CANADA MORTGAGE AND HOUSING CORPORATION

Housing shortages in Canada

Updating how much housing we need by 2030

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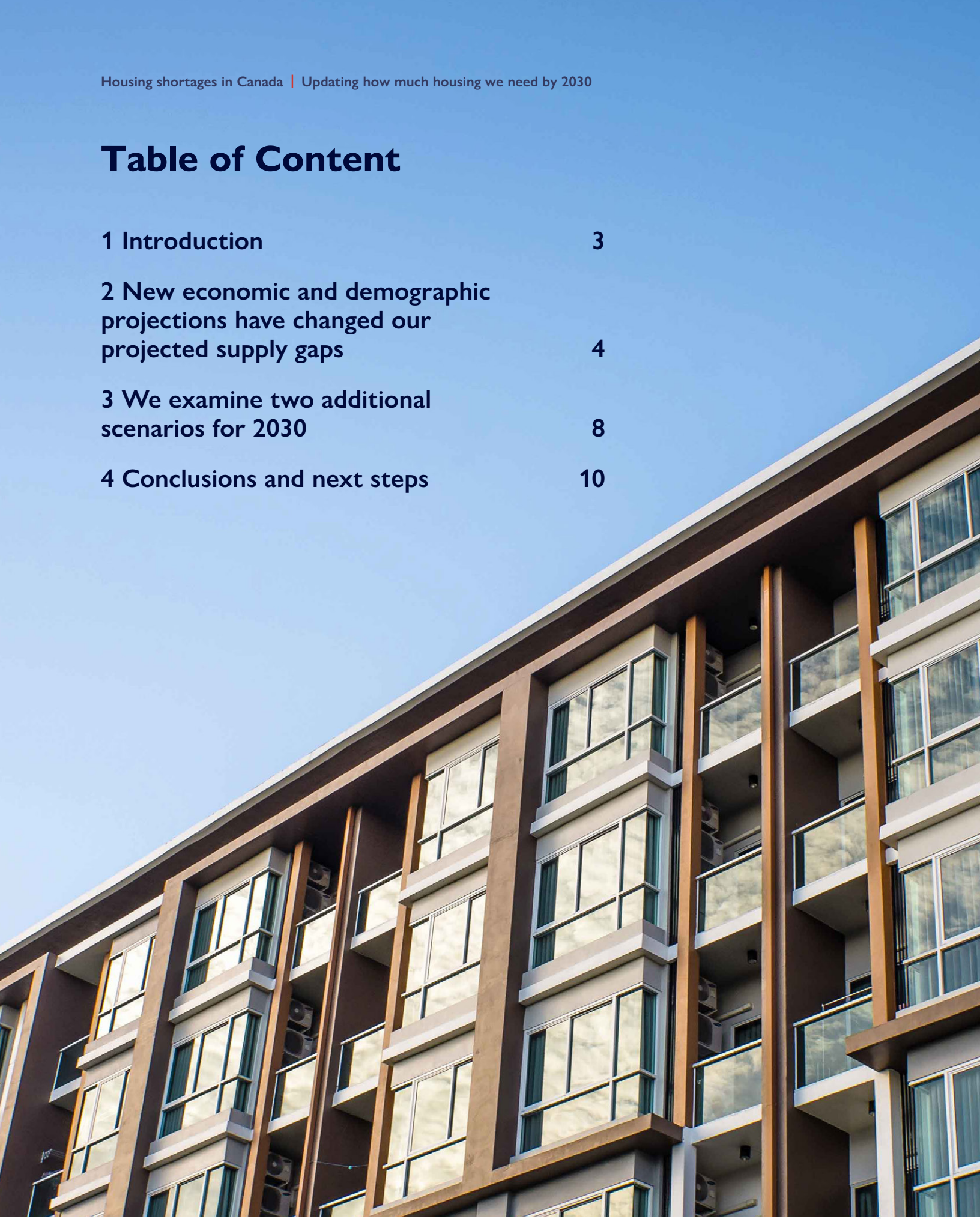

1 Introduction

Having access to housing that's affordable is important for everyone in Canada. But, to reach an adequate level of affordability, we need to increase housing supply. By how much? We've decided to update last year's estimate of how much housing supply we need if we're going to reach the target set out in last year's report: levels of affordability last seen around 2004.

