GENERATION squeeze

Celebrating Stalling Prices for Canadian Homes

Why Canadians Need Statistics Canada to Improve Measurement of Housing Inflation in the Consumer Price Index

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Straddling the Gap **SERIES**

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Generation Squeeze is a 'Think and Change Tank' that promotes wellbeing for all generations. As Canada's leading organization fighting for generational fairness, we turn knowledge into action and rejuvenate democracy to preserve what is sacred for younger and future generations: a healthy home, childhood and planet.

Generation Squeeze's *Straddling the Gap* series explores the persistent gap between home prices and earnings across Canada. Other reports in this series are available here: www.gensqueeze.ca/housing_publications

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Introduction

Much attention has been paid to the recent stall – or even moderate dip – in home prices in various jurisdictions across Canada. After years of relentless price increases that have eroded affordability for many, this shift in the conversation about housing is notable. But does it mean that we're at a turning point for Canada's housing system?

How we judge stalling or falling home prices is critical. Is this good, helping to move us towards greater affordability? Is it bad, undermining the financial security of home owners, especially those who've pinned their retirement dreams on the value of their homes? At present, Canadian Real Estate Association data suggest that home prices have only returned to around what they were in 2021 – arguably a minor shift when viewed against the backdrop of decades of escalation. But as some media, expert, and public commentators raise the specter of a prolonged stall (or further price declines), we need to know if this should be cause for celebration or lamentation.

Good public policy requires clarity about priorities. This doesn't mean that we are stuck with an either/or choice – housing affordability, like many issues, isn't that simple. But we do need to know in what direction we're heading, so we can align all of our policy tools to pull together towards that aim. That means that Canadians need to decide what is our *primary goal* for home prices: do we want them to stall, fall, or rise?

This latest study in our "Straddling the Gap" series aims to help answer this question. We propose that the answer lies in examining how the gap between local earnings and average home prices has grown since 1976 through to 2021, the last year for which annual data is available for Canada as a whole, as well as for each province and many cities. These data shed light on how much home prices have become disconnected from what typical Canadians can earn from their hard work. They also illustrate the astonishing amount of wealth that rising prices have generated for many home owners, especially those who bought into the housing market decades ago.

After analyzing these data, Generation Squeeze concludes that our **primary goal for home prices should be that they stall for many years ahead – or even continue to fall moderately**.

Some Canadians did manage to claw their way into Canada's overheated housing market, and now carry large mortgage debts. For some in this group – especially those who purchased their first homes more recently – it's important to acknowledge that they may be harmed by *dramatic* falls in property values that result in their homes being less valuable than the mortgages they hold. It's critical to explore how best to offer protection to our neighbours in such circumstances.

Nevertheless, the amount of wealth that many current home owners have extracted from our housing system underscores why we need to prioritize reconnecting home prices with earnings. This will only happen if prices hold steady for years, or fall moderately, while earnings rise. The number of years of work required to save a 20% down payment on average priced homes has grown in alarming ways in many regions. We can no longer tolerate the gap between home prices and local earnings growing any larger. It's time for all levels of government to recalibrate their policies to advance the goal of ensuring that housing is for *Homes First, Investments Second*.

This report is organized as follows. Part 1 discusses what's currently happening with home prices in Canada. The persistent pattern of price escalation year over year has generated wealth for many current home owners, while harming affordability for aspiring home owners, including younger Canadians and newcomers of any age. We provide summary results from our analysis of the gap between home prices and local earnings across Canada which show that, if housing markets are stalling or levelling out, they are doing so with prices remaining at untenably high levels. That's why prices need to continue to stall (or fall moderately), to give earnings a chance to catch up.

Part two dives into the question of who is harmed by inflation in home prices, and the contributions of monetary policy to sustaining housing unaffordability. We discuss how inflation figures produced by Statistics Canada – and shared with the Bank of Canada – do not adequately capture the cost of purchasing a home. As a result, government and economic leaders rely on data that ignores the experiences of many Canadians who don't currently own homes when making decisions about economic and housing policy.

Part three presents our 'silver buckshot' solutions to restoring housing affordability. There isn't a silver bullet, but there are a range of policy levers on which we can act to reach this goal. We focus on specific solutions that will help Canadians break our addiction to high and rising home values – an addiction that underpins our treatment of housing as an investment strategy, rather than a place to call home. Two important levers we explore are fixing the way in which we measure housing price inflation, and rethinking the way we tax housing wealth.

Part four presents our calls to action. We are all implicated in a housing system that drives wealth creation for some, and harmful unaffordability for others. That's why we set out actions that all Canadians can take, actions that home owners who have benefitted from decades of housing price inflation can take, and actions that decision makers and elected officials in governments across the country can take.

Part five presents the detailed results of our analyses of home prices, earnings, and interest rates. We include data for Canada as a whole, all provinces, and many cities. These data clearly illustrate the degree to which home prices have left earnings behind in many parts of Canada – and why home prices need to stall to allow earnings to catch up.

PART 1:

What's happening with home prices?

Persistent price escalation is the hallmark of Canada's housing system

Home prices in Canada have been rising for decades, and the pace of escalation has ramped up since 2000. Despite growing media, political, and public attention of late to post-pandemic inflation pressures, the overheated housing market is not a recent phenomenon. After adjusting for inflation, prices have *tripled* since the mid-1970s, when today's generation of retirees first entered the housing market.

Decades of home price increase have eroded affordability for many, while growing wealth for many more (see Figure 1). Rising prices continue to be a significant source of wealth for many Canadians already in the housing market, especially home owners who purchased homes decades ago. Since 1977, escalating home values have contributed an additional $3.2 trillion in housing wealth, with two-thirds of it going to those over age 55.[1]

FIGURE 1: RISING HOME VALUES DRIVE UNAFFORDABILITY FOR SOME, CREATE WEALTH FOR OTHERS, BY REGION

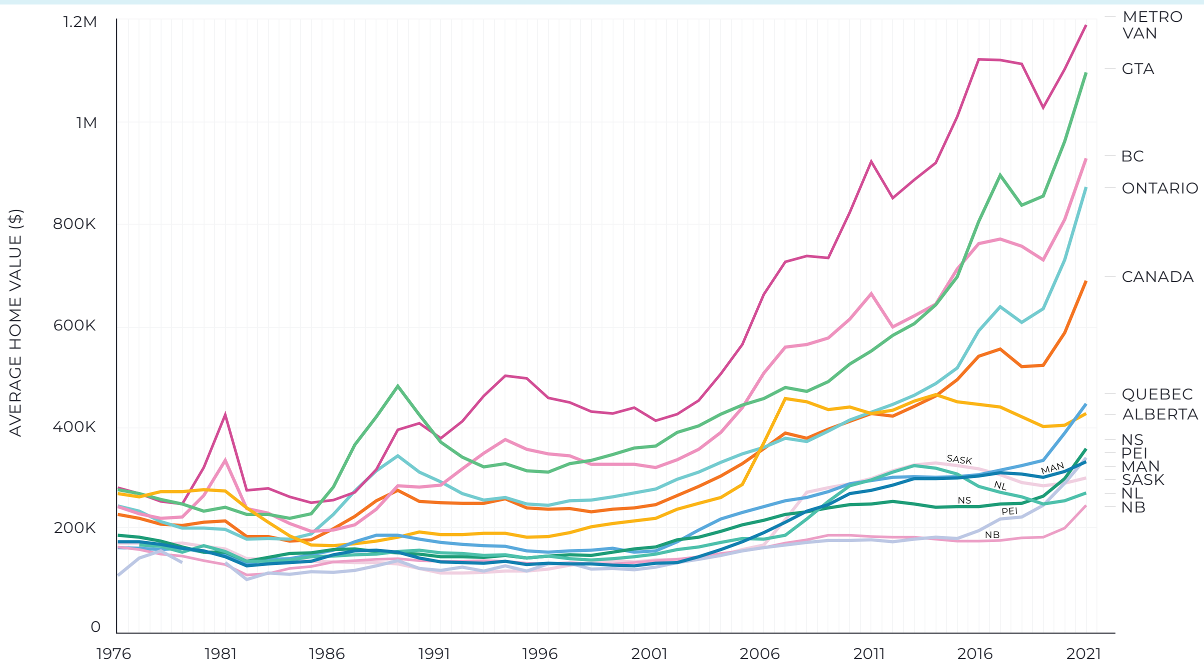


Figure 1
Sources: Average home value from Canadian Real Estate Association

1 For more information, see: Kershaw, P. (2022). "Canada's Tax System Fuels a Cultural Addiction to High and Rising Home Prices." Perspectives on Tax Law & Policy **3**(3): 1-5. Available at: https://www.ctf.ca/ctfweb/EN/Newsletters/Perspectives/2022/3/220301.aspx. Accessed November 1, 2022.

Systemic racism, and in particular decades of structural barriers to homeownership for many racialized Canadians, create particularly harmful wealth disparities. According to a CMHC report released in 2021, while overall Canadian home ownership rates hover around 70%, rates for some racialized populations are much lower – notably Black (45%), Arab (47%), Indigenous (50%), Latin American (51%), West Asian (56%), Korean (61%), and Filipino (62%) populations.

All values are adjusted for inflation in light of Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted."

Simultaneously, home prices that are out of reach of earnings have locked many younger people out of home ownership altogether. Home ownership has declined among younger age groups. One recent poll identifies the cost of housing and rental housing as top barriers to progress for young people, while another finds that half of millennials don't expect to be able to purchase a home without relocating. For those who no longer aspire to own a home for financial (or other) reasons, their consolation is lousy – rising rents. Many will struggle to find a suitable rental among Canada's too limited supply, particularly for family-sized units.

How important is the recent stall in home prices?

Dialogue on housing in Canada has recently shifted to focus on the impact of higher interest rates on the cost of homes. The six interest rate increases implemented by the Bank of Canada since March 2022 associate with small declines in average home prices. As illustrated in Figure 2, the Canadian Real Estate Association reports that prices have now dipped slightly back to 2021 levels, down from record highs reached in early 2022.

FIGURE 2: CANADIAN HOME PRICES & INTEREST RATES, 2018-2022

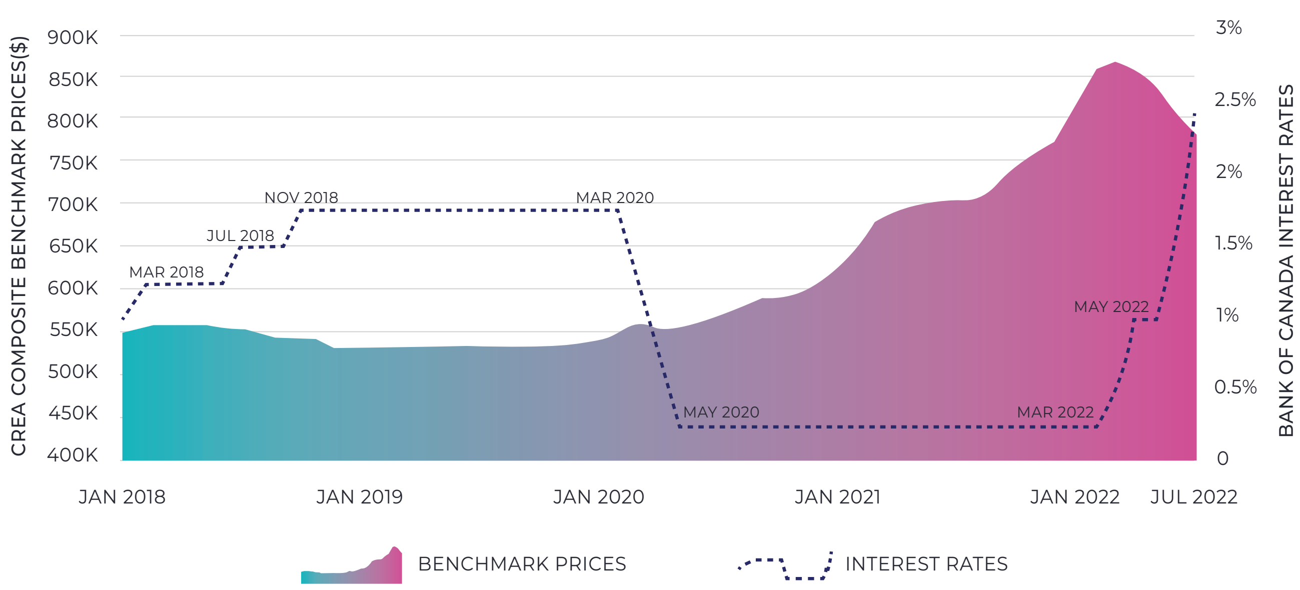


Figure 2.
Sources: Bank of Canada, Data and Statistics Office. Canadian Interest Rates and Monetary Policy Variables: January 1 2018 to September 7 2022. Retrieved from https://www.bankofcanada.ca/rates/interest-rates/canadian-interest-rates/ Interest rates shown are the Bank of Canada's daily overnight listed rates.

Canadian Real Estate Association. MLS Home Price Index, Seasonally Adjusted National Aggregate Composite Benchmark Price: January 2018 to September 2022. Retrieved from: https://www.crea.ca/housing-market-stats/mls-home-price-index/hpi-tool/.

Real Estate / Mortgages

Canada's real estate market is cooling. Here's what to expect this fall

Housing market is showing signs of weakness as home prices fall and bidding wars dissipate

THE CANADIAN PRESS

The Canadian Press
Tara Deschamps

Aug 26, 2022 • August 26, 2022 • 4 minute read • Join the conversation

As in the past, media coverage often expresses skepticism about this stall or slowdown in home prices. The housing market is typically described as being 'hot' and 'healthy' when home prices are rising. When sales slump or prices stall or fall, the market tends to be portrayed as 'cooling' which is often described as a sign of 'weakness'. Take this example above from the Canadian Press:

There are two important things to observe about this characterization of the housing market. First, it tells us a lot about how Canadians think about housing overall. The idea that a healthy housing market is characterized by rising prices underlines that housing is viewed as an investment strategy. And investments are 'good' when their value goes up.

It is true that buying a home is an investment for individual Canadians in important ways. Owners often take on large mortgages, which they then spend decades paying back. As they do, they build up equity in their home, which they can leverage down the road for other purposes. For many, the opportunity to build this equity through mortgage payments functions like forced savings into a piggy bank.

However, where this harmless piggy bank analogy breaks down is when we replace modest returns on payments of mortgage principal with regular, often double-digit, increases in home values year over year. Many home owners no doubt worked hard to buy their homes decades ago, but the outsized financial gains they have reaped aren't the result of any particularly savvy financial planning or investment decision. Rising home prices have simply bestowed these wealth gains on them while they slept and watched TV (which is the experience of Gen Squeeze Founder, and first author of this study, Dr. Paul Kershaw), compromising affordability for those who follow.

Viewing home ownership as an investment strategy helps to sustain high and rising home prices, because one of the root causes of housing unaffordability is the so-called 'financialization' or 'commodification' of housing. Housing becomes overly commodified when the aim of home ownership becomes gaining wealth (beyond principal payments) without really doing anything at all. This kind of speculation leads people – as well as institutions and governments – to expect and depend on prices continuing to rise, even though this type of profit often comes at the expense of others' ability to find and afford a good home at all. In this way, the commodification of housing runs contrary to another housing goal that many share: that homes should be in reach of what residents can typically earn from full-time paid work.

The second implication of viewing stalled housing prices as a sign of market weakness is that it ignores the broader context of real estate trends in Canada. Home prices have been rising relentlessly for decades, and especially since 2000. Against this backdrop, prices dipping back to 2021 levels doesn't come close to signaling a return to affordability. Nor does it make significant progress towards reconnecting home prices with local earnings. In 2021 alone, average Canadian home prices rose 21% compared to the previous year – a $121,000 increase to the national average price before adjusting for inflation. This dramatic increase came on top of a 13% increase over the previous year – equal to $65,000. That's a lot of housing inflation in just two years, on top of the more than doubling in average home values in Canada over the previous decades (see Figure 2).

Home prices vs earnings: the growing gap from 1976 to 2021

Our analysis of the gap between home prices and earnings from 1976 to 2021 (see Figure 3) makes it abundantly clear that unaffordability has relentlessly increased over this period, accelerating especially after the year 2000. When Canadian Real Estate Association data show that average Canadian home prices have returned to 2021 levels, this in no way signals that prices are now within reach of what hard work can earn.

To reach this conclusion, we examined earnings (focusing on young people starting out in the housing system) and average home prices, across Canada. We begin in 1976, 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 can compare housing affordability for a typical young person today, and housing affordability when today's aging population started their careers and families (and every year in between).

One key punchline is that there has been a harmful erosion of affordability for younger people and newcomers of any age today by comparison with young people decades ago. **If housing markets are stalling or levelling out, they are doing so with prices remaining at untenably high levels**. The flip side of this punchline is that rising prices have also generated striking wealth gains for those who bought average priced homes some years ago. Restoring affordability for new entrants to our housing system will require dramatic changes in many jurisdictions. To illustrate the scale of the challenge, we report how much today's earnings would need to rise – or today's home prices fall – in order for home ownership to become affordable. Since it's unlikely that earnings will rise or prices fall by the amount required, home ownership will remain out of reach for many, especially younger people and newcomers to Canada of any age.

FIGURE 3: THE GAP. CANADIAN HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

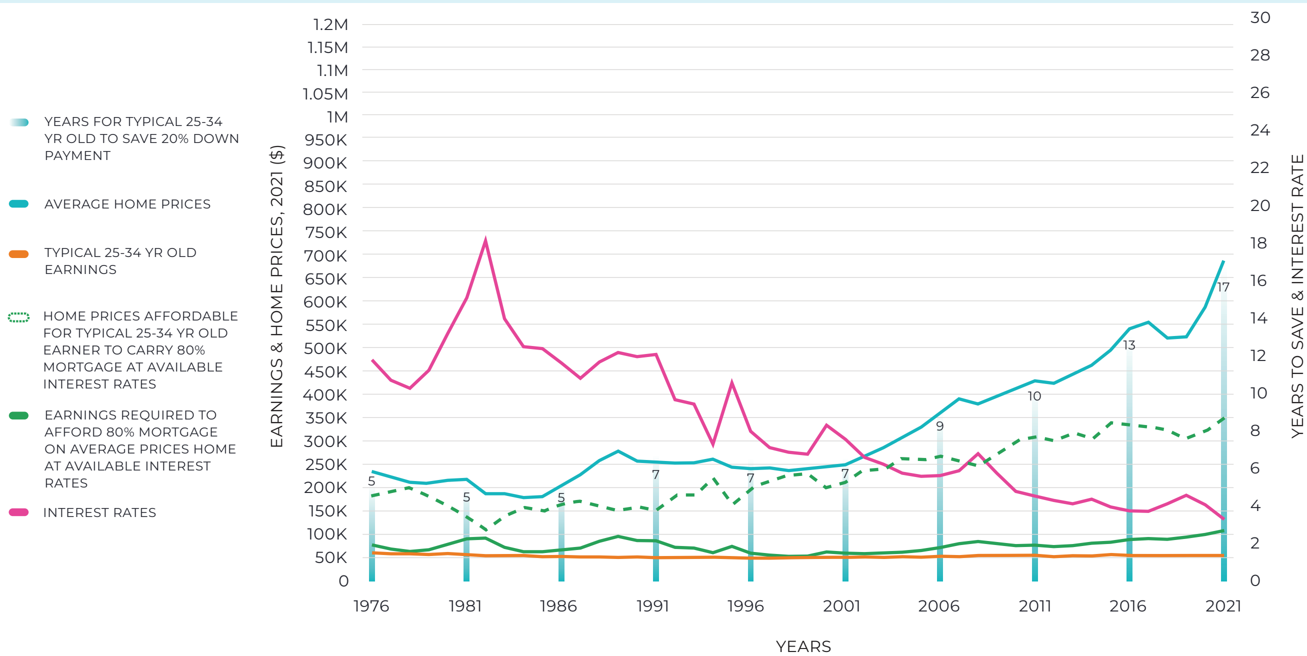


Figure 3.
Author calculations based on Sources summarized in Appendix 1.

