

THE CANADIAN HOUSING MARKET

Group D

Winter 2021

Head Competition

Project Mgmt for Bus Analytics – BUSN-10197-01

Analysis By: Paul Amusu, Jessica Easson, Eric Haardeng and Osman Karar

OVERVIEW

Housing affordability has been of heightened concern during the COVID-19 pandemic. **The purpose of this project is to examine trends in the housing market, related to the COVID-19 pandemic to predict how the housing market may evolve as Canada's economy recovers.**

Over the last several years Canadians have witnessed a steady increase in housing prices. While prices and debt levels increase, interest rates are going down (Jarvis, 2021). A housing crisis is often referred to when a housing/real estate bubble bursts. This is thought to occur when demand decreases or stagnates while supply continues to increase (because of past high growth) (Kharit, 2020). Investing guides describe this as "a rapid increase in the supply of credit leading to a combination of very low-interest rates and a loosening of credit underwriting standards can bring borrowers into the market and fuel demand" which is then burst by "a rise in interest rates and a tightening of credit standards can lessen demand" (Kharit, 2020).

As the need to carry debt among consumers continues to grow in frequency and amount, federally regulated lending agencies now require Canadian buyers applying for a mortgage to take "OSFI Mortgage Stress Test" (Rennie). The "Stress Test" seeks to evaluate if consumers will be able to continue to make payments if interest rates rise (Rennie).

CONSUMER BEHAVIOUR

According to the 2019 CMHC Mortgage Consumer Survey, "65% of buyers said they believe the new mortgage qualification "stress test" will keep more Canadians from taking on a mortgage they can't afford." (Canada Mortgage and Housing Corporation, 2019). Furthermore 61% of homebuyers opted to purchase a smaller or less expensive home as a result of the stress test and indicated that the stress test has positive impact as a safeguard. The survey also indicated that despite increases in mortgages and debt, consumers had positive attitudes towards buying a house with "close to 9 out of 10 buyers [being] "happy" (47%) or "excited" (39%) about buying a home" (Canada Mortgage and Housing Corporation, 2019).

9 in 10 consumers have a positive sentiment towards buying a home

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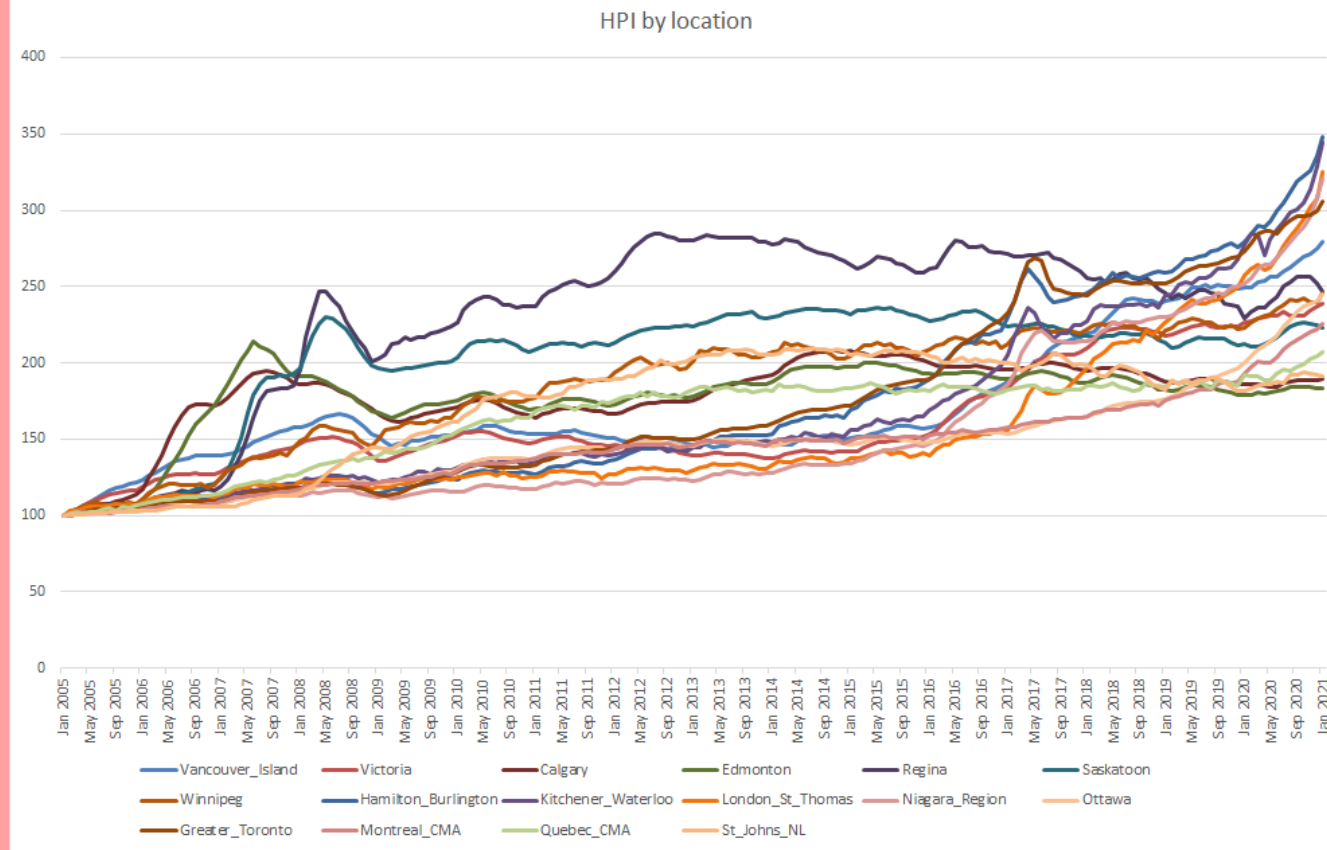
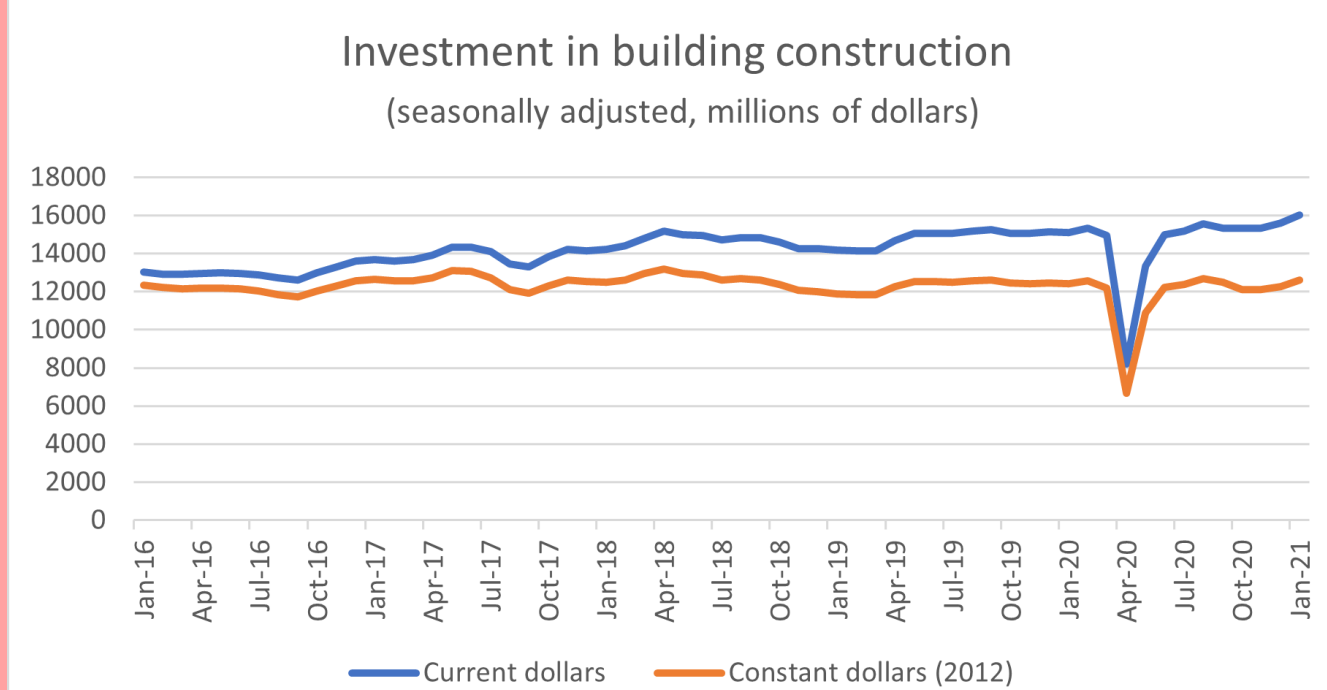
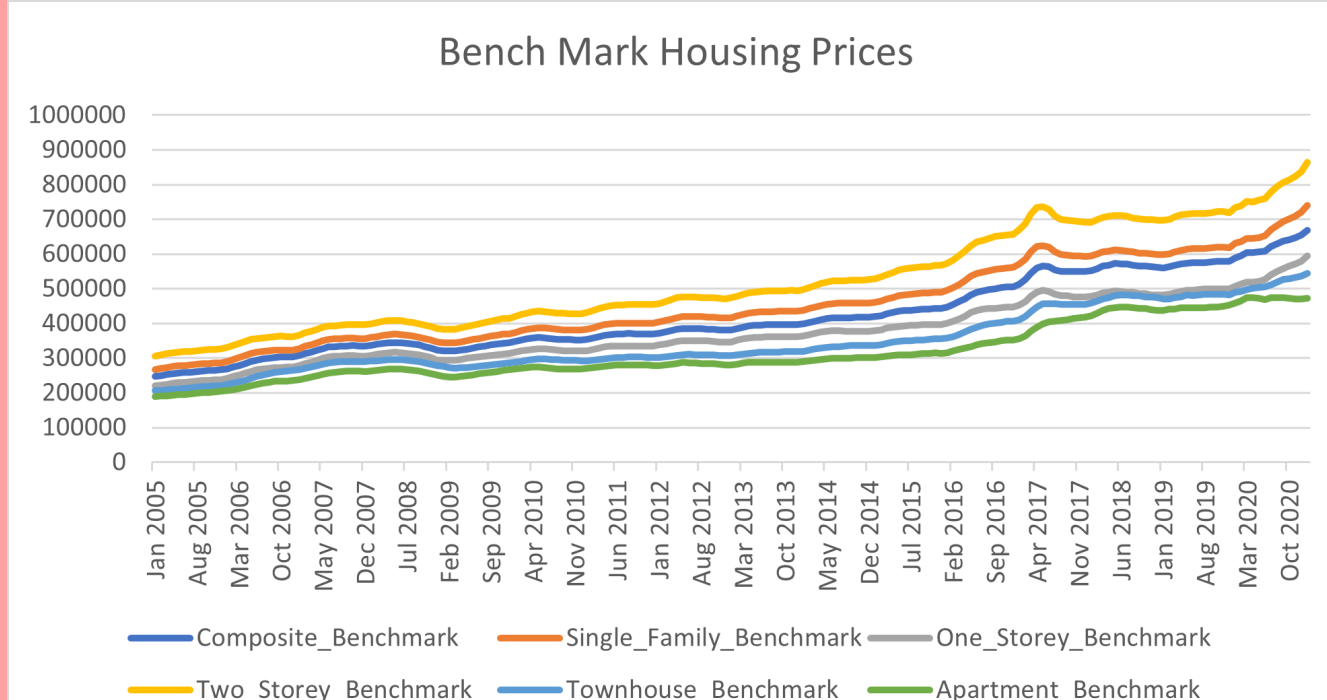
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CONCLUSIONS

- Home prices are rising at an unsustainable rate given the average median household income levels.
- The Government should invest in first time home buyers and begin teaching financial literacy at a younger age. This should help decrease the amount of individuals needing low income housing.
- Declining construction of rental properties is not meeting the rising demand levels.
- Introduce tax credits to rental and low income housing providers to increase supply.

