

Affordability in Canada's Housing Market

Edith Chavez - Cody Mattiuz - Carlos Silva

Problem

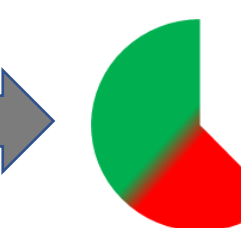
Average Gross Income of a Household is **\$69,900**
Average House price is **\$669,000**



20% Down Payment, 2.5% Interest rate, 25 Year mortgage

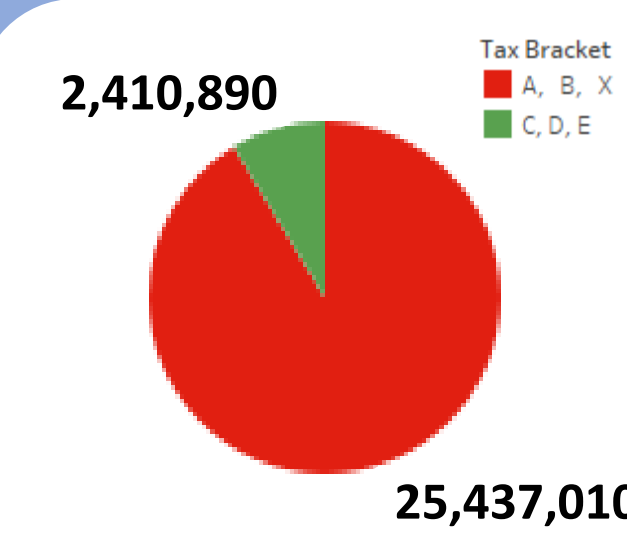
Gross Debt Service = **47.3%**
Total Debt Service = **60.65%**

42% to be approved



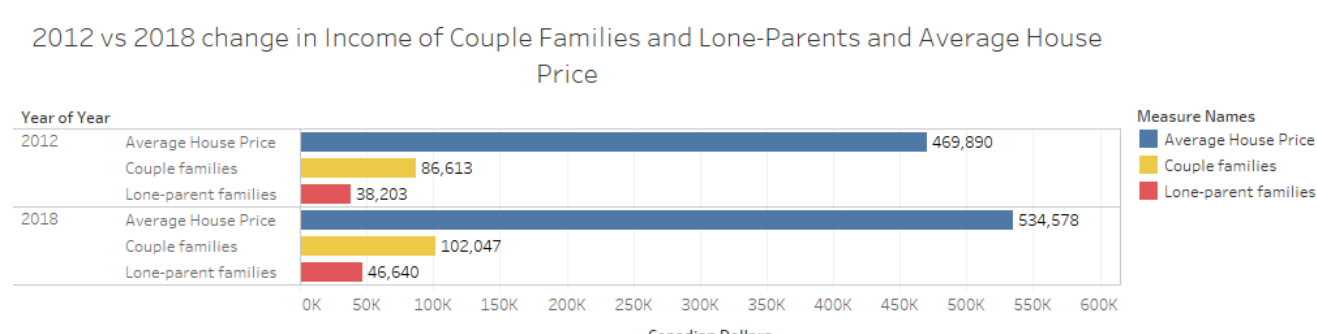
60.65% an average family income

Total of taxpayers approved for a mortgage



CONTEXT

- After the 2008 global economic crisis, the Canadian real estate market has experienced a steady increase in sales, prices, and cost of rent, especially in the Metropolitan Areas (CMA's). This tendency has affected housing affordability because salaries have not been adapted accordingly.



- A believed factor driving these increases overtime was the lack of tax regulations for foreign investors wanting to own property in Canada. These investors were not employed here consequently many of the houses they bought were empty and not generating Income Tax, (Gordon, 2020).

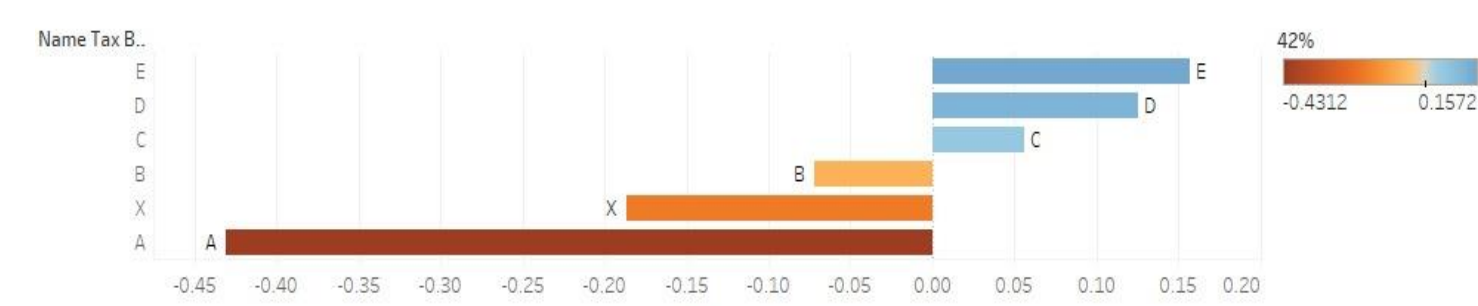
- Two regulations were enacted The Foreign Buyers Tax in Vancouver in 2017 and the Non-Resident Speculation Tax (NRST) in Ontario. In 2018. These restrictions may slow down foreign investing but did not change the overall price of the housing market.

