

Canada's Housing Mismatch *Many Canadians prefer ground-oriented homes, but not enough are being built*

by Josef Filipowicz and Steve Lafleur

MAIN CONCLUSIONS

■ Canada-wide, home prices are 28% higher since the start of the COVID-19 pandemic, despite recent declines.

■ “Ground-oriented” single-family home and townhouse prices increased by 31%, compared with a 17% increase in prices for apartments over the same period.

■ Despite strong demand, ground-oriented housing completions declined during the 2010s, alongside a general decline in housing completions since the 1970s.

■ Not only is there a widespread shortage of housing, but there is a growing mismatch between the housing types being built and those preferred by many Canadians.

■ Further research should focus on the causes and consequences of this mismatch, as well as solutions.

Introduction

Canadian real-estate markets experienced significant price increases before, and especially during, the COVID-19 pandemic. Canada-wide, home prices were 28% higher in February 2023 than in March 2020, despite falling from record high appreciation since early 2022. Significant variations occurred among housing types, with prices for “ground-oriented”¹ single-family homes and townhouses increasing by 31% over the same period, compared with a 17% increase for apartments. These variations, as well as observed changes in buyer preferences during the pandemic suggest strong demand for all types of ground-oriented homes.

Faced with high demand for these housing types, one might expect supply increases. In fact, nationwide ground-oriented housing completions declined during the 2010s, alongside a general decline in total housing completions since the 1970s, bucked only by rising apartment completions in recent years. There has also been no notable increase in completions of semi-detached and row housing, both of which are frequently touted as rapid means of growing the ground-oriented housing stock while slowing outward urban expansion.

Not only is Canada experiencing a significant shortage of housing overall, as established by a growing body of literature, but there also appears to be an important mismatch between

the housing types preferred by many Canadians and their families, and the housing types being built. By highlighting this issue, this Bulletin seeks to spur further research on the causes and consequences of, as well as possible solutions to, this mismatch.

Price trends during COVID-19, by housing type

Since the onset of the COVID-19 pandemic, many of Canada's real-estate markets have experienced significant price increases. Home prices Canada-wide were 28% higher in February 2023—the latest month of data available at the time of writing—than in March 2020 (**figure 1**), when a state of emergency was first declared in Canada, despite falling from even higher increases in early 2022. Similar trends are observed across Canada's four most populous provinces, though they were most pronounced in British Columbia and Ontario, and more muted in Alberta.

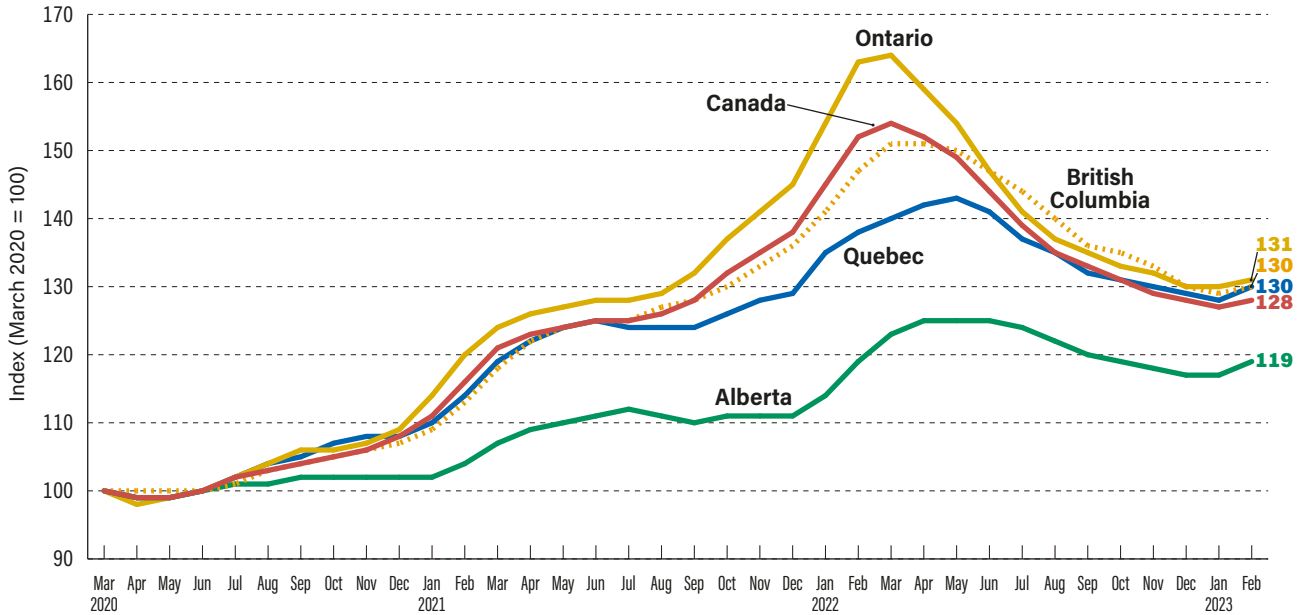
Further, price increases over this period were not equal across housing types. As shown in **figure 2**, among “ground-oriented” housing types, the price of single-family homes and townhouses grew by 31%, while apartments (for example, condominiums) grew by 17%.²

