



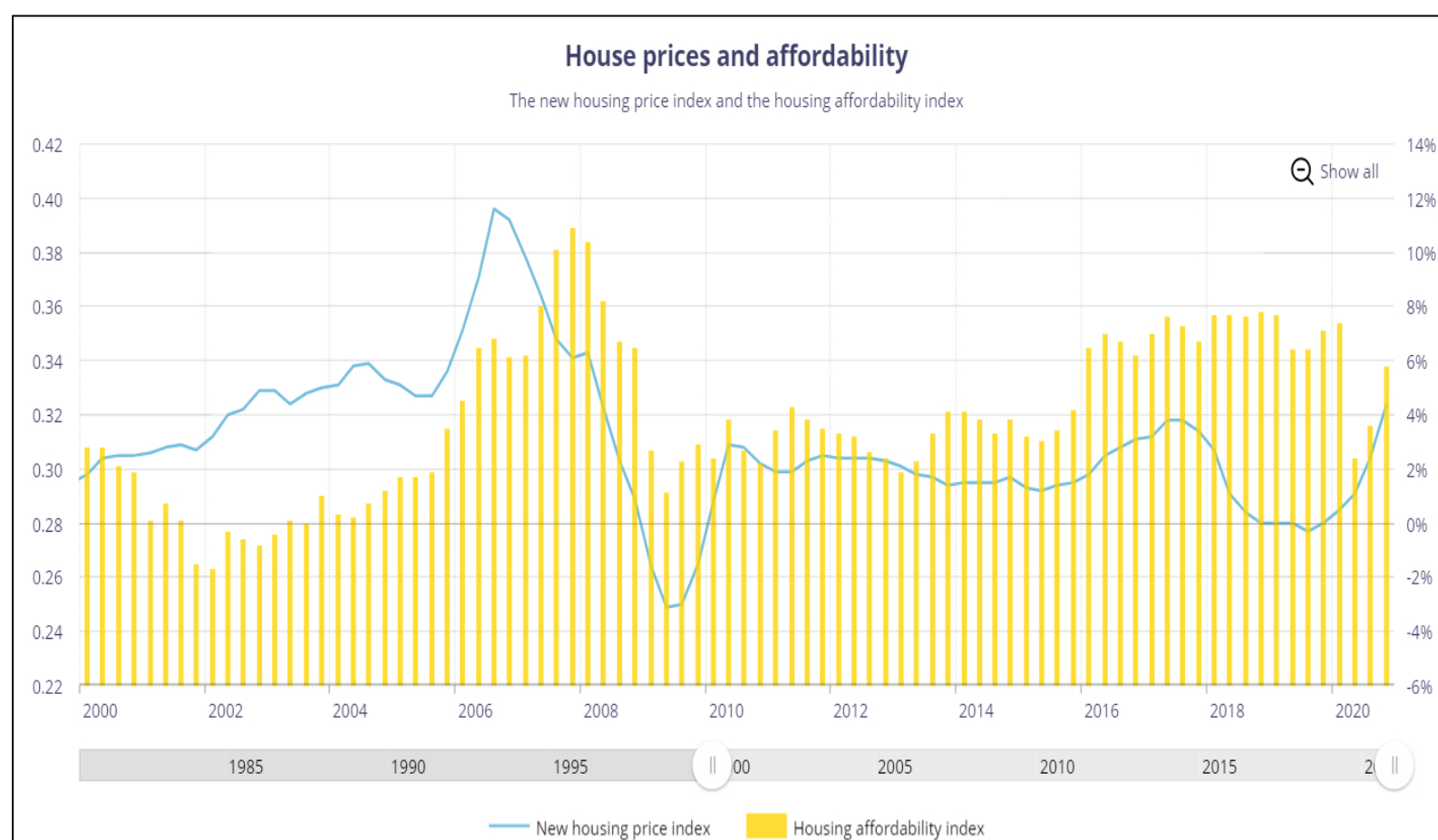
Problem

Before the pandemic, housing affordability in several Canadian cities had become a serious concern, mainly expressed by the millennial generation. This was caused by the economic and political landscape in Canada. In addition, it is said that the housing affordability crisis was exacerbated during the pandemic due to the loss of employment as a result of businesses shutting down and the inability of some employees to work from home. The focus of this research is to see how the changes in working conditions, income levels and unemployment affect housing affordability in Canada.

Background

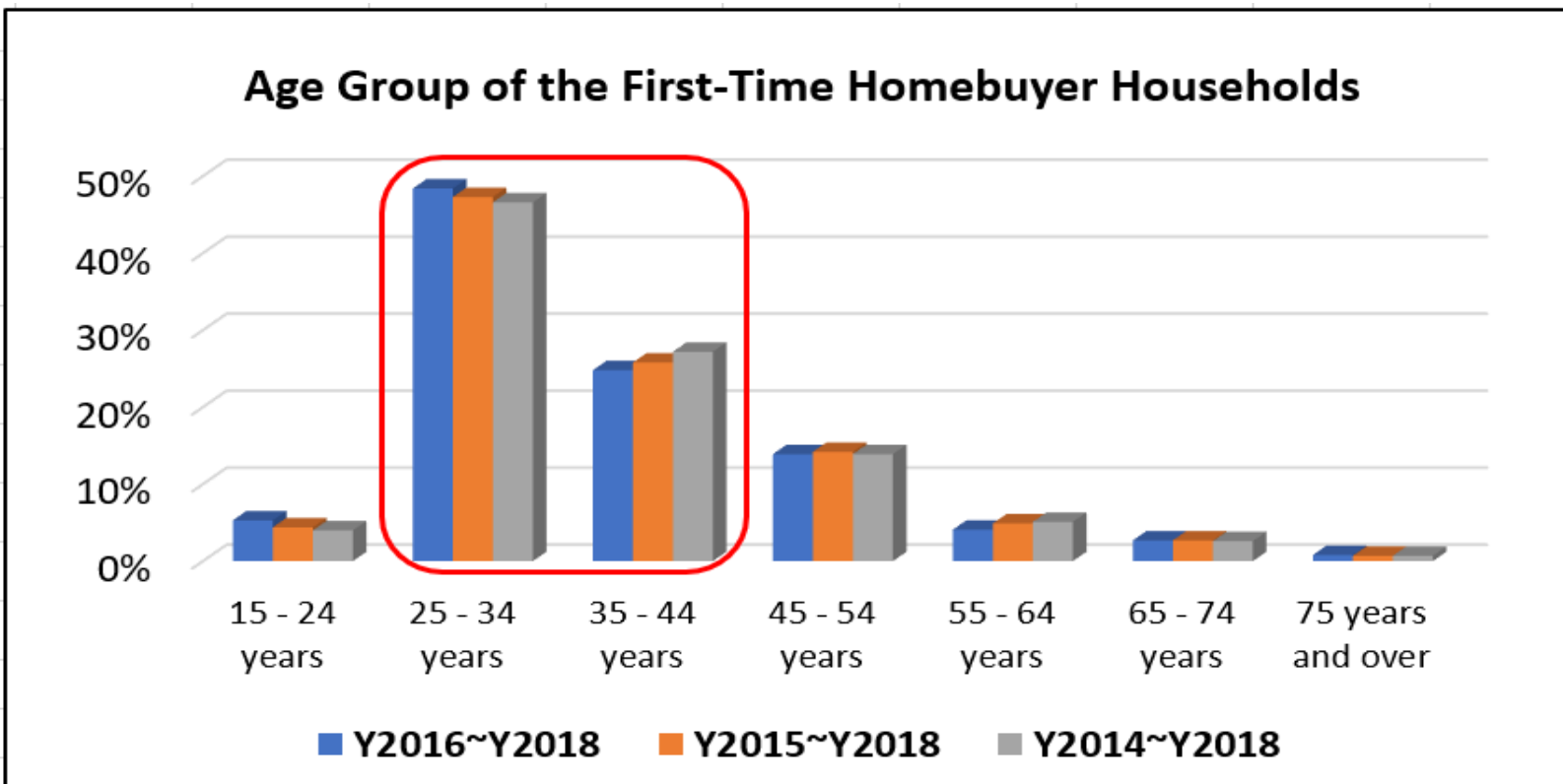
The housing affordability crisis had become a serious issue in Canada particularly amongst members of the Millennial generation (1981 – 1996). Contributing factors to the crisis are personal debt level, personal income, foreign real-estate speculation, homebuying mortgage regulations, short-term rental income properties, and an increased demand by immigration.

