Ontario just suffered the worst erosion of housing affordability in the last half century:

Implications for the Ontario election

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During the first two years of the pandemic, the Ontario government presided over the worst erosion of housing affordability witnessed by any Canadian province over a two-year period in the last half century. Even the wild west of real estate in BC did not see the gap between local earnings and average housing prices grow as fast as it did in Ontario between January 1, 2020 and December 31, 2022. Nor has BC ever seen a comparable erosion in affordability over such a short period of time since the mid-1970s!

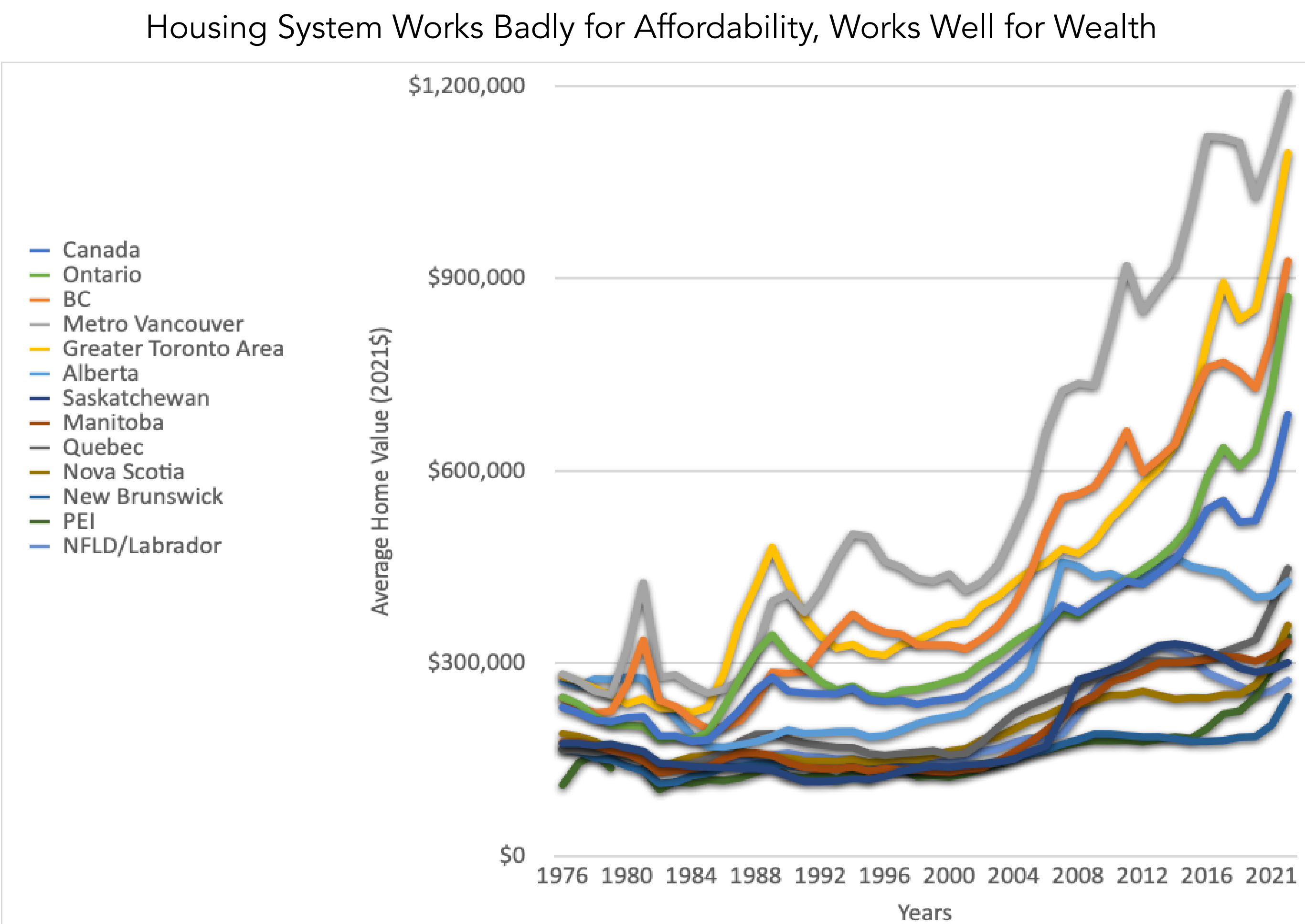
No single level of government is responsible for housing unaffordability, but provincial governments have an important role in setting the policy, laws and regulations that shape incentives within the housing market. As we head into the next provincial election in Ontario, it is worth focusing on what has transpired with housing affordability and housing wealth accumulation since Ontarians last went to the polls to inform public dialogue as voters get ready to scrutinize what the party platforms offer to fix our dysfunctional housing system.

Canadian Real Estate Association data show that the average price of an Ontario home in 2018 was \$571,771. When adjusted for inflation into 2021 dollars, this equals \$606,917. By 2021, average home prices had risen to \$871,688 – an increase of nearly \$265,000, or 44%.

This price increase erodes affordability for many – but it also grows wealth for many more. Rising home prices are great for those who got into the housing market as owners some time ago. These same rising prices limit choices and impose more work on many renters and aspiring home owners – generally younger people and newcomers to Canada of any age. These diverging outcomes, and the power dynamics that sustain them, need to be a key topic of debate during the provincial election.

Figure 1 reveals that Ontario homeowners have enjoyed especially large wealth increases since 2018 by comparison with other provinces in Canada. So large, that Ontario has now caught BC in terms of sharing the highest housing prices of any province in the country – and has grown housing wealth more rapidly than anywhere else over the last couple of years (or at any other period in the last 45 years). Similarly, home prices in Greater Toronto are now on par with Metro Vancouver, accelerating housing wealth accumulation more in that region than any other in the country.

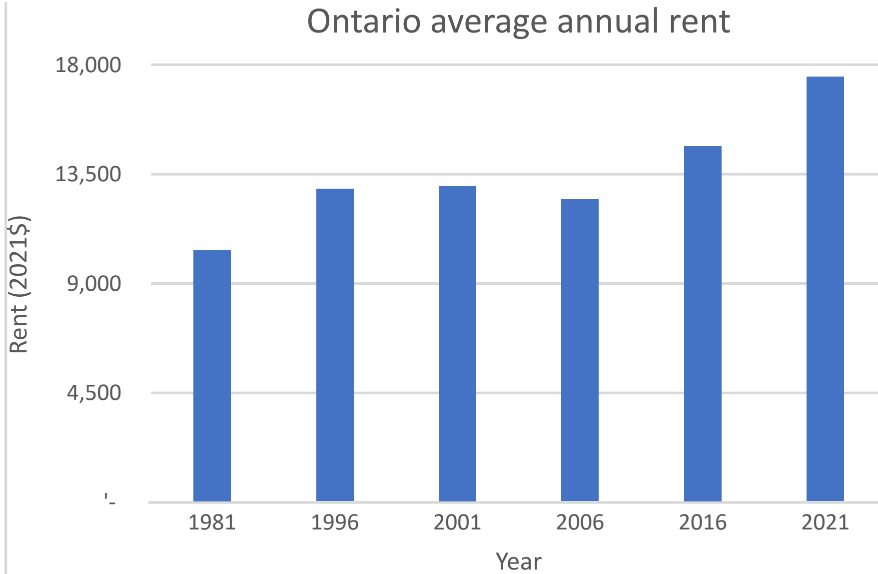
FIGURE 1



Sources: Average home value from Canadian Real Estate Association
All values adjusted for inflation in light of Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted."

Tables 1 & 2 showcase the double edge sword of rising home prices, as it cuts across generations. Using the most recent Survey of Financial Security data (2019) from Statistics Canada, we can see that the rate of home ownership has fallen 20% for Ontarians under age 45, while it has increased by 10% for Ontario retirees. As younger residents are increasingly locked out of home ownership, Figure 2 shows they face rising rents that have become the norm across Ontario. This hurts their housing security and standard of living in the moment, and their ability to save for other investments in the future – like home ownership.

FIGURE 2



Sources: 1981: Gross Rent Average data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981
1996: Gross Rent Average data from <odesi>, "Census of Population, 1996 [Canada]: The Nation Series [B2020]," http://odesi2.scholarsportal.info/documentation/CENSUS/1996/NATION/DOCS/reccens1996nation_en.html
2001: Average gross monthly payments for rented dwellings, Statistics Canada, "2001 Community Profiles (ARCHIVED), https://www12.statcan.gc.ca/census-recensement/2011/dp-pd/prof/details/download-telecharger/comprehensive/comp-csv-tab-dwnld-tlchrgr.cfm?Lang=E#tabs2001
2006: Median gross monthly payments for rented dwellings, Statistics Canada, "2006 Community Profiles (ARCHIVED), https://www12.statcan.gc.ca/census-recensement/2011/dp-pd/prof/details/download-telecharger/comprehensive/comp-csv-tab-dwnld-tlchrgr.cfm?Lang=E#tabs2006
2016: Average monthly shelter costs for rented dwellings, Statistics Canada, "Census Profile, 2016 Census," https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/prof/details/download-telecharger/comp/page_dl-tc.cfm?Lang=E
2021: Primary Rental Market Statistics – Ontario, Canada Mortgage and Housing Corporation, https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/35/2/Ontario

Table 1 also shows that the shrinking proportion of younger Ontarians who are able to become home owners do tend to enjoy more net housing wealth (market value minus mortgage) by comparison with the same age group four decades earlier. Contemporary young home owners have over $220,000 more in net housing wealth now by comparison with the past. But to acquire this wealth, they have taken on larger debts via mortgages. For every dollar of net housing wealth gained by Ontarians age 35-44, they have taken on 83 cents in additional mortgage debt.
For older Ontario homeowners, the housing wealth windfalls they have accrued have been larger, and required them to take on much less debt. Those age 55-64 enjoy over $361,000 in extra net housing wealth compared to the same age group in 1977; and those age 65+ enjoy an extra $394,000. For every dollar of net housing wealth gained by seniors, they took on only an extra nickel of mortgage debt on average. Thus, housing wealth has been a far more lucrative and secure investment for older home owners by comparison with the 83 cents of added debt incurred by residents age 35-44, or the 59 cents of extra mortgage debt that residents under age 35 have absorbed.

