



UNLOCKING THE FUTURE 5-YEAR HOUSING OUTLOOK

CHAPTER 1: THE ECONOMY

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with CIBC and The Conference Board of Canada
(March 2022)



Report Partners



Benjamin Tal, Managing Director and Deputy Chief Economist, CIBC Capital Markets Inc.

Benjamin is a member of the CIBC economic team that is responsible for analyzing macro economic developments and their implications for fixed income, equity, foreign exchange and commodities markets. He also acts in an advisory capacity to bank officers on issues related to wealth management, household credit and risk, and corporate credit and risk.

Well-known for his ground-breaking published research on topics such as labour market dynamics, real estate, credit markets, international trade and business economic conditions, Benjamin not only contributes to the conversation but also frequently sets the agenda.

He is also a regular commentator in the media, and has appeared as a guest on BNN, been quoted in other prominent media publications such as the Globe and Mail, National Post, to name a few.



Iain Reeve, Associate Director for the Immigration Knowledge Area, The Conference Board of Canada

Iain Reeve is the Associate Director for the Immigration Knowledge Area at The Conference Board of Canada. He runs the Board's immigration research agenda and manages the National Immigration Centre. Through Iain and his team's work, the Conference Board is shaping public and policy debates on immigration in Canada and beyond.

Iain strongly believes in the power of quality research, evidence-based policy making, and bringing people together to solve wicked problems. Iain spent his career developing a skillset in service of these goals, most recently as a Policy Analyst at Immigration, Refugees, and Citizenship Canada.

But what if you do not wish to talk immigration sector transformations? No problem, Iain is happy to talk all-things Canada. As a true pan-Canadian, he has lived in 6 different cities across the country. And when he is not travelling, you will find Iain spending time with his son, playing the guitar, or sampling Canada's finest craft beers.

Iain holds a PhD in Political Science from Queen's University.

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Jamie Golombek, Managing Director, Tax and Estate Planning, CIBC Private Wealth

Jamie Golombek is Managing Director, Tax & Estate Planning with CIBC in Toronto. As a member of the CIBC Private Wealth team, Jamie works closely with advisors from across CIBC to support their clients and deliver integrated financial planning and strong advisory solutions. He joined CIBC in 2008 after 12 years with a global investment company, where he was involved in both internal and external consulting on all areas of taxation and estate planning. Jamie has also worked for Deloitte as a tax specialist in the Toronto office, where he specialized in both personal and corporate tax planning.

Jamie is quoted frequently in the national media as an expert on taxation, writes a weekly column called “Tax Expert” in the National Post, has appeared as a guest on BNN, CTV News, and The National and has been a regular personal finance guest on The Marilyn Denis Show.



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Executive Summary

Unlocking the Future: The Economic Chapter, is a five-year outlook on Canada's housing market developed by RE/MAX Canada in collaboration with CIBC Capital Markets and The Conference Board of Canada. The report examines how the country's housing market might respond to specific scenarios between 2022 and 2027, such as interest rate hikes, annual immigration volumes and taxation, and explores how these factors may impact Canadians' capacity to buy, sell and maintain their homes in a stable manner. Subsequent chapters, which will be released throughout 2022, will consider the influence of climate change, the status of on-premise work, and technology on Canadian housing leading up to 2027.

As the second quarter of 2022 approaches, many volatile factors are in play — from inflation to rising interest rates and a war in Europe — that will alter economic conditions in the short and long term. Based on specific plausible and confirmed scenarios, exploration within this report focuses on how policy decisions could affect Canada's housing market over the next five years.



If interest rates continue to climb, how will housing affordability be impacted? If governments consider further short-term taxation measures on homeowners, what will that look like? With a rise in new Canadians settling in urban centres, what will the supply and demand dilemma look like by 2027? With all these factors in play, what are the measures that must be considered to work toward a more sustainable and steady housing market?