- Airbnb is another unexpected driving factor, according to a study made in cities across Europe, for every 100 new listings in the platform, the average monthly availability of houses for rent decreases 0.021%, and for every 100 new listings in a neighbour, the house price paid is 0.032% (Benítez-Aurioles, Tussyadiah, 2020)

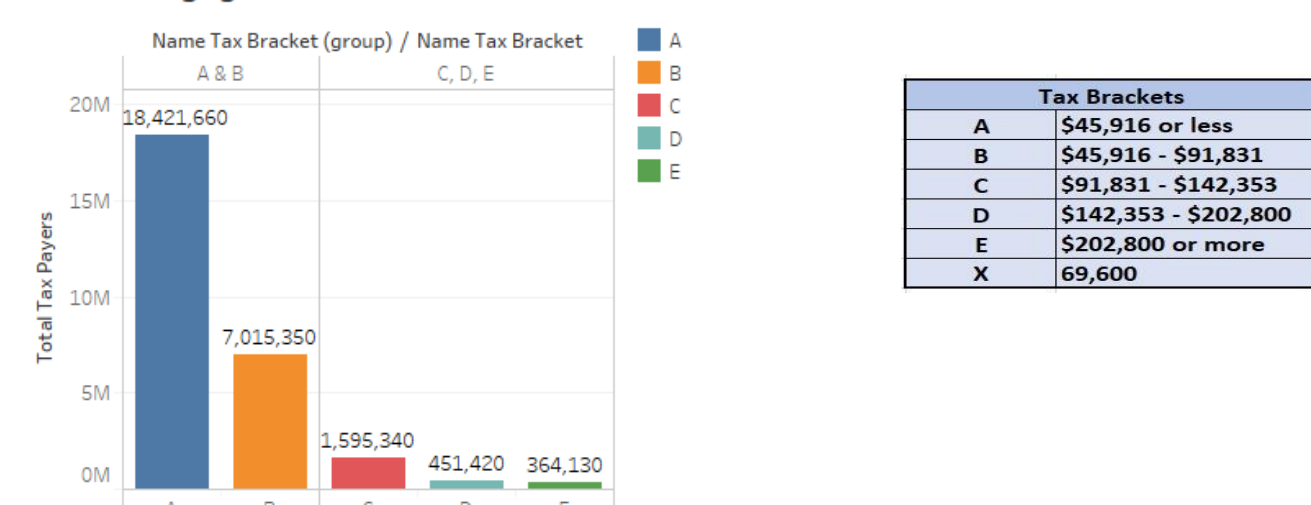
City	Whole House for Rent in Airbnb	Monthly availability of houses for rent	Price Increase
Toronto	15,175	-3.18%	4.86%
Montreal	13,713	-28.79%	4.39%
Vancouver	3,469	-0.72%	1.11%

- There are two stakeholders with divided opinions about how to handle the Housing Market, the first one is **Canada Mortgage Housing Corporation (CMHC)** whose mandate is to "Make housing affordable for everyone in Canada" to accomplish it, they follow the guidance of the Organisation for Economic Co-operation and Development (OECD) which says that households should not spend more than 35% of their Gross Debt Service (DGS) in housing or 42% of their **Total Debt Service (TDS)**.

Applicants with 42% Total Debt Service (TDS)



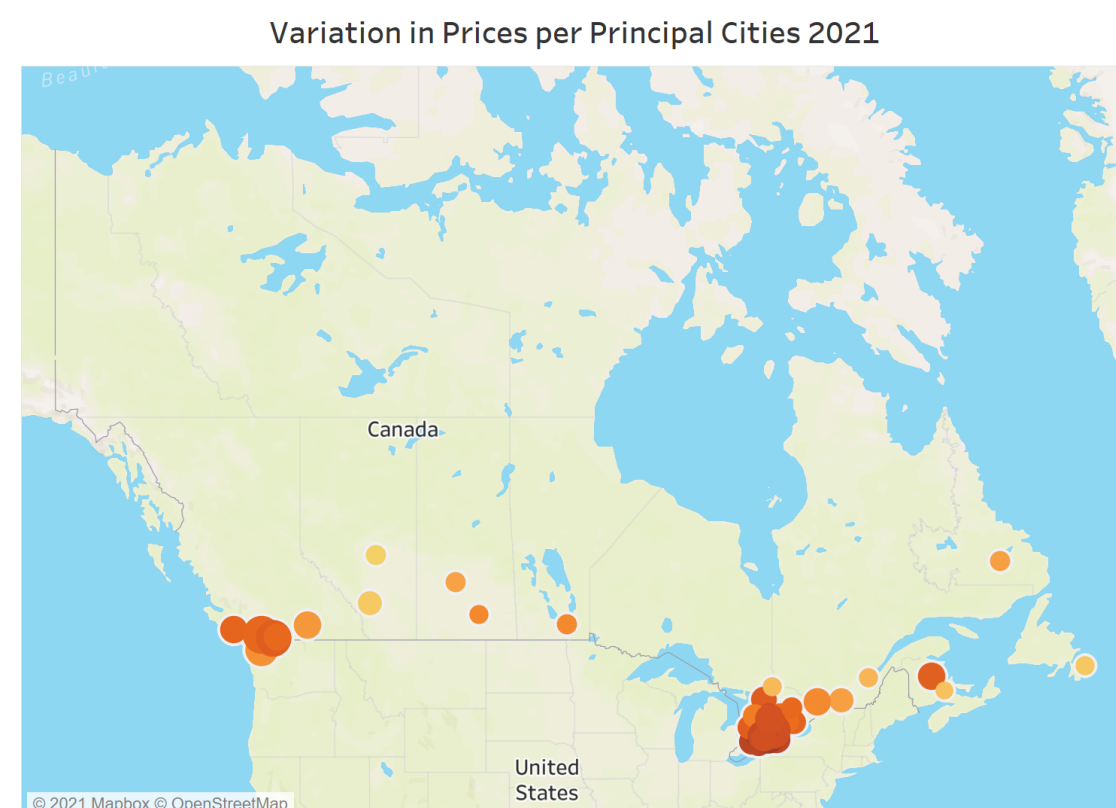
Total of Tax Payers that can be approved for a mortgage