Table 1: Mean Change in Individual Houshold Net Housing Value and Mortgage Debt, Ontario, by Age: 1977 vs. 2019										
	1977 (all $ adjusted to 2019)			2019			**2019 minus 1977**			
Housholds, by Age of primary earner	% home owners	Market value minus mortgage ($)	Mortgage debt ($)	% home owners	Market value minus mortgage ($)	Mortgage debt ($)	**Change in % home owners**	**Change in Market value minus mortgage ($)**	**Change in Mortgage debt ($)**	**Change in debt for extra $1 of Net Value ($)**
under 35	44%	89,604	98,426	35%	310,096	228,704	**-20%**	**220,493**	**130,278**	**0.59**
35-44	75%	158,080	58,500	60%	399,567	258,633	**-20%**	**241,487**	**200,133**	**0.83**
45-54	78%	193,686	34,109	74%	544,493	188,907	**-5%**	**350,808**	**154,798**	**0.44**
55-64	70%	199,022	12,546	70%	559,840	89,160	**0%**	**360,819**	**76,614**	**0.21**
65+	66%	162,001	3,211	73%	556,018	23,882	**10%**	**394,017**	**20,671**	**0.05**
Author calculations, based on Sources:										
1977 data: Statistics Canada 1977: Survey of Consumer Finance Micro Data File										
2019 data: Statistics Canada n.d. Survey of Financial Security Table: 11-10-0016-01 (formerly CANSIM 205-0002)										

Table 2 looks at similar data, but aggregates total housing wealth and debt by age group. The value of all principal residences in Ontario has increased by more than $1 trillion over the last four decades. Homeowners over 65 acquired 41% of this additional housing wealth, even though they represent only 18% of the population. By comparison, young adult home owners under 35 gained just 3% of this additional wealth, even though they represent 24% of the population. Home owners age 35-44, who represent 13% of the population, gained 8% of the extra trillion in principal residence net wealth.

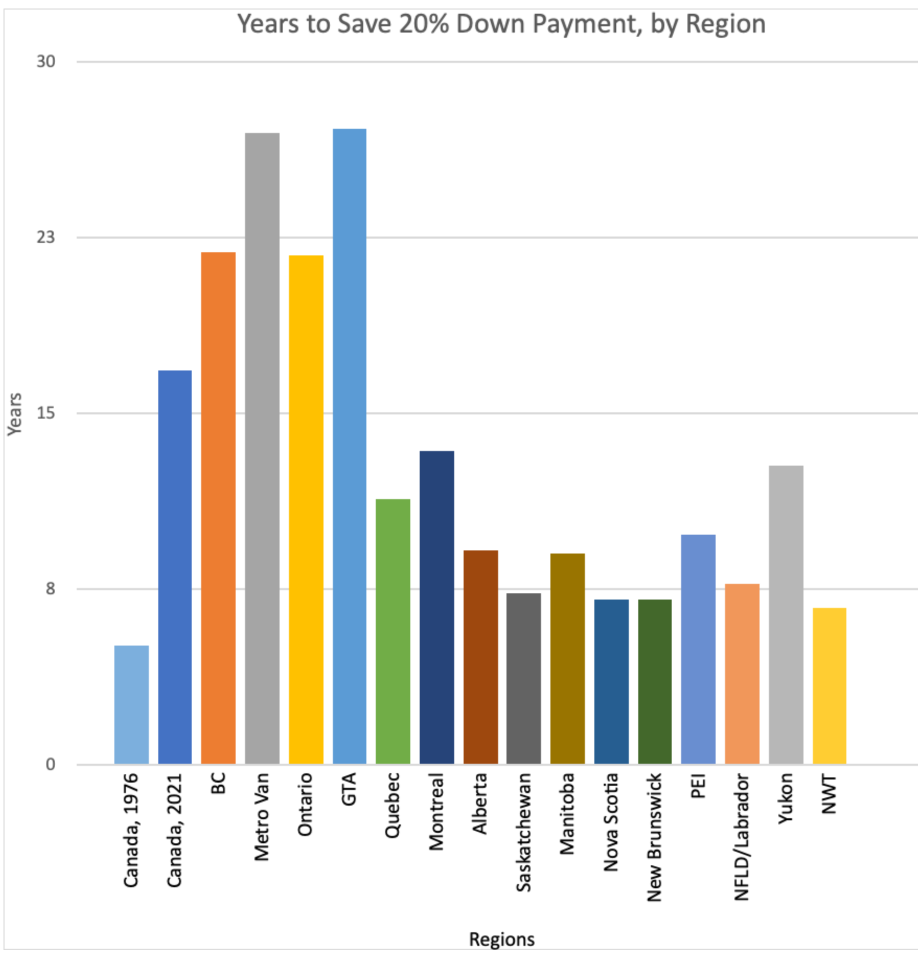
Table 2: Total Net Value in Canadian Principal Residences, Ontario, by Age: 1977 vs. 2019										
	1977 ($ adjusted to 2019)			2019			**2019 minus 1977**			
Housholds, by Age of primary earner	% home owners	Total market value minus total mortgage debt (millions $)	Share of Total Net Value in principal residences	% home owners	Total market value minus total mortgage debt (millions $)	Share of Total Net Value in principal residences	**% Change in rate of home owners**	**Change in total market value minus total mortgage debt (millions $)**	**% Change in share of Total Net Value in principal residences**	**% of Total Net Value gained, by age**
under 35	44%	110,741	14%	35%	142,334	8%	**-20%**	**31,593**	**-47%**	**3%**
35-44	75%	164,332	21%	60%	247,731	13%	**-20%**	**83,399**	**-38%**	**8%**
45-54	78%	188,944	25%	74%	426,338	23%	**-5%**	**237,395**	**-7%**	**22%**
55-64	70%	156,502	20%	70%	446,193	24%	**0%**	**289,691**	**18%**	**27%**
65+	66%	148,758	19%	73%	596,052	32%	**10%**	**447,293**	**66%**	**41%**
Total		769,277			1,858,648			**1,089,372**		
Author calculations, based on Sources:										
1977 data: Statistics Canada 1977: Survey of Consumer Finance Micro Data File										
2019 data: Statistics Canada n.d. Survey of Financial Security Table: 11-10-0016-01 (formerly CANSIM 205-0002)										

If we interpret the goal of the housing system is to generate wealth for homeowners, then we should judge that our system has been operating excellently for decades, especially for older residents. But if the goal of the housing system is to ensure all Ontarians have an affordable place to call home, then the system is clearly broken.

Wealth gains for homeowners means less affordability for others (often their kids and grandchildren). Less affordability creates more work for those trying to break into the housing market as owners. Figure 3 shows that the typical young person had to work full-time for five years back in the mid-1970s in order to save a 20% down payment on an average priced home. This was the case nationally, as well as for provinces like Ontario and BC, and even regions like Metro Vancouver and Greater Toronto. (Note, guided by Statistics Canada data, this calculation presumes the typical young person can save 15% of their full-time earnings each year).

Flash forward to today, and Figure 3 reveals that the typical young person must now work 17 years across Canada on average. Ontario has now caught up to BC, where it takes 22 years of full-time work from a typical young adult to save the 20% down payment. Prospects are worse still in Greater Toronto, which just this past year narrowly surpassed Metro Vancouver as being the region requiring the most work from young people to save for a home – around 27 years. (Note, the most recent Statistics Canada data show that typical young residents of Ontario earn slightly less than do young residents of BC for full-time work. As a result, it takes slightly more work time in Ontario and Greater Toronto to save for a down payment even though average home prices remain slightly lower there than in BC and Metro Vancouver).

