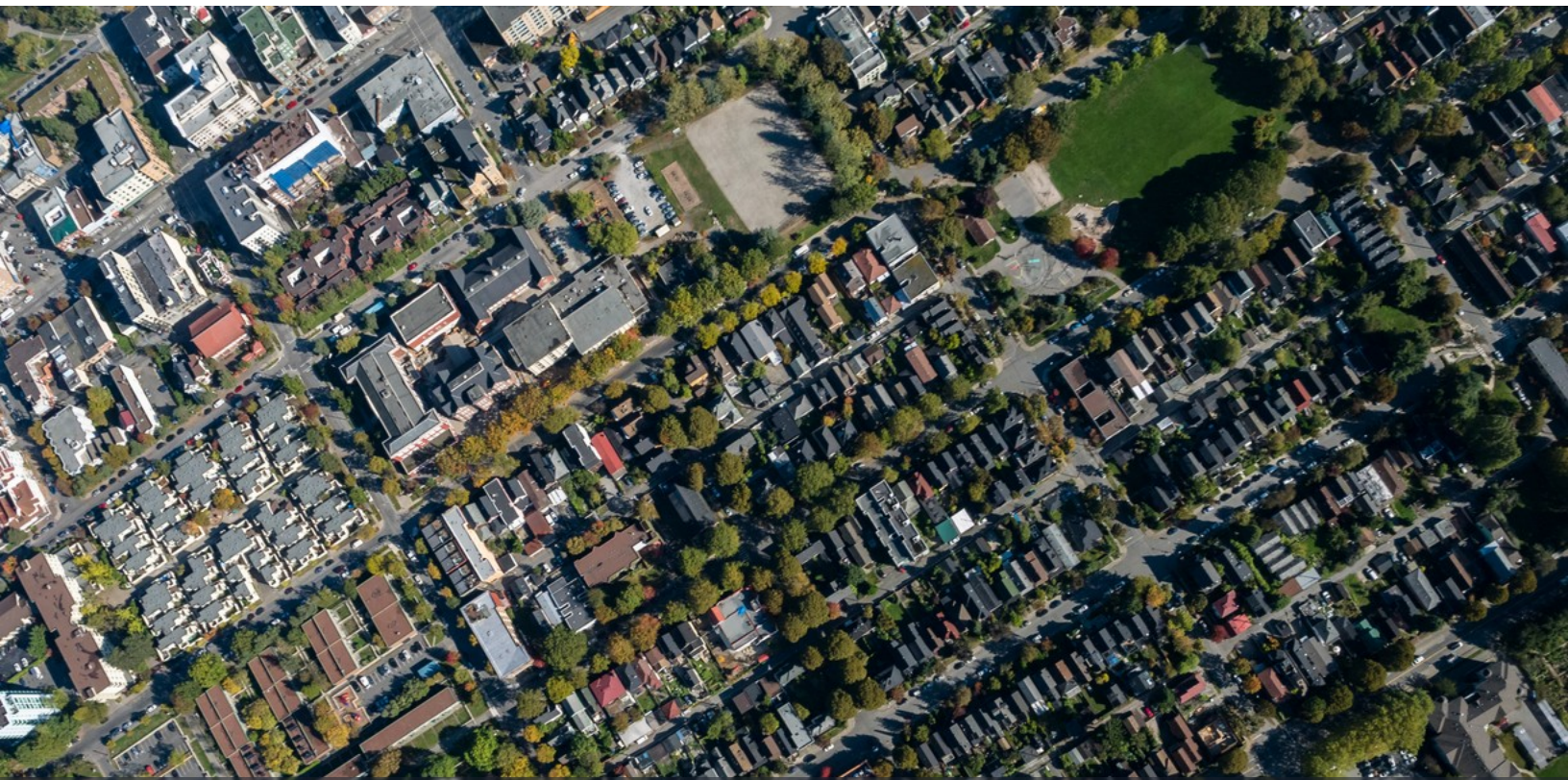


August 26, 2025



Household Formation and the Housing Stock: Estimating the Housing Gap in 2035



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides projections of household formation and the housing stock in Canada over the next ten years. The report also provides an estimate of the housing gap in 2035 at the national level based on the total vacancy rate.

Lead analyst:

Caroline Nicol, Advisor-Analyst

Prepared under the direction of:

Chris Matier, Senior Advisor

Nathalie Desmarais, Marie-Eve Hamel Laberge, Martine Perreault and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please [contact the Office of the Parliamentary Budget Officer](#).