HOMEOWNERS

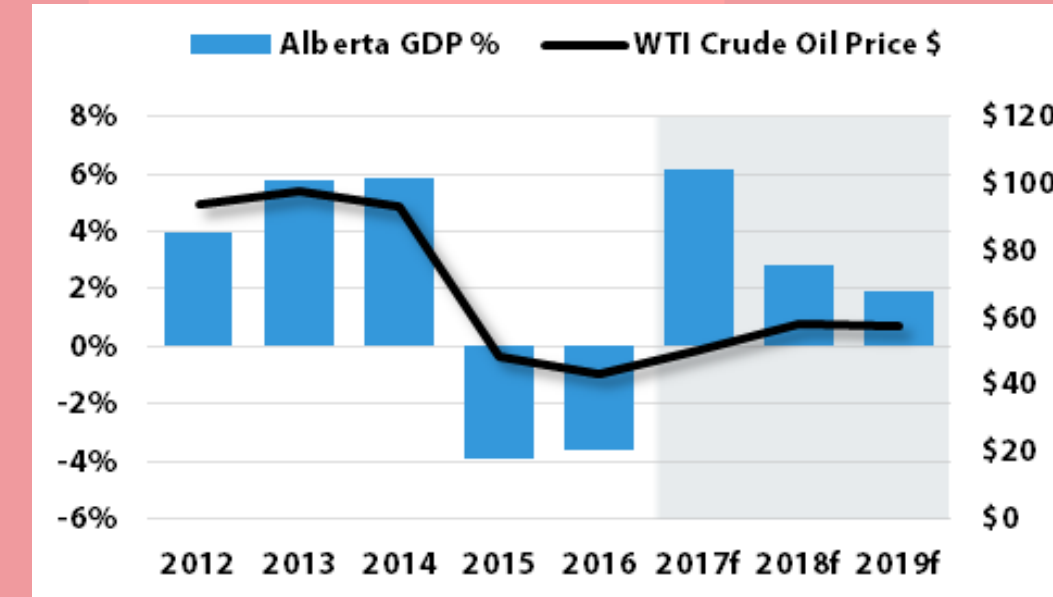


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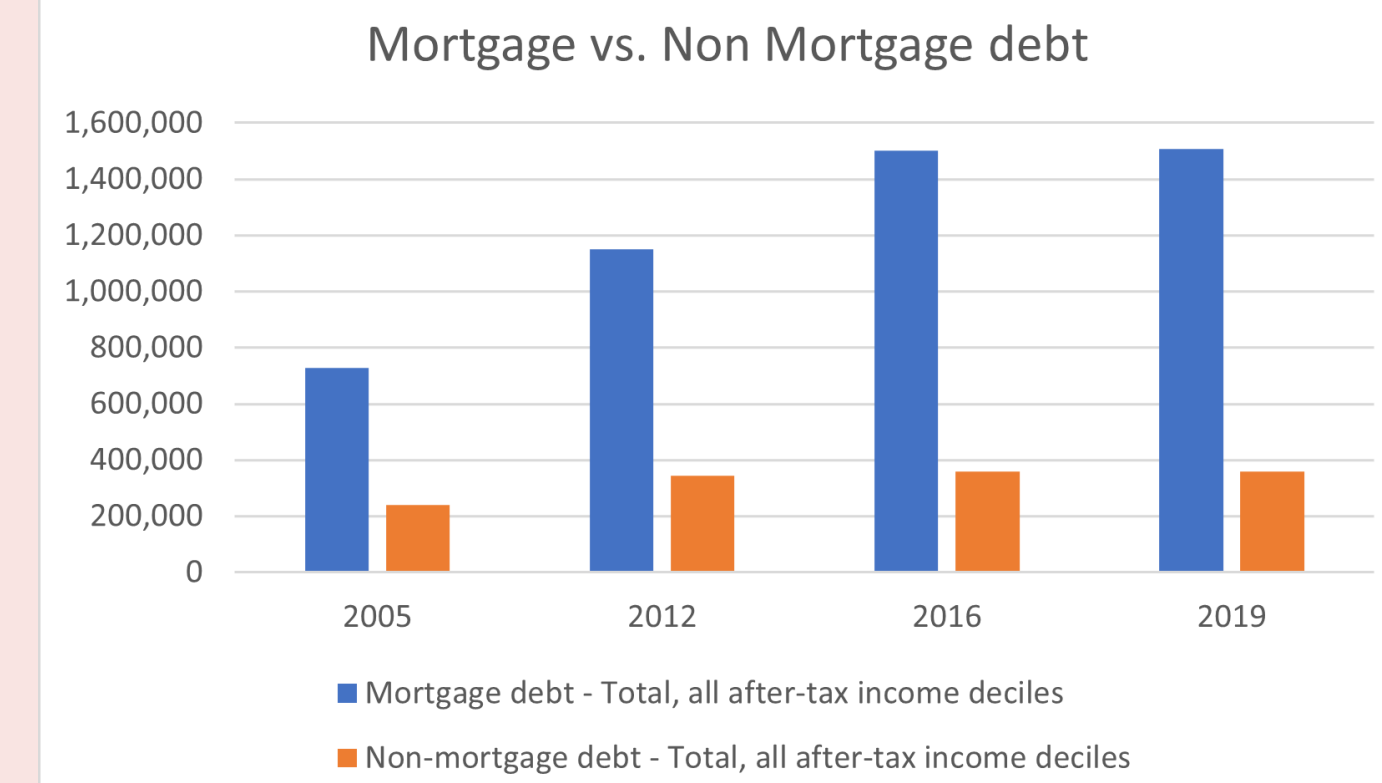
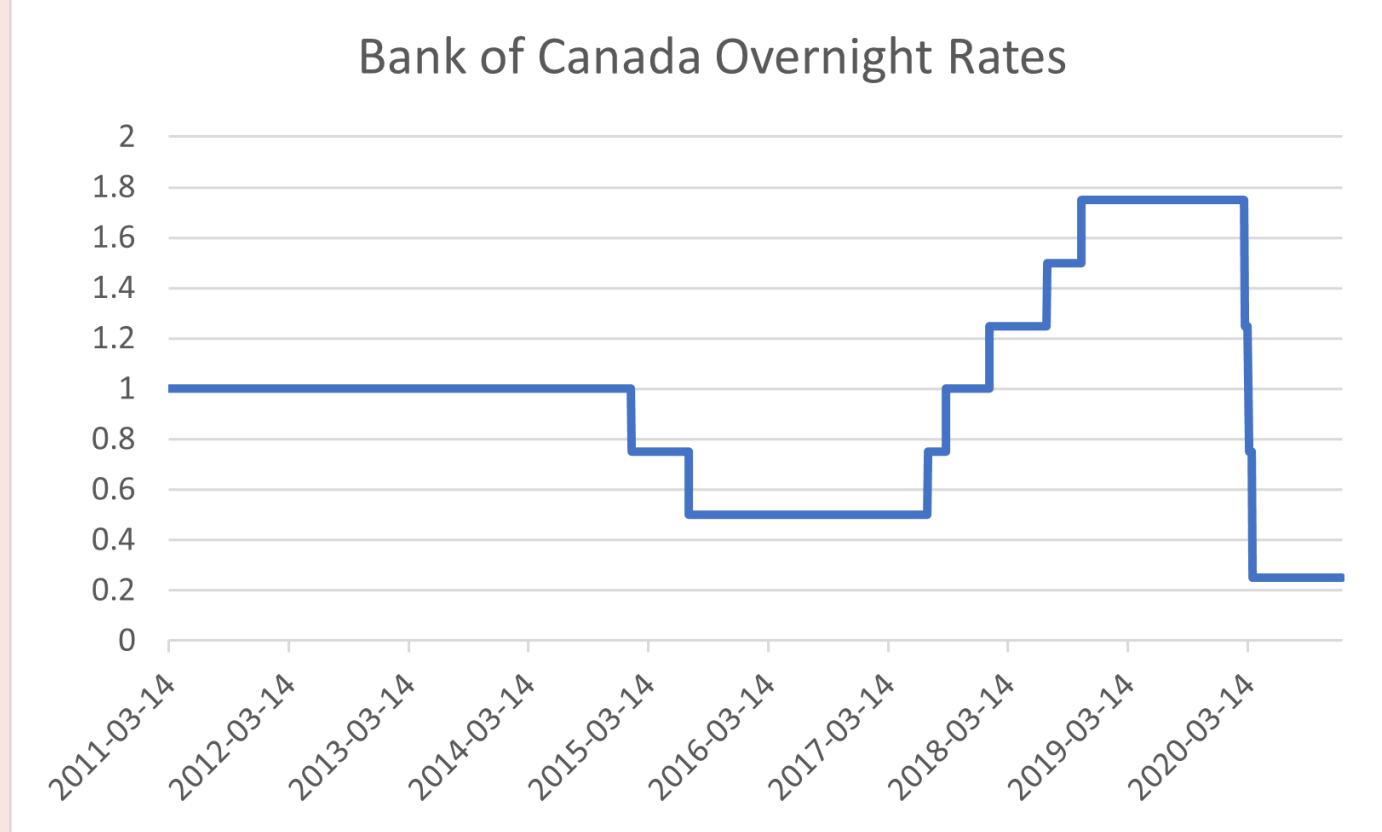
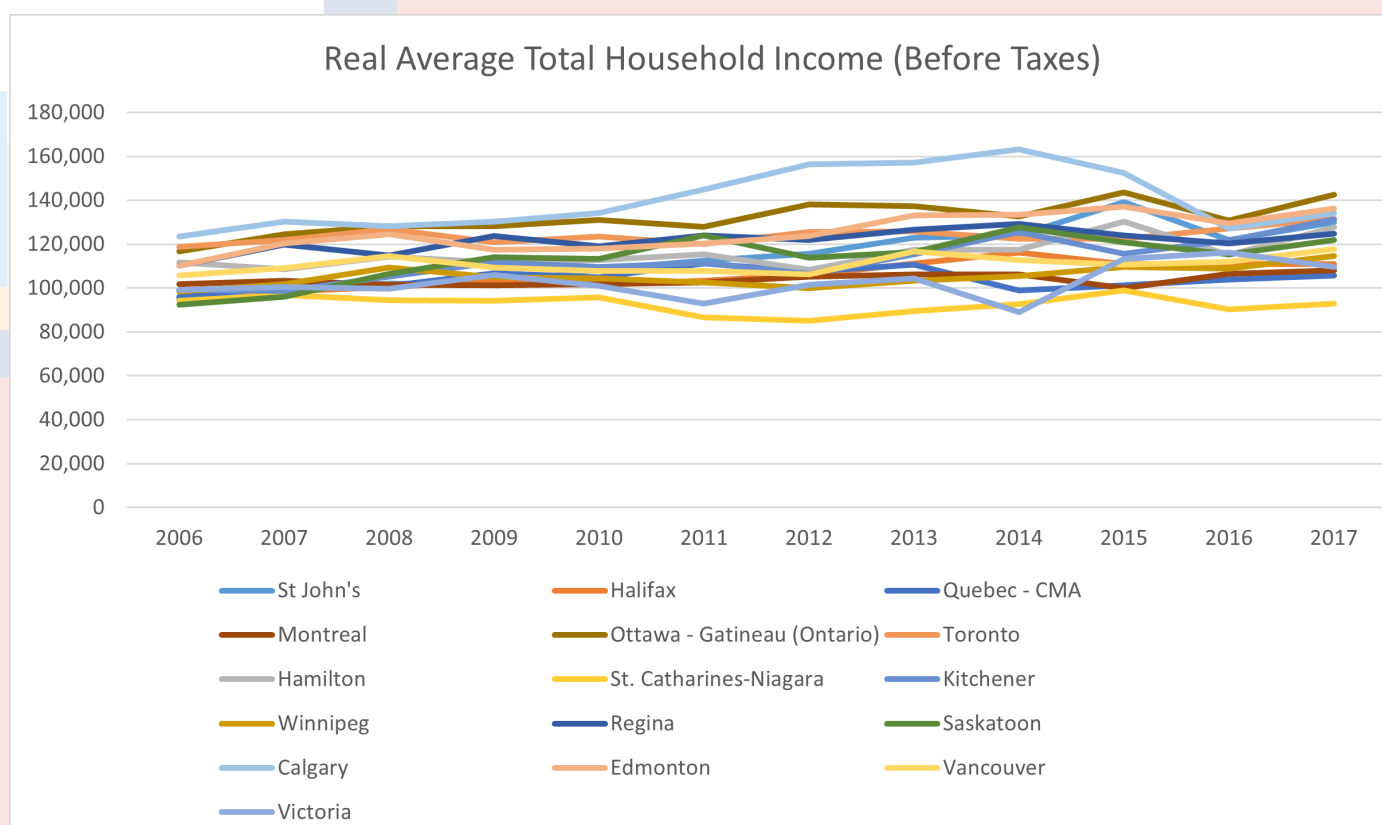
Hamilton/Burlington, Kitchener/Waterloo region, London, Niagara region are among the regions with the highest HPI scores indicating high growth and increasing property values. Conversely, the HPI values for Calgary, Edmonton, Regina, Saskatoon, and St. John's seem to be leveling. Natural resource-based regions have leveled growth compared to manufacturing and financial service based regions as there is increased growth and opportunities in manufacturing and financial service industries.

Graph from Job Bank Canada 2018



SOLD

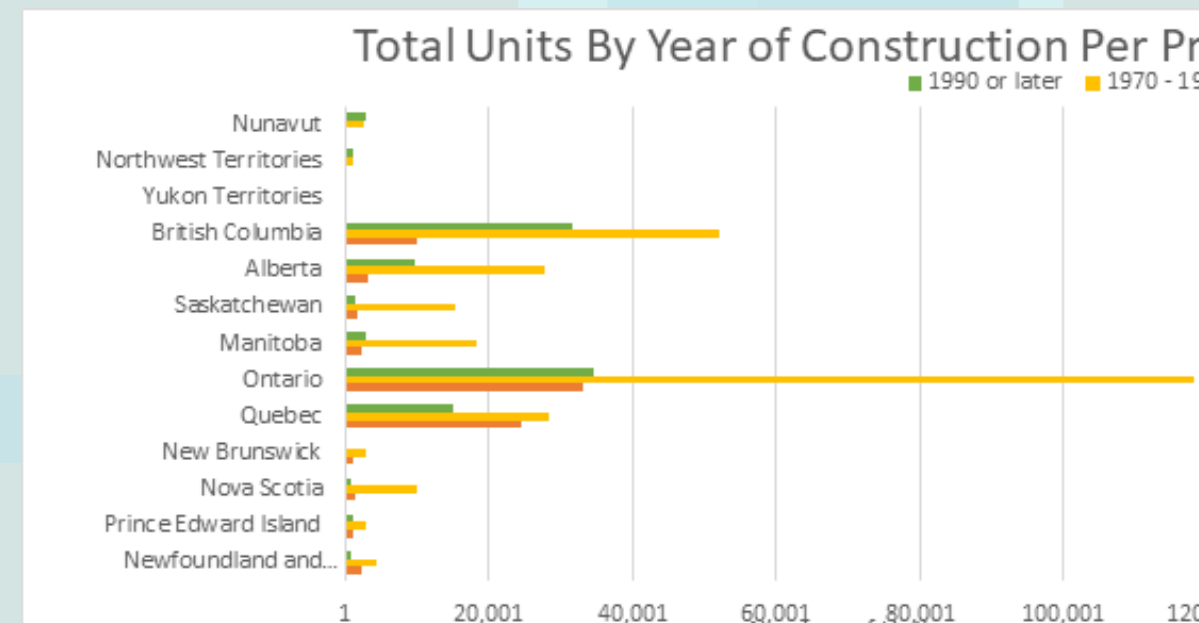
Average income seems to remain fairly constant while housing prices continue to increase. Data on Canadian income was only available up to 2017 and was sourced from the Canadian Income Survey (2019 Canada Mortgage and Housing Corporation Canada Mortgage and Housing Corporation (CMHC), 2020).



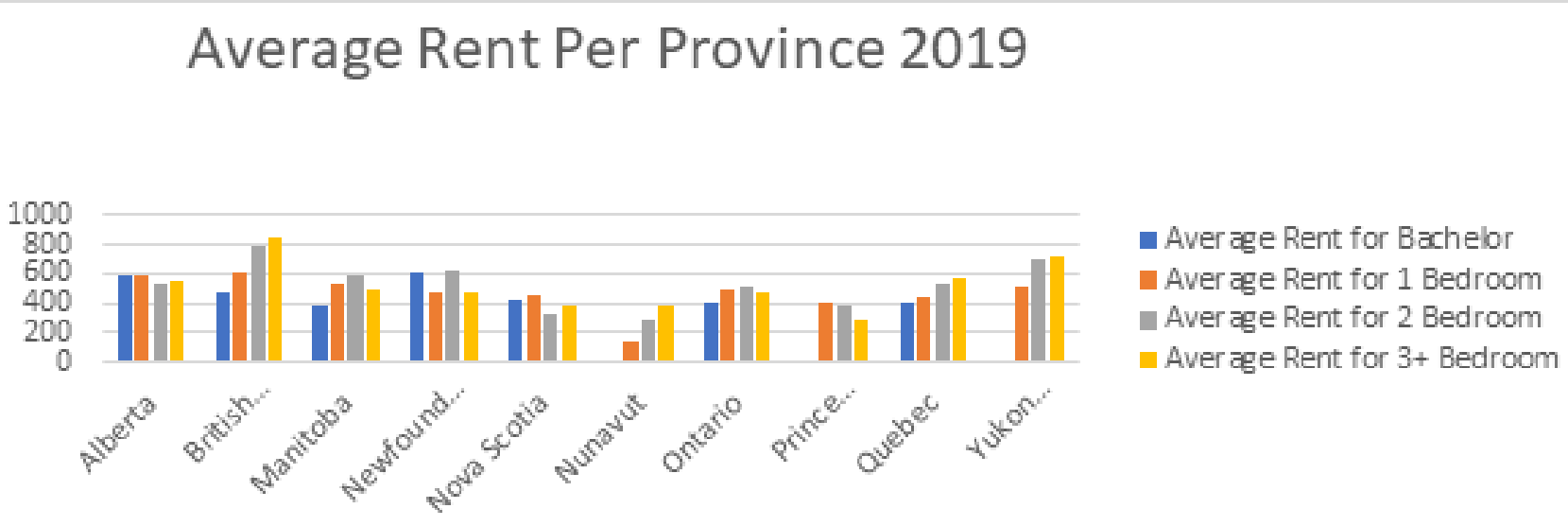
FOR RENT

Over the last year the Bank of Canada Overnight Interest Rate has dropped to 0.25%. Consequently, the lower overnight rates reduce the mortgage rates and decrease the price of mortgages leading to an increase in demand.

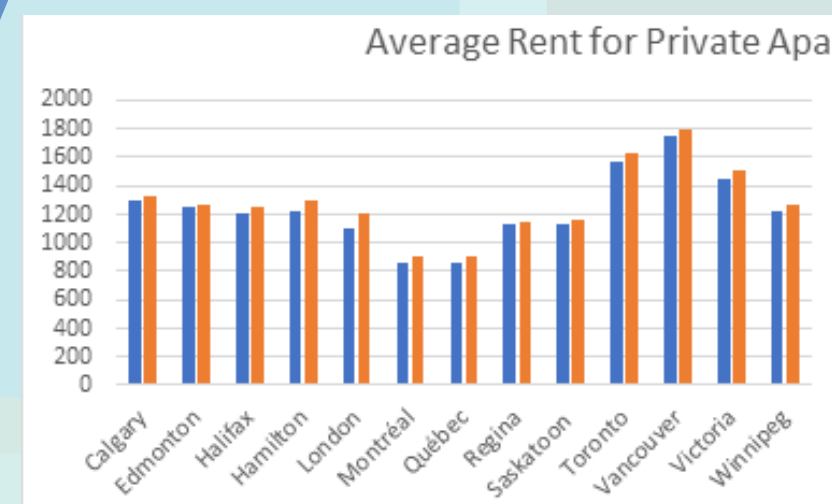
The need for social and affordable housing stems from population growth in many areas accounting for high housing demand in major cities across Canada. Many Canadians are struggling to afford the property of their choice due to several reasons including cost of living, required down payment, rising level of debt, increasing home prices etc. However, the demand for rental accommodation has increased over the years to bridge gap between affordability and availability.



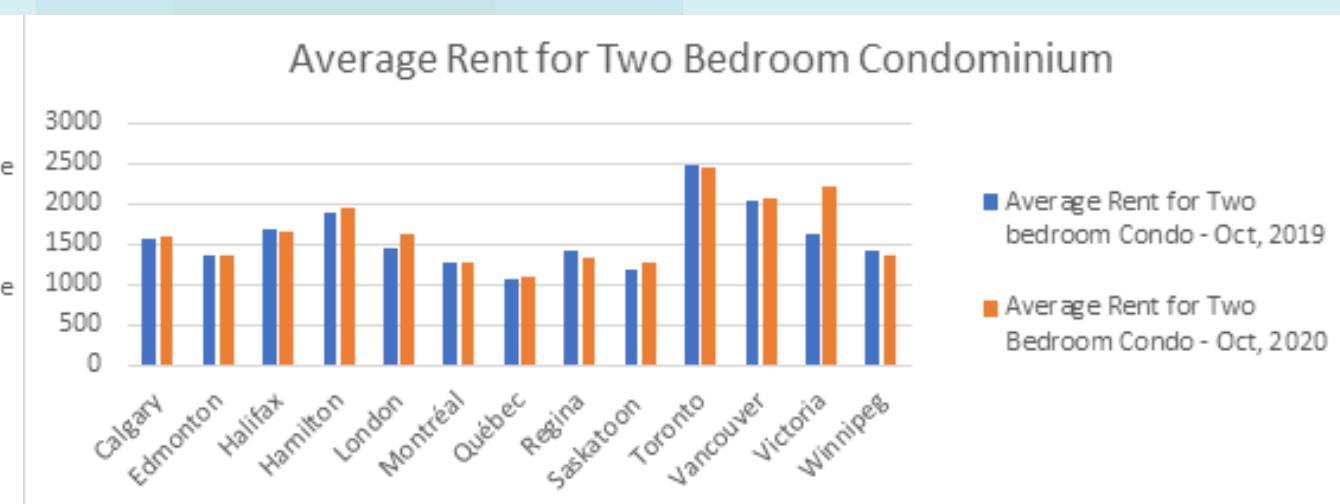
The bar chart to the right highlights average rent cost across Canada as of 2019. British Columbia had the highest average rent for 1, 2 and 3+ bedroom units while Nova Scotia had the highest average rent for Bachelor style accommodations.



PRE & POST COVID-19 RENTAL PROPERTY
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Major cities recorded a rise in average rent for private apartments between October 2019 and October 2020 despite lockdown of economic activities and reduced household income. The City of Hamilton recorded the highest average rent increase of \$100 followed by Toronto and London, Ontario with increases of \$75 and \$72, respectively. Possible assumption for rent increases supports the notion of economic uncertainty and government income assistance (CERB).



The above bar chart displays average rent prices for two-bedroom condominium units across major cosmopolitan cities. The said period highlights the rental decreases in Regina, Winnipeg, Halifax, Edmonton, and Toronto. Conversely, cities like London and Saskatoon recorded price increases. Notably, Victoria recorded a significant increase of over \$500.