Though most pronounced during the pandemic, divergence in price appreciation by housing type was already present in the pre-pandemic period.

1 “Ground-oriented housing” is a phrase frequently used to define all types of housing with direct access to a street or public space, without passing through a shared corridor or elevator. Notable examples of ground-oriented housing types include single-family detached homes, semi-detached or duplex homes, some tri- and quad-plexes, and most townhouse types.

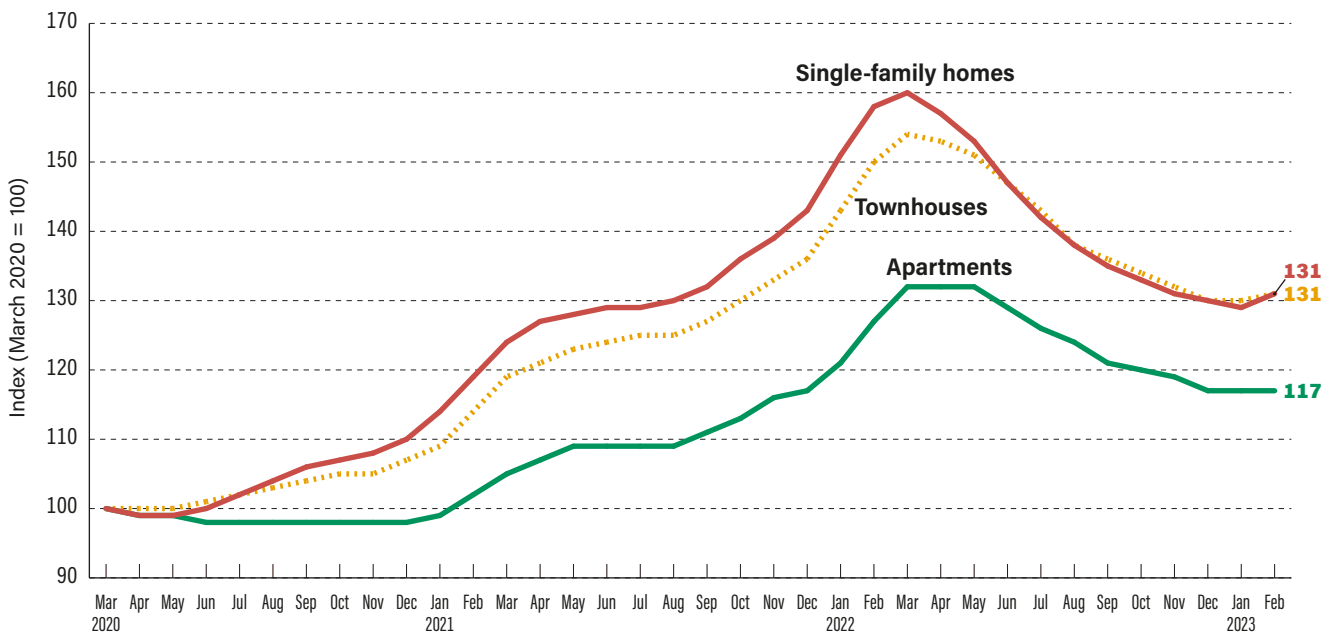
2 “Single-family homes”, “Townhouses”, and “Apartments” are the labels used by the Canadian Real Estate Association in coding its home price data. Full definitions are available here: <https://www.crea.ca/wp-content/uploads/2016/02/benchmark_home_definitions_for_tableau_en.pdf> (Canadian Real Estate Association, 2016).

