

ECONOMIC VIEWPOINT

Written Submission to the House of Commons Standing Committee on Finance

By Randall Bartlett, Senior Director of Canadian Economics

Housing in Canada is in crisis. As the situation has become more serious, all levels of government have been forced to recognize that something must be done urgently. But while sharply higher supply is widely recognized as the path forward, there is little agreement on how to make that happen.

Home construction today is below the pace seen during the 1970s when the Baby Boomers came of age, despite our current population being larger and growing more quickly. But the housing crisis is not only that the number of homes being built is insufficient. The type of housing is also inadequate. Detached homes are getting larger while condominiums and apartments are getting smaller and at the same time more expensive by the square foot. Semi-detached, rowhouses and low-rise apartments—the so-called ‘missing middle’—are essentially a rounding error in Canada’s housing stock.

All levels of government bear some responsibility for the current crisis. But the good news is that each can take steps to increase the supply of housing in Canada. We recently published a [report](#) outlining over 20 measures that have been introduced internationally to increase the supply of housing and relieve affordability pressures. However, the most important takeaway from this analysis is that there is no silver bullet that will solve Canada’s housing crisis. Instead, it is a combination of different policies introduced by all levels of government in a coordinated fashion that will help to increase homebuilding. We must have all hands on deck and pulling in the same direction.

At the federal level, providing transfers to provinces and municipalities to incentivize homebuilding is key. The long-delayed Housing Accelerator Fund is a good start. It’s showing some early signs of progress, as some municipalities look to be modifying their housing-related decisions to qualify for federal funds. In this context, the federal government must listen to other levels of government to improve the targeting of transfers and minimize the frictions that are preventing

more homes from being built. Additionally, as it was a recommendation in our housing supply report, we applaud the federal government for foregoing the GST/HST on purpose-built rental construction and wish there was stronger alignment with the provinces and territories for its implementation. We continue to look to them to follow up with some additional incentives. This is complemented by the federal Rental Construction Financing Initiative (RCFI), which provides low-cost loans for the construction and commercialization of rental apartments. Unfortunately, the RCFI does not apply to the rental housing targeted toward some of Canada’s most vulnerable residents, including seniors and students.

The Government of Canada must also ensure population growth advances at a pace that is sustainable and doesn’t further erode housing affordability. Canada needs immigrants to sustain, and even accelerate, economic growth and offset the fiscal burden of an aging population. It’s a difficult balance to strike. Prioritizing immigrants with skilled trades training and recognizing those skills would further help address elevated job vacancies and offset the rapidly aging workforce in the construction sector.

At the provincial level, giving municipalities the freedom to introduce measures that will support an acceleration of residential investment in their communities would help considerably. Reducing development charges on some types of housing may have a positive impact, particularly as it relates to density, but municipalities shouldn’t be left holding the bag for lost revenues. The boom in short-term rentals must also be addressed, with the Government of Quebec’s recent introduction of provincial licensing possibly providing a template for the rest of the country. British Columbia looks to be following suit, and other provinces may not be far behind. Finally, working with post-secondary institutions to add more high-density purpose-built student accommodation should free up space in the off-campus rental market for lower-income tenants as well.

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. Data on prices and margins is provided for information purposes and may be modified at any time based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. Unless otherwise indicated, the opinions and forecasts contained herein are those of the document’s authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2023, Desjardins Group. All rights reserved.

Looking to municipalities, many communities are already making great strides in certain areas, but more needs to be done to reduce barriers to homebuilding. Ending exclusionary zoning and moving toward by-right approvals should be a priority to support increased density. A focus on sharply higher density along public transit corridors is paramount. Encouraging retail-to-residential redevelopment of existing greyfield sites such as underused shopping malls could also add a lot more units in relatively short order. And while it may sound trite, sharing best practices from across the country and around the world would go a long way to illustrating what has worked in other places to increase the supply of housing as well.

Industry has a role to play as well. Construction sector productivity has been lagging behind the general economy for some time. From prefabricated homes to preapproved plans made available by municipalities, there is a lot that can be done to improve productivity. But construction costs from interest rates to inputs have risen considerably in the last couple of years. Governments can use policy to offset this through lower taxes, subsidies and/or low interest loans.

Failing to address Canada's housing affordability crisis is to fail the current generation of prospective homeowners, hopeful new and future parents, and optimistic entrepreneurs. As we've documented in a recent series of reports on the economic circumstances of youth in Canada, young Canadians are leaving our most expensive provinces at an unprecedented pace in the desperate search for affordable shelter. They are also delaying moving out of their parents' home, starting long-term relationships, getting married, and having children, as well as having fewer children, in no insignificant part due to the affordability crisis.

In closing, Canada's housing affordability crisis is bad, but not insurmountable. Canadians need less conversation and more action from all levels of government. The country needed to get shovels in the ground years ago, not "someday." Jurisdictional finger-pointing should be replaced with taking responsibility and taking action. Today's youth, newcomers to Canada, low-income households and all Canadians can't, and won't, wait.