Last year, we estimated that an additional 3.5 million housing units beyond what we projected would be built anyway under our "business-as-usual" (BAU) scenario would be needed by 2030 to reach this affordability target. Those 3.5 million additional units are what we call the "housing supply gap."

This year, in our baseline economic and demographic scenario, we're still projecting 3.5 million additional housing units will be needed. However, the size of the supply gap has changed across provinces. In some, like Ontario, lower projected growth in income per household will lower demand for housing. In others, like Quebec and Alberta, we project growth in incomes will rise proportionately more. As a result, more housing will be needed.

Immigration to Canada is currently at higher levels than forecasted. Still, we project that the number of households in the country won't be significantly higher in 2030 than last year's projection. Our baseline projection shows population growth falling back after the current policy ends in 2025.

In this year's updated report, we explore two additional scenarios beyond our baseline scenario: a *high-population-growth* scenario and a *low-economic-growth* scenario.

Our high-population-growth scenario examines what will happen to the housing supply gap if current immigration trends continue to 2030. In short, we find that the gap would increase from 3.5 million to 4 million housing units. This is because the higher population, and larger pool of income it brings, increase demand for housing.

Our low-economic-growth scenario looks at what will happen if economic growth is weaker than in our baseline scenario and current immigration policies end in 2025. In this case, we find that the housing supply gap falls to 3.1 million units.

2 New economic and demographic projections have changed our projected supply gaps

In our analysis, we attempt to determine housing demand by taking a comprehensive view of changes in the economy and changes in the population (demographics). Given recent economic and demographic changes, we've adjusted our projection for 2030.

2.1 Economic projection

In our 2022 report, we didn't foresee the extent of this year's economic slowdown. The effect of including this year's slowdown is to lower the starting values from which we project household income for 2030 and, therefore, the demand for housing.

Our new baseline economic scenario reflects an easing of the current inflation challenge and renewed economic growth. We project that, by 2030, incomes per household in Ontario and British Columbia will be lower than projected last year. We were too optimistic about economic growth in these provinces as we exited the pandemic period.

The impacts on economic growth of the Bank of Canada's policies to keep inflation under control have also become clearer. We project these policies will have a larger relative impact in Ontario. In contrast, we've become more optimistic about growth in household income in Alberta and Quebec.

These changes to household income affect demand for housing. We project relatively less demand for housing in Ontario and British Columbia and more in Alberta and Quebec.

In our baseline scenario, our expectations for mortgage rates in 2030 are roughly the same as in last year's report. This is because of the Bank of Canada's long-term commitment to keeping inflation rates under control.

We now project the discounted mortgage rate will be slightly higher than projected in our 2022 report at 5.6% in 2030 (lower than their current levels). We develop an alternative view of interest rates in our low-economic-growth scenario, discussed further in this report.

2.2 Demographic projection

As well as being affected by economic factors, demand for housing increases as the number of households does. The number of households, meanwhile, is affected by a range of factors. These include overall growth in the population, movements in the population across Canada, changes in immigration levels, changes in the rate of family formation and in those who want to form households.

We take population projections from Statistics Canada and Oxford Economics to project the number of households, with adjustments to reflect recent population changes. We translate changes in population into household counts by using Census data from Statistics Canada on various population dynamics (a household is a person or group of persons who occupy the same dwelling). Table 1 shows projected demographic data in this report and last year's, as well as household numbers in our high-population-growth scenario, discussed further in this report.

Recent population changes have been largely driven by policy changes to attract a greater number of immigrants and non-permanent residents. We assume that a significant proportion of the short-term increase in immigration was at least partially driven by the pulling forward of immigrants from future years (in other words, by accelerating the arrival of immigrants who would've arrived anyway, but later). This may come about by, for example, faster processing of applications and increasing the acceptance rate of those who had already entered Canada as, for example, students.