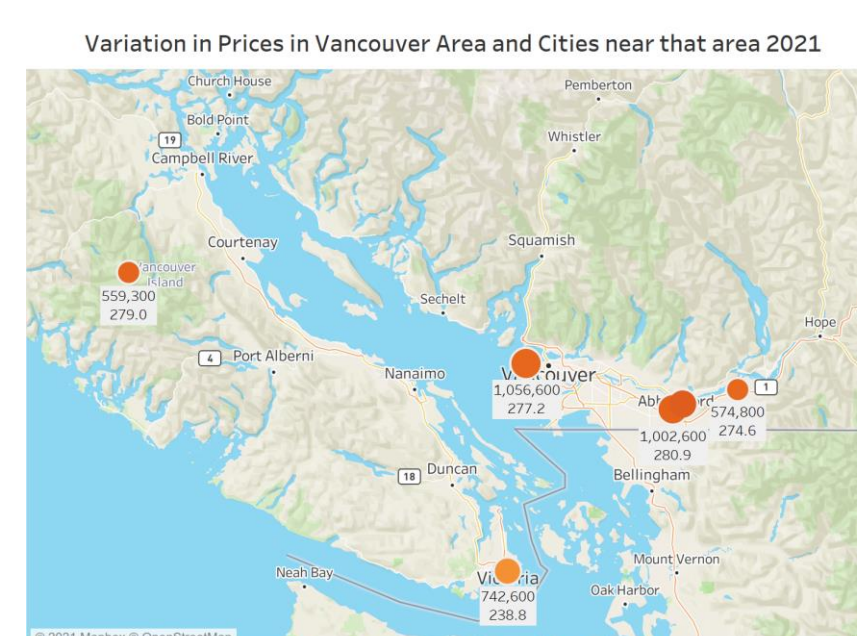
- On the other hand, we have the Real Estate Association who argues that people are paying more than 42% of TDS in rent therefore, they should qualify to have a mortgage.

HOUSING IN CANADA

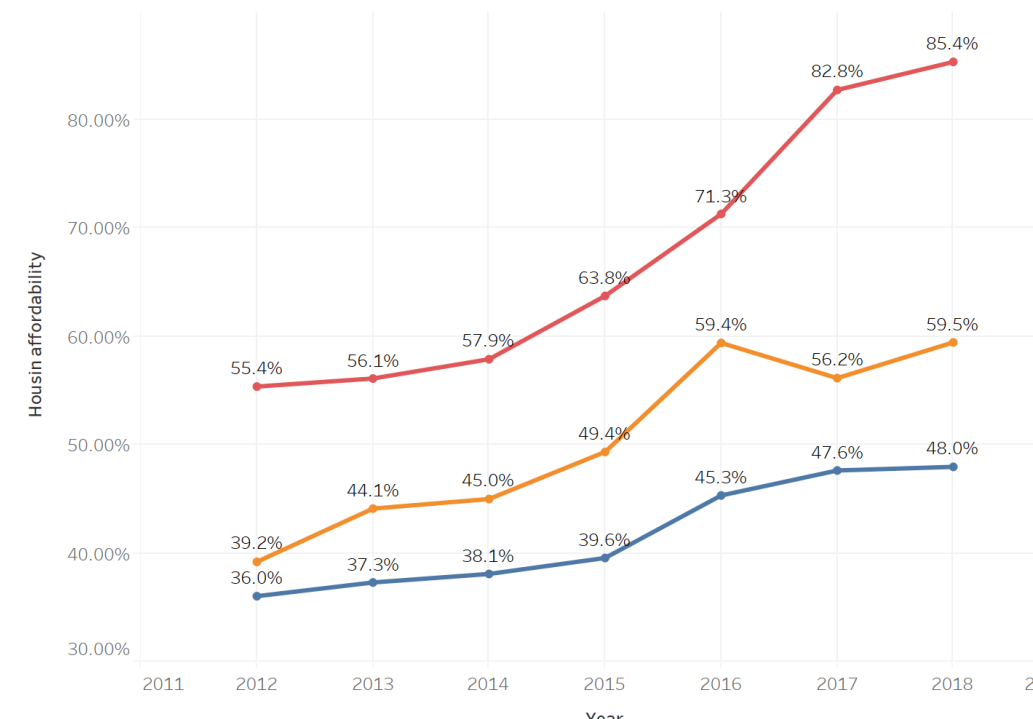
The areas that are driving this increment are Vancouver and the Greater Toronto Area.



The price was determined by the Canadian Real Estate MLS Benchmark price, while analyzing the data, it was discovered that the increment of prices in Canada were focalized in Vancouver and the Greater Toronto Area.