Yves Giroux

Parliamentary Budget Officer

Table of Contents

Highlights.....	1
Summary	2
Introduction	5
Household formation.....	6
Suppressed household formation	7
Housing stock	8
Estimating the number of housing units	8
Projecting the housing stock.....	8
Vacancy rate	9
Housing gap in 2035.....	11
Comparison with CMHC's housing supply gap.....	13
Notes	15

Highlights

After reaching a historical high of 482,000 net new households in 2024, the Parliamentary Budget Officer (PBO) projects that household formation will decline sharply in 2025 and 2026 and will remain below its historical average of 176,000 until 2030, reflecting policy changes made in 2024 by the Government to reduce immigration.

PBO projects that net housing completions will remain elevated over the next 3 years but will then converge toward historical average levels as lower immigration dampens demographic demand. Under its baseline outlook, PBO projects that 2.5 million units will be added to Canada's housing stock by 2035, which is equivalent to 227,000 net new units completed annually over 2025 to 2035.

PBO estimates that 690,000 additional units—65,000 annually, on average, over 2025 to 2035—would need to be completed by 2035 to eliminate the housing gap in Canada, beyond the 2.5 million net completions projected in the baseline outlook over the same period.

Closing the housing gap in Canada would require a total of 3.2 million net new housing units by 2035, which translates into 290,000 total units completed annually, on average, over 2025 to 2035. This pace of housing construction would be equivalent to outperforming the record high of 276,000 units completed in 2024 for 11 consecutive years.

Summary

This report provides projections of household formation and the housing stock in Canada over the next ten years. The report also provides an estimate of the housing gap in 2035 at the national level based on the total vacancy rate. The scope of this report is limited to assessing the housing imbalance at the national level, which can mask important variations across regions.

Household formation and the housing stock

After reaching a historical high of 482,000 net new households in 2024, we project that household formation will decline sharply in 2025 and 2026 and will remain below its historical average of 176,000 until 2030, reflecting policy changes made in 2024 by the Government to reduce immigration.

In addition to our demographic-based outlook for household formation, our measure of demand for housing units includes suppressed household formation—that is, the projected number of additional households that would be formed if attainable housing options existed. Under our baseline outlook, we project that suppressed household formation will reach 714,000 by 2035.

Our updated outlook for net housing completions and the housing stock reflects long-term economic and demographic trends and does not include recent policy commitments by the Government to double the rate of housing construction in Canada.

We project that net housing completions will remain elevated over the next 3 years, averaging 256,000 units, but will then converge toward historical average levels as lower immigration dampens demographic demand. Under our baseline outlook, we project that 2.5 million units will be added to Canada's housing stock by 2035, which is equivalent to 227,000 net new units completed annually over 2025 to 2035.

Housing gap in 2035

At the national level, we define the housing gap as the number of additional units that would be required to return the total vacancy rate to its long-term historical average by 2035, accounting for suppressed household formation. That is, the number of additional net housing completions that are required to eliminate: any excess demographic

demand and suppressed household formation; and any remaining gap between the total vacancy rate and its average level observed over 2000 to 2019.

Relative to our baseline outlook, we estimate that 690,000 additional units—65,000 annually, on average, over 2025 to 2035—would need to be completed by 2035 to eliminate the housing gap in Canada, beyond the 2.5 million net completions projected in our baseline outlook over the same period (Summary Table 1).

Summary Table 1

Baseline net housing completions and estimated housing gap

	Number of housing units
Excess demographic demand*	-272,000
Suppressed household formation	714,000
Return to average vacancy rate	248,000
Housing gap in 2035	690,000
Baseline net completions, 2025-2035	2,498,000
Total net housing completions required, baseline and housing gap, 2025-2035	3,188,000

Source:

Office of the Parliamentary Budget Officer.

Note:

* Excess demographic demand is calculated as the projected cumulative difference between demographic-based household formation and net housing completions over 2022 to 2035.

Combined with our baseline outlook, closing the housing gap in Canada would require a total of 3.2 million net new housing units by 2035, which translates into 290,000 total units completed annually, on average, over 2025 to 2035. This pace of housing construction would be equivalent to outperforming the record high of 276,000 units completed in 2024 for 11 consecutive years.

In its [June 2025 report on housing supply shortages](#), Canada Mortgage and Housing Corporation (CMHC) estimated a housing supply gap in Canada of 2.6 million units. CMHC's housing gap represents the additional units (above its business-as-usual scenario) that would be required to restore housing affordability by 2035. Under its Business-as-usual scenario, CMHC projected that 2.7 million units would be completed over 2025 to 2035, which is equivalent to 245,000 net housing completions per year on average.

Combining baseline projections for net housing completions and housing gap estimates, CMHC's recent analysis indicates that a total of 5.3 million new units will be required over 2025 to 2035 (478,000 net completions per year on average)—well above PBO's estimate of 3.2 million units (290,000 net completions per year on average) over the same period.

