

NAVIGATING THE STORM: UNDERSTANDING THE CANADIAN HOUSING CRISIS AND ITS ECONOMIC IMPLICATIONS

Navegando la tormenta: Comprender la crisis inmobiliaria canadiense y sus implicaciones económicas

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ABSTRACT

The objective is to examine the multifaceted nature of the Canadian housing market crisis and its economic consequences. The work was carried out under the parameters of the postpositivist approach, qualitative paradigm, and bibliographic design, supported by documentary research. The findings show that an increase in housing supply could lead to a stabilization of wages, easing pressure on businesses to continually increase wages to match living costs. This could improve business profitability and make Canada an attractive destination for investment and business. Furthermore, the expansion of the real estate sector would provide businesses with more opportunities for establishment and growth, fostering a more vibrant market and benefiting the overall economy.

Key words: Inflation, immigration, labor shortage, real estate market crisis.

RESUMEN

El objetivo es examinar la naturaleza multifacética de la crisis del mercado inmobiliario canadiense y sus consecuencias económicas. El trabajo se realizó bajo los parámetros del enfoque pospositivista, paradigma cualitativo, diseño bibliográfico, apoyado en una investigación documental. Los hallazgos evidencian que un aumento en la oferta de vivienda podría conducir a una estabilización de los salarios, aliviando la presión sobre las empresas para que aumenten continuamente los salarios, igualar los costos de vida. Esto, podría mejorar la rentabilidad empresarial y hacer de Canadá un destino atractivo para la inversión y la empresa. Además, la expansión del sector inmobiliario brindaría a las empresas más oportunidades de establecimiento y crecimiento, fomentando un mercado más vibrante y beneficiando a la economía en general.

Palabras Clave: Inflación, inmigración, escasez de mano de obra, crisis del mercado inmobiliario.

INTRODUCTION

Canada's housing market has become a focal point of national conversation, particularly intensified by the Covid-19 pandemic. This paper seeks to unravel the complexities of Canada's housing crisis, emphasizing the soaring mortgage rates and their ripple effects across the economy. Despite a recent dip in housing prices, mortgage rates continue to escalate, posing significant challenges for potential homebuyers and the broader economic landscape (Government of Canada, 2023; Schlesinger, 2023). The implications of these rising rates are multifaceted, affecting not only those seeking to buy homes but also renters, businesses, and the overall cost of living.

The urgency of this issue is underscored by its prevalence in daily news and its impact on various industry sectors and Canadians aspiring to homeownership. The dream of owning a home in Canada is increasingly delayed by exorbitant prices and general unaffordability, signaling a crisis with far-reaching impacts (Researcher, Contemporary Business Trends in Canada). Understanding the housing market—a complex interplay of buyers, sellers, and financial institutions—is crucial for anyone looking to navigate this challenging landscape. Key factors influencing the market include population growth and immigration, both of which have contributed to the current crisis by driving up demand and prices.

A housing crisis is characterized by limited access to affordable housing, a situation exacerbated by a combination of high demand, insufficient supply, stagnant wages, and external shocks like the COVID-19 pandemic (Gohin & Hearn, 2021). Housing affordability is more than a financial concern; it represents stability, community belonging, and overall well-being. In Canada, spen-

ding over 30% of gross income on housing is deemed unaffordable, yet many are forced to exceed this threshold, compromising their basic needs and financial security (Forward Housing, 2021).

The city of Calgary exemplifies these challenges, struggling with rising costs, low turnover rates, and an inadequate supply of non-market housing. Despite the addition of new affordable units, the supply falls far short of the growing demand, necessitating urgent research and solutions (The City of Calgary, 2021). The housing crisis not only affects individuals and families but also has a profound impact on the economy, influencing business stability, productivity, employment, and quality of life. This paper delves into these various dimensions, exploring the roots, repercussions, and potential paths forward in addressing Canada's housing crisis.

What is the housing market crisis and why is it important?

Currently, the housing market crisis in Canada is related to affordability because of the shortage in the supply of houses which is making the prices of houses skyrocket, affecting both Canadians and newcomers and it's a growing concern to the country.