LOW INCOME HOUSING

Affordability contracts which obligated housing providers to offer affordable rent began to expire in 2007. By the end of 2020 about 50% of these contracts had expired and by the end of 2033 the last of these obligation contracts will expire. If these expire, land lords will be allowed to change (or increase) rent prices. Housing providers through municipal service managers should make efforts to extend these contracts to protect the current affordable housing contract locations. In Ontario alone this would equate to almost 85,000 below-market rentals. Through the auditor general survey (2017), it was found that 5,800 units were converted from low-income housing contracts to market-rate units.

With recent Covid-19 action plans being implemented, cities like Toronto have created Rapid Housing Incentives to increase Social and Affordable Dwellings in their city by 540 units in an effort to combat the effects of large scale unemployment and financial hardships caused by the pandemic.

The federal government has also implemented a \$1 Billion RH that will help fund to construction of up to 3,000 permanent affordable housing units across Canada to help address the housing needs for Canadians.

Due to the Covid-19 Pandemic, it appears that all forms of government are starting to realize the impact of decreased funding to Affordable Housing Initiatives. It appears that they are acknowledging the vacuum that the housing market boom is creating for people in high-risk low-income environments. Although some projections are showing increases in the amount of people who will be needing Affordable Housing, it looks like they are trying to increase the availability in an effort to flatten the housing crisis curve.

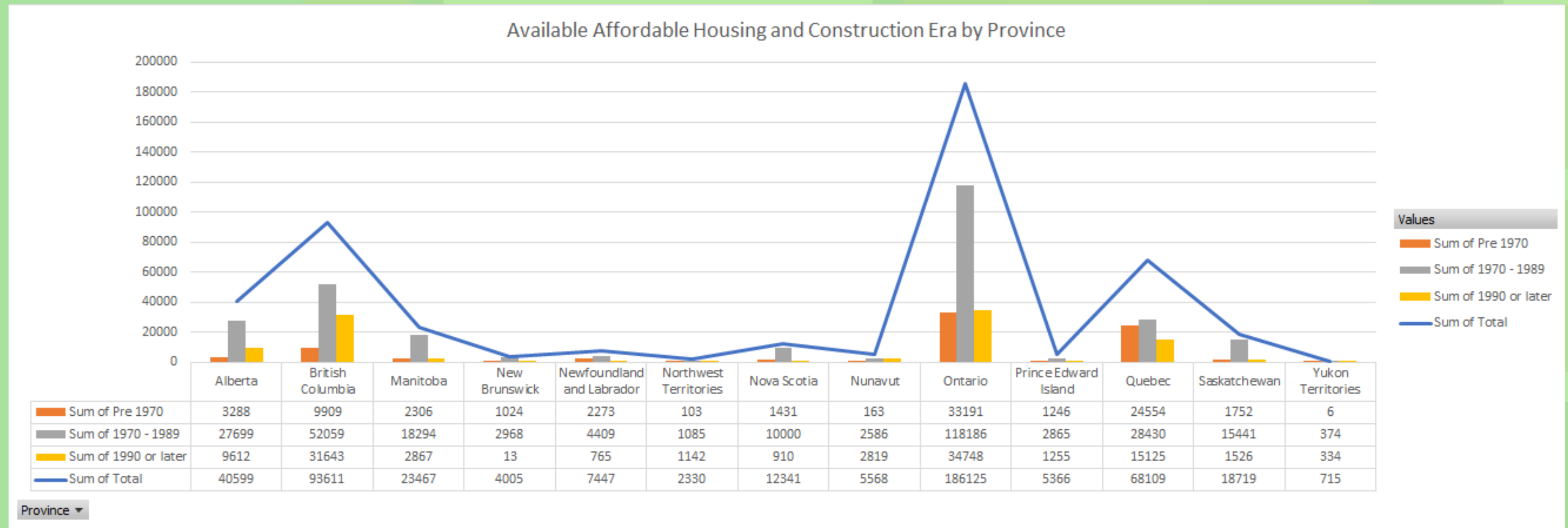


Canadian affordable housing numbers as of the 2018 Canadian Housing Survey (CHS)

This chart includes total available units by province and unit construction era's Social and Affordable housing programs, representing over 1 in 10 renters (13.5%) nationally. That equates to 628,700 Canadian households that resided in rentals as of 2018. Over 250,000 (1.9% or 283,800) Canadian households reported having at least 1 member of the household on a waiting list for social and affordable housing. Of those households, 61.5% (173,400 households) were on the waiting list for 2 years or longer. With 1/5 of those individuals on the waitlist already residing in an affordable housing unit. The reason for this is to transfer to a different type of subsidized housing unit or they were looking for a unit of their own. Affordable housing is projected to grow in demand by as much as 20% by 2030.



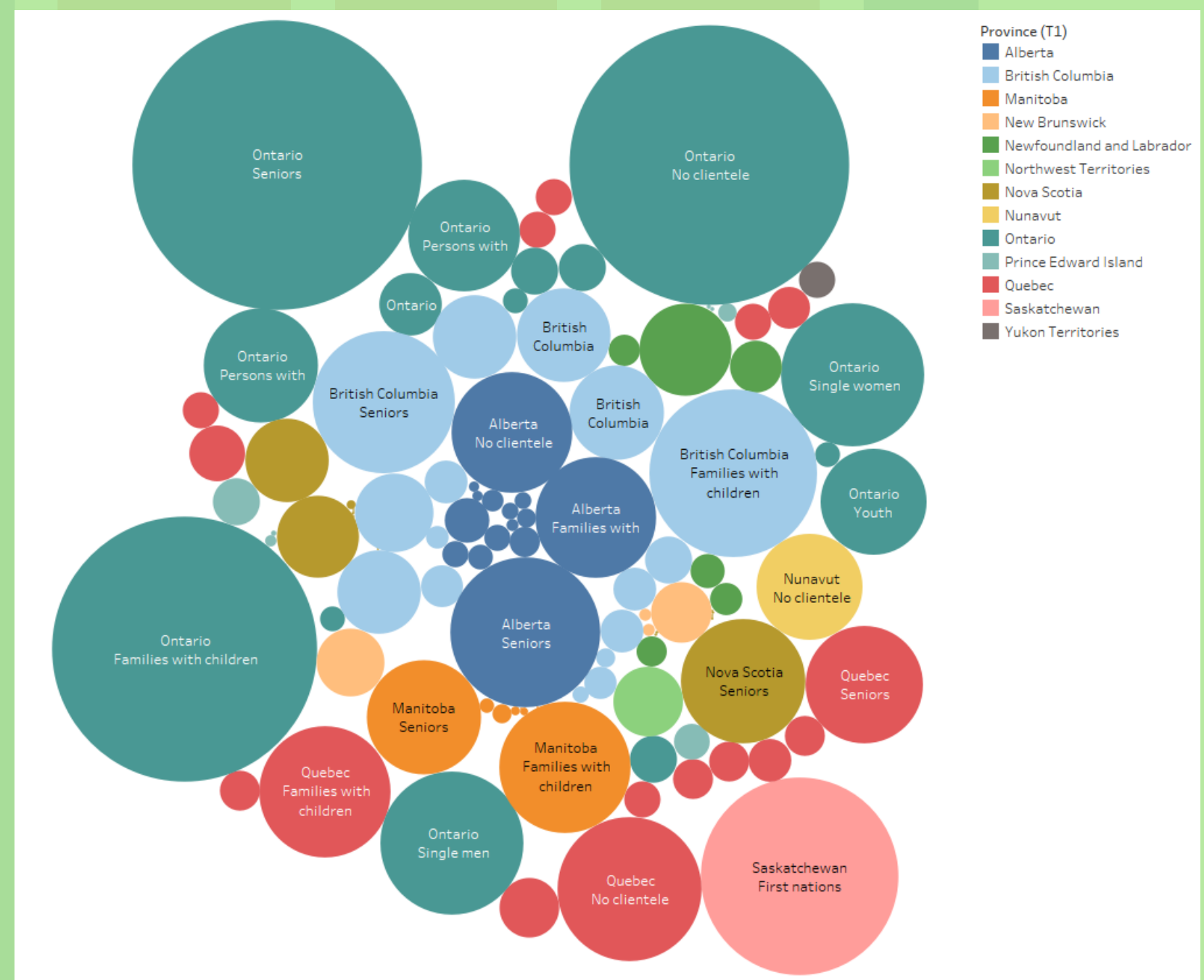
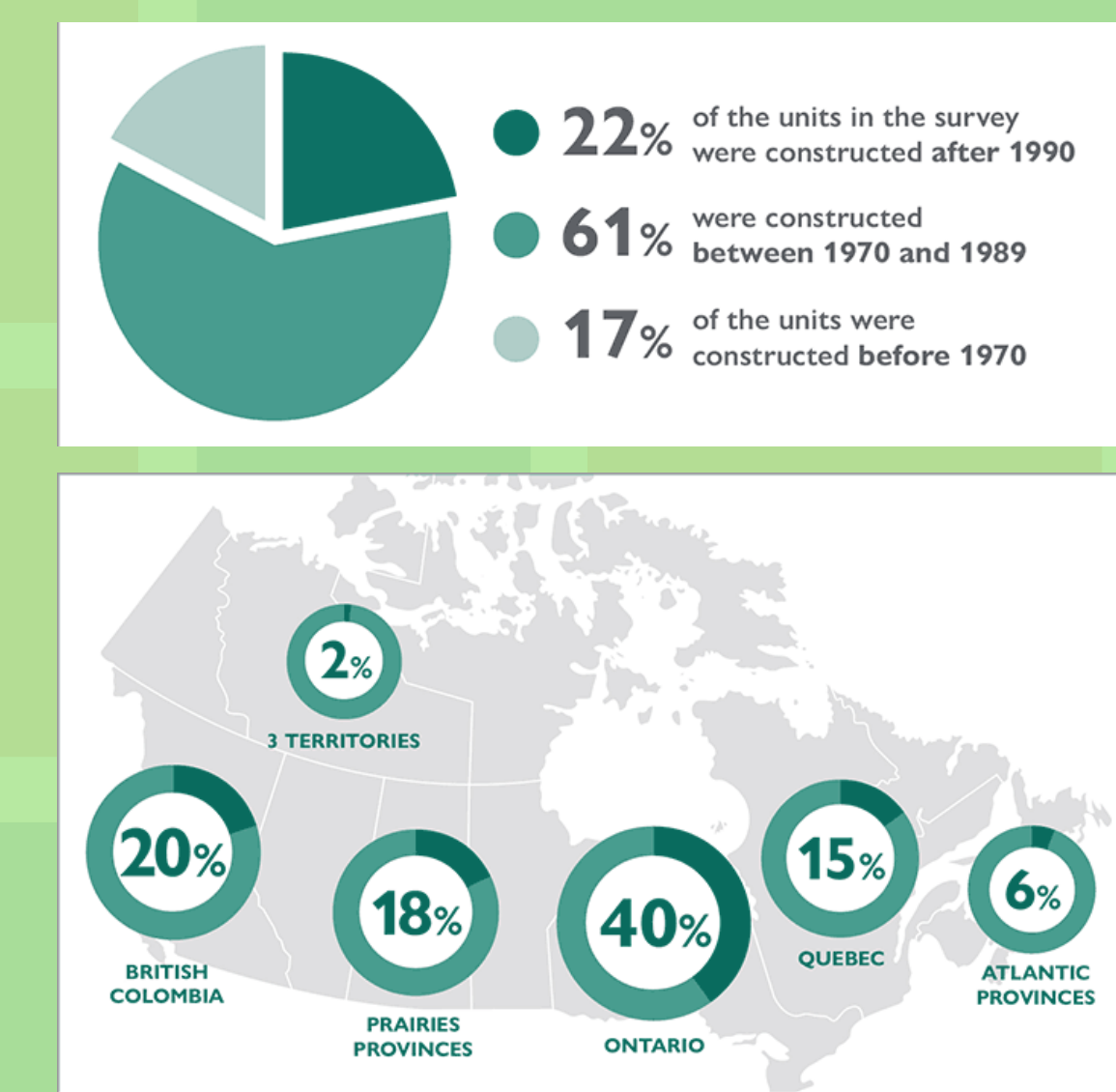
CANADIAN AFFORDABLE HOUSING NUMBERS AS OF THE 2018 CENSUS. THIS CHART INCLUDES TOTAL AVAILABLE UNITS BY PROVINCE AND UNIT CONSTRUCTION ERA



Province (T1)	Exiting homelessness	Families with children	First nations	Immigrant/R.	Inuits	Metis	No clientele	Other clientele	Persons with mental disab.	Persons with physical disab.	Seniors	Single men	Single women	Veterans	Victims of domestic viol.	Youth
Alberta	181	6,910	437	78	135	135	6,986	227	328	957	10,777	299	330	52	52	0
British Columbia	4,278	13,455	1,083	889	889	889	835	246	2,565	3,348	9,685	3,317	4,199	179	452	127
Manitoba	0	8,180	1	30	0	0	1	39	0	174	6,350	0	0	0	0	0
New Brunswick	0	2,206	0	0	0	0	0	0	0	0	1,761	71	71	0	0	0
Newfoundland	0	471	0	0	0	0	4,069	0	0	0	1,291	562	500	0	0	440
Northwest Territories	0	0	0	0	0	0	2,330	0	0	0	0	0	0	0	0	0
Nova Scotia	2	3,224	2	3	2	2	39	3,339	3	3	7,415	2	4	2	2	0
Nunavut	0	0	0	0	0	0	5,375	0	0	0	0	0	0	0	0	0
Ontario	297	33,684	1,059	290	1,059	1,059	37,521	1,872	5,971	6,261	40,215	9,729	9,816	0	297	5,390
Prince Edward Island	0	615	0	0	0	0	63	0	0	14	1,061	8	8	0	161	0
Quebec	642	8,267	775	642	642	642	9,947	1,706	1,490	642	6,611	795	881	775	768	841
Saskatchewan	0	0	18,719	0	0	0	0	0	0	0	0	0	0	0	0	0
Yukon Terr.	0	0	0	0	0	0	631	0	0	0	0	0	0	0	0	0

This chart is a breakdown of all the individual types of household structures according to the 2018 Housing Survey (2019) that make up Social and Affordable Housing in Canada.

The graph is a visual representation of each group by province based on household numbers.

