

Addressing Canada's housing attainability crisis

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Author: [Stephen Poloz O.C.](#)

The laws of supply and demand have not been revoked: if home prices and rents are rising faster than the price of everything else, then demand for housing is outstripping supply, led by population growth. To spur construction, the government has eliminated the GST on newly built rentals. Will this do the job?

Adding 5% directly to the bottom line for developers should be very meaningful; so this is certain to boost construction of rental homes, but only if other impediments do not get in the way. New supply has been held back by multiple factors: regulations, rent controls, permitting, land development charges, and so on. If a builder was to decide to double planned building over the next five years, it is not certain the system would allow them to get it done.

Let's assume it does – will this make a significant difference to home affordability? The answer again is certainly yes, but whether it is visible or not depends upon what else is going on. When there is excess demand for housing, purchase prices rise rapidly and buyers are pushed into the rental market, boosting rents. Building more rental units can relieve the pressure on both rents and purchase prices, but the net pressure could still be inflationary. Suppose that planned building, combined with planned immigration, would have led to an increase in home prices of 50% over the next five years; if building more units meant that prices rose by only 25% over five years, would that be considered a success? Progress, perhaps, but difficult to prove.

What we do know is that immigration causes the footprint of our cities to grow. The time it takes to move around the city increases. Time is money; so the price of existing housing that is closer to the centre of the city rises as the city's footprint grows. This happens even if we build exactly the right number of new housing units, in exactly the right cities, every year to accommodate immigration. So, affordability can only be judged by the types of new units that are being supplied – mansions in the suburbs versus high-rise rentals near good transit, and everything in between.

Improving housing accessibility

What this means is that the GST cut is almost certain to improve the supply of housing, but prices could continue to rise. What else could the government do to improve housing

accessibility?

One promising avenue is to address student housing directly. Educating foreign students is a great export business for Canadian universities and colleges, and creates a great channel of qualified immigrants for the future. Of course those students are contributing to higher housing prices. But students don't need much housing – just a fraction of the space needed for a regular apartment. Therefore, governments can create more housing units per dollar, and make a bigger contribution to the affordability crisis, if they focus on building student-targeted units near our major universities and colleges.

The bottom line? Housing unaffordability is a worsening problem. Reducing immigration targets could slow housing inflation, but also stifle economic growth. Cutting the GST on rental construction will help, but fast development of more student housing would be even better – it would help boost economic growth and slow housing inflation at the same time.