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7 years not enough to build the millions of homes needed to fix affordability, warns economist

Cramming that much construction into such a short time frame unrealistic, Desjardins' economist says

Denise Paglinawan || September 14, 2023

Last year, CMHC said a total of 5.8 million homes would be needed by 2030 to restore affordability, which worked out to 3.5 million additional units. PHOTO BY JIM WELLS/POSTMEDIA

Canada has no chance of building the additional millions of homes Canada Mortgage and Housing Corp. projects would be needed to restore housing affordability over the next seven years, according to the chief economist of Desjardins Group.

Speaking at a panel on the current housing market crisis hosted by the Economic Club of Canada in Toronto on Sept. 12, Desjardins' Jimmy Jean said it took "not seven years, not 10 years, not 15 years, but 30 years" to build the last 5.8 million homes in Canada.

"You're going to compress 30 years of home building into seven years … it's not gonna happen," Jean told the audience.

Last year, CMHC said a total of 5.8 million homes would be needed by 2030 to restore affordability, which worked out to 3.5 million additional units on top of their projection that the housing stock would grow by 2.3 million units if building continued as usual.

The federal housing agency updated that report on Sept. 13, reducing its projection for the number of homes that will be built by 2030, but concluding the overall national supply gap would remain close to 3.5 million units, while some provinces would see their shortfalls narrow or widen.

Concern about Canada's housing supply has been heightened by the federal government's plan to boost immigration targets and bring in 500,000 permanent residents annually by 2025, in hope of addressing labour shortages.

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>
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"So the question is, are we going to get an exponential home (supply) increase to match that?" Jean said.

The event comes a week after the Bank of Canada chose to hold its benchmark interest rate at five per cent on Sept. 6, which has granted the country's slowing real estate sector a reprieve after two consecutive rate hikes to start the summer. But current interest rates are already raising the cost of financing new home construction, and may be giving investors second thoughts.

The full impact of those rate hikes — which the central bank has said would take 18 to 24 months — is only now starting to set in, Dawn Desjardins, chief economist at Deloitte Canada, told the audience.

“We’re at month 18,” Desjardins said.

Desjardins said it’s anticipated Canadians will continue to see interest rates have its effects on the economy, and if the Bank of Canada is right, start to see inflation go down, opening the door to lower rates in 2024 after policymakers raised rates 10 times since March 2022.

Shaun Cathcart, senior economist at the Canadian Real Estate Association, said people with five-year fixed-rate mortgages are a huge component of what the Bank of Canada has referred to as the lag effects of previous monetary policy.

“A lot of those impacts are going to be (seen) next year, the year after, the year after,” Cathcart said, as Canadians are forced to refinance at the higher rates.