Data from the Government of Canada states that over than 1.6 million Canadian households lived in core housing need in 2018 which means living in an unsuitable, inadequate or unaffordable dwelling, and not able to afford alternative housing in their community. More than half a million Canadian households are living in social and affordable housing. These types of housing accommodation provide assistance for low to moderate income households, which is approximately 628,700 households.

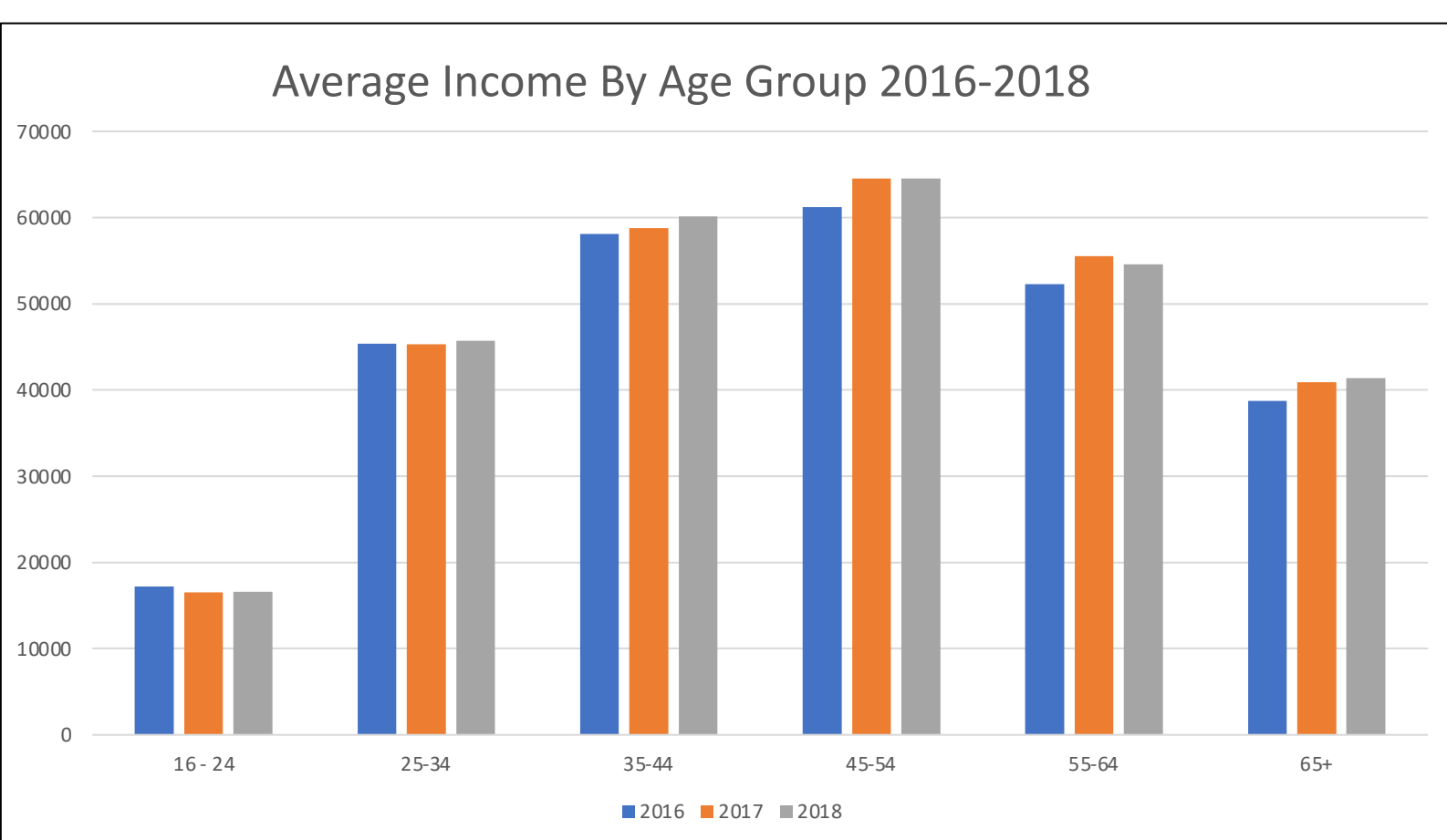


In the past two decades, houses have generally become more unaffordable according to the Bank Of Canada affordability index. A larger portion of a household's earnings is used to make a down payment for their house. For the four years before the pandemic, the index averaged at 0.35 while during 2020 the housing index averaged at 0.33.