This means that more people will be competing for our limited stock of market rental housing, especially if we do not build enough new affordable rental units. Data already confirm that renters are more likely than owners to live in housing that is unaffordable to them (33% versus 21%, according to Statistics Canada). Among renters earning below median housing income, 56% live in housing that is unaffordable to them (based on CMHC's definition of affordability). It's likely that increased competition in the rental market will worsen disparities in housing affordability, with particularly harmful impacts for racialized or otherwise marginalized Canadians. To understand the impacts of stagnating earnings on renters, we examine rental cost data for Canada, looking at the increase in rents from 1981 onwards.

We present below selected results from our analyses of home prices and earnings. Full results are provided in Part 5, including detailed data for each province, the Yukon, the Northwest Territories, and for selected communities within these jurisdictions. More information on the data sources and methodology used in our analyses is available in Appendix 1.

Across Canada, reconnecting home prices with earnings means that:

- Average home prices would need to fall $341,000 – half of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.

OR

- Typical full-time earnings would need to increase to $108,000/year – 100% more than current levels.

As illustrated in Figure 4, it takes 17 years of full-time work for the typical young person to save a 20% down payment on an average priced home. This is 12 more years than when today's aging population started out as young people.

For those locked out of home ownership, average rent for a two-bedroom unit in Canada has reached $14,004/year. This compares to average rents closer to $10,161/year back in 1981, after adjusting for inflation (see Figure 5).

Housing trends in BC, Ontario, Quebec and Alberta are especially important, because it's in those provinces that 87% of the Canadian population resides.

FIGURE 4: YEARS TO SAVE 20% DOWN PAYMENT, BY REGION (2021)

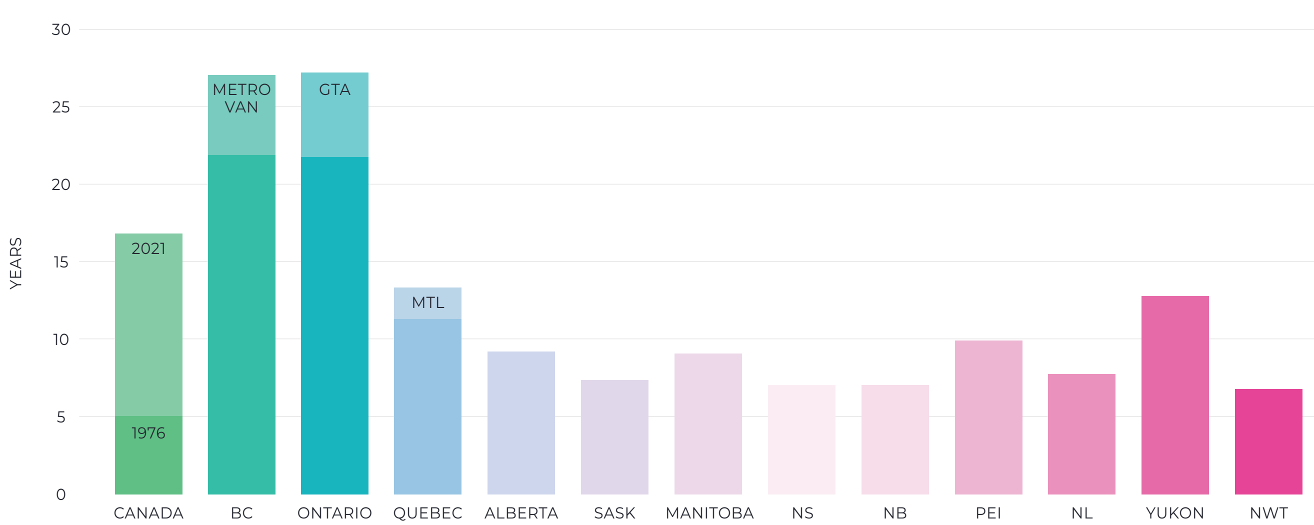


Figure 4.
Sources: Author calculations based on:
Average home prices from the Canadian Real Estate Association and the Québec Federation of Real Estate Boards, adjusted in light of Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted."

FIGURE 5: ANNUAL AVERAGE RENT, 2021

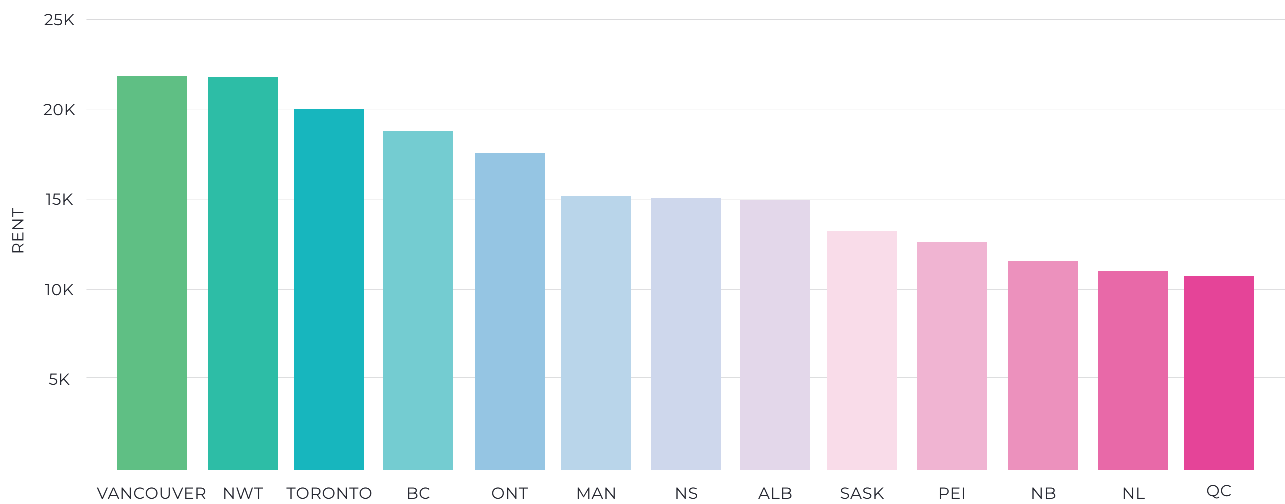


Figure 5.
Source: Author calculations based on Canada Mortgage and Housing Corporation Primary Rental Market data available at: https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/1/1/Canada. All figures have been inflation adjusted using Statistics Canada Table 18-10-0005-01: "Consumer Price Index, annual average, not seasonally adjusted."

In the early stages 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, 2021. BC has never seen a comparable erosion in affordability over such a short period of time since the mid-1970s. Ontario now rivals BC for the infamy associated with being the Canadian region with the greatest housing wealth inequality and housing unaffordability.

For many years, Quebec has resisted the contagion of housing unaffordability and housing wealth inequality that BC and Ontario have suffered. Significant average home price increases during the pandemic provide worrisome signals that must be monitored, especially in Montreal. Those who prioritize housing as a place to live (not an investment strategy) should not want Quebec home prices to ignite the way they have in BC and Ontario.

Happily, the province of Quebec has much to teach the rest of the country when it comes to maintaining affordable rental units. Quebec reports the lowest average rental costs for a two-bedroom unit of any province in the country (see Figure 23 in Part 5).

Alberta still enjoys relative housing affordability, especially with respect to home ownership, compared to Canada's other three most populous provinces. This is an economic asset for that province that should be cherished and protected.

Affordability challenges aren't confined to Canada's most populous provinces. The Yukon now has affordability challenges that surpass Quebec; while Halifax, Nova Scotia is on par with what's unfolding in Quebec. Saskatchewan, Manitoba, New Brunswick and Newfoundland have good reason to protect the affordability they currently enjoy, as does PEI – though the latter must take note of worrisome increases in average home prices since 2017. In the Northwest Territories, there is relative affordability for those pursuing home ownership. But rental homes are as expensive there as they are in Vancouver and Toronto.

See Part 5 for more detailed analyses of each province, the Yukon, Northwest Territories, and many cities from coast to coast.

PART 2:

Why we need to revisit who has been harmed by housing inflation

News coverage in Canada has been dominated of late by talk of inflation, spurred on by pandemic supply chain disruptions and global conflicts, among other things. Inflation is concerning because higher prices erode the value of money when wages and benefits don't increase at the same rate. Hence the many alarming stories about regular Canadians struggling with increased costs for basics like food and fuel.

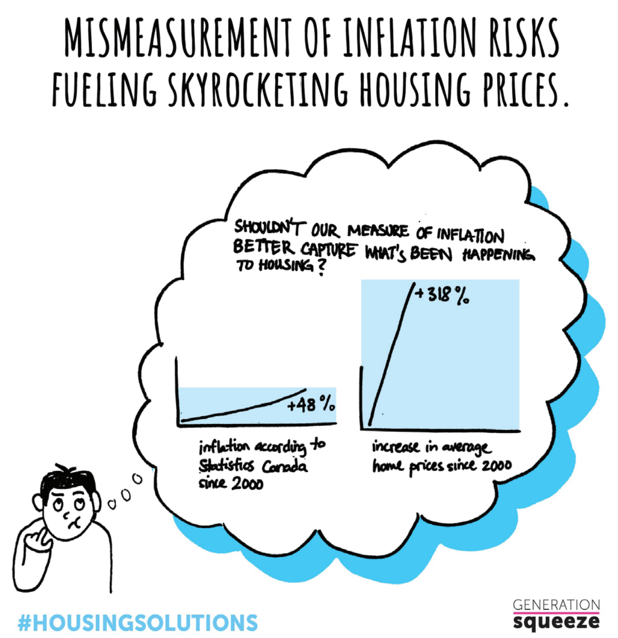
Rising inflation is also problematic because it tends to invite even more inflation. If everyone thinks costs will be higher tomorrow, they'll rush to make purchases today, pushing prices still higher. The risk that inflation begets more inflation is of particular concern to central banks, like the Bank of Canada, whose job it is to prevent prices from spiraling out of control. In a recent press release, Bank officials mentioned as much: "Persistently elevated inflation is increasing the risk that longer-run inflation expectations could drift upwards. The Bank will use its monetary policy tools to return inflation to the 2% target and keep inflation expectations well-anchored."

Given the Bank's commitment to returning and holding annual inflation at 2%, Canadians could be forgiven for wondering why we've tolerated a 318% increase in the cost of housing since 2000 – and taken limited action to rein in such huge increases in the major cost of living. What the Bank of Canada fears for the economy broadly – higher prices becoming self-perpetuating – arguably has already occurred in our overheated housing market. For many, four decades of rising prices have already taken off the table the prospect of home ownership. And among those who still aspire to purchase a home, the worry is that prices are going to keep rising – so if they don't get in the market now, they'll never be able to afford a home. FOMO anyone?

One result is that home buyers are spending as much as they can afford – and often times more – to secure a place for themselves and their families to live. And who can blame them? Rising prices have made housing seem like a fool-proof investment, generating largely tax-free wealth windfalls. Many home buyers no doubt expect to reap a strong return by throwing an outsized portion of their earnings and savings into purchasing a home. Plus, rushing to buy before prices rise further is exactly what our economic authorities suggest people will do once inflation expectations get out of hand.

Who benefits from housing inflation?

Canadians' frustration about rising food and gas prices is clearly motivating people to call on their governments (and central bankers) to search for ways to slow food and energy price



inflation. In response, governments – and even some private businesses – are exploring measures to slow the pace of price increases, or support Canadians with the pressures and uncertainty of higher living costs.

So why haven't we witnessed a similar upswell of frustration about housing inflation? Why is it that Canadians and our political representatives have tolerated relentless increases in home prices for years and years?

Arguably, there are many reasons – but a particularly important one is that inflation in housing prices is different from inflation in the cost of things like food and gasoline. Increases in home prices don't only benefit some distant corporation through increased profits – they benefit everyday Canadians who own homes (including Dr. Kershaw, the first author of this report and a home owner). Many home owners have reaped big wealth gains from the rising values of their homes. These gains that are largely protected from taxation, unlike (more modest) increases in wages, or even returns on market investments. **The bottom line is that housing inflation makes home owners wealthier, especially those who have been in the market for decades.**

Yes, it is the case that some developers also get richer from rising home prices, as do some pension funds, Real Estate Investment Trusts (REITs), and even money launderers. But if those were the only groups benefiting from housing inflation, there's good reason to believe that Canadians would have demanded that governments put the brakes on soaring prices long ago.

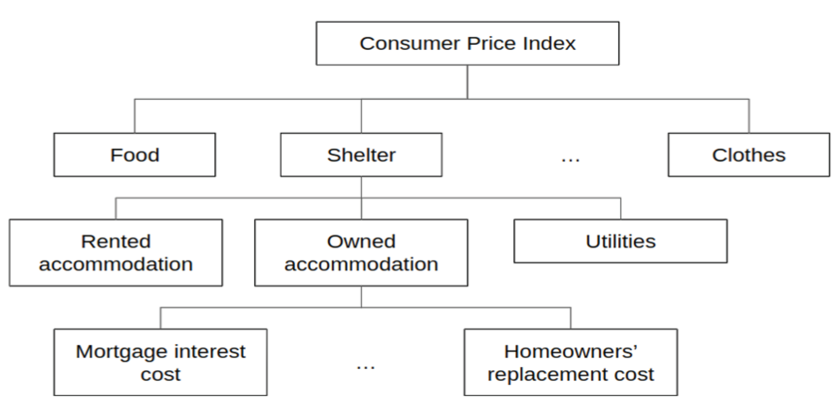
It may not feel like it, but a silver lining of supply chain issues and commodity prices driving up the cost of everyday goods like gas is that – at least for now – the Bank of Canada has started to make monetary policy decisions that will help to slow down the housing market. Arguably, this is good for younger and future generations, and newcomers to Canada of any age, who can no longer access an affordable place to call home. A 20% increase in the cost of gas may make Canadians spend hundreds or thousands more at the pump over a year. But a 20% increase in the cost of housing adds tens or hundreds of thousands of dollars to price tags in communities across Canada, crushing the dreams of aspiring home owners and helping to fuel unaffordability for renters.

Why has Canada's measure of inflation downplayed the reality of housing inflation?

A recent statement by the Bank of Canada explaining why it raised interest rates in response to rising inflation doesn't identify home prices as a "primary driver" of inflation. Instead, the Bank focuses on energy and food prices. The reason for this is clear if we consider how inflation is measured in Canada.

The Consumer Price Index (CPI) functions as Canada's inflation measure. CPI tracks changes in the price of a basket of goods and services – like food, transportation, clothes and shelter. Each component receives a weighting within the basket, representing how much of a typical household's budget goes towards that category of expenses (see Figure 6). For example, food makes up 16% of the basket, while clothing represents 4%. The shelter component – intended to reflect housing costs – has the highest weighting at 30%. However, there are serious shortcomings with how this shelter component is calculated.

FIGURE 6: HOW THE CONSUMER PRICE INDEX IS CALCULATED



The shelter component has three parts: owned accommodation, rented accommodation, and utilities. Owned accommodation is the largest sub-component, representing 20% of the total index. What's surprising, however, is that the category of owned accommodation increased by only 6% over 2021 – far less than the 21% increase in average housing prices reported by the Canadian Real Estate Association. This begs the question, what is the owned accommodation component measuring if not actual home prices?

Statistics Canada gives us the answer. CPI was built to measure the impact of price changes on a selection of costs specific to *existing* home owners. Property values influence a few of the components of CPI, but only slightly. This means that CPI's measure of inflation doesn't factor in the actual price of homes – only the cost of financing and maintaining a home already owned. Nowhere is the cost of purchasing a home directly incorporated into CPI.
By only measuring shelter costs for people who already own homes, Canada's inflation measure doesn't represent the experiences of many Canadians. **CPI largely ignores a huge piece of the costs that *prospective* homeowners are facing – rising property values – and the implications of these rising values for saving a down payment and carrying a mortgage.**

The result is a lopsided approach to housing and monetary policy. The circumstances confronting renters and (often younger) aspiring homeowners aren't considered as well as they could be in many policy decisions, including the setting of interest rates. This contributes directly to the "intergenerational injustice" identified by the Deputy Prime Minister when describing the housing system. A more comprehensive inflation measure – one that accounts for skyrocketing increases in property values in recent decades – likely would have motivated higher interest rates many years ago, helping to slow the housing market and protecting affordability for younger Canadians.[2]

Overreliance on an inadequate inflation benchmark has permitted the Bank of Canada to downplay rising home prices in financial and monetary policies decisions that affect Canadian consumers and businesses. We can't continue to repeat our mistakes, using an inflation measure that is sending the wrong signals to officials and governments. As Figure 7 reveals, we need our inflation data to stop camouflaging how the primary cost of living – housing – is being driven up.

FIGURE 7: HOUSING INFLATION & CONSUMER PRICE INDEX: % CHANGE PER YEAR

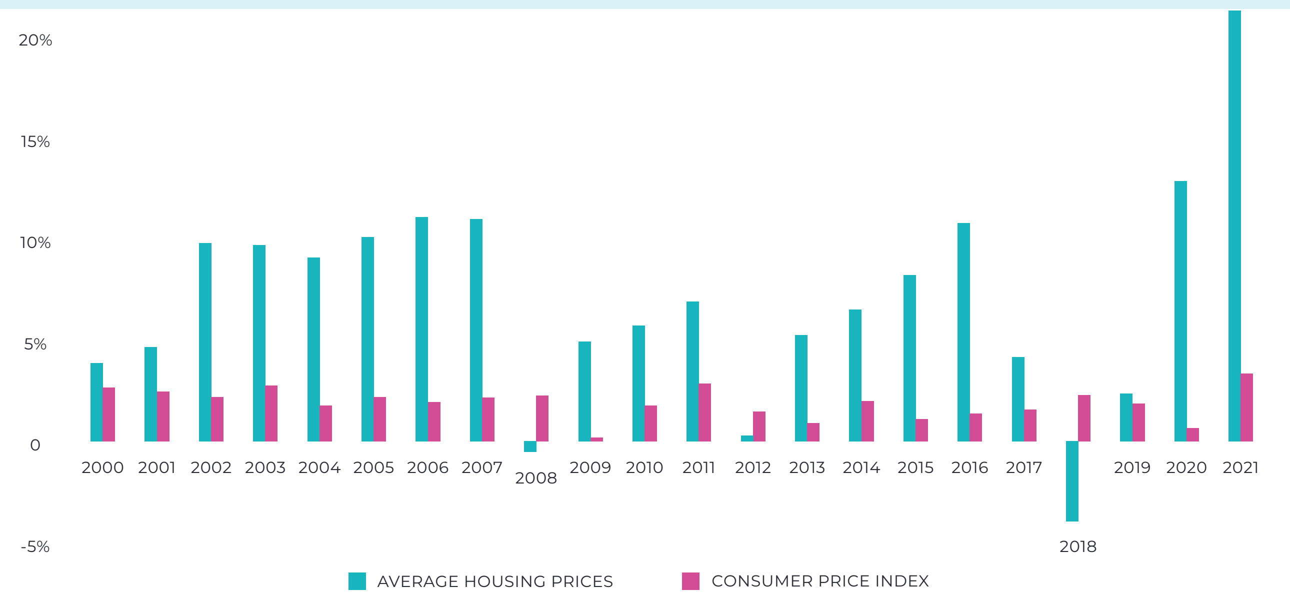


Figure 7.
Sources: Housing data from Canadian Real Estate Association
Consumer Price Index data from Statistics Canada Table: 18-10-0005-01, "Consumer Price Index, annual average, not seasonally adjusted."

2 For analysis of how tax policy privileges older Canadians and home owners compared to those who are younger and renters, see: Kershaw, P. (2022). "Canada's Tax System Fuels a Cultural Addiction to High and Rising Home Prices." Perspectives on Tax Law & Policy **3**(3): 1-5. Available at: https://www.ctf.ca/ctfweb/EN/Newsletters/Perspectives/2022/3/220301.aspx. Accessed November 1, 2022.

