2 Reasons Millennials Will Shape the Housing Market in the 2020s

Description

The ballooning cost of housing has put renewed focus on the plight of young professionals, especially those who live in big cities. Millennials are frequently referenced as a disadvantaged demographics when we talk about the Canadian housing market. There may be some truth to this perception in the present day, but the country will be leaning on millennials to drive the housing market throughout the 2020s and likely beyond.

Let's go over three reasons millennials will shape the fate of the Canadian housing market over the next decade.

A push for new policy

Housing affordability emerged as a hot-button issue in the Ontario provincial election and the Toronto mayoral election and will undoubtedly be a big focus in the 2019 federal election. Finance Minister Bill Morneau expanded on this in a recent speech to business leaders.

"The middle part — the big middle part — is the affordable housing for millennials," Morneau said. "That's a real challenge and there's multiple things we're looking at in order to think about how we can help in that regard." Unfortunately, the commitments have been light on specifics.

This past summer, I'd discussed efforts by the CMHC to loosen lending restrictions on self-employed Canadians. Millennials make up the largest demographics in the Canadian workforce. A recent McMaster University study polling more than 1,000 Canadian millennials found that 44% reported job precarity. Policy will need to adapt to these new conditions in order to give millennials greater access to the housing market.

The economy depends on it

In a report released in late 2018, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) projected that a dip in housing activity would be a drag on Canadian economic growth. CIBC economists noted that residential investment accounts for 7.5% of Canada's economy. The share of Canadians employed in construction and real estate is also close to a record high. Trouble for the Canadian housing market means big trouble for the broader economy.

CIBC has consistently boasted one of the best-performing mortgage portfolios over the past decade. In Q4 2018, CIBC saw its mortgage balances increase 0.5% year over year to $202 billion. This was down from a $203 billion balance in Q3 2018. This represented the slowest mortgage growth in five years.

CIBC stock has climbed 10% in 2019 as of close on February 14. However, the stock is still down 3.2% year over year.

In its report, CIBC predicted that the housing rebound had run its course, and that we would see a slow year in 2019. The report cited the negative impact of rising interest rates, but there are signs that the Bank of Canada will commit to a dovish path this year. Major banks have already started dropping five-year mortgage rates partly in preparation for more activity in the spring season.

As millennials mature in the job market and see their purchasing power increase, they will be relied upon to carry a heavy load in this crucial market.

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