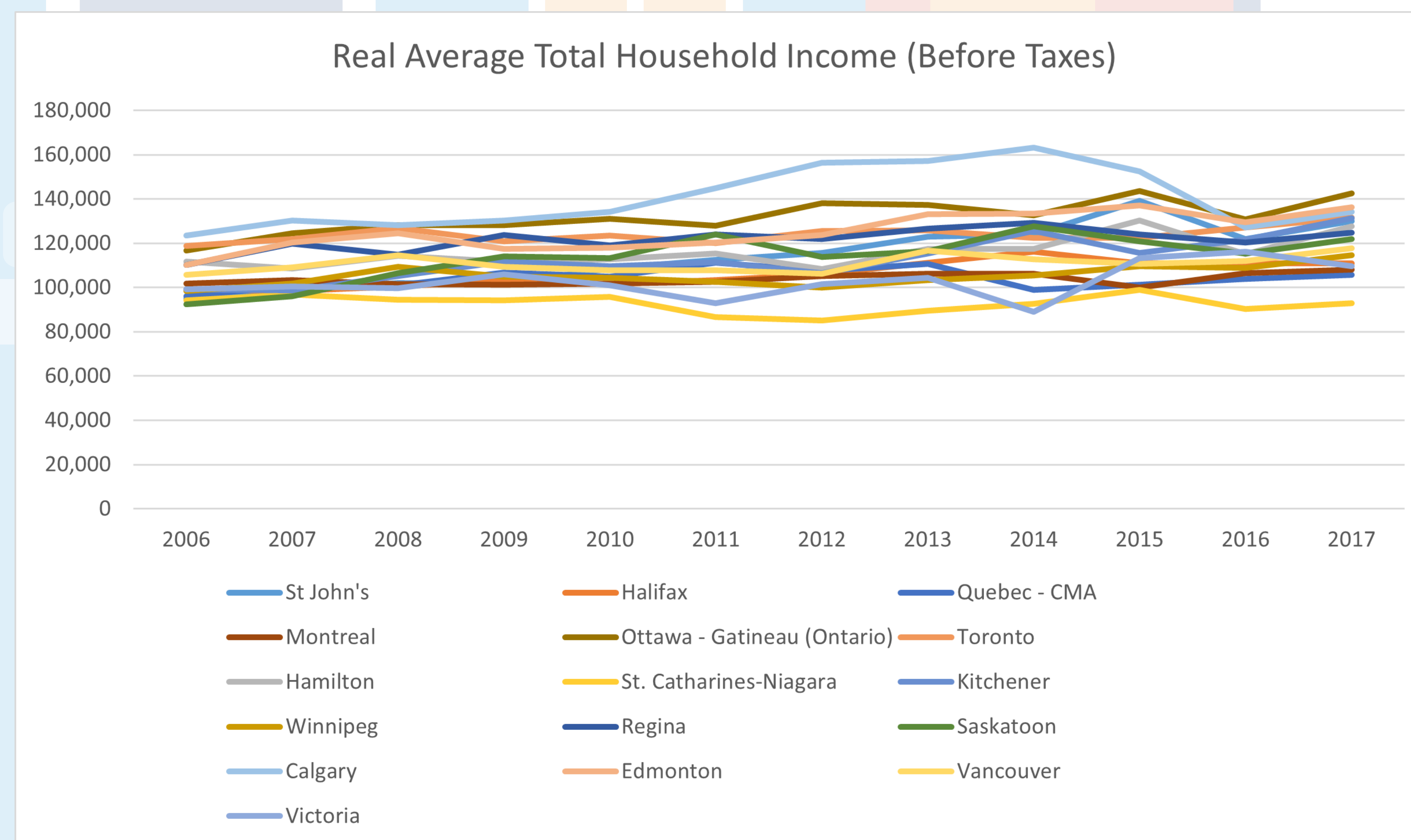


OVERVIEW

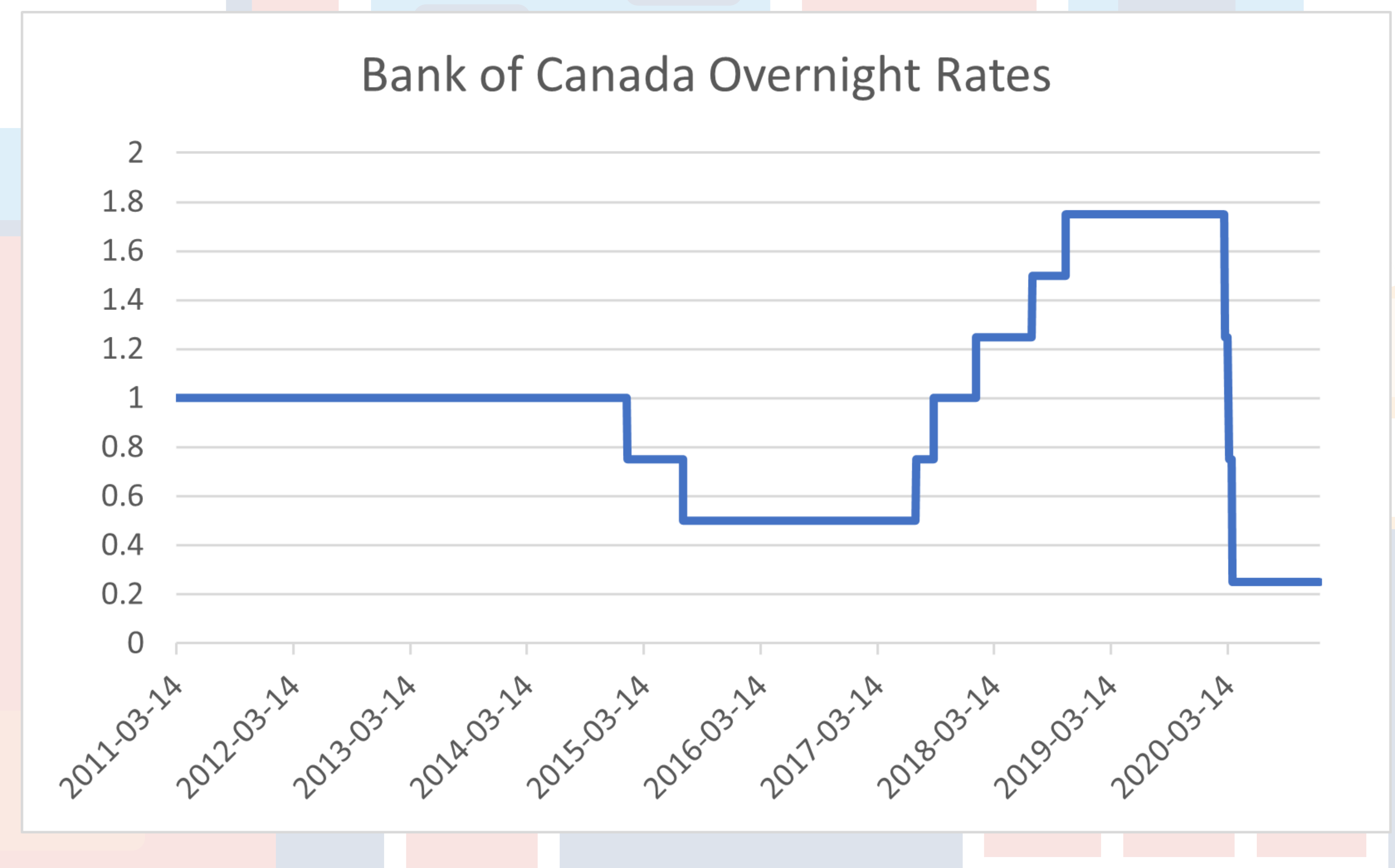
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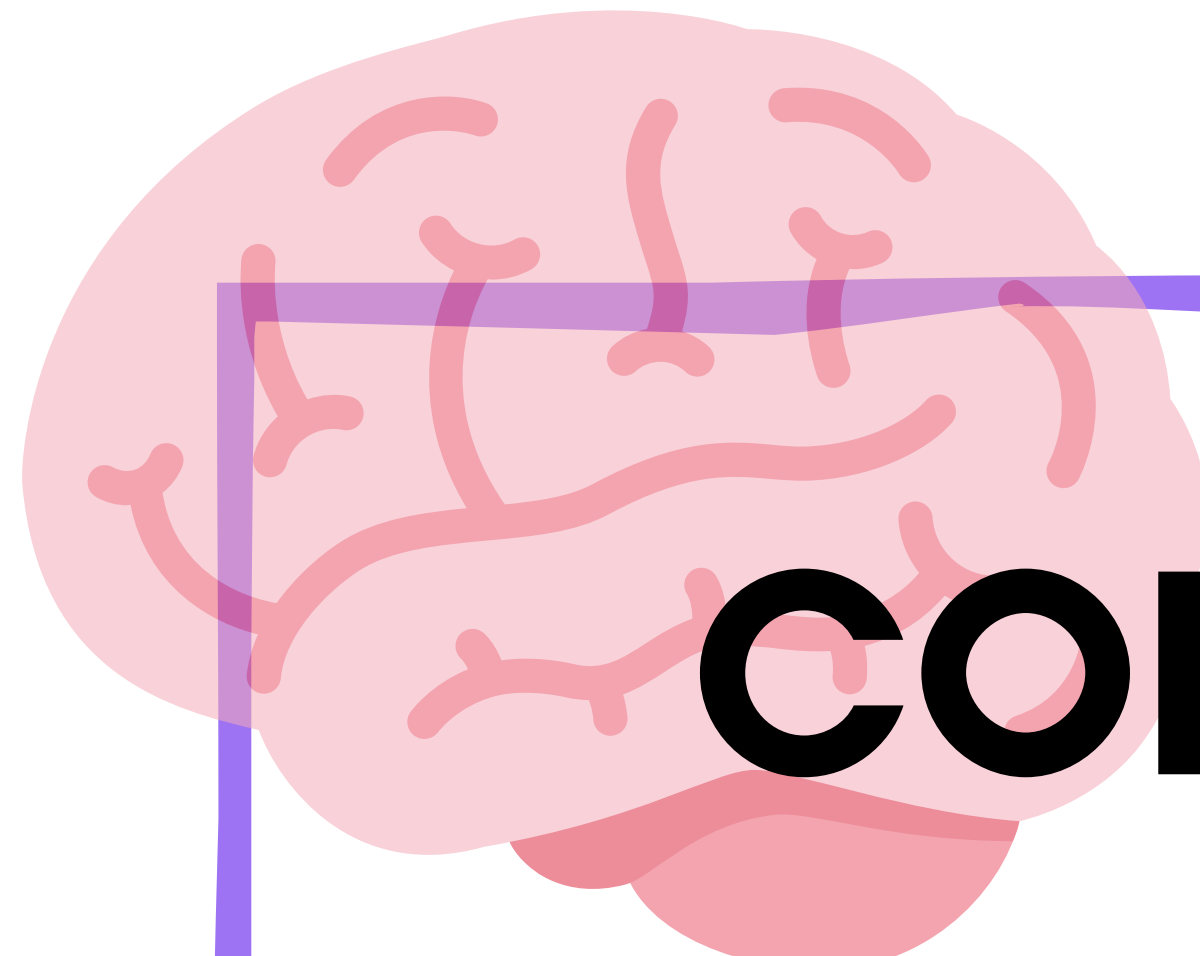
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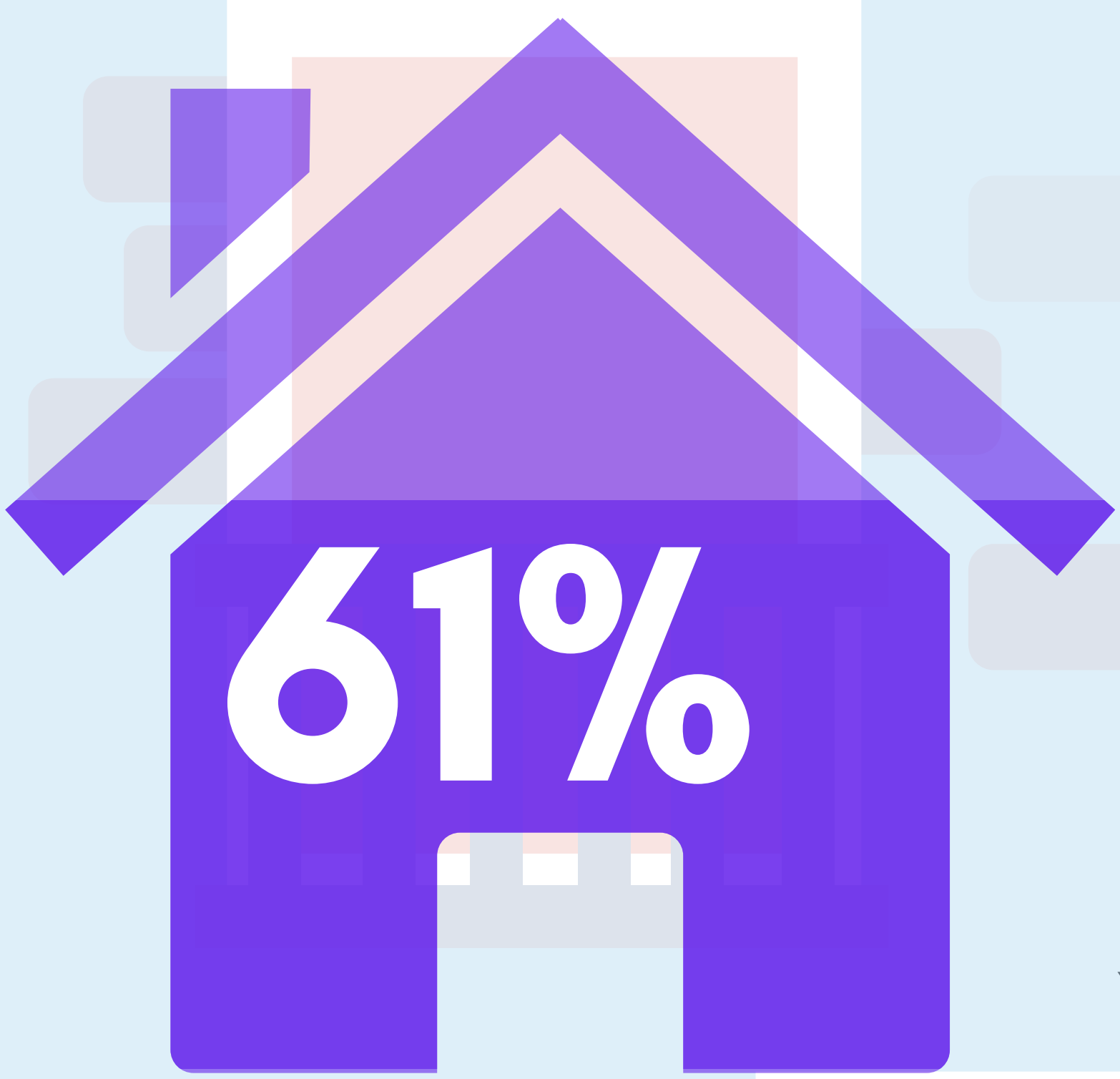


CONSUMER BEHAVIOUR



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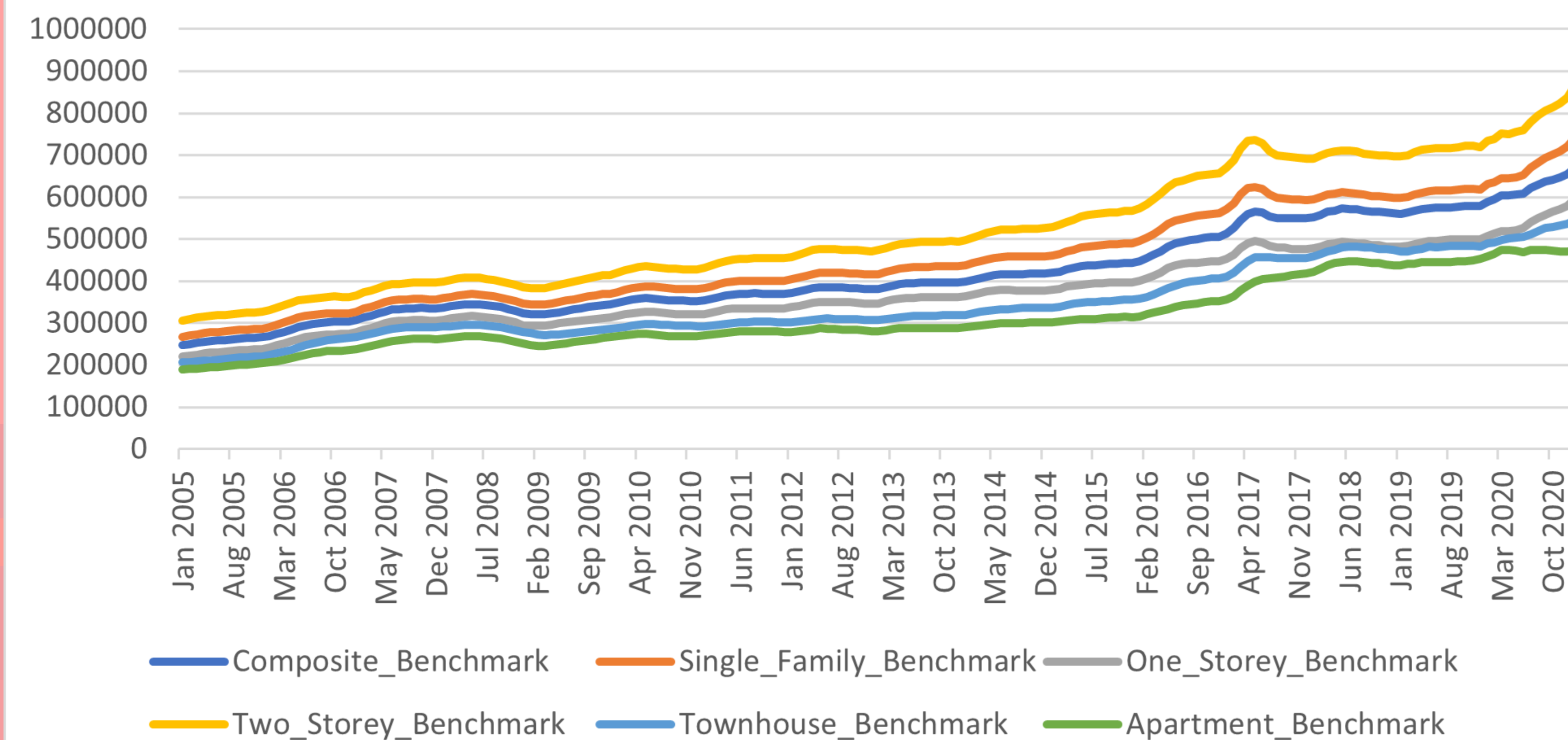
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Mortgage vs. Non Mortgage debt