PART 3:

A comprehensive plan to restore affordability… forever

There is no silver bullet to restore housing affordability or address the wealth inequities created by the growing gap between home prices and earnings. But a 'silver buckshot' approach can work, if we pursue the full range of policy tools that shape our housing system. To support the full range of housing actions, Generation Squeeze has co-created with the Balanced Supply of Housing community-university partnership a **Comprehensive Policy Framework** to guide Canadians and their governments.[3]

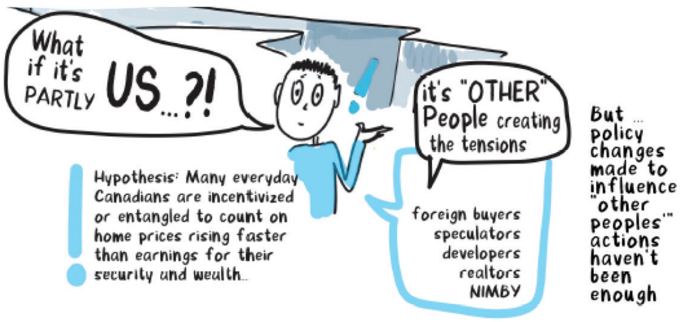
The Policy Framework is guided by three overarching principles:

1. Housing is a human right.
2. We need to make room for everyone. This means overcoming 'Not In My Back Yard' (NIMBY) sentiments articulated by those who resist increasing density, especially for rental and social housing.
3. We should treat housing more as a place to call home, and less as a way to get rich. That means prioritizing that our housing system delivers homes first. The prospect of housing delivering investment returns is secondary.

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

1. Actions to scale up the non-profit sector, because the market is failing to deliver housing that is in reach of the wages paid by local labour markets.
2. Actions to fix the regular housing market (owned and rented), because that's where the majority of Canadians will continue to find a home – even if the non-profit sector is doubled, tripled or quadrupled in size.
3. Actions to break Canada's cultural addiction to high and rising home prices, because it is reinforcing feedback loops in the housing system that fuel home prices beyond earnings – making it much more challenging to implement actions required under the first and second pillars.

Break the addiction to high and rising home prices



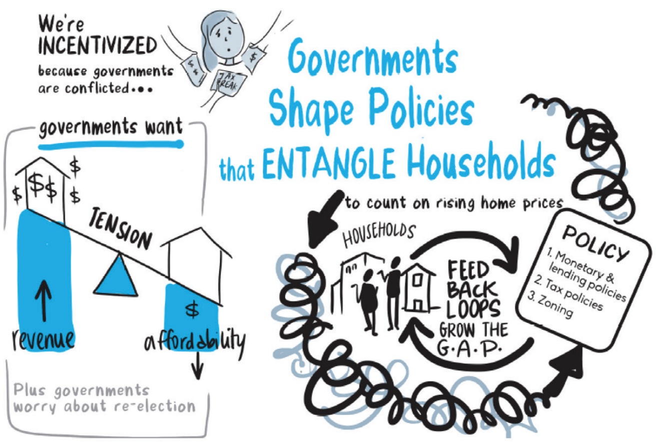
For the purposes of this report, the Policy Framework pillar on breaking the addiction to high and rising home values is particularly important. To act on this pillar, we need to ask many everyday Canadians (and especially

3 The version of the framework presented here includes some refinements Generation Squeeze recently made to reflect new research, as documented in: Kershaw, P. (2021). "Wealth and the Problem of Housing Inequity Across Generations: A Solutions Lab. Vancouver, BC, Generation Squeeze Lab. Available at: https://d3n8a8pro7vhmx.cloudfront.net/gensqueeze/pages/6403/attachments/original/1639772589/Gen-Squeeze_Nov26.dat?1639772589. Accessed November 1, 2022.

home owners) to consider how we may be reinforcing feedback loops that sustain, or drive, home prices further out of reach of local earnings. Even if this is not our intention, we may be contributing to this trend by responding to incentives in the market that attract us to organize our wealth accumulation strategies in ways that bank on high and rising home prices. These are provocative and difficult conversations.

Putting a focus on how regular Canadians are entangled in problematic housing system incentives doesn't discount that ways in which unaffordability is shaped by a range of more commonly discussed actors, like foreign investors, money launderers, speculators, NIMBYs, etc. But what's different about these factors is that policy makers have already undertaken a variety of actions to address their contributions to our unaffordability saga –

encouraged by Generation Squeeze and many others. Canada now has foreign-buyer 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 increasing the supply of housing.

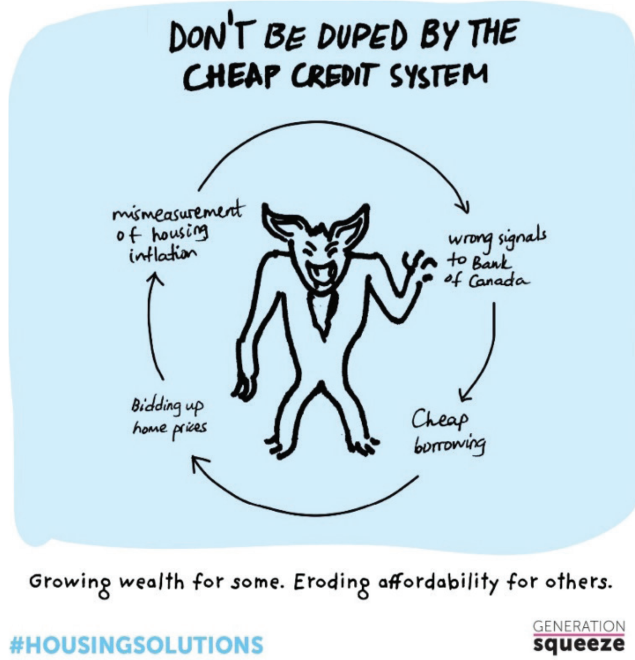


Unfortunately, the gap between home prices and earnings has persisted – even grown – despite these measures, including through the pandemic. This shows that the laudable steps taken so far remain insufficient to stall home prices, or to close the frightening gap between home values and local earning. 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, and much closer to home for many of us who are home owners.

In this report, we feature two concrete policy changes below that would contribute importantly to disrupting Canada's cultural addiction to high and rising home values.

Improve Statistics Canada's measure of housing inflation to reduce collateral damage from the cheap credit system

If you're not familiar with the cheap credit system, here's a primer. Statistics Canada underestimates the contribution of rising home prices to inflation (as discussed in Part 2). The Bank of Canada uses this (inaccurate)



inflation signal to guide decisions on interest rates – keeping them at historic low levels because inflation is reported to be modest. Low interest rates decrease the cost of taking on a larger mortgage. Buyers who are able to borrow more bid up home prices. Rising prices aren't adequately captured in inflation data… creating a feedback loop that helps to grow the gap between home prices and local earnings.

The cheap credit system catalyzes and sharpens the double-edged sword of housing unaffordability and wealth inequality in which Canada is now entrenched. Younger people and newcomers to Canada face crushing unaffordability, while many home owners gain substantial wealth – and feel that they deserve these windfalls, even though they are largely a product of a lottery of timing, the good fortune of having bought into the housing market years ago.

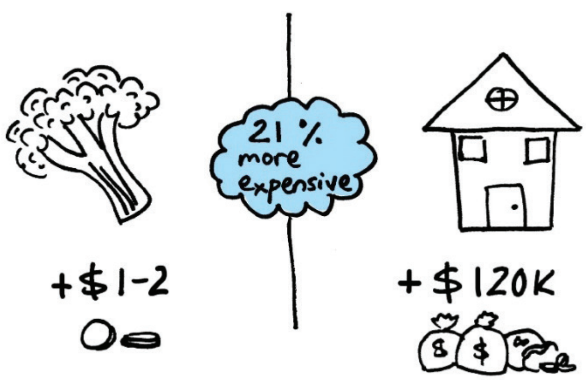
Our analyses of the growing gap between home prices and earnings discussed in Part 2 (and in more detail in Part 5) feature data about interest rates in Canada every year since 1976. These data show a negative association between interest rates and average home prices (though this does not necessarily imply causation). As interest rates have dropped over the decades, average home prices have risen. This association stands out in particular relief through the pandemic.

During the first two years of COVID, the Bank of Canada cut interest rates even further below the historic lows to which we had become accustomed prior to the pandemic. These monetary policy decisions enabled many people to acquire cheap mortgages and bid up prices, resulting in unprecedented home value escalation. The Bank's subsequent rate hikes in 2022 associate with stalling home prices.

Interrupting the feedback loop that sustains the cheap credit system starts with asking Statistics Canada to improve its measurement of housing inflation, so that the Bank of Canada can base interest rate policy decisions on better data. This piece of silver buckshot represents a nearly *no-cost* policy change that has potential to contribute importantly to restoring affordability.

Just like the right road signs help keep us safe by allowing traffic to flow predictably, the right economic signals can help steer our financial systems towards stability, prosperity and equity. Unfortunately, the inaccurate housing inflation signals sent by Statistics Canada gave us the green-light to speed recklessly through intersection after intersection, putting ourselves and others in danger. If we'd gotten the signals right years ago, we could have recognized the perils of runaway housing inflation sooner, perhaps sparing younger generations the challenge of coping with today's crushing unaffordability.

It's a costly problem when we're better at measuring the rising price of vegetables than the rising price of housing.



Statistics Canada can help fix the broken housing system by reporting accurately on housing inflation.

#HOUSINGSOLUTIONS

GENERATION squeeze

To be clear, Statistics Canada has a well-earned strong reputation for data collection and analysis. Canadians are fortunate to have a statistical agency like this to track important trends across the country. That's why we're confident that Statistics Canada can fix inflation data, and remedy the alarming disconnect that permits relentlessly escalating home prices to have seemingly little impact on reported levels of inflation.

Improving the measurement of inflation does not negate the value of central banks deploying low interest rates to fuel Canada's economy out of recessions, including during the pandemic. Nor should we downplay that some have welcomed the help offered by low interest rates in paving the way to pursue home ownership amid today's high prices. It's fair for these people to be concerned that rising rates might compromise the effort they've put into hacking a housing system that's been broken by the massive gap between prices and earnings.

Still, it is imperative for Canadians and our policy makers to disrupt the broader, systemic problems that plague our housing system. Getting to the root of these problems – like the flawed way in which we account for housing inflation – is an important part of moving towards system-wide solutions. Those struggling to afford a place to call home should care about the way housing inflation is measured because it reinforces the dark side of the cheap credit system, which helps to push home prices far beyond what hard work can earn – devaluing earnings and hard work.

Reduce the home ownership tax shelter as part of a tax shift

Breaking our addiction to high and rising home values requires action to adjust the way we tax housing wealth. Our tax system currently shelters from taxation the $3.2 trillion in housing wealth home owners across Canada have gained in their principal residences over the last four decades. That's because Canada doesn't tax capital gains from principal residences, and property taxes do not have progressive rates. 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, Canadians working hard in their jobs have all of their earnings subject to taxation. This inequity in our tax system encourages people to treat housing as an investment strategy, not just a place to call home – despite the collateral damage this causes for affordability.

Second, the home ownership tax shelter grows inequities between home owners and renters. Only those who own homes are able to take advantage of the tax-free wealth that accrues from rising prices, while renters often end up having to pay higher rents as property values increase.

Third, this tax shelter contributes to inequities across regions. Consider a retired homeowner in Fredericton. She must manage her money in the absence of any dramatic escalation in the value of her home. A retired homeowner in Vancouver or Toronto may have an identical fixed income, but be much more financially secure because her principal residence has gone up in value by hundreds of thousands, if not millions, compared to when she bought it.

Fourth, the home ownership tax shelter incentivizes Canadians to invest in housing over other areas of the economy that produce more jobs. The real estate, rental and leasing sector is the largest part of Canada's economy, at 14% of Gross Domestic Product. Yet this sector accounts for less than 2% of employment. This disparity indicates that we're growing our economy via ramping up the major cost of living (housing) without growing enough jobs to ensure that local earnings keep up. This may yield financial gains for the small number of workers in the real estate sector, and for home owners who gain wealth as home prices rise, but it's a harmful approach to economic growth for everyone else who must contribute so much more work to cover their major cost of living – housing.

To begin to reduce the damage inflicted by the home ownership tax shelter, Generation Squeeze champions putting a price on housing inequity via a small surtax on home values above $1 million that would raise $5 billion annually to help fund public investment in new affordable units, including in co-op and non-profit buildings.[4] We have developed this recommendation in collaboration with housing experts and thought leaders from across the country (see section 6). Recent polling shows that a majority of Canadians support the idea.

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4 For more information, see: Kershaw, P. (2018). "A Tax Shift -- The Case for Rebalancing the Tax Treatment of Earnings and Housing Wealth." Canadian Tax Journal 66(3): 585-604; Kershaw, P. (2022). "Canada's housing crisis is getting worse. Taxing million-dollar-home owners can help". Maclean's. Accessed November 1, 2022.

PART 4:

Conclusions and calls to action

We all have a role to play in fixing our dysfunctional housing system. Together we need to decide that this is the moment to restore affordability for all, by prioritizing home prices stalling, or even falling moderately, until local earnings can catch up. For those of us who have benefitted from the previous years of home price escalation, it's time to lean in more to the conversation about how we can contribute to solutions.

Actions for all Canadians

1. Don't deny the scale of today's housing affordability challenges – or blame those struggling to overcome them

It's common for popular culture to blame younger Canadians for being locked out of home ownership. Often these arguments point to the consumer habits of younger people – like 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 Canadian would need to give up drinking 15 lattes a day, every day, for five years, to save the 20% down payment on an average priced home in Canada. It's 19 lattes in Ontario; 20 in BC; 24 in the GTA and 26 in Metro Vancouver.

To blame younger people for being unable to cope individually with seismic shifts across a whole system is to misunderstand the scale of the problem, the solutions required, and the fact that we are all implicated in them. If you're tempted to turn to anecdotes about parents giving or lending money to their struggling kids – often referred to as the Bank of Mom and Dad – we suggest you pause for a moment to reflect on why some parents are fortunate enough to have this money to hand out. The very housing price increases that have grown their wealth are driving unaffordability for their kids.

2. Lend your voice in support of a vision for Canada in which home prices stall – or fall moderately

To reconnect home prices with local earnings, we need home prices to stall (or even fall moderately) for the next many years, to give earnings a chance to catch up. We won't achieve the Canada Mortgage and Housing Corporation goal that all residents of Canada can afford a home that meets their needs by 2030 if average home prices continue to rise, especially after they already left local earnings far behind over the last many decades.

Actions for those who bought homes years ago, benefitting from housing inflation

1. Recognize housing as a source of wealth – especially if you bought a home decades ago

Those who bought homes decades ago had to work hard to save for and pay off their mortgages while raising their families. They didn't get a free ride. But what they did get was a shorter and less arduous journey than what confronts younger generations today, thanks simply to the lottery of timing. We can simultaneously applaud the hard work of the

Baby Boomers AND recognize that the hard work of young people today no longer pays off the way it did for previous generations. This recognition is itself an important place from which to begin a conversation about solutions to housing unaffordability. It invites questions about new ways in which it may be reasonable for current home owners to contribute more to solutions to housing wealth inequality and unaffordability than they have been asked to contribute in the past.

2. Lend your voice in support of a tax shift

Recent polling indicates that 68% of Canadians agree with the idea of implementing a modest price on housing inequity paid by the 10% who own the most expensive homes. The modest surtax would reduce the harms caused by the home ownership tax shelter. Plus, it would raise funds to pay for affordable rental and co-op homes; and/or to pay for other services, like medical care for the aging population, or child care for their grandchildren; and/or to reduce income taxes for middle and lower earners, especially renters.

Importantly, 59% of people polled still supported the proposal for a price on housing inequity when they learned that being in the top 10% most valuable homes in the country meant owning a home valued at ~$1 million. Even among Canadians who actually own million-dollar homes, 57% were supportive.

These data already point to strong public support for modest reforms to the way we tax housing wealth. But if you're still on the fence, it's a powerful act to jump off and voice your support for this evidence-based solution, thereby helping to create political cover for politicians to courageously respond to the evidence.

Actions for policy makers

No single level of government is responsible for housing unaffordability. All governments have important roles to play in setting the policy, laws, and regulations that shape incentives within the housing market.

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 restoring housing affordability requires ending the relentless, upward spiral of home prices. It is therefore critical for all elected officials to make a public commitment to at least stalling home prices – and ensure that all other housing actions align with this principle. Political leaders can feel confident about making this important commitment to alleviate the housing crisis, because recent polling data show that a majority of Canadians support the idea.

2. Call on Statistics Canada officials to improve measurement of housing inflation

Generation Squeeze, in partnership with colleagues at the Conference Board of Canada and Business Council of BC, recommends that all governments urge Statistics Canada to report more accurately on housing inflation when calculating the Consumer Price Index (CPI). We need to ensure that the CPI will no longer send inaccurate signals to the Bank of Canada about housing inflation in our economy, fueling the cheap credit system that helps to drive up home prices.

We need to make this change now, to guard against the Bank of Canada returning to kind of monetary policies – like low interest rates – that catalyze rising housing costs and drive up unaffordability. If we don't remedy the underlying problem with housing price inflation data, the Bank of Canada may have every reason to judge that inflation is under control once supply chain issues are sorted out and prices for everyday goods moderate.

Efforts to rein in out of control home values shouldn't be a side effect of decisions made to address inflation in other, smaller, costs of living. We should expect those responsible for measuring inflation to prioritize monitoring Canada's housing crisis in its own right, so that governments and central bankers are optimally informed to adapt the financial and monetary policy tools available to them to directly counter the damage caused by high and rising home prices.

Recent polling shows that many Canadians support action to counter the harmful effects of the cheap credit system on housing costs. 60% think that cheap credit which allows 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 25% suggest cheap credit has played little to no role at all.

3. Start building the foundation for better housing inflation data now

Since it may take time for Statistics Canada to revise its measurement of housing inflation in the CPI, we need to begin with some first steps right away. One important starting point is publishing an analytical series outlining a *Cost of Living Index for Younger Adults*. This series could compare and contrast the current CPI calculation for housing inflation with alternative measurement approaches that better account for the housing costs facing Canadians who don't own homes. This initiative could be considered a cousin of Statistics Canada's existing CPI for Seniors initiative developed a few years ago.

4. Create an analytical series for housing affordability that tracks established (resale) home prices relative to full-time labour market earnings across cities.

This new measure would supplement the currently dominant approaches that focus on expenditures made by citizens relative to their incomes (e.g., the Shelter-To-Income Ratio and Housing Hardship measures). People's expenditures are constrained by incomes, which impose limits on how individuals can adapt their budgets when confronting rising established housing prices. As incomes rise beyond local earnings, households may pay more to purchase a home, or pay more for rent; but they will also adapt their expectations for housing, paying for fewer bedrooms, smaller floorplans, less access to the ground, etc. What is actually happening to average prices for established (resale) housing is not showing signs of being constrained to the same degree by the average incomes paid in local economies – as revealed by the large and growing gap between average established home prices and local labour market incomes in many parts of the country since the early 2000s.

In response, Statistics Canada's methods for measuring housing affordability should include an approach to explicitly reporting what's happening to established home prices (regardless of what Canadians are spending on their shelter), along with implications for mortgage debt in Canada, and the impact on home ownership rates. The fact that Statistics Canada data reveal a rise in investor-owned housing, and a decline in home ownership rates, signals there is more urgency than ever to add this alternate measure of affordability.

PART 5:

Detailed analyses of the gap between home prices and earnings across Canada

This section presents full results of our analyses of data on home prices and local earnings for Canada, all provinces plus the Yukon and Northwest Territories, and many cities. For each jurisdiction, we consider the changes in home prices or earnings that would be required to make homes affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates. The data also include the number of years it would take for a typical young person to save a 20% down payment on an average priced home in that jurisdiction.

CANADA

The numbers in Figure 8 illustrate the gap between average home prices in **Canada** 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 $341,000 – half of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $108,000/year – 100% more than current levels.
- It takes 17 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 12 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 Canada has reached $14,004/year, compared to average rents closer to $10,161/year back in 1981.