The stark difference between our estimates of the number of housing units required by 2035 primarily reflects the additional supply in CMHC's framework necessary to reduce house prices and achieve targeted levels of housing affordability. Even after accounting for increased household formation from lower house prices, reaching CMHC's targeted levels of affordability would require significant overbuilding of new housing units such that there would be abnormally high levels of unoccupied housing units and or households with second homes.

Introduction

This report updates and extends PBO's April 2024 report [Household Formation and the Housing Stock](#) to include projections of household formation and the housing stock in Canada over the next ten years to 2035.¹ The report also provides an estimate of the housing gap in Canada at the national level—that is, the projected number of additional housing units required to balance the demand and supply of housing units by 2035 based on the total vacancy rate.

In addition to incorporating more recent data, we have also made methodological improvements² to our projection of the housing stock and to our estimate of suppressed household formation, that is, the number of new households that “would have been formed but are not due to a lack of attainable options”.³

Consistent with our previous analysis, we adopt a “demographic” approach to assess Canada's housing gap. By construction, this approach considers the supply of housing units relative to the demand for private dwellings, or “housing need”.⁴ In addition to demographic demand, we incorporate demand from suppressed household formation and assess the imbalance in the housing market based on the total vacancy rate.⁵ The total vacancy rate represents the number of vacant units to purchase or rent⁶ (including unoccupied second homes) relative to the total stock of housing units.

In contrast to CMHC's estimate of the housing supply gap, our estimate of the housing gap is not linked to a targeted measure of house price affordability. Nor does our estimate reflect the impact of rising incomes on the demand for housing services (for example, in terms of better quality), which all else equal would put upward pressure on house prices and rents.

Instead, we define the housing gap as the number of additional units that would be required to return the total vacancy rate to its long-term historical average by 2035, accounting for suppressed household formation.⁷ That is, the number of additional net housing completions that are required to eliminate: any excess demographic demand and suppressed household formation; and any remaining gap between the total vacancy rate and its average level observed over 2000 to 2019.

The report first presents a baseline projection of household formation and estimates of suppressed household formation in 2035. We then present PBO's baseline outlook of the housing stock and vacancy rate over 2025 to 2035. The report concludes with PBO's updated estimate of the housing gap and comparison with CMHC's recent results.

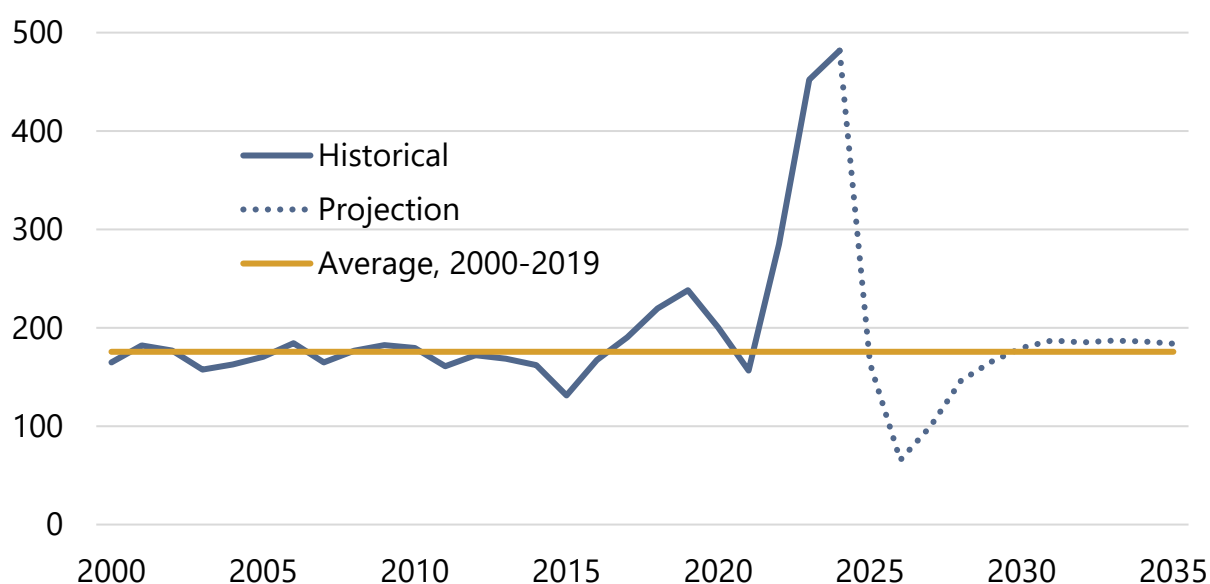
Household formation

Consistent with previous analysis, we adopt the Census definition of a household, which is defined as a person or a group of persons (other than foreign residents) who occupy a private dwelling and do not have a usual place of residence elsewhere in Canada. Household formation is the net change in the number of households.⁸

In 2024, household formation continued to surge, reaching a historical high of 482,000 (net) new households (Figure 1). However, under our baseline outlook we project that household formation will decline sharply in 2025 and 2026, and will remain below its historical average until 2030, reflecting policy changes made in 2024 by the Government to reduce immigration.⁹

Figure 1

Projected household formation, thousands of households



Source:

Statistics Canada and Office of the Parliamentary Budget Officer.