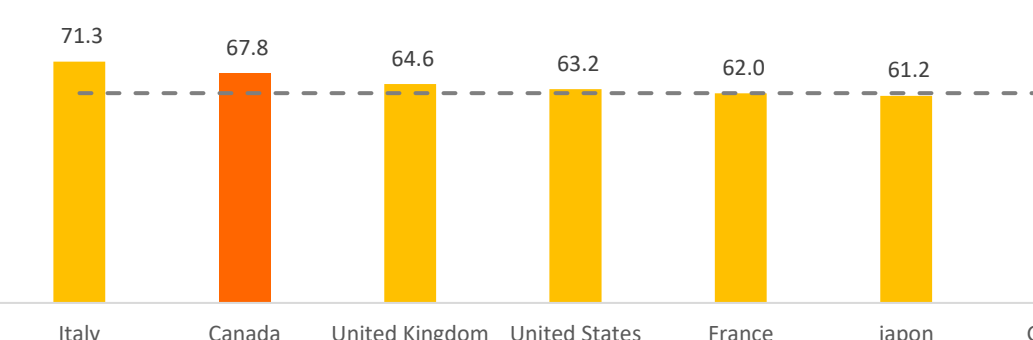


Housing Affordability in Canada, Toronto and Vancouver from 2012-2018



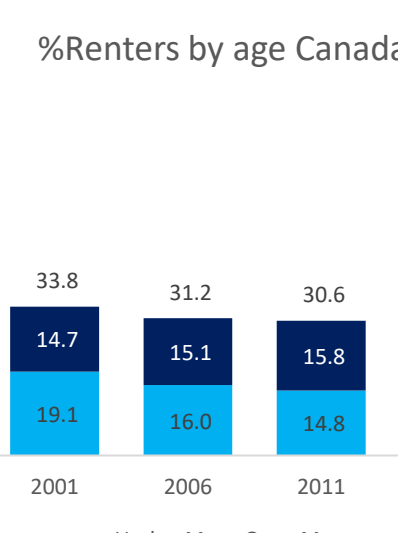
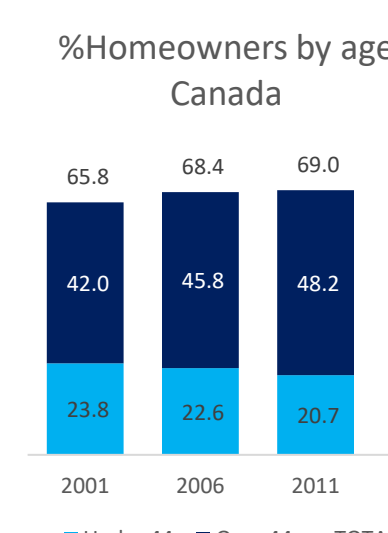
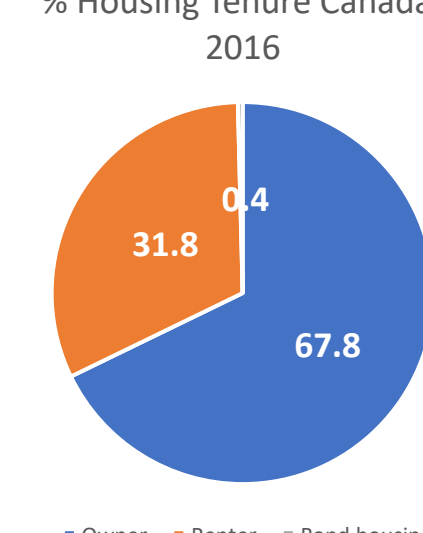
Data published by the Canadian Real Estate Association shows the Housing Affordability, defined as the estimated percent of disposable income needed to service a mortgage, in Canada throughout the years has raised continuously since 2012. It was found that Canadians spend approximately 50% of their income in housing, while Vancouver rocketed in the latest years.

%Homeownership rate G8 countries-2018 or latest year available



With data from the OECD organization, it's shown that, even though housing affordability is high in Canada, homeownership is also high, being the second highest from the G8 countries

However, people under 44 are slowly losing importance in homeownership, the 2016 Canadian Census shows.



