

## FOCUS ON CANADA'S HOUSING MARKET

February 28, 2019

### No magic bullet: The solution to millennials' housing plight is better supply

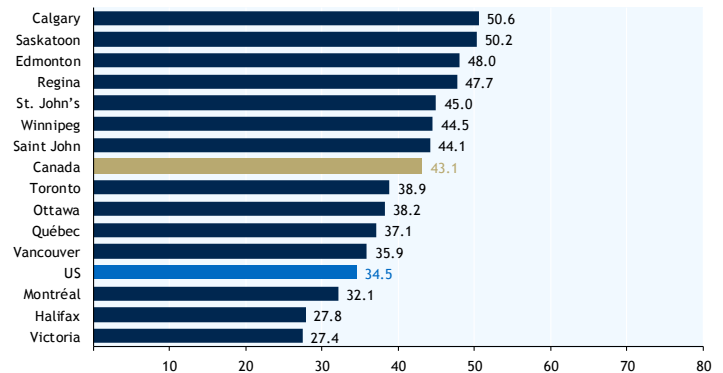
Federal Finance Minister Bill Morneau is reportedly poised to unveil new budget measures to help more Canadian millennials become homeowners. While that generation does face housing-related challenges, especially in some larger and more expensive Canadian cities, we urge him to tread carefully. On the surface, ideas like relaxing the mortgage stress test, extending the maximum amortization period for insured mortgages, or increasing the amount of RRSP take-out for a first home down payment might bring short-term relief to buyers. But they do nothing to address what we believe is the root of Canada's housing woes: gaps in the mix of housing options in some of Canada's larger markets. Meanwhile, the measures won't address the issue of high household debt, and may actually inflate home prices.

We take issue with the notion that Canada has a home ownership problem in the first place. On average, more than 40% of Canadian households under 35 years of age own their own homes. And the proportion of all Canadian households who own a home is one of the highest among advanced economies. Even Toronto and Vancouver—the least affordable markets in the country—rank near the top of global cities on home ownership and have home ownership rates that are about double cities like Paris and Berlin. And despite a notable decline in the past decade, the ownership rate among younger households (Canada's millennials) remains not only high historically in Canada but also compared to other countries, including the U.S.

The decline in the home ownership rate in recent years is a symptom of a larger issue—the lack of housing options that

#### Ownership rate: households aged under 35

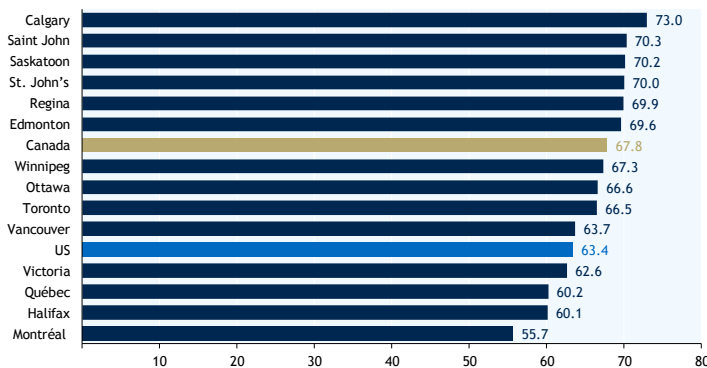
% of households that are owners, 2016



Source: Statistics Canada, RBC Economics Research

#### Ownership rate: major Canadian cities

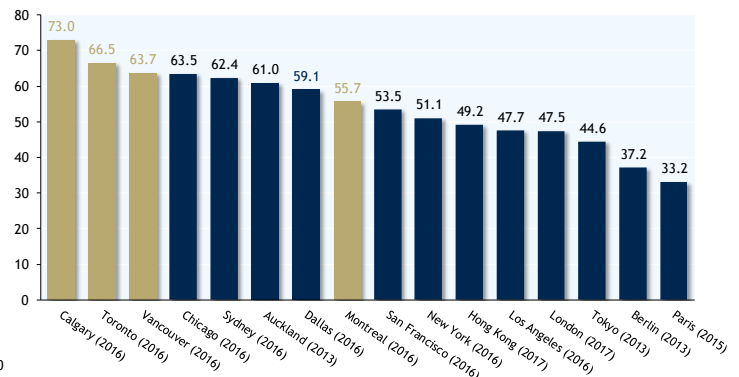
% of households that are owners, 2016



Source: Statistics Canada, RBC Economics Research

#### Home ownership rates for major global cities

Owner households as % of total households

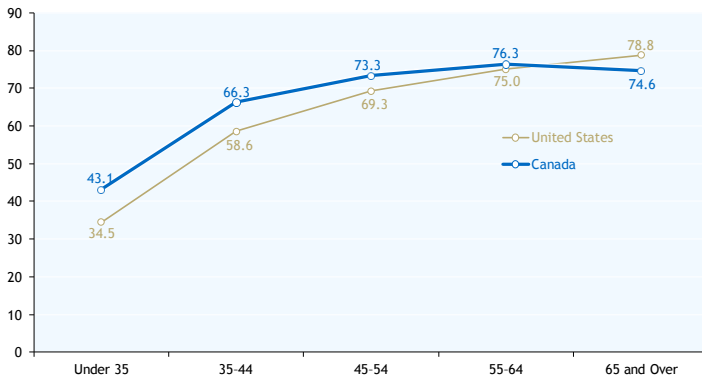


Source: Statistics Canada, Australian Bureau of Statistics, US Census Bureau, UK Statistics Authority, Statistics Japan, Statistische Bundesamt, Insee, RBC Economics Research



