



BUILD NOW

EVALUATING FEDERAL HOUSING POLICY

Written by David Clement and Yaël Ossowski

The Issue Of Chronic Undersupply

Canada is facing a gross housing shortfall, and that shortfall is causing record price hikes for both buyers and renters. Unfortunately, this shortfall has worsened over time. In 2016, Canada had 427 housing units per 1000 people. In 2020, that number actually decreased to 426 units per 1000 people, and in 2022 it fell to 424 units per 1000 people. [Among](#) the G7, Canada has the lowest average housing supply per capita, which places the country behind the United States and the United Kingdom. France, by comparison, leads the G7 at 540 units per 1,000.

In order for Canada to catch up to our G7 peers, we need to build 1.8 million housing units to match their units per capita. It is clear that Canada, as a whole, needs to build more housing, and do so quickly. The question remains, what are the consequences of failing to address the issue of chronic undersupply?

The Extent Of The Problem

The Canadian housing market is in turmoil, with both average home prices and rental costs surging to record highs. Nationally, the [average](#) Canadian home price was \$748,439 in January 2022, up 20% from 2021. Across Canada, virtually every province has seen a record increase in the average home sold price.

British Columbia: The average price in BC for January 2022 rose to \$1,040,888,

a 23% increase compared to 2021.

Alberta: The average price in Alberta was \$443,398, a 10% increase from 2021.

Saskatchewan: The average price in Saskatchewan rose to \$285,700, a 7% increase from 2021.

Manitoba: The average price in Manitoba rose to \$338,772, a 11% increase from 2021.

Ontario: The average price in Ontario rose to \$998,629, a 25% increase from 2021.

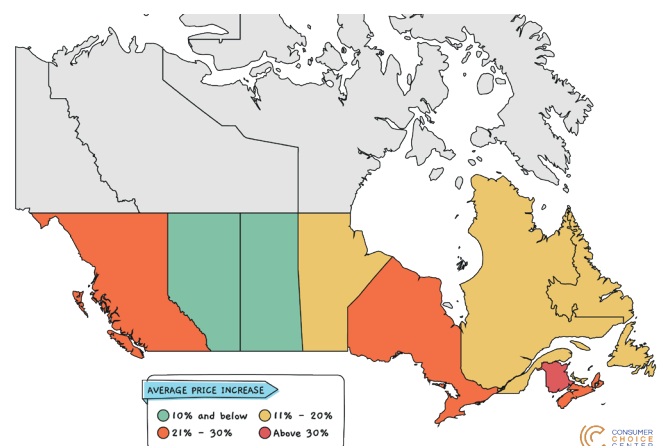
Quebec: The average price in Quebec rose to \$474,941, a 16% increase from 2021.

New Brunswick: The average price in New Brunswick rose to \$275,000, a 32% increase from 2021.

Nova Scotia: The average price in Nova Scotia rose to \$392,828, a 23% increase from 2021.

PEI: The average price in PEI rose to \$351,890, a 18% increase from 2021.

Newfoundland and Labrador: The average price in Newfoundland and Labrador rose to \$324,800, a 11% increase from 2021.



Renting In Canada

The same worrying trend is also apparent for those in the long-term rental market. According to research published by the [Globe and Mail](#), Canadian cities are becoming increasingly less affordable for renters. Using the 30% shelter-costs-to-income ratio metric from the Canada Mortgage and Housing Corp to determine affordability, Canadian cities have never been more unaffordable.

Vancouver: The average rent for a 2 bedroom apartment in Vancouver is \$2,983, which based on the CMHC's affordability metric, requires an annual income of \$128,000.

Victoria: The average rent for a 2 bedroom apartment in Victoria is \$2,453, which based on the CMHC's affordability metric, requires an annual income of \$107,000.

Calgary: The average rent for a 2 bedroom apartment in Calgary is \$1,516, which based on the CMHC's affordability metric, requires an annual income of \$71,000.

Regina: The average rent for a 2 bedroom apartment in Regina is \$1,140, which based on the CMHC's affordability metric, requires an annual income of \$55,000.

Winnipeg: The average rent for a 2 bedroom apartment in Winnipeg is \$1,454, which based on the CMHC's affordability metric, requires an annual income of \$65,000.

Toronto: The average rent for a 2 bedroom

apartment in Toronto is \$2,715, which based on the CMHC's affordability metric, requires an annual income of \$118,000.