The importance of this current issue is that it will allow investors to have a greater value in their assets, for example, if they are on the seller side of the housing market they will reap the benefit of having a larger profit on their current asset (houses), Since the value of their house have increased they don't have to worry about investing their money on acquiring or building more houses to be sold.

The other benefit is it opens opportunities for the banks and other creditors to enjoy the benefits of higher interest rates on their loans because it will make the house purchasers desperate and will pay the loans with higher interest rates to secure a property.

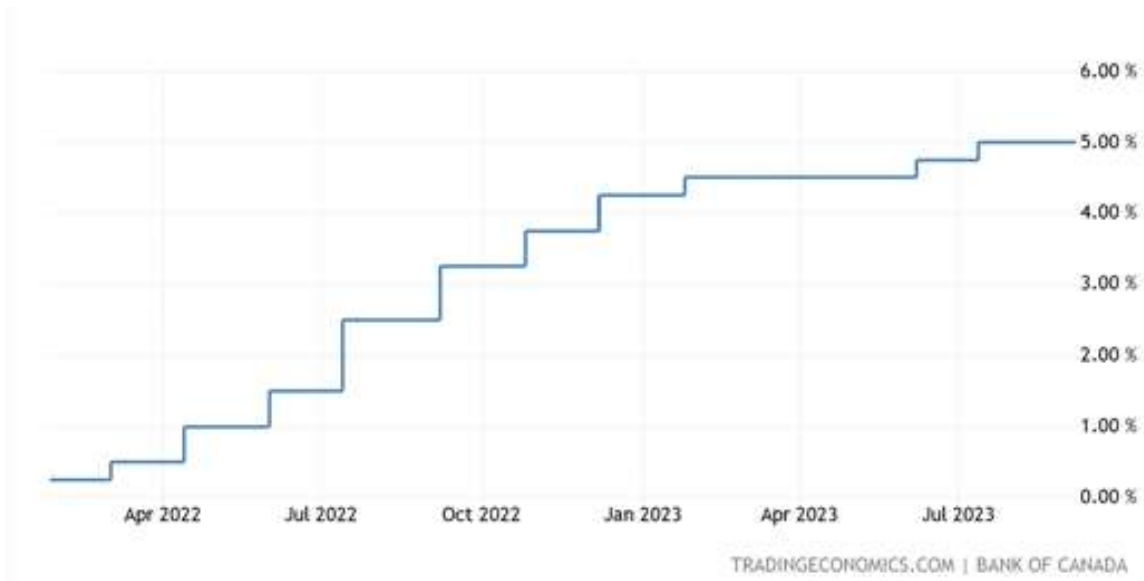
It could benefit the economy because when buyers invest more money in purchasing houses it causes a higher total output (GDP) Since they are directly related to each other.

Possible causes

How did this issue arise in Canada? During the beginning of 2020 while the pandemic was in full swing, the government of Canada adopted easy money policy, which means the federal bank wanted to increase the supply of money in the economy (Kenton, 2022). In practice this easy

money policy was historically low interest rates, these low interest rates were then translated into historically low mortgage rates during the pandemic (Canada interest Rate2023 data - 1990-2022 historical - 2024 forecast - calendar 2022). Since then, rates have been increasing as the Bank of Canada attempts to combat high inflation. Currently the pandemic is over and monetary policy is tightening, however the supply of houses has decreased (Durango, 2023) over the period of easy money and has continued to decrease. Rising lending rates from the Bank of Canada continue to spill over into mortgage rates.

Moreover, the housing crisis seems to be originated with the high Inflation rate that Canada is experiencing right now. According from Pete Evans of CBC News (Sept 13, 2023), Canada's inflation rate had surged to 4% annually, with 0.7% increase largely due to rising gasoline costs, which was also reported by Statistics Canada (Graeme Bruce/CBC). Additionally, Gasoline prices jumped 4.6% in August and rose 0.8% over the year. Thus, energy prices also affected overall inflation, influencing production and transportation expenses.

