NEW BRUNSWICK'S HOUSING CRUNCH:

Scoping out the Challenge and the Stakes

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INTRODUCTION

Much has changed for the better in New Brunswick recently. After years of stagnation—if not decline—our population is growing again. Early in 2022, it reached the historical milestone of 800,000 residents. As of the first quarter of 2023, there were 825,000 people living in the province. Since 2015, the number of people calling New Brunswick home is up by more than 66,000, a gain larger than over the previous 35 years combined.

Behind this demographic surge are large inflows of people moving here. For long, New Brunswick was on the losing end of population flows. This is clearly no longer the case. Over the twelve months ending in December 2022, over 28,000 more people moved here than left our province.

Two main forces are driving New Brunswick's population growth. The first is the gradual exit of baby boomers from the labour force. Every year, around 4,000 more New Brunswickers reach the official retirement age of 65 than the official working age of 15. As a result, large flows of people are coming to New Brunswick to help fill the thousands of positions that would otherwise remain unfilled and help meet the needs of New Brunswickers. These newcomers not only include new immigrants and temporary foreign workers, but also people from other provinces, many of whom are themselves recent immigrants.

The other force driving New Brunswick's population growth is more recent. Not long after the COVID-19 pandemic began, New Brunswick has seen a surge of interest from out-of-province homebuyers, mostly from Ontario. Before the pandemic, there were around 1,000 more Ontarians moving to New Brunswick than vice versa. Over the twelve-month period ending in December 2022, that number stood at more than 9,000.

New Brunswick's strong population growth is excellent news on many counts. After years of stagnation or even decline, our workforce is growing smartly again. Many people moving here from other provinces are bringing their work with them, thus expanding our economic base. More people coming to work and live in New Brunswick translates into stronger economic growth and more tax revenues to pay for our much-cherished public services. Even federal transfers from Ottawa—which represent almost 40 per cent of our provincial government's revenues—are growing faster than they otherwise would since they are allocated on the basis of population.

That said, this transformational change is not without its challenges. Two of them are particularly daunting. The first is that a fast-growing population is putting extra

pressure on our already strained healthcare system. The second—the topic of this document—is that New Brunswick, just like its two sister Maritime provinces, is in the midst of a major housing crunch. Left unaddressed, it could very well undermine our province's population growth agenda and, as a result, jeopardize our future prosperity and quality of life.

This spring, the newly formed Housing Hub of New Brunswick, along with its partner organizations, will be releasing a series of three thought papers on New Brunswick's housing challenges. The aim of these papers is to build a better understanding of the situation in all its complexity, assess the magnitude of the province's future housing needs and identify concrete measures that will help ensure New Brunswickers from all corners of the province can secure affordable and adequate housing in the years to come.

This paper, the first in this series, sets the stage for an informed public discussion. It does so by examining the dynamics of New Brunswick's housing market, including how it has responded so far to the growing needs fuelled by the province's population surge, what seems to be holding it back and what's at stake when it comes to meeting our province's housing challenges. The following two papers, also to be released this spring, will assess New Brunswick's housing "gap" across its various regions over the remainder of the decade and propose a series of concrete steps for discussion, in moving forward in an effective, balanced and inclusive way.