Figure 1: Index of the growth of Canadian home prices since COVID-19, March 2020 to February 2023 (March 2020 = 100)



Source: Canadian Real Estate Association, 2023 (as of March 23, 2023).

Figure 2: Index of the growth of Canadian home prices since COVID-19, by type of housing, March 2020 to February 2023 (March 2020 = 100)



Source: Canadian Real Estate Association, 2023 (as of March 23, 2023).

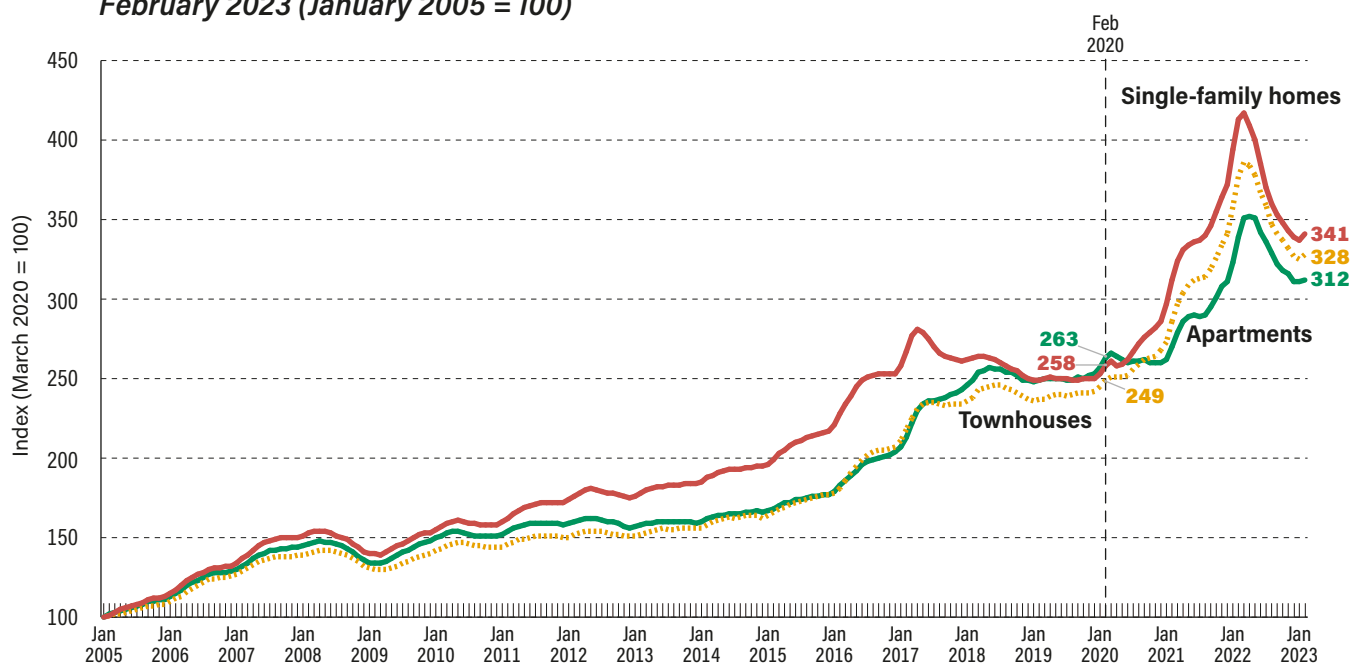
Figure 3 extends the timeline shown in figure 2 back to January 2005, the earliest period of available data. Following relatively comparable price growth in the 2000s, different housing types started diverging more markedly in the 2010s, led by single-family homes, until apartment price growth caught up with and briefly surpassed growth in the price of single-family homes. On the eve of the pandemic, in February 2020, apartment prices were 2.63 times higher than in January 2005, while single-family home prices were 2.58 times higher, and townhouses were 2.49 times higher.

Prices for all housing types rose rapidly thereafter, though they rose most rapidly for

single-family homes. By February 2023, single-family homes were 3.41 times more expensive than in January 2005, townhouses were 3.28 times more expensive, and apartments were 3.12 times more expensive, despite significant price reductions throughout the spring, summer, and fall of 2022. It is unclear whether and for how long these price reductions will persist,³ but what is clear is that the housing types with the strongest price appreciation throughout the pandemic were ground-oriented, including single-family homes and townhouses.