FIGURE 8: THE GAP. CANADIAN HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

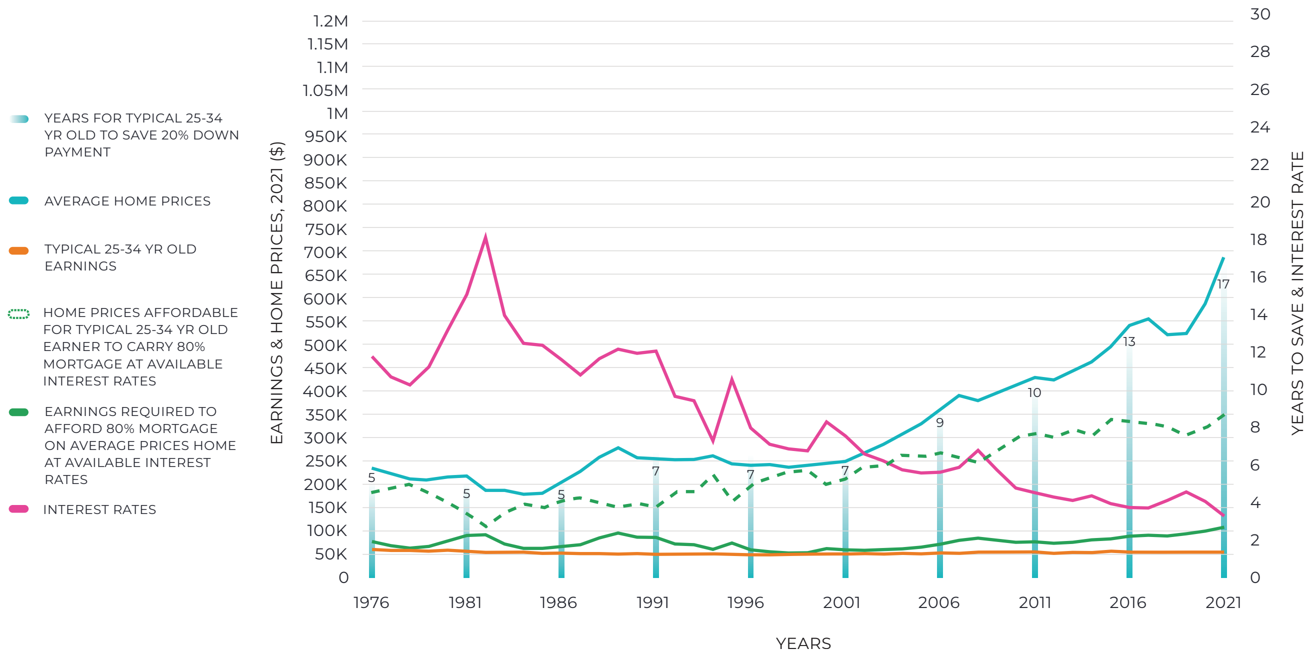

Figure 8.
Author calculations based on Sources summarized in Appendix 1.

BRITISH COLUMBIA

The numbers in Figure 9 illustrate the gap between average home prices in **BC** 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 $567,000 – over 60% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $145,000/year – over 150% more than current levels.
- 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 BC has reached $18,792/year, compared to average rents closer to $11,671/year back in 1981.

FIGURE 9: THE GAP. BC HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

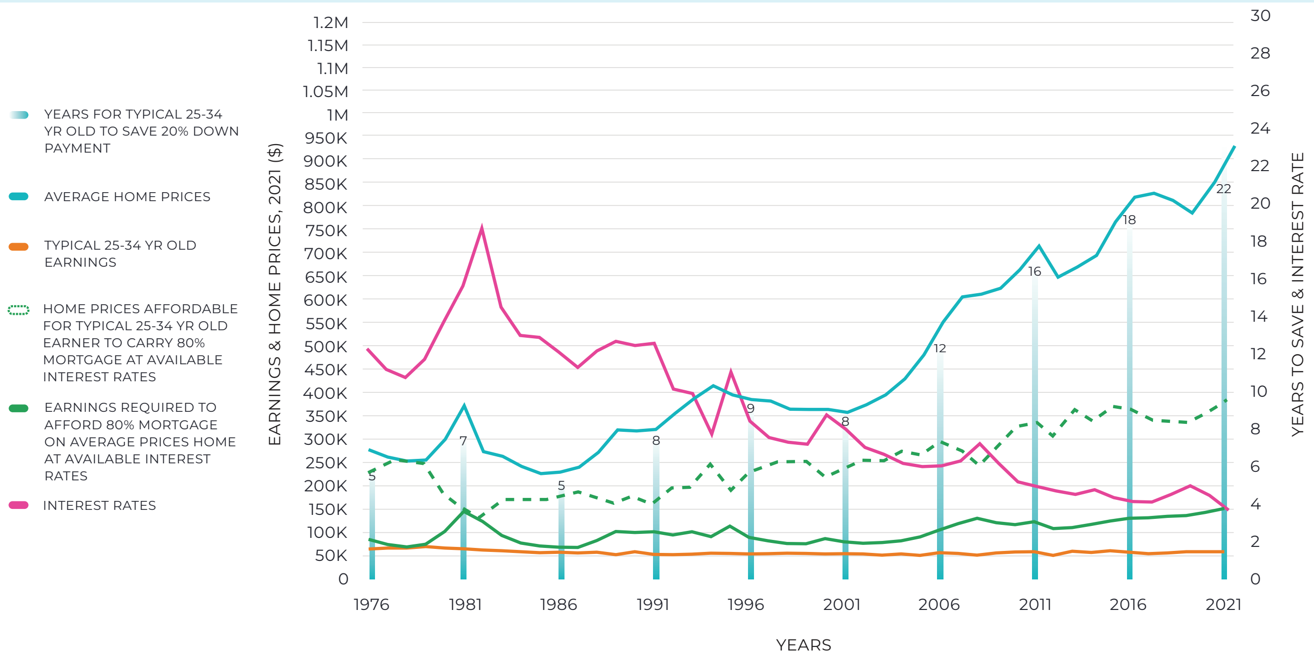

Figure 9.
Author calculations based on Sources summarized in Appendix 1.

Metro Vancouver

The numbers in Figure 10 illustrate the gap between average home prices in **Metro Vancouver** 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 $814,000 – over 68% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $186,000/year – more than triple current levels.
- 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 Vancouver has reached $21,888/year, compared to average rents closer to $12,392/year back in 1981.

FIGURE 10: THE GAP. METRO VANCOUVER HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

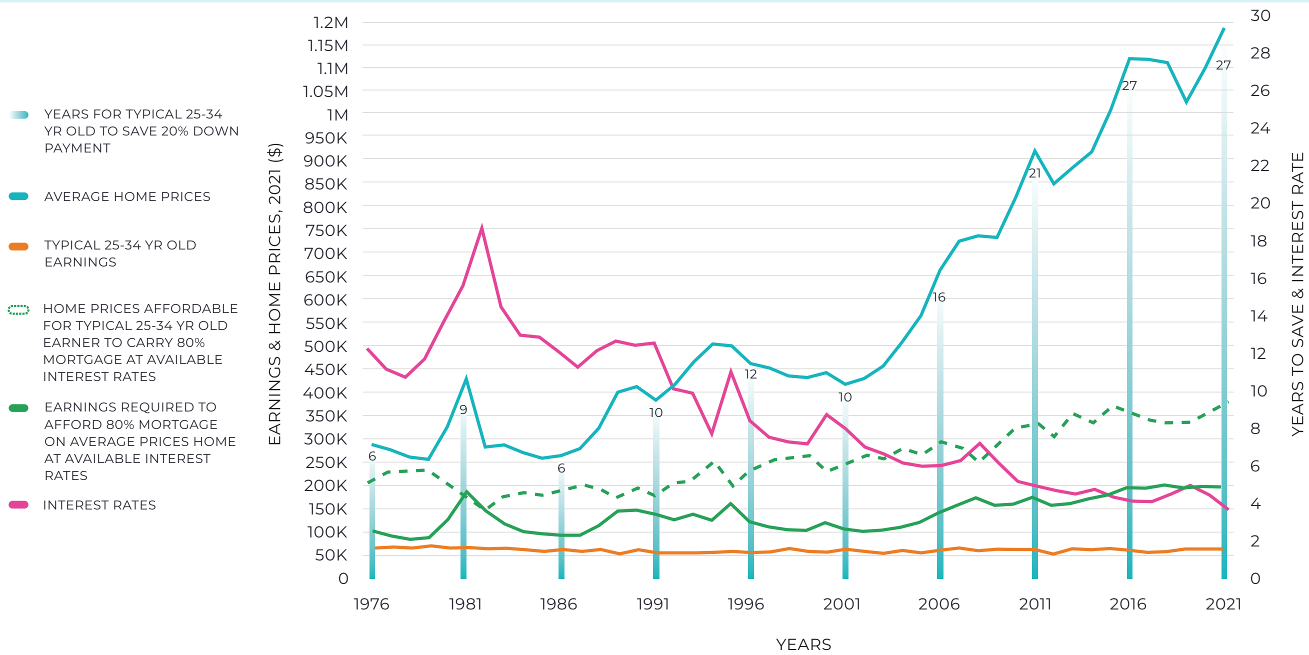

Figure 10.
Author calculations based on Sources summarized in Appendix 1.

Victoria

The numbers in Figure 11 illustrate the gap between average home prices in **Victoria** 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 $548,000 – 60% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $142,000/year – 150% more than current levels.
- It takes 22 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 16 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 Victoria has reached $18,852/year, compared to average rents closer to $11,397/year back in 1981.

FIGURE 11: THE GAP. VICTORIA HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

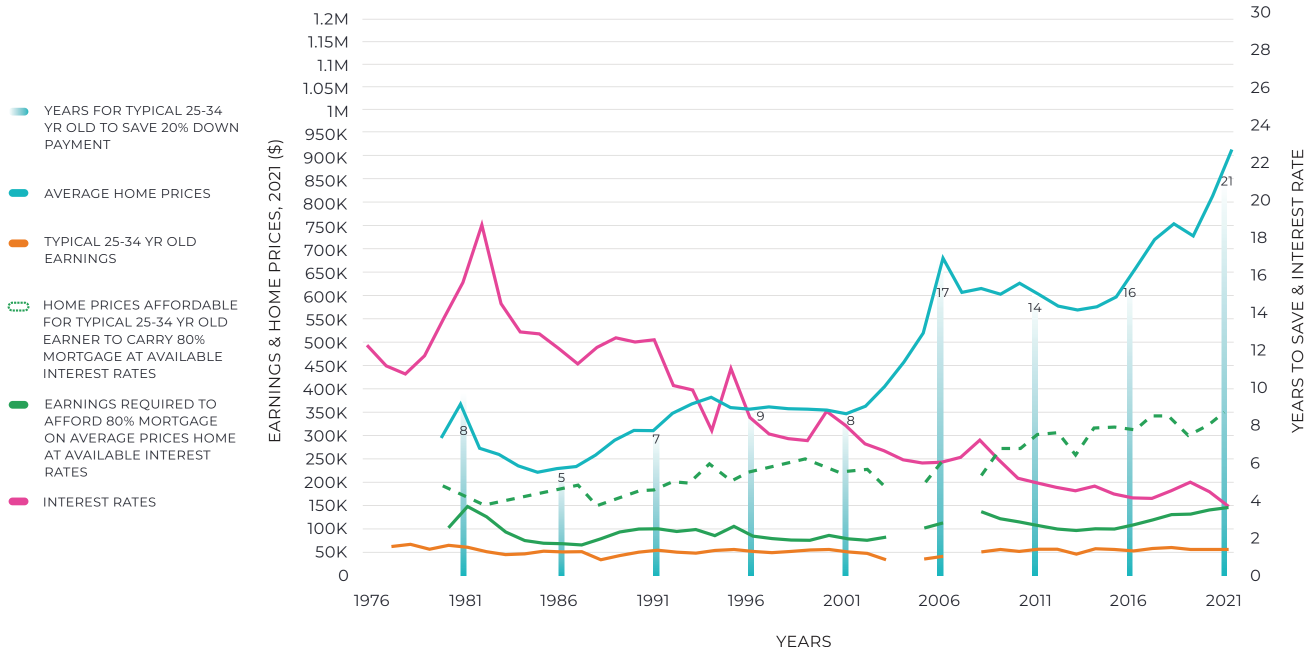

Figure 11.
Author calculations based on Sources summarized in Appendix 1.

Kelowna and region

The numbers in Figure 12 illustrate the gap between average home prices in **Kelowna and region** 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 $363,000 – 50% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $114,000/year – double current levels.
- It takes 17 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 13 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 Kelowna has reached $17,700/year, compared to average rents closer to $11,191/year back in 1981.

FIGURE 12: THE GAP. KELOWNA & REGION HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

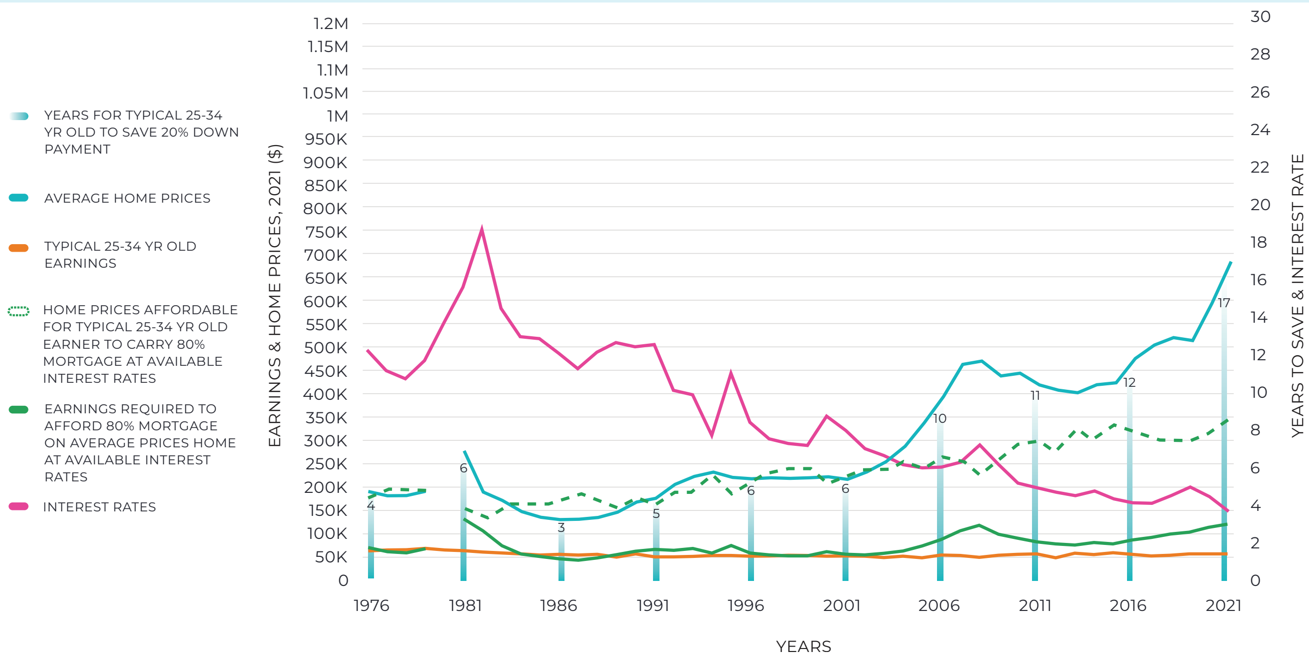

Figure 12.
Author calculations based on Sources summarized in Appendix 1.

Kamloops

The numbers in Figure 13 illustrate the gap between average home prices in **Kamloops** 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 $199,000 – 36% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $88,000/year – 55% higher than current levels.
- It takes 13 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 Kamloops has reached $14,676/year, compared to average rents closer to $11,465/year back in 1981.

FIGURE 13: THE GAP. KAMLOOPS HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

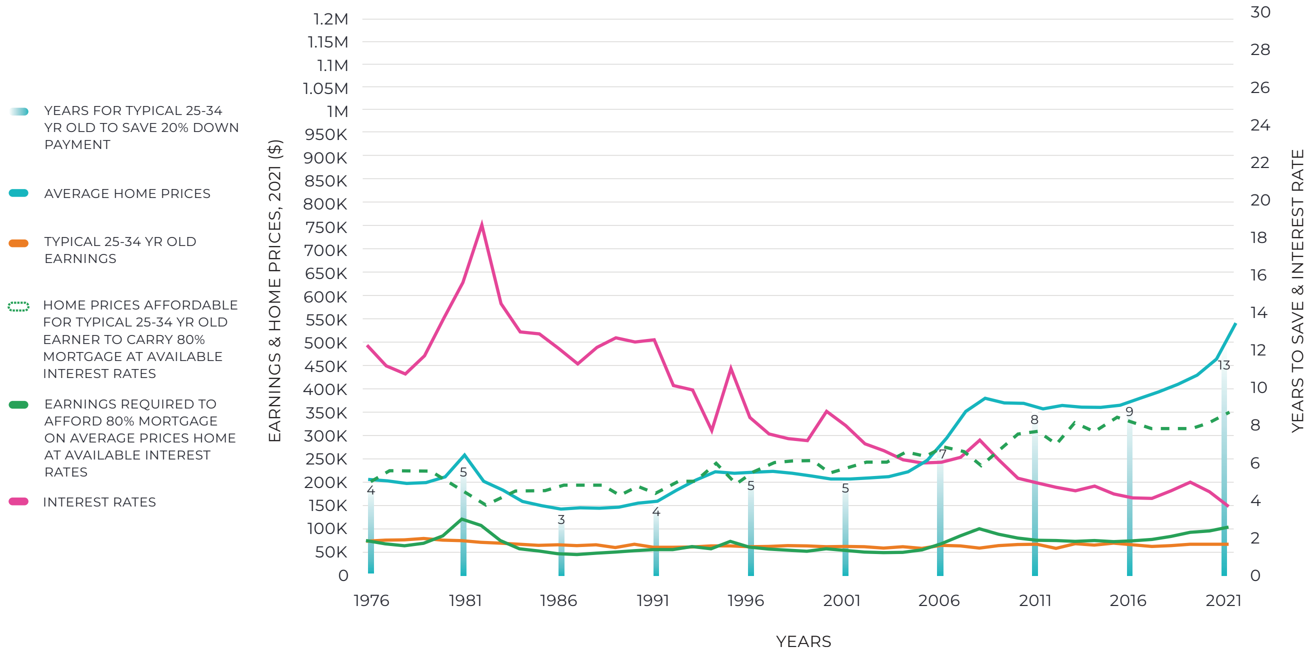

Figure 13.
Author calculations based on Sources summarized in Appendix 1.

Nelson and region

The numbers in Figure 14 illustrate the gap between average home prices in **Nelson and region** 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 $90,000 – 20% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $71,000/year – 25% higher than current levels.
- It takes 11 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 7 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 Nelson has reached $13,236/year. Alas, we don't have rental data for Nelson in 1981.