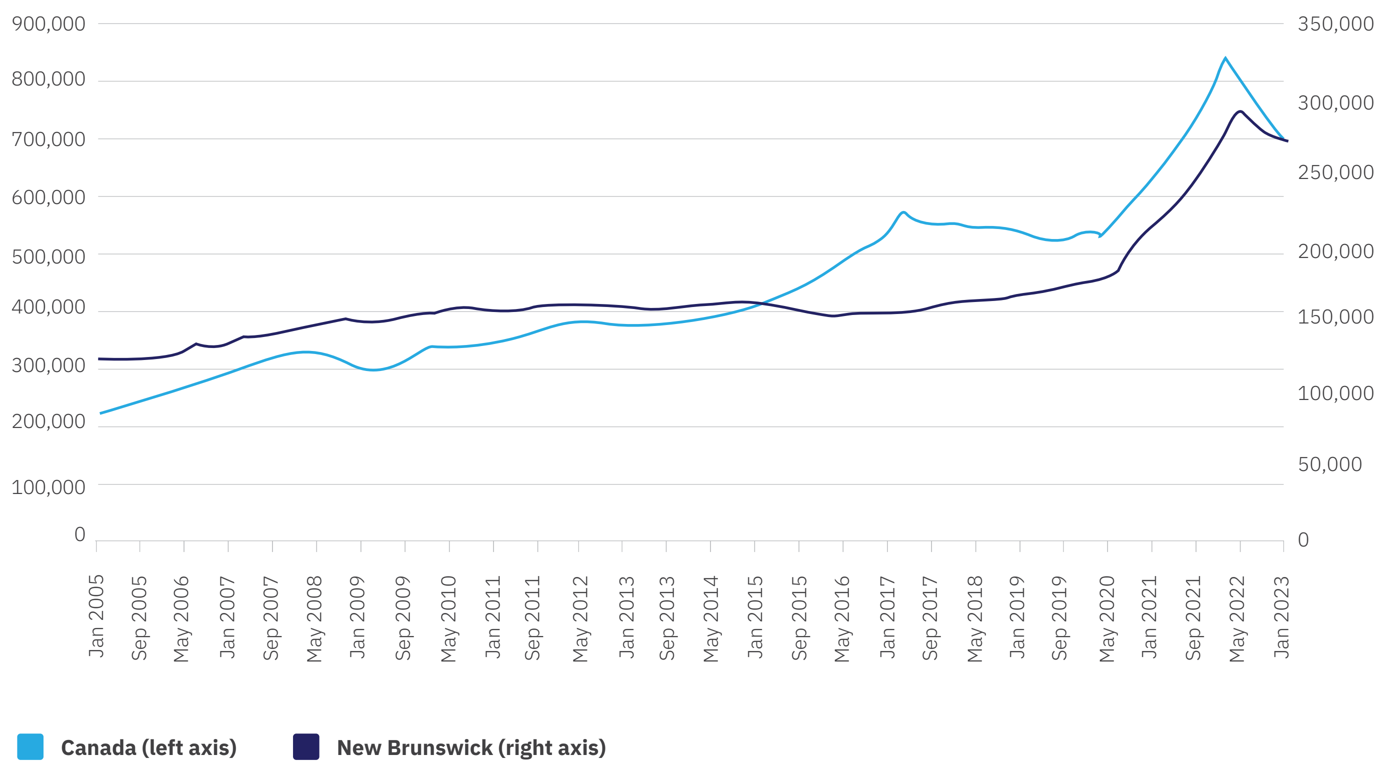
EXAMINING THE CHALLENGE

Up until recently, New Brunswick was a very quiet corner of the national real estate landscape. From 2005 to 2020, the average home price in Canada grew by about 148 per cent, from $219,800 to $544,800 (Chart 1). In New Brunswick, by contrast, it grew at a much slower pace, from $122,700 to $175,200, a 43 per cent gain that was roughly in line with inflation.

Then came the COVID-19 pandemic. To support the economy at a time of duress, the Bank of Canada brought interest rates to historic lows, setting the stage for an unprecedented escalation in home prices. This time around, New Brunswick's housing market did not stand on the sidelines. Fuelled in no small part by a large wave of Southern Ontario residents moving here to take advantage of lower prices, our residential real estate market shot up dramatically. Home prices in New Brunswick grew 53 per cent from June 2020 to February 2023, about twice as much as in Canada as a whole (+27 per cent).