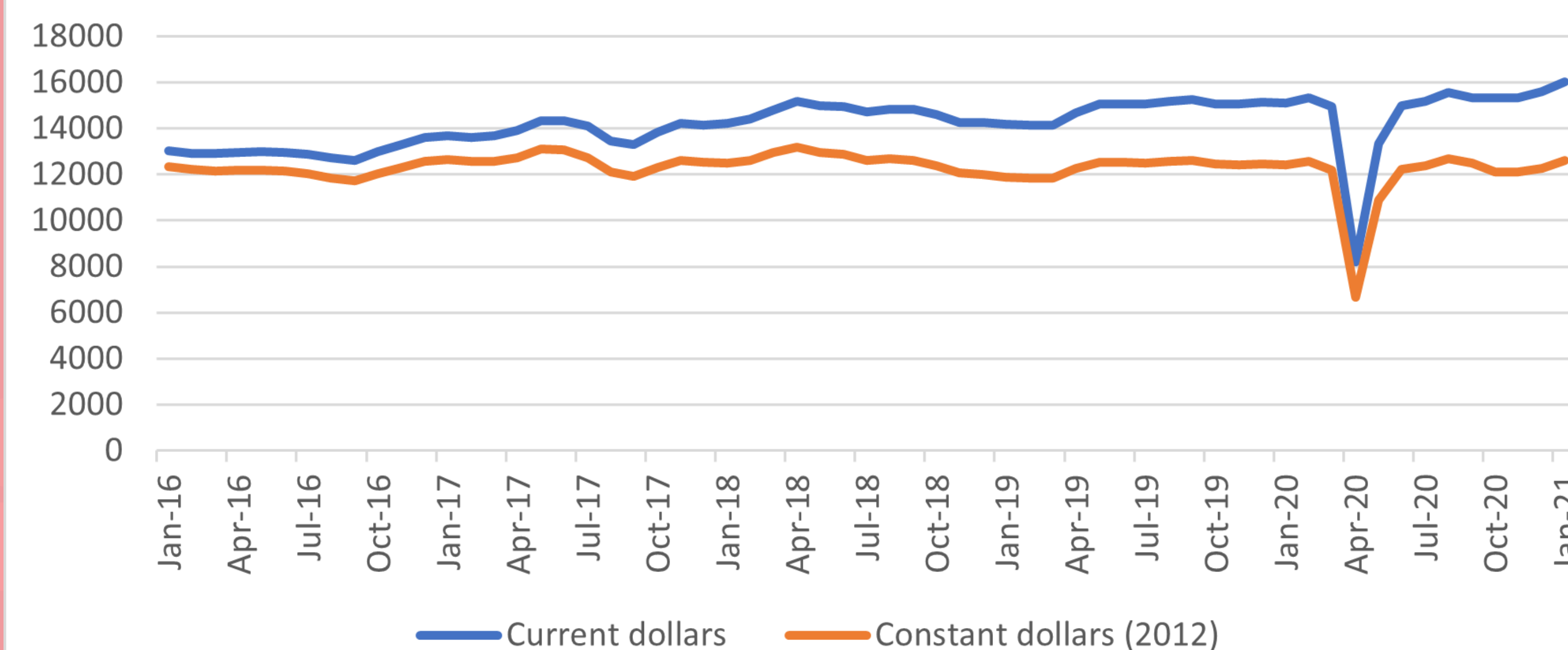


HOMEOWNERS

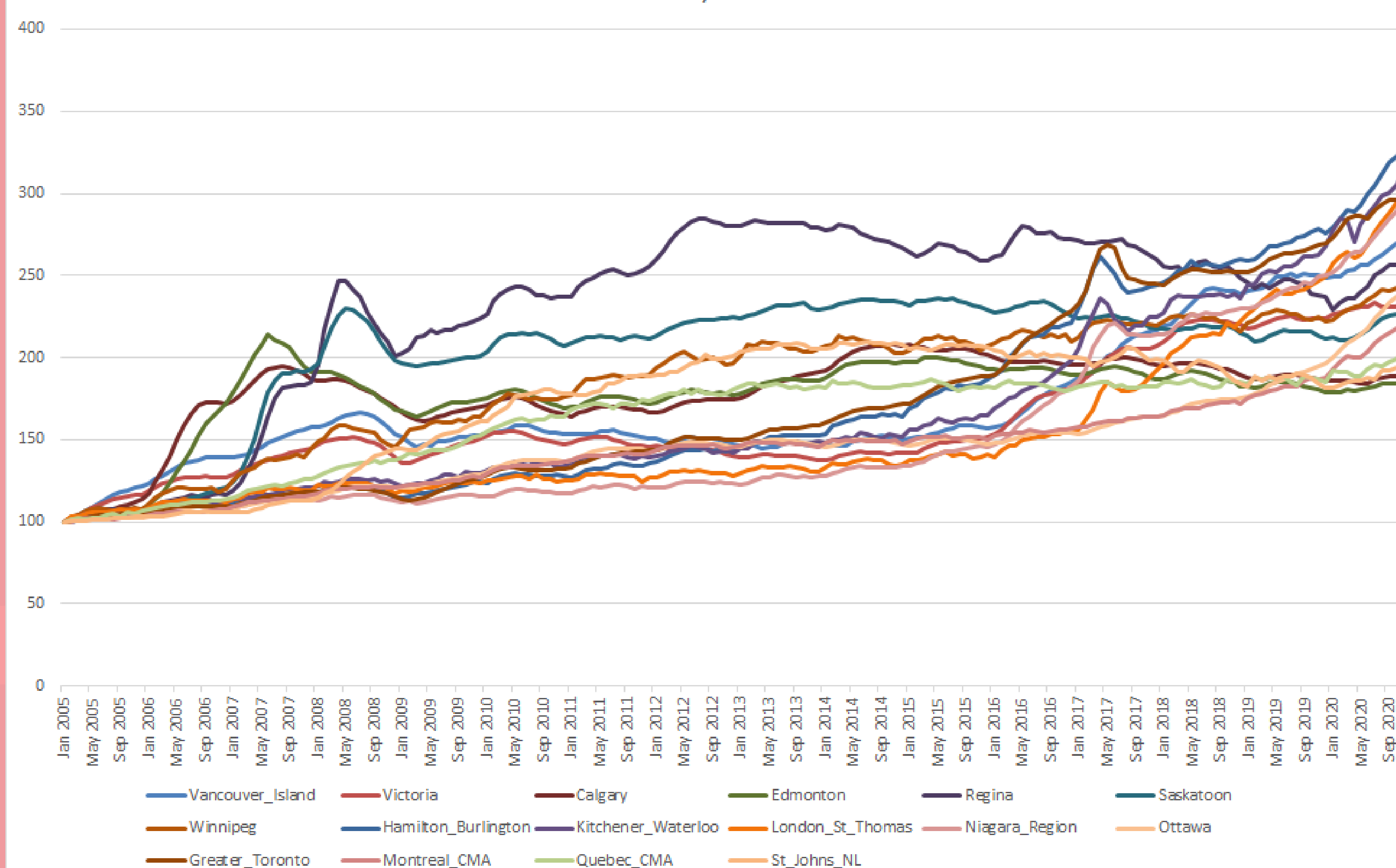
Bench Mark Housing Prices



Investment in building construction
(seasonally adjusted, millions of dollars)



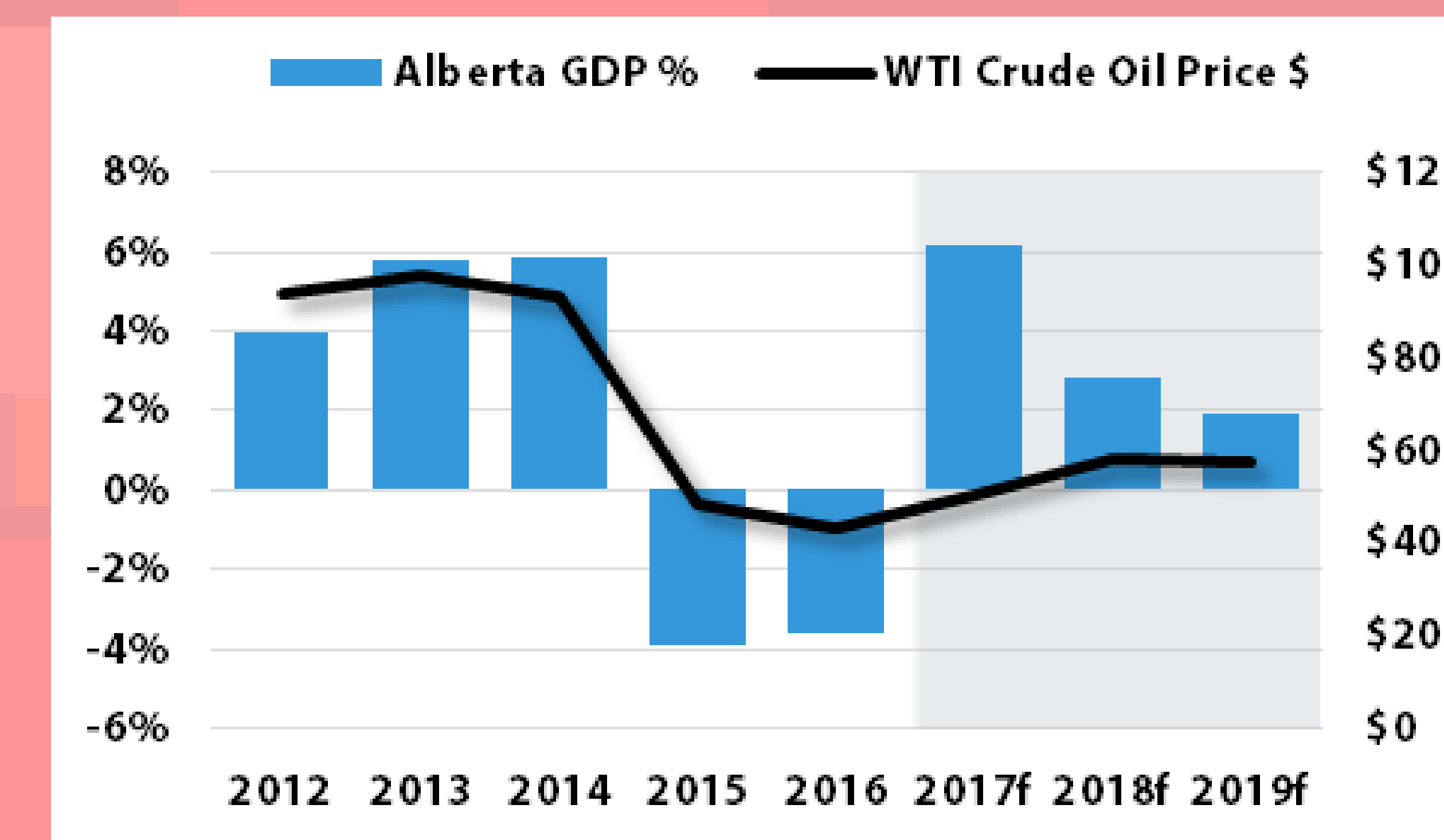
HPI by location



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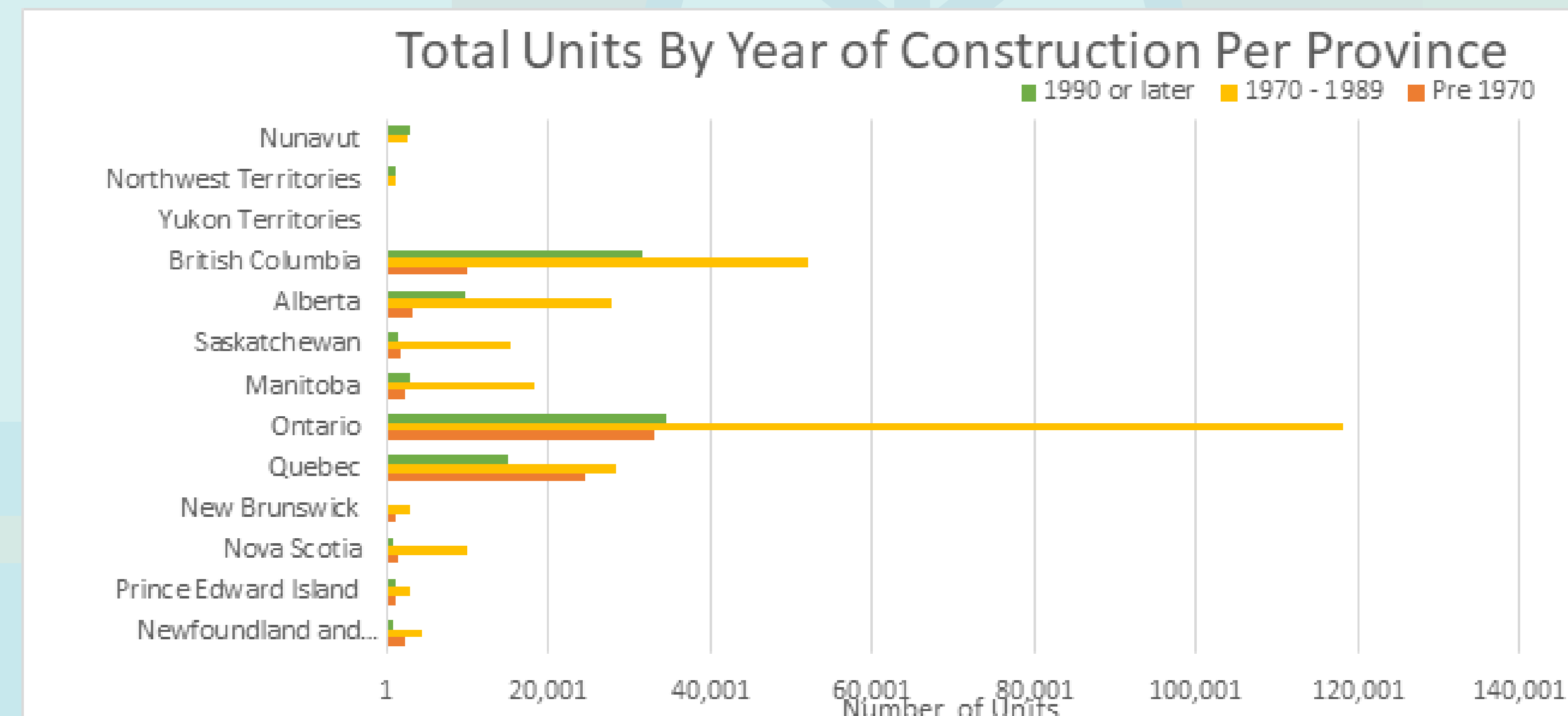
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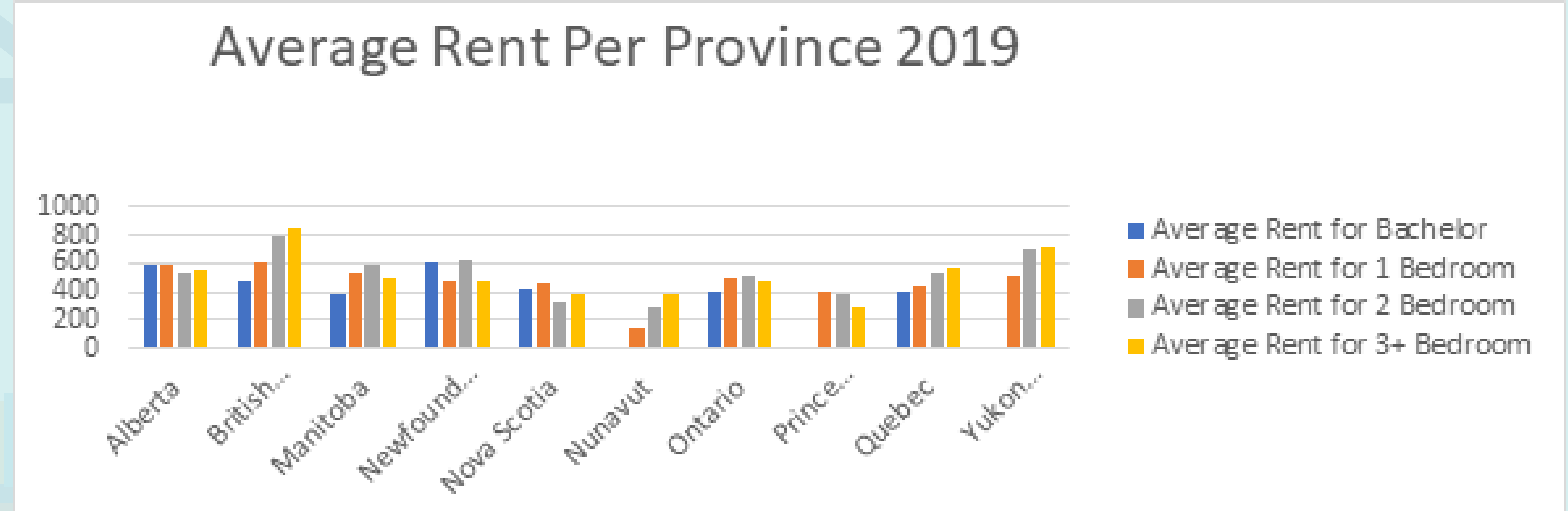
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RENTERS



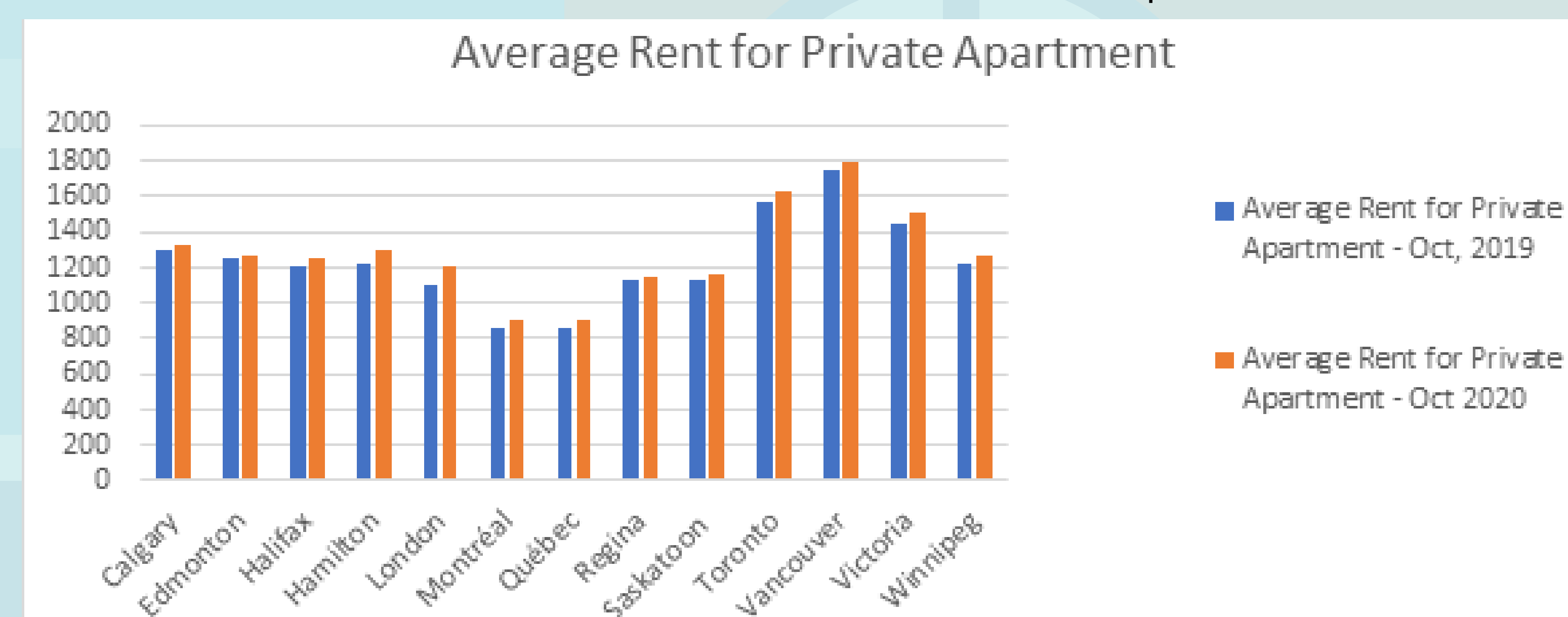
Let us look at the bigger picture from a housing availability standpoint. The chart to the left shows total housing construction in most provinces peaked between 1970 - 1989 with Ontario leading the way with close to 118,186 units followed by British Columbia, Quebec, Alberta, Manitoba, Saskatchewan, and Nova Scotia, respectively. However, all provinces recorded sharp decline from 1990 or later with Ontario accounting for 34,748 units constructed resulting in a deficit of 83,438 units compared to units constructed between 1970 and 1989. This indicates a significant shortage of available housing units across Canada.