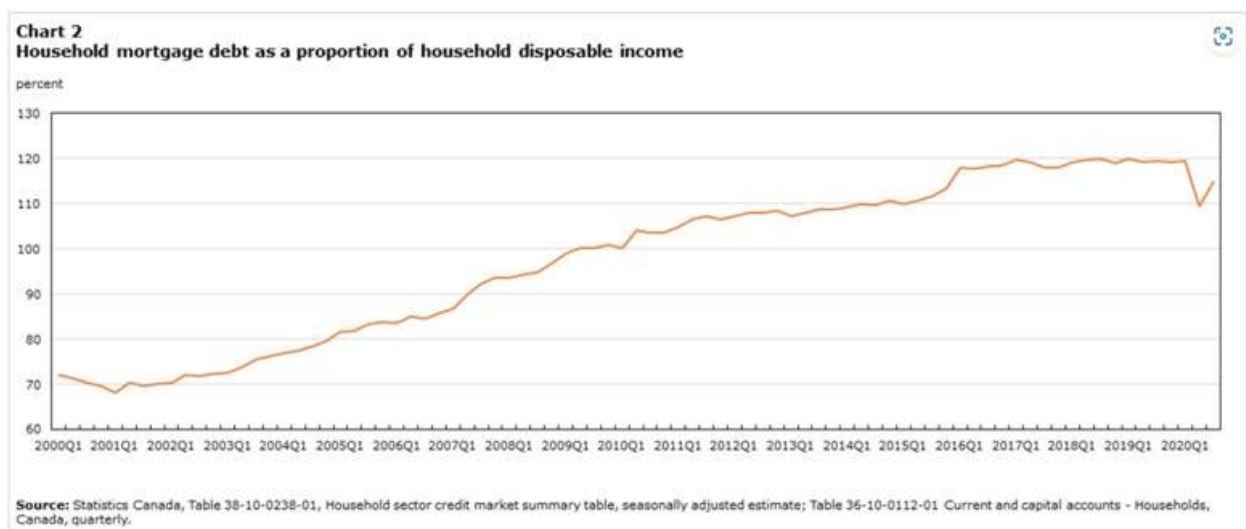


Furthermore, the housing supply in Canada appears to be insufficient in comparison to the number of immigrants entering the country. This differential is creating many significant challenges for the nation as it tries to accommodate and integrate new residents. With an increasing population and limited housing options, the strain on affordable housing and rental markets has intensi-

fied. Based on Paul Hantiuk of CBC News (Sept 23, 2023) and according to the Canada Mortgage and Housing Corporation (Sept 13, 2023), an additional 3.5 million housing units are required to address the ongoing housing affordability crisis to meet its expectations for immigrations housing availability. Additionally, TD Economics (July 26, 2023) report published during July, indicated that Canada's current immigration levels could “only widen” the housing shortage in the coming two years.

Canada's Economic Landscape, issues with the Housing Market:

What affect do mortgage rates have on businesses in Canada? The most direct impact would be on Canadian homebuilders, as of 2023 revenues for homebuilding businesses in Canada are down (Homebuilders in Canada - market size, industry analysis, trends and forecasts (2023-2028): IBISWorld 2023). Wages are on the rise which further reduces revenue for homebuilders. Wages are increasing not only for homebuilders but generally as well for the labour market (Dobson, 2022). This could be attributed to persisting high housing costs in Canada and a need for higher wages to cover higher living expenses. This attribution can be made because mortgage debt has been taking up a bigger slice of income year over year for Canadians (Government of Canada, 2023). High mortgage rates in Canada make building homes less profitable for home builders and makes business in Canada more expensive and less profitable in general due to increased labour costs.



Factors that fueled the Housing Crisis:

Inflation

The housing market has dealt with many issues because of the increase of inflation over the last year. A driving factor on what caused the inflation rate to reach its highest point over the last in the last forty years is the printing of new money. The government released out four hundred billion new dollars into the economy, mostly in the form of mortgages. Personally, I believe conservative finance critic Pierre Poilievre said it best when he said, “More dollars chasing fewer goods means inflation, and in this case housing inflation.” The increase in cash in the mortgage system it has led to a substantial increase in mortgage debt growing at a rate of 7.8% in the last year.