Chart 1: Average Home Prices • January 2005 to February 2023

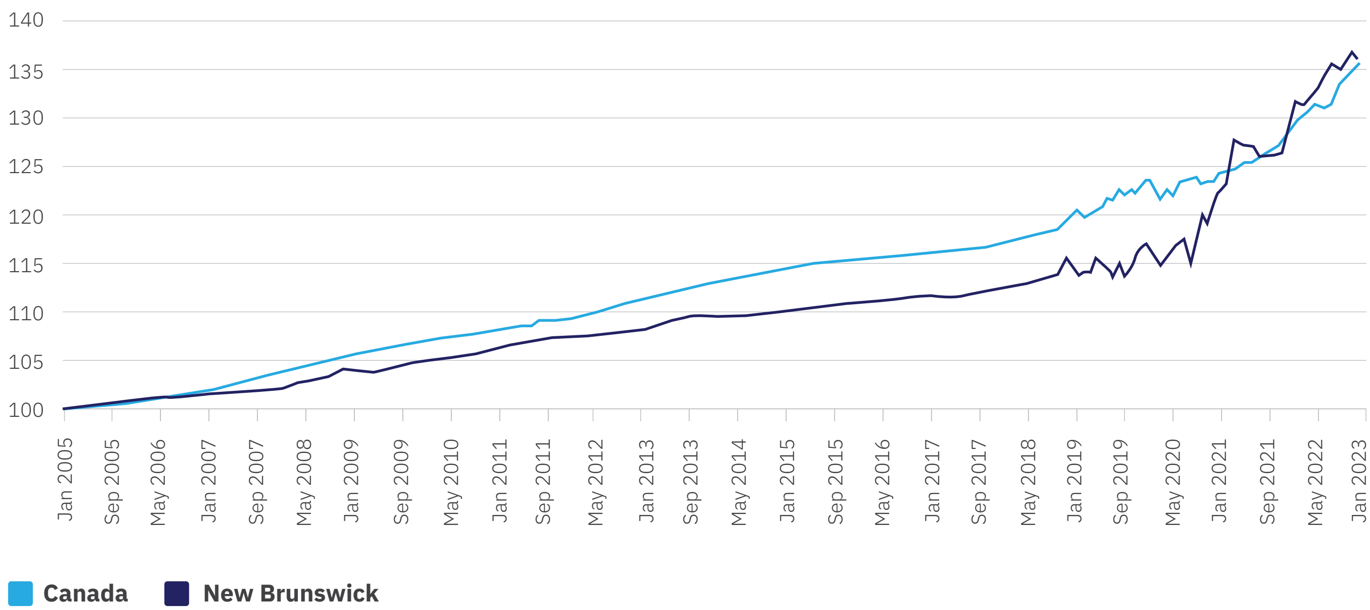
(Canadian Real Estate Association composite benchmark, seasonally adjusted)



The rental market tells a similar story. Over the fifteen years from 2005 to 2020, rents progressed at a considerably slower pace in New Brunswick than in Canada. Here too, this has changed dramatically shortly after the pandemic began. From October 2020 to February 2022, rents in New Brunswick have grown by 18 per cent, nearly twice the national average of 10 per cent. The increase in rents over that period in New Brunswick was about the same as that over the previous fifteen years combined.

Chart 2: Rents
January 2005 to February 2023 • January 2005 = 100

(Statistics Canada, CANSIM table 18-10-0004-01)



WHAT'S BEHIND NEW BRUNSWICK'S ESCALATING HOUSING PRICES?

As is the case for all price escalations in a market economy, it is ultimately a matter of supply and demand. New Brunswick did not participate in previous national home price escalations because housing supply easily kept up with demand growth (another reason is that unlike in large centres such as Toronto or Vancouver, access to land was not a major issue).

