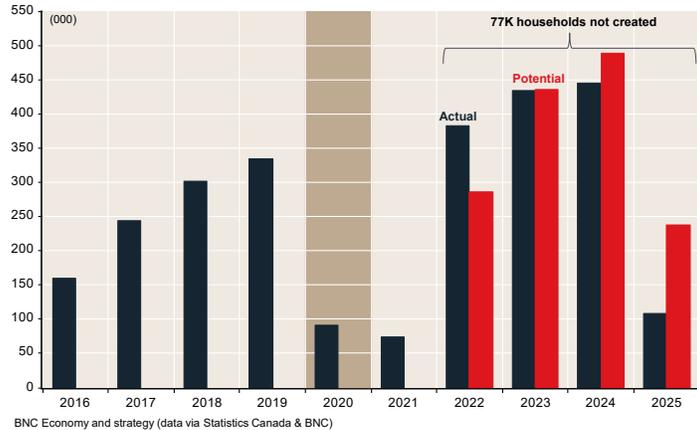


To estimate pent-up demand for housing, we assessed the number of households that would have been created since 2021 under normal conditions. To do this, we used household support rates, i.e., the ratio

of the number of households to the population, by age group and province, as observed in the 2021 census. By keeping these rates constant and allowing the population to evolve as it actually did, we obtain the evolution of the number of potential households over the period. Our results show that household formation in 2022 was stronger than potential but was consistently weaker during the following three years. In total, we therefore estimate that there were 77,000 fewer households than expected during this period, constituting our pent-up demand for housing that could unfold in the coming years.

Canada: A shortfall in household formation

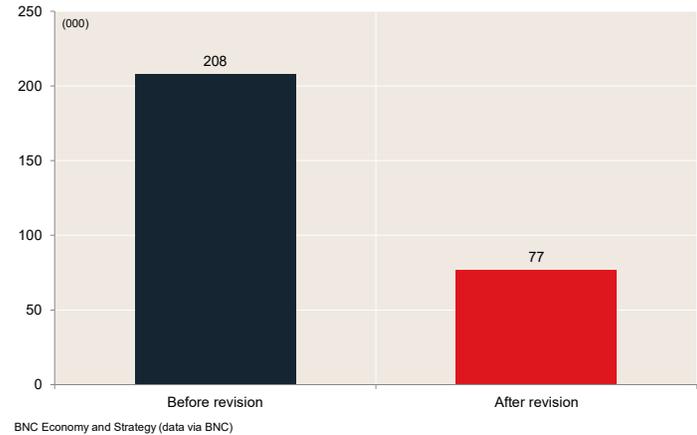
Actual and potential household formation



This pent-up demand of 77,000 households is much lower than the 208,000 households we initially estimated before the data revision. While we were reassured by the potential support of this significant housing demand before the revisions, our new estimate makes us more concerned about total housing demand in the coming years.

Canada: Much weaker potential household formation

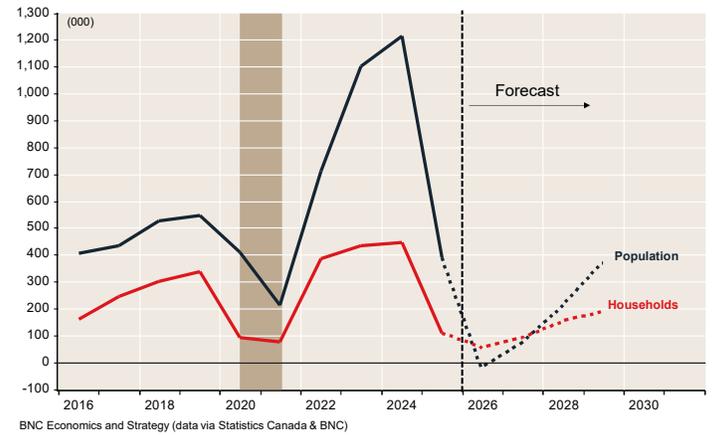
Potential household formation before and after revision



Assuming that pent-up demand for housing in Canada will unfold evenly over the next three years, household formation could be as low as 50,000 in 2026 and 90,000 in 2027, the lowest rates ever recorded over a two-year period. A rebound to 150,000 would occur in 2028.

