

New Brunswick's Housing Market Dynamics: Key Issues and Questions

UMNB

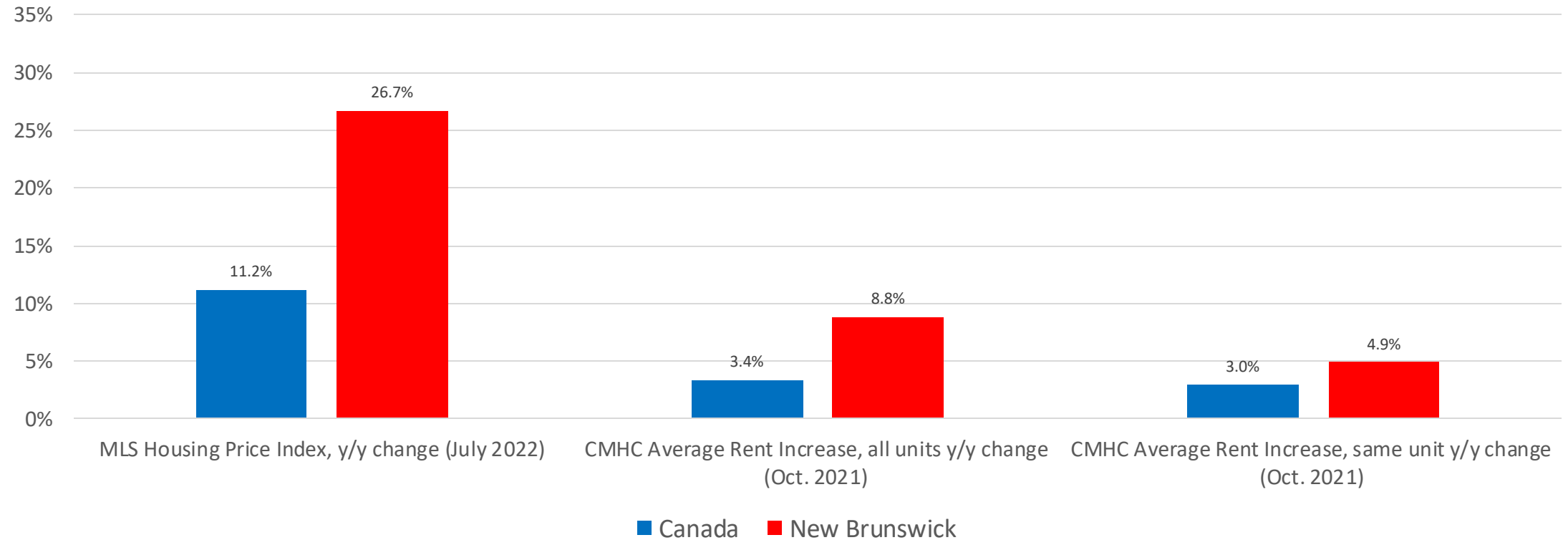
October 7, 2022

Fredericton, NB