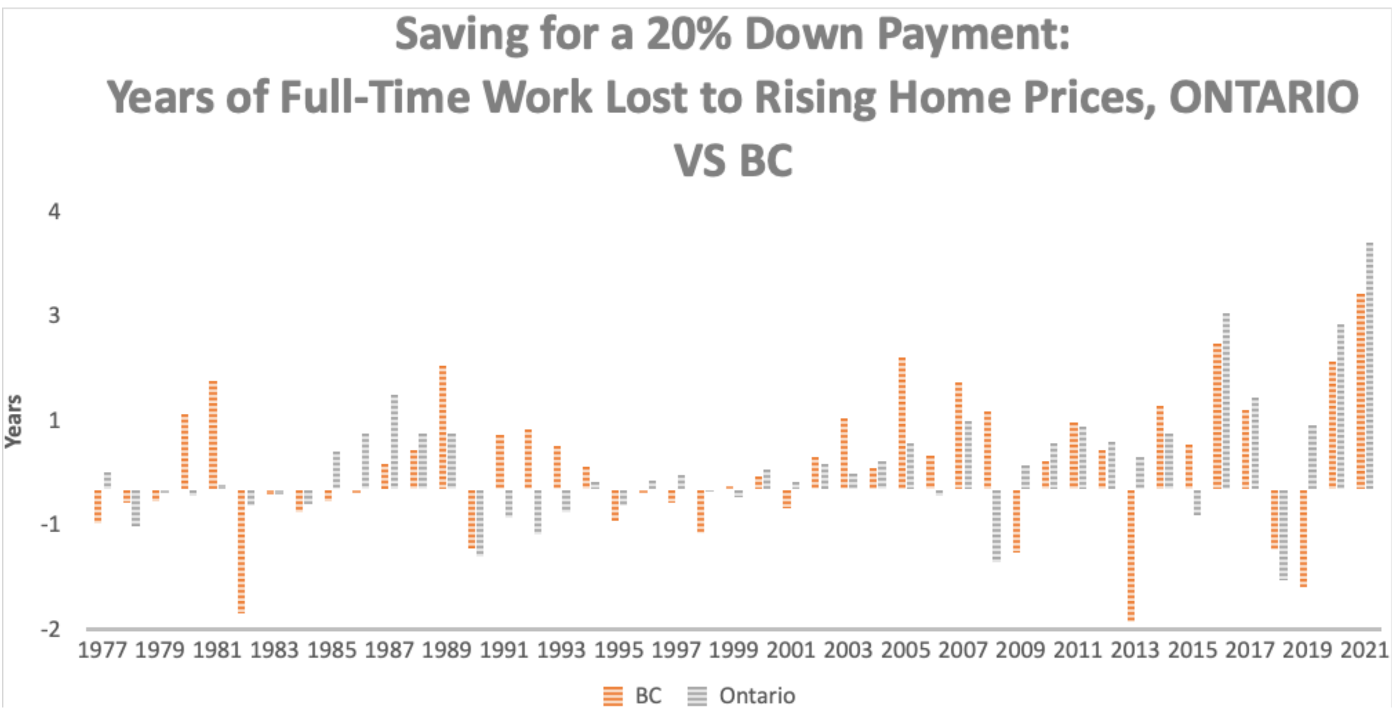
FIGURE 3



Author calculations based on Sources:
Average home prices from the Canadian Real Estate Association and the Québec Federation of Real Estate Boards, adjusted in light of Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted." Earnings data from Statistics Canada, Centre for Income and Socioeconomic Well-being, Statistics, Survey of Labour and Income Dynamics & Canadian Income Survey, Custom table C1010886a

Figure 4 focuses on the amount of additional work time imposed each year by rising home prices for both Ontario and BC, starting back in 1977 and working towards 2021. We focus on these two provinces, because they have lost control over home prices more than other jurisdictions. Several findings are evident. First, until recently, young residents in BC generally experienced worsening affordability more so than did young residents of Ontario (i.e. the orange lines are generally taller than the grey lines). Second, starting in 2016 that pattern changed, especially over the last few years. This signals that the pay-offs from hard work have deteriorated more rapidly in Ontario in recent years than in BC. Third, and most worrisome, no line is taller in Figure 4 than the line for Ontario in 2021. This reveals that Ontario suffered last year the worst annual deterioration in housing affordability of any year on record in the last 45 years when measured in terms of work years required to save for 20% down payment for an average-priced home.

FIGURE 4



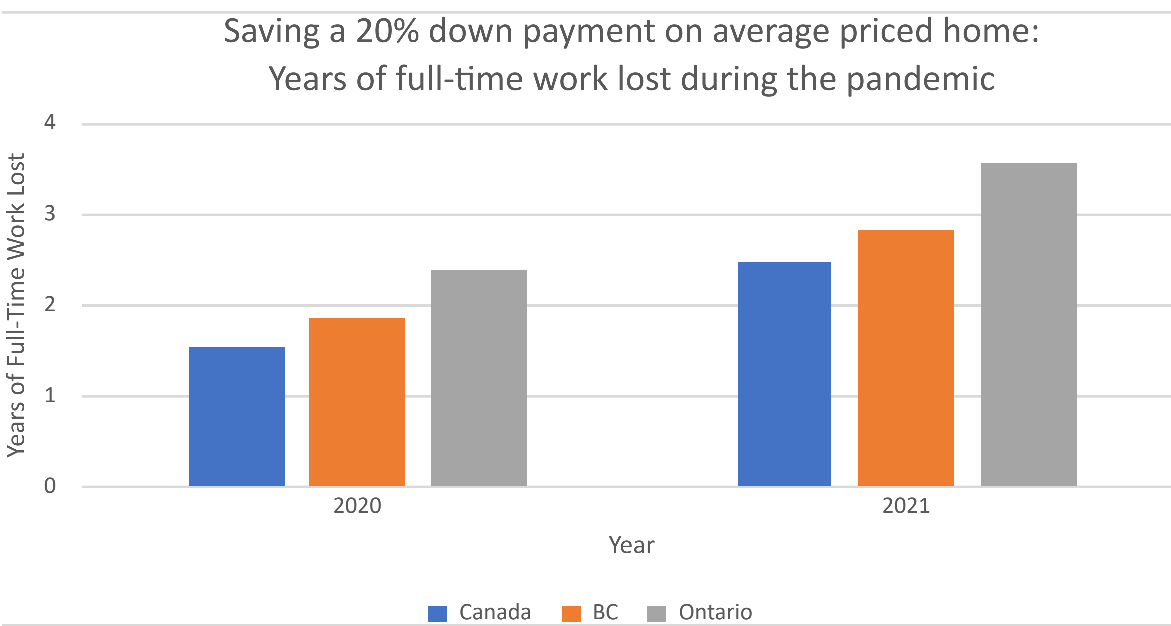
Author calculations based on Sources:
Average home prices from the Canadian Real Estate Association, adjusted in light of Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted."
Earnings data from Statistics Canada, Centre for Income and Socioeconomic Well-being, Statistics, Survey of Labour and Income Dynamics & Canadian Income Survey, Custom table C1010886a

Figure 5 visualizes the same data for Ontario as in Figure 4, but shows more directly how the number of years of work required to save a down payment has changed from 1976 (when the Baby Boom generation started as young adults) by comparison with today. It is alarming to see that from the end of 2019 to the end of 2021, the years of work required to save the down payment increased from 15.8 to 21.8. **Over the first two years of the pandemic, the typical young resident of Ontario lost the output from six years of full-time work when it comes to saving for home ownership.** No other province has ever seen the pay off from full-time work deteriorate so rapidly for young people over a two year period – not during the pandemic, nor any other time in the last 45 years!

FIGURE 5

Author calculations based on Sources summarized on pages 9-10

FIGURE 6



Author calculations based on Sources summarized on pages 9-10

It is common for popular culture to blame younger Canadians for being locked out of home ownership due to their consumer habits – eating too much avocado toast, or drinking too many lattes. At least since 1976, it's never been the case that forgoing a $5 latte even every day would bring mortgage savings back in play within a reasonable time period. In 1976, a young adult would have had to give up drinking 5 lattes a day, every day, for five years, in order to save a 20% down payment on an average priced home. That's a lot of coffee, even back then. Today, the frightening fact is that a young Ontarian would need to give up drinking 19 lattes a day, every day, for five years, to save the 20% down payment on an average priced home in Ontario. That's a vomitous amount of coffee!

The gap between home prices and full-time earnings: examining Ontario communities

The next six figures document the growing gap between home prices and full-time earnings for typical young residents of Ontario.

To own a home, one must be able to save the down payment and carry the mortgage. Saving a down payment depends on the relationship between home prices and earnings. Carrying a mortgage depends on this relationship and available interest rates.

We report on all three trends since 1976, which marks the beginning of the five-year period in which a large share of today's aging population came of age as young adults. As a result, we compare housing affordability for a typical young person today to when today's aging population started their careers and families, and every year in between.

For the growing number of younger residents, and newcomers of any age, locked out of home ownership, we report the increase in rents from 1981, as reported by the Census of that year, to 2021, as reported by the Canada Mortgage and Housing Corporation.

We report average home price data made available by the Canadian Real Estate Association.

We purchased full-time, full-year mean and median earnings data as a custom order from Statistics Canada to control for variation in rates of part-time work across the last 45 years. The earnings data are from the Income Statistics Division, Survey of Labour and Income Dynamics and Canadian Income Survey. Custom Table C903459.

Interest rate data are from Statistics Canada Table 34-10-0145-01: "Canada Mortgage and Housing Corporation, conventional mortgage lending rate, 5-year term."

Guided by the literature, we assume that typical earners can annually save 15% of their pre-tax income for a down payment.[1]

We use CMHC's definition of affordability as spending no more than 30% of pre-tax earnings on housing. We calculate the home price that is in reach for typical 25 to 34-year-olds working full-time, full-year, by calculating the maximum mortgage a median earner could carry with 30% of their annual earnings given the interest rates available from Statistics Canada. We then calculate the home value for which this maximum mortgage represents 80% of the cost, because we assume a 20% down payment.

We simultaneously calculate the earnings required for a typical person aged 25-34 to spend no more than 30% of their annual income to pay for an 80% mortgage on average home prices in each year, assuming the interest rates available from Statistics Canada.

Mortgage payments are calculated using the PMT function available in Excel.

We use Statistics Canada's Consumer Price Index to adjust all annual earnings and home price data for inflation. See Statistics Canada Table 18-10-0005-01: "Consumer Price Index, annual average, not seasonally adjusted."