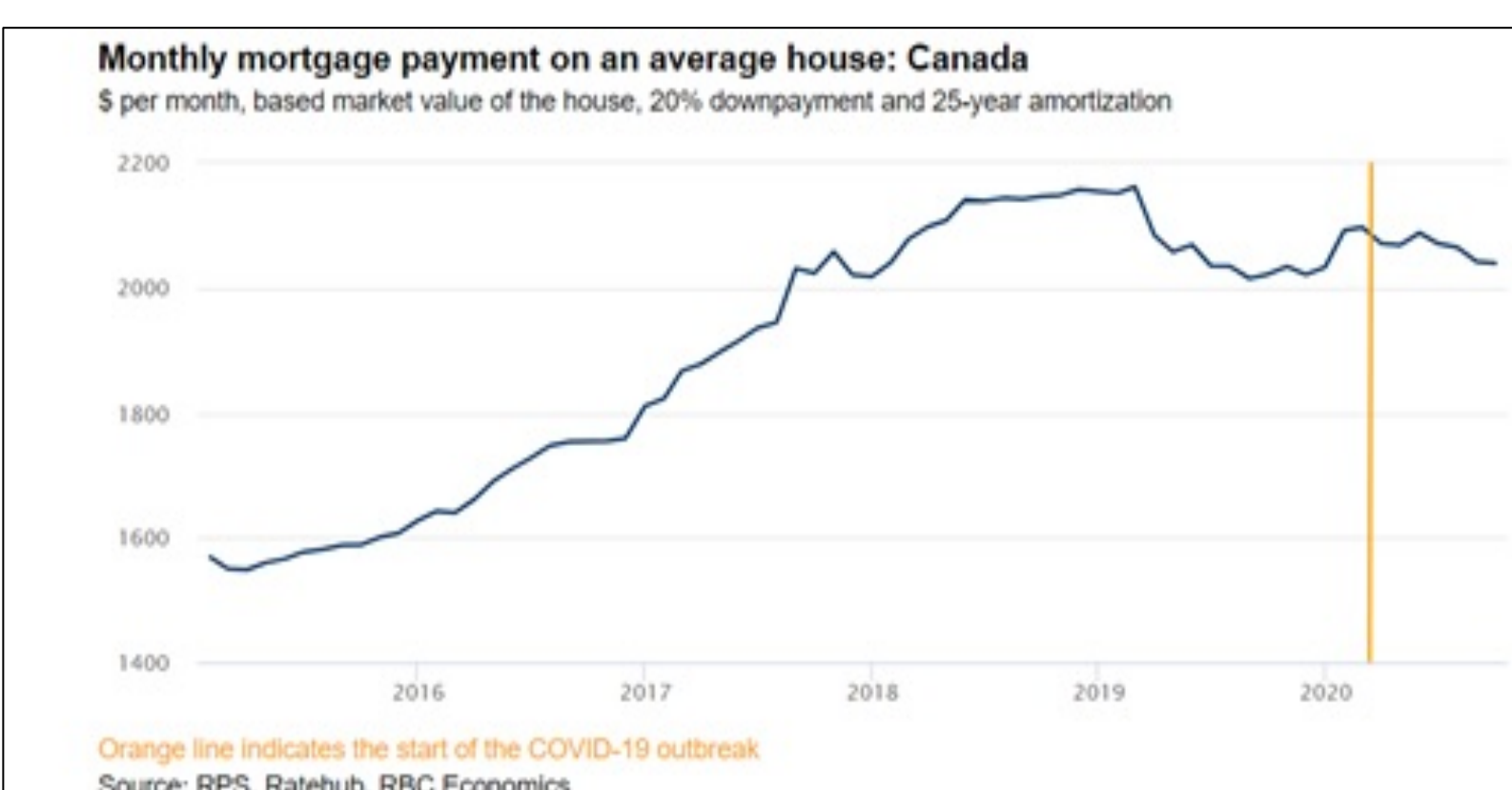
In 2019, the HPI had fallen only by 0.3 after seeing no change at the beginning of Q4 2018. The HPI then increased sharply in 2020, taking home prices above pre pandemic levels.



Canadian Housing Survey(CHS) 2018, shows that 47% of the first-time homebuyers are millennials, accounting for 19% of all home ownerships. Year over year, there has been a noted decrease in the number of first-time homebuyers between the ages of 25 and 35 years.



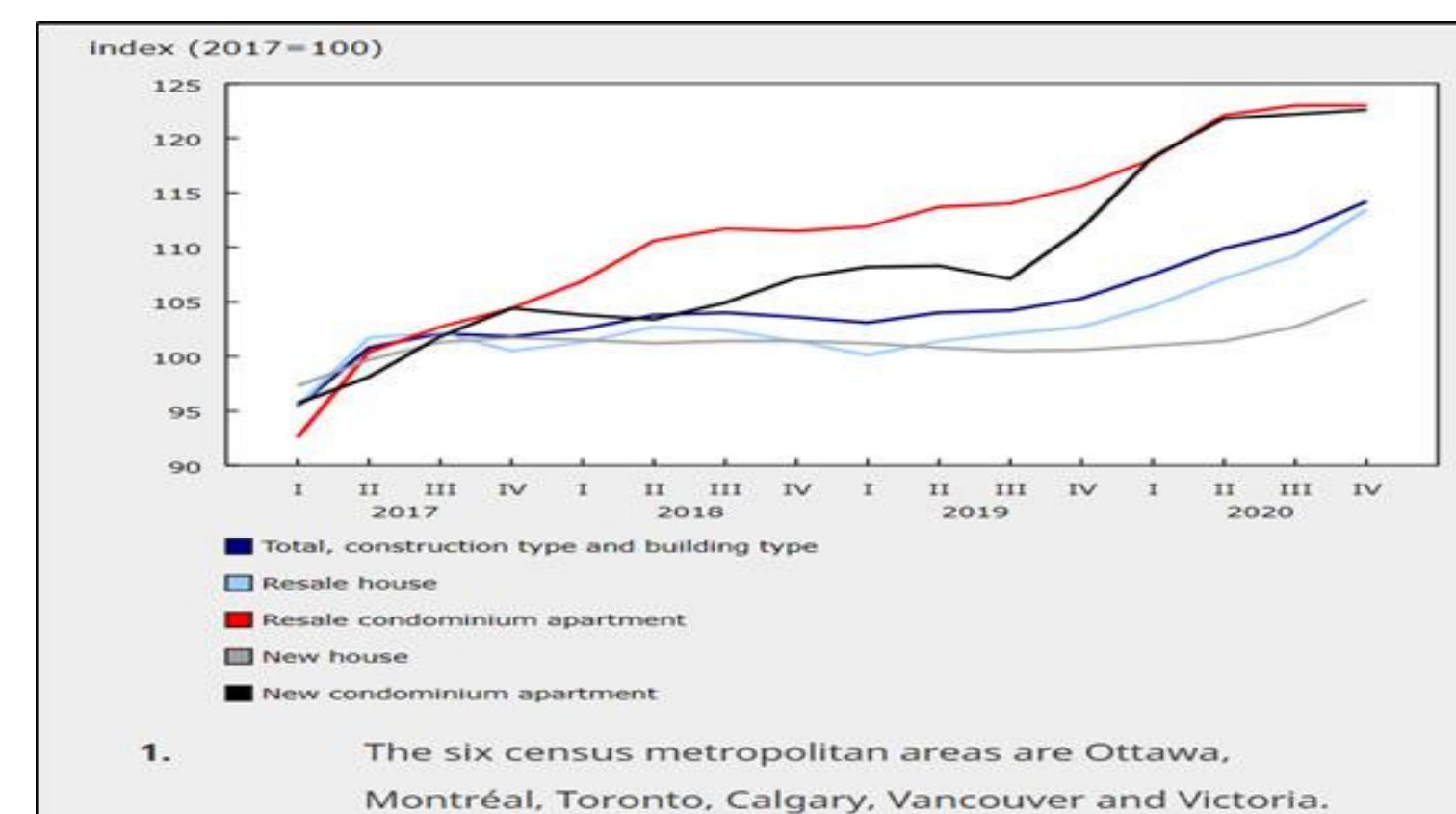
The average income from 2016 to 2018 was approximately \$48,000. It showed a 1.8% increase over the three years amongst all age groups. The average income for millennials is approximately \$52,000.00.