Supply

During the time Covid-19 hit Canada many Canadians found themselves buying new homes. This led to a substantial increase in the number of houses sold during this time and led to an increase in the production of new residences. With the struggles of overseas shipping of materials during the pandemic building supplies increased in price by fifty one percent. With an increase in supply cost and an increase in demand over this time. Currently the demand for houses has been rising after a hard drop following the pandemic, material cost is slowly decreasing but still far above what it was before the pandemic hit Canada. With the average cost to produce a new house being higher than it was several years ago this leads to an increased price for material per each new house built. Hence, the increase in demand leads to a decrease in the supply of houses, causing them to increase in price, this was an outcome of investors acquiring a large number of houses for the purpose of rentals.

Immigration

Traditionally, Ontario and British Columbia have been the preferred destinations for a significant number of immigrants moving to Canada. This influx has historically impacted housing affordability in these regions, a situation that predates the pandemic. Research from Barlett & Desormeaux (2023), indicates that continued immigration is expected to drive up housing costs and exacerbate the affordability issues in these provinces.

Conversely, the Prairie provinces – Alberta, Manitoba, and Saskatchewan – have been notably successful in assimilating immigrants. These areas are renowned for their more accessible housing markets within Canada. According to projections, by the end of 2024, housing affordability in these provinces is likely to improve more substantially compared to other regions. The analysis by Desjardins posits that if a larger proportion of immigrants were to choose the Prairie provinces as their new home, it could alleviate some of the housing price pressures in areas where affordability is a major concern. Additionally, should the influx of immigrants to the Prairie provinces revert to the levels seen in 2016, this could potentially counterbalance the rising housing costs associated with increased immigration.

Interest Rates

As the interest rates on the rise many Canadians have been getting scared away the idea of negative spending and are staying away the ideas of unneeded costs such as purchasing a new home or other types of negative spending. With the rise of pricing in many needed purchases such as oil and energy. With the interest rates higher than previous times and projections that this increase is not stopping anytime soon it makes it more difficult for Canadians to borrow money to purchase things such as new houses. These interest rates have also increased the prices of mortgages, the average mortgage price has gone up by 20% and is at the highest it's been in five years, making it costlier to own a new home currently. With the availability of loans becoming costlier the availability of all loans is more worrisome to Canadian citizens and has a large effect on the housing market.

Labour shortages

Concurrently, the market is facing authentic challenges connected to labor deficits and limitations in supply availability. Notably, the rate of job vacancies in the construction sector significantly surpasses the average of other industries (as shown in graph 7 on page 4), and this trend persists despite the current adjustments occurring in the Canadian housing market. Additionally, investment in infrastructure, especially in the area of public transportation, has not scaled in line with the expanding boundaries of our urban areas. This discrepancy has resulted in lengthier commuting

times for those owning homes. In an age where initiatives to curb climate change are increasingly prioritized, the concept of urban expansion is becoming less practical as a residential strategy than it might have been in the past.

The Construction Sector is Facing Particularly Acute Labour Shortages



Sources: Statistics Canada and Desjardins Economic Studies

According to Anirudh Saligrama of Reuters (September 11, 2023), On September 10th, Reuters had reported that the Canada's Housing Minister, Sean Fraser is actively exploring different options to “ease” the housing crisis within Canada, as reported by CBC on Sunday (September 10, 2023). Fraser (2023), while being interviewed by CBC News, told that the government are currently considering a range of incentives, in which may add the potential tax incentives to encourage more builders in future construction projects, as well as exploring alternative inexpensive financing arrangements. The implications of this for the Canadian Businesses could be substantial and can have a great positive impact in the future. With a potentially stabilized housing market in the future, businesses related to construction, real estate, and finance may experience increased activity, positively impacting their growth and profitability thus increasing and allowing more Canadians have decent and affordable housing in the future.

