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## **‘Extremely stressful for Canadians’: Housing affordability unlikely to improve anytime soon, RBC says**

Canada must grow housing supply ‘like never before,’ act ‘quickly and forcefully’ to address housing crisis, according to new RBC report.

Ana Pereira || April 8, 2024



The pace of housing construction would need to almost double to meet expected demand, according to the RBC report.

A new report by RBC Economics titled “The Great Rebuild” shines light on possible solutions to the supply and affordability crisis facing Canada’s housing market.

By 2030, more than half — one million of 1.9 million — new households will not be able to afford a home, according to the report.

“If we don’t act quickly enough and forcefully enough, there’s going to be some tremendous stress on certain types of housing,” particularly rental housing, said Robert Hogue, chief economist at RBC and co-author of the report.

“We’re already seeing it today with exceptionally low rental vacancy rates. It’s extremely stressful for many Canadians.”

### **How did we get here?**

Historically overheated markets, a perfect pandemic storm of low interest rates and government aid, and soaring immigration levels, all of which fuelled demand, have pushed home prices to record highs.

The Bank of Canada’s aggressive campaign during the pandemic to curb soaring inflation by hiking interest rates has further crushed the construction of new homes and affordability.

Housing starts in Canada fell in 2022 and 2023 by 11 per cent, or 31,000 units, RBC estimated in its report.

Even if central bankers begin cutting rates mid-year, as per economists’ predictions, the cuts alone won’t be enough to meaningfully alleviate high ownership costs, according to RBC.

“It will only partly reverse just a small portion of that increase in ownership costs that we saw during the pandemic,” Hogue said. “We’re still very far from where we were before the pandemic.”

The next Bank of Canada interest rate announcement is expected Wednesday. Hogue said he believes the policy rate will remain unchanged at five per cent.

RBC predicts that ownership costs as a percentage of household income could marginally decline to 56.4 per cent from 60 per cent as interest rates are expected to fall to as much as three per cent in 2025.

New policies to restrict immigration recently implemented by the federal government, including a cap on the number of international students, will only slow housing demand, according to the RBC report, as Canada will continue to see a significant spike in population, adding 3.6 million residents by 2030 (from 2023 levels).

“The measures to slow down population growth will give the opportunity for the supply side to catch up now,” Hogue said. But “it’s not a done deal,” he added.

That’s because Canada will need to focus efforts on building more homes, as the pace of construction would need to almost double to meet expected demand.

“Canada must grow its housing stock like never before, especially at the affordable end of the spectrum in rental and social housing,” the report read.

## **Labour shortage due to aging trades workforce**

But, as the report shows, this is no simple feat.

The construction sector is facing a grave labour shortage with one of the highest employment vacancy rates among Canadian industries. Much of this has to do with an aging trades workforce.

RBC predicts that the number of construction workers will need to rise by more than 500,000 between now and 2030 to match demand for housing.

The report noted bringing in more immigrants with construction skills, which are under-represented in the industry, increasing enrolments in trade schools and improving employee retention rates as possible solutions to the labour crunch.

Canada’s construction industry also needs to be more efficient, according to the report, which said it takes more workers to build a home today than 20 years ago.

Greater expediency can be accomplished through the adoption of prefabricated housing and the introduction of a catalogue of pre-approved building designs for affordable homes. Builders should also seek cost-effective materials as well as optimize land use, the report said.

To that end, provincial and local governments must streamline project approvals and ease zoning restrictions. Until recently, Toronto had 69 per cent of its residential land area reserved for detached and semi-detached homes. But the type of housing that's needed are mainly rental apartments and student housing.

"I'm optimistic that progress can be made and could be made relatively quickly if all involved pull up their sleeves — or our sleeves — and get it done," Hogue said, adding that all levels of government, construction industry players and lenders like the big banks should be part of the solution.