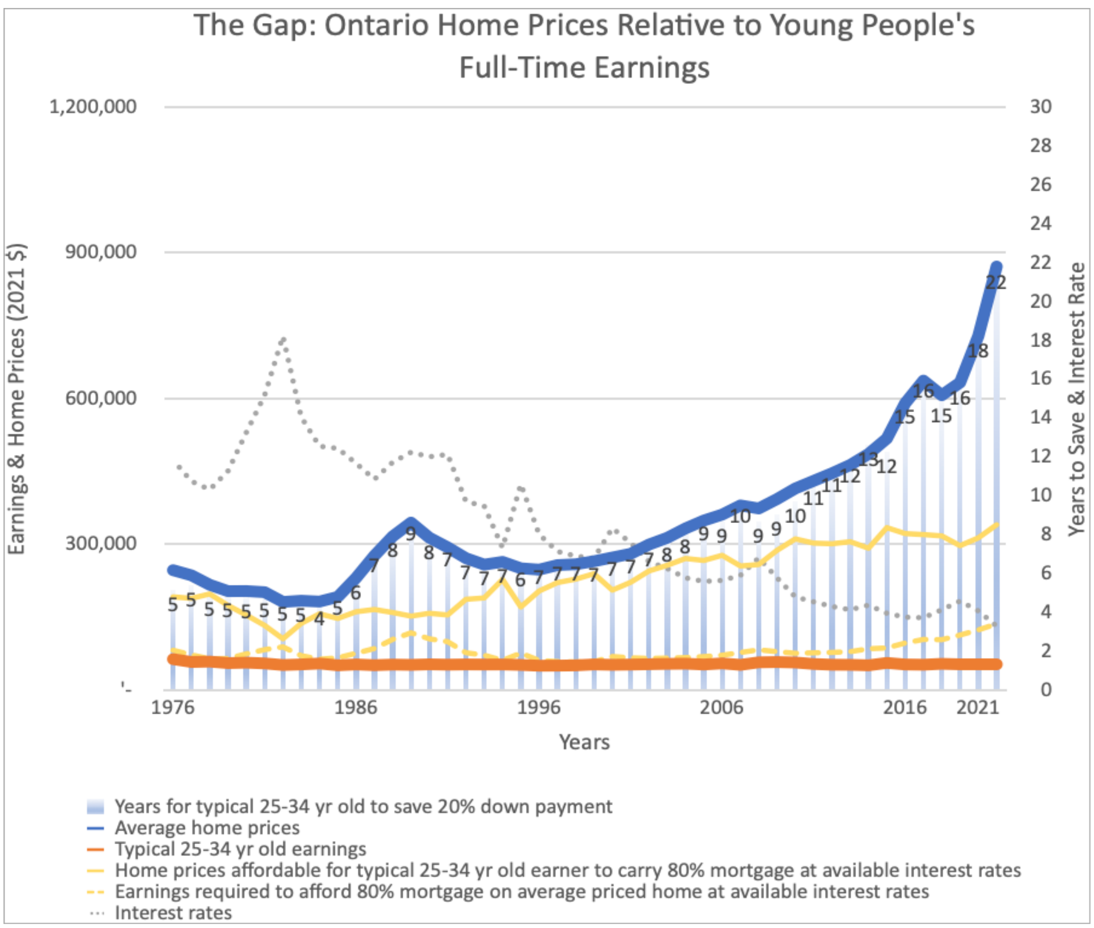
1 For more information, see Kershaw, Paul. 2018. "Intergenerational Justice in Public Finance: A Canadian Case Study." Intergenerational Justice Review, 12(1), 32-46.

The numbers in Figure 7 illustrate the gap between average home prices in **Ontario** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their typical earnings.

As indicators of this affordability gap:

- Average home prices would need to fall $530,000 – over 60% of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $137,000/year – over 150% more than current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 22 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 17 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in Ontario has reached $17,580/year, compared to average rents closer to $10,401/year in Ontario back in 1981.[2]

FIGURE 7



Author calculations based on Sources summarized on pages 9-10
*Affordability means Canadians do not spend more than 30% of their pre-tax earnings on housing, according to the Canada Mortgage and Housing Corporation (CMHC).

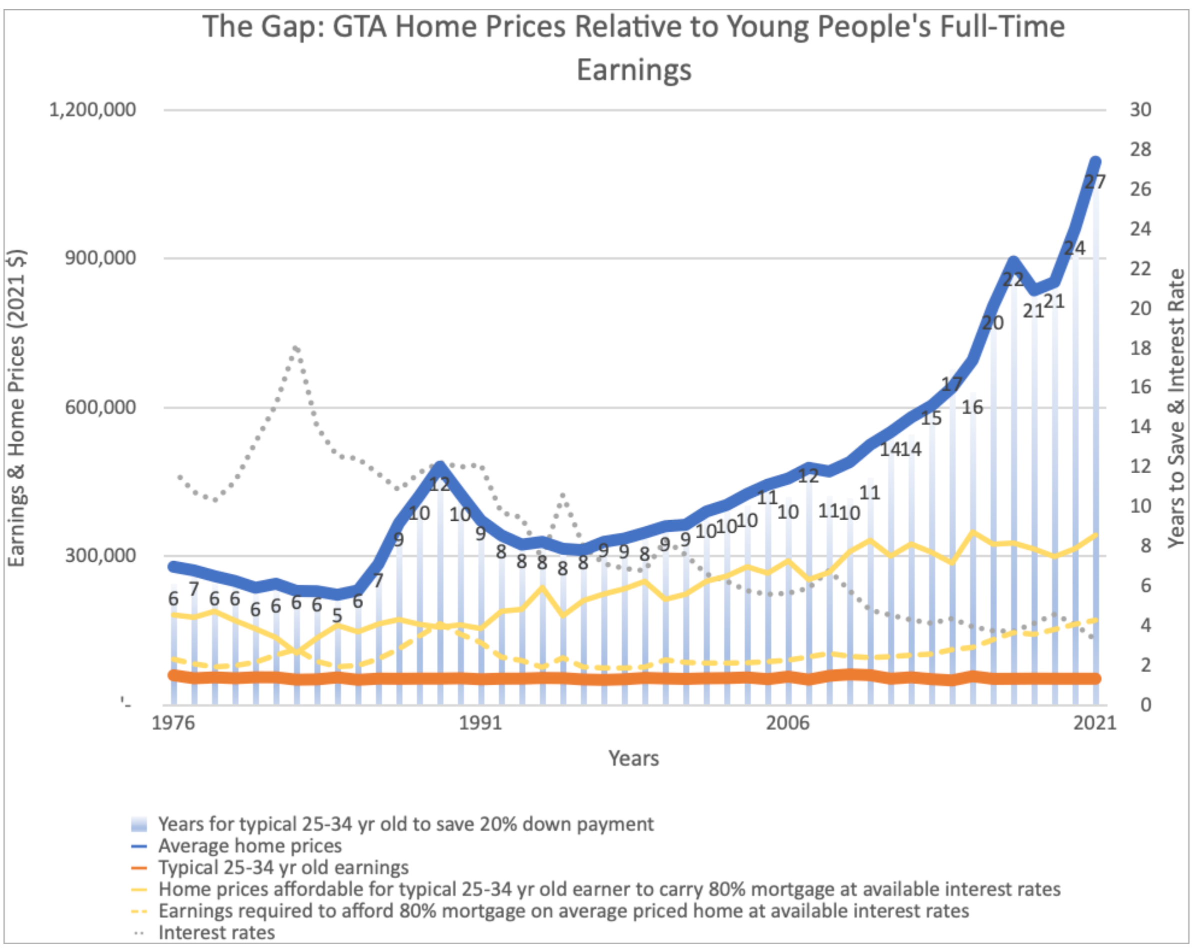
2 - 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/35/2/Ontario. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

The numbers in Figure 8 illustrate the gap between average home prices in the **Greater Toronto Area** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their average earnings.

As indicators of this affordability gap:

- Average home prices would need to fall over $750,000 – 69% of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $172,000/year – more than triple current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 27 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 21 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in the GTA in 2021 was $20,148/ year, compared to average rents closer to $11,671/year back in 1981.[3]

FIGURE 8



Author calculations based on Sources summarized on pages 9-10
*Affordability means Canadians do not spend more than 30% of their pre-tax earnings on housing, according to the Canada Mortgage and Housing Corporation (CMHC).

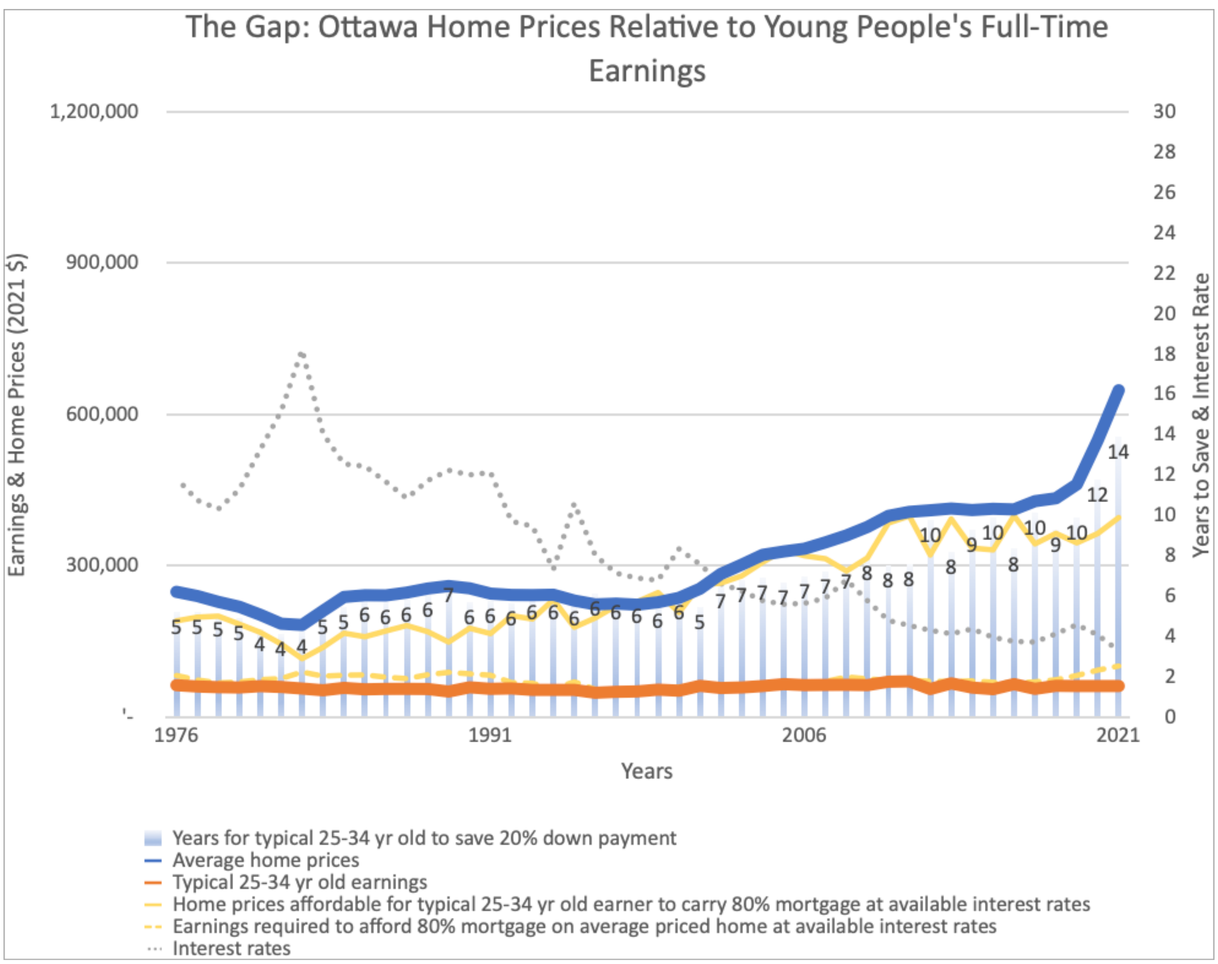
3 - 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/2270/3/Toronto. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

The numbers in Figure 9 illustrate the gap between average home prices in **Ottawa** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their average earnings.