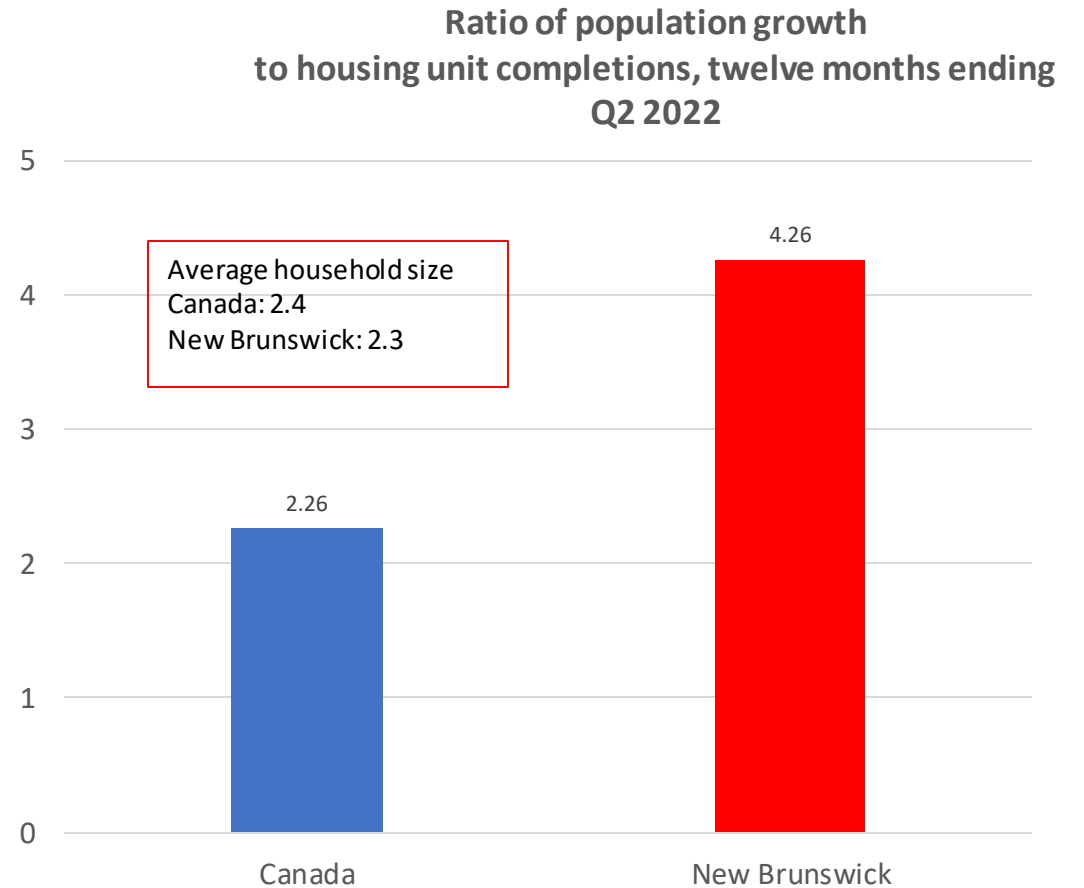
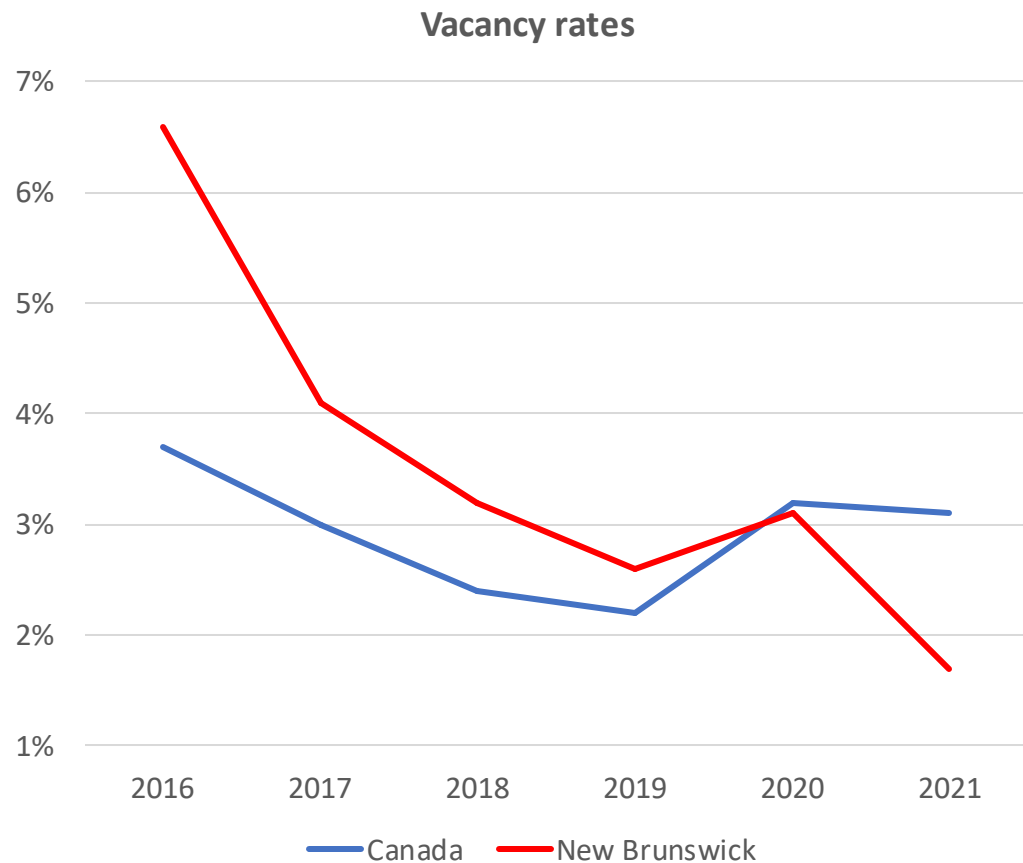
Five key points about NB's housing market dynamics

