

Immigration

Immigration targets at odds with housing supply | Sergio R. Karas

By **Sergio R. Karas**

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(April 17, 2023, 2:21 PM EDT) -- The skyrocketing housing prices across Canada that we witnessed during the pandemic remain stubbornly high despite the hefty rise in interest rates. Inventory is at record lows in most metropolitan areas, and affordable housing is non-existent. There is no question that Canada is experiencing a severe housing crisis.

In a recent report, the Fraser Institute found that Canada-wide, home prices were 28 per cent higher since the start of the COVID-19 pandemic, despite recent declines, and not only is there a widespread shortage of housing, but there is also a growing mismatch between the housing types being built and those preferred by many Canadians.

According to many economists, one of the factors contributing to the housing crisis is the ever-increasing influx of newcomers entering Canada through the different immigration streams and attempting to settle in major metropolitan areas. The cost of living is having a significant impact on the prospects for immigrant integration. A 2022 survey conducted by the Institute for Canadian Citizenship found that while most new immigrants would recommend to others to move to Canada, the high cost of living was cited by many respondents as a negative factor. A fifth of those surveyed stated that they were likely to leave the country for that reason. The rising cost of housing and the diminishing access to government services like health care were the top reasons why immigrants were becoming disillusioned with their choice to move to Canada.

The record-breaking level of immigration that the federal government has announced in its 2023-2025 Immigration Levels Plan presented to Parliament could cause further strain in the housing market, which is currently experiencing near-historic low national vacancy rates for both housing supply and rental accommodation. Canada Mortgage and Housing Corporation (CMHC) reported in January 2023 that the national vacancy rate for purpose-built rentals dropped from 3.1 per cent in 2021 to 1.9 per cent in 2022. The vacancy rate for condominium apartments dropped from 1.8 per cent to 1.6 per cent at the same time. These rates may drop even further as more newcomers arrive looking for suitable housing. There is a mismatch between the availability of housing and the number of newcomers seeking accommodation.

In recent reports, both Scotiabank's head of capital markets economics Derek Holt, and CIBC's chief economist Benjamin Tal have been critical of the federal government for its handling of immigration and housing issues. In his March 2023 *Daily Points* report analyzing the federal budget, Holt argues that high housing costs in a market with low supply are one of the most concerning issues facing the country, while Tal points out in his CIBC January 2023 Economics in Focus report that the federal government target of 500,000 immigrants is an incomplete account of the total number of newcomers. He suggests that the actual number of people entering Canada in all categories is close to double that figure, as an estimated 955,000 international arrivals for both permanent and non-permanent residents entered in 2022. This number encompasses all categories including work and study permit holders, refugees and other immigration classes, all of whom require accommodation. In short, the government is misrepresenting the total numbers and only publicizing those who receive permanent residency, when in fact just as many enter Canada in other categories.

CIBC's chief executive Victor Dodig recently shared similar sentiments. In February 2023, at an event hosted by the Canadian Club in Toronto, he stated that Ottawa's significant increase in immigration without first fixing the housing shortages will trigger "the country's largest social crisis" over the next decade. This is not good news and reveals a misguided policy driven by political expediency and not by economic prudence.

To address the housing crisis, the federal government enacted the *Prohibition on the Purchase of Residential Property by Non-Canadians Act*. The legislation came into force in January 2023 and has been recently amended, prohibiting most foreigners from buying residential property in metropolitan areas of Canada, with exceptions for certain individuals such as holders of study or work permits. This prohibition is scheduled to expire in two years. While in theory, this would reduce the number of foreign buyers competing with locals in the housing market, its impact may be minimal or even counterproductive. The legislation may prevent necessary foreign investment in development projects and may have significant loopholes.

The real issue is the enormous number of newcomers entering Canada, with little suitable housing to accommodate them. Most new arrivals are not looking to purchase homes. Instead, they are far more likely to rent apartments in an already-depleted market. Newcomers are looking for affordable rentals, one of the categories in the shortest supply. They are competing with residents in the lower income tiers for affordable rentals, driving up demand. The substantial number of refugees and foreign students that Canada has admitted in the last few years typically require the most affordable housing, adding pressure to the supply. This policy is not sustainable. It can have unintended consequences and create a backlash against legal immigrants that employers need.

As the federal immigration targets continue to climb while the housing supply remains very tight, this is further distorting the market and the balance required between the supply of housing and the demand from those seeking accommodation. Rather than continuing to focus only on an ever-increasing number of newcomers, the federal government should revamp the immigration selection process to create priority tiers for the type of skilled workers and trades that are in short supply and, at the same time, curtail the number of applicants whose skills are not in demand. Also, some non-economic categories should be eliminated or suspended, at least while the supply of housing remains stretched. The considerable number of foreign students should be cut to a manageable level. That will not only help the housing market regain a measure of balance, especially for rentals, but also result in speedier application processing times.

The number of newcomers welcomed annually should be set by market dynamics and not by the arbitrary wishes or political whim of the government in power. Canada must provide an environment where immigrants needed by the labour force do not have to consider leaving the country due to the prohibitive cost of housing. The best policy is to return to reasonable levels, orderly and steady immigration, and to admit only those who are most likely to adapt and succeed in Canada, have good employment prospects, language ability, and the drive for entrepreneurship and hard work. Government intervention in the housing market with restrictive policies is not a solution to a problem they have created and exacerbated with bad policies.

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