



No relief in sight for Canada's housing supply crisis

Canada Mortgage and Housing Corporation (CMHC) released its updated [projections](#) for the number of housing units required by 2030 to restore housing affordability in Canada and like last year, the projections remain sobering. In short, Canada's housing shortfall remains alarming and closing the gap to achieve affordability, defined by CMHC as the share of after-tax income the buy an average-priced home in 2004, is massive and an insurmountable challenge. CMHC projects a gap of 3.5 million units between what will be demanded by households and the number of units supplied by the market in its baseline scenario.

This gap is consistent with its 2022 projection, albeit with some differing values by province due to adjustments to assumptions related to economic growth, population gains both by magnitude and timing and interest rates. It is noteworthy that the projections include a sharp deceleration in population growth, and an assumption that the recent population surge was a pull forward of future population growth.

The 3.5 million home gap in the housing market is on top of the baseline projection of 1.66 million units built from 2022 to 2030, which lifts the 2030 projected stock to 18.19 million units. This is about 200,000 (net) new homes per year. That said, this is short of the 18.58 million units projected for 2030 in last year's report owing to higher interest rates and the costs of construction.

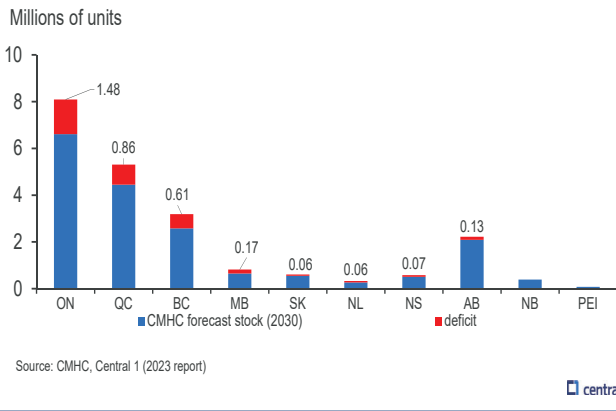
The housing supply shortfall projected by CMHC is massive and underscores the housing challenges Canadians currently face in both the homeownership market and rental markets and seen in soaring prices and rents. Considering the data, this 3.5-million-unit shortage is about 430,000 net new additional units per year over eight years above the projected business-as-usual construction. This is an impossible gap to fill. The last two years were high-water marks for housing starts, including 261,000 units in 2022 and the 10-year average at 216,000 units. Housing completions came in at 220,000 units in 2022 and with a 10-year average of 197,000 units per year. This means to close this gap by 2030, we would need about 640,000 completions per year or about triple times our typical completion rate, which is monumental and unrealistic.

CMHC Housing Supply Gap

	Housing units in millions					
	2022 Housing Stock	2030 Projected Stock	2022-30 projected construction	housing gap in 2030	Required net housing to close gap	
Ontario	6.03	6.61	0.58	1.48	2.06	
Quebec	4.12	4.45	0.33	0.86	1.19	
British Columbia	2.26	2.58	0.32	0.61	0.93	
Alberta	1.81	2.09	0.28	0.13	0.41	
Manitoba	0.58	0.65	0.07	0.17	0.24	
Saskatchewan	0.52	0.55	0.03	0.06	0.09	
Nova Scotia	0.48	0.51	0.03	0.07	0.10	
New Brunswick	0.37	0.39	0.02			
Newfoundland & Labrador	0.27	0.27	0.00	0.06	0.06	
Prince Edward Island	0.08	0.08	0.00			
Canada	16.53	18.19	1.66	3.45	5.11	

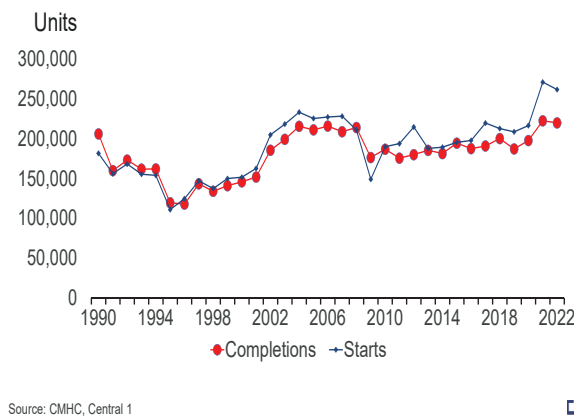
Source: CMHC

Updated supply gap shows persistent and severe undersupply



The national supply gap is comparable to last year's report, but there were changes among provinces due to changes in economic and demographic drivers. Ontario surprisingly, has seen a narrowing of the 2030 supply gap to 1.48 million units compared to 1.85 million units projected last year due to weaker income expectations, while the projection for Manitoba fell from 260,000 units to 170,000 units. In B.C. the gap rose from 560,000 units to 610,000 units, while Alberta rose from a modest 20,000 units to 130,000 units. Quebec increased from 620,000 units to 860,000 units. Based on 10-year average completions as a basis of comparison, shortages are most acute in Manitoba and Ontario, with shortages most modest in Alberta, albeit still with considerable construction needs.

Canada housing starts and completions



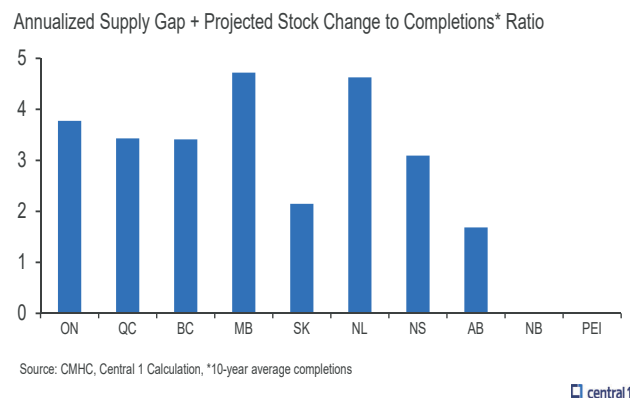
CMHC's alternative scenarios, the first being a low-economic growth scenario and the second being a high population growth scenario point to a range of potential housing shortages from 3.01 million units in the former scenario to 4.01 million units in the latter.

While there is debate on how affordability is measured and projections are dependent on economic and demographic assumptions that are surely to differ, the CMHC report highlights Canada's severe challenges in improving housing affordability and the necessity of creating more housing supply after a decade of an unfruitful focus on housing demand measures such as taxation policy, foreign buyer restrictions and other measures. In fact, given the constraints of high interest

rates on construction and likelihood of stronger immigration than projected housing shortages are more severe than CMHC's baseline projection.

There is no clear path to a more affordable housing market, but the alarm bells have rung. Restoring affordability is complex and will take a decade or more and constrained by factors such as land and labour availability. Housing supply must be increased, even if demand is curtailed, but it is unreasonable to expect building to triple or even double on an annual basis especially as multi-family product takes longer to produce. Nevertheless, incentivizing construction and direct investment by governments to increase housing supply is a start. This will require policies and efforts to lower building costs and taxes (including the just announced removal of GST on rental construction) and more productive housing construction options such as greater use of modular homes, and more middle-density construction.

Supply constraints across country



The massive gap in housing supply suggests housing will remain unaffordable, but much can be done to keep it from getting much worse. More construction is a start, even if it is a decade late.

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