The bar chart to the right highlights average rent cost across Canada as of 2019. British Columbia had the highest average rent for 1, 2 and 3+ bedroom units while Nova Scotia had the highest average rent for Bachelor style accommodations.

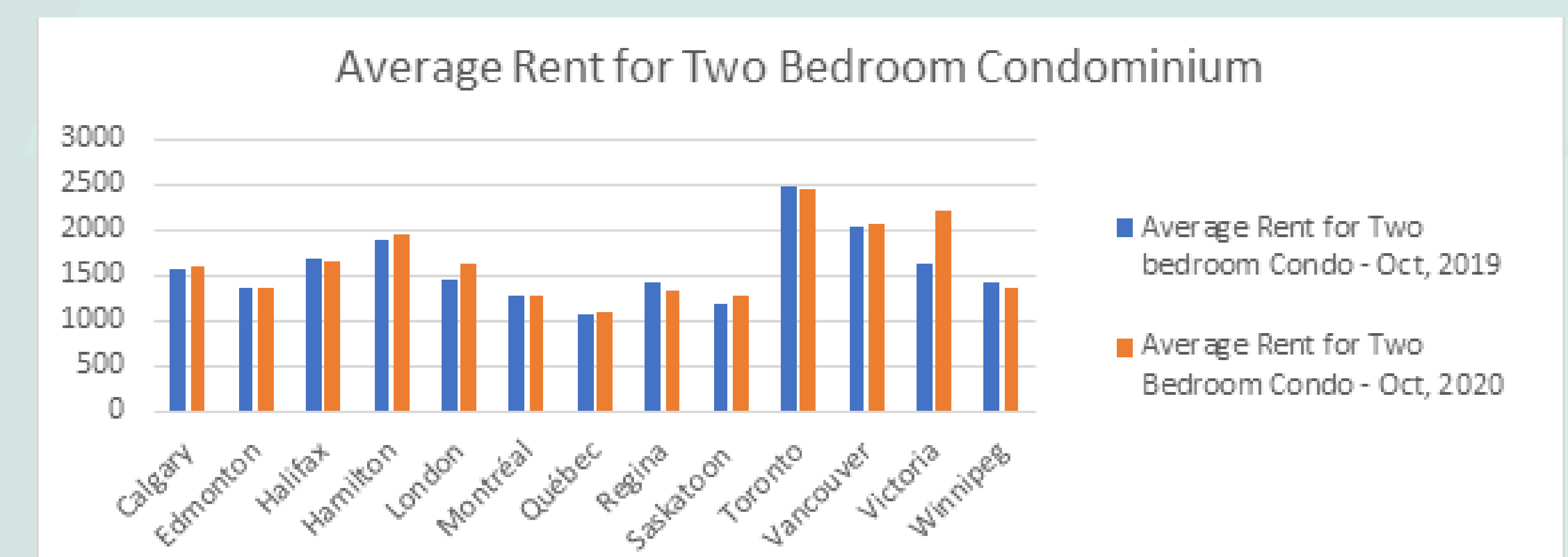


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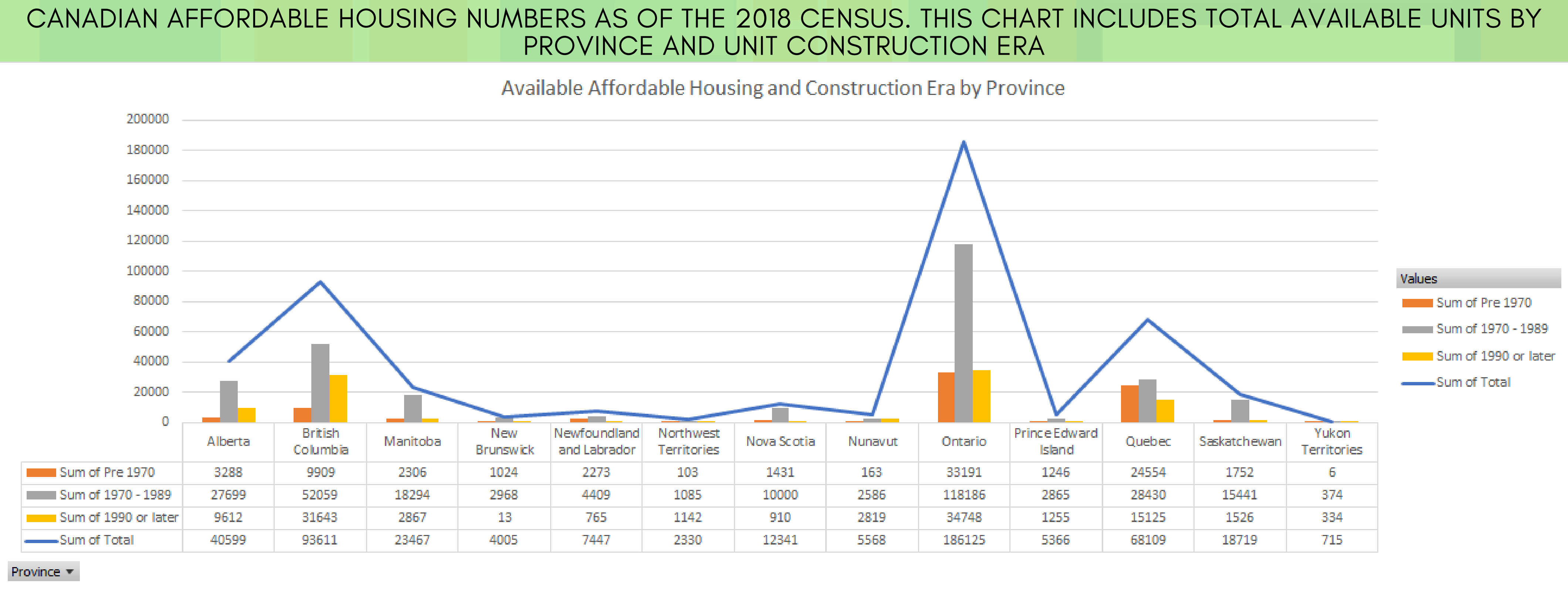
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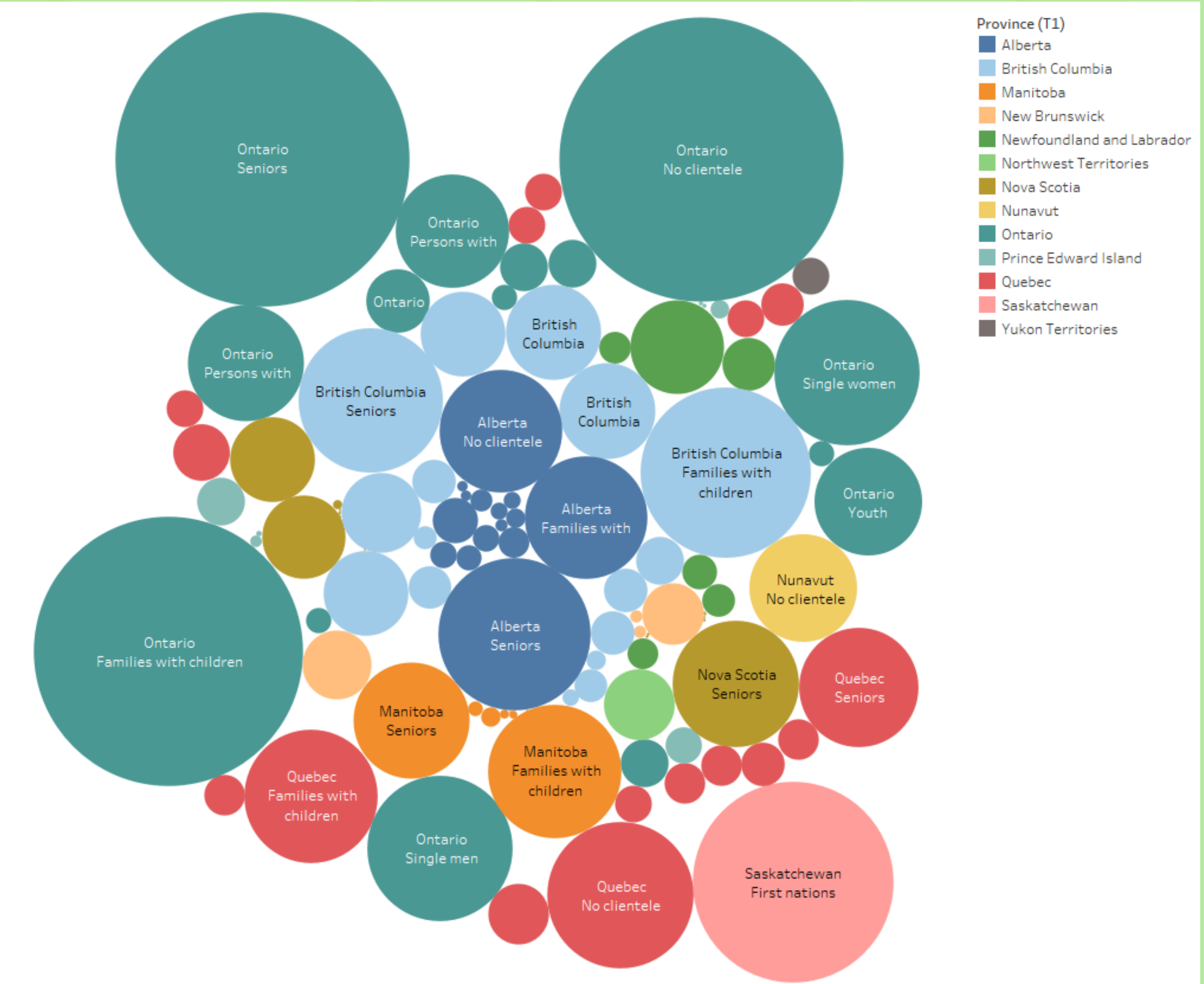
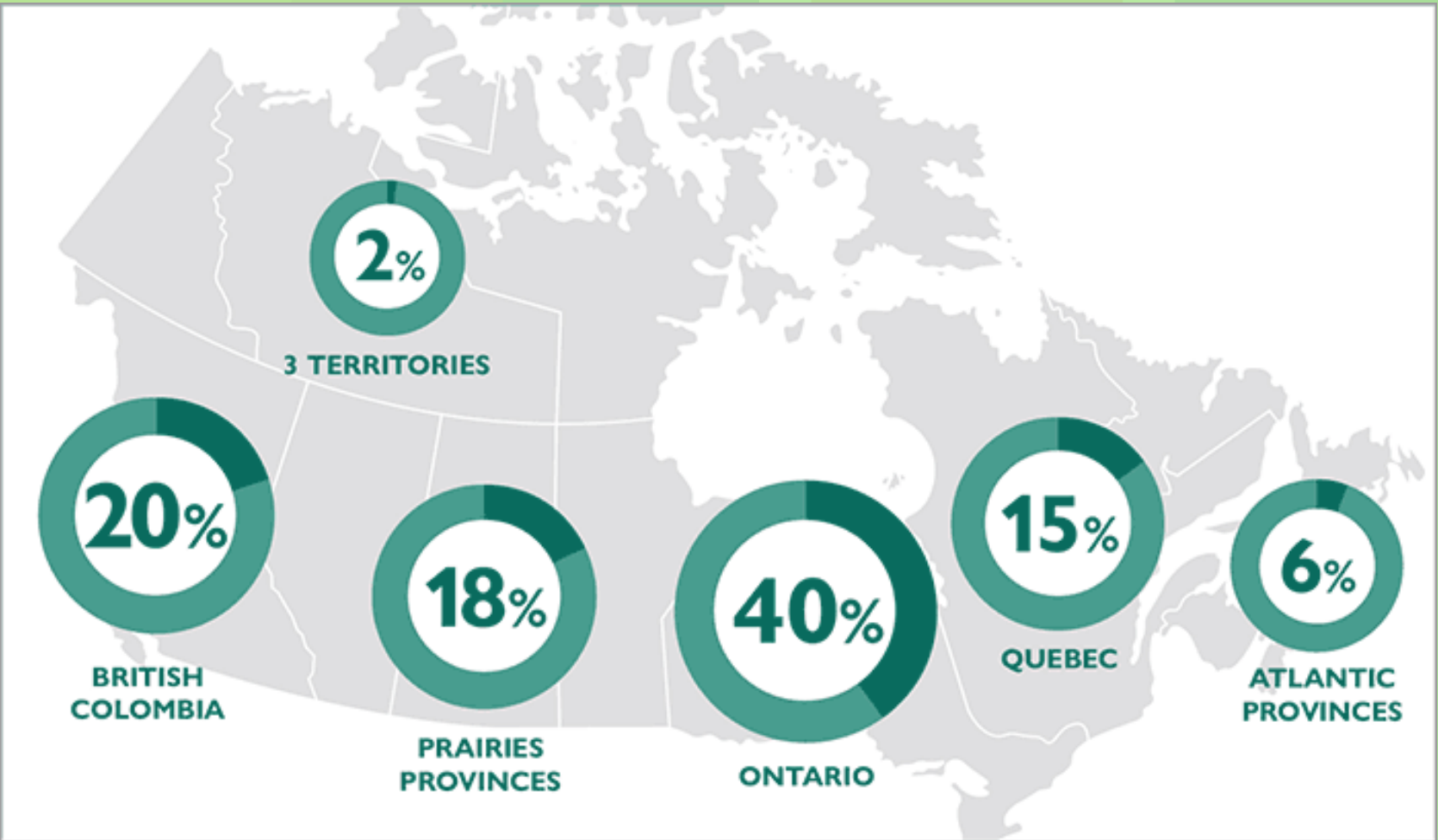
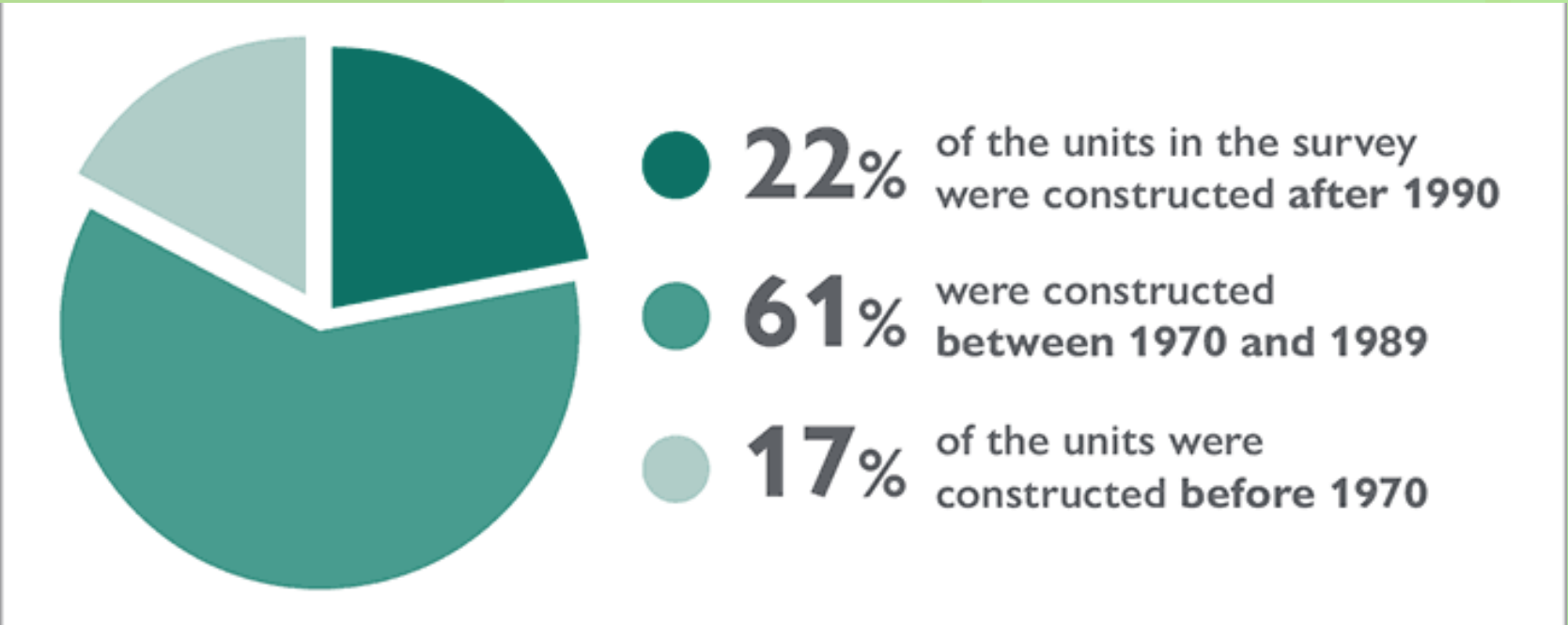
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CONCLUSIONS

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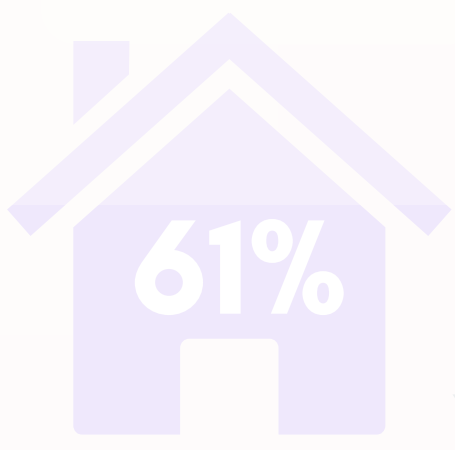
OVERVIEW

Housing affordability has been of heightened concern during the COVID-19 pandemic. The purpose of this project is to examine trends in the housing market, related to the COVID-19 pandemic to predict how the housing market may evolve as Canada's economy recovers. Over the last several years Canadians have witnessed a steady increase in housing prices. While prices and debt levels increase, interest rates are going down (Jarvis, 2021). A housing crisis is often referred to when a housing/real estate bubble burst. This is thought to occur when demand decrease or stagnate while supply continues to increase (because of past high growth) (Kharit, 2020). Investing guides describe this as "a rapid increase in the supply of credit leading to a combination of very low-interest rates and a loosening of credit underwriting standards can bring borrowers into the market and fuel demand" which is then burst by "a rise in interest rates and a tightening of credit standards can lessen demand" (Kharit, 2020). As the need to carry debt among consumers continues to grow in frequency and amount, federally regulated lending agencies now require Canadian buyers applying for a mortgage to take "OSFI Mortgage Stress Test" (Rennie). The "Stress Test" seeks to evaluate if consumers will be able to continue to make payments if interests rates rise (Rennie).