As indicators of this affordability gap:

- Average home prices would need to fall over $250,000 – 40% of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $102,000/year – up two-thirds of current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 14 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 9 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in Ottawa in 2021 was $18,600/ year, compared to average rents closer to $11,294/year back in 1981.[4]

FIGURE 9



Author calculations based on Sources summarized on pages 9-10
*Affordability means Canadians do not spend more than 30% of their pre-tax earnings on housing, according to the Canada Mortgage and Housing Corporation (CMHC).

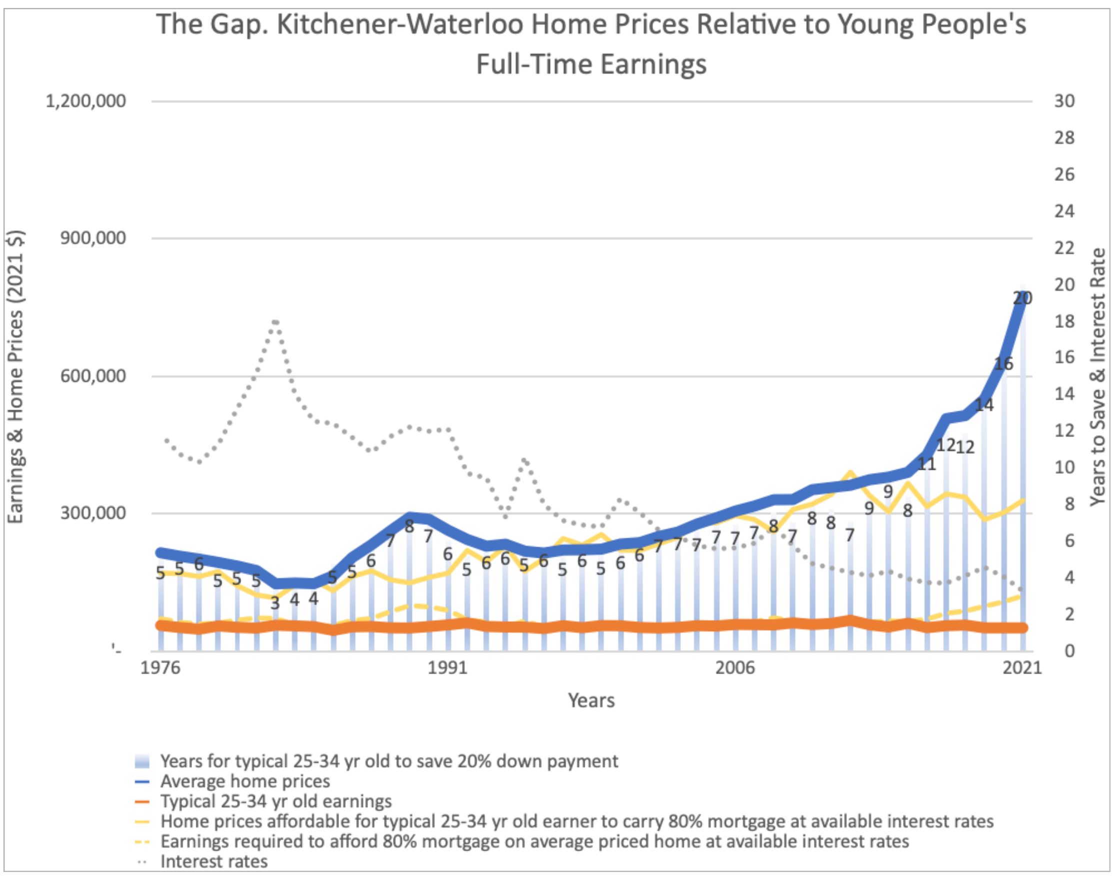
4 - 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/1265/3/Ottawa. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

The numbers in Figure 10 illustrate the gap between average home prices in **Kitchener-Waterloo** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their average earnings.

As indicators of this affordability gap:

- Average home prices would need to fall over $445,000 – more than half of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $122,000/year – up 135% over current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 20 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 15 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in Kitchener-Waterloo in 2021 was $16,272/year, compared to average rents closer to $9,406/year back in 1981.[5]

FIGURE 10



Author calculations based on Sources summarized on pages 9-10
*Affordability means Canadians do not spend more than 30% of their pre-tax earnings on housing, according to the Canada Mortgage and Housing Corporation (CMHC).

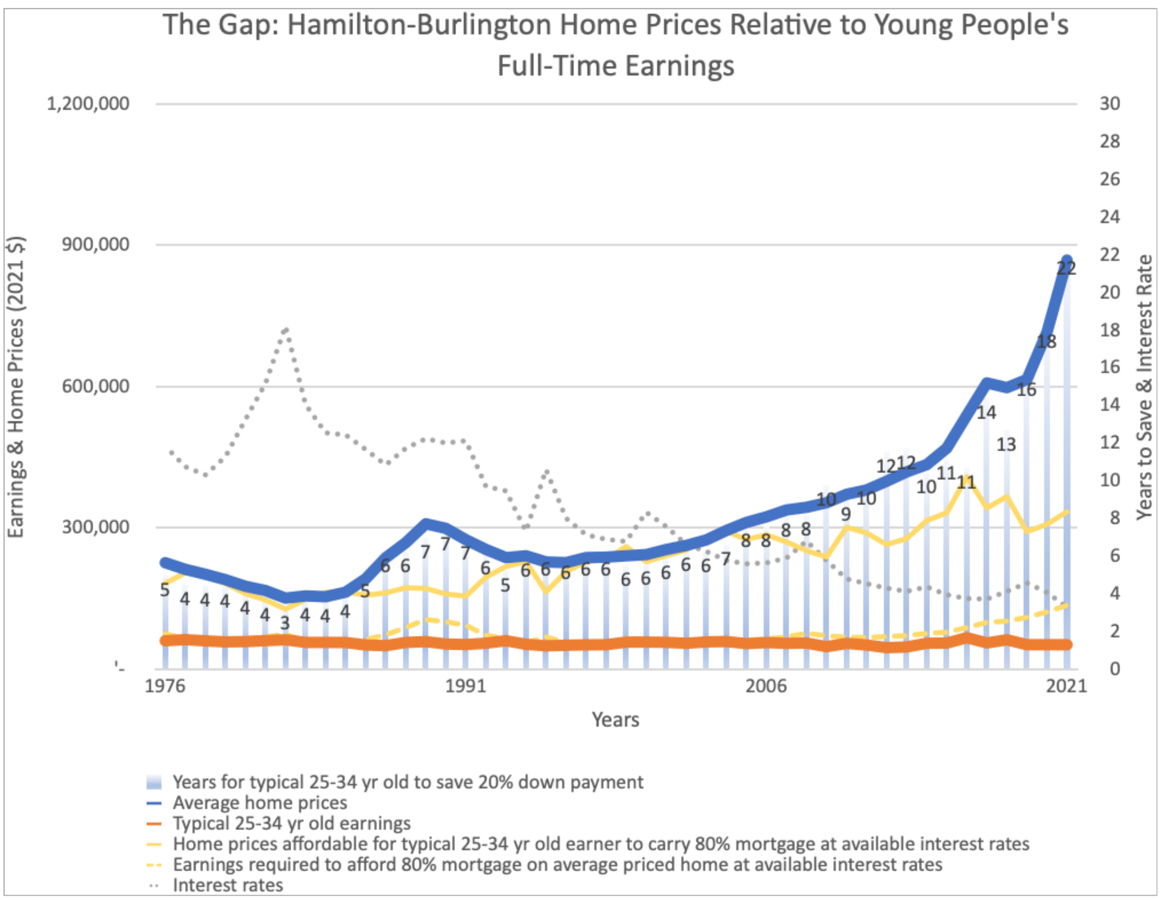
5- 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/0850/3/Kitchener%20-%20Cambridge%20-%20Waterloo. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

The numbers in Figure 11 illustrate the gap between average home prices in **Hamilton-Burlington** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their average earnings.

As indicators of this affordability gap:

- Average home prices would need to fall over half a million dollars – more than 60% of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $136,000/year – up 160% over current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 22 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 18 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in Hamilton-Burlington in 2021 was $16,344/year, compared to average rents closer to $9,543/year back in 1981.[6]

FIGURE 11



Author calculations based on Sources summarized on pages 9-10
*Affordability means Canadians do not spend more than 30% of their pre-tax earnings on housing, according to the Canada Mortgage and Housing Corporation (CMHC).