A recent survey, conducted by Leger on behalf of RE/MAX Canada, found that eight in 10 Canadians are asking themselves these same questions. **Seventy-eight per cent of Canadians mentioned taxation, interest rates, economic recession, climate change, mixed housing, and/or public transportation as factors that cause them the most worry in their home-buying journey over the next five years.**¹

In 2020, the Canadian economy experienced a 5.2-per-cent decline and in 2021 it saw 4.6-per-cent growth². As the economy rebounds from the pandemic, acute inflationary pressures are compelling central banks, including the Bank of Canada (BoC), to raise interest rates.³

Additionally, the nascent conflict between Russia and Ukraine adds more uncertainty, impacting both inflation and economic growth.⁴

According to CIBC Capital Markets, at the outset of the COVID-19 pandemic, three million Canadians lost their jobs and 2.5 million started working reduced hours. Now, the number of employed Canadians is above Canada's pre-pandemic levels and Canada is exceeding its targets on the road to recovery.⁵ As Benjamin Tal, Deputy Chief Economist at CIBC Capital Markets, observed in developing this report, Canadians experienced the benefits of

a recession, specifically ultra-low interest rates, during the first four waves of the pandemic without the costs of rampant unemployment.

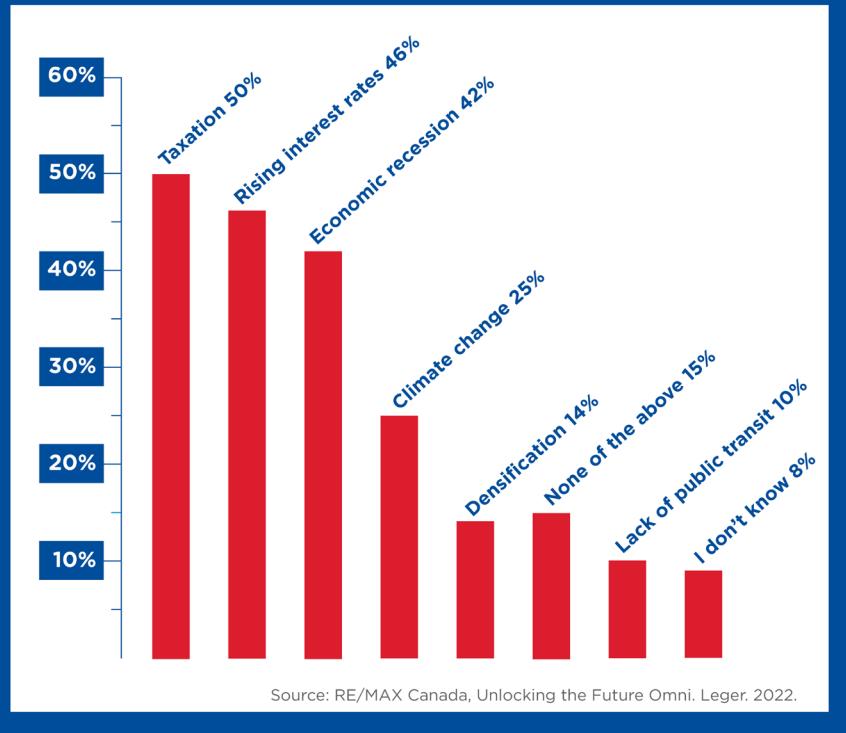
In fact, according to Tal, Canada has a labour shortage, especially when it comes to trades – an area of employment critical to meeting the new housing starts our market demands. With the influx of immigration expected in the coming years and in particular, the federal government's goal to welcome 432,000 immigrants in 2022⁶, it is expected that demand in the housing market will increase, especially in urban centres such as Vancouver and Toronto which are hot-spots for new Canadians. With rising demand, what solutions are on the horizon to address affordability? Can governments implement new tax measures, or are other scenarios more likely?

"The Canadian housing market has historically given homeowners great long-term returns and solid financial security," says Christopher Alexander, President, RE/MAX Canada. "In order to maintain this, as we look ahead, it's crucial that governments and policy makers take a thoughtful and collaborative approach that addresses the worries Canadians have when it comes to home ownership."