Note:

The projection period covers 2025 to 2035. Estimates from 2022 to 2024, as well as the projection over 2025 to 2035, reflect only the demographic demand for housing units.

Overall, under our baseline outlook, we project that household formation will average 159,000 annually over 2025 to 2035, with the number of households in Canada reaching 18.4 million in 2035—an increase of 10.4 per cent relative to 2024.

Suppressed household formation

In addition to our baseline outlook for household formation, our measure of demand for housing units includes suppressed household formation—that is, the projected number of additional households that would be formed if attainable housing options existed.

To estimate suppressed household formation based on the most recent Census data available, we follow Moffat (2022) and adopt the “rest of Canada” benchmark, where the rest of Canada excludes Ontario and British Columbia.¹⁰

Based on the rest of Canada benchmark, we estimate that suppressed household formation amounted to 631,000 in 2021. That is, the number of households in 2021 in Canada would have been 631,000 (4.1 per cent) higher if attainable housing options had existed. Under our baseline outlook, we project that suppressed household formation will reach 714,000 by 2035.

This highlights an additional challenge for the housing market as supply not only faces demand from existing households and newcomers to Canada, but also from individuals, especially young adults, who may be delaying forming a household.

Housing stock

Estimating the number of housing units

For this report, to estimate the stock of housing units in Canada we adopt the approach used by the Bank of Canada in its 2024 analysis of housing supply to calculate the total vacancy rate. This approach adjusts for Census undercounting and extrapolates the housing stock using flows of housing completions, conversions (that is, “additional housing units created from non-residential buildings or other types of residential units”) and demolitions.¹¹ The following equation describes the evolution of the housing stock:

$$\text{Housing stock} = \text{Housing stock}_{t-1} + \text{Completions}_t + \text{Conversions}_t - \text{Demolitions}_t$$

Net housing completions are defined as completions plus conversions less demolitions.

We estimate that in 2024 the housing stock increased by 276,000 units, a historical high, to reach a total of 17.2 million units. However, this record increase was not sufficient to keep pace with the record level of household formation (482,000) in the same year.

Projecting the housing stock

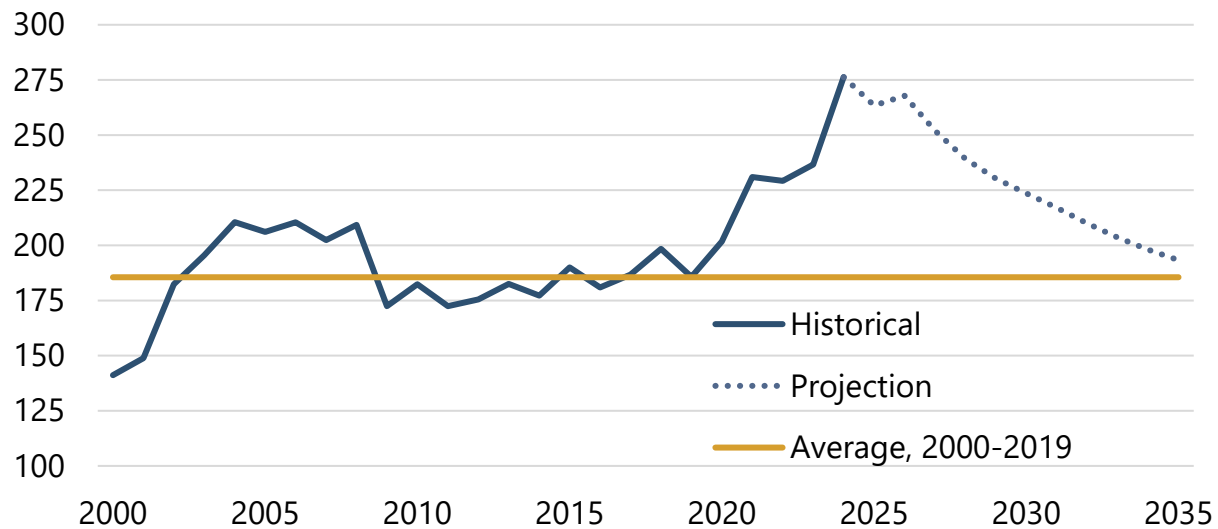
In previous analysis, our projection of the housing stock was informed by the profile for residential investment in our Economic and Fiscal Outlook. To better align our Economic and Fiscal Outlook and our projection of the housing stock, PBO’s macroeconomic model was enhanced to include the housing stock in units and its underlying flows (that is, housing starts, completions, conversions, and demolitions).