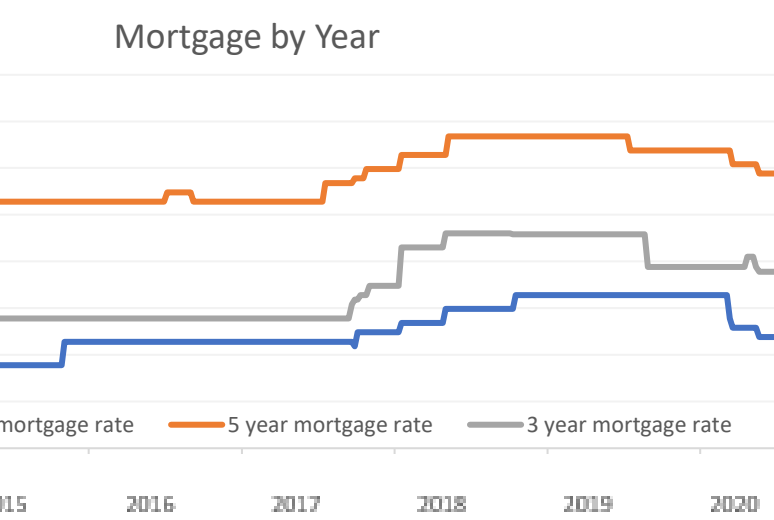
SOCIAL AND FINANCIAL IMPACT

%Residential Mortgage debt

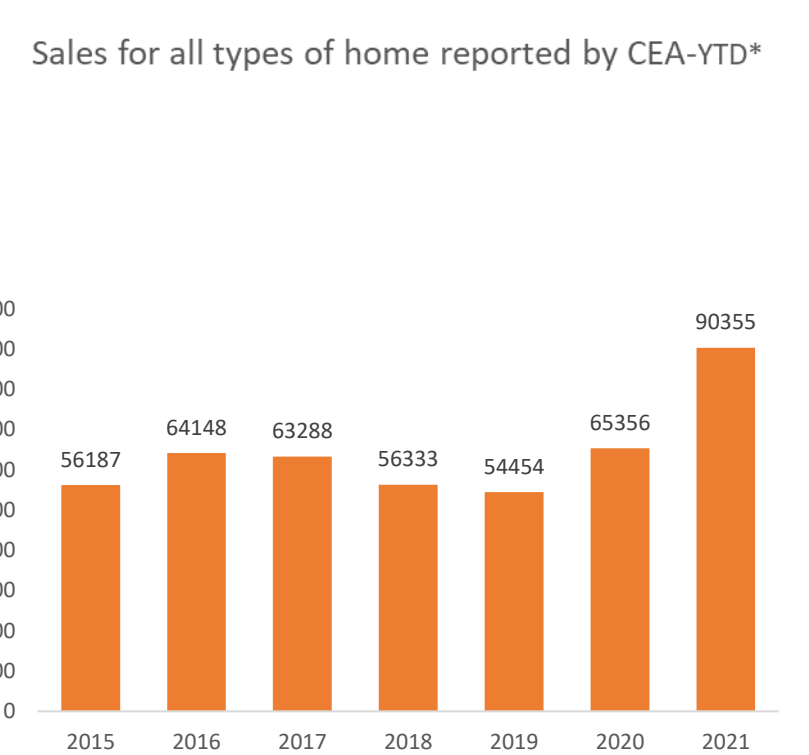
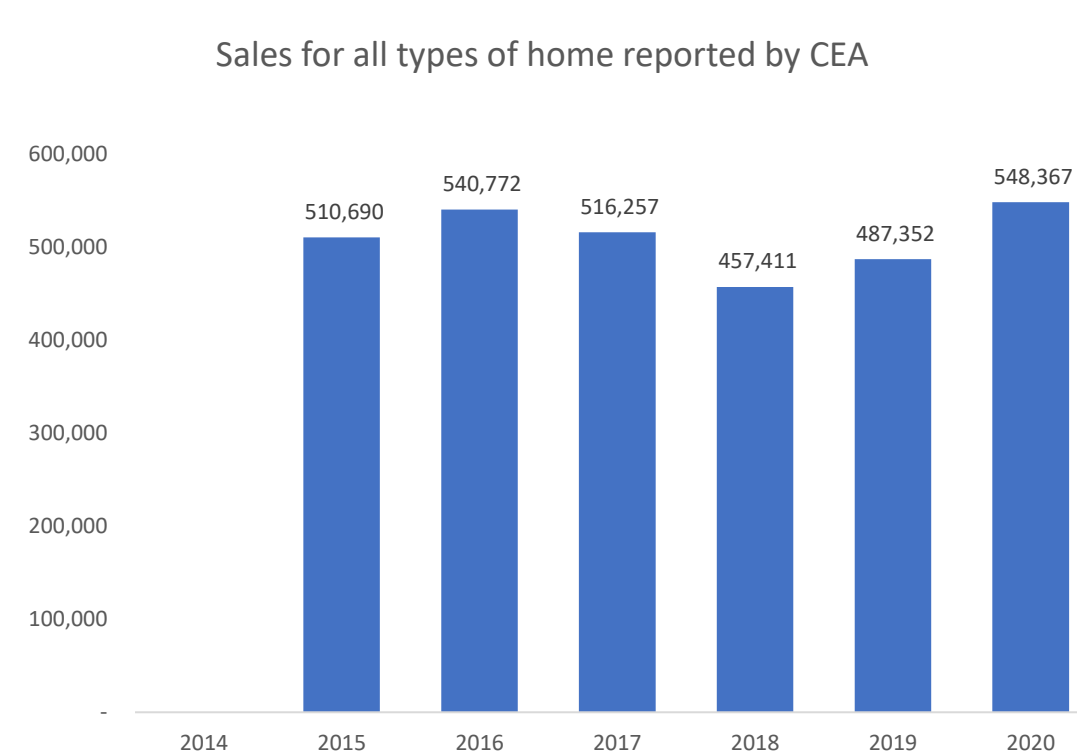


Since 2018 % YoY of Residential Mortgage debt decreased, until 2019, where it started to grow to similar levels than the 2016

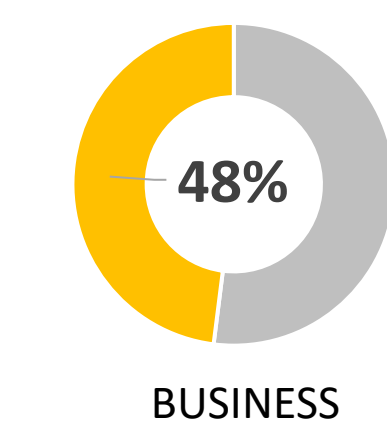
The decreased of mortgage rates impacted home sales until 2018 (where mortgage rates were at its higher between 2015 and 2020). Then when mortgage rates started to fall, home sales increased again.