The survey commissioned by RE/MAX Canada also found that **61 per cent of Canadians believe real estate is the best long-term investment**, and they do not expect this to change over the next five years. However, the majority of survey respondents do consider rising property-related taxes (64 per cent), rising interest rates (58 per cent), and possible capital gains tax (55 per cent), as barriers to buying a home in that timeframe.⁷

"Despite the ongoing challenges facing Canada and the world, if economic decision-makers make pragmatic and evidenced-based decisions that do not penalize Canadians, but incentivize them with regards to interest rates, immigration and taxation, the housing market is likely to be stable, albeit expensive over the next five years," continues Alexander.

Top Homebuying Concerns Over the Next 5 Years



THE IMPACT OF RISING INTEREST RATES

SCENARIO 1: As the economy rebounds from the pandemic with strong employment and improved household savings, the BoC embarks on a steady cadence of four interest rate increases in the coming year.

“The enemy of the housing market is not high interest rates — that is good for the economy in fact. It is the pace at which those rates increase that is a big risk to housing,” says Tal. “Rate increases at a reasonable schedule of four times a year would create a stable and more relaxed housing market over the next five years.”

Tal anticipates inflation to ease in Q4 of this year. If inflation does not ease, the BoC is likely to respond by raising interest rates at a consistent quarterly pace to sustain a stable economy with healthy employment and a less-heated housing market.

Under these conditions, housing across the country, and especially in some of Canada’s largest cities, will remain expensive through to 2027, but not as heated on the pricing front as has been the case over the last two to three years. Moreover, interest rate hikes that do not overshoot a steady, pragmatic pace, should not unduly impact the ability of current homeowners to sustain the cost of their mortgages.

As Tal explains, “it’s important to note that given the five-year cycle of mortgages, those who are renewing now are in fact getting lower rates today than five years ago. Those existing homeowners who will be renewing in 2022 have a 150-basis point buffer, putting them in a very sustainable position.”

Tal’s one point of caution is to those who secured a mortgage in 2020 or 2021. Given they landed rates at historical lows, they are more exposed to higher rates, but even they should be able to sustain the added costs given the Stress Test⁸, should the BoC sustain a steady cadence of rate hikes.

While demand for housing is likely to continue to outstrip supply, resulting in high prices, under a scenario like this with a higher interest rate environment, the housing market could be stable and less heated than what Canadians have experienced over the last five years.

“Canada’s housing market is far more stable than many people and industry watchers perceive,” says Tal. “Yes, there are specific caveats, such as prolonged inflationary pressure, that could upset the balance, but should the BoC stay pragmatic and consistent, the next five years look entirely sustainable for Canadians.”

According to CIBC Capital Markets, one-third of new homebuyers in 2021 were able to purchase due to financial support from family. This is double compared to what it was five years ago. Even move-up buyers experienced the impact of the generational wealth transfer, with 10 per cent buying a new home thanks to a gift.

The elusive historical transfer of wealth from the Boomers to Millennials and Gen Z is now in full motion. According to CIBC Capital Markets, one-third of new homebuyers in 2021 were able to purchase due to financial support from family. This is double compared to what it was five years ago. Even move-up buyers experienced the impact of the generational wealth transfer, with 10 per cent buying a new home thanks to a gift.

SCENARIO 2: As a result of prolonged inflationary pressure well above the BoC’s stated goal of 2.2 per cent, the BoC overcompensates with rate hikes, raising them more than six times annually.

Each recession Canada has experienced over the last 50 years has been triggered by central banks overshooting the ideal pace of interest rate hikes, according to Tal. In his assessment, this is the greatest potential threat to the stability of Canada’s housing market in the next five years.

“This would obviously upend the economy, employment and housing. Not only would demand fall significantly, but so too would the capacity of existing homeowners to sustain the borrowing costs of their homes.”