Home buyers' increased preference for ground-oriented homes during the pandemic period is well documented. Khan, Bilyk and Ackman (2021),

Figure 3: Index of the growth of Canadian home prices, by type of housing, January 2005 to February 2023 (January 2005 = 100)



Source: Canadian Real Estate Association, 2023 (as of March 23, 2023).

3 One major driver of both the rapid appreciation and subsequent decline of overall home prices throughout the pandemic is the Bank of Canada's evolving monetary policy, by making loans (that is, mortgages) either more or less costly to borrowers. As the Bank of Canada's policy rate rose throughout 2022, home buyers' borrowing power fell, in turn reducing overall home prices (with notable differences by housing type, discussed here). For more on the mechanism by which interest rates affect housing demand, see Filipowicz, Clemens and Lau, 2017.

as well as polling conducted for the Ontario Real Estate Association (2020), and the Canadian Home Builders' Association (2020) identify the disproportionate preference among buyers for suburban and rural properties, as well as larger homes to accommodate growing families, especially among millennials. Further, Mehdi and Morissette (2021) observe an increasingly permanent shift in teleworking arrangements, suggesting a persisting preference for larger home types able to accommodate living and working from home.

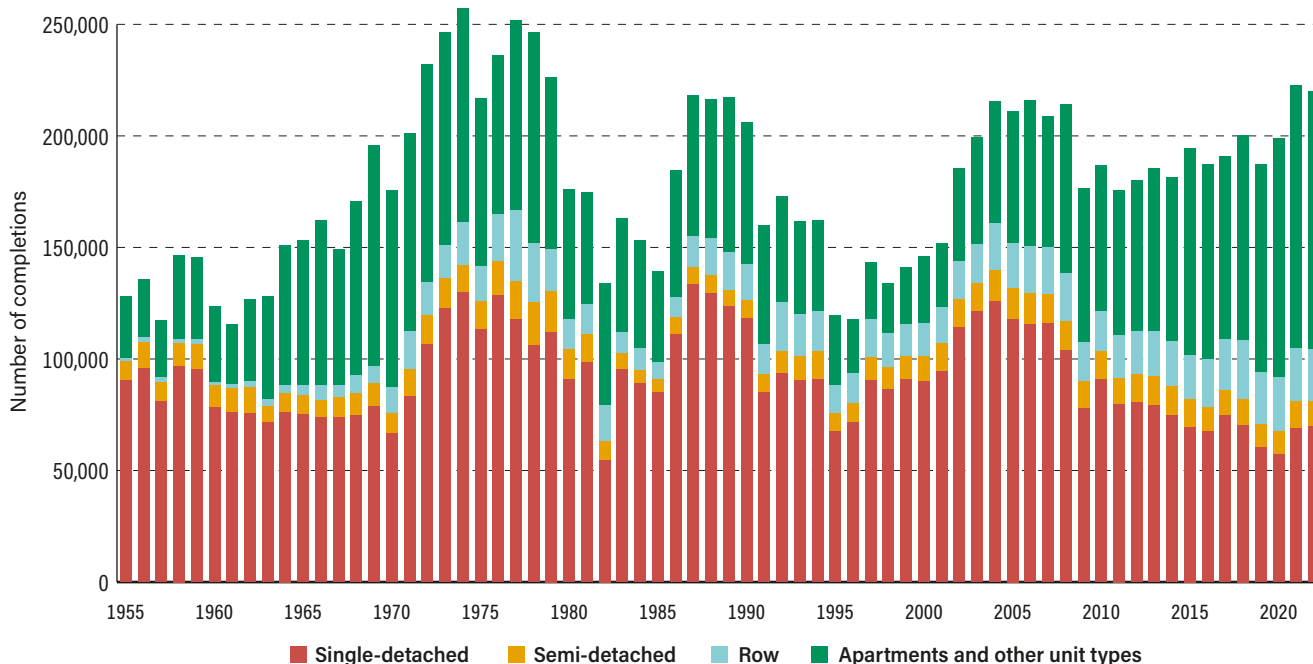
Some of these motivations and trends were already present before the COVID-19 pandemic, but were amplified or accelerated. In any case, Canadian home buyers have expressed a notable

preference for housing types more suitable to their evolving needs, including more space for work, study, family, and leisure. These trends, which appear increasingly likely to endure into the post-pandemic period, raise important questions about the supply of housing, both overall but especially by housing type. In particular, they highlight the importance of supplying sufficient ground-oriented homes to satisfy demand.