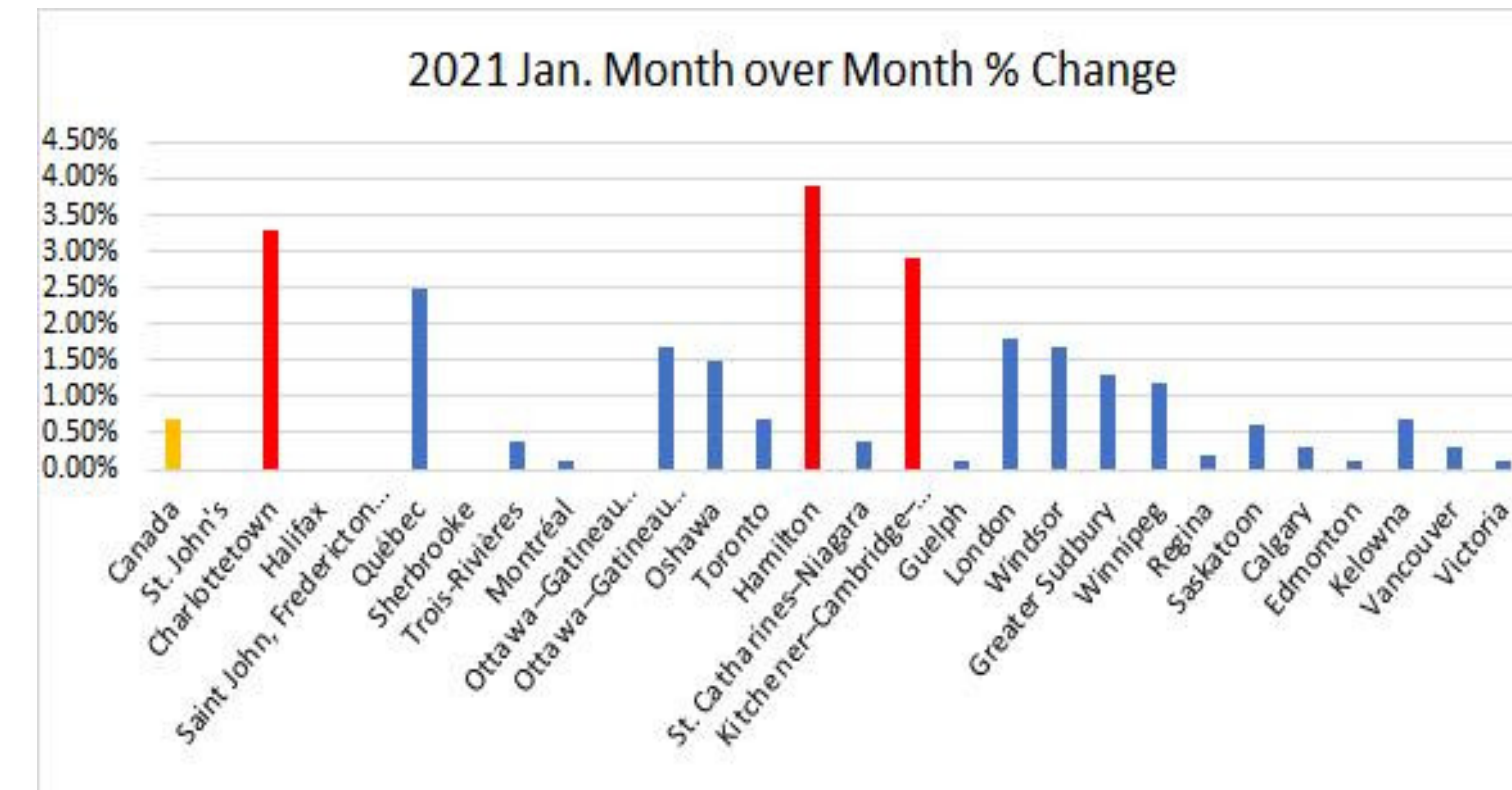
The average monthly mortgage payments showed and upward increase over 4 years from 2015 to January 2020 After the Pandemic happened , the Mortgage Payments started decreasing in March 2020