1. Housing prices are rising faster in New Brunswick than virtually everywhere else in Canada.

Selected Housing Market Price Indicators



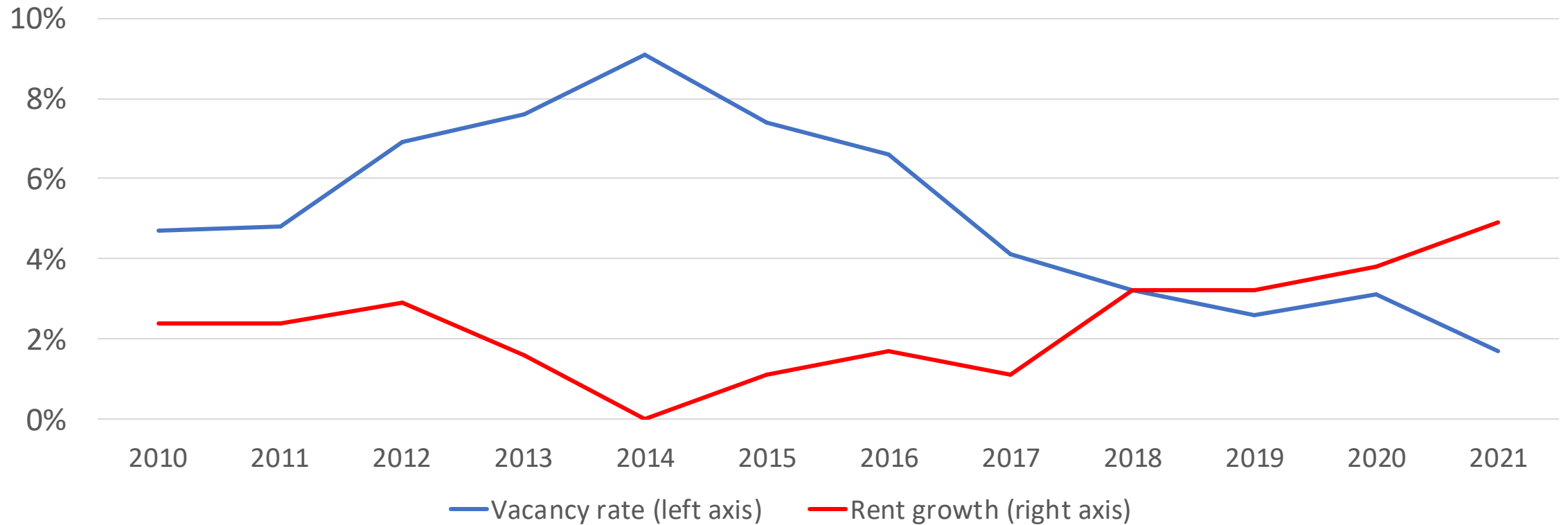
2. The housing market is now much tighter in New Brunswick than in Canada as whole.



Sources: CMHC Housing Information Portal; Statistics Canada, Census 2016 and CANSIM tables 17-10-0009-01 and 34-10-0135-01.