### Home ownership rate by age cohort: Canada and US

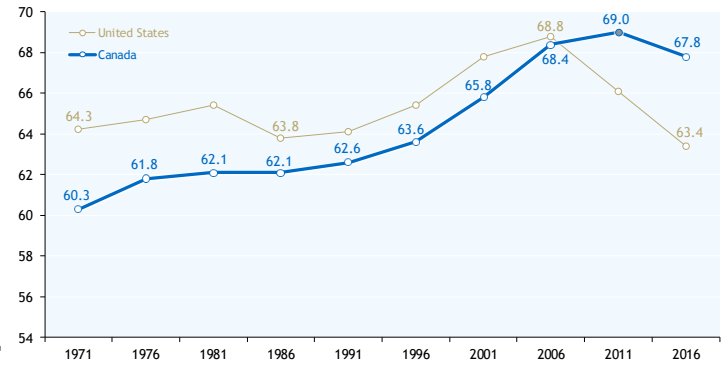
Households that are owners as % of total households, 2016



Source: Statistics Canada, US Census Bureau, RBC Economics Research

### Home ownership rate: Canada and US

Households that are owners as % of total households



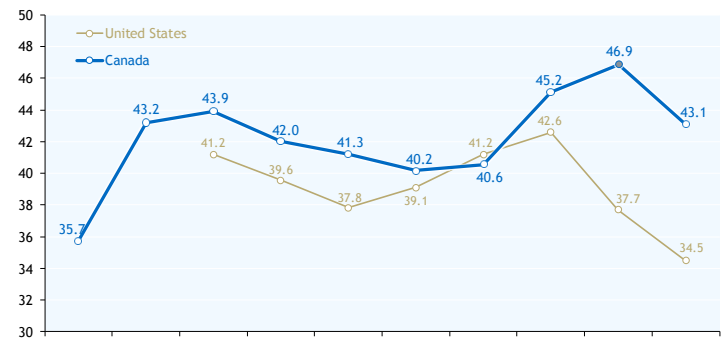
Source: Statistics Canada, US Census Bureau, RBC Economics Research • 2011 National Household Survey

ordinary Canadians can afford in some of our country's larger markets. Let's treat the source of the problem, not its symptom.

That won't happen with measures that boost demand or increase buyers' purchasing budget but do nothing to address housing supply gaps. Indeed, these measures on their own are likely to inflate home prices. So any near-term benefits to buyers could be quickly reversed by a loss of affordability arising from higher property values—an outcome that would pose a challenge for subsequent age cohorts trying to break into the market. And let's not forget the impact on household debt—a top vulnerability for our economy. Any new measures that ultimately increase household borrowing could only make the existing household debt problem worse.

### Home ownership rate: households aged under 35

Households that are owners as % of total households

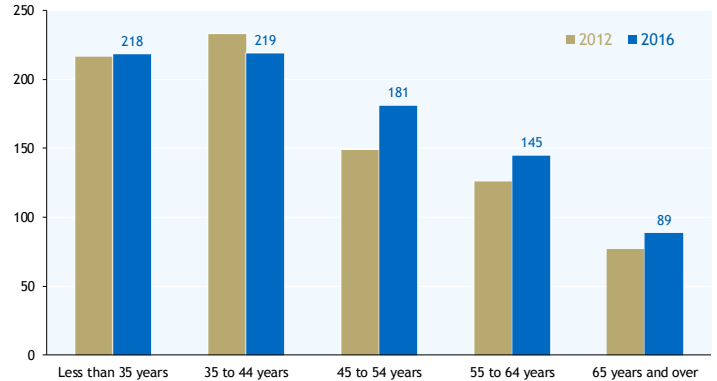


Source: Statistics Canada, RBC Economics Research • 2011 National Household Survey

In our view, the longer-lasting remedy to Canada's affordability crisis lies first and foremost on the supply side of the equation. That's something that both CMHC and the Bank of Canada have recognized. What millennials in Vancouver and Toronto really need is more inventory of homes they can afford, and a better mix of housing options—be it to own or rent. Solving the supply issue isn't the federal government's responsibility alone but requires a concerted effort across all levels of government. At the very least, the collective goal should be to remove barriers (regulatory, administrative or otherwise) inhibiting home developers and builders to respond quickly to the demand for new housing—especially when that demand is rising rapidly. A more nimble and responsive supply side of the market would go

### Debt-to-income ratio by age of household: Canada

Debt as a % of disposable income



Source: Statistics Canada, RBC Economics Research

a long way to addressing the needs of buyers on a more permanent basis. If Minister Morneau's heart is set on doing something on housing in his budget next month, he would do well to focus on supply issues and let the home ownership rate fall where it may.

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