Canada: Low but still growing household formation

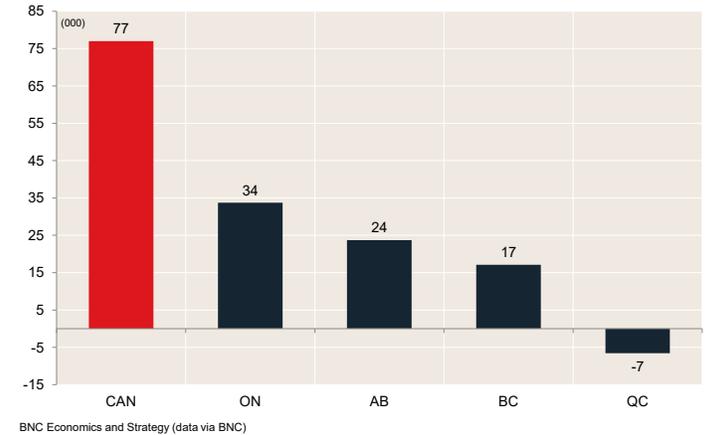
Annual change in population and households. Historical data and projections BNC



At the regional level, however, pent-up demand for housing is not distributed proportionally across the country. It is mainly concentrated in Alberta (11% of Canadian households vs. 31% of pent-up demand), British Columbia (14% vs. 22%), and Ontario (37% vs. 44%). Conversely, household formation in Quebec since 2022 has been essentially in line with potential household formation, meaning that we estimate no pent-up demand for housing in this province.

Canada: Perspective on latent demand for housing

Distribution of latent demand for housing by province



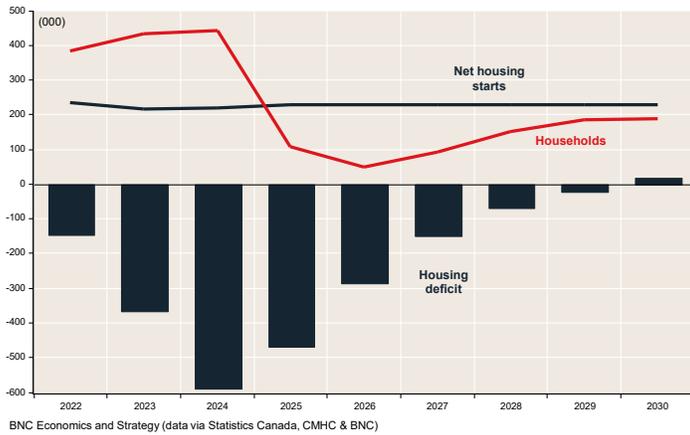
Towards a rebalancing of supply and demand?

Regarding the housing shortage, as mentioned earlier, household formation was consistently higher than net housing starts (housing starts minus a 10% housing destruction rate) between 2022 and 2024. According to our calculations, this represents a shortfall of approximately 590,000 homes. In 2025, changes to immigration policy led to a reduction in household formation. Combined with resilient housing starts, this helped to reduce the housing deficit, which nevertheless remained high at around 470,000.

According to our estimates, assuming that the pace of housing starts remains stable at its 2025 level, the national housing shortage could be resolved within three years. The federal government has repeatedly stated its intention to double the level of housing starts by 2030. In our view, even maintaining the current pace of housing construction will prove to be a significant challenge.

Canada: A housing shortage that could gradually improve

Household formation, net housing starts, and cumulative housing deficit

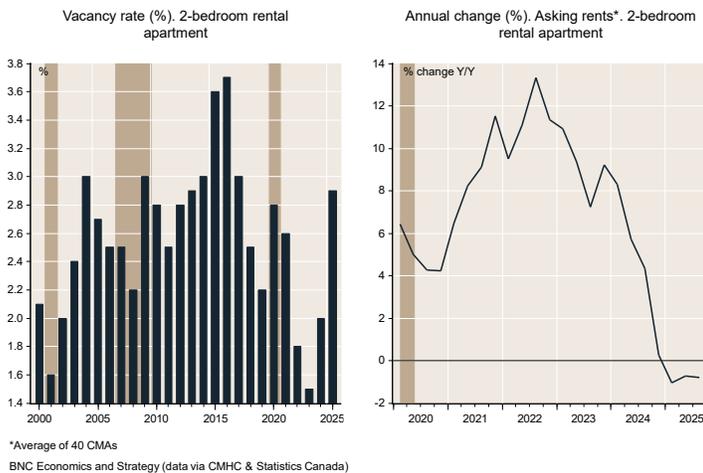


Building in turbulent times

While the rapid and significant decline in immigration is helping to moderate demand for housing, this major policy change also poses a challenge for real estate developers. For the reduction in demand to translate into improved affordability, it is essential that the supply of housing does not decline. However, there is a real risk that housing construction will slow down.

Since a large proportion of non-permanent residents are renters, the rental sector is the first to be impacted by current government policy. After reaching a historic low in previous years, the vacancy rate for rental housing in Canada experienced its largest annual increase ever in 2025 with the reduction in the number of non-permanent residents. As a result, market rents have been declining for several months, even though rents for units with no change in tenants continue to rise. For real estate developers, lower rents and slower sales of their units pose an additional challenge to the financial sustainability of the projects they wish to develop.