3. As was to be expected, vacancy rates and rent growth go in opposite directions.

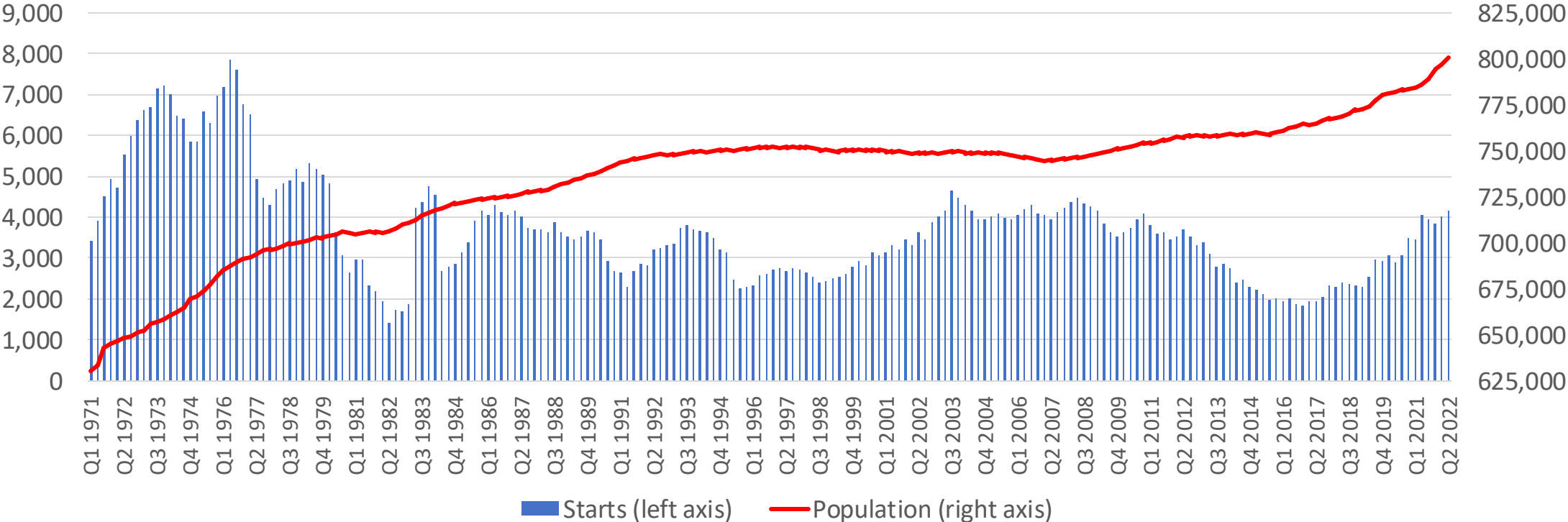
Rent growth (same unit) and vacancy rate
New Brunswick, centers of 10k+



Sources: CMHC Housing Information Portal.