The government has not yet determined the long-term level of immigration until 2030. For this reason, Statistics Canada and Oxford Economics project a relatively sharp decline in growth in the overall population in the years up to 2030. As a result, in this year's analysis, Canada's projected 2030 population of around 43 million people isn't significantly higher than last year's projection.

In our new projections, we lower the number of households in provinces like Alberta and Ontario by 2030 (in line with trends for Canada). But there are proportionately greater increases in household numbers in British Columbia, Quebec and the Atlantic Provinces. In addition to immigration changes, these population changes also reflect recent migration patterns set in motion during the pandemic.

As has now been well documented in Canada, housing supply responds slowly to increases in demand. So, while immigration can increase rapidly, housing takes many years to adjust to any unanticipated increases in demand.

The effect of increasing immigration is less if a greater proportion of those accepted as immigrants come from the pool individuals currently in Canada as non-permanent residents. Since they are already in Canada, these individuals wouldn't contribute to demand.

Table 1: Core demographic data

	2023, Housing gap report 2022	2023, Housing gap report 2023	2030, Housing gap report 2022, Baseline	2030, Housing gap report 2023, Baseline	2030, Housing gap report 2023, High-population-growth scenario
Population	38.8m	38.9m	42.8m	43.0m	44.1m
Household	15.5m	15.7m	17.6m	17.7m	18.0m

Source: CMHC calculations based on Oxford Economics, Statistics Canada and CMHC (2022) data.

2.3 We have lowered our estimate for how many units will be built by 2030

We've lowered our estimate of how many housing units will be built by 2030 in our business-as-usual (BAU) projection. Last year, we projected that, by 2030, there would be 18.6 million housing units in Canada. Now, we project 18.2 million units (compared to our estimate of 16.5 million existing units in 2022) (Table 2).

An important reason for this decline is the current shortfall in housing construction. Materials have gotten more expensive, labour is in short supply, and it's hard to get financing for construction. While there's a large reduction in the level of supply in Ontario, it's proportionately smaller than in other large provinces.

We recognize that policies regarding housing supply have started to change in some provinces, particularly Ontario. We haven't included the potential impacts of these policies in our analysis, because we don't yet know how they'll change the path of housing supply. We look forward, however, to deepening our understanding of these factors.

Table 2: Projected supply

	Estimated housing stock, 2022 (millions)	Projected housing stock in 2030 (2022 report) (millions)	Projected housing stock in 2030 (2023 report) (millions)	Change in projected stock between 2022 and 2023 reports (millions)	Change in projected stock between 2022 and 2023 reports
Ontario	6.03	6.71	6.61	-0.10	-2
Quebec	4.12	4.57	4.45	-0.12	-3
British Columbia	2.26	2.64	2.58	-0.06	-2
Alberta	1.81	2.17	2.09	-0.08	-4
Manitoba	0.58	0.65	0.65	0.00	-1
Saskatchewan	0.52	0.56	0.55	-0.01	-1
Nova Scotia	0.48	0.52	0.51	-0.01	-2
New Brunswick	0.37	0.40	0.39	0.00	-1
Newfoundland & Labrador	0.27	0.28	0.27	0.00	-1
Prince Edward Island	0.08	0.09	0.08	0.00	-4
Canada	16.53	18.58	18.19	-0.39	-2

Source: CMHC calculations. Numbers may not add up because of rounding.

2.4 Housing demand projections change according to province

Demand for housing is influenced by growth in the number of households, by income per household, and by interest rates. The responsiveness of housing demand to these factors differs across provinces.

Our estimates show, for instance, that, in Ontario, demand for housing is more responsive to changes in income than in other provinces, particularly Alberta. As a result, our lower estimate for growth in household income has a disproportionate lowering effect on housing demand in Ontario.

Our new projections show the importance of looking separately at each of the factors driving housing demand. In some cases, higher projected population growth will be offset by lower projected growth in income per household, which limits the rise in demand for housing. This is happening in British Columbia, for example.

2.5 Supply gaps

Our approach in estimating the supply gap is to calculate the difference between:

1. What the demand for housing would be in 2030 given projected economic and demographic variables and given a target house price that we consider affordable (defined below); and
2. The projected housing supply in 2030.