CONSUMER BEHAVIOUR

According to the 2019 CMHC Mortgage Consumer Survey, "65% of buyers said they believe the new mortgage qualification "stress test" will keep more Canadians from taking on a mortgage they can't afford." (Canada Mortgage and Housing Corporation, 2019). Furthermore 61% of homebuyers opted to purchase a smaller or less expensive home as a result of the stress test and indicated that the stress test has positive impact as a safeguard. The survey also indicated that despite increases in mortgages and debt, consumers had positive attitudes towards buying a house with "close to 9 out of 10 buyers [being] "happy" (47%) or "excited" (59%) about buying a home" (Canada Mortgage and Housing Corporation, 2019).

9 in 10 consumers have a positive sentiment towards buying a home



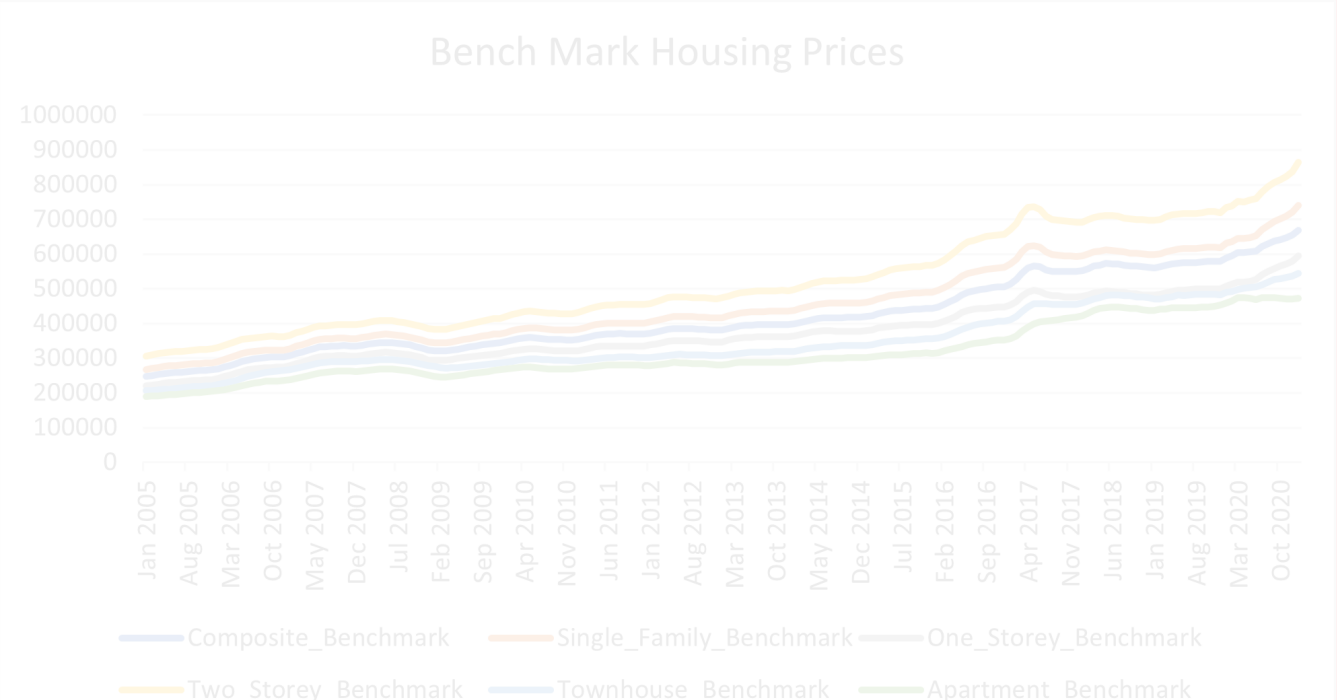
opted to buy a less expensive home as a result of the stress test

Despite COVID and general pessimism, McKinsey & Company's survey on Canadian consumer sentiment during the coronavirus crisis found that Canadian's largely feel confident about their finances being mindful about how much and where they spend their money (taking more safety precautions) (Anast, Crepeau, Devillard, Kohnyck, & Landry, 2020).

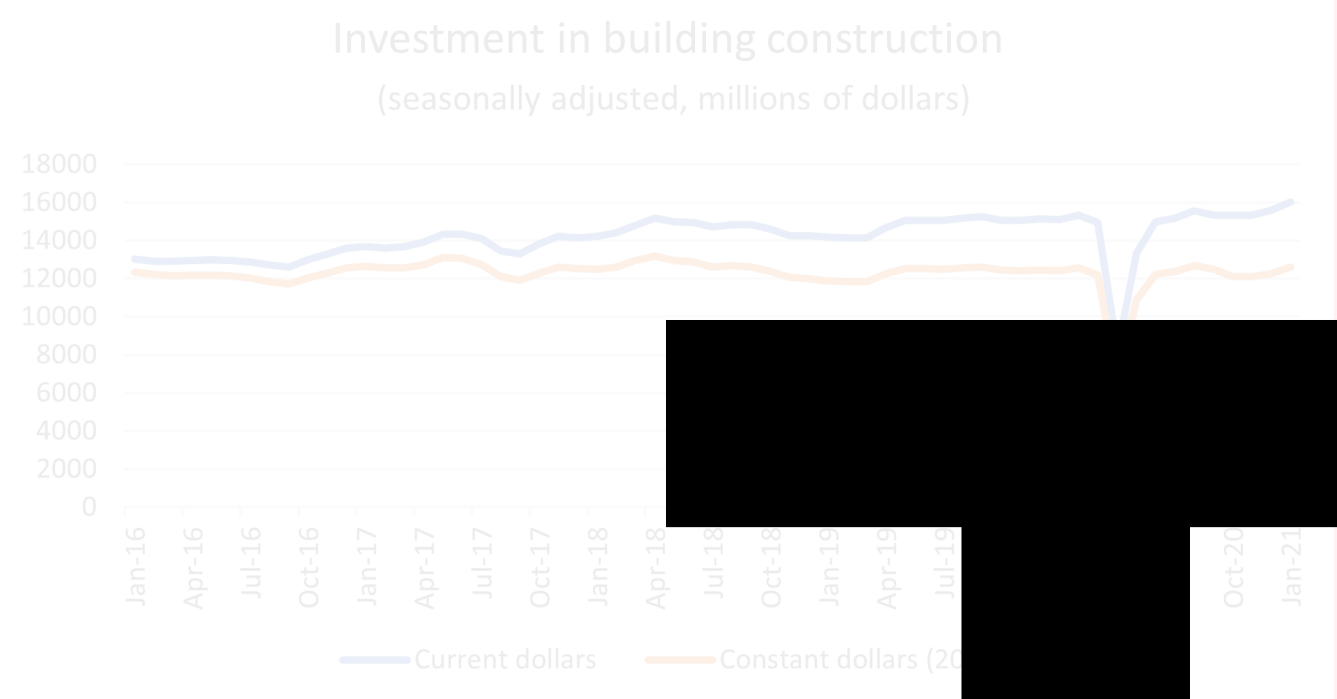
CONCLUSIONS

- Home prices are rising at an unsustainable rate given the average median household income levels.
- The Government should invest in first time home buyers and begin teaching financial literacy at a younger age. This should help decrease the amount of individuals needing low income housing.
- Declining construction of rental properties is not meeting the rising demand levels.
- Introduce tax credits to rental and low income housing providers to increase supply.

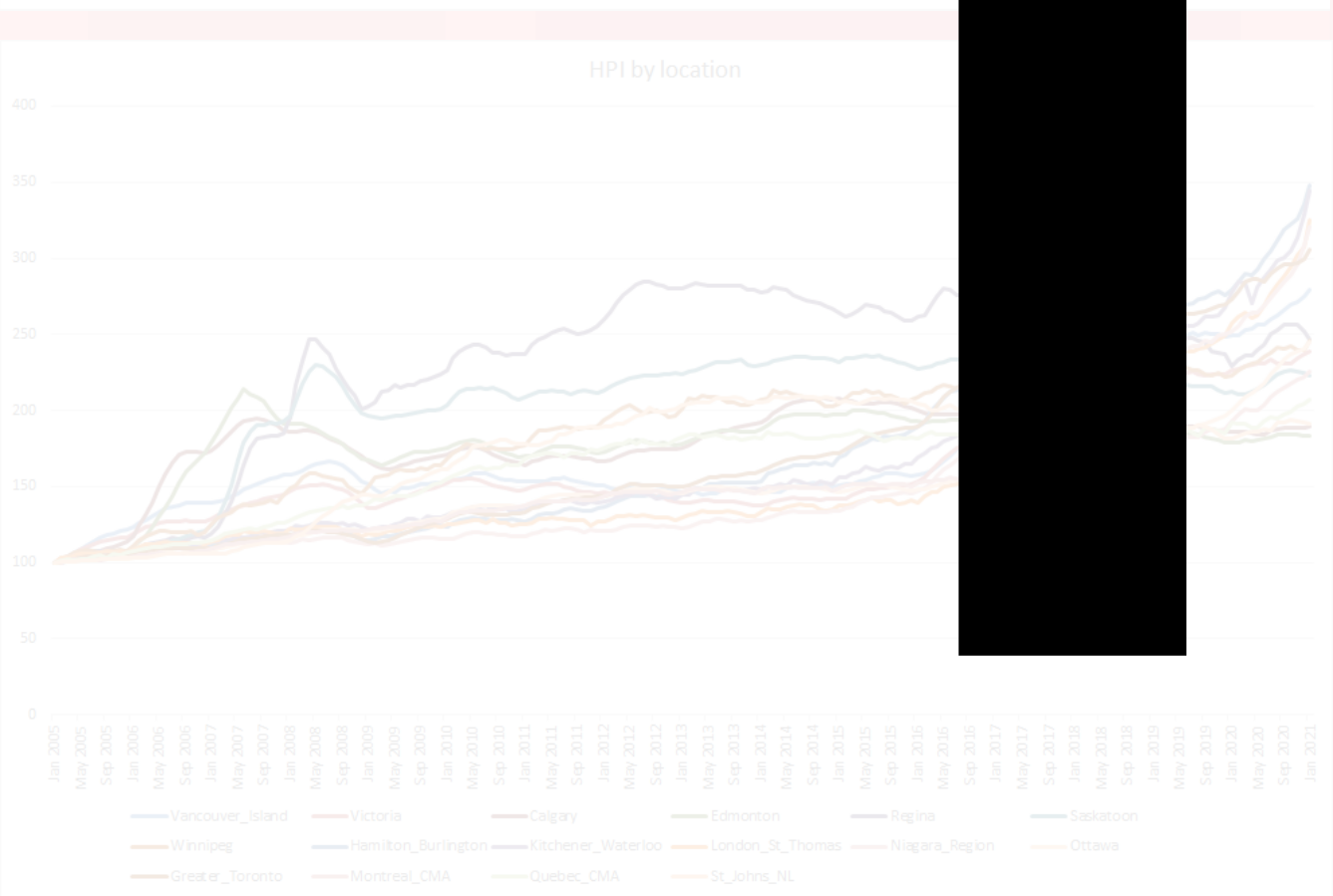
HOMEOWNERS



From the Canadian Real Estate Association (CREA) the MLS Home Price Index (HPI) was obtained. HPI values refer to the relative price values of properties in Canada. The data set contained MLS Home Price Index (HPI) values per month by house type and benchmark values. This graph illustrates the steady and continuous trend of increasing housing prices regardless of home type.

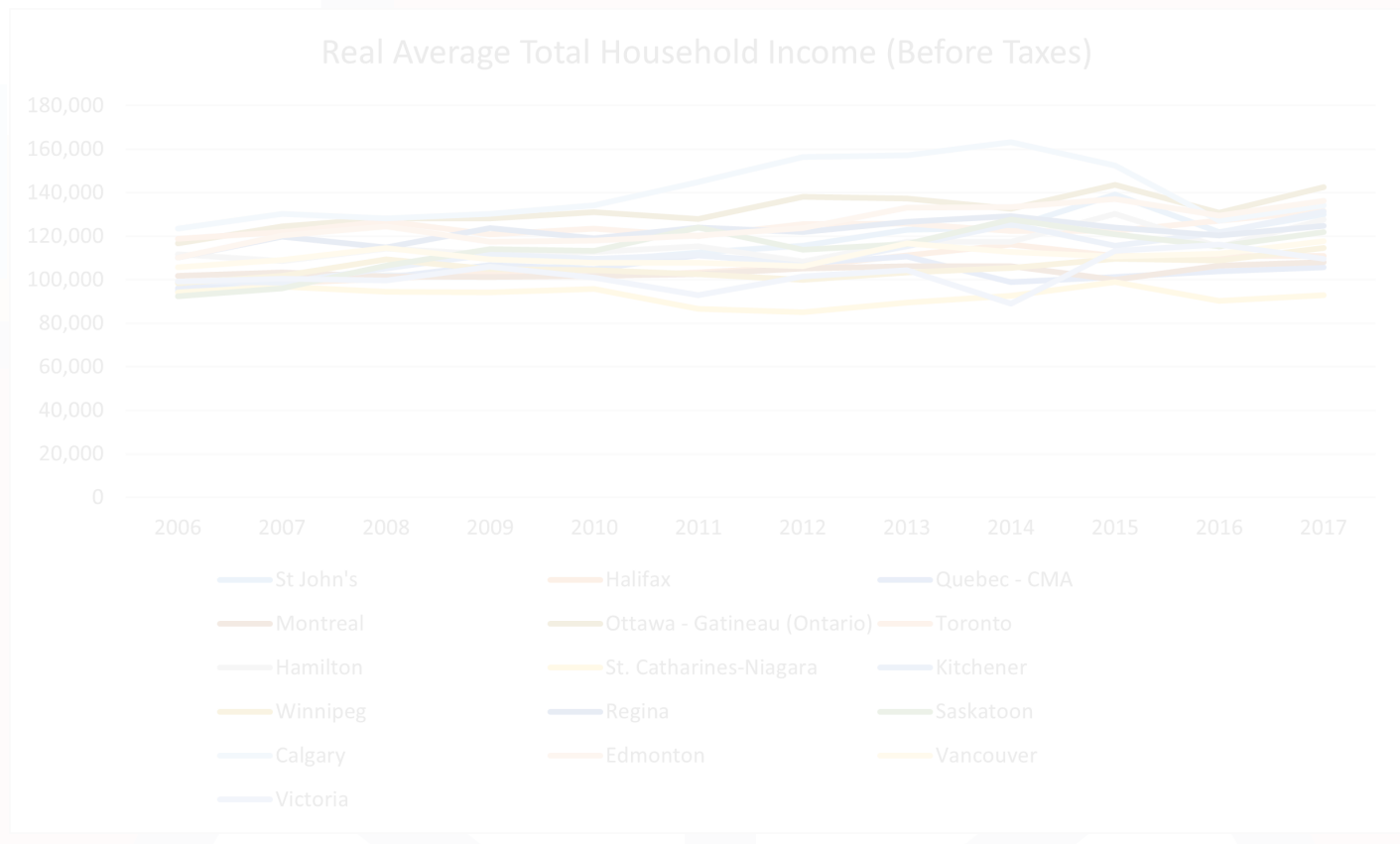


From Statistic Canada's data on building construction, we saw level investment in building construction despite the dip during the pandemic. This indicates that supply is not meeting demand as prices continue to rise.