FIGURE 14: THE GAP. NELSON & REGION HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

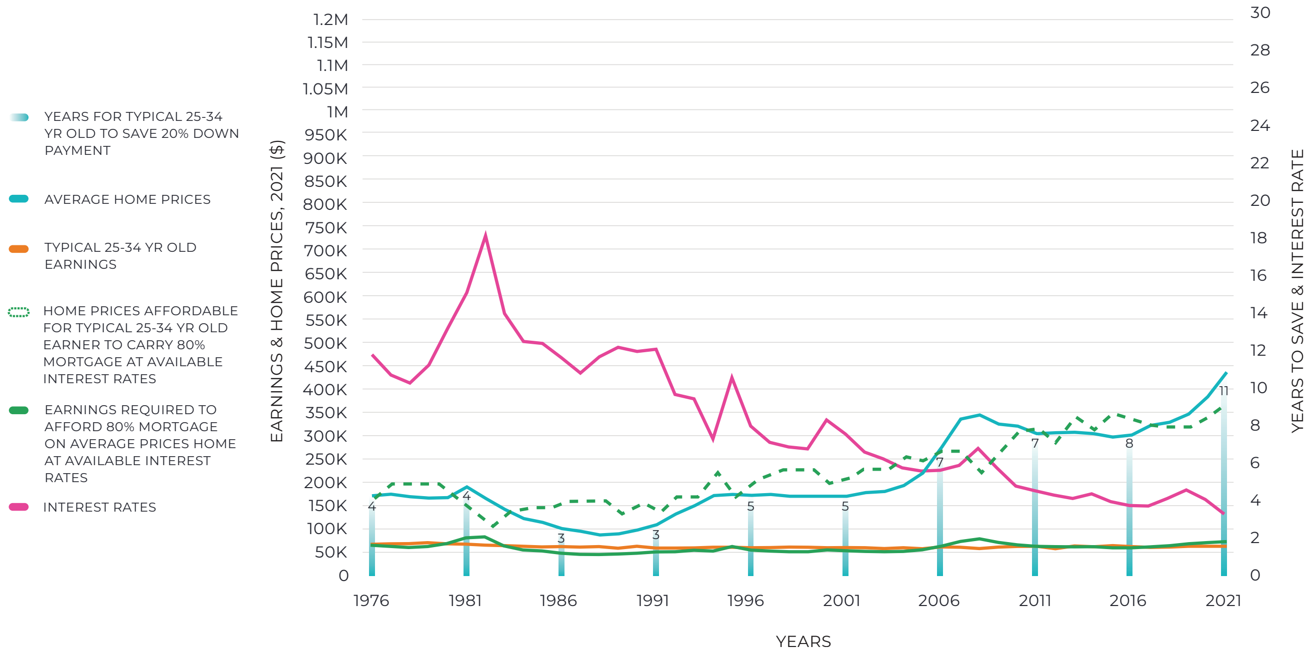

Figure 14.
Author calculations based on Sources summarized in Appendix 1.

Prince George

The numbers in Figure 15 illustrate the gap between average home prices in **Prince George** 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, the data show that housing is more affordable in Prince George by comparison with other BC cities:

- Average home prices would need to fall $24,000 – 6% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $60,000/year – 7% higher than current levels.
- It takes 9 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 5 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 Prince George is $12,204/year, about where it was back in 1981.

FIGURE 15: THE GAP. PRINCE GEORGE HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

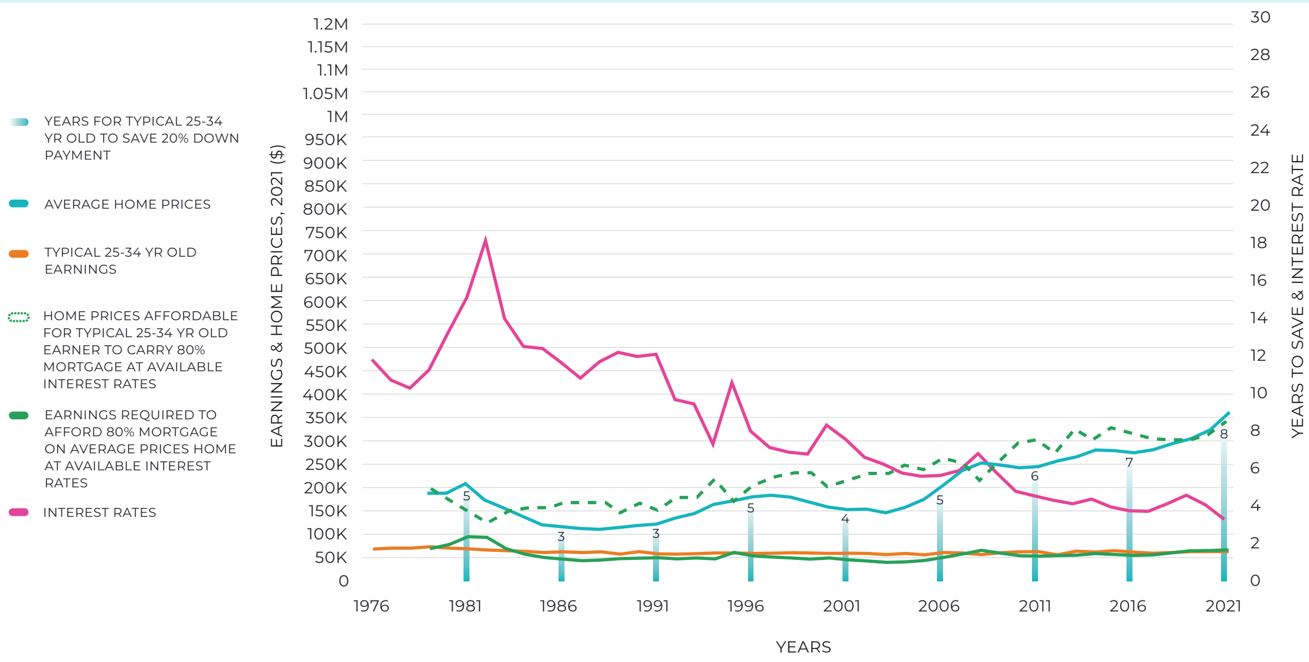

Figure 15.
Author calculations based on Sources summarized in Appendix 1.

ONTARIO

The numbers in Figure 16 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $137,000/year – over 150% more than current levels.
- 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.

FIGURE 16: THE GAP. ONTARIO HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

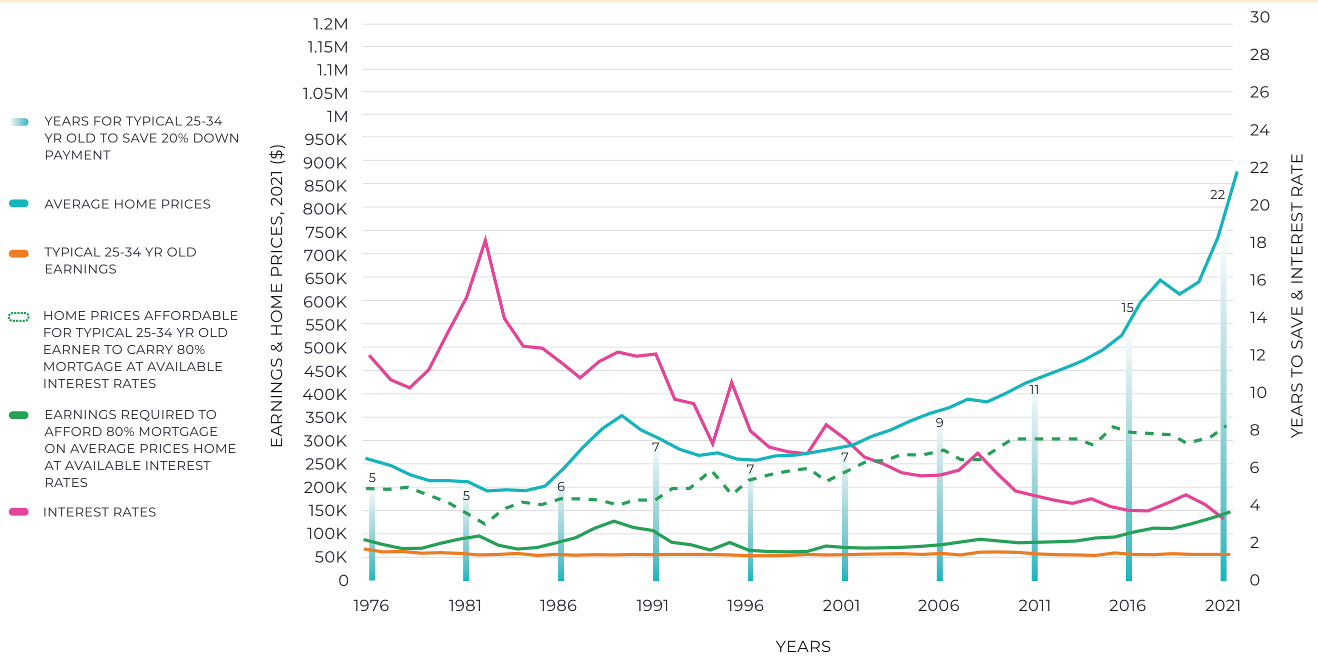

Figure 16.
Author calculations based on Sources summarized in Appendix 1.

Greater Toronto

The numbers in Figure 17 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $172,000/year – more than triple current levels.
- 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.

FIGURE 17: THE GAP. GREATER TORONTO AREA HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

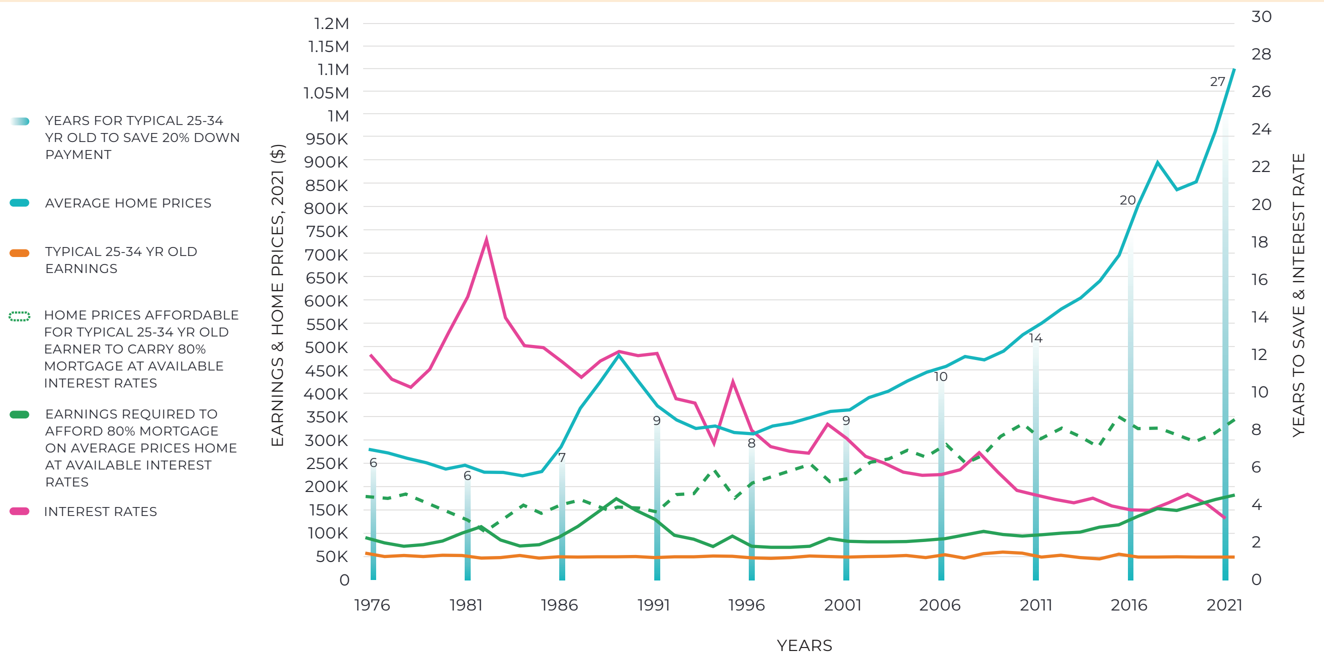

Figure 17.
Author calculations based on Sources summarized in Appendix 1.

Ottawa

The numbers in Figure 18 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $102,000/year – up two-thirds of current levels.
- 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 the Ottawa in 2021 was $18,600/ year, compared to average rents closer to $11,294/year back in 1981.

FIGURE 18: THE GAP. OTTAWA HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

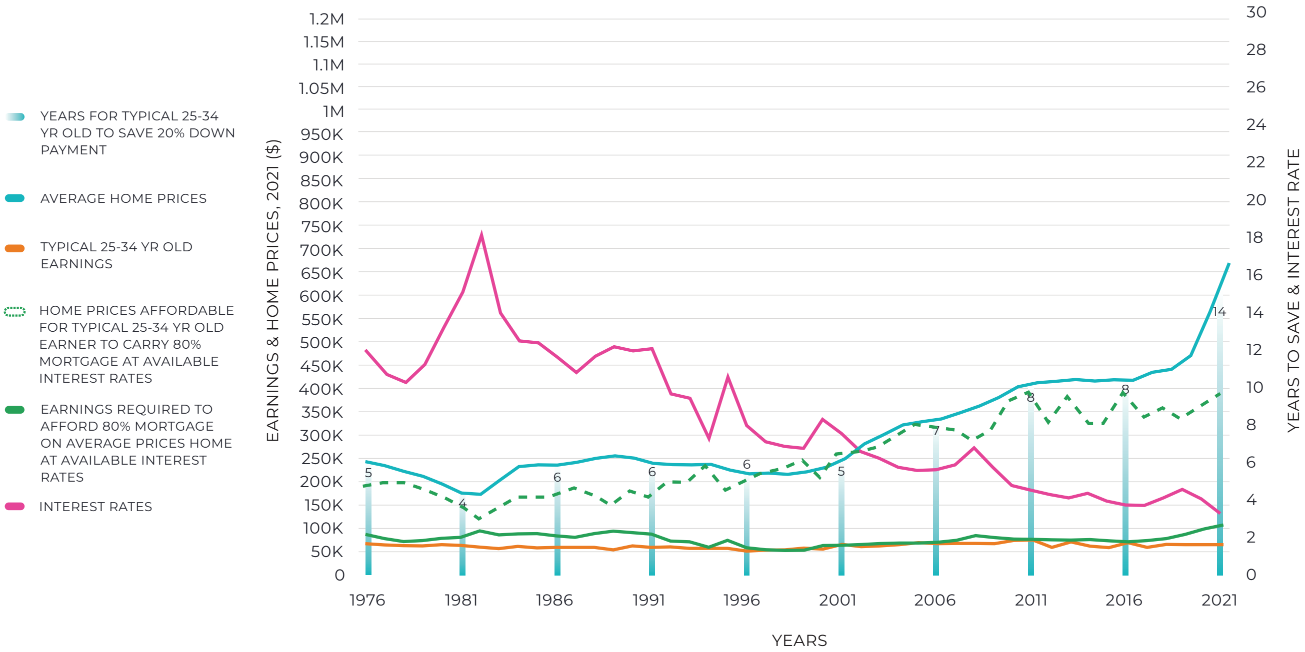

Figure 18.
Author calculations based on Sources summarized in Appendix 1.

Kitchener-Waterloo

The numbers in Figure 19 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $122,000/year – up 135% over current levels.
- 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.

FIGURE 19: THE GAP. KITCHENER-WATERLOO HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

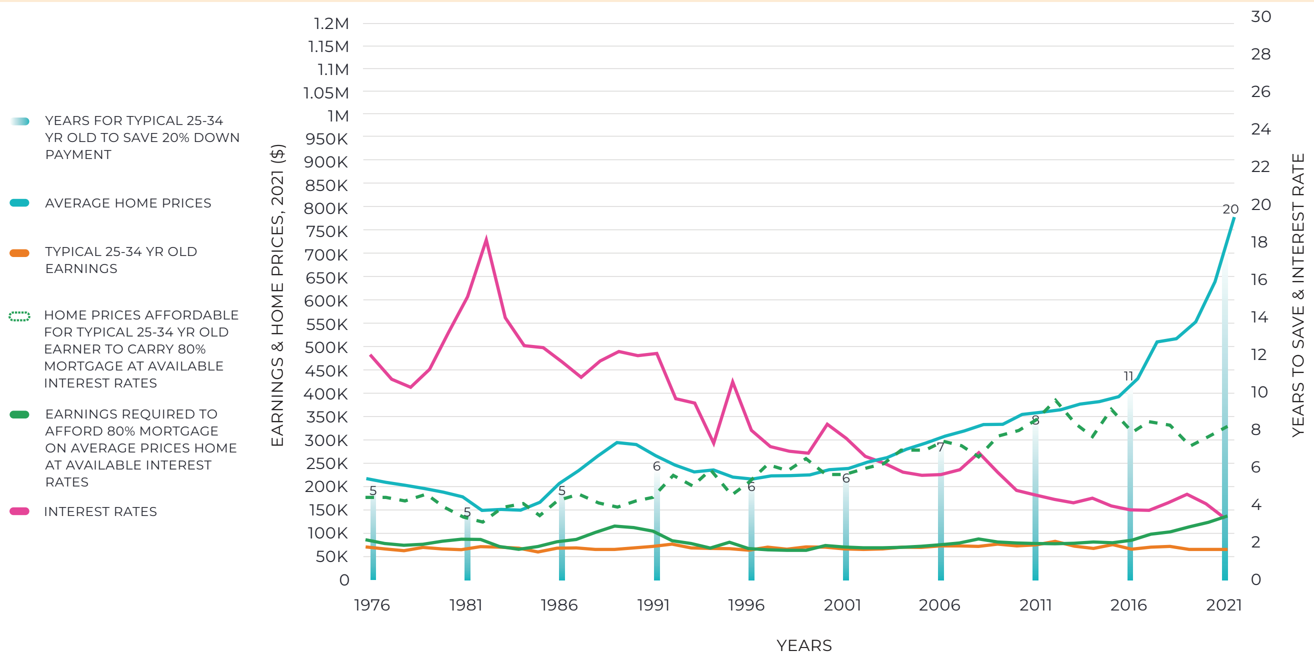

Figure 19.
Author calculations based on Sources summarized in Appendix 1.

Hamilton-Burlington

The numbers in Figure 20 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates..
- Or typical full-time earnings would need to increase to $136,000/year – up 160% over current levels.
- 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.

FIGURE 20: THE GAP. HAMILTON-BURLINGTON HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

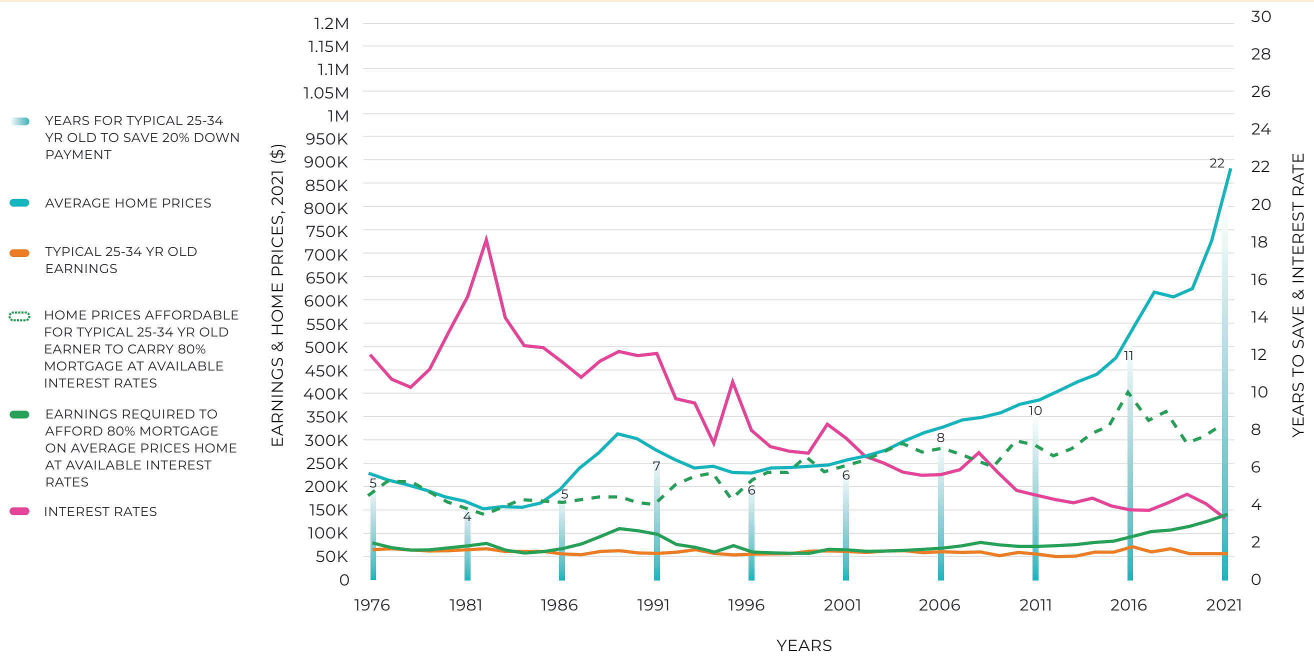

Figure 20.
Author calculations based on Sources summarized in Appendix 1.