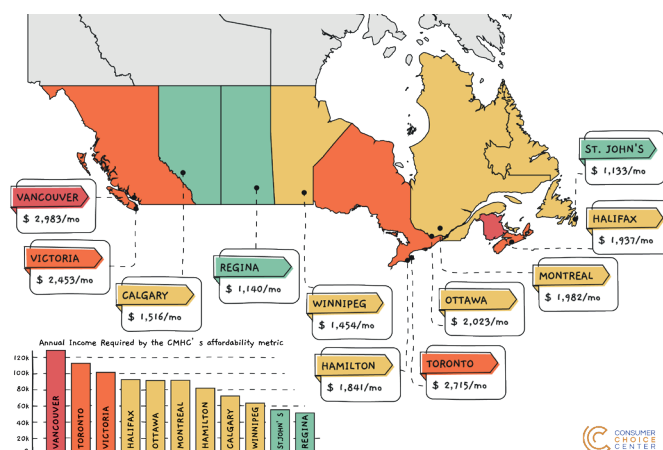
Hamilton: The average rent for a 2 bedroom apartment in Hamilton is \$1,841, which based on the CMHC's affordability metric, requires an annual income of \$82,000.

Ottawa: The average rent for a 2 bedroom apartment in Ottawa is \$2,023, which based on the CMHC's affordability metric, requires an annual income of \$90,000.

Montreal: The average rent for a 2 bedroom apartment in Montreal is \$1,982, which based on the CMHC's affordability metric, requires an annual income of \$89,000.

Halifax: The average rent for a 2 bedroom apartment in Halifax is \$1,937, which based on the CMHC's affordability metric, requires an annual income of \$92,000.

St John's: The average rent for a 2 bedroom apartment in St John's is \$1,133, which based on the CMHC's affordability metric, requires an annual income of \$57,000.



The Federal Government's Plan

The current federal government clearly sees that Canadians, both home buyers and renters, are facing an unprecedented housing crisis. In response, the government has proposed a variety of policies aimed at alleviating soaring prices, and calming the housing market. This section will evaluate the efficacy of some of those policies.

Banning blind bidding:

One of the most prominent [announcements](#) the Federal Government has made in regards to housing is a plan to prohibit the blind bidding process for home purchases. As it currently stands, home buyers submit their bid, without any knowledge of the bids from other potential buyers. The justification for banning blind bidding is that it would theoretically reduce the amount that buyers are overpaying for homes. This assessment is incorrect for three main reasons:

1) First, housing experts have quite clearly stated that banning blind bidding will do very little, if anything, to reduce housing costs. William Strange, a professor of economic analysis at the University of Toronto [explains](#) that a ban on blind bidding wouldn't reduce pricing, "Not to a meaningful degree. There's no economic evidence that it would matter." Economic analysis comparing bidding models, such as blind bidding versus open auctions, finds that different types of auction do not produce dramatically different sales prices. In addition to Professor Strange, Professor William Wheaton at the Massachu-

setts Institute of Technology's Center for Real Estate called the ban on blind bidding "dubious" because bidding wars are a symptom of an extreme sellers' market, and not the cause. And the reason why Canada's real estate market is so slanted towards sellers is because virtually every city has an undersupply of housing.

2) Second, the ban on blind bidding raises questions as to the appropriate role of the federal government. So long as there is nothing mandating that all home purchases be done in a blind auction, the market should remain open to competing auction types. Sellers may choose to sell their home in a blind auction, but if buyers demand otherwise, we could see some shift and competition between the two auction types. That would be a preferred outcome, in comparison to picking one auction type over the other, because it ultimately leaves that decision between buyers and sellers.

3) Third, the ban on blind bidding is an inadequate proposal because it does nothing to address the undersupply of housing in Canada. At best, it tinkers at the margins of demand, while leaving the housing shortage problem unaddressed.

Tax free home savings account:

The federal government is seeking to create a new Tax Free First Home Savings Account (TFHSA), which combines the tax aspects of a TFSA and an RRSP, allowing Canadians to put upwards of \$40,000 into their TFHSA, deduct the savings from their income, and withdraw it to purchase a home without any obligation to repay it. While this proposal will certainly expand savings opportunities for young Canadians trying to enter the housing market, this proposal does nothing

ing to increase the overall housing stock. Without solving the issue of undersupply, this policy will help those actively looking across the finish line, but fails to address the root cause of the housing crisis nationwide.

Doubling the first time home buyers credit:

The federal government seeks to double the First Time Home Buyers tax credit from \$5,000 to \$10,000. The purpose of this policy change is to help Canadians better afford the closing costs, legal fees, transfer taxes and inspection costs. Again, as above, while this will certainly help Canadians reduce some of their costs, this policy does nothing to increase the supply of housing.

Converting empty office space into housing:

Another aspect of the federal government's housing plan is to help transition empty office space into housing. The federal government states that they will release empty buildings in the federal government's portfolio, as well as work with municipalities to fast track the permit process to rezone these commercial spaces to allow for residential conversion. Unlike the policies above, this proposal is one that actually does expand the housing stock and increase the supply of housing, albeit only moderately. While this proposal is not one that provides the zoning reform needed to alleviate the issue of soaring home prices, it is a step in the right direction, and one worthy of praise. This proposal also has the added [benefit](#) of allowing commercial property owners to recover losses incurred during the pandemic, while at the same time adding

additional housing units to the housing stock.