Hamilton/Waterloo region, London, the regions with the highest HPI growth and increasing property values for Calgary, Edmonton, St. John's seem to be leveling. Other regions have leveled growth and financial service based regions as manufacturing and retail sectors are impacted.

SOLD



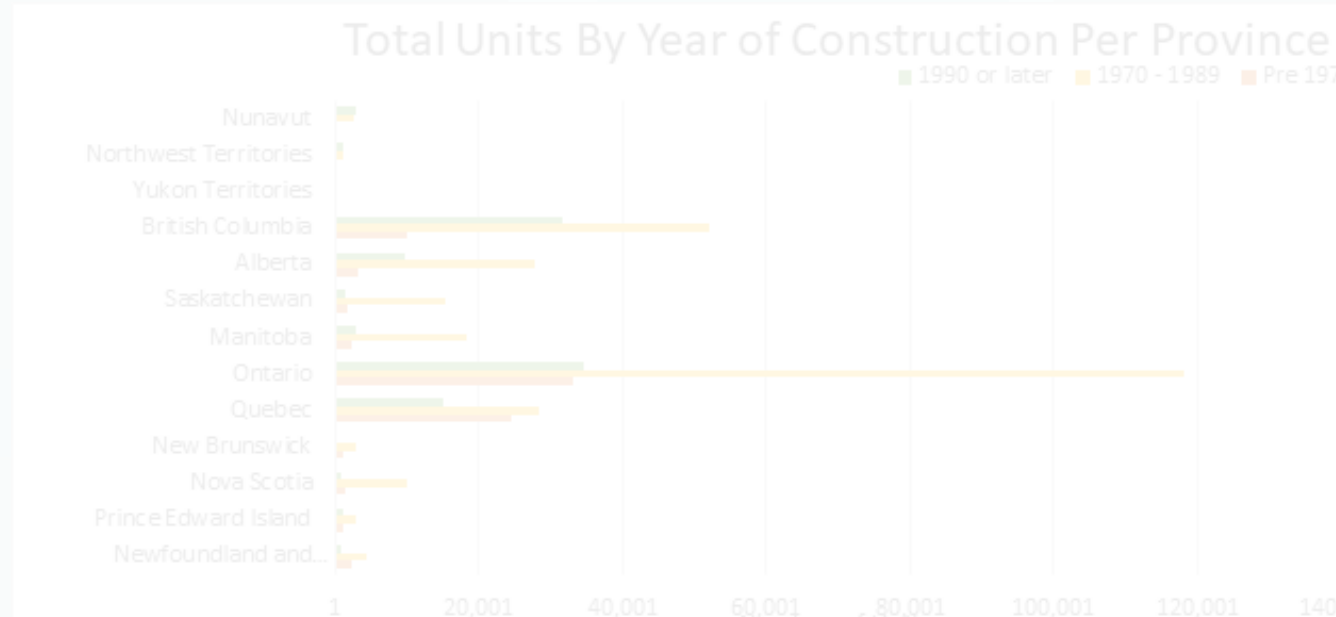
Average income seems to remain fairly constant while housing prices continue to increase. Data on Canadian income was only available up to 2017 and was sourced from the Canadian Income Survey (2019) Canada Mortgage and Housing Corporation Canada Mortgage and Housing Corporation (CMHC, 2020).



FOR RENT

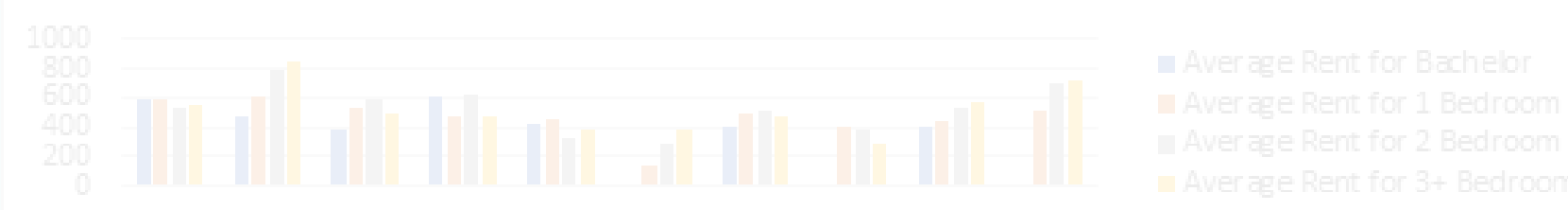
Over the last year the Bank of Canada Overnight interest Rate has dropped to 0.25%. Consequently, the lower overnight rates reduce the mortgage rates and decrease the price of mortgages leading to an increase in demand.

The need for social and affordable housing stems from population growth in many areas accounting for high housing demand in major cities across Canada. Many Canadians are struggling to afford the property of their choice due to several reasons including cost of living, required down payment, rising level of debt, increasing home prices etc. However, the demand for rental accommodation has increased over the years to bridge gap between affordability and availability.



Let us look at the bigger picture from a housing availability standpoint. The chart to the left shows total housing construction in most provinces peaked between 1970 - 1989 with Ontario leading the way with close to 118,186 units followed by British Columbia, Quebec, Alberta, Manitoba, Saskatchewan, and Nova Scotia, respectively. However, all provinces recorded sharp decline from 1990 or later with Ontario accounting for 54,748 units constructed resulting in a deficit of 85,438 units compared to units constructed between 1970 and 1989. This indicates a significant shortage of available housing units across Canada.

Average Rent Per Province 2019



PRE & POST COVID-19 RENTAL PROPERTY
In March 2020, the country awoke to the news of Covid-19 pandemic and subsequent lockdown impacting local economy, industries, companies, businesses, schools, household income etc.



Major cities like Toronto, Vancouver, and Montreal have seen a significant increase in rent prices. The City of Toronto recorded a rent increase of \$100 followed by Toronto and London, Ontario with increases of \$73 and \$72, respectively. Possible assumption for rent increases supports the notion of economic uncertainty and government income assistance (CERB).

LOW INCOME HOUSING

Affordability contracts which obligated housing providers to offer affordable rent began to expire in 2007. By the end of 2020 about 50% of these contracts had expired and by the end of 2033 the last of these obligation contracts will expire. If these expire, land lords will be allowed to change (or increase) rent prices. Housing providers through municipal service managers should make efforts to extend these contracts to protect the current affordable housing contract locations. In Ontario alone this would equate to almost 83,000 below-market rentals. Through the auditor general survey (2017), it was found that 5,800 units were converted from low-income housing contracts to market-rate units.

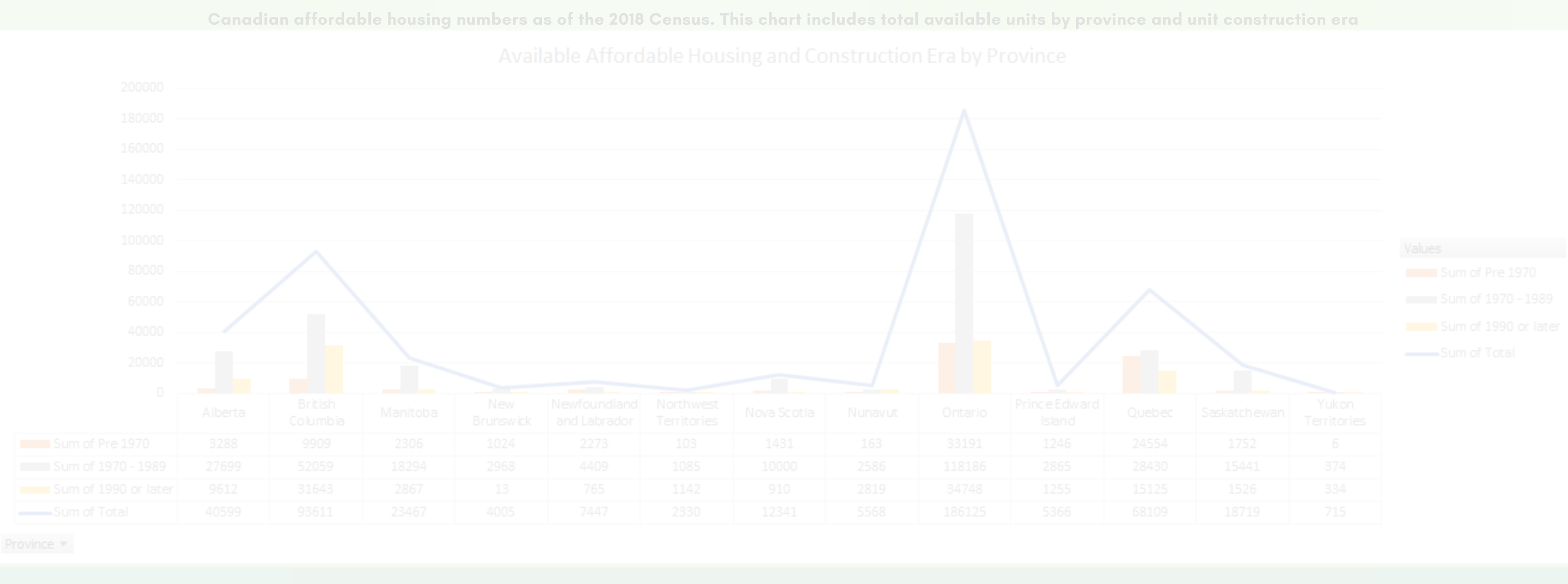
With recent Covid-19 action plans being implemented, cities like Toronto have created Rapid Housing Incentives to increase Social and Affordable Dwellings in their city by 540 units in an effort to combat the effects of large scale unemployment and financial hardships caused by the pandemic.

The federal government has also implemented a \$1 Billion RHI that will help fund to construction of up to 3,000 permanent affordable housing units across Canada to help address the housing needs for Canadians.

Due to the Covid-19 Pandemic, it appears that all forms of government are starting to realize the impact of decreased funding to Affordable Housing Initiatives. It appears that they are acknowledging the vacuum that the housing market boom is creating for people in high-risk low-income environments. Although some projections are showing increases in the amount of people who will be needing Affordable Housing, it looks like they are trying to increase the availability in an effort to flatten the housing crisis curve.

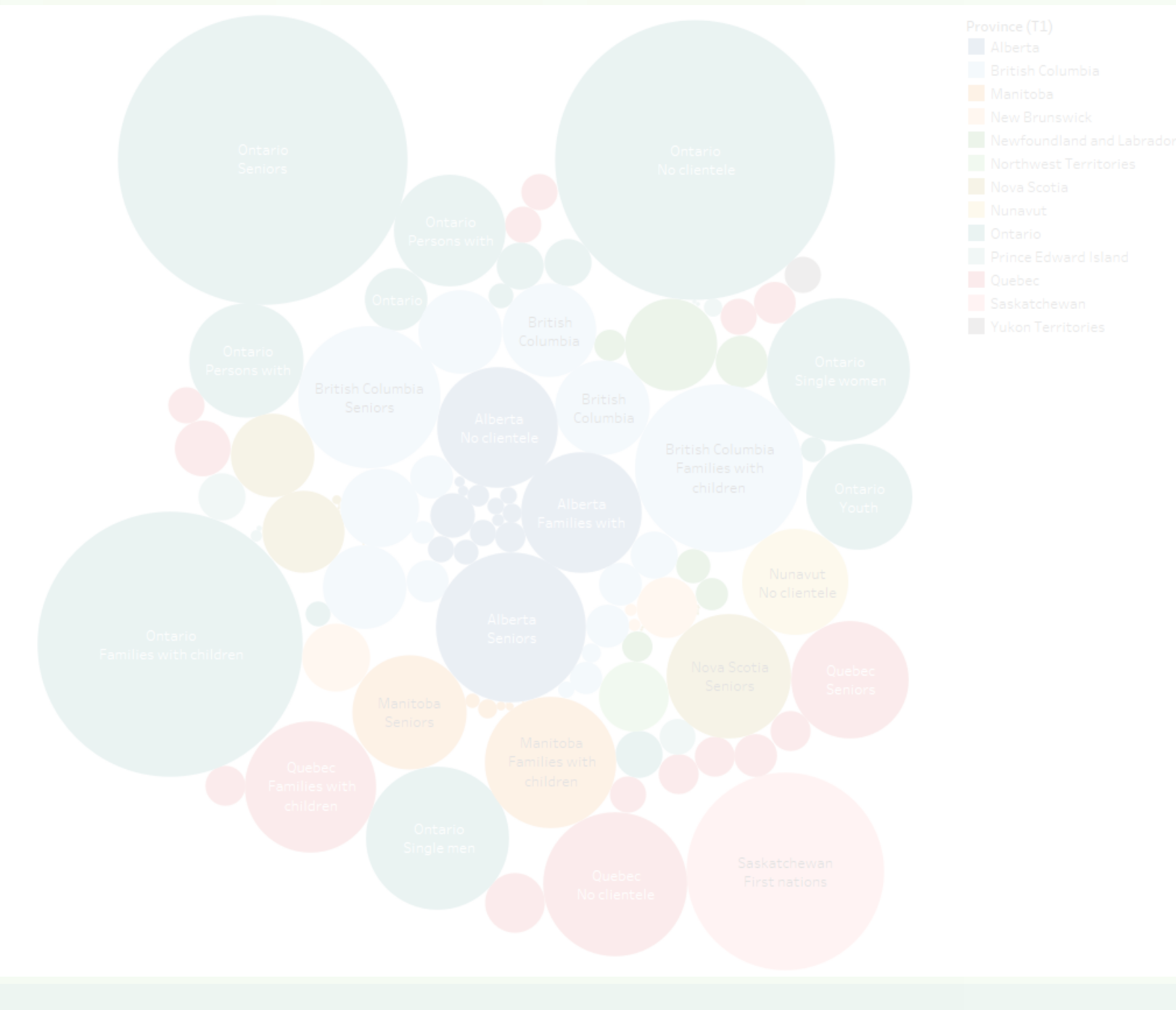
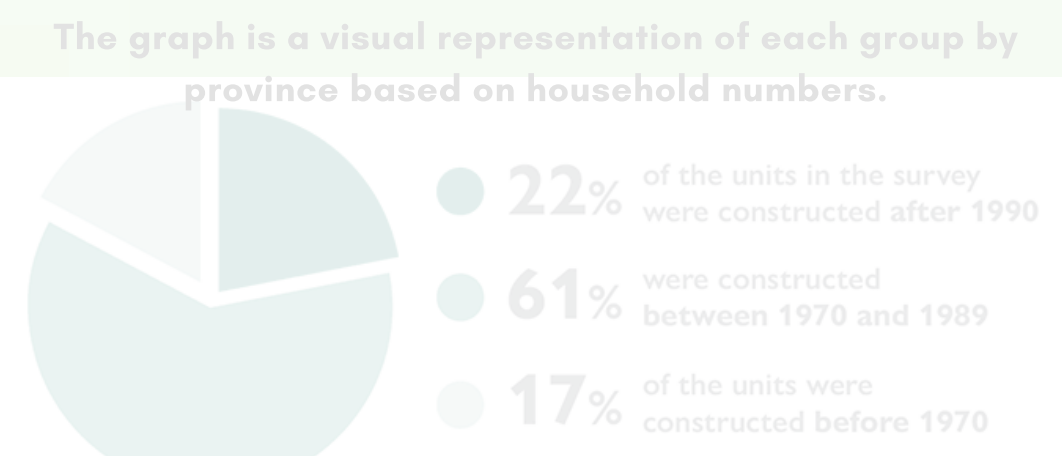
Summary of unoccupied units by % for each province. Note some of these units are unoccupied due to renovations and or they are in areas where Affordable Housing needs are currently met and units are available.

Canadian affordable housing numbers as of the 2018 Canadian Housing Survey (CHS)
This chart includes total available units by province and unit construction era's Social and Affordable housing programs, representing over 1 in 10 renters (13.5%) nationally. That equates to 628,700 Canadian households that resided in rentals as of 2018. Over 250,000 (1.9% or 283,800) Canadian households reported having at least 1 member of the household on a waiting list for social and affordable housing. Of those households, 61.5% (173,600 households) were on the waiting list for 2 years or longer, with 1/5 of those individuals on the waitlist already residing in an affordable housing unit. The reason for this is to transfer to a different type of subsidized housing unit or they were looking for a unit of their own. Affordable housing is projected to grow in demand by as much as 20% by 2030.



Province	Children	Families with children	First nations	Immigrants/R.	Indigenous	Metis	Non-Indigenous	Other	Persons with mental disab.	Persons with physical disab.	Seniors	Single women	Single women	Veterans	Victims of domestic viol.	Youth
Alberta	181	6,010	437	78	135	135	6,986	227	528	957	10,777	299	330	62	62	0
British Columbia	4,278	22,456	1,083	109	889	889	889	194	2,255	3,045	9,885	3,527	4,319	219	462	123
Manitoba	0	5,130	1	30	0	1	59	0	174	122	6,330	0	0	0	0	0
New Brunswick	0	2,206	0	0	0	0	0	0	0	0	1,791	71	71	0	0	0
Newfoundland	0	471	0	0	0	0	0	0	0	0	1,291	652	653	0	0	440
Northwest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nova Scotia	2	3,224	2	3	2	2	39	3,129	0	0	7,413	0	4	0	2	0
Ontario	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prince Edward Island	297	33,684	1,059	290	1,059	1,059	97,521	1,870	6,971	6,291	40,212	9,729	9,914	0	297	6,294
Quebec	642	6,317	775	642	642	642	9,947	1,705	1,495	642	6,611	795	881	775	768	841
Saskatchewan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Yukon Terr.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

This chart is a breakdown of all the individual types of household structures according to the 2018 Housing Survey (2019) that make up Social and Affordable Housing in Canada.



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