

OPINION

# It's time we levelled with young people: Housing affordability as we knew it is gone forever



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Owning a house is essential to our concept of family life, but it's time to level with young people: The affordability of housing as we knew it is done.

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There is a yearning that all the changes forced down our throats in the past two years will eventually bring us back to a familiar place.

We may yet get there in the economy and financial markets, but with one exception. The affordability of housing as we knew it is done. Saying otherwise misleads young adults

about their potential to own a house, build wealth and start a family in the city where they want to live.

Houses in big cities will be unaffordable for many – end of story. Without parental money or six-figure incomes, they will have to look at condos or townhouses as a substitute, at moving to affordable communities, to shared ownership, to later-life home buying or to long-term renting.

This will not go down well. Owning a house is essential to our concept of family life, and then there's the financial aspect. "With affordability now at its worst level in decades, the current generation of prospective homebuyers is facing the fate of missing out on housing wealth," says a TD Economics report issued Wednesday.

Today's affordability problem was described by RBC Economics as "off the charts." It takes 60 per cent of median pre-tax household income to afford a mortgage on homes at the benchmark market price plus property taxes and utilities, which beats the previous worst-ever level of 57 per cent in 1990.

Looking ahead, RBC forecasts that housing costs will still eat up an untenable 52.5 per cent of household income a year from now, compared with a long-term average of 41 per cent. Might affordability eventually improve, either because of more favourable economic conditions or the promise some politicians are making to get more houses built?

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Inflation should be lower 12 months from now, and the Bank of Canada will likely be done with interest rate increases. Rate cuts would be next, a relief for mortgage holders and others in debt.

But there's a recent history of falling rates igniting housing. It happened in 2009 and in 2021, and it could happen again next year if the economy avoids a sharp recession.

We know demand for housing will remain strong, though. Home ownership is part of the Canadian identity, and immigration is a factor as well. As of late August, the federal government was well on its way to meeting a goal of adding more than 430,000 permanent residents this year. With an aging work force and an insufficient supply of workers in the workplace already, we'll need more immigration to keep the economy running.

Most economists and housing experts agree we need more houses to be built, and politicians seem to concur. More houses would expand supply to meet demand and theoretically help prices stabilize.

But some homebuilders are shelving or suspending projects right now because of high rates and the resulting chill in the housing market. When construction roars back, expect to see lots of urban condos and townhouse developments, and communities of houses built ever farther from the city centre.

Affordable detached houses in the city? Don't expect to find those in or near Vancouver, where 90 per cent of the median household income is needed to cover housing costs, or Toronto, where the comparable number is 83 per cent.

Calgary and Edmonton stand out for affordability – housing accounts for 39 and 29 per cent of median household income, respectively, in those cities. Regionally, RBC cited the Prairies, Quebec and most of Atlantic Canada as still manageable.

If we level with young adults about housing, we'd suggest they look in these parts of the country for affordable housing, or in new communities on the outer urban fringe of cities elsewhere in the country. We'd talk up the social and financial benefits of co-owning houses with different generations of the same families. We'd show them the math of longer lifespans, which says you can buy a house in your late 30s if you plan to work past 65.

Construction of new houses, condos and rental units is much needed and should help with affordability. But let's not overpromise young adults about their chances of owning houses without compromises that previous generations did not have to make.

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