Our updated outlook for net housing completions and the housing stock reflects long-term economic and demographic trends and does not include recent policy commitments by the Government to double the rate of housing construction in Canada.¹²

We project that net housing completions will remain elevated over the next 3 years, averaging 256,000 units, but will then converge toward historical average levels as lower immigration dampens demographic demand (Figure 2). Under our baseline outlook we project that 2.5 million units will be added to Canada’s housing stock by 2035, which is equivalent to 227,000 net new units constructed annually over 2025 to 2035.

Figure 2

Baseline net housing completions, thousands of units



Source:

Statistics Canada and Office of the Parliamentary Budget Officer.

Note:

The projection period covers 2025 to 2035.

Vacancy rate

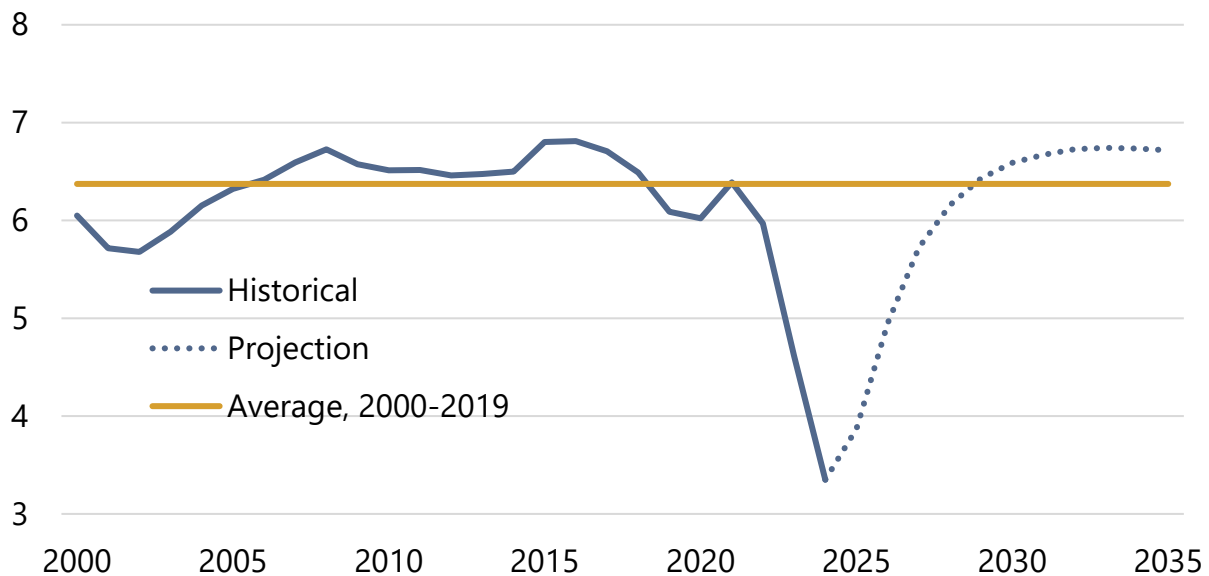
The total vacancy rate represents the number of vacant units to purchase or rent¹³ (including unoccupied second homes) relative to the total stock of housing units.¹⁴ The vacancy rate is “a key measure of the balance between supply and demand in the housing market”.¹⁵

Comparing the actual vacancy rate to its long-term historical average provides a measure of the imbalance in the housing market.¹⁶ A vacancy rate below its historical average suggests excess demand in the housing market, which would put upward pressure on house prices and rents.

Reflecting the unmatched increase in household formation from demographic demand, we estimate that the total vacancy rate reached a record low of 3.3 per cent in 2024, 3.0 percentage points below its 2000-2019 historical average of 6.4 per cent (Figure 3). With the sharp decline in household formation and elevated net housing completions expected over the next 3 years, we project the total vacancy rate to rebound from its record low.

Figure 3

Projected total vacancy rate: baseline outlook, per cent



Source:

Office of the Parliamentary Budget Officer.

Note:

The projection period covers 2025 to 2035.

Under our baseline outlook, as net housing completions continue to outpace household formation from demographic demand, we project that the vacancy rate will rise slightly above its historical average, stabilizing at around 6.7 per cent over 2031 to 2035. This modest degree of excess supply of units in the housing market primarily reflects the Government's [2025-2027 Immigration Levels Plan](#) (ILP), which included permanent resident targets and, for the first time, temporary resident targets for international students and temporary foreign workers.¹⁷

Housing gap in 2035

Assessing the imbalance in the housing market by comparing the total vacancy rate to its long-term historical average provides a natural framework for estimating the housing gap in Canada at the national level. Such an approach, however, must be modified to account for suppressed household formation.