London

The numbers in Figure 21 illustrate the gap between average home prices in **London** 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $100,000/year – more than double current levels.
- 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.

FIGURE 21: THE GAP. LONDON, ONTARIO HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

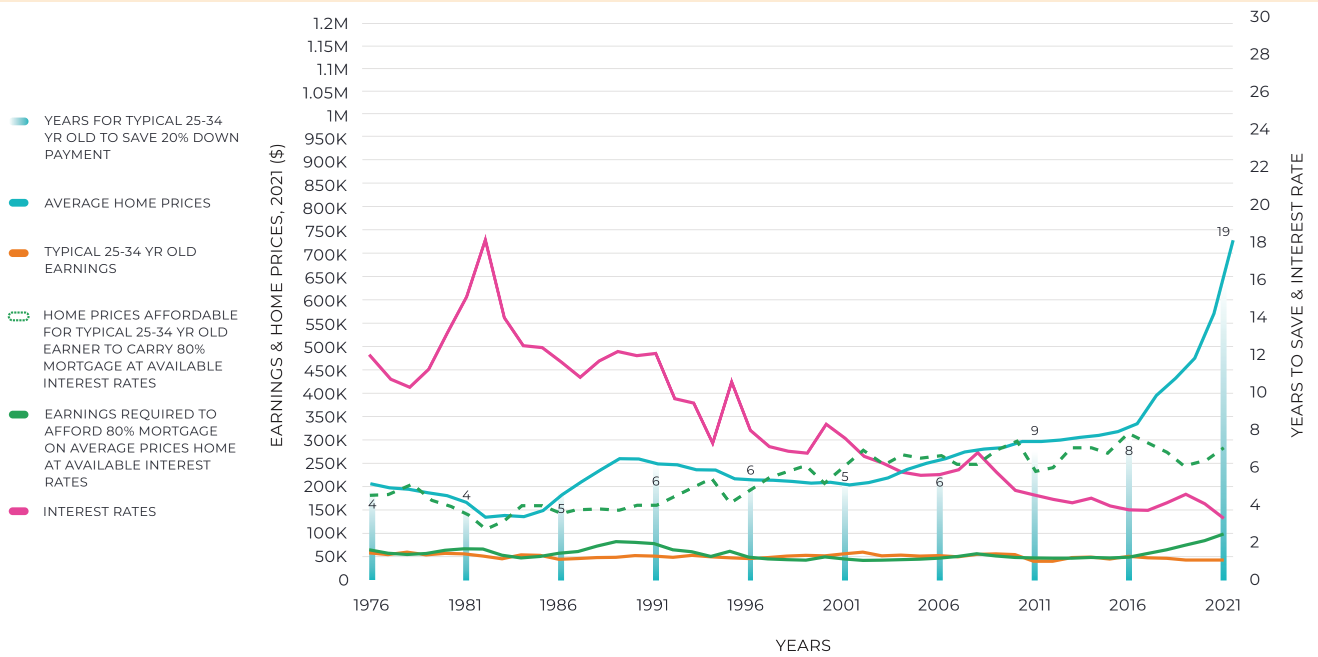

Figure 21.
Author calculations based on Sources summarized in Appendix 1.

Windsor

The numbers in Figure 22 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 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $84,000/year – 68% higher than current levels.
- 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.

FIGURE 22: THE GAP. WINDSOR HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

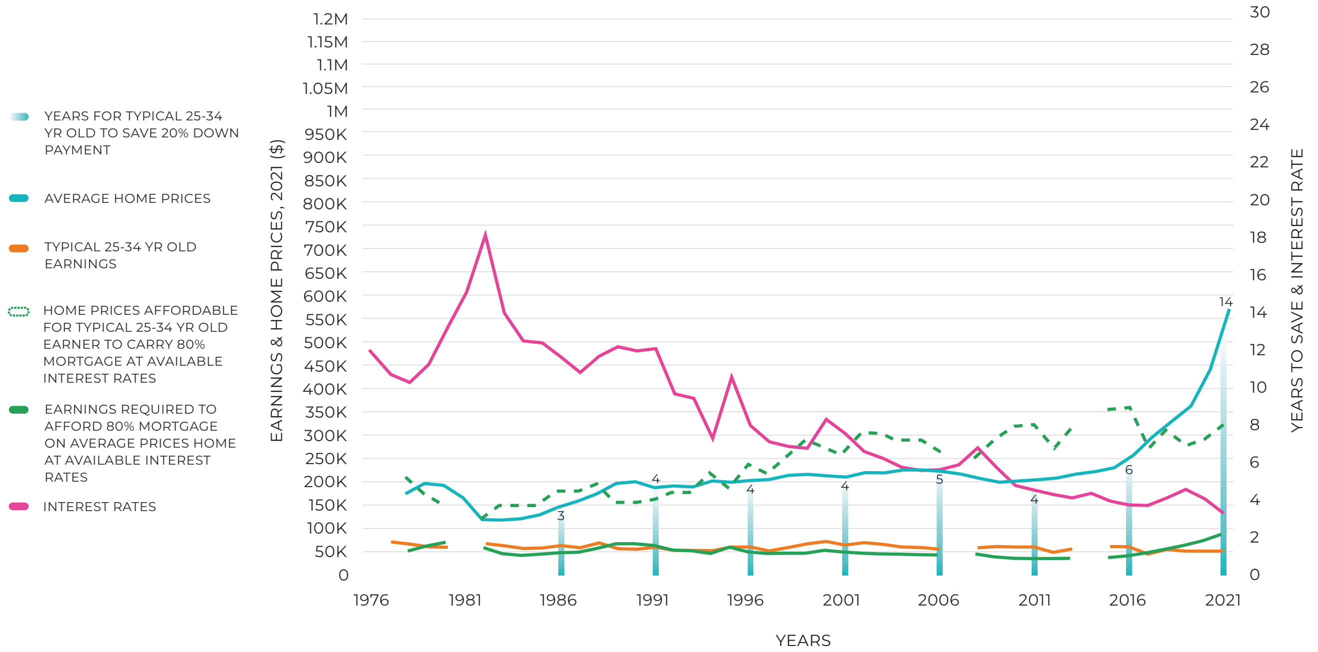

Figure 22.
Author calculations based on Sources summarized in Appendix 1.

QUEBEC

The numbers in Figure 23 illustrate the gap between average home prices in **Quebec** 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 $113,000 – 25% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $70,000/year – 34% higher than current levels.
- It takes 11 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 7 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 Quebec in 2021 was $10,704/year, compared to average rents closer to $8,994/year in 1981.

FIGURE 23: THE GAP. QUEBEC HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

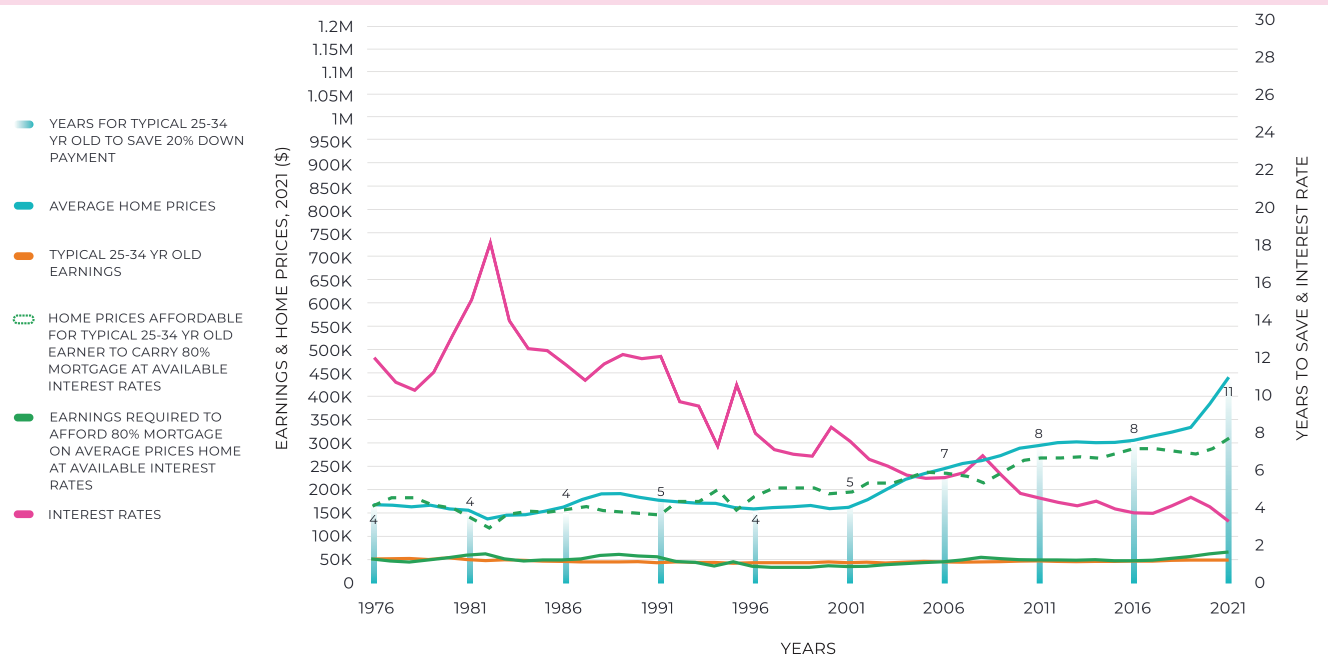

Figure 23.
Author calculations based on Sources summarized in Appendix 1.

Montreal

The numbers in Figure 24 illustrate the gap between average home prices in **Montreal** 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 $197,000 – 37% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $84,000/year – 34% higher than current levels.
- It takes 13 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 Montreal in 2021 was $11,184/year, compared to average rents closer to $9,440/year in 1981.

FIGURE 24: THE GAP. MONTREAL HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

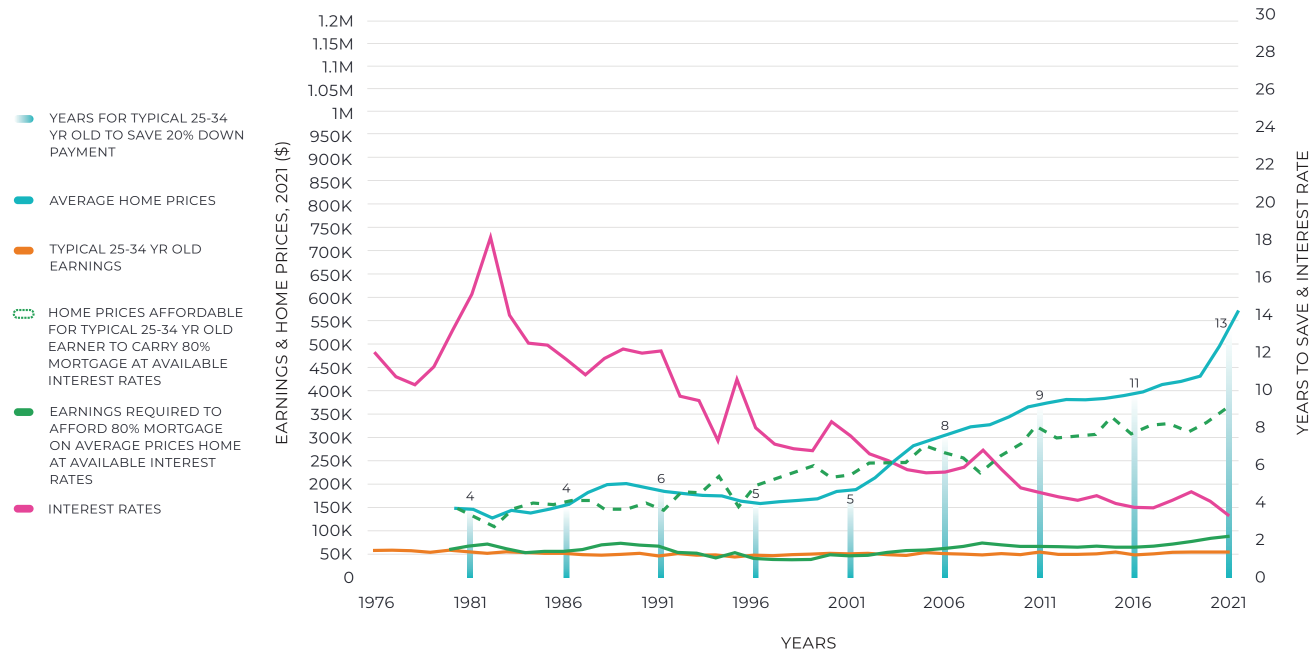

Figure 24.
Author calculations based on Sources summarized in Appendix 1.

ALBERTA

The numbers in Figure 25 illustrate the gap between average home prices in **Alberta** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. Of the four populous provinces in Canada, Alberta has "relatively" affordable housing – an asset for their economy that is worth cherishing and protecting.

As indicators of this affordability gap:

- Average home prices would need to fall $31,000 – 7% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $67,000/year – 7% higher than current levels.
- It takes 9 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 3 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 Alberta in 2021 was $15,048/year, compared to average rents closer to $13,182/year in 1981.

FIGURE 25: THE GAP. ALBERTA HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

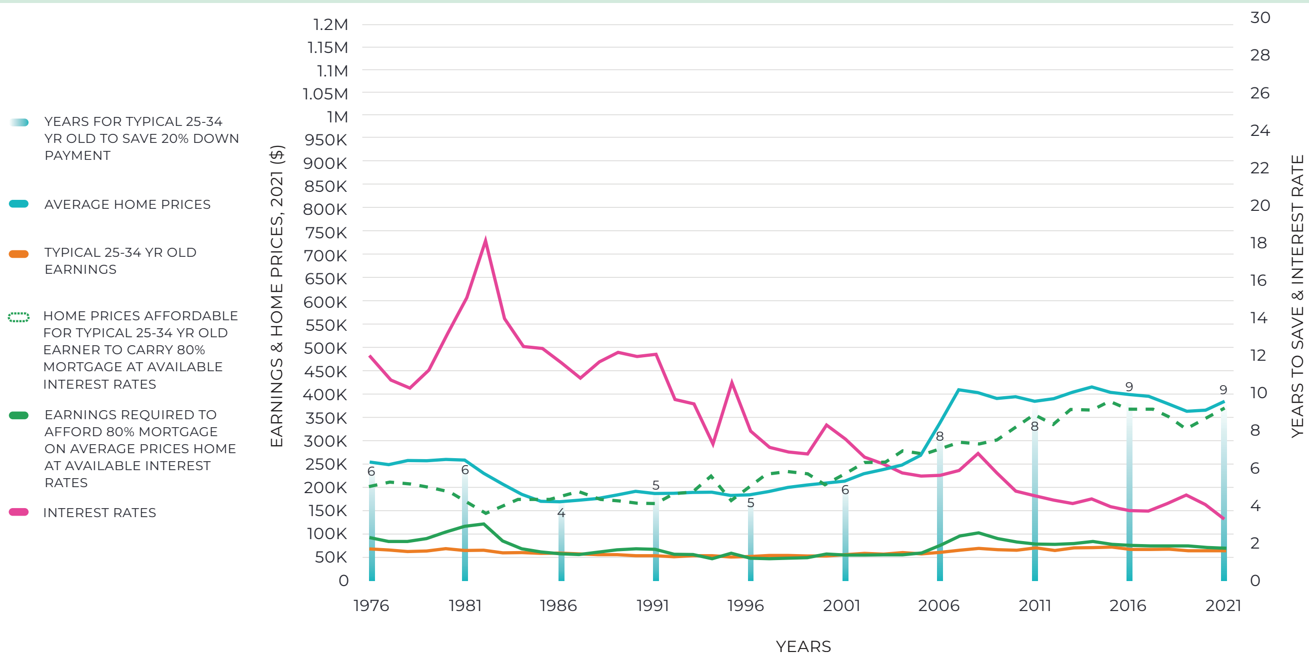

Figure 25.
Author calculations based on Sources summarized in Appendix 1.

Calgary

The numbers in Figure 26 illustrate the gap between average home prices in **Calgary** 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 $83,000 – 16% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $79,000/year – 20% higher than current levels.
- It takes 10 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 4 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 Calgary in 2021 was $16,260/year, compared to average rents closer to $14,761/year in 1981.

FIGURE 26: THE GAP. CALGARY HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

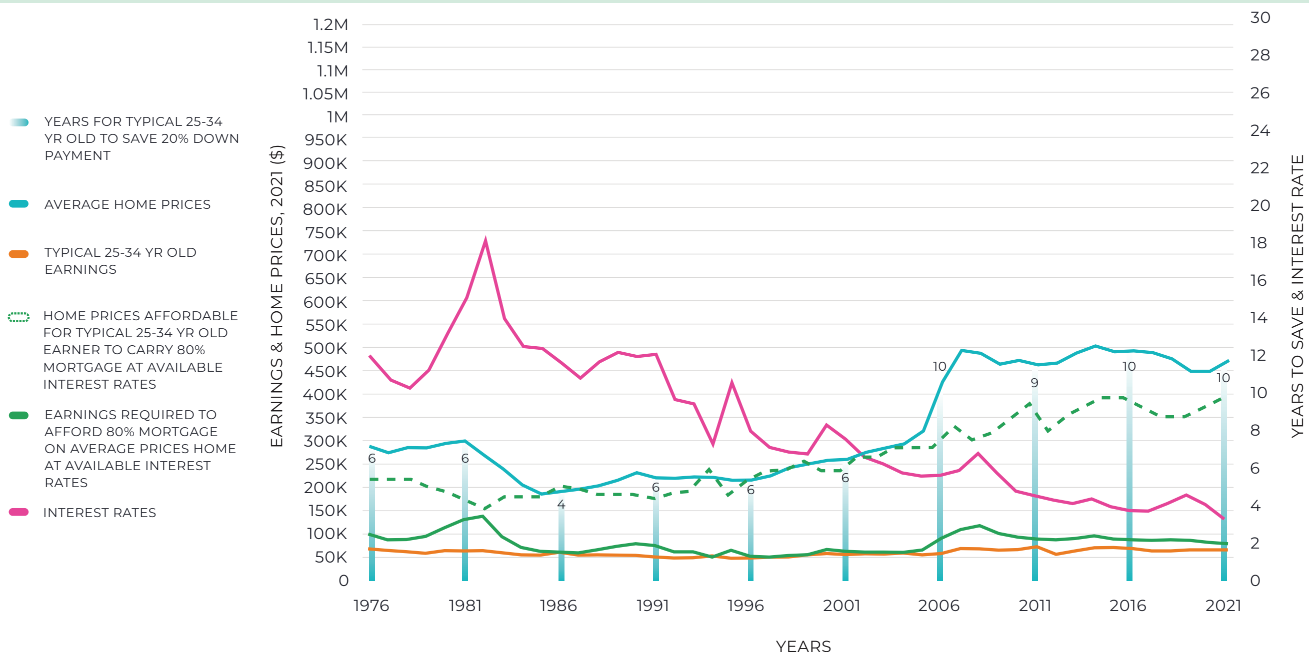

Figure 26.
Author calculations based on Sources summarized in Appendix 1.

Edmonton

The numbers in Figure 27 illustrate the gap between average home prices in **Edmonton** 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 $17,000 – 4% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $62,000/year – 5% higher than current levels.
- It takes 9 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 3 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 Edmonton in 2021 was $15,240/year, compared to average rents closer to $13,319/year in 1981.