Mandatory Energy Labeling:

As part of the Federal government's climate plan Ottawa has proposed a series of new mandatory energy labeling [requirements](#) for those selling their homes. The purpose of the policy is to help Canada achieve its goal of having all buildings in Canada be net-zero by 2050. This policy is problematic because it requires an energy audit prior to selling, adding costs for sellers, which are likely to be absorbed by buyers. Additionally, for older homes and sellers on fixed/limited incomes, the auditing process could actually deter sellers from putting their home on the market because the audit process could then require substantial renovations to be done prior to being approved to sell.

These new requirements will place the auditing burden on these older sellers, when the majority of the time these homes are sold and renovated immediately afterwards. Once those homes are sold and renovated, they are renovated with modern materials which ultimately ends up making the home more environmentally friendly. Essentially older homes will be required to be retrofitted prior to selling, although the prospective buyer is likely to take on those renovations regardless, making the policy redundant. Requiring retrofitting on a home that is slated to be renovated by the buyer not only increases costs and home prices, it is also terrible for the environment from a resource usage standpoint.

This policy is also nonsensical for newer builds, given that those homes were built under modern building codes and regulations, making the energy audit redundant. As with some of the other policies outlined, the energy labeling proposal does nothing to increase supply, while further

complicating the process of selling.

The last issue is that energy auditors are in short supply, and making this labeling mandatory will further exacerbate the existing wait times to have one's home audited. This has the potential to delay sale transactions by months and further increase prices.

The Way Forward

While it is clear that the federal government's response to the housing crisis is insufficient, it is important to underscore what could be done, at all levels of government, to better respond to the crisis. Our main policy suggestions are as follows:

Ending exclusionary zoning:

Exclusionary zoning is a century-old policy that seeks to restrict the amount of housing units that can be built on a single property. These rules often prohibit multi-family housing units, or set minimum lot size requirements. These zoning restrictions ultimately end up limiting the amount of housing units available in a city. A ban on single family zoning, as has been done in [some American states](#), would give property owners more freedom to build different types of housing and increase the housing stock. For example, by ending exclusionary zoning, major urban centres like Toronto, Vancouver, and Montreal could immediately allow for more duplexes and small apartments, otherwise known as "the missing middle" in housing options.

Using Toronto as an example, upwards of 70% of the city is [zoned](#) exclusively for single family homes, which makes

building options significantly limited. That is likely why Toronto, and Ontario more broadly, lag well behind the national average of units per 1,000 people. In fact, it is estimated that Ontario will have to build at least 1.5 million new units in the next 10 years in order to keep pace with population growth. The impact of these zoning rules can't be understated. Using Toronto again as an example, a family needs an annual [income](#) of \$180,000 to purchase the median home, and \$130,000 to purchase the median condo, while the median income for a couple in [Toronto](#) is only \$97,640.

While zoning falls under municipal jurisdiction, there are steps that can be taken to solve this by both provincial governments and the federal government. One solution would be to tie federal funding dollars to density targets, which would require provinces and their municipalities to seriously re-evaluate their restrictive zoning policies. By taking this step, the federal government could take an active role in increasing the housing stock, as opposed to the current options which are either ineffective, or counterproductive.

And while this type of proposal may seem radical to some, by looking abroad it is clear to see that these are necessary steps. For example, Oregon has recently passed [legislation](#) that abolishes single family zoning for all communities with a population over 10,000. This will allow for property owners to build different housing types which will drastically increase the supply of housing. Minneapolis, [Minnesota](#) has effectively done the same thing, by "upzoning" the 70% of the city which was formerly zoned exclusively for single family homes.

Nationally, New Zealand has [begun](#) the process of restructuring their zoning laws in an attempt to drastically increase sup-

ply and put downward pressure on prices. The DC based Brookings Institute has described New Zealand's [approach](#) to housing as an ideal model for other countries to follow. Canadian legislators must follow the lead of those abroad and make zoning reform a core priority to tackle the housing crisis.

Upzoning Near Transit

Another step that can be taken is upzoning areas in cities within a certain radius of public transit. This would essentially end single family zoning within a certain distance of public transit stops. This suggestion has the benefit of increasing

the housing stock, and doing so in a way that encourages access to public transit, which of course has both revenue benefits for municipalities, and environmental benefits.

Simply put, when single family zoning makes most of major urban areas closed to multi-family units, their only option is to move to, or build, car-dependent communities, thus increasing reliance on cars and fuel.

These examples demonstrate that both local and state/provincial governments can take the aggressive steps needed to increase the housing stock. The federal government can, and should, play a role here in encouraging this with the federal purse as much as it can.

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