Even when home sales were at low levels at the beginning of 2020, they closed at similar levels of 2016. Now, 2021 has started with levels above previous years (38.25% of increase compared to 2020)

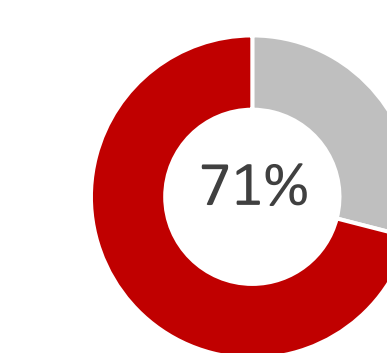


This affects SOCIETIES



of social housing tenants surveyed reported that their children saw improved school performance once they received support for stable and affordable housing

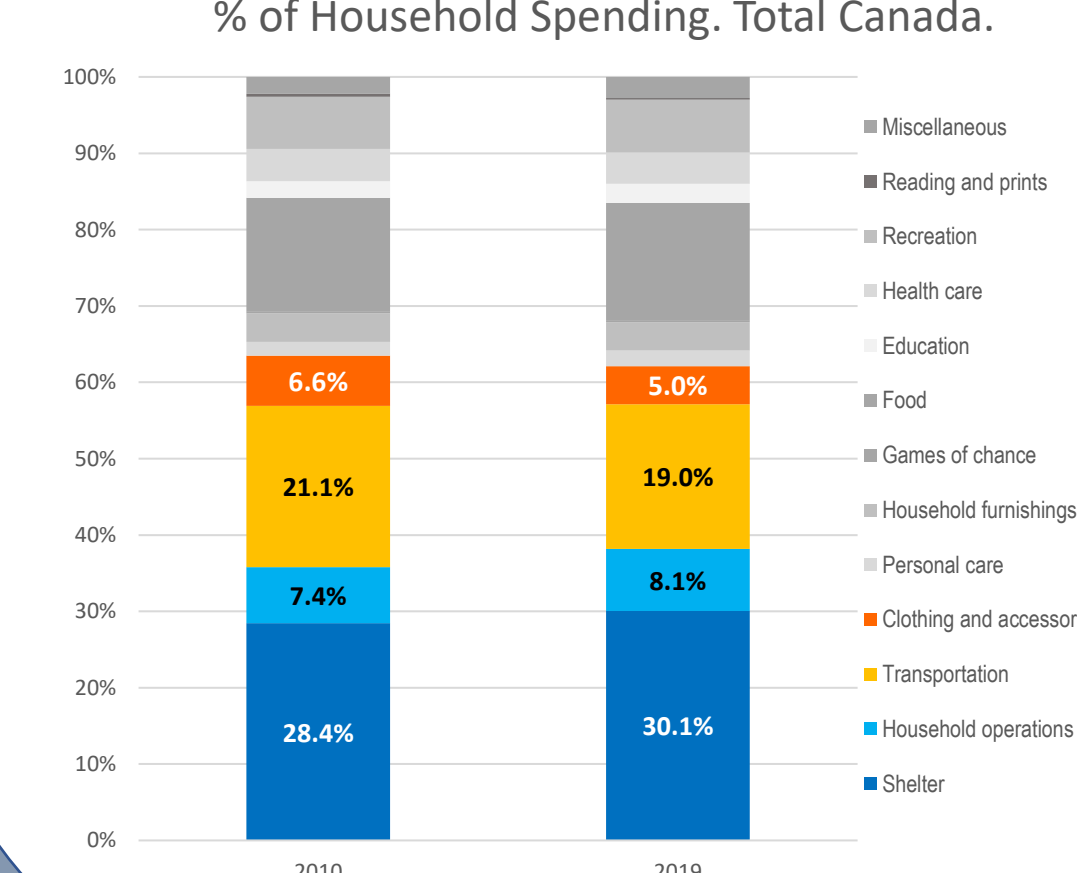
BUSINESS



of businesses in Vancouver felt that rising real estate costs deter the expansion of established businesses and starting new businesses

SPENDING HABITS OF CANADIANS

% of Household Spending, Total Canada.

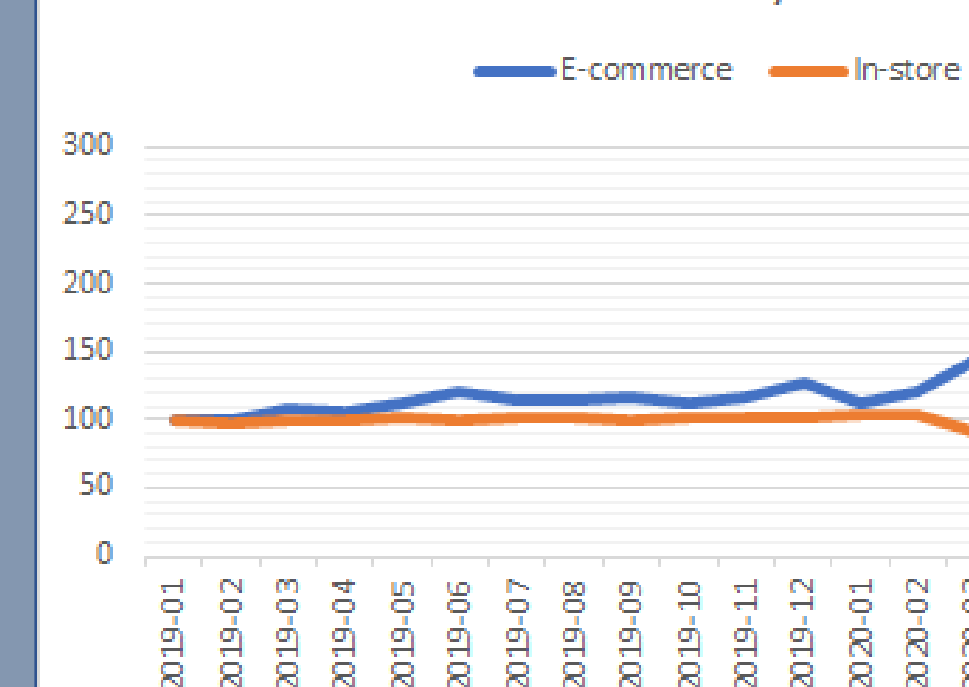


As shelter becomes more relevant in household spending, Canadians spend less money on other issues, like clothing, accessories and transportation.