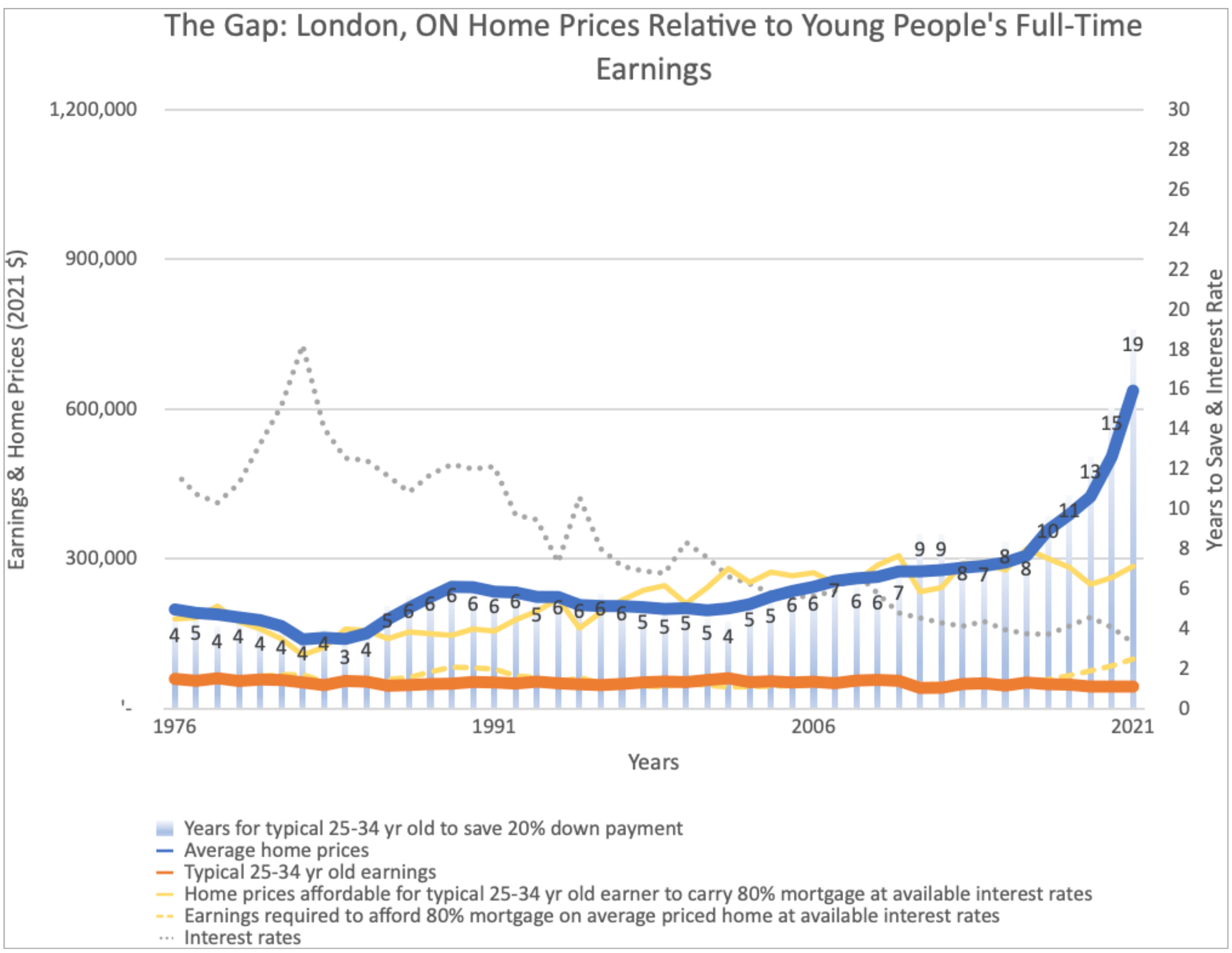
6- 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/0610/3/Hamilton. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

The numbers in Figure 12 illustrate the gap between average home prices in **London, Ontario** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their average earnings.

As indicators of this affordability gap:

- Average home prices would need to fall over $350,000 – 55% of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $100,000/year – more than double current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 19 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 15 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in London in 2021 was $15,300/year, compared to average rents closer to $9,886/year back in 1981.[7]

FIGURE 12



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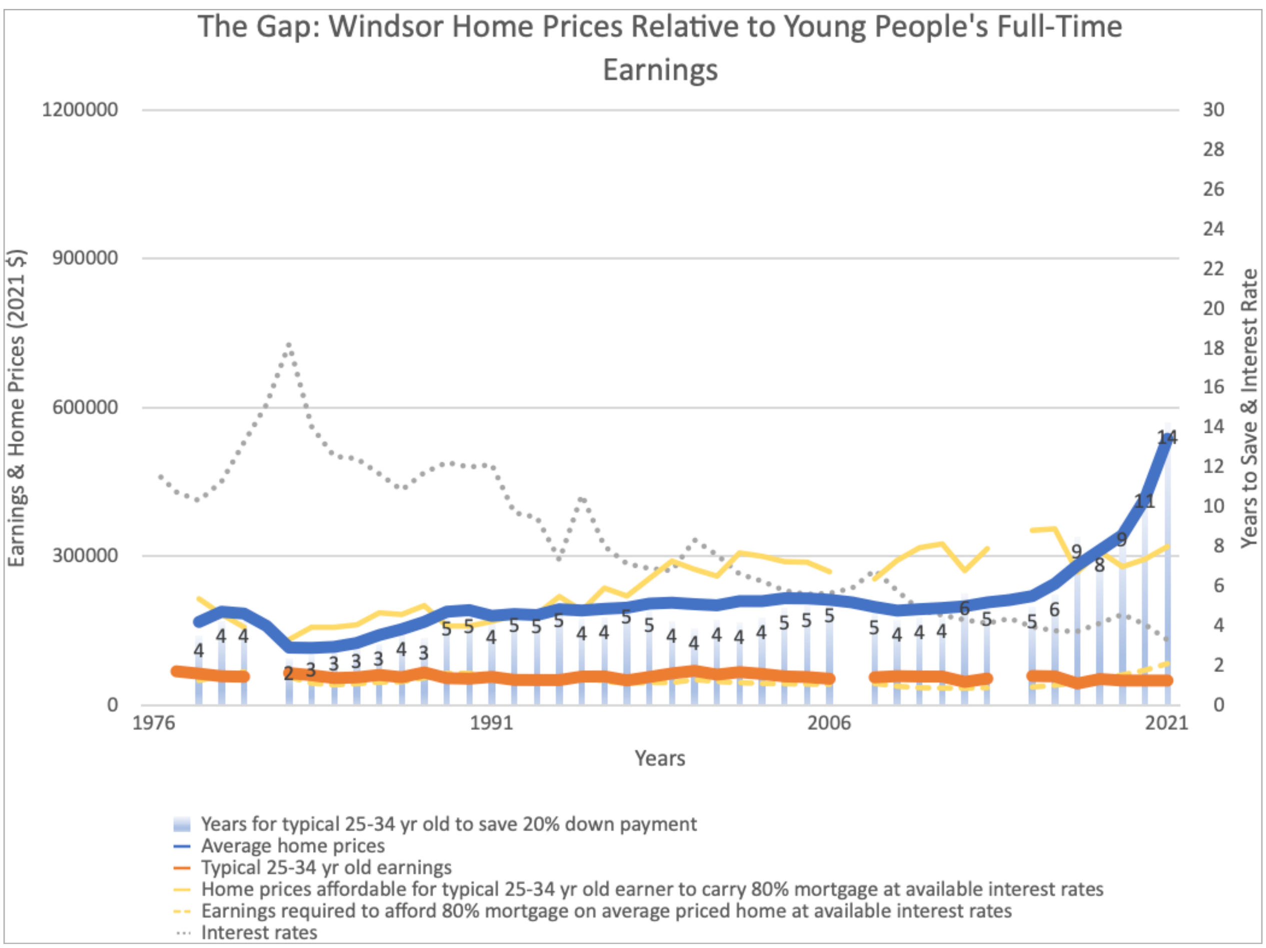
7-2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/0950/3/London. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

The numbers in Figure 13 illustrate the gap between average home prices in **Windsor** and what is considered affordable* for typical residents between the ages of 25 and 34, based on their average earnings.

As indicators of this affordability gap:

- Average home prices would need to fall over $217,000 – 40% of the current value – to make it affordable for a typical young person to manage an 80% mortgage at current interest rates.
- Or typical full-time earnings would need to increase to $84,000/year – 68% higher than current levels. Based on the last decade, actual earnings are expected to be relatively flat.
- It takes 14 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 10 more years than when today's aging population started out as young people.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in Windsor in 2021 was $13,848/year, compared to average rents closer to $9,234/year back in 1981.[8]

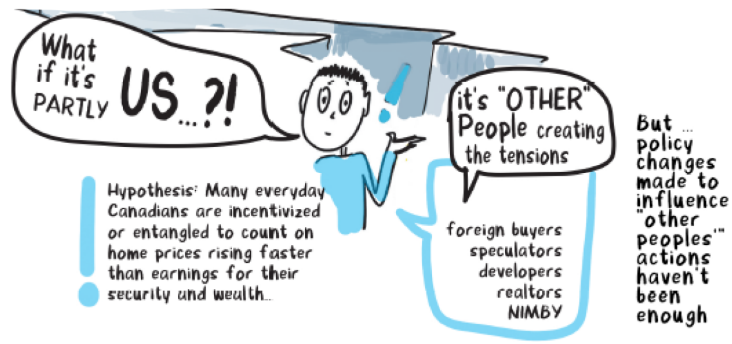
FIGURE 13



8- 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/2640/3/Windsor. The 1981 data are gross average rent data from University of Toronto Libraries Map and Data Library, "1981 Census of Population," available at https://mdl.library.utoronto.ca/collections/numeric-data/census-canada/1981.