—Benjamin Tal, CIBC World Markets

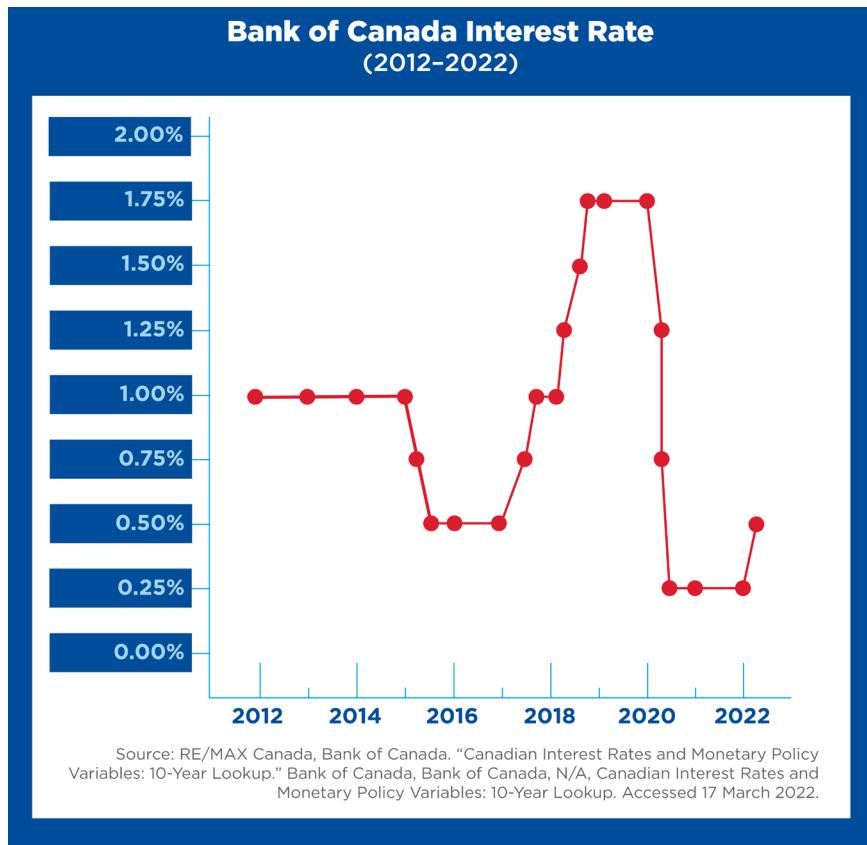
Canada's inflation level currently sits at 5.7 per cent — the highest it's been since 1991.⁹ With talk of interest rate hikes dominating the headlines, Canadians are understandably concerned about the impact of interest rates on housing and the economy. According to the Leger survey, 58 per cent of survey respondents believe that interest rates rising further will diminish their desire to buy or sell property in the next five years.¹⁰

"If we start to see interest rate increases twice per quarter or eight times a year to curb inflation, for example, then we could very likely fall into recession. This would obviously upend the economy, employment and housing," says Tal. "Not only would demand fall significantly, but so too would the capacity of existing homeowners to sustain the borrowing costs of their homes."

The other big caveat is COVID-19 and the potential for future waves caused by new variants; however, Tal perceives a recession precipitated the BoC as the primary threat to Canada's economy and housing market.

Historic Interest Rates

The current BoC policy interest rate is 0.5 per cent, and the bank rate is 0.75 per cent. The last time interest rates rose above 0.5 per cent was to one per cent in 1967, 1968, 1974, 1979 and 1998, which resulted in a bank rate of six to 14 per cent on the high end in 1979.



According to a Leger survey commissioned by RE/MAX Canada:

- Over the next five years, Canadians said taxation (50 per cent), rising interest rates (46 per cent), and the possibility of an economic recession (42 per cent) rank as their top three worries when it comes to buying a home.
- Thinking ahead five years, 37 per cent of Canadians say their preferred community would be suburban, while 30 per cent want to live in an urban environment, and 27 per cent say rural.
- While 61 per cent of Canadians agree that real estate is the best long-term investment they could make (which they don't see changing over the next five-years), rising property-related taxes (64 per cent), rising interest rates (58 per cent) and a possible capital gains tax (55 per cent) are factors that would cause barriers or concerns when it comes to buying a home in that time frame.

