

Economics

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Housing demand from newcomers even stronger than perceived

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The narrative is well known. The Canadian government is aiming to significantly increase the number of permanent residents (PRs) in the coming years, while the number of non-permanent residents (NPRs) continues to rise fast. The focus now is increasingly on the gap between the rising number of newcomers and the ability of the country's existing infrastructure to successfully absorb them.

But what is the real increase in demand and supply of those newcomers? It turns out that it's not as simple as adding up the number of new immigrants and new NPRs. As we have argued in the past, when measuring new demand, in general, and new demand for housing in particular, the focus should be on "international arrivals." And we suggest that in 2022, the actual increase in housing demand was notably stronger than official published figures suggest due to a growing share of PRs and NPRs that arrived from outside Canada. Moreover, a growing pool of potential new arrivals from Ukraine and recent proposed changes to the treatment of visitor visas might work to notably increase that number in 2023.

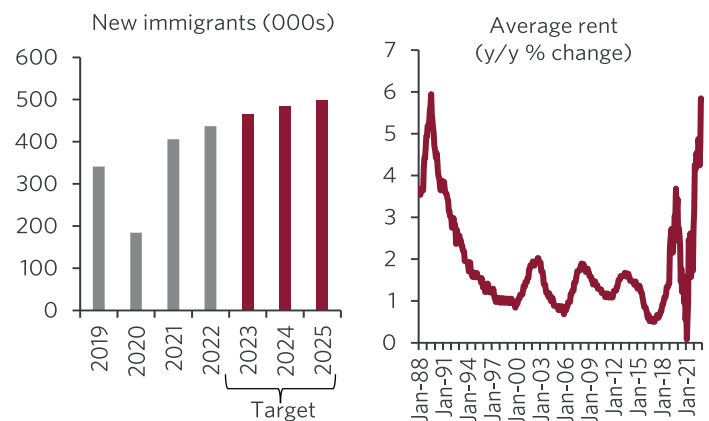
Fewer new immigrants arriving from Canada

Any discussion regarding the housing market in Canada starts and ends with references to the growing number of new immigrants and to the government's aggressive targets that are aimed at lifting the number of new immigrants by no less than 75% relative to pre-pandemic levels by 2025 (Chart 1, left). This in an environment in which the rental market is getting tighter by the day (Chart 1, right).

However, to say that Canada will welcome 465,000 new immigrants in 2023 does not mean that net population growth due to immigration, and thus demand for housing, will rise by 465,000. To assess the impact on Canadian communities and housing, headline official Immigration Canada numbers are misleading. Rather, we need to measure international arrivals, i.e. visa issuances and arrivals for those visa recipients not already in Canada.

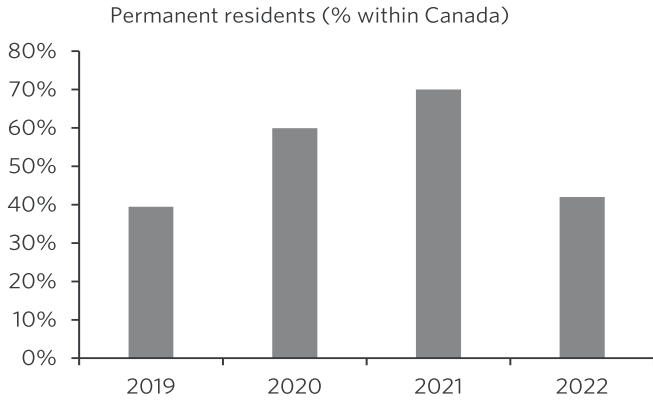
New permanent residents that are already in Canada do not create incremental housing demand. Many permanent residents now receive their approvals from within Canada. This spiked during COVID, with 70% of permanent residents "landing" from within Canada in 2021, before falling dramatically in 2022 to about 42% (Chart 2).

Chart 1: Immigration targets rising (L), tight rental market (R)



Source: Statistics Canada, CIBC

Chart 2: Share of landing from within Canada



Source: Immigration, Refugees and Citizenship Canada (IRCC), CIBC

Accordingly, the official numbers suggest that relative to 2021, the net increase in the number of new immigrants in 2022 was 31,000 or 7.6%. However, due to the decline in the share of those that landed from within Canada in 2022 (that is, a higher share of international arrivals), the actual net increase in demand for housing in 2022 was 131,700 or 108%. So, if in 2021 the dramatic increase in the number of new immigrants did not translate into an equivalent increase in demand for housing, the opposite was the case for 2022, where the modest net increase in the number of permanent residents had a more significant impact on the housing (rental) market than perceived (Chart 3).

NPRs impact is even larger

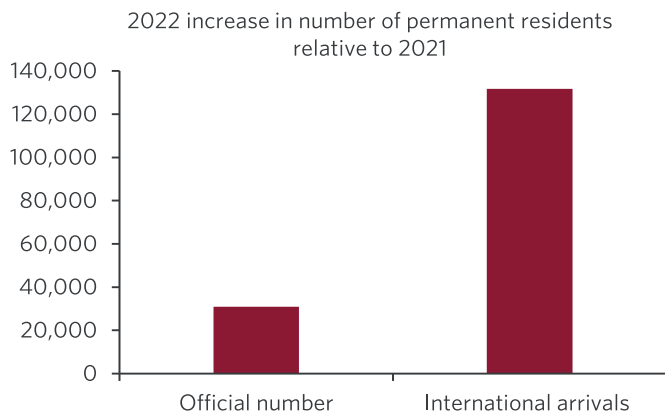
While the focus is mostly on new immigrants, the reality is that NPRs represent a larger share of new arrivals. This segment is

also the most volatile and a significant source of variation in population forecasts in Canada. Statistics Canada’s population forecast has underestimated NPRs over many years and by no less than 100,000 in 2022. As is the case with permanent residents, official published sources do not disaggregate permits issued to NPRs already residing in Canada. Permanent residents and NPRs by country of residence is currently not published by IRCC or Statistics Canada. The figures presented here are based on special tabulations of arrivals by country of residence obtained from IRCC. Notably, during Covid many NPRs remained in Canada under expired visas. Many of those not obtaining permanent residency in the interim are now likely to receive NPR extensions.