At the national level, we define the housing gap as the number of additional units that would be required to return the total vacancy rate to its long-term historical average by 2035, accounting for suppressed household formation. That is, the number of additional net housing completions that are required to eliminate: any excess demographic demand and suppressed household formation; and any remaining gap between the total vacancy rate and its average level observed over 2000 to 2019.

Under our baseline outlook, over 2025 to 2035, net housing completions are projected to average 227,000 units per year, significantly outpacing household formation (from demographic demand) of 159,000 households annually, on average. This pace of housing construction would more than match projected demographic demand and compensate for excess demographic demand experienced in recent years.¹⁸

We estimate an additional 714,000 units would be required by 2035 to eliminate suppressed household formation.

Eliminating excess demographic demand and suppressed household formation still leaves the projected vacancy rate in 2035 below its 2000-2019 average. To return the vacancy rate to its long-term historical average would require another 248,000 units to be completed by 2035.

Table 1**Baseline net housing completions and estimated housing gap**

	Number of housing units
Excess demographic demand*	-272,000
Suppressed household formation	714,000
Return to average vacancy rate	248,000
Housing gap in 2035	690,000
Baseline net completions, 2025-2035	2,498,000
Total net housing completions required, baseline and housing gap, 2025-2035	3,188,000

Source:

Office of the Parliamentary Budget Officer.

Note:

* Excess demographic demand is calculated as the projected cumulative difference between (demographic-based) household formation and net housing completions over 2022 to 2035.

In total, relative to our baseline outlook, we estimate that 690,000 additional units—65,000 annually, on average, over 2025 to 2035—would need to be completed by 2035 to eliminate the housing gap in Canada, beyond the 2.5 million net completions projected in our baseline outlook over the same period.

Combined with our baseline outlook, closing the housing gap in Canada would require a total of 3.2 million net new housing units by 2035, which translates into 290,000 total units completed annually, on average, over 2025 to 2035. This pace of housing construction would be equivalent to outperforming the record high of 276,000 units completed in 2024 for 11 consecutive years.

Based on our estimates and framework, increasing the housing stock by 3.2 million units by 2035 would theoretically eliminate the contribution of excess demand for dwellings as a driver for shelter costs, which all else equal would improve housing affordability. However, this would not be sufficient to fully address affordability concerns across all provinces and territories. Other factors, such as household income, interest rates and regional disparities would also need to be considered. Moreover, the geographic distribution and core characteristics of these additional units would need to be aligned with the demand side to improve the balance in housing markets.

Comparison with CMHC's housing supply gap

In its [June 2025 report on housing supply shortages](#), CMHC estimated a housing supply gap in Canada of 2.6 million units.¹⁹ CMHC's housing gap represents the additional units that would be required to restore housing affordability²⁰ by 2035. CMHC's estimated housing gap in 2035 of 2.6 million units is several times larger than PBO's estimate of 690,000 units.

Under its business-as-usual scenario, CMHC projected that 2.7 million units would be completed over 2025 to 2035, which is equivalent to 245,000 net housing completions per year on average. This pace of housing construction is somewhat higher than PBO's baseline of 227,000 units per year, on average, projected over 2025 to 2035 (2.5 million units completed in total).