Here's a summary of the changes in these elements between this year's report and last year's:

- The target price for achieving housing affordability in 2030 didn't change significantly.
- Projected supply in 2030 is lower.
- Projected demand for housing changed across provinces to reflect differences in population and economic patterns, including the current economic slowdown.

Reflecting these changes, Table 3 shows the supply gaps estimated this year and last year, by province and for Canada. The supply gap has decreased in Ontario, but increased in Quebec, Alberta, and British Columbia.

Table 3: Projected supply gaps, 2022 and 2023 reports (in million units)

	Estimate of supply gap in 2030, CMHC (2022)	Baseline scenario estimate of supply gap in 2030, 2023 update
Ontario	1.85	1.48
Quebec	0.62	0.86
British Columbia	0.56	0.61
Alberta	0.02	0.13
Manitoba	0.26	0.17
Saskatchewan	0.10	0.06
Nova Scotia	0.05	0.07
New Brunswick	-	-
Newfoundland & Labrador	0.06	0.06
Prince Edward Island	-	-
Canada	3.52	3.45

Source: CMHC calculations.
Note: There is no supply gap in New Brunswick or Prince Edward Island under this methodology. Numbers may not add up because of rounding.

The patterns observed above lead to a complicated picture of the evolution of projected housing demand between this year's report compared to last year's:

- For British Columbia, higher estimated household numbers in 2030 and slightly lower estimated income per household lead to a relatively neutral impact on overall demand. Still, the supply gap increases because of a lower projected number of housing units that will be built.
- For Ontario, the combination of fewer households in 2030 compared to the number estimated last year and less growth in income per household leads to less household demand and, in turn, to a lower supply gap.
- For Quebec, increased household numbers and increased income per household lead to higher demand, while the projection for housing supply is lowered. Result: the supply gap increases.
- For Alberta, higher growth in household income and a small drop in household numbers lead to an overall increase in housing demand. In contrast, there's a sharper decrease in housing starts compared to other large provinces. This combination of factors leads to a significant increase in the supply gap. Still, the gap remains low compared to other provinces.
- In Manitoba and Saskatchewan, the supply gap falls, since both household numbers and income per household are projected to be lower in 2030 compared to last year's projections.
- While most of the Atlantic provinces have a relatively high degree of affordability, increased population growth will drive demand for housing higher. Result: the supply gap for Nova Scotia has increased compared to last year.

For the purposes of this report, we define affordability in terms of the share of after-tax income that a household with average income would need to spend to buy the average house. The target is, by 2030, to return affordability to levels last seen around 2004, before the price growth that many Canadians have faced in the last decade and more. This approach also assumes that increases in house prices are passed through to increases in rents.

However, even a return to those levels of affordability would likely still mean that significant housing affordability challenges would remain for many low-income households. CMHC recognizes, in other work, the affordability challenges faced by such households.

3 We examine two additional scenarios for 2030

We looked at two additional scenarios of what could happen to Canada's economy and demographic structure by 2030. We compare them to the **baseline** projections described above. Our intent with these two other scenarios is to show the sensitivity of the housing market to changes in either Canada's economy or its population.

In the **low-economic-growth** scenario: 1) productivity growth is lower, holding down Canada's potential output; and 2) inflation remains above the Bank of Canada's target. The Bank's policy rate falls only to 3%, rather than the 2.5% from our baseline scenario.

Consumer demand remains weak, at least partly reflecting the impact of higher interest rates on Canada's large outstanding household debt. The mortgage rate would be 5.7% in this scenario. These factors lower the demand for housing directly and raise the cost of purchasing a home. In this scenario, we keep the demographic picture the same as in the baseline scenario.

The **high-population-growth** scenario looks at changes to the demographic structure including a permanent increase in the level of immigration to Canada. The government is currently targeting immigration growth only for the next couple of years. However, the high-population-growth scenario is intended to reflect Canada's traditional approach of welcoming immigrants at a relatively constant proportion of its population.

This shows Canada's population reaching over 44 million by 2030 (Table 1), which represents annual immigration levels of around 600,000 to 700,000 individuals. The scenario doesn't represent government policy. It's intended only to illustrate the impact of recent trends. Having a larger population will put upward pressure on house prices. But it will have a more limited impact on income per household, because immigrants may not all be in high-earning occupations.