Building trends, by housing type

To examine the supply of housing by type, **figure 4** shows the annual number of homes completed Canada-wide, by housing type, between 1955 and 2022.⁴ Several important trends stand out.

Figure 4: Housing completions in Canada, by type of housing, annual, 1955–2022



Source: Statistics Canada, 2023: table: 34-10-0126-01 (as of January 20, 2023).

⁴ The names of housing types in this section—single-detached, semi-detached, row, apartment and other unit types—differ from those in the previous section because the data used, from the Canada Mortgage and Housing Corporation, have different categorizations. Full definitions are available here: <<https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-research/surveys/methods/methodologies-starts-completions-market-absorption-survey>> (CMHC, 2022b).

First, the absolute supply of housing in Canada experienced a high point in the 1970s, averaging 229,113 housing completions, annually, and peaking at 257,243 in 1974. No decade since has reached similar levels of housing production, with annual completions exceeding 200,000 units in only 12 out of 43 years since 1979. As discussed in a growing body of literature on the subject,⁵ the long-term result of a lagging housing supply in Canada is an acute shortage of homes, of all types, with important, negative, consequences for affordability.

Second, Canada has experienced a notable decline in ground-oriented housing completions over the last decade. As suggested by figure 4 and elaborated in **table 1**, the combined number of single-detached, semi-detached, and row housing units completed annually in the 2010s fell to its lowest

Table 1: Average annual completions of ground-oriented housing in Canada, by decade (1960s–2010s)

Decade	Average annual number of ground-oriented completions	Average share (%) of total annual completions
1960–1969	89,238	61.7%
1970–1979	142,042	61.6%
1980–1989	122,182	68.5%
1990–1999	114,289	75.8%
2000–2009	139,352	72.8%
2010–2019	107,727	57.7%

Source: Statistics Canada, 2022a (as of November 16, 2022).

since the 1960s, when Canada's population was less than two-thirds as large (Statistics Canada, 2022b).

Third, apartments and other unit types represent a growing share of the total housing supply. Canada-wide, the 2010s were the decade with the most completions in this category, both in absolute terms and as a share of total annual completions (42.3% of all completions, on average). In fact, 2020, 2021, and 2022 were the first years since 1969 and 1970 during which more than 50% of housing completions were apartments and other unit types. The success with which many Canadian communities have accelerated the delivery of these units is noteworthy, perhaps offering a template for similar acceleration of other unit types.

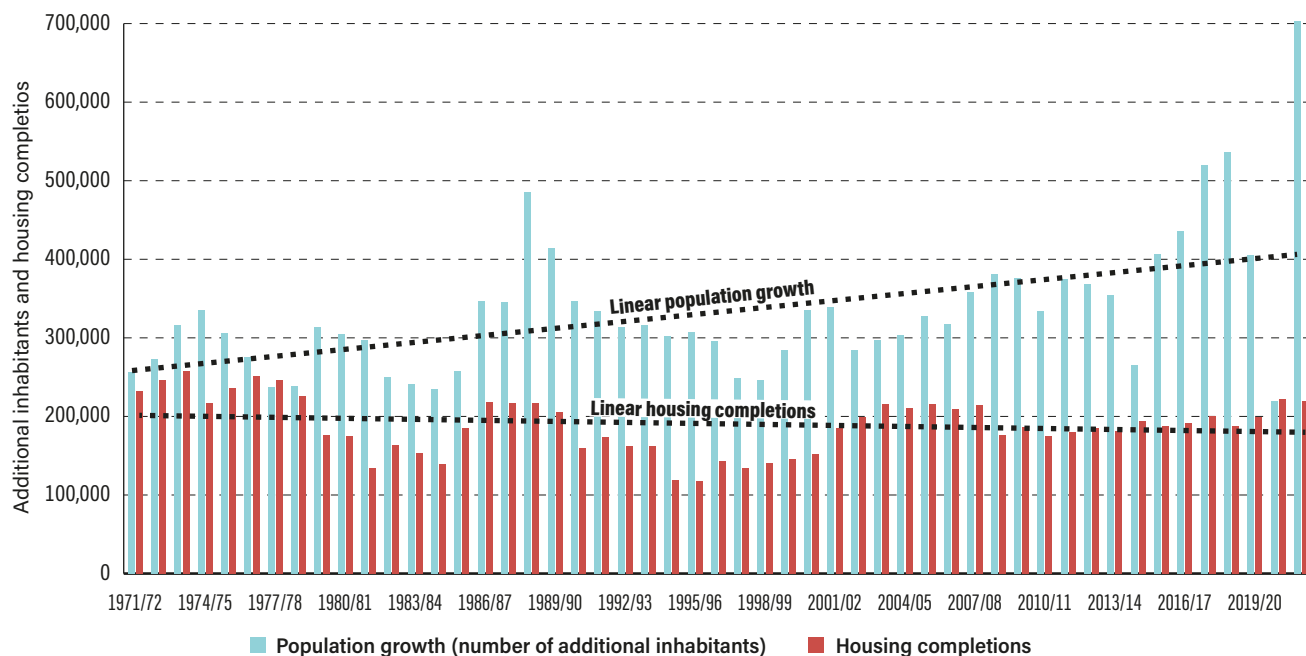
Fourth, relatively few semi-detached and townhouse units are built, both as a share of overall housing, and as a share of ground-oriented units. Despite being the decade with the highest average annual share of semi-detached and townhouse completions (17.7% of all completions), the 2010s posted only a modest increase over the previous decade (16.6%), and was virtually indistinguishable from the 1990s (17.3%). These housing types represent one measure of “missing middle housing”,⁶ often presented as an essential way of introducing more ground-oriented housing while slowing the expansion of cities' urban footprint.