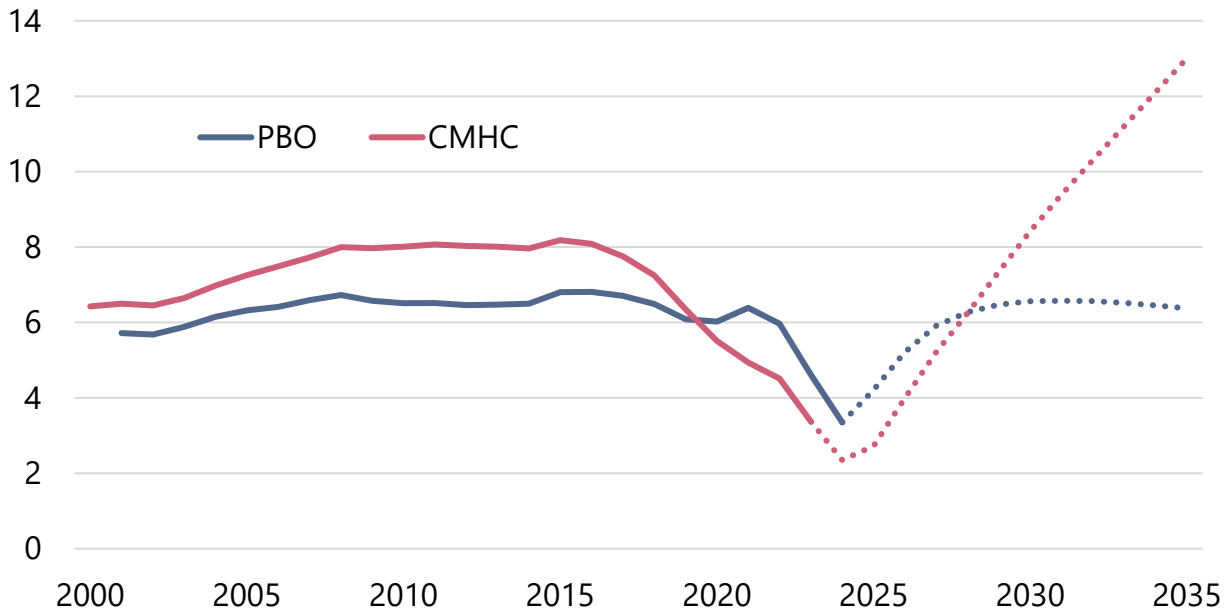
Combining baseline projections for net housing completions and housing gap estimates, CMHC's recent analysis indicates that a total of 5.3 million new units will be required over 2025 to 2035 (478,000 net completions per year on average)—well above PBO's estimate of 3.2 million units (290,000 net completions per year on average) over the same period.

The stark difference between our estimates of the amount of housing required by 2035 primarily reflects the additional supply in CMHC's framework necessary to reduce house prices (relative to business-as-usual levels) and achieve targeted levels of housing affordability. Consequently, CMHC's additional supply scenario would result in the vacancy rate climbing to record highs each and every year beyond 2029, reaching 13.0 per cent in 2035 (Figure 4).²¹

In other words, even after accounting for increased household formation²² from lower house prices, reaching CMHC's targeted levels of affordability would require significant overbuilding of new housing units such that there would be abnormally high levels of unoccupied housing units and or households with second homes.

Figure 4

Projected total vacancy rate: closing housing gap scenarios, per cent



Source:

Canada Mortgage and Housing Corporation and Office of the Parliamentary Budget Officer.

Note:

PBO calculated CMHC's total vacancy rate as the housing stock less the number of households (that is, the occupied housing stock) relative to the housing stock.

CMHC's housing gap represents the additional units that would be required to restore housing affordability. PBO's housing gap represents the number of additional units that would be required to return the total vacancy rate to its long-term historical average, accounting for suppressed household formation.

Notes

¹ Our estimation of the housing gap for this report was extended to 2035 to reflect the 2025 [Liberal Party of Canada's campaign commitment](#) to “double Canada’s current rate of residential construction over the next decade to reach 500,000 homes per year”. The May [Speech from the Throne](#) committed the Government to “undertake a series of measures to help double the rate of home building” but did not specify a time horizon. More recently, CMHC adopted a rolling 10-year horizon to assess Canada’s housing supply shortages.

² Our improved approach explicitly models housing starts and housing completions, which are then used to determine real gross domestic product (GDP) expenditure-based new residential construction. Our (national) housing starts model is based on CMHC’s updated specification in Appendix 2 of their [Integrated Housing Model \(IHM\) Technical Documentation](#). Our estimate of the number of suppressed households now incorporates projected demographic developments beyond 2021 (instead of assuming no change to the number of suppressed households).

³ As defined in [Ontario’s Need for 1.5 Million More Homes](#) by M. Moffatt (August 2022).

⁴ For a discussion of the limitations of demographic approaches, see Chapter 2 in CMHC’s [Integrated Housing Model \(IHM\) Technical Documentation](#). In CMHC’s view, demographic approaches understate housing supply gap estimates.

⁵ The United States [Congressional Budget Office](#) notes that the vacancy rate is “a key measure of the balance between supply and demand in the housing market”.

⁶ This definition of the vacancy rate is taken from Bank of Canada Deputy Governor Gravelle’s December 2023 speech, [Economic progress report: Immigration, housing and the outlook for inflation](#).

⁷ Analysis by [Oxford Economics in August 2024](#) estimated the housing gap in Canada based on the total vacancy rate, accounting for suppressed household formation. Further, a measure of housing affordability was used to help determine the long-term equilibrium vacancy rate.

⁸ Our April 2024 report [Household Formation and the Housing Stock](#) details our approach to estimating household formation. As in our previous work, the outlook for

household formation beyond 2021 reflects only demographic factors (population growth from natural growth and net migration and population ageing).