And that data reveal that the number of NPRs arriving from outside Canada continues to rise fast due to the resumption of inbound travel tied to student visas, the worker shortage impact on work permit demand by industry, and the CUAET (Ukrainian emergency) program. That program is the Canadian immigration policy response to the war in Ukraine and has resulted in a notable shock to arrival patterns. The CUAET program is an emergency temporary entry program, providing eligible Ukrainians with temporary residency and an open work visa, for up to three years. The CUAET measures also allow those already in Canada the option to extend their NPR status so that they can live, work, and study in Canada temporarily. Ukrainians under this program are not legally considered “refugees”, as they are not fleeing persecution in their own country.

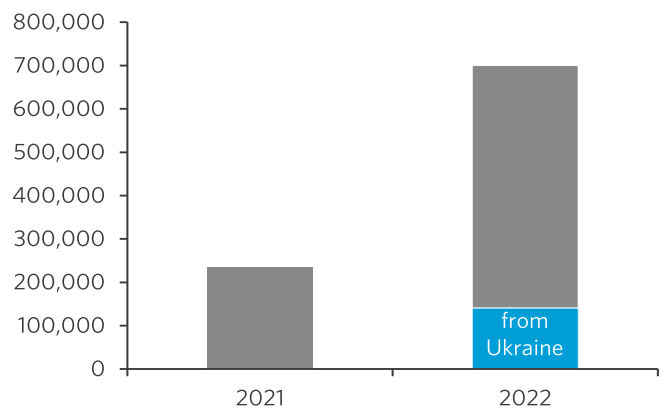
Add it up, and you get that NPR arrivals in Canada are estimated to have grown from 258,00 in 2021, to no less than 700,000 in 2022, a 170% increase. About 140,094 of those estimated arrivals are Ukrainians in the CUAET program, but students and temporary workers from abroad also materially increased (Chart 4).

Chart 3: Net increase in new immigrants 2022 over 2021: official numbers vs new arrivals



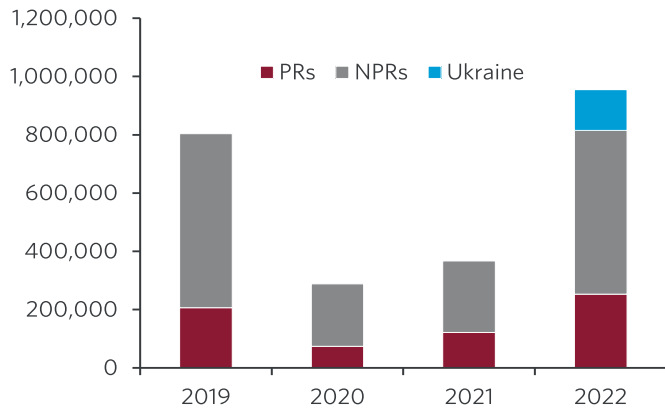
Source: IRCC, CIBC

Chart 4: International arrival of NPRs



Source: IRCC, CIBC

Chart 5: Estimated international arrivals (PRs plus NPRs)



Source: IRCC, CIBC

Approaching one million newcomers

Together, permanent residents and NPR arrivals from outside Canada in 2022 amounted to an estimated 955,000, representing an unprecedented swing in housing demand in a single year that is currently not fully reflected in official figures (Chart 5).

None of these trends are likely to reverse materially in 2023. In fact, they might intensify. Note that just under 340,000 CUAET visa holders from 2022 have not arrived in Canada, while most of the 300,000 not approved remain outstanding and are not yet processed. A large share of those is likely to be approved in early 2023, making many newcomers eligible to arrive in Canada any time thereafter.

Moreover, because of the impact of “catch-up”, tied to processing the backlog, and most notably the CUAET program, there is an exponentially larger gap between visa issuances and actual (estimated) arrivals in 2022. The estimated 1.4 million visas issued to those residing outside of Canada has increased by 180% from the level seen in 2021. The gap between issuances and anticipated actual new arrivals in 2022 is close to half a million, of which more than 70% are CUAET visa holders who have not yet chosen to use their visas and come to Canada, but could choose to do so at any time. Current arrival rates of CUAET are below 30%, but gradually rising week to week. This has potentially significant implications for housing demand from international arrivals to Canada in 2023.

What’s more, the recently reported proposed plans by the government to reduce eligibility rules for visitors (in which foreign nationals would not need to establish that they will leave Canada when their visa expires), will in all likelihood work to add notably to demand for residential housing. While current visitor visa numbers amount to more than 1.1 million, that change of policy would prompt a spike in applications among some visa countries, and create huge incentive to visitor visa holders still in the country, wavering on returning, to remain in Canada and find accommodation.

Accordingly, it’s not a stretch to suggest that the number of new international arrivals in 2023 might reach one million. This kind of inflow suggests that existing policy tools will easily fall short of addressing the current and future increase in housing demand. At the minimum, short-term housing solutions are needed to accommodate the upcoming unprecedented surge in the number of new arrivals.

Note:

Special IRCC tabulations were obtained from “Integrative Trade and Economics”.

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