Canada: Relaxation of rental regulations, a challenge for builders

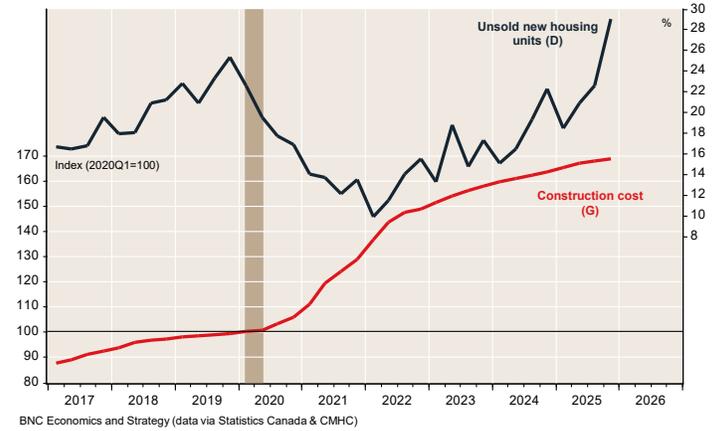


Furthermore, this is occurring in a context of high geopolitical uncertainty, which is weighing not only on builders but also on buyers. Although the resale market remains favourable to sellers in most Canadian provinces, conditions have nevertheless eased over the past year and have even shifted into very "favourable to buyers" territory in Ontario and British Columbia ([link](#)). As a result, the proportion of unsold new homes intended for owner-occupiers or condominiums is at its highest level since 1996, with the inventory of unsold new homes after completion now reaching its highest level ever recorded. At the

same time, developers are also facing a nearly 70% surge in residential construction costs since the pandemic and long-term financing costs that have improved only marginally despite the Bank of Canada's policy rate cuts in recent quarters.

Canada: High construction costs and difficulties in selling

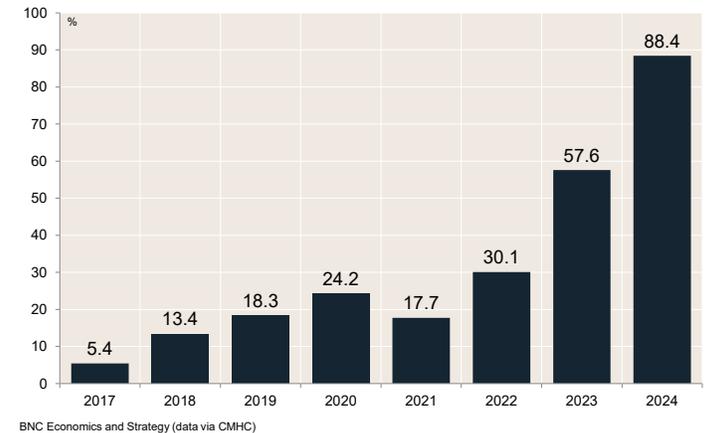
Proportion of unsold new housing units upon completion and residential construction costs



The Canadian real estate market is therefore in a paradoxical situation. All other things being equal, the decline in immigration is helping to improve affordability. However, the resulting softening of the housing market is hurting the profitability of construction projects and could even jeopardize certain players in the sector. In the event of a decline in housing supply, the government will therefore have to put in place appropriate incentives to avoid such a vicious cycle. We note that numerous initiatives have already been implemented in recent years by various levels of government to support housing supply, including various CMHC programs used in 88% of new rental housing, GST rebates for the construction of new rental housing, and the Housing Acceleration Fund, among others. We do not rule out the need to recalibrate initiatives to ensure that housing supply is met.

Canada: Government support needed to maintain momentum

Percentage (%) of rental housing starts using a CMHC program



Conclusion

The current housing shortage in Canada is mainly the result of an unprecedented demographic shock between 2022 and 2024, a period during which household formation far exceeded new construction, significantly worsening affordability. Although dramatic, household formation could have been even stronger in recent years, given the increase in population. It turns out that affordability issues and the difficult labour market, particularly for young people, have temporarily slowed household formation. However, our estimates suggest pent-up



demand of only 77,000 households, much less than the 208,000 estimated before Statistics Canada's recent revision of the number of households actually formed between 2022 and 2025. In this context, even if this pent-up demand were to materialize gradually, household formation in 2026 and 2027 is expected to remain below 100,000 per year, before gradually converging toward a more normal pace of around 200,000 per year. At the same time, the housing deficit that has accumulated since 2022 could therefore be gradually absorbed by the end of the decade, based on our projections, provided that the current pace of housing starts is maintained. However, this is where the main risk lies. The housing market is currently facing a paradoxical situation: moderating demand is helping to improve affordability in the short term, but it is undermining the profitability of real estate projects and increasing the risk of a decline in supply, which could jeopardize a sustainable rebalancing without targeted public support.



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