

THE HASKAYNE REPORT



The Bubble That Will Not Burst: Canada's Housing Market

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Canada's Housing Market

The current state of the housing market has led to questions about the future of homeownership in Canada, with affordability being the primary concern. Despite this, Canadians are not shying away, with 75% of urban Generation Z adults saying they plan to buy a home in their lifetime (Sotheby's International Realty, 2021). This next generation of Canadians will face new challenges when pursuing homeownership, but what has led to this, what should they expect, and what can we do?

In February 2022, the average price for a home in Canada hit \$816,720, the highest level on record and an increase of 20% from the previous year (Carrick, 2022). Compared over time to international peers, the increase appears even more dramatic. The Organization for Economic Co-operation and Development cited Canada as having a

188.60% growth in real house prices between 2000 and 2021, nearly three times that of the United States (OECD, 2022).

Systemic Constraints

The issue at the core of this rise is systemic supply constraints. New housing projects are being stifled in many urban areas, severely limiting supply. Long and uncertain timelines, excess costs, and the prevalence of rezoning away from residential use have all hindered development (Di Matteo, 2021). Toronto and Vancouver, where prices have spiked the highest, are especially susceptible due to their geography already limiting the amount of land available. The lucrativeness of the market brought on by the low supply has attracted the attention of investors. A new study from the Bank of Canada found that speculative investors were responsible for 19% of home purchases since

2014. This group purchased houses at significantly greater rates during the COVID-19 pandemic, outpacing purchases by repeat and first-time buyers (Khan & Xu, 2022). The appeal of the lucrative Canadian market has also attracted investment from outside of the country. In 2019, foreign ownership rates were reported as 2.2% in Ontario and 3.1% in British Columbia (Statistics Canada, 2022). All of these factors have led to a buyer mentality focused on the fear of missing out. As Beata Caranci, Chief Economist at TD Bank, suggests, “tight supply starts to become a justification for all outcomes” (Castaldo, 2017).

The Future

So, what is next for house prices? The short answer is it is difficult to answer. Predicting house prices is an inaccurate science. How many experts foresaw the massive increase during the peak of a global pandemic? Nevertheless, various analysts offer their best guesses. A recent report from RBC Economics found that prices are likely to grow by 6.2% during 2022, with a further 0.8% increase in 2023 based on plenty of unmet demand (Hogue, 2022). Conversely, the latest forecast from Oxford Economics predicts house prices falling 24% by mid-2024 citing current prices are well above the borrowing capacity of median-income households (Heaven, 2022). What is certain is that rising interest rates will impact the housing market. With inflation at record levels, Scotiabank expects the Bank of Canada to raise interest rates from 0.5% to 2.5% in 2022, with further hikes planned for 2023 (Perrault, 2022). The rise in interest rates will cause existing and new mortgages to cost more in the coming years.

Government Action

At this point, affordability will continue to be an issue regardless of what direction house prices go. The 2022 federal budget includes new spending to accelerate housing

construction and proposes a two-year ban on residential real estate purchases by foreign buyers. Also included is the new Tax-Free-First Home Savings Account (FHSA). First-time homebuyers will be able to contribute up to \$8,000 a year to a maximum of \$40,000 starting in 2023. Contributions are tax-deductible, and withdrawals to purchase a home are tax-free (Willms & Subdhan, 2022). While these measures are a step forward, critics argue that they do not go far enough. Municipal councils continue to block attempts to change zoning rules leading the Editorial Board at The Globe and Mail to declare, “city councils are at the root of what ails Canada’s housing markets”. The root cause of a lack of supply will continue to plague affordability unless governments take aggressive action. New Zealand recently introduced a law that aims to tackle this, allowing owners to develop up to 50% of their land and build up to three stories without requiring consent from municipal authorities. Some in the industry believe this case can serve as a model for how Canada can curb prices (Hopper, 2021). Federal and provincial governments serious about making housing affordable should act along the same lines, requiring municipal governments to comply with an affordable housing agenda. With rising interest rates and a ban on foreign buyers, the next two years may be the best opportunity to take meaningful action.

Personal Action

Beyond the headlines, buying a house will still be a goal for many. And rightfully so. Homeownership can be extremely rewarding, financially and non-financially. But what can someone do to make the process as frictionless as possible? First, any investment is a personal decision and should match an individual’s risk profile. There are advocates of strategies that do not purchase property and instead focus on investing elsewhere. For future home buyers, the new FHSA and existing tax-advantaged accounts offer vehicles to accelerate savings. Becoming

knowledgeable about the structure and strategies for these accounts can lead to a faster accumulation of a down payment. Credit score maintenance can also make a tangible difference in mortgage costs. In one example, someone with a credit score of 600 would pay \$17,770 more over a 5-year term compared to someone with a credit score of 680 (RATESDOTCA, 2021). Overall, being prepared in advance can help set realistic goals and plans. A good resource is the Canadian Mortgage and Housing Corporation, which offers guidance on a variety of topics related to housing and purchasing decisions (CMHC, 2022).

Concluding Thought

The next generation of Canadians undoubtedly faces a new challenge when it comes to housing. While individuals will continue to navigate their personal journeys, governments must play a key role in ensuring affordability.

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