In the graph it is notable that while spending in clothing and accessories dropped in 2019, shelter spendings, income taxes and household operations have increased in importance in Canadian's budget

COVID

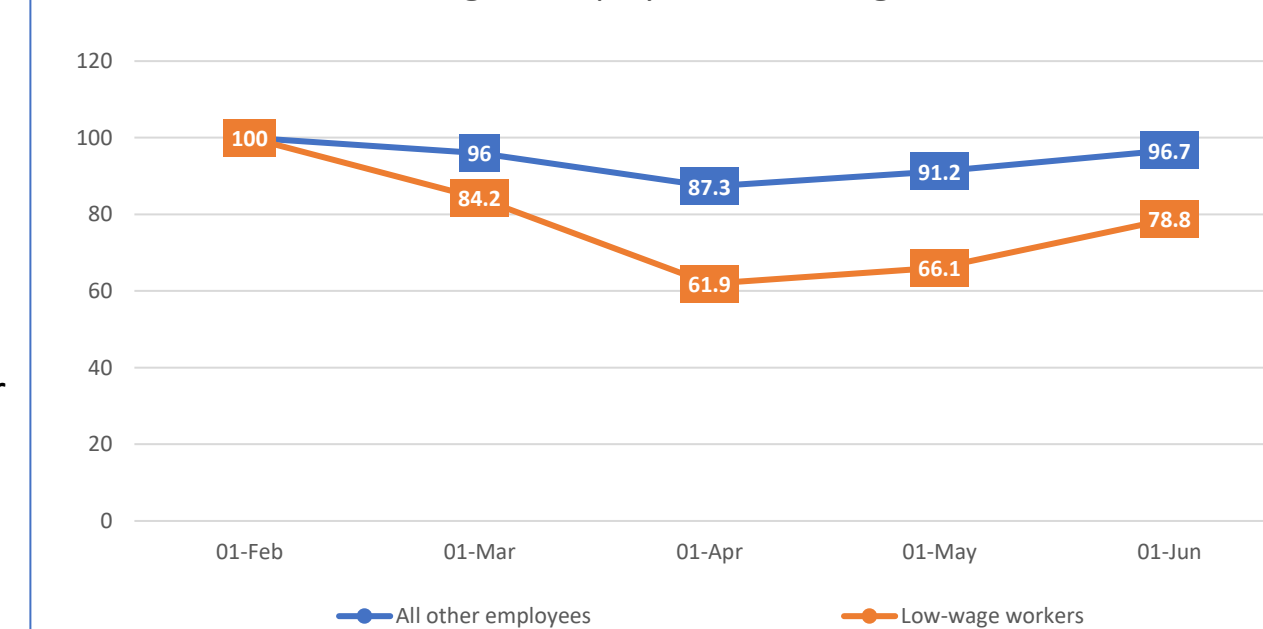
Indexed Monthly Retail Sales



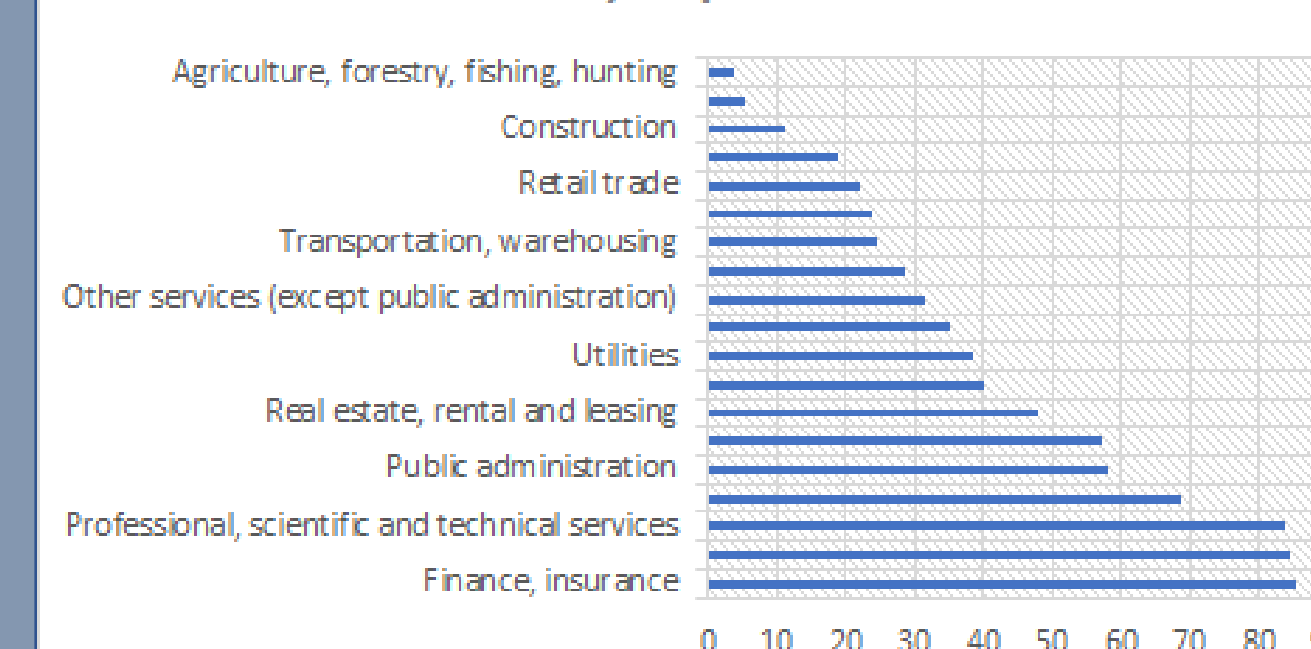
The start of the pandemic led to a huge shift into e-commerce sales. This data is indexed to the monthly retail sales in January 2019. While in-store sales dropped to almost 50% of their usual level, e-commerce sales increased almost 2.5 times their average. In-store sales eventually recovered but e-commerce sales did not return to pre-pandemic levels.

