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DATE: February 7, 2006

TO: Chair and Members of Planning and Development Committee
Meeting Date: February 27, 2006

FROM: Edward R. Sajecki
Commissioner of Planning and Building

SUBJECT: **“Economic Influences on Population Growth and Housing Demand in the Greater Golden Horseshoe” - Neptis Foundation Report**

RECOMMENDATION: That the report titled *“Economic Influences on Population Growth and Housing Demand in the Greater Golden Horseshoe” - Neptis Foundation Report* dated February 7, 2006 from the Commissioner of Planning and Building, be received.

BACKGROUND: Neptis Foundation

Neptis is an independent foundation based in Toronto that undertakes research on urban regions. It is particularly interested in how regions use land, build their environments and their modes of transportation. The mission of Neptis is to improve the quality of debate and decisions on regional urbanism by initiating, supporting and publishing research by leading academics and other experts.

In January 2006, Neptis released the study *“Economic Influences on Population Growth and Housing Demand in the Greater Golden Horseshoe”* by Will Dunning Inc. Will Dunning is an economist, formerly with Canada Housing and Mortgage and N. Barry Lyon Consultants Limited.

The projections by Will Dunning Inc. for the Neptis Foundation provide another perspective on growth in the Greater Golden Horseshoe (GGH) from previous projections such as the “*Toronto-Related Region Futures Study*” prepared by the IBI Group for Neptis in 2002 and the more recent projections titled “*Growth Outlook for the Greater Golden Horseshoe*” by Hemson Consulting Limited prepared for the Province of Ontario in January 2005.

Study Highlights

Some highlights from the study “*Economic Influences on Population Growth and Housing Demand in the Greater Golden Horseshoe*” are as follows:

- A review of data related to starts and housing sales suggests that the housing market peaked in 2003 and a period of decline is starting;
- A number of unusual circumstances combined in the late 1990s to produce the GTA’s strong economic expansion (e.g., recovering from the harsh recession of the early 1990s, low interest rates, strong stock market, high U.S. dollar making the Canadian export industry very competitive, strong construction industry and strong consumer spending). Signs are emerging that these factors are changing and continued economic expansion cannot be sustained;
- Employment growth in the Greater Toronto Area (GTA) which was strong during the late 1990s and peaked in 2001 is slowing due to factors such as the weakening U.S. dollar, rising interest rates and the baby boomers entering their retirement years;
- The declining rate of employment growth, coupled with a flat-lining of housing affordability means that the housing market will slow down;
- International immigration is linked to employment growth and will decline as the economy slows. Similarly, migration from other regions of the country or province is also linked to strong economic performance but also to the cost of housing. High house prices discourage migration for other parts of Ontario and Canada;

- The cost of housing in the GGH's Inner Ring, composed of the GTA and Hamilton, will increasingly encourage people to move to the Outer Ring¹. The Inner Ring will decline in the share of growth from 70% to 60% if house prices remain at current levels;
- The population of the GGH will increase from 7.88 million in 2001 to 10.48 million in 2031. This represents an average annual growth of 86,700 people, however, the rate of growth will be stronger to 2011 (109,600 people per year) and then decline between 2021 and 2031 (62,000 people per year). The decrease in growth after 2011 is attributed to the aging of the population and the impact of increased mortality rates coupled with some retired households moving out of the GGH;
- The rate of household formation will decline and household size will decrease from 2.80 persons per household in 2001 to 2.53 persons in 2031. This will affect housing demand and, in turn, housing starts. Annual housing starts between 2001 and 2011 are projected to be 54,800 units and then decline to 32,400 units between 2001 and 2031. If housing costs and interest rates are high, the demand for apartments will be high relative to the demand for detached houses;
- Assuming the cost of housing remains constant over the projection period, there will be a demand for 1.34 million housing units throughout the GGH. The demand by type will be detached 57%, semi-detached 8.5%, townhouses 14.5% and apartments 20.0%. Given that interest rates are at the lowest level in a generation, housing affordability is likely to deteriorate over the projection. As such, the projection for detached units is considered a maximum scenario. Other factors such as changing tastes and the creation of new housing types, will affect the mix of housing units. Further, the mix will vary by area with a higher percentage of apartments expected for municipalities in the Inner Ring; and
- The aging of the population will mean slower economic growth and a lower labour force participation rate, which cannot be

¹ The Outer Ring is composed of the Regional Municipalities of Niagara and Waterloo; the counties of Brant, Dufferin, Haldimand-Norfolk, Northumberland, Peterborough, Simcoe and Wellington, together with their associated cities; and the City of Kawartha Lakes.

countered by migration from other regions of the country, as they will be experiencing the same aging trends. Changes to the labour force participation rate would require extraordinary changes to retirement patterns, which are considered unlikely. However, increased international migration of working age adults may alleviate the decline.

