

The 'Core' of the Housing Problem

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Word surfaced this week that one particular company is going to buy up to \$1 billion worth of single-detached houses in Canada over the next five years, targeting mid-sized cities, and convert them into rental units. This might seem to be a pretty standard concept, but judging by the national media backlash over the plan, it struck a very sensitive nerve. To be sure, we're not here to pick sides, but simply to help understand what is behind the issue.

On one hand, **investor ownership of Canadian real estate is not new**, even by large corporations and real estate investment trusts. StatsCan data, for example, show that investors own roughly a third of the condo market in Canada's largest cities. Aside from a brief period where nonresident investment was rising quickly, this has rarely been an issue. There is also a **perpetual call for more rental stock** in Canada, especially in the underserved single-detached market. One issue is that the move **doesn't create new supply**, but further **bids up the price for an already extremely scarce resource** (detached homes) in the major cities and, more recently, smaller mid-sized cities. At an emotional level, it is **a young family versus big corporate money**.

Understanding all sides of the argument, the noise around this is **the culmination of more than a decade of supply- and demand-side forces that, almost by design, predictably got us to where we are today**. When Ontario introduced the **Places to Grow Act in 2005**, it set off down a long road toward single-detached home scarcity around Canada's biggest market. To quote, "*the Plan's emphasis on optimizing the use of the existing urban land supply represents an intensification first approach to development and city building*". Through the 1990s and early-2000s, housing starts for single- and multi-unit properties ran roughly in line with each other in the Toronto CMA. But, by 2019, while multi-unit starts totaled almost 30,000 units, there were just over 4,000 single-detached homes started. Indeed, with most municipalities targeting intensification rates in the 40%-to-60% range, splitting lots, building out brownfield areas and converting singles to multis, is right in-line with development policy.

The **problem** is that these measures are **seriously holding back the supply curve for single-detached houses**, and making it steeper, while **the demand curve for those same houses is shifting out dramatically**. Again, this has been entirely predictable given prevailing demographics in this country. Specifically, the leading edge of the millennial cohort is now about 40 years old, and there is a distinct bulge in Canada's population pyramid in the 25-to-39 age group. This group is almost 8 million large, and has been growing faster than 2% per year, the strongest since the late-1980s. These are prime home-buying years, and prime family-building years. The thing is, the idea that families want to live in dense, smaller and walkable urban spaces, is a bit of a fairy tale. Young families want space, and they need it at a time before the baby boomers are ready to move on from those coveted properties, and after 15 years of crowding out single-detached development. The exodus to smaller markets during the

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pandemic is a good example of the pressure finding a relief valve, and that now might be competing with institutional dollars.

Bottom Line: Fundamentally, the core of our 'housing problem' is a major mismatch between the type of supply and demand, but it has been an entirely predictable outcome based on development policy and demographics. This imbalance should be cresting in the next few years, but the pandemic (pulling forward some activity), immigration targets north of 400k people per year, and record-low interest rates have magnified it.

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