THE IMPACT OF IMMIGRATION

SCENARIO: Canada fulfils its commitment to welcome more than 400,000 immigrants per year to the country with a continued emphasis on integrating Economic Immigrants who generally have higher education, English and French skills, and prior Canadian work or study experience.

"Immigration produces significant benefits for the Canadian economy as a whole and helps meet the labour market needs of particular communities and sectors. Canada's system excels at selecting immigrants who have a high likelihood of long-term economic success. However, the system could improve by selecting more immigrants to fit specific, chronic labour market needs. In particular, a focus on immigrants

with skills in the trades and construction could help address severe labour shortages that limit housing supply," says Iain Reeve, Associate Director, Immigration Research, Conference Board of Canada.

Research by the Conference Board of Canada has shown that higher immigration levels can benefit the Canadian economy with greater GDP and public revenues.¹¹ CIBC Capital Markets and The Conference Board of Canada agree that the Canadian economy needs a minimum of 400,000-plus new immigrants annually to sustain our economic vibrancy.

In fact, despite the pandemic, Canada accepted approximately 405,000 new Canadians in 2021. According to Tal, what is not often reported

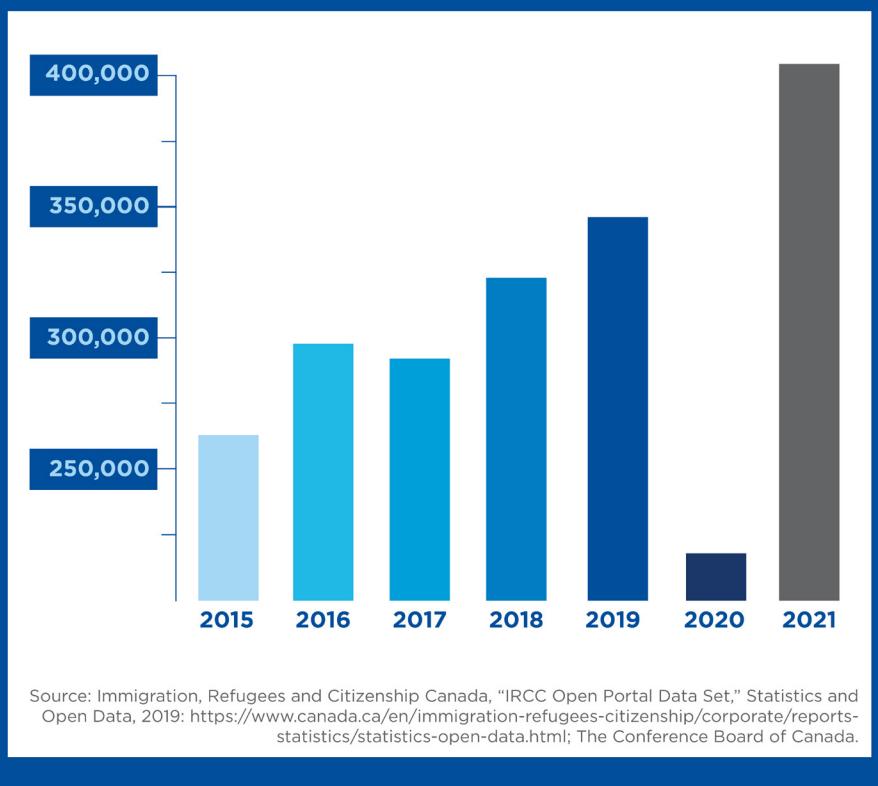
is that 70 per cent of the 2021 cohort were already established in Canada and approximately 50 per cent of the 2022 immigrants will be in-country. The key insight here is that we are not looking at 400,000-plus net new individuals settling anew in Canada with housing needs, but approximately half that number. They have been students and non-permanent residents with employment, promising prospects for employment and all with housing.