FIGURE 27: THE GAP. EDMONTON HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

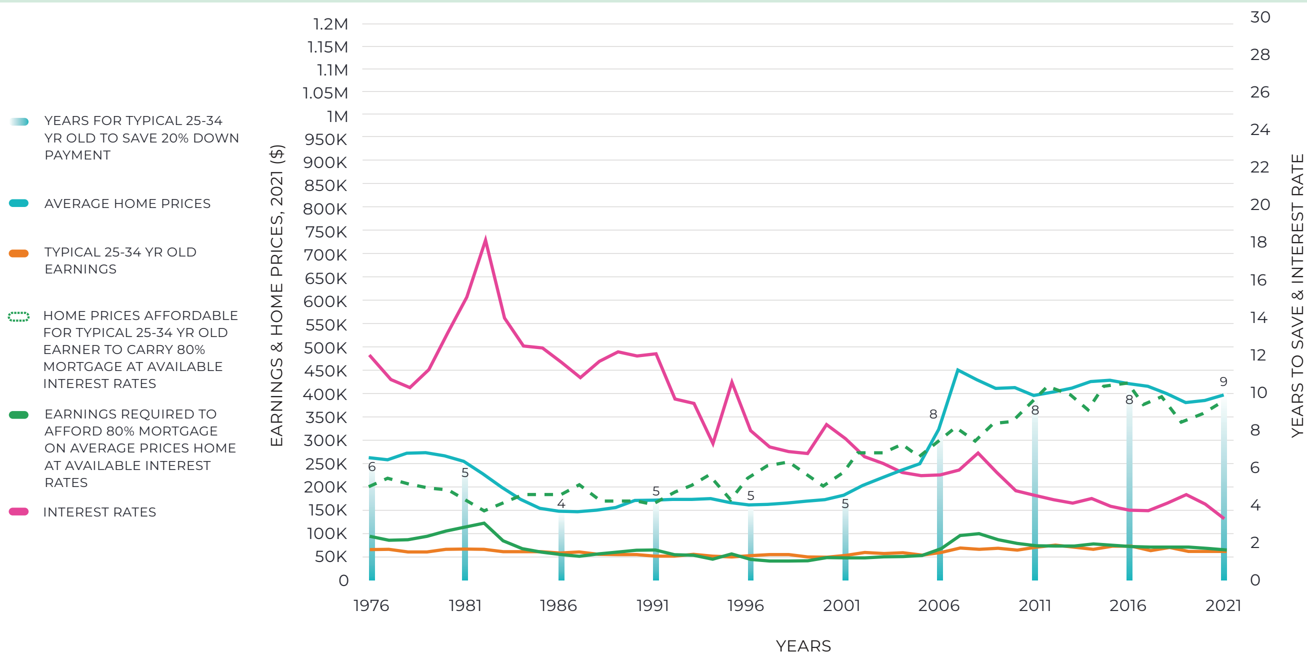

Figure 27.
Author calculations based on Sources summarized in Appendix 1.

Fort McMurray

The numbers in Figure 28 illustrate there is no longer a gap between average home prices in **Fort McMurry** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. The rest of Canada has much to learn from Fort McMurry when thinking about the pros and cons of a steep fall in average home prices as it relates to the standard of living in a community, along with the degree to which the local economy ensures that hard work pays off in terms of the ability to afford secure housing in the local area.

From an affordability standpoint, it is still worth noting that:

- It takes 8 years of full-time work for the typical young person to save a 20% down payment on an average priced home – at least 4 more years than when today's aging population started out as young people.

- Alas, we don't have rental data for Fort McMurray.

FIGURE 28: THE GAP. FORT MCMURRAY HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

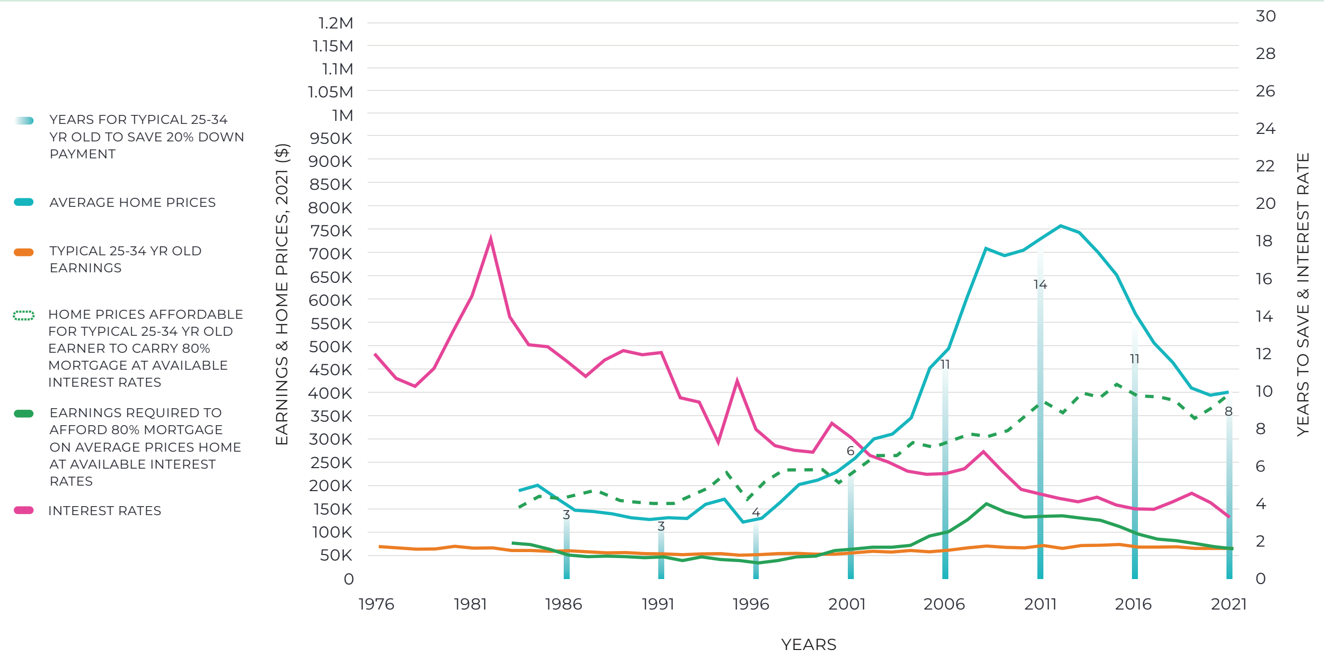

Figure 28.
Author calculations based on Sources summarized in Appendix 1.

YUKON

The numbers in Figure 29 illustrate the gap between average home prices in the **Yukon** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. Among the less populated parts of Canada, the Yukon stands out for having lost control of housing affordability and housing wealth inequality.

As indicators of this affordability gap:

- Average home prices would need to fall $174,000 – 33% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $82,000/year – 50% higher than current national levels.
- It takes 13 years of full-time work for the typical young person to save a 20% down payment on an average priced home – at least 8 more years than when today's aging population started out as young people.
- Alas, the CMHC data source on which we rely for rental figures does not have information for the Yukon.

FIGURE 29: THE GAP. YUKON HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

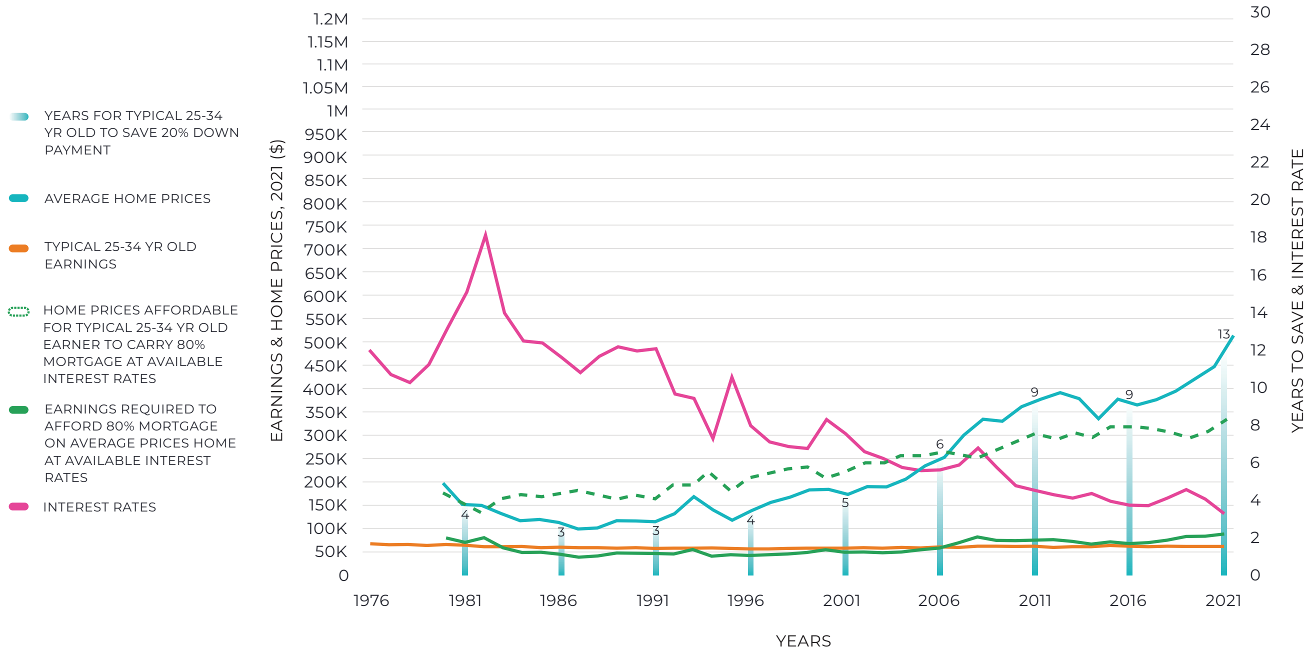

Figure 29.
Author calculations based on Sources summarized in Appendix 1.

NOVA SCOTIA

The numbers in Figure 30 illustrate the gap between average home prices in **Nova Scotia** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a province with a small share of Canada's population, Nova Scotia has "relatively" affordable housing – an economic asset that is worth cherishing and protecting.

As indicators of this affordability gap:

- Average home prices would need to fall $27,000 – 8% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $56,000/year – 8% higher than current levels.
- It takes 9 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 4 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 Nova Scotia in 2021 was $15,060/year, compared to closer to $9,200/year in 1981.

FIGURE 30: THE GAP. NOVA SCOTIA HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

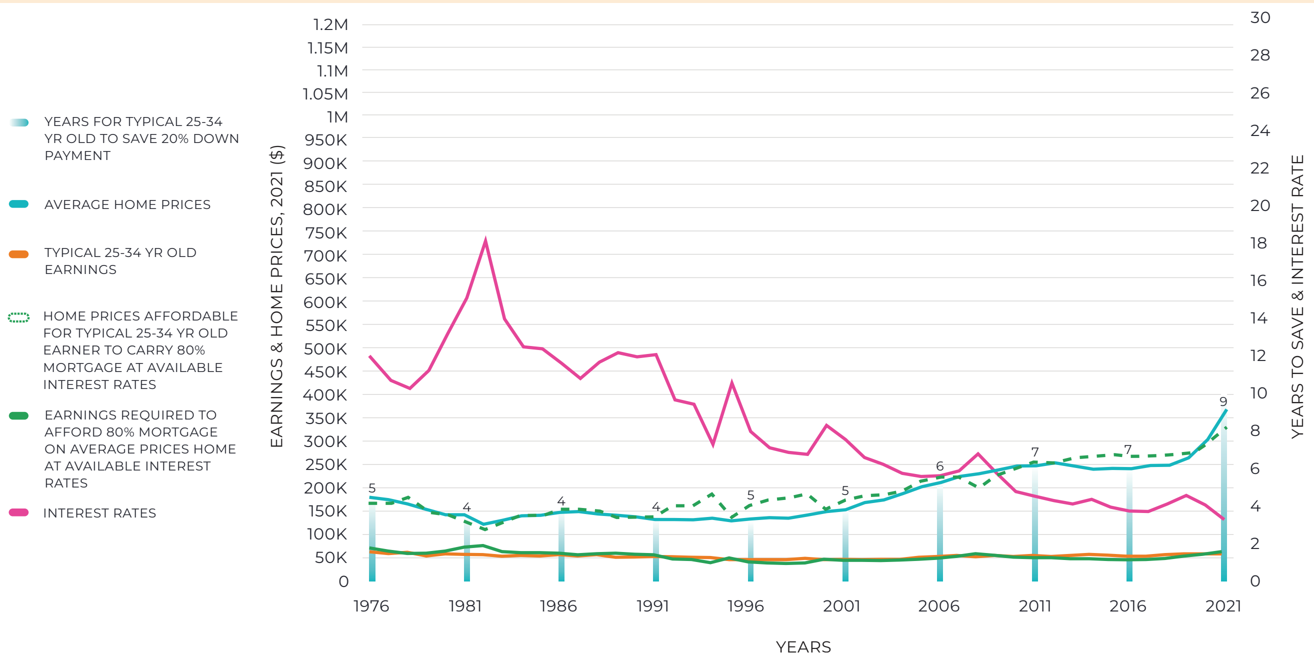

Figure 30.
Author calculations based on Sources summarized in Appendix 1.

Halifax

The numbers in Figure 31 illustrate the gap between average home prices in **Halifax** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. We single out Halifax within Nova Scotia because it has affordability challenges on par with more populous regions like Quebec.

As indicators of this affordability gap:

- Average home prices would need to fall $130,000 – 28% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $73,000/year – 39% higher than current levels.
- It takes 12 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 4 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 Halifax in 2021 was $16,020/year, compared to closer to $10,641/year in 1981.

FIGURE 31: THE GAP. HALIFAX HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

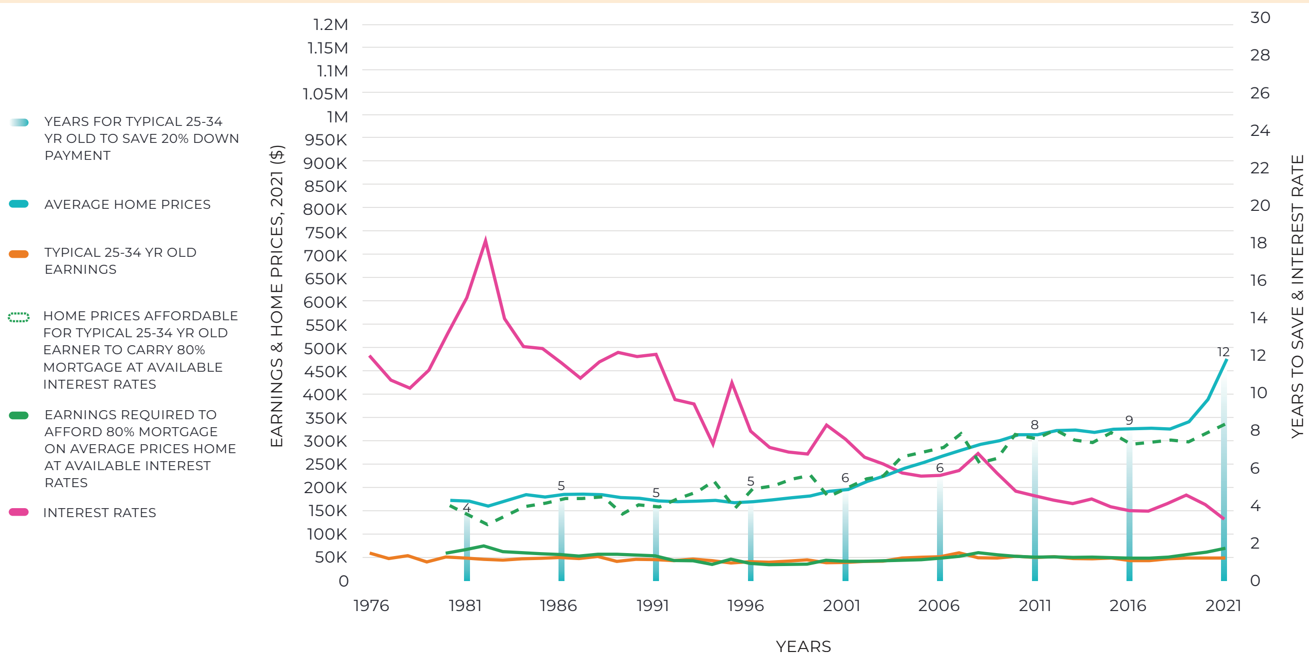

Figure 31.
Author calculations based on Sources summarized in Appendix 1.

PRINCE EDWARD ISLAND

The numbers in Figure 32 illustrate the gap between average home prices in **Prince Edward Island** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a province with a small share of Canada's population, PEI has "relatively" affordable housing – an economic asset that is worth cherishing and protecting. But the trend since 2017 is worrisome.

As indicators of this affordability gap:

- Average home prices would need to fall $47,000 – 14% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $54,000/year – 16% higher than current levels.
- It takes 10 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 7 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 PEI in 2021 was $12,660/year, compared to closer to $9,097/year in 1981.

FIGURE 32: THE GAP. PRINCE EDWARD ISLAND HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

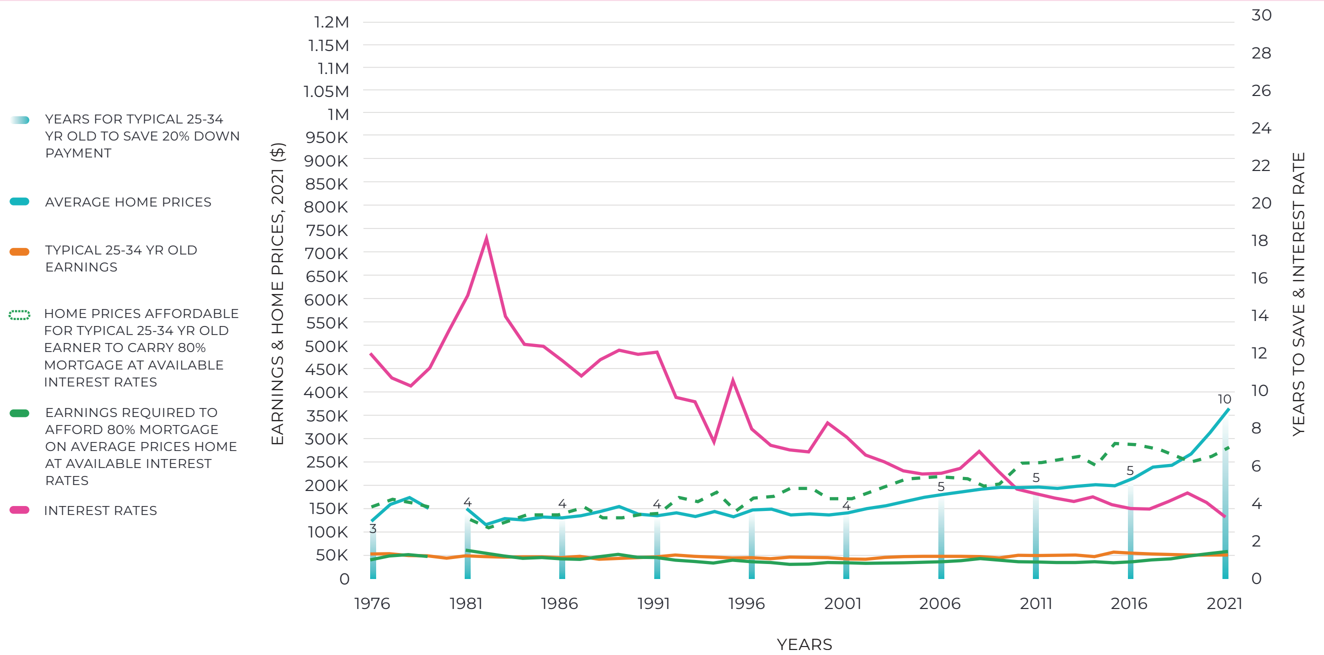

Figure 32.
Author calculations based on Sources summarized in Appendix 1.