Comparisons to Other Forecasts

When compared to the “*Growth Outlook for the Greater Golden Horseshoe*” prepared by Hemson Consulting Limited for the Ontario government and previous projections for the Neptis Foundation by the IBI Group titled “*Toronto-related Region Futures Study*”, the projections by Will Dunning Inc. for the Neptis Foundation are considerably lower. These differences are due to differing assumptions about migration and employment growth. Dunning’s assumptions regarding sustained robust employment growth rates are lower than those of the Hemson and IBI projections. The reason Dunning is less optimistic about future employment growth is due to the aging of the population and the subsequent decline in migration to the GGH. While Hemson also recognizes the aging of the population, they suggest that persons retiring create employment opportunities that would be attractive to migrants.

The Dunning projections were prepared for the 16 census divisions that comprise the GGH. As such, projections for the Region of Peel are provided but forecasts for the City of Mississauga are not available. Appendix 1 compares the Dunning population forecasts to the forecasts prepared by Hemson.

The Dunning population forecast is approximately 1.02 million persons less than the Hemson forecast for the GGH in 2031. Specifically, it is the Inner Ring that Dunning predicts will not achieve as much growth while the Outer Ring is forecast to grow slightly more than predicted by Hemson. Similarly, the household and employment forecasts are lower in the Dunning forecasts than the Hemson forecasts for the Inner Ring and somewhat higher for the Outer Ring.

However, Dunning expects more growth in the Region of Peel than does Hemson. All other areas with the Inner Ring are projected to receive less growth in the Dunning forecasts.

Dunning's projection for Peel is a population of almost 2 million, 680,000 households and over 1 million jobs, whereas Hemson projected 1.6 million people, 540,000 households and 870,000 jobs. Because Dunning does not provide sub-regional forecasts, it is not known which areas of Peel that Dunning expects to grow more strongly than does Hemson.

COMMENTS:

Growth forecasting is not a precise science and is heavily dependent on a series of assumptions related to factors regarding economic conditions and demographic trends. Minor variations in assumptions can result in large variations to the forecasts, particularly when applied to a large area over an extended time period. As such, growth forecasts prepared by different experts could vary. Dialogue on the assumptions used in the preparation of growth projections contributes to a better understanding of the factors affecting growth and provides insight to the range and timing of growth that might occur.

Various interest groups may favour one set of growth forecasts over another. For example, the development industry which has an interest in ensuring good land availability would generally be expected to support higher projections of growth, whereas environmental groups interested in protecting natural areas would tend to favour lower projections of growth.

Growth forecasts are fundamental to planning and policy decisions by various levels of government. Governments have multiple interests which include supporting policy decisions that result in an appropriate supply and cost of housing and the protection of the environment. Growth forecasts are a major determinant in infrastructure investment – both the amount and type of infrastructure required as well as the location of the infrastructure investment. Governments must plan for hard and soft services needed to support growth while maintaining financially sustainable budgets. It is in the best interest of government to neither over or under project growth.

Because forecasting growth is a difficult task and the variables that affect growth are constantly changing, frequent updates and monitoring of growth projections is required. The City of Mississauga regularly updates its growth forecasts to ensure that the best predictions of growth are available to inform key policy and investment decisions.

Mississauga first retained Hemson Consulting Ltd. in the early 1990s to prepare population, housing and employment projections for the City. Hemson has also been retained by the Province of Ontario and numerous other municipalities and is highly regarded for their expertise in the discipline of growth forecasting. The Province has indicated that it will proceed with the proposed growth plan based on the Hemson forecasts.

FINANCIAL IMPACT: Not applicable.