New immigrants are not the only factor to consider in determining housing demand. The formula is complicated and often does not look at things such as immigrants already living in Canada and Canadian students in temporary housing. To get an accurate measure of housing demand, further refinement is needed to housing data collection methods, according to both CIBC Capital Markets and The Conference Board of Canada.

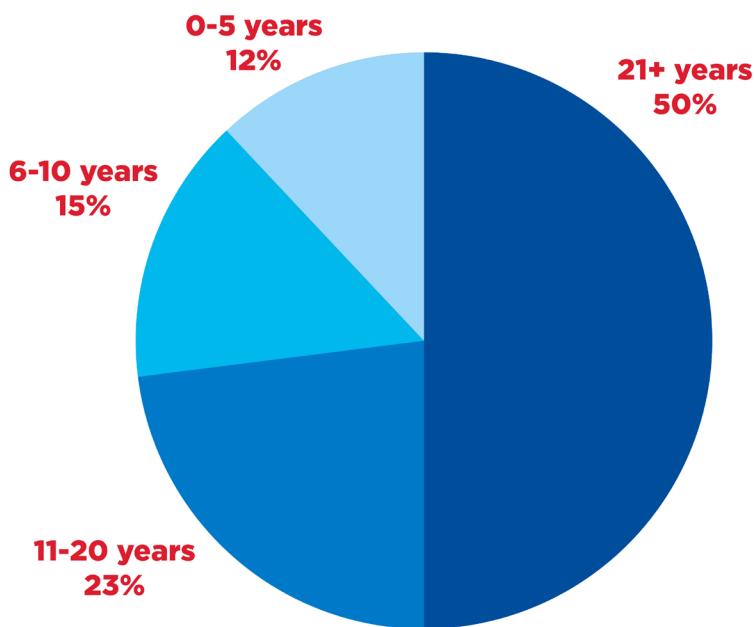
As Tal explains, the profile of new Canadians is quite distinct from historical immigrant cohorts. Many have higher educational credentials and Canadian work experience. For example, just 10,000 new immigrants in 2015 held a post-graduate work permit, versus more than 88,000 in 2021, according to data compiled by the Conference Board.¹²

It takes 10 years for immigrants to have earnings that are commensurate with their skills, education, and experience when compared to similar Canadian-born workers¹³. According to Tal, that time has decreased by approx. half. In part, this is a result of Ottawa's emphasis on economic immigrants and better immigrant support systems.

**Immigrants Welcomed to Canada
(2015-2021)**



Percentage of Immigrant Homeowners Based on Time Since Arrival in Canada



Source: Toronto Regional Real Estate Board. "Welcome to TRREB's 2022 Market Outlook & 2021 Year in Review Virtual Event." Toronto Regional Real Estate Board, Toronto Regional Real Estate Board, 2022, https://trreb.ca/hlfiles/pdf/2022_MO_Event_PowerPoint.pdf. Accessed 17 March 2022.

Historically, it took an average of seven years for a new immigrant to access stable employment in Canada. Today, that time has decreased by half. This means that new immigrants can land on their feet faster and participate in the Canadian economy in various ways, such as entering the housing market as homeowners.

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However, as both CIBC Capital Markets and The Conference Board of Canada state, Canada's immigration levels alone are not an issue. However, there is a missed opportunity by not selecting more immigrants who are trained in the trades, where all regions across Canada are experiencing a deep labour shortage.

In reference to the construction sector alone, BuildForce Canada reported that 90,000 workers will be leaving the workforce in the next five to 10 years due to retirement.¹⁵ Yet, Canada has not accepted enough skilled trade immigrants in 2021 to fill these labour market gaps, according to the Conference Board of Canada. This will impact Canada's ability to fulfill the new housing and affordable housing starts as predicted by the federal government.

"Currently, Canada's federal immigration policy does not link with the country's labour market needs and that will be a mounting problem in our capacity to build enough homes to meet the high demand over the next five years," says Tal. "It's all fine to table policy to improve our national housing affordability crisis by promising to build more homes and affordable housing — it's critical — but it's superfluous when you don't have the skilled workers to build it."