The impact of the pandemic on employment depends on how much each individual makes. As displayed in this graph, low-income workers had a greater shock to their employment percentage. One reason for this is the types of industries that employ a lot of lower wage workers like retail were the hardest hit by pandemic protocols.

% Change of Employment Low-Wages vs Total



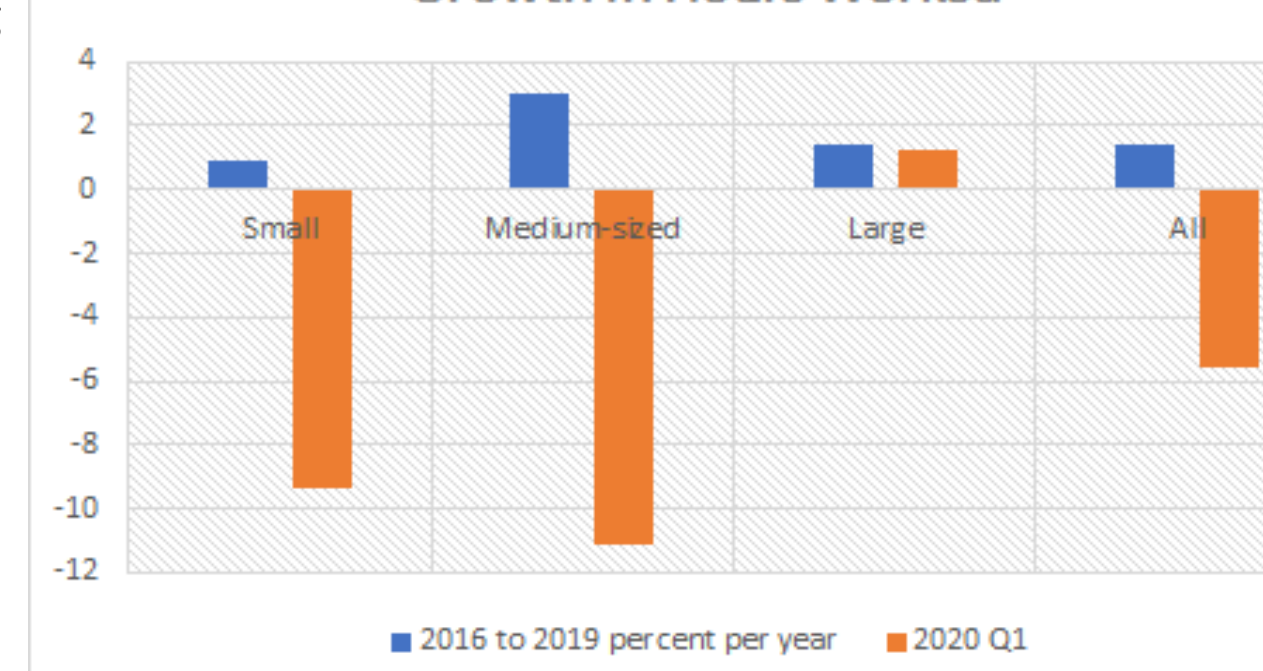
% of Industry Capable of Telework



Depending on the nature of the jobs in an industry, working from home may not be possible. This is especially true in fields such as agriculture, construction, and retail. Areas in Canada with significant portions of their labour force in these industries will experience more extreme economic disruption than other areas more focused on technology and finance.

Covid impacted the hours worked by employees differently depending on what size the company they worked for is. Small and medium-sized firms showed large decreases in hours worked at the beginning of the pandemic, while large companies did not change much. This shows the ability of large-scale companies to potentially operate at losses for periods of time while waiting for economic recovery to take place.

Growth In Hours Worked



Summary of Findings

- The COVID-19 pandemic played a large role in disrupting economies and therefore impacted housing affordability; however, the trend of decreasing housing affordability has been occurring for many years. In summary our analysis found:
 - Housing prices in major cities growing faster than household income
 - Sharp increases of housing prices in Toronto and Vancouver are significantly contributing to the rising average price of homes in Canada
 - Household debt is increasing in Canada
 - COVID-19 led to large disruptions in the economy, however it affected some areas more than others
 - Industries that had higher capacity to switch to working from home were better off than those that could not
 - Labour hours at large companies were less disrupted than those at small and medium sized companies
 - Even that Mortgage rates are not the only factor that drives house prices up or down, they are an important element.
 - House Affordability is a problem because people are spending money in houses instead of using it in developing new businesses, education, and other important elements that improves life quality and country economics.
 - We would recommend using the data for the 2021 census to verify how COVID has affected tenancy, distribution of people living in condos and houses, and the profile of property owners. This information will be helpful to get broader and deeper insights into how to target the house affordability problem.

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