

Economics

# IN FOCUS

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## The housing crisis is a planning crisis

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The current recessionary conditions in the Canadian housing market will hardly dent the affordability crisis home buyers and renters currently face. After years of half measures, governments at all levels are showing clear determination to aggressively tackle the issue. The recent cap on the number of foreign students is a bold move in the right direction but it is insufficient. The housing shortage issue is largely a planning issue with official planning targets falling notably short of actual population growth. You cannot build an adequate supply of housing for population growth that you fail to forecast.

### Municipalities cannot plan for what's not in the plan

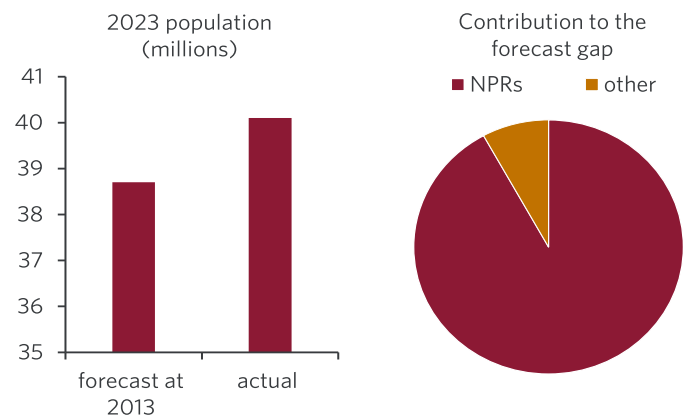
Planning to accommodate future growth in housing demand is a lengthy process. It takes about a decade for municipalities to identify, service, and allocate land for housing, then auction that land for developers to construct and sell housing units on. Therefore, accurate forecasts of population growth are key for adequate housing supply. If population growth was under-estimated or was not anticipated, how can we expect governments and the industry to plan for it?

When Statistics Canada and CMHC forecasted population and housing demand for back a decade ago, they projected that the Canadian population would reach 38.7 million. That was a big miss. The reality is that today municipalities are facing 1.4 million more people than they were told they needed to plan for — in total that's a shortfall of almost 3 years of housing supply — NPRs are responsible for more than 90% of that forecasting gap (Chart).

And it doesn't end here. The latest population projection from Statistics Canada released in August 2022 is already short of the actual population count.

The 2023 projection was for a population of 39.4 million, 700,000 fewer than the current population (as of the end of Q2 2023). The 2022 forecast contains a medium population forecast of 42.8 million for 2030. Given current population and

Chart: A big miss



Source: Statistics Canada, CIBC

trends, even the agency's high growth scenario of 44.15 million would be significantly below the actual population count by the end of the decade.

And as we have indicated in previous research, beyond the basic population count, NPRs disproportionately have a higher need for housing, with a higher ratio of households/per person than the average used in forecasts. This skews household projections even further.

That means that CMHC's highly quoted assessment from September 2023, that by 2030 we would need 3.5 million additional housing units above the "business as usual" pace is already obsolete — this projection assumes a base population of 38.9 million — no less than 1.2 million short of the actual official population.

We estimate that if base populations are not corrected, both agencies will reach their current 2030 forecast populations by or before 2026 — this means that current temporary entry

program structures and recruitment mechanisms, along with the previously announced permanent resident target levels, will likely sustain the number of arrivals — about or above one million annually for some time.

## Impact of the international student cap announcement

The cap on international students is perhaps the most significant initiative introduced in recent years. It will certainly bend the growth trajectory of non-permanent residents at least in the short term. It is the hope and expectation of many is that the cap will discourage a broader number of students at least in the short term to a) not come to Canada to study — given the greater restrictions on work visas, and b) leave Canada after completing their college and undergraduate programs. But are these behavioral assumptions correct? Can we plan for them? Some colleges are already working to mitigate the impacts of the changes on their 2024/2025 enrollments.

Even if the cap works as designed, the strong pace of growth of other NPRs would keep Canada's population growth closer to the 2% annualized growth. That represents about 6 million additional international arrivals, over the next seven years.

The high growth assumptions of CMHC fall far short of a 2% growth forecast to 2030 (below 1.5% annually over 7 years), and as stated earlier, assume a base population 1.2 million short of the actual population released by Statistics Canada for (Q2) 2023.

## CMHC's 3.5 million housing gap by 2030? Try 5 million

Assuming a 2% average annual population growth through 2030, and using actual population as a base, the "business as usual construction level" gap would be at least one million housing units higher than the CMHC high growth scenario of four million. That is a "bau" construction level gap of about 5 million.

That significant forecasting/planning gap is a direct result of the fact that currently there are no credible forecasts, targets, or capacity plans across governments for non-permanent residents — the population which accounts for the vast majority of the planning shortfall. That must change.

Meaningful forecasting, targets, and integrated planning must be conducted for all permanent and temporary visa approvals to be meaningful.

The most direct lever the Government has is to regulate and plan for non-permanent resident arrivals, in the same manner that IRCC articulated for permanent residents in its October 31, 2023 statement, and to ensure they are used in Statistics Canada and CMHC forecasts.

A full matrix of targets by application type and year, as exists for permanent residents, is an essential step to assist planning at all levels, for the Ministry of Housing, provinces/territories, municipalities, as well as for the development industry. As discussed, forecasts from elsewhere in government are neither accurate nor timely compared to population data releases covering the same time periods, which confounds analysts and policy makers. Transparent, timely, and vetted sourcing is key.

<sup>1</sup> Note: In writing this article, we used input obtained from Henry Lotin Principal Integrative Trade and Economics.

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