Having more people in this scenario will change the economy's path from that of the baseline scenario. With Canada's population higher by over 3%, the economy will be larger by 2.4%, because the labour pool is larger, and consumption increases. We estimate that the labour participation rate will be higher by 0.8 percentage point. However, not all the increase in population will be able to immediately boost GDP, so we estimate that GDP per capita will be lower by 0.8% in 2030 relative to the baseline.

When looking at these scenarios, we keep to the same supply scenario described above in Section 2.3 to clarify the effects of changes in housing demand. Over the long term, housing supply changes largely in line with population growth in Canada. Incorporating short-term population increases into our supply projection would be inappropriate because of the time it takes for supply to respond to changes in population growth.

These different scenarios generate a range of house price increases to 2030 (Table 4). Our low-economic-growth scenario leads to lower price increases compared to our baseline scenario. Our high-population-growth scenario, meanwhile, leads to higher price increases. Patterns of price increases differ across provinces because households respond differently in their housing choices as incomes change.

It's important to recognize that these types of macroeconomic models capture only general trends and may hide challenges that households face. Our low-economic-growth scenario, for example, doesn't address the challenges that would appear in the rental sector.

Lower economic growth would mean that households with relatively higher income wouldn't move up to buy houses that they would prefer. This would lower overall housing demand, but it also means that some households wouldn't move out of rental housing and into homeownership.

This trend would worsen current challenges in the rental market, where vacancy rates are extremely low, and rents are unaffordable by historical standards. Moreover, lower economic growth and the resulting lower household incomes may lead to lower household formation if children continue to live with their parents. We intend to explore some of these factors in research to be released next year.

Table 5 shows estimated supply gaps by scenario for the provinces and for Canada. In our low-economic-growth scenario, the number of housing units that need to be built in Canada by 2030 falls to 3.1 million above BAU supply. In our high-population-growth scenario, meanwhile, the number of housing units needed increases to 4.0 million above BAU supply.

Table 4: Nominal price increases, 2019-2030

	Baseline %	Low-economic-growth %	High-population-growth %
Ontario	86	74	98
Quebec	95	84	102
British Columbia	76	66	90
Alberta	51	45	52
Manitoba	62	53	65
Saskatchewan	50	42	51
Nova Scotia	88	80	91
New Brunswick	74	70	75
Newfoundland and Labrador	32	26	34
Prince Edward Island	76	70	77
Canada	79	69	89

Source: CMHC calculations.

Table 5: Supply gaps by scenario, 2030, millions of housing units

	Baseline	Low-economic-growth	High-population-growth
Ontario	1.48	1.31	1.65
Quebec	0.86	0.77	1.09
British Columbia	0.61	0.55	0.69
Alberta	0.13	0.13	0.17
Manitoba	0.17	0.15	0.18
Saskatchewan	0.06	0.06	0.08
Nova Scotia	0.07	0.06	0.07
New Brunswick	-	-	-
Newfoundland and Labrador	0.06	0.03	0.07
Prince Edward Island	-	-	-
Canada	3.45	3.07	4.01

Source: CMHC calculations. Numbers may not add up because of rounding.

These impacts are relatively consistent across provinces. In the low-economic-growth scenario, the supply gap declines less in Alberta because of the lower responsiveness there of housing demand to income growth. In the high-population-growth scenario, more housing supply will be needed in Alberta and Quebec. This is because an increasing number of immigrants will go to those provinces, since housing is so much cheaper there than in British Columbia and Ontario.

4 Conclusions and next steps

This report again highlights how important it is to increase housing supply if we are to make housing affordable for everyone in Canada. It also highlights how important it is to study both economic and demographic variables given the recent changes that have been experienced in both.

We continue to work on improving our understanding of the drivers of housing demand and supply. We're working on incorporating into our analysis the impact of population mobility across regions and provinces. We'll also seek to provide greater detail on the number of rental units needed to reach affordability and on the distribution of impacts across income quintiles. We expect these results to be available early next year.

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