"For several years now, RE/MAX Canada has been advocating for a coherent and achievable national housing strategy to calm red-hot price increases and more importantly, to improve affordability for a greater diversity of buyers and renters," says Elton Ash, Executive Vice President, RE/MAX Canada. "Yet, as the experts at CIBC and The Conference Board show, our current immigration policy is lacking sufficient linkages with labour demands and as such is not set-up as successfully as it could be. Immigration policy should help support our labour demands."

THE IMPACT OF TAXATION

SCENARIO: To manage ballooning deficits and calm a heated real estate market, the federal government removes the capital gains tax exemption on principal residences in the next five years.

“The deployment of ad-hoc taxes to lower the temperature on Canada’s housing prices, such as the foreign buyer’s tax, have been front and centre over the last few years; however, the potential of removing the exemption on capital gains for principal residences could truly disrupt the market,” says Jamie Golombek of CIBC Private Wealth.

Given the ballooning federal deficit sparked by the pandemic, speculation has increased that Ottawa could remove the capital gains tax exemption on primary residences.¹⁶ If this scenario was to transpire in the next 12 to 24 months, even in a modified or hybrid manner, it would upend the retirement plans of millions of Canadians who plan to cash in on the full gains from the sale of their principal home to fund their retirement.

“The primary homes of Canadians represent the greatest store of value for most homeowners and removing a significant portion of that value by eliminating the exemption could cool the market in profound ways,” says Golombek. “While it theoretically will improve government coffers, it would be a blunt blow to the net worth of Canadian households, which in turn could dramatically swing the housing market from hot to cold.”

- 1., 7, 10. RE/MAX: Unlocking the Future Omni. Leger. 2022.
2. “The Daily — Gross domestic product, income and expenditure, fourth quarter 2021.” Statistics Canada, 1 March 2022, <https://www150.statcan.gc.ca/nl/daily-quotidien/220301/dq220301a-eng.htm>. Accessed 21 March 2022.
3. Press, Jordan. “Interest rates: Bank of Canada announces increase.” CTV News, 2 March 2022, <https://www.ctvnews.ca/business/bank-of-canada-raising-key-interest-rate-to-0-5-per-cent-1.5802003>. Accessed 4 March 2022.
4. Bank of Canada. “Bank of Canada increases policy interest rate.” Bank of Canada, 2 March 2022, <https://www.bankofcanada.ca/2022/03/fad-press-release-2022-03-02/>. Accessed 4 March 2022.
5. I, Kareem, and Shelby Thevenot. “Canada increases target to 432,000 immigrants in 2022 under Immigration Levels Plan 2022-2024 | Canada Immigration News.” CIC News, 14 February 2022, <https://www.cicnews.com/2022/02/canada-immigration-levels-plan-2022-2024-0221165.html#g.s.rspweo>. Accessed 4 March 2022.
6. I, Kareem, and Shelby Thevenot. “Canada increases target to 432,000 immigrants in 2022 under Immigration Levels Plan 2022-2024 | Canada Immigration News.” CIC News, 14 February 2022, <https://www.cicnews.com/2022/02/canada-immigration-levels-plan-2022-2024-0221165.html#g.s.rspweo>. Accessed 4 March 2022.
8. The mortgage stress test is a mortgage qualifier tool used to determine if the borrower would still be able to continue making mortgage payments, should they lose their job, undergo some other type of financial strain, or if interest rates were to rise.RE/MAX. “What is the Mortgage Stress Test in Canada?” RE/MAX Blog, RE/MAX, 16 February 2022, <https://blog.remax.ca/what-is-the-mortgage-stress-test-in-canada/>. Accessed 17 March 2022.

According to Golombek, most of the conversation over the last three to five years concerning the deployment of tax policy to cool the housing market has been focused on the Foreign Buyer’s Tax and taxes to curb speculation, such as the tax on the value of a vacant home (not considered a principal residence) imposed in British Columbia and Ontario. Yet, these measures impact a small segment of homeowners and have had little to no effect on real estate prices across the country.