Factors Affecting the Canadian Housing Market Before and During COVID-19

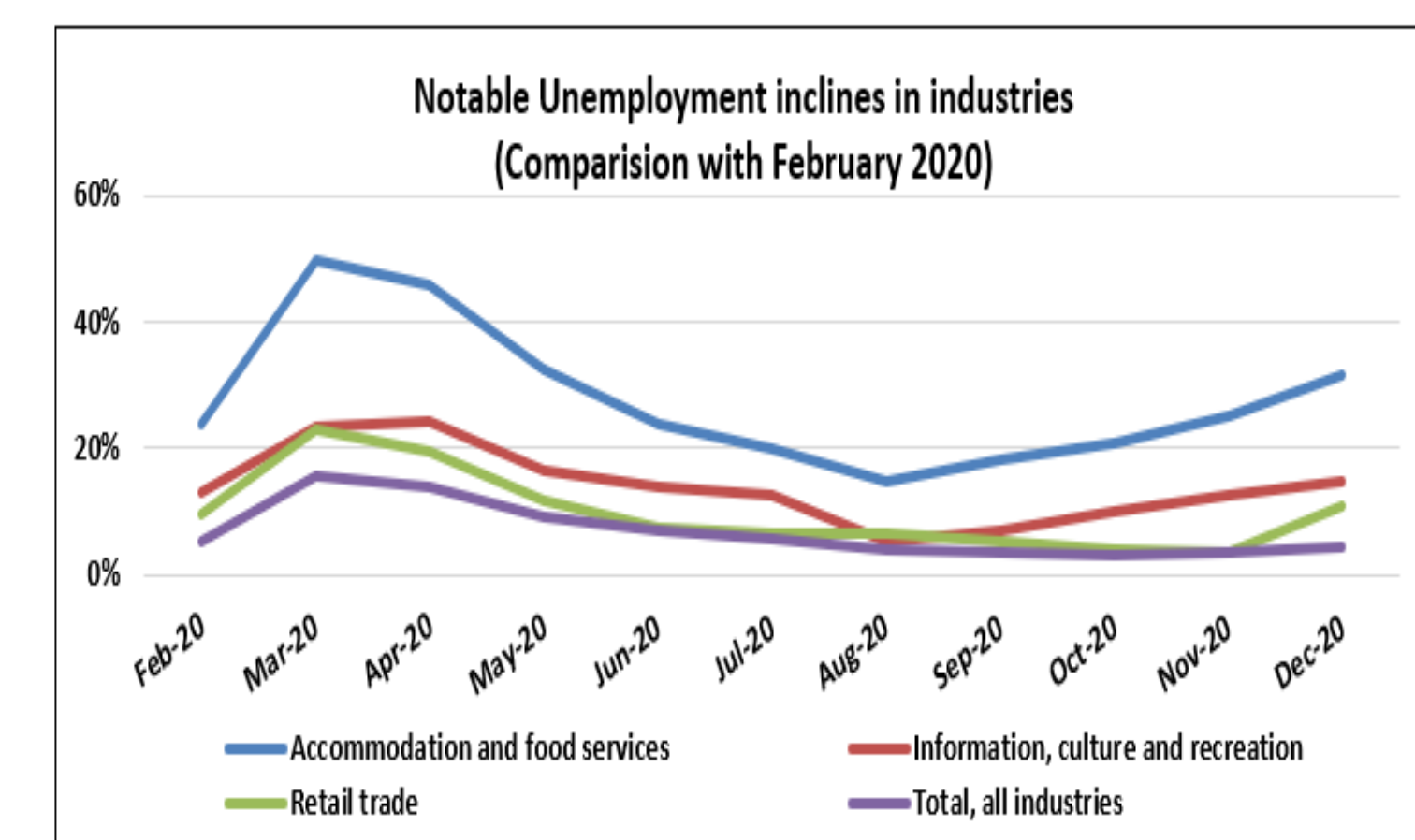
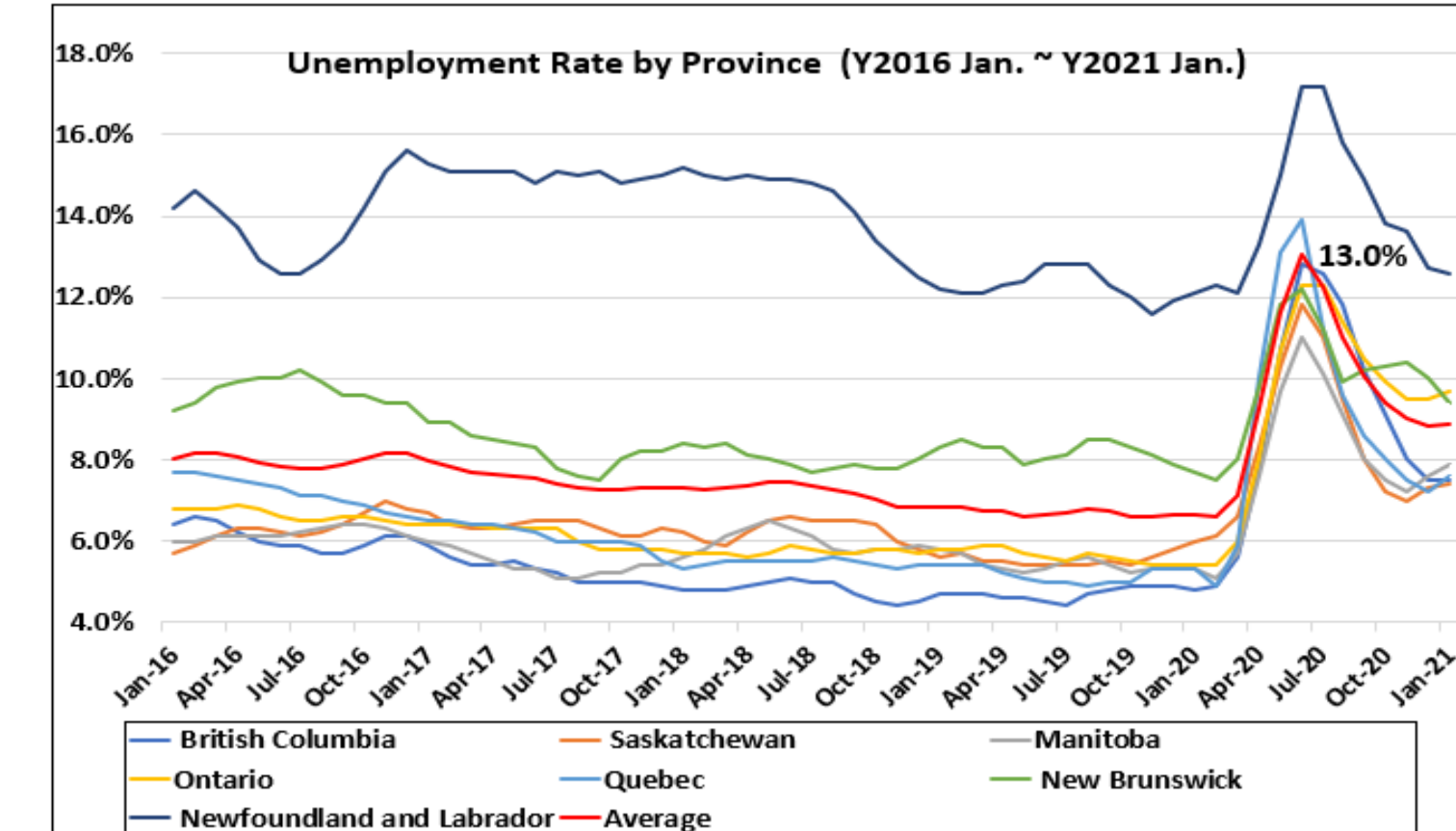
1. Change of Housing Preference During the Pandemic



The prices of single and detached townhouses showed a steep increase. This major increase was as a result of persons moving to the suburban areas to obtain larger homes outside of the big cities, as many persons were mandated to work from home. The number of persons working from home increased by 700,000 during COVID.