SASKATCHEWAN

The numbers in Figure 33 illustrate the gap between average home prices in **Saskatchewan** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a province with a small share of Canada's population, Saskatchewan has "relatively" affordable housing – an asset for their economy that is worth cherishing and protecting.

From an affordability standpoint, it is still worth noting that:

- It takes 7 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 3 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 Saskatchewan in 2021 was $13,404/year, compared to average rents closer to $9,165/year in 1981.
- Average home prices in Saskatoon are now $50,000 higher than the provincial average. Average prices in Regina are 25,000 higher.

FIGURE 33: THE GAP. SASKATCHEWAN HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

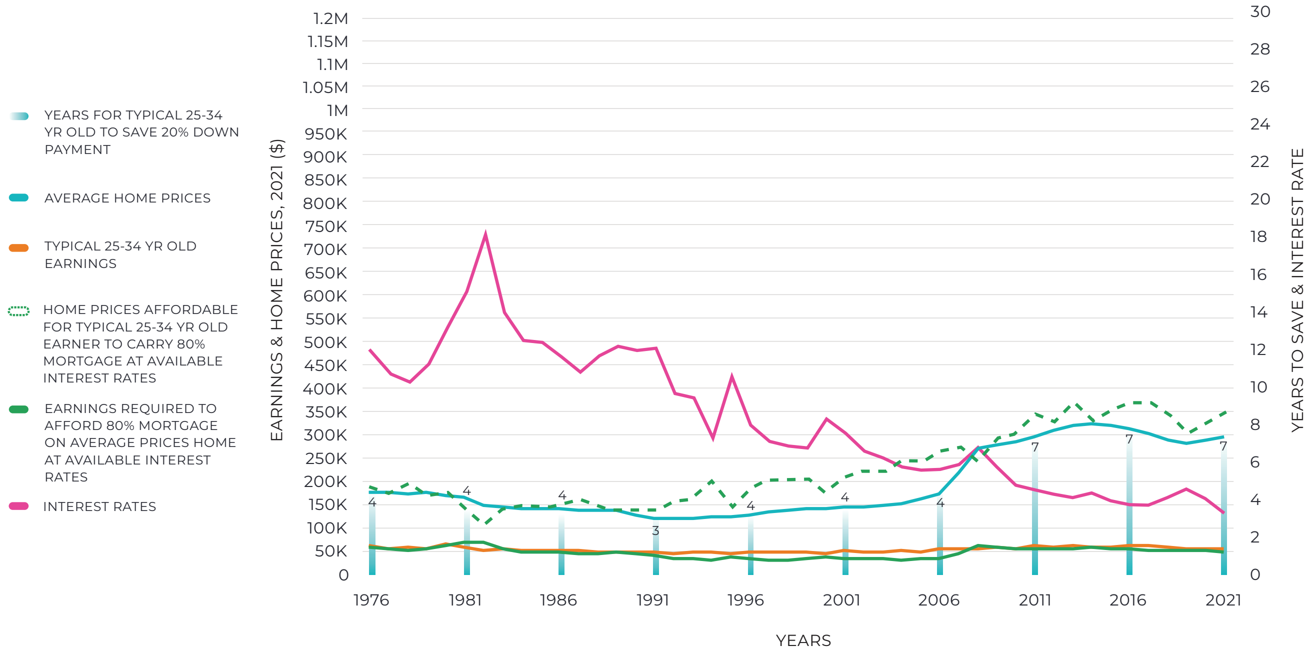

Figure 33.
Author calculations based on Sources summarized in Appendix 1.

MANITOBA

The numbers in Figure 34 illustrate the gap between average home prices in **Manitoba** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a province with a small share of Canada's population, Manitoba has "relatively" affordable housing – an economic asset that is worth cherishing and protecting.

As indicators of this affordability gap:

- Average home prices would need to fall $20,000 – 6% of the 2021 value – to make it affordable for a typical young person to carry a mortgage that covers 80% of the value of an average-priced home at current interest rates.
- Or typical full-time earnings would need to increase to $52,000/year – 6% higher than current levels.
- It takes 9 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 5 more years than when today's aging population started out as young people.
- There is little difference between average home values in Winnipeg and the rest of the province.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in Manitoba in 2021 was $15,192/year, compared to closer to $9,131/year in 1981.

FIGURE 34: THE GAP. MANITOBA HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

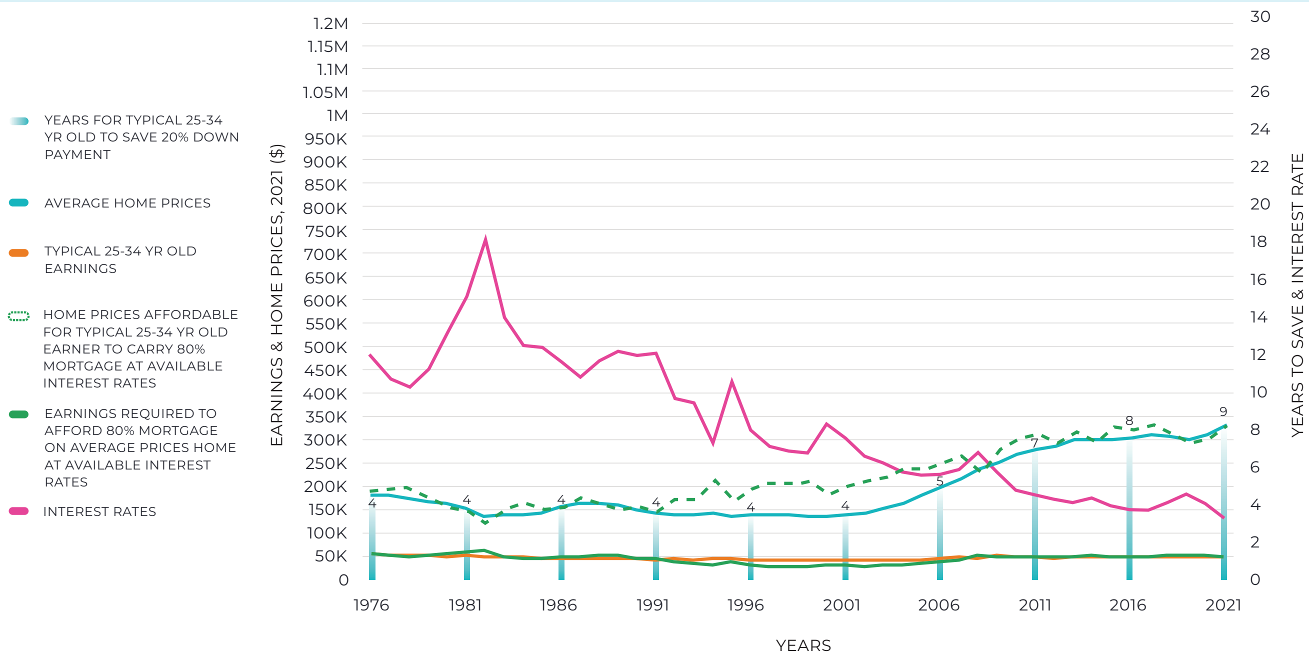

Figure 34.
Author calculations based on Sources summarized in Appendix 1.

NEW BRUNSWICK

The numbers in Figure 35 illustrate the gap between average home prices in **New Brunswick** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a province with a small share of Canada's population, New Brunswick has "relatively" affordable housing – an economic asset that is worth cherishing and protecting.

From an affordability standpoint, it is still worth noting that:

- It takes 7 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 3 more years than when today's aging population started out as young people.
- There is little difference between average home values in Fredericton and the rest of the province.
- For those locked out of home ownership, the average rent for a 2-bedroom unit in New Brunswick in 2021 was $11,628/year, compared to average rents closer to $8,650/year in 1981.

FIGURE 35: THE GAP. NEW BRUNSWICK HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

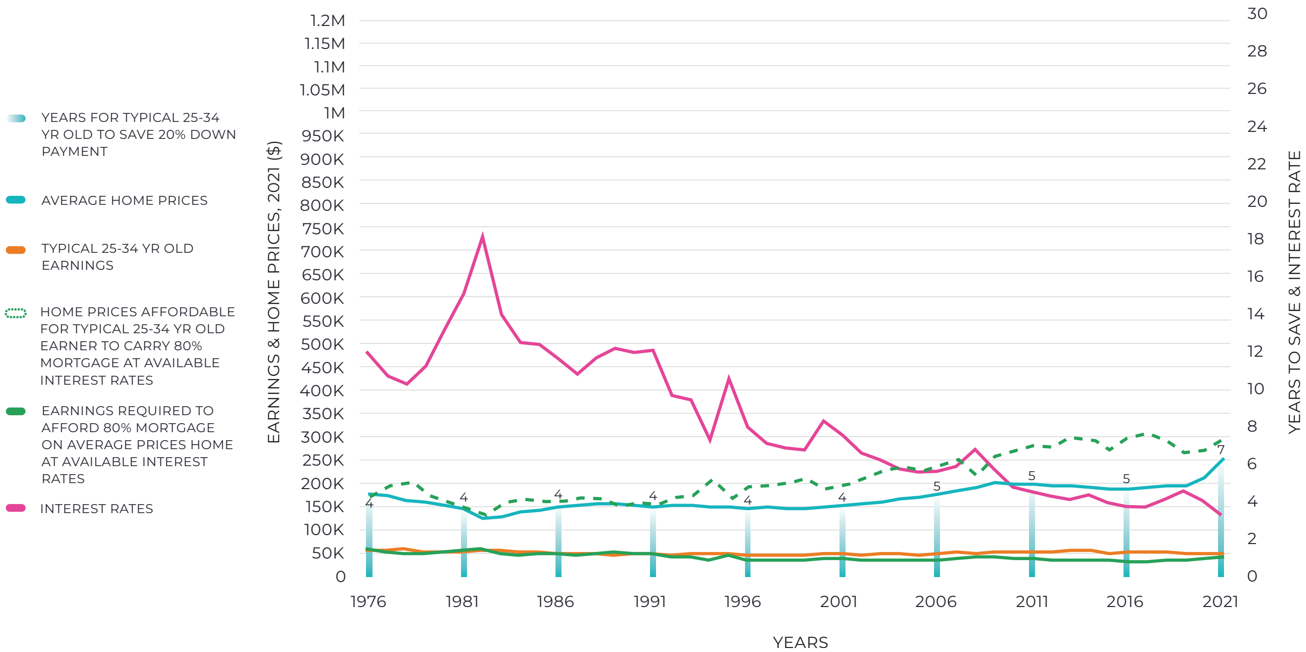

Figure 35.
Author calculations based on Sources summarized in Appendix 1.

NEWFOUNDLAND & LABRADOR

The numbers in Figure 36 illustrate the gap between average home prices in **Newfoundland & Labrador** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a province with a small share of Canada's population, this region has "relatively" affordable housing – an economic asset that is worth cherishing and protecting.

From an affordability standpoint, it is still worth noting that:

- It takes 8 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 4 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 province in 2021 was $11,112/year, compared to average rents closer to $9,131/year in 1981.

FIGURE 36: THE GAP. NEWFOUNDLAND & LABRADOR HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

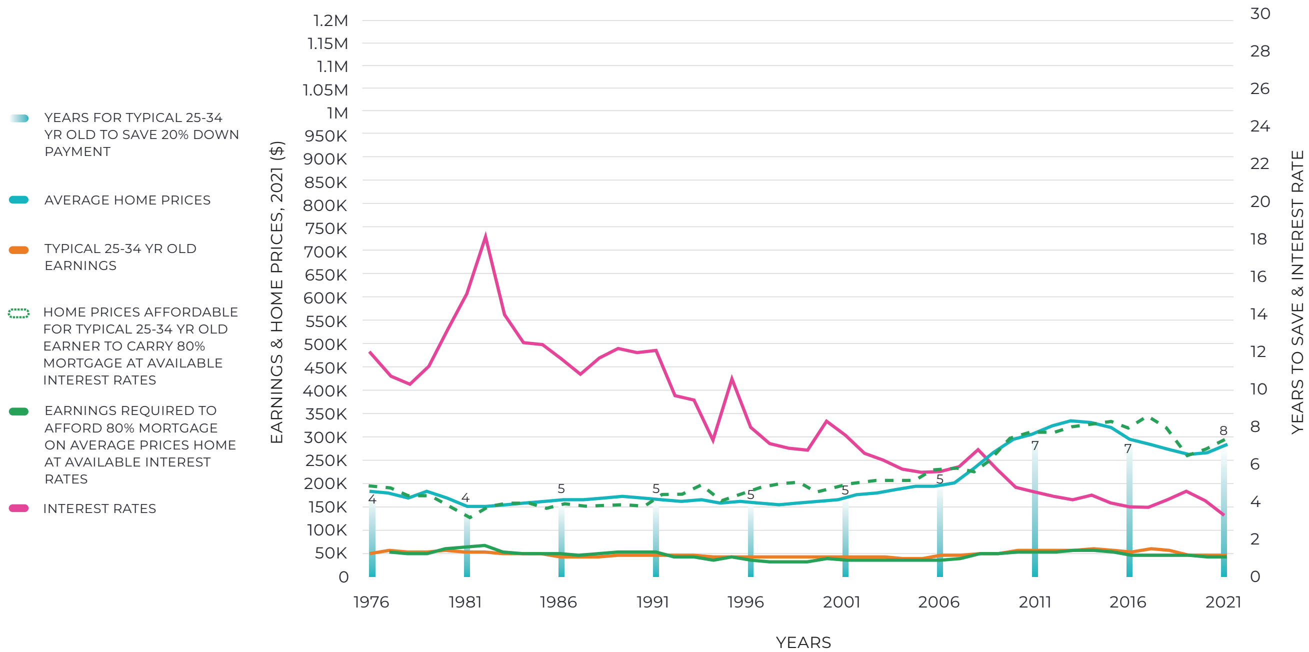

Figure 36.
Author calculations based on Sources summarized in Appendix 1.

NORTHWEST TERRITORIES

The numbers in Figure 37 illustrate the gap between average home prices in the **Northwest Territories** and what is considered affordable for typical residents between the ages of 25 and 34, based on their average earnings. As a territory with a small share of Canada's population, this region has "relatively" affordable housing for prospective owners – an economic asset that is worth cherishing and protecting. Rental is very expensive by comparison with many other parts of Canada.

From an affordability standpoint, it is worth noting that:

- It takes 7 years of full-time work for the typical young person to save a 20% down payment on an average priced home – 3 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 province in 2021 was $21,720/year according to CMHC. That is on par with Vancouver, and higher than in Toronto.

FIGURE 37: THE GAP. NORTHWEST TERRITORIES HOME PRICES RELATIVE TO YOUNG PEOPLE'S FULL-TIME EARNINGS

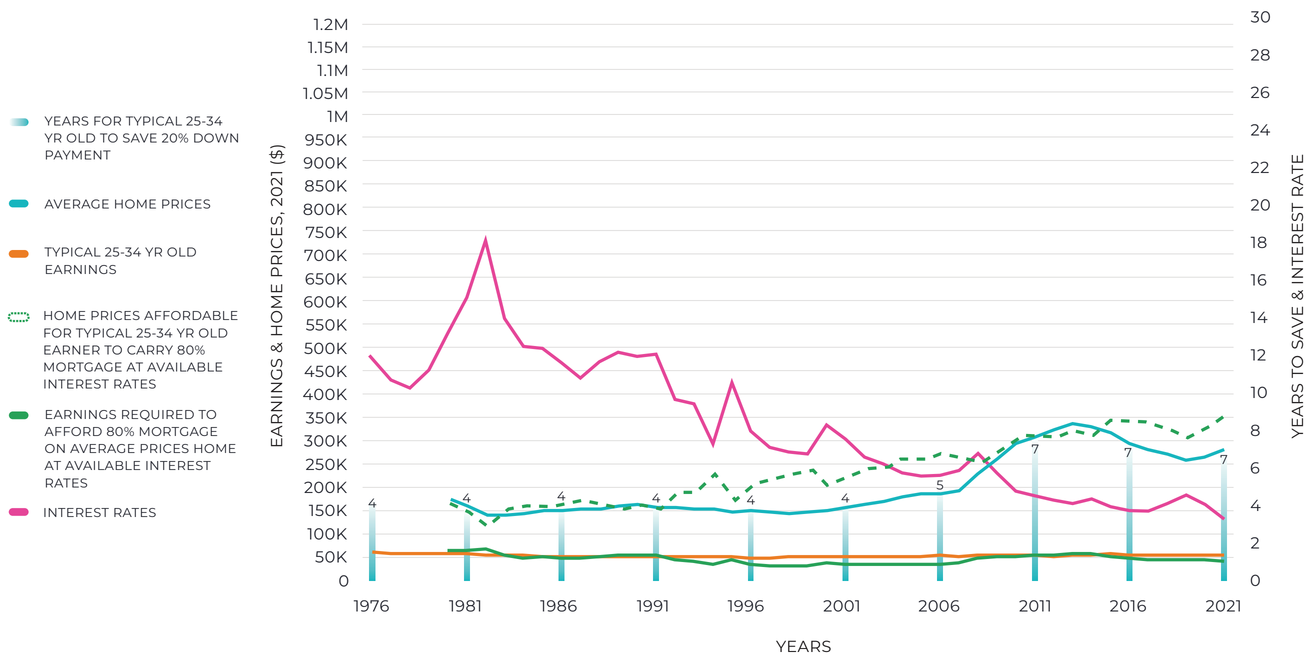

Figure 37.
Author calculations based on Sources summarized in Appendix 1.

APPENDIX 1:

Data and Methods

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.

Our methodology involves reporting 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. 2021 rent data are from CMHC, "Primary Rental Market Statistics," available at https://www03.cmhc-schl.gc.ca/hmip-pimh/en#Profile/1/1/Canada. 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.

We report average home price data made available by the Canadian Real Estate Association. The exception is for Montreal home price data, which were provided by the Quebec Professional Association of Real Estate Brokers.

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. The most recent year for which data are available is 2020. This overlaps with the first year of the pandemic, which resulted in many people losing hours of work and income. Employment precarity was more common among lower-earners, whereas those who retained full-time work over the entire year of 2020 were typically higher-earners. The result is that average and median full-time earnings in 2020 appear to have "jumped" by thousands of dollars compared to years immediately before the pandemic. Given that we know that the pandemic imposed income challenges – not surges in income – for most Canadians – we rely on the 2019 data as the most recent signal about typical earnings. We inflation adjust the 2019 figure for the years that follow. As more contemporary data become available that account for the return to pre-pandemic employment levels, and the wage pressures that arise from low unemployment levels, we will return to relying on the most recent income data.

The analyses in this report looks at many cities across Canada. We report city-specific earnings data when they are available from the custom Table we purchased from Statistics Canada. When they are not, we rely on earnings data for the province of which the city is a part. For the territories, we report average national earnings data, because we didn't have territorial numbers in the custom Table produced by Statistics Canada. We will aim to have specific data about territorial earnings for the next version of this study that we publish.
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.[5]
We use CMHC's definition of affordability as spending no more than 30% of pre-tax earnings on housing. We calculate the home

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

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 published by 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 published by Statistics Canada.

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

Note that our estimates of the decrease in housing prices, or the increase in earnings, required to make housing affordable in the regions we study are VERY conservative. Our estimates are shaped partly by interest rates. The rates assumed in all of the estimates are from 2021 – at 3.3%. After multiple rate increases starting March 2022, Statistics Canada reports that the rate is 5.64% as of September 2022 (Table 34-10-0145-01). Were we to have applied this current interest rate to the analysis of average Canadian home prices and earnings, the drop in home values required to make them affordable would be $75,000 more than we report in Figure 8. Alternately, the increase in typical earnings would need to be $30,000 higher than we report in Figure 8. We stick with the more conservative estimates in this report, because those estimates are already staggering on their own terms; and because we wanted to be consistent in the year of data that we are reporting – 2021 home prices alongside 2021 interest rates. We will capture the impact of rising interest rates on affordability in the next publication when we have access to 2022 data.

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

Straddling the Gap **SERIES**

GENERATION squeeze

November **2022**