Beyond the observations drawn from historical data on housing completions alone, comparing these data to population growth helps contextualize them. **Figure 5** shows annual growth of the

5 Canada's housing shortage is identified or discussed in Perrault, 2021; CMHC, 2022a, and the Ontario Housing Affordability Task Force, 2022; while its impacts on home prices and rents are examined in CMHC, 2018.

6 “Missing middle housing”, a term coined by American Architect Daniel G. Parolek, can be defined as “a range of multiunit or clustered housing types, compatible in scale with single-family homes, that help meet the growing demand for walkable urban living, respond to shifting household demographics, and meet the need for more housing choices at different price points” (Parolek, 2020: 7–8).

Figure 5: Population growth and housing completions in Canada, annual, 1971–2022



Note: "Housing completions" represent the annual number of housing completions recorded in a calendar year; "Population growth" represents the change in population over a twelve-month period (July 1 to July 1). Housing completions in this chart took place in the latter calendar year, while population growth straddles the two years, bringing about a lagged measure of the housing supply's response to demand. Sources: Statistics Canada, 2022a: table 17-10-0005-01 (as of January 20, 2023); Statistics Canada, 2023: table: 34-10-0126-01 (as of January 20, 2023)

population and housing completions from 1971 to 2022, the fullest extent of comparable data.⁷ The trends mentioned above, notably that the absolute supply of housing in Canada has stagnated or declined following its high point in the 1970s, are accentuated by the data in figure 5, which show a generally widening gap between the number of units completed and the number of additional inhabitants, annually.⁸ Importantly, the 1970s had both less population growth and more housing completions than the 2000s and 2010s. In other words, more homes were built for a smaller, slower growing population.

Conclusion

This Bulletin describes, first, Canadian home-price dynamics across housing types during and before the COVID-19 pandemic, and second, the evolution of housing supply across housing types over seven decades. Beyond the secular rise in the price of virtually all residential real estate in recent decades, price dynamics suggest a clear preference among many home buyers for ground-oriented homes, as evidenced by the more rapid rise in ground-oriented home prices before, but especially during, the pandemic.

⁷ Annual population growth represents the change in population from July in one year to July the following year. Housing completions represent annual totals within the latter calendar year.

⁸ One visible exception to this is the period from 2020 to 2021, when population growth fell dramatically during the COVID-19 lockdown. Data for 2022, however, show a resumption, and indeed an acceleration, of the pre-pandemic trend.

Faced with strong demand for all homes, but especially ground-oriented housing types, Canada's housing supply has not sufficiently responded. The supply dynamics of recent decades indicate a stagnant or dwindling number of ground-oriented housing completions in

many regions, despite important price signals (ground-oriented home prices rising faster than apartment prices). This trend suggests a growing imbalance, or mismatch, between the types of homes many Canadians are expressing a preference for and the types of homes typically on offer.

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