Solutions

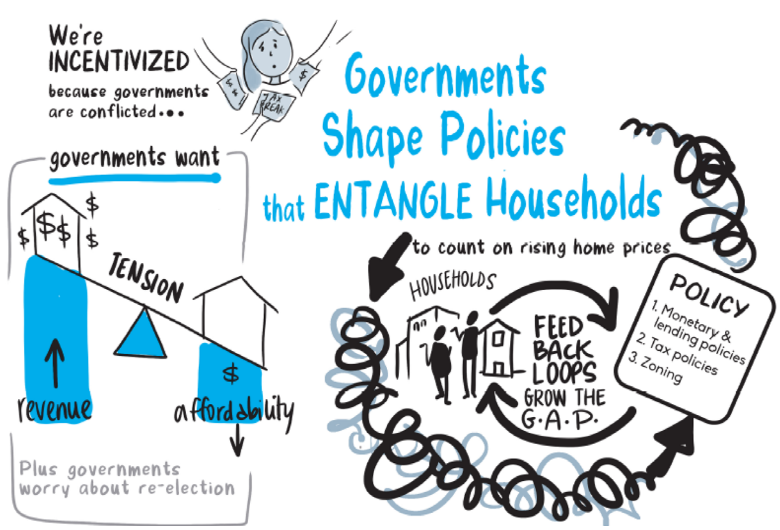
There is no silver bullet to restore housing affordability. Many factors are at play. But a "silver buckshot" approach can work, if we pursue the full range of policy tools that shape our housing system.



In order to bring the full range of policies into the mix, we will need to engage more Ontarians in a provocative, difficult conversation. Our work at Generation Squeeze invites many 'everyday' Canadians, especially owners, to consider how we may be reinforcing feedback loops that sustain, or drive, home prices further out of reach for local earnings by responding to incentives in the market that attract us to organize our wealth accumulation strategies to bank on high and rising home prices.

This does not discount that ways in which unaffordability is shaped by a range of more commonly discussed actors in the housing system, including foreign investors, money launderers, speculators, NIMBYs, etc. But our policy makers have taken a variety of actions to address these contributors to Canada's unaffordability saga, as Gen Squeeze and many others have encouraged. There now exist foreign-buyers taxes, speculation taxes, empty homes taxes, new measures to address money laundering, new efforts to resist NIMBY'ism, new rent control policies, new expectations for developers, new regulations for realtors, and lots of efforts aimed at building more supply of housing. Unfortunately, the persistent, growing gap between home prices and earnings – including throughout the pandemic – shows that the measures we have taken so far are insufficient to stall home prices, or to close the frightening gap between home values and what local residents earn in our cities.

This reveals that housing unaffordability isn't just a problem caused by someone else – an easy "villain" for the rest of us to root against. The reality is more complicated. Many everyday households respond to policy feedback loops that accelerate housing costs beyond what people earn. This includes the Gen Squeeze Founder, who is a home owner.

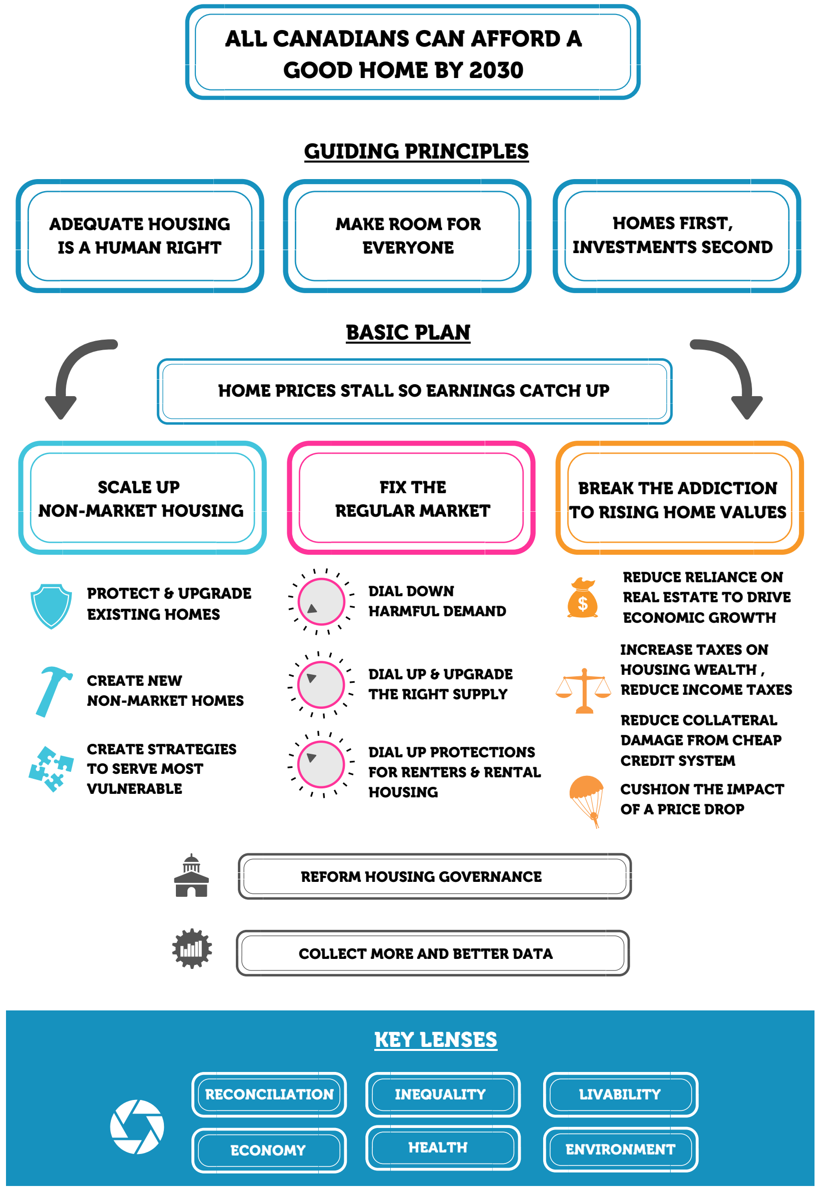


Since there is no silver bullet to restore affordability or address the wealth inequities created by the growing gap between home prices and earnings, Generation Squeeze has co-created with experts in the Balanced Supply of Housing community-university partnership a **[Comprehensive Policy Framework]** to guide politicians, including in Ontario.

The Framework is guided by three overarching principles.

1. Housing is a human right.
2. We need to make room for everyone (overcoming attitudes commonly associated with "Not In My Back Yard" (NIMBY) sentiments articulated by some who resist adding more density in their neighbourhoods, especially rental and social housing).
3. Housing should first be for homes; only secondarily for investments.

Guided by these principles, the Framework features three pillars of activity.



Actions to scale up the non-profit sector, because the market is failing to deliver housing that is in reach for wages paid by local labour markets.

Actions to fix the regular market, because the majority of Canadians will continue to rely on it to make a home, even if the non-profit sector is doubled, tripled or even quadrupled in size.

And actions to break the cultural addiction to high and rising home prices, because this addiction reinforces feedback loops in the housing system that fuel home prices beyond earnings, making it much more challenging to succeed at the work required by the first and second pillars.

What to expect from parties in the Ontario election

The findings presented in this report underscore that housing should be at the forefront of Ontario's June 2022 provincial election. As concern with inflation and cost of living escalate, reining in the skyrocketing housing prices that are crushing affordability is a critical step to support younger and future generations, and renters and newcomers of all ages.

As Ontarians go to the polls in the June election, Gen Squeeze will evaluate the major party platforms in light of the above policy framework.

As we do, we will emphasize the following three policy recommendations in order to complement policy asks made by other housing organizations that emphasize other elements of the above framework.

1. **Commit to restoring housing affordability for all by having home prices stall (or fall) so earnings can catch up**

   The data presented in this report make clear that housing affordability requires ending the relentless, upward spiral of home prices. It is therefore critical for all political parties to make a public commitment to at least stalling home prices – and ensure that all other housing actions align with this principle.

   Ontario politicians should feel confident about making this important commitment to alleviate the housing crisis, because recent polling shows that 66% of Ontarians support the idea.

2. **Reduce the home ownership tax shelter**

   Our tax system currently shelters from taxation the over $1 trillion in housing wealth homeowners in Ontario have gained in their principal residences over the last four decades. Here's why this is a problem.

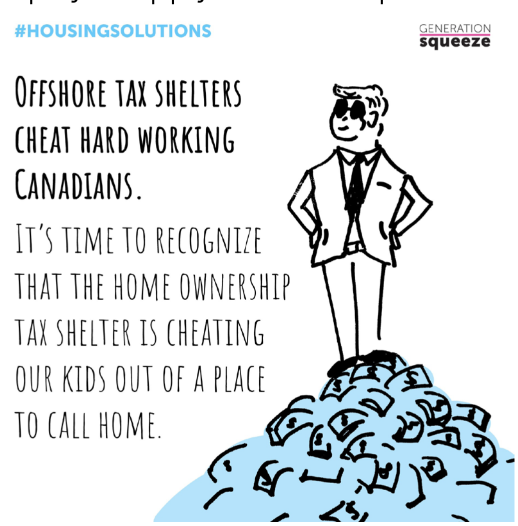
   First, while home owners use the tax shelter to accumulate largely tax-free wealth while they sleep and watch TV, Ontarians working hard in their jobs have all of their earnings subject to taxation. This inequity in our tax system encourages Ontarians to treat housing as a primary investment strategy, not just a place to call home. Since we generally want to see the things in which we invest rise in value, the home ownership tax shelter motivates people to bank on high and rising home prices – despite the collateral damage this causes for affordability.

Second, the home ownership tax shelter grows inequities between home owners and renters, since only the former are able to take advantage of the tax free wealth that accrues in their homes.

Third, the home ownership tax shelter incentivizes Canadians to invest in housing over other areas of the economy that produce more jobs. Real estate, rental and leasing now represent the largest part of Canada's economy (at 14% of Gross Domestic Product). But the same industries account for less than 2% of employment.[9] This means our current approach to growing the economy grows the major cost of living without growing jobs in sufficient numbers to ensure that local earnings keep pace. This approach to economic growth is great for the small number of workers, primarily realtors, who make excellent livings from real estate; and it's great for existing home owners, who enjoy wealth windfalls as home values rise. But it's a harmful approach to economic growth for everyone else, because the their hard work pays off less as their major cost of living increases relentlessly beyond what the local job market pays for full-time work. That's another key reason why our comprehensive policy framework emphasizes that we need to orient public policy to encourage Canadians to grow our economies via investments in industries other than real estate. This means reducing the home ownership tax shelter.