CONCLUSION: The most recent growth forecasts prepared by Hemson for the City of Mississauga were adopted by City Council on January 18, 2006. These forecasts are consistent with the projections used by the Province of Ontario in the "*Proposed Growth Plan for the Greater Golden Horseshoe*" (November 2005), are a reasonable estimate of future growth and should continue to be used for planning and budgeting purposes.

ATTACHMENT: Appendix 1: A Comparison of the Dunning and Hemson Growth Forecasts

Original Signed By:

Edward R. Sajecki
Commissioner of Planning and Building

A Comparison of the Dunning and Hemson Growth Forecasts

Table 1						
Comparison of the Dunning and Hemson Population Growth:						
Inner Ring, Outer Ring and GGH						
<i>(thousands)</i>						
	Inner Ring		Outer Ring		GGH	
Period	Dunning	Hemson	Dunning	Hemson	Dunning	Hemson
2001-11	763	1,050	333	250	1,096	1,300
2011-21	582	920	304	330	886	1,250
2021-31	379	840	241	320	620	1,160
Total Growth	1,725	2,810	878	900	2,602	3,710
Difference <i>(Dunning – Hemson)</i>	-1,085		-22		-1,108	
Total Population In 2031	7,560	8,620	2,921	2,880	10,481	11,500
Difference <i>(Dunning – Hemson)</i>	-1,060		+41		-1,019	

Table 2						
Comparison of the Dunning and Hemson Household Growth:						
Inner Ring, Outer Ring and GGH						
<i>(thousands)</i>						
	Inner Ring		Outer Ring		GGH	
Period	Dunning	Hemson	Dunning	Hemson	Dunning	Hemson
2001-11	360	460	188	140	548	600
2011-21	289	430	178	170	467	600
2021-31	187	370	136	140	324	510
Total Growth	835	1,260	502	450	1,338	1,710
Difference <i>(Dunning – Hemson)</i>	-424		+52		-372	
Total Households In 2031	2,883	3,230	1,265	1,160	4,148	4,390
Difference <i>(Dunning – Hemson)</i>	-347		+105		-242	

Table 3						
Comparison of the Dunning and Hemson Employment Growth:						
Inner Ring, Outer Ring and GGH						
<i>(thousands)</i>						
	Inner Ring		Outer Ring		GGH	
Period	Dunning	Hemson	Dunning	Hemson	Dunning	Hemson
2001-11	443	690	197	140	640	830
2011-21	206	400	108	120	315	520
2021-31	45	290	43	110	88	400
Total Growth	695	1,380	348	370	1,043	1,750
Difference <i>(Dunning – Hemson)</i>	-685		-22		-707	
Total Employment In 2031	3,720	4,320	1,390	1,240	5,110	5,560
Difference <i>(Dunning – Hemson)</i>	-600		+150		-450	

Table 4
Comparison of the Dunning and Hemson Growth Forecasts:
Region of Peel
(thousands)

Period	Population		Households		Employment	
	Dunning	Hemson	Dunning	Hemson	Dunning	Hemson
2001-11	309	290	123	100	172	200
2011-21	304	170	122	70	144	90
2021-31	284	150	110	60	117	50
Total Growth	898	610	355	230	433	340
Difference <i>(Dunning – Hemson)</i>	+292		+119		+101	
Total In 2031	1,954	1,640	680	540	1,010	870
Difference <i>(Dunning – Hemson)</i>	+318		+136		+143	

Table 5
Comparison of the Dunning and Hemson 2031 Growth Forecasts:
GTA-H – Compact Reference Scenario
(thousands)

Period	Population		Households		Employment	
	Dunning	Hemson	Dunning	Hemson	Dunning	Hemson
Durham	828	960	325	350	410	350
Halton	550	780	221	300	285	390
Peel	1,954	1,640	680	540	1,011	870
Toronto	2,235	3,080	912	1,270	1,037	1,640
York	1,449	1,500	510	500	734	780
Hamilton	544	660	234	270	242	300

Sources:

“Economic Influences on Population Growth and Housing Demand in the Greater Golden Horseshoe” January 2006, Will Dunning Inc. for the Neptis Foundation

“The Growth Outlook for the Greater Golden Horseshoe” January 2005, by Hemson Consulting Limited for the Ontario Ministry of Public Infrastructure Renewal