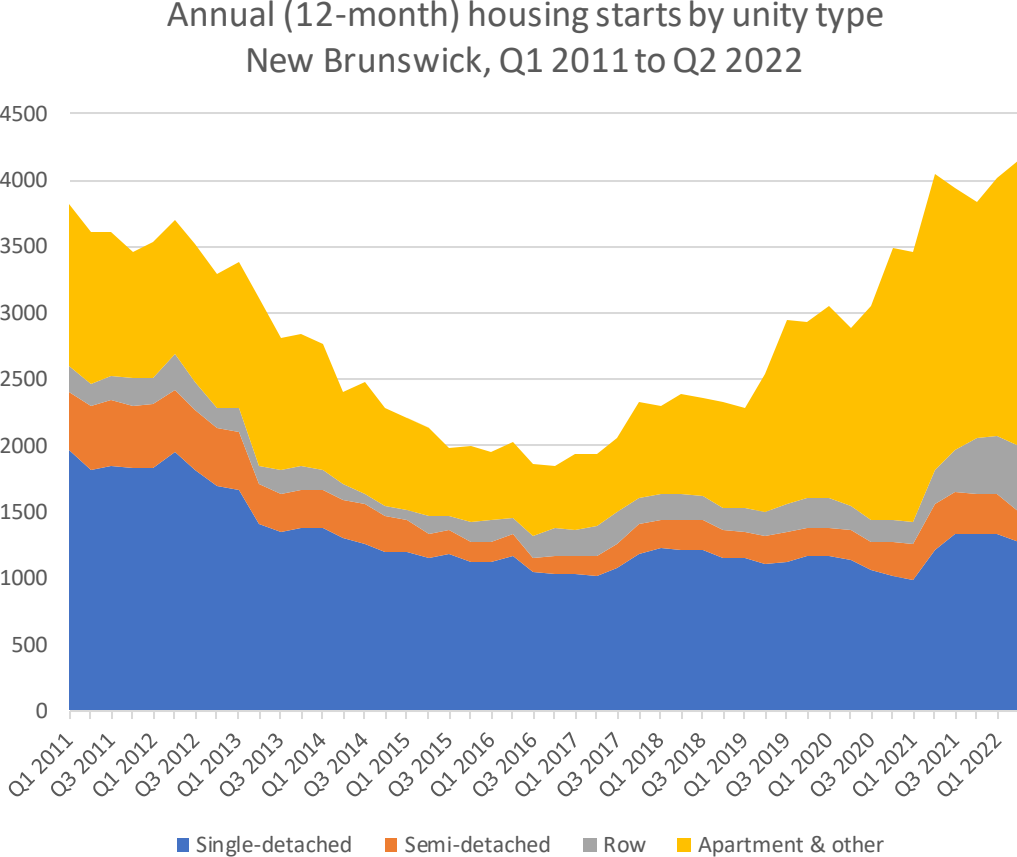
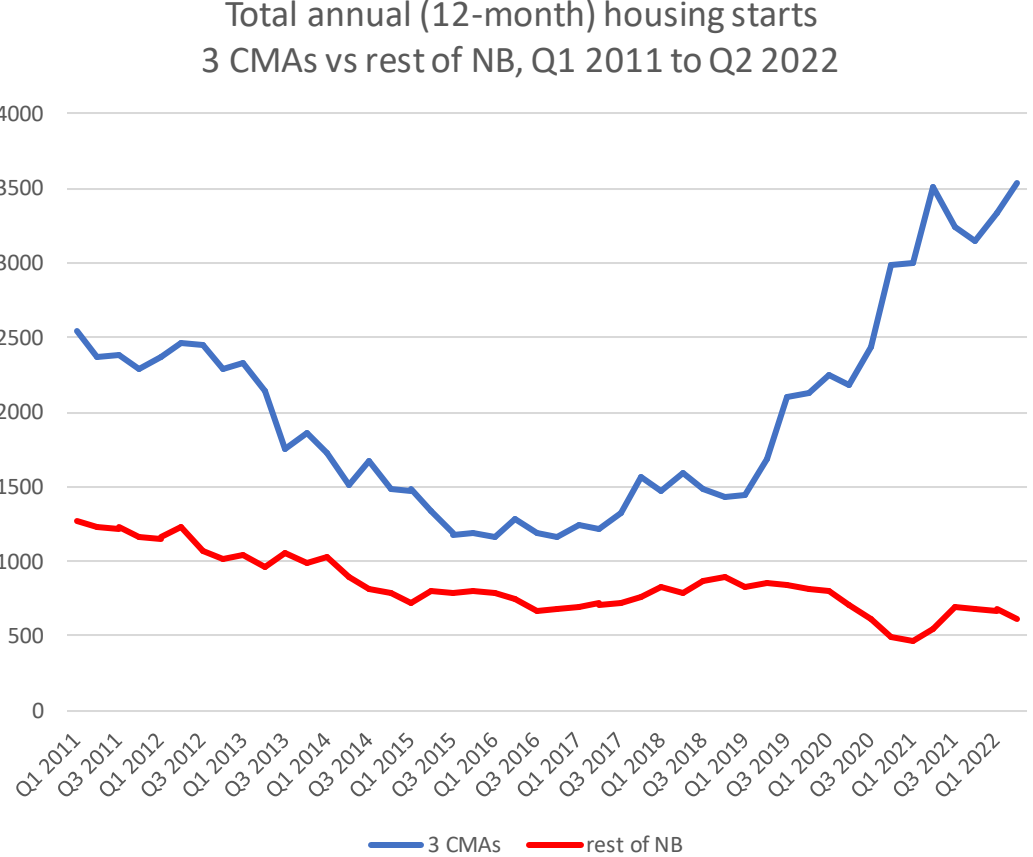
4. The residential construction market is (somewhat) responding to growing demand for housing.