“The primary homes of Canadians represent the greatest store of value for most homeowners and removing a significant portion of that value by eliminating the exemption could cool the market in profound ways.”

—Jamie Golombek, CIBC Private Wealth

Should this federal government, or another one, choose to apply a capital gains tax on the sale of a primary residence in the next five years, they could soften the blow to the market by making it prorated based on how long the property has been owned or based on the value of the home.

9. Evans, Pete. “Canada’s inflation rate now at 30-year high of 5.7%.” CBC, 16 March 2022, <https://www.cbc.ca/news/business/canada-inflation-february-1.6386536>. Accessed 21 March 2022.
11. The Conference Board of Canada. “Building on COVID-Period Immigration Levels.” 28 July 2021, https://www.conferenceboard.ca/temp/c6efe986-f079-447e-823f-d53cce7e73b0/11234_Impact-Paper_Building-COVID-Period-Immigration-Levels.pdf. Accessed 4 March 2022.
12. Immigration, Refugees and Citizenship Canada, “IRCC Open Portal Data Set.” Statistics and Open Data, 2019: <https://www.canada.ca/en/immigration-refugees-citizenship/corporate/reports-statistics/statistics-open-data.html>; The Conference Board of Canada.
13. Longitudinal Immigration Database (IMDB) Interactive Application: Economic Outcomes.” Ottawa: Statistics Canada, April 16, 2019. <https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2019003-eng.htm>.
14. Toronto Regional Real Estate Board. “Welcome to TRREB’s 2022 Market Outlook & 2021 Year in Review Virtual Event.” Toronto Regional Real Estate Board, Toronto Regional Real Estate Board, 2022, https://trreb.ca/hlfiles/pdf/2022_MO_Event_PowerPoint.pdf. Accessed 17 March 2022.
15. Build Force Canada. “Immigration trends in the Canadian construction sector (2020).” BuildForce Canada, 2020, <https://www.buildforce.ca/en/immigration>. Accessed 17 March 2022.
16. Alini, Erica. “Election debate fact-check: Does Trudeau want a tax on primary residences? - National | Globalnews.ca.” Global News, 10 September 2021, <https://globalnews.ca/news/8179648/trudeau-capital-gains-tax-primary-residence/>. Accessed 21 March 2022.

According to Golombek, if certain prorated caveats were introduced into the removal of the exemption, it could incentivize homeowners to put their properties on the market, dependent on the value of their home for retirement.

"Taxation in many ways, historically has stiffened our already existing supply issue by creating another barrier for sellers and buyers alike to consider when they buy or list their homes, says Alexander. "Punishing Canadians with a tax simply is not the solution. The focus should remain fundamentally on the supply challenges we are faced with in Canada as we look to the future and reducing barriers for Canadians."

Golombek adds, "while a political 'hot potato,' a prorated capital gains tax on principal homes based on years of ownership could, in the short term, increase available inventory by motivating sellers to list, thereby creating a better balance between demand and supply and calming unprecedented year-over-year price hikes."

Yet, removing considerable net worth from older Canadians in retirement or pre-retirement, will also negatively impact the transfer of wealth from this cohort to younger generations. If this were to unfold due to a new capital gains tax, then Canadians can anticipate less gifting to kids and grandkids (which again, represented one-third of new homebuyers in 2021), which in turn could further erode affordability.

About the *Unlocking the Future* Report

The 2022 RE/MAX *Unlocking the Future Report* includes insights from RE/MAX Canada partners CIBC and The Conference Board of Canada and is purely hypothetical. Insights were supplemented with research from a Leger consumer survey (details below).

About Leger

Leger is the largest Canadian-owned full-service market research firm. An online survey of 1,633 Canadians was completed between March 4-6 using Leger's online panel. Leger's online panel has approximately 400,000 members nationally and has a retention rate of 90 per cent. A probability sample of the same size would yield a margin of error of +/- 2.43 per cent, 19 times out of 20.

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