

# The Housing Market and Canada's Economic Recovery

## What is this research about?

This research focuses on the shortcomings in Canada's provision of rental housing. It also discusses the negative effects of a lack of affordable housing on the social and economic wellbeing of communities while offering suggestions to enhance the supply of rental units (regardless of level of affordability).

## What you need to know

**H**ousing that meets a broad range of needs is a vital part of any community's social well-being. Housing is also an important contributor to economic performance with each constructed house generating approximately two person years of employment (equivalent of one year's worth of work for two people or two years of work for one person). For many Canadians,

homeownership is not an option, and a growing number will need access to rental accommodation. Those in need of available rentals include young people, new immigrants, and Canada's aging population. Unfortunately, housing construction has focused on the homeownership market while ignoring growing demand and importance of the rental market.



### ARTICLE SOURCE

*The Housing Market and Canada's Economic Recovery* was prepared for the Federation of Canadian Municipalities (FCM) by Steve Pomeroy in 2012.

### KEYWORDS

*affordable housing, rental sector, community planning, government housing policy*

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## What did the researchers do?

The researchers examined the causes and effects of a failure to provide a complete range of housing options for all Canadians. They investigated recent trends in housing policy and government incentives aimed at housing to show that purpose built rental housing has largely been ignored, despite the fact that one-third

of Canadians rent. The researchers looked at Canada's housing supply situation and its economy, projected population growth and rental demand, barriers to the rental market, and how simply increasing the supply of both market and affordable housing can play an important role in stimulating Canada's economy.

## What did the researchers find?

The researchers found that rising homeownership costs and low levels of rental construction have combined to create a situation whereby **many Canadians' housing needs are not being met**. They found that although some Canadians may choose to rent, many are forced to rent because they lack both the income and down payment necessary to make the leap to ownership. They note that although tenants make up one-third of all households, rental construction over the past 15 years has only accounted for 10% of all new housing construction. The researchers also point to Canada's social housing sector as being too small (at 5% of



all housing) to meet demand, thereby forcing most low-income tenants to rely on the inadequate supply from the private rental-housing sector. This inadequacy in Canada's private rental-housing construction stems from the fact that the rate of return on investing in rental housing is lower to that of condominiums, making investing in rental construction less appealing to investors. This disincentive to invest in rentals is a result of a number of factors, including the impact of mass condominium development, which sets the price for multi-unit residential land, the impact of rental regulation, and the unfavourable tax treatment of rental housing investment.

**The Federation of Canadian Municipalities (FCM)** has been the national voice of municipal government since 1901. With the support of close to 2,000 member municipalities that speak for more than 90 per cent of the Canadian population, FCM represents municipal interests on issues related to federal government policies and programs. Its membership is composed of big cities and smaller urban and rural communities, as well as 21 provincial and territorial municipal associations.



## HOW CAN YOU USE THIS RESEARCH?

According to the researchers, Canada has an opportunity to be proactive in light of the global financial crisis by ensuring that supply in the rental sector continues to be an important part of a healthy housing system. This research can, therefore, be used to inform policy such that governments lower barriers to private-sector investment in rental housing, stimulate the construction of new rental housing, and preserve the existing affordable rental stock. These measures will help reduce the strain felt by many Canadians when looking for affordable housing. Finally, constructing rental units that are priced at or above market rent will lessen the current competition for existing affordable rental accommodation by offering alternative rental choices to those who are financially able to afford market-priced units.

### ABOUT THE RESEARCHER

**Steve Pomeroy** is a housing policy research consultant, based in Ottawa, Canada and a Senior Research Fellow with the Centre on Governance at the University of Ottawa. His research interests include housing policy and strategy, homelessness, and affordable housing financing. The full report was commissioned by the Federation of Canadian Municipalities.