To reduce this tax shelter, Gen Squeeze recommends putting a **modest price on housing inequity.**

Just as the price on pollution is designed to lower our emissions and tackle climate change, Gen Squeeze recommends putting a modest price on housing inequity to apply downward pressure on skyrocketing home prices. We can start down this path by adding a small annual surtax (beginning at 0.2% and peaking at 1%) on home value above $1 million. Homes that are valued below $1 million would pay no surtax at all. The $1 million threshold refers to the ~10% of Canadians owning the most valuable principal residences. In Ontario, where home prices have risen so much over the last few years, now ~22% of Ontario homeowners own principal residences that are valued above $1 million. The proposed price on housing inequity invites these households, which are especially likely to have benefitted



9-* GDP data from Statistics Canada Table: 36-10-0434-02, "Gross domestic product (GDP) at basic prices, by industry, monthly, growth rates (x1,000,000). Employment data from Statistics Canada Table: 14-10-0202-01, "Employment by industry, annual."

from high and rising home prices, to contribute slightly more in taxation in allegiance to the Canadian dream that a good home should be in reach for what hard work can earn.

Many of those living in million dollar homes today may not have expected to find themselves among the 10% of Canadians owning the most valuable principal residences. Many might have bought an average-priced home decades ago, and worked hard to pay for it with typical wages – never anticipating that enormous increases in home values would turn them into millionaires. But expected or not, the same rising housing values that bestowed additional wealth on some, have crushed affordability for others, including younger and future generations and newcomers to Canada – now especially in Ontario.

Still, even if you are part of the top 10%, there's no reason to fear a Million Dollar Home Surtax. A $1.2 million home would owe $400; a $1.5 million home would pay $1,000. And just like the reverse mortgage programs so widely advertised on TV, you wouldn't have to pay until the home is sold so we guard against disrupting people who are house-rich, but cash-poor.

Together, those privileged enough to live in million-dollar homes would contribute $3.43 billion more per year. This revenue could more than triple the funds that the Ontario government currently allocates to the Ministry responsible for housing in order to scale up investments in deeply affordable co-op and purpose built rental housing. See Table 3.

Table 3: A Modest Price on Housing Inequity: Applied in Ontario

Home value ($million)	% of households	# of households	Average home value in this range	Surtax rate	Surtax owed by average home in this range	Annual revenue for government ($billions)
1-1.5	14.92	1,586,259.10	1,202,654.00	0.002	228.83	0.36
1.5-2	4.19	438,592.03	1,699,379.40	0.005	1,144.06	0.50
2+	3.02	322,979.06	3,062,168.90	0.010	7,927.61	2.56
Total	**22.13**	**2,347,830.30**	**1,550,485.10**		**1,458.88**	**3.43**

Source: Statistics Canada, 2019 Survey of Financial Security, adusted for average price increases reported by the Canadian Real Estate Association after 2019

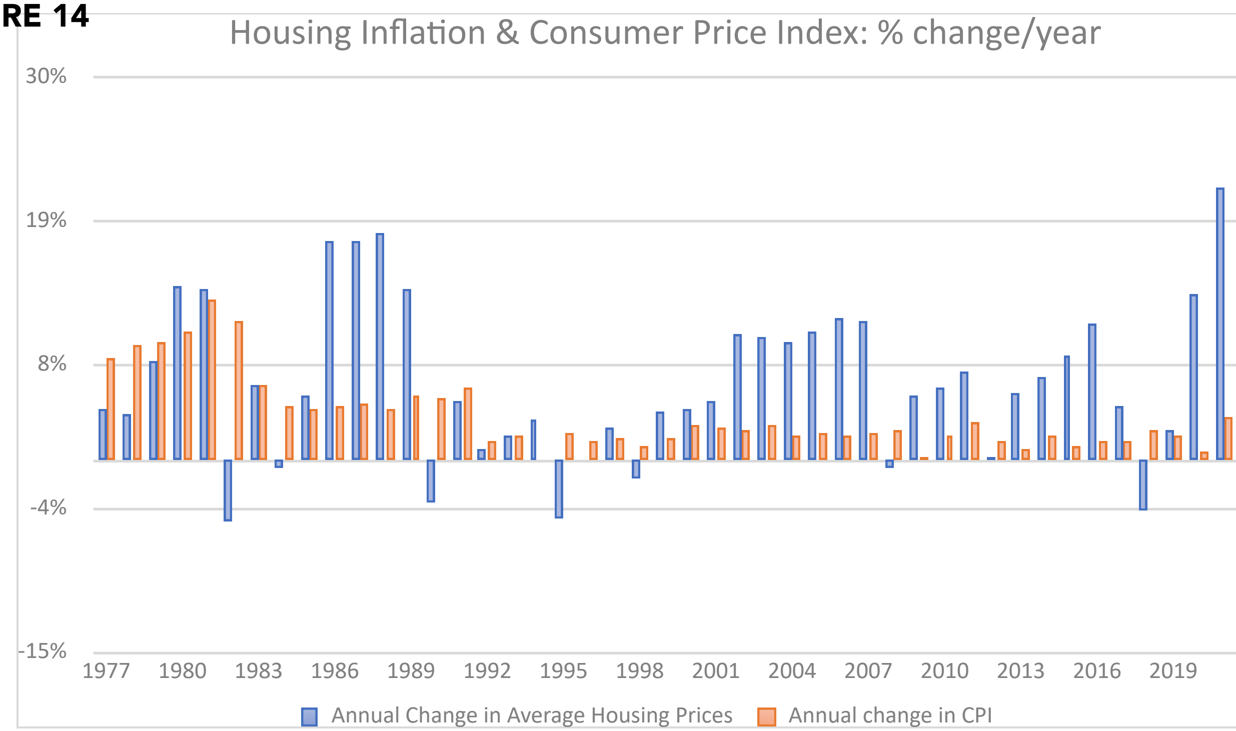
3. Call on Statistics Canada to remedy the mismeasurement of housing price inflation that is sending the wrong signals

All Ontario parties should embrace this low cost recommendation in their platforms.

While inflation has been grabbing headlines in recent months, the value of homes has been inflating at a record pace for decades. However, this inflation in the primary cost of living has not informed monetary policy to the degree it should have, because of shortcomings with how Statistics Canada measures housing inflation. In brief, its inflation measure doesn't factor in the actual price of homes – only the cost of financing and maintaining homes that are already owned.

As Figure 14 reveals, we need our inflation data to stop camouflaging how the primary cost of living – housing – is being driven up. The first step is fixing the faulty source, which is why Gen Squeeze recommends that the Ontario government call on Statistics Canada to more accurately report housing inflation when calculating the Consumer Price Index.

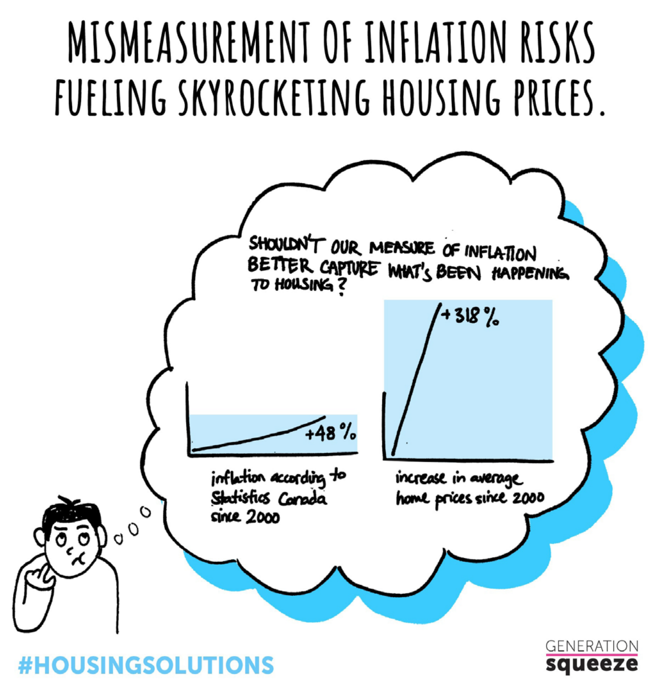
FIGURE 14



Sources:
Housing data from Canadian Real Estate Association
Consumer Price Index data from Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted."

See more details on the actions we need Statistics Canada to take [here.]

Recent polling shows that many Ontarians support this low-cost policy change to help fix the dysfunctional housing system. 58% of Ontarians think that cheap credit allowing people to borrow more and bid up prices has contributed either "a great deal" or "a fair amount" to decreasing housing affordability in Canada. Just 24% suggest cheap credit has played "not too much" or "not at all" a role. 18% are unsure.



The June election is critical

There is no time to lose – either for action on these three recommendations, or for action on the broader range of policy adaptations identified in the comprehensive policy framework to restore affordability. There is no time, because Ontario just suffered the worst erosion of housing affordability in the last half century.

Ontario can and should do better.

The June election is a critical moment because the party platforms will shape the budgets and policies of the next government. We all have a role to play, including by casting votes for the parties that offer platforms that best align with the comprehensive policy framework. Stay tuned at **www.gensqueeze.ca** for our Platform Analysis, where we will provide non-partisan, evidence-based analyses of the major party platforms to assess their alignment with the framework.

More generally, we all have a role to play during this election to explore how many of us may be implicated, unintentionally or otherwise, in reinforcing feedback loops that have generated a massive gap between average home prices and local earnings – a gap that yields wealth for many lucky enough to own residences, while compromising affordability for those who do not. Let this election be the moment that Ontarians decide to fix the dysfunctional housing system, charting a new a path to restore affordability for all, by prioritizing that home prices stall (or fall) so that earnings have a chance to catch up.

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