



ECONOMY | SOCIAL POLICY

Four steps to relieving the Canadian housing crisis

To grow its economy inclusively, Canada needs to look at the affordable housing issue. All levels of government can help with policy responses.



by [Ankit Mishra](#) May 3, 2023

Canada has some of the highest housing prices, compared to income, in the G7 and leading [OECD countries](#). This has created an affordability crisis that has been negatively affecting the nation's [quality of life](#) and its most [vulnerable households](#).

For Canada to grow its economy inclusively and reap its intended benefits, various levels of government must take measures to address the housing crisis. Studies have shown that in regions where steep housing costs have not been adequately managed, communities have been displaced, wealth inequality has widened, and employers, local governments, neighbourhood businesses and even well-to-do homeowners have faced negative socio-economic consequences.

Canada is emerging from COVID which caused the fastest decline in economic activity since the Great Depression, while the uneven recovery and high housing prices have created a struggle for younger adults and workers.

The data outlining the scale of the problem is clear. According to the Parliamentary Budget Officer (PBO) the average cost of a house nationally was \$811,700 at the end of 2021. That's a 43 per cent increase since December 2019 and a 97 per cent increase compared to January 2015. The Bank of Canada's housing affordability index (HAI), which tracks the share of disposable income that a representative household would put toward housing-related expenses, reached 0.488 at the end of 2022, the highest its been since 1991, surpassing even levels seen during the 2008 financial crisis.

According to Statistics Canada, Canada's population is expected to reach 45.5 million by 2040 and 52.1 million by 2060. More people will require housing, so there's a critical need for the government to improve housing affordability.

To address these core structural issues, a number of policies need to be embraced. They include modifying rules in the housing sector; revising local zoning regulations to build dense, multiplex dwellings in cities;

supporting vulnerable households; and re-incentivizing the development of purpose-built rentals.

Adjusting rules to make housing market fairer

Real estate investment trusts (REITs) were introduced in the early 1990s. Recent [legislative changes](#) and financial reforms ([2007 amendments](#) to the *Income Tax Act*) have created an environment for REITs to flourish. The [nine leading REITS](#) in Canada have a combined market capitalization of more than \$50 billion. New [Statistics Canada](#) numbers show owners of multiple properties held between 29 and 41 per cent of the total housing stock in various provinces during 2019-20.

This follows the Bank of Canada's report that found the share of residential housing investors and repeat homebuyers [had surged](#) since 2015 and had grown by an even bigger pace in 2021. They made 20 per cent and 33 per cent of the country's home purchases respectively in June 2021, while the first-time homebuyers' share decreased from 53 per cent to 47 per cent during this period. Several factors have contributed to this but their [growing stake](#) in the housing market makes it difficult for the average [first-time](#) homebuyer.

To help, provincial and municipal governments should implement policies on multi-home purchases that curb profits and raise taxes, similar to [Singapore's housing reforms](#). This would tamp down demand from investors and repeat homebuyers, and therefore even the playing field. It would also allow the average first-time buyer to more easily enter the market.

Revise local zoning and permitting systems

Municipalities should reduce excessive regulation in the form of zoning laws, development charges and limits on urban land development. In 2018, those costs averaged \$229,000 in the eight most restrictive cities, with a high of \$600,000 in Vancouver. The additional costs are often factored into the total value of the housing unit and passed on to the consumer. Provincial and municipal governments should re-evaluate municipal zoning policies and implement systems to minimize the costs associated with new housing construction.

One key initiative in high-cost cities such as Vancouver would be to look at efficient ways of revising detached housing zones. This would allow for more flexible zoning for a diversity of housing types. In the United States, there are estimates that redeveloping low-density buildings in Washington, D.C. as new, high-density buildings could improve affordability and reduce the per-unit costs of new construction by nearly 40 per cent.

Since most of the land in Canada's big cities is used exclusively for single-family detached housing, provincial and municipal governments should look into reducing uncertainty and risks with the development approval processes so that costs associated with the construction of new homes can be reduced. This would also allow more people to live closer to work and basic amenities.

Providing support for vulnerable households

Nearly 30 per cent of Canadians rented their homes in 2016 and approximately 40 per cent of households currently spend more than 30 per cent of their before-tax income on rent and utilities. This is a strong indicator of the affordability challenge Canadians face.

As various levels of government implement measures to increase the supply of affordable housing, it often takes up to three years to build that housing. For qualified households, the federal and provincial governments could create a rebate program that covers rental costs paid above 30 per cent of the household's before-tax income for a limited period. This would help reduce the financial stress facing families in the short run.

Reviving incentives for purpose-built rentals

Looking further ahead, measures could be implemented to address rising costs and demand in the rental market. University of Toronto research shows that after the 1980s, condominium development replaced rentals. Today, rental housing accounts for less than 10 per cent of new construction in cities such as Toronto and Ottawa. With Canadian families putting home-buying on hold, this is creating a supply crunch in major cities.

As Canada's population increases and housing affordability remains a challenge, developing affordable rental accommodations must be part of a holistic strategy. Vienna, for example, has built affordable social rental housing to keep up with demand. Similarly, Canadian federal and provincial governments should look to revive Canada's post-war housing programs, which allowed rental housing investors to benefit from long-standing provisions in the *Income Tax Act*. These programs facilitated and encouraged the rental housing boom between the 1950s and late 1970s. Reintroducing these measures would incentivize developers to build more purpose-built rentals in major cities and provide new affordable spaces for communities.