Annual (twelve-month) housing starts and population growth
New Brunswick, Q1 1971 to Q2 2022



Sources: Statistics Canada, CANSIM tables 17-10-0009-01 and 34-10-0135-01.

5. Growth in residential construction activity is concentrated exclusively in the three southern urban centers, mostly in the apartments segment.



Sources: Statistics Canada, CANSIM tables 34-10-0135-01 and 34-10-0151-01

Five big questions

1. Why is housing supply not responding outside the three CMAs?

Potential explanations:

- It's just a matter of time – the market will eventually respond
- The market is not responding because it is not commercially attractive to do so.
 - Concern that market will not bear rent levels needed to ensure profitability?
 - With scarce labour, developers can “cherry-pick” the least risky and most profitable opportunities (typically, at the higher end of the market in southern cities)?
 - With baby boomers making up a much larger share of the population in the North, possibility that owners may end up without tenants in 15 or 20 years from now?

2. There is a consensus that supply needs to expand dramatically. But where will find the labour?



Source: Statistics Canada, CANSIM table 14-10-0023-01.

- While many factors can explain the steady decline in the number of construction workers, the industry's aging workforce is clearly a big one. 30% of workers are 55 or over.
- Residential construction activity has benefited from a decline in non-residential investment in recent years. This is not likely to last.
- Urgently need a bold, concerted strategy for expanding labour supply.

3. What happens when supply can't keep up with demand?

1. Big dogs will eat first: those with greater means will be able to buy their way out by bidding up prices.
 - If rent cap maintained, extra pressure on new units being put on the market. If not, expect continued same-unit rent escalation.
 - Home prices will continue to escalate, making it harder for those with no equity and lower wages to buy a house.
2. Rental housing poverty, as lower-income households have to pay more for a smaller place, share their unit with others, or end up without permanent home. (Rent cap would protect some tenants, but not all).
3. Deindustrialization: some businesses will either have a smaller presence, close shop or move their activities elsewhere, including outside the province. Anecdotal evidence suggesting this is already happening.

4. Won't supply catch a break with rising interest rates and society returning to some form of new normal?

- Short answer is don't bet on it.
- With interest rates shooting up, affordability crisis in Southern Ontario, which faces some of the priciest real estate in the world, getting worse.
- With pandemic having demonstrated effectiveness of work from home arrangements for many types of jobs, NB could see elevated flows of "housing refugees" from Southern Ontario for some time.
- Meanwhile, 4000 more NBers reach retirement than working age each year. Beyond the need for replacement workers, NB also needs more people to serve a fast-growing local population and swelling ranks of senior residents.
- In this context, reasonable to expect population growth hovering around 10,000 or more in years ahead.

5. What needs to be done?

- Housing is the big issue that threatens to undermine New Brunswick's growth potential and the quality of life for many of its residents.
- This file requires bold, co-ordinated action from all sectors of society. Urgent priorities include:
 - Dramatically expanding supply of construction industry workers.
 - Using policy levers to make “more affordable” housing projects more attractive/viable to developers, both in the for-profit and non-profit sectors.
 - In rural and small-town NB, there is a need for major investments to de-risk and enhance financial viability of rental construction projects.

Thank you

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