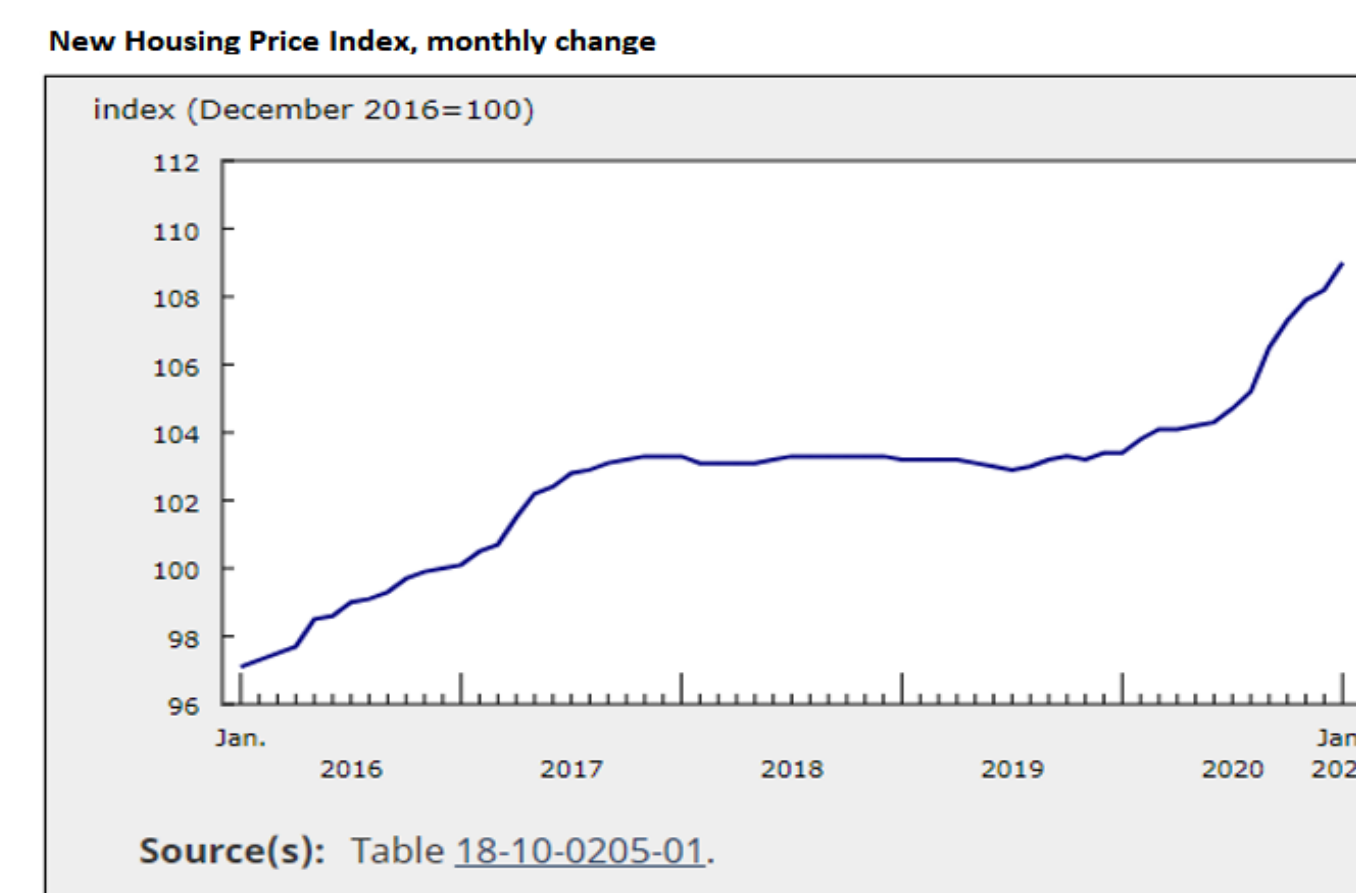
2. Unemployment Trends During the Pandemic



3. New Mortgage Lending Hits Record Level

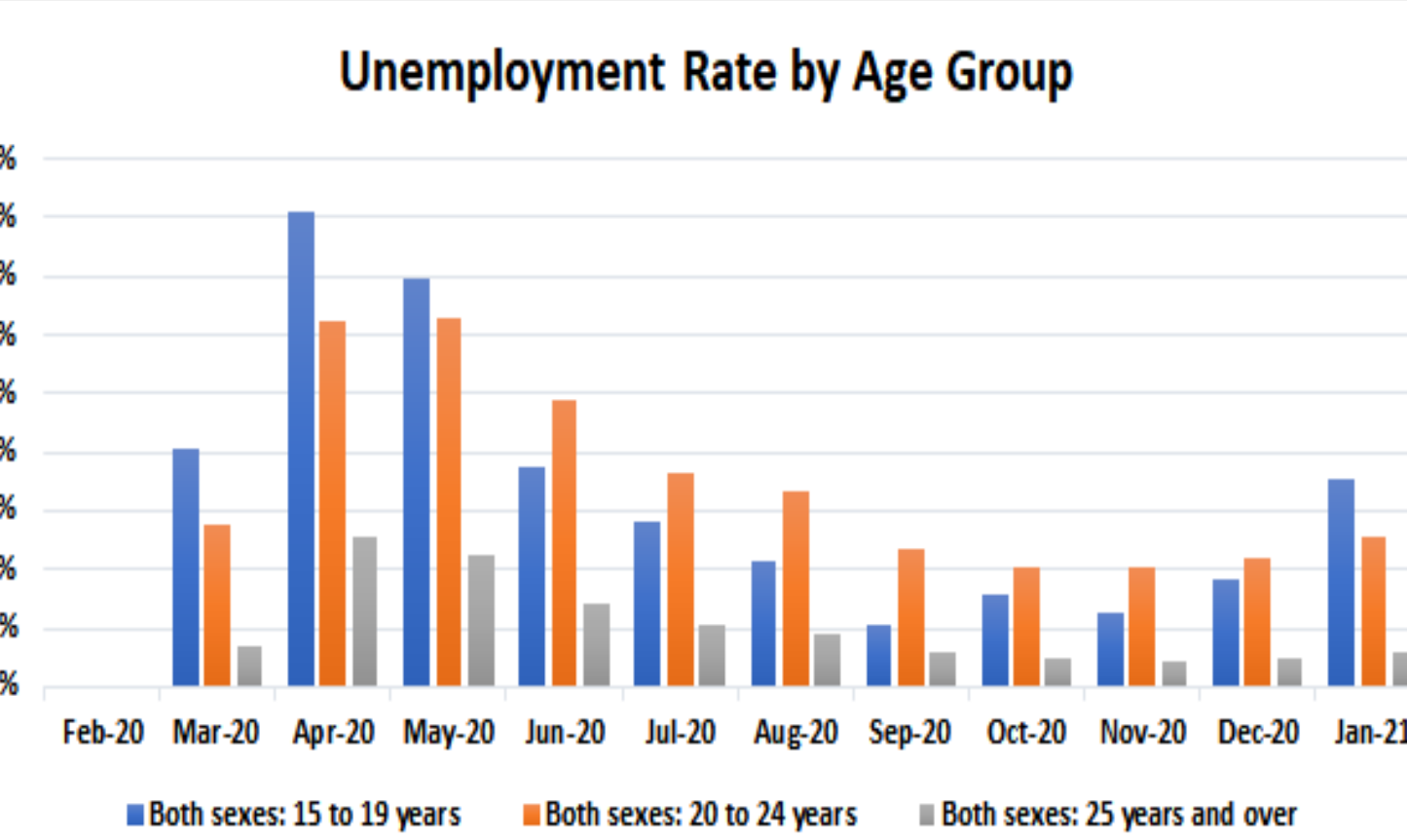
The amount of new lending reached record levels in the first half of 2020, driven in part by significant declines in the costs of borrowing and resilient demand for housing fueled by assistance from all levels of government to help diminish the economic impact of COVID-19.

Thus, the outstanding stock of mortgage debt increased. This increase in the outstanding stock of mortgage debt is a combination of this new lending less the repayment of existing debt, with the expansion of new lending persisting in the latter half of the year.