Impacts of the Housing Crisis

This problem and its contributing aspects affect our economy, which in turn affects and compromises a lot of businesses. It threatens stability, productivity, retention, opportunities, employment, education, and quality of life.

Economic expansion will decrease as housing costs rise. Due to increasing unemployment rates and slower pay growth, along with higher mortgage interest rates, it will be harder for people to buy homes. Likewise, rising rates will result in higher building expenses, primarily because of higher finance costs. This limits the supply of dwellings and is exacerbated by rising material costs and labor shortages. (CMHC, 2022). The deregulation of home causes individual buyers to incur more debt and puts millions of people's economies in danger. Additionally, it raises rents, compels many people into unstable housing, and pushes an increasing number of individuals into homelessness. (Clarke, 2022).

In Canada, mortgages account for 75 percent of all household debt, and are still rising. High interest rates are a burden on households as a result, and the Canadian economy is at risk. When it comes to surviving crises like inflation, the worldwide pandemic, turmoil in Europe, a supply chain breakdown, and continued concerns about financial stability, the Canadian economy hasn't performed any worse than other economies across the world. However, Canada's extremely high household debt levels make the country's economy susceptible to any world economic downturn. (CMHC, 2023)

The housing crisis in Canada can impact our healthcare system too. The National Shelter Study shows that Canada's emergency shelters are already overcrowded due to prolonged homelessness. Homelessness is a public health emergency that goes beyond the housing and poverty crises. Homelessness is a tremendous strain on our healthcare system and is associated with premature death and poor health. It also reveals the fact that more than 1.5 million Canadian households are struggling to make ends meet by allocating half of their gross income to housing. (Richter & Meili, 2016)

METHODOLOGY

The investigative work was conducted under the parameters of the post-positivist approach, qualitative paradigm, bibliographic design, supported by documentary-type research. The collection of information was carried out directly from articles, degree works, doctoral theses and databases, which has been emptied into a content matrix, in order to carry out the respective analysis. Supporting all of the above in Pelekais et al., (2015).

RESULTS

The growing housing crisis in Canada, as examined in this research, demands immediate and effective solutions. The crux of the issue lies in supply shortages, exacerbated by factors such as the COVID-19 pandemic, increased immigration and rising inflation rates, as reported by Pete Evans (CBC News, 2023), and corroborated by data from the Canada Mortgage and Housing Corporation. Proposed solutions, such as subsidies for housebuilders and reducing bureaucratic obstacles for developers, aim to improve housing supply, which could reduce house prices and, consequently, costs of living. These measures, as suggested by experts such as Schlesinger (2023), and Durango (2023), would not only benefit prospective homeowners, but would also have a positive ripple effect throughout the economy.

CONCLUSION

The an increase in housing supply could lead to a stabilization in wages, alleviating pressure on businesses to continually raise salaries to match living costs. This, in turn, could enhance business profitability and make Canada a more attractive destination for investment and enterprise. Additionally, the expansion in housing would provide businesses with more opportunities for establishment and growth, fostering a more vibrant market and benefiting the economy at large.

However, the implications of the housing crisis extend beyond the economic sphere. The current state of housing affordability, where spending over 30% of gross income on housing is considered unsustainable, is not just a financial strain but also a threat to community stability and individual well-being, as noted by Forward Housing (2021). The crisis has adverse effects on various aspects of life, including employment, education, healthcare, and overall quality of life. The

National Shelter Study, highlighted by Richter & Meili (2016), demonstrates the profound impact of housing unaffordability on public health, indicating the urgency of addressing this crisis.

In conclusion, tackling Canada's housing crisis requires a multifaceted approach, involving policy changes, economic incentives, and a comprehensive understanding of the factors fueling the crisis. As Canada's Housing Minister, Sean Fraser (as reported by Anirudh Saligrama of Reuters, 2023), explores various incentives for construction projects, there is a need for cohesive strategies that address both the supply and affordability aspects of the crisis. The future trajectory of Canada's housing market will significantly depend on the effectiveness of these interventions in creating a balanced, accessible, and sustainable housing landscape.

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