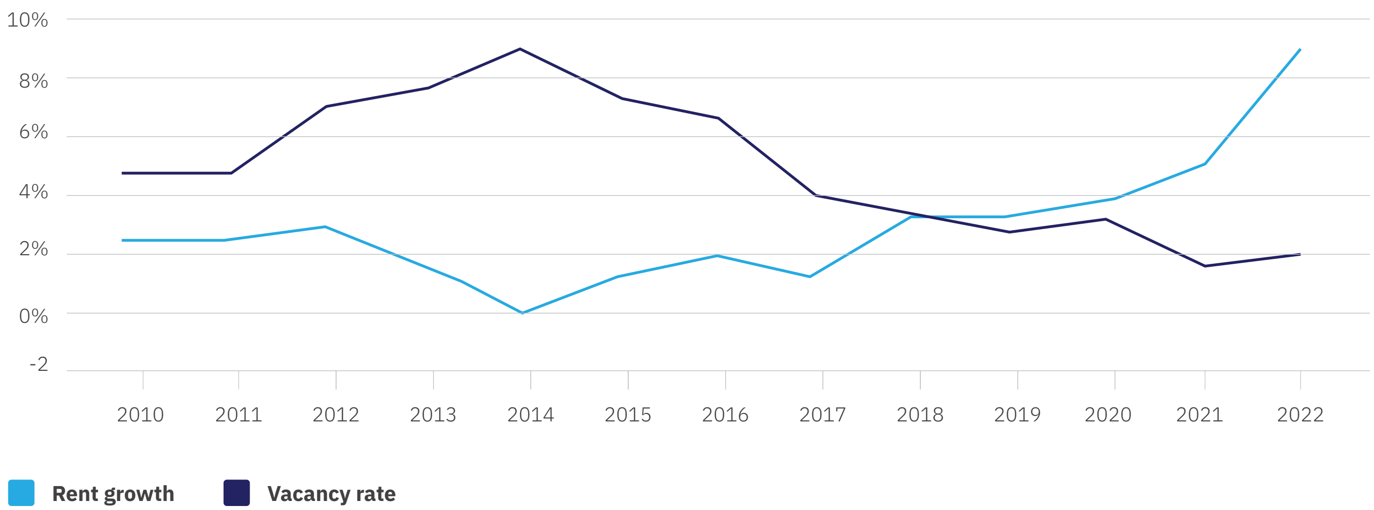
In turn, housing demand growth is fundamentally tied to population growth. As of the first quarter of 2023, New Brunswick had 45,000 more residents than it did when the pandemic began. As noted earlier, much of our recent turbocharged demographic growth has come from a large influx of Ontario residents. Whether to achieve their goal of homeownership or to cash in the equity on their million-dollar-plus homes, thousands of Southern Ontarians are being lured by New Brunswick's lower home prices. Over the twelve-month period ending in December 2022, a record 13,200 Ontarians settled here, nearly three times as many as before the pandemic. Although Ontario only makes up 39 per cent of Canada's population, residents from that province accounted for nearly all (96 per cent) of New Brunswick's gain from interprovincial migration of 9,300 in 2022.

The rental housing market provides a good illustration of the law of supply and demand at work. Since the middle of the last decade, New Brunswick's rental housing vacancy rate has been declining fast.[1] Yet, as long as the stock of available units remained plentiful, rents grew slowly, at times well below the overall inflation rate. It is only since 2019, when the vacancy rate fell below three per cent that rents began to go up sharply. It is thus not demographic growth itself that produces an escalation in rents, but the fact that demand meets tight supply. Alberta, for instance, saw its population grow about as fast as New Brunswick's since the pandemic began. Yet, with a vacancy rate well above three per cent, the average rent growth in the former has been relatively modest (CMHC Housing Market Information Portal).

1. New Brunswick's vacancy rate has inched slightly upward in 2022. One should interpret this development with caution. Rather than suggesting that the rental market has loosened up a bit, it could well reflect the province's rent growth cap implemented in that year. In last year's rent-controlled environment, the only opportunity a landlord got to raise rents on existing units was when a unit was vacated. In such a context, landlords had a strong incentive to set their rents at the highest price they thought the market could bear, which means their units may have stayed on the market longer, thus exerting an upward pressure on the vacancy rate.

Chart 3: Vacancy rate and annual rent growth (same unit) New Brunswick

(CMHC Housing Market Information Portal and Rental Market Report, various years)