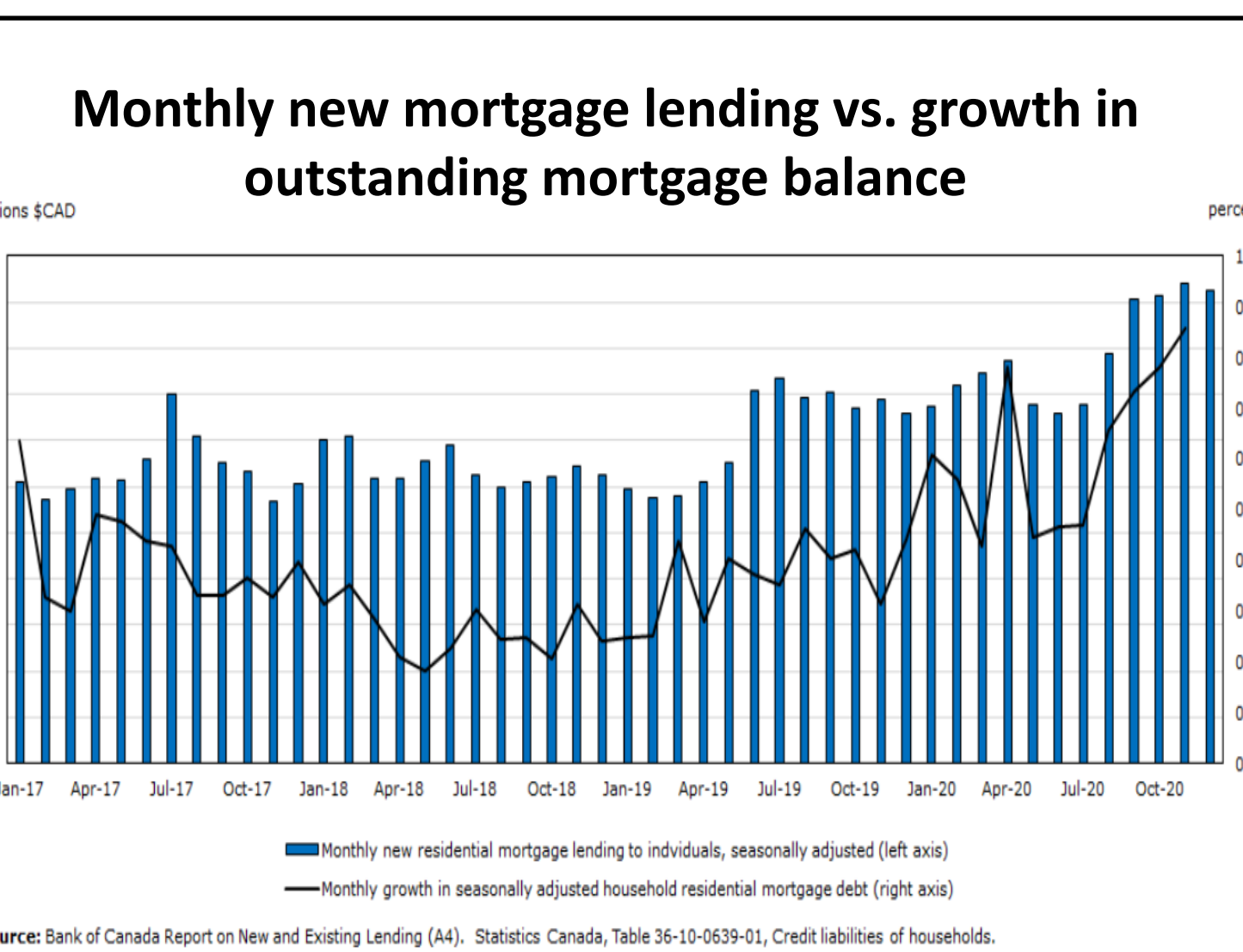
The housing price index saw a major increase and continues to trend upward. This linked primarily to the decreasing supply of new homes and growing demand, driven mainly by lower borrowing costs and consumer desire for more living space during the pandemic.

There was a 3% increase in housing prices in suburban areas such as Charlottetown, Hamilton, and Kitchen-Cambridge, as there was an increase in housing demands from persons relocating from the metropolitan areas.



The unemployment rate soared to a high of 13.7% in May 2020 an approximate 7% increase prior to the pandemic . It was much higher in accommodation and food services, information, retail trade, culture and recreation industries. This resulted from restrictions being placed on the operations of non-essential businesses. This affected workers between the ages of 15 and 24, as most of these jobs are held by persons within this age group.

The increased unemployment within the younger generation caused the housing affordability issue worsen during the pandemic than prior to the pandemic, even in light of the reduction in mortgage rates during the pandemic.