⁹ Our demographic outlook is based on Statistics Canada's M1 scenario (as of May 2025), which include the Government's new immigration targets, but was adjusted to reflect our modelling for the flow of migration of non-permanent residents. We estimate that by the end of 2027, non-permanent residents will represent 5.3 per cent of Canada's total population.

¹⁰ Moffatt (2022) estimates suppressed household formation for Ontario in 2021 by applying the rest of Canada benchmark.

Similarly, we apply 2016 age-group specific headship rates, calculated for the rest of Canada average, to corresponding age groups in Ontario and British Columbia for 2021 forward. The number of suppressed households is calculated as the difference between the number of households in Ontario and British Columbia for a given year under the benchmark, and our estimate of the number of households in these provinces.

Previously, we assumed that the number of suppressed households in 2021 remained unchanged through 2030. Our updated estimate of the number of suppressed households now incorporates projected demographic developments beyond 2021.

[February 2025 analysis](#) by the Missing Middle Initiative revises the Moffatt (2022) rest of Canada average approach to incorporate housing need by unit type (owned versus rented and ground-oriented versus apartment). For Ontario, the revised approach yields suppressed household formation of 471,038 in 2021, which is marginally lower than the Moffatt (2022) estimate of 471,267.

¹¹ For this report, we constructed the historical housing stock series (in units) beginning in 1996, to incorporate a longer historical sample for the estimation of our new housing starts model. Following the approach in our April 2024 report, we adjusted the 1996 Census count of private dwellings for undercounting. For census years over 1996 to 2021, our estimate of the housing stock (that is, total private dwellings, occupied and unoccupied) is 1.0 per cent higher, on average, compared to the census counts of total private dwellings.

In our April 2024 report, we constructed the historical housing stock series (in units) beginning in 2001. Our revised historical housing stock series (in units) is 0.6 per cent lower, on average, over 2000 to 2023 compared to our April 2024 report.

¹² Our updated outlook is based on our [2025 Election Proposal Costing Baseline](#), adjusted for historical revisions and recent data. Key macroeconomic series (for example, inflation, interest rates, economic growth) were extrapolated from their projected values in 2030 through to 2035.

¹³ See Note 6.

¹⁴ We calculate the number of vacant units residually by subtracting our estimates of the number of households from our estimates of the housing stock. Since, by definition, a household requires occupying a private dwelling, we consider the number of occupied dwellings to be equivalent to our estimate of the number of households.

¹⁵ See Note 5.

¹⁶ For a more detailed discussion of using the vacancy rate to gauge the imbalance in the housing market, see PBO's December 2016 report, [Household Formation and the Housing Stock: A Stock-Flow Perspective](#), which follows the approach used in Reynaud (2015), [Gauging Housing Supply in Canada: A Stock Approach](#).

¹⁷ For a more detailed discussion see PBO's November 2024 analysis, [Impact of the 2025-2027 Immigration Levels Plan on Canada's Housing Gap](#).

¹⁸ Over 2022 to 2024, household formation (from demographic demand) outpaced net housing completions, resulting in excess demographic demand for housing equivalent to 477,000 units. Under our baseline scenario, over 2025 to 2035 we project that (net) housing completions will exceed the number of new households formed by 748,000 units.

¹⁹ To put CMHC's estimate on a comparable basis to its previous analysis and to PBO's estimated housing gap, we calculated CMHC's housing supply gap as the stock of housing in 2035 projected under the Additional Supply scenario less the stock of housing in 2035 projected under the Business-as-usual scenario.

CMHC provided household and housing stock data from their June 2025 Housing Supply Shortages report to the PBO under [Information Request IR0838](#).

²⁰ In its June 2025 report, CMHC defined housing affordability as "adjusted house price levels (homebuying affordability ratios) that are: 1) no higher than 30 per cent of average gross household income; or 2) no higher than their 2019 levels, in the more unaffordable regions".

²¹ Differences in estimates of the total vacancy rate prior to the pandemic largely reflect PBO's (higher) estimated household counts. Over 2000 to 2019, PBO's estimates of the number of households are 1.4 per cent higher, on average, compared to CMHC. Over the same period PBO's estimates of the housing stock in units are only 0.2 per cent higher, on average, compared to CMHC.

²² Under CMHC's Additional Supply scenario, in response to lower house prices, there is an increase in household formation of 331,000 by 2035 relative to the Business-as-usual scenario. This result can be interpreted as CMHC's estimate of suppressed household formation. That is, under affordable housing conditions CMHC estimates that 331,000 new households would be formed by 2035. CMHC's estimate of suppressed household formation is significantly lower than PBO's estimate of 714,000 households.

RP-2526-007-S_e

T_RP_3.1.0e

© Office of the Parliamentary Budget Officer, Ottawa, Canada, 2025