4. The Polarization of Housing Affordability by Income Level

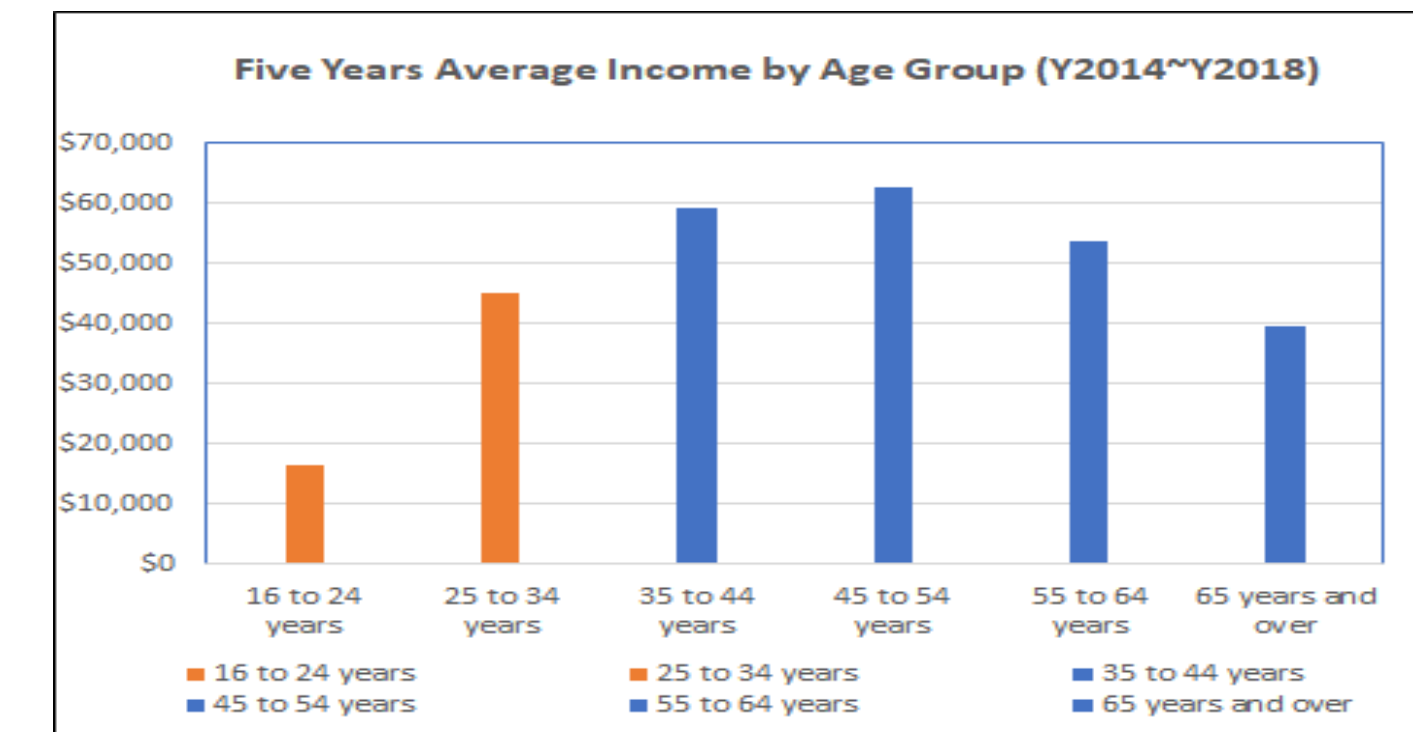
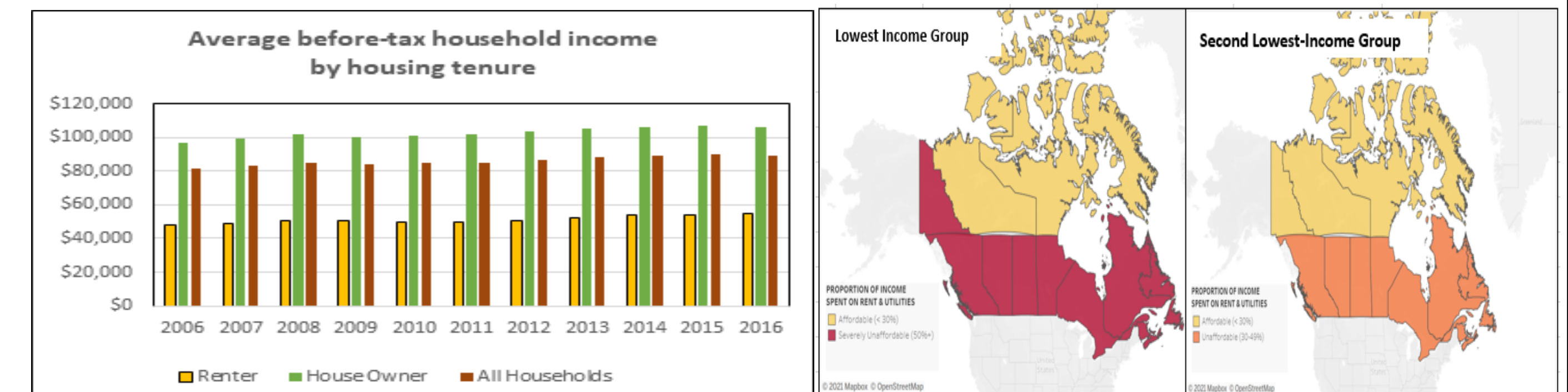
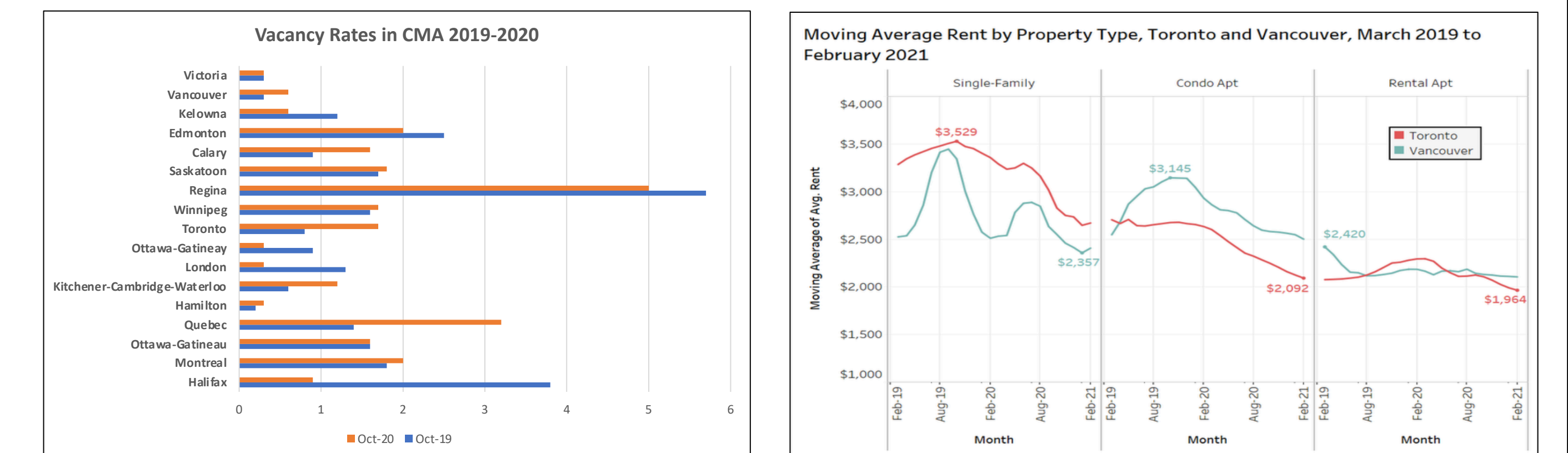


Table 1

Income Quarter	Average Income	Affordability
Q1-Lowest Income Group	\$15,917	Severely unaffordable(50%+)
Q2-Second Lowest-Income Group	\$36,617	Unaffordable (30~49%)
Q3-Moderate Income Group	\$62,950	Affordable(<30%)
Q4-Highest Income Group	\$124,558	Affordable(<30%)

Canadian Income Survey 2012 – 2016 performed by Statistics Canada showed that Canadian homeowners' average household income was roughly double that of renters within that period, even though renters' average household income grew more between 2006 and 2016. This was a 14.4% increase compared to 9.7% for homeowners. For rental houses, housing is typically considered affordable if a household spends less than 30% of its before tax income on rent plus utilities [Table1]. The housing affordability map shows that the two lowest income groups, ages 16-34, are spending over 30% of their income on rent & utilities, and their income ranges \$12,000 ~ \$59,000. Generation Z and part of the millennial group are amongst those whose income in the lowest and second lowest income groups in Canada. The pandemic worsened the affordability for these groups as they were most impacted by unemployment.



Vacancy rate in Census Metropolitan Areas(CMAs) increased by 0.5% from 2019 to 2020 and the average rent for the 2 most popular cities in Canada shows the downward trend from 2019 to 2021. This trend shows that Canadians are moving out of the CMA and seeking properties in suburban or rural area during the pandemic.

Outlook

- COVID-19 caused an increase in housing prices of single houses and detached houses rather than the condominium apartments and it appears to be trending upwards as the working environment has changed toward a hybrid framework.
- Unemployment rates are expected to decrease as the economy recovers from the pandemic which may provide more favorable to housing and rental affordability especially for millennials and young generation.
- Increase in housing prices would mean the home buyers would need to pay a larger down payment amount after the reduction in the mortgage rate provided by the government will go back to the pre-pandemic rate.
- Higher rental unit availability because of migration to suburban areas could indicate a decrease in rental prices because of the lower demand of rental properties in the CMAs.

As we are still in the midst of the pandemic more research will be needed to develop more solid conclusions and provide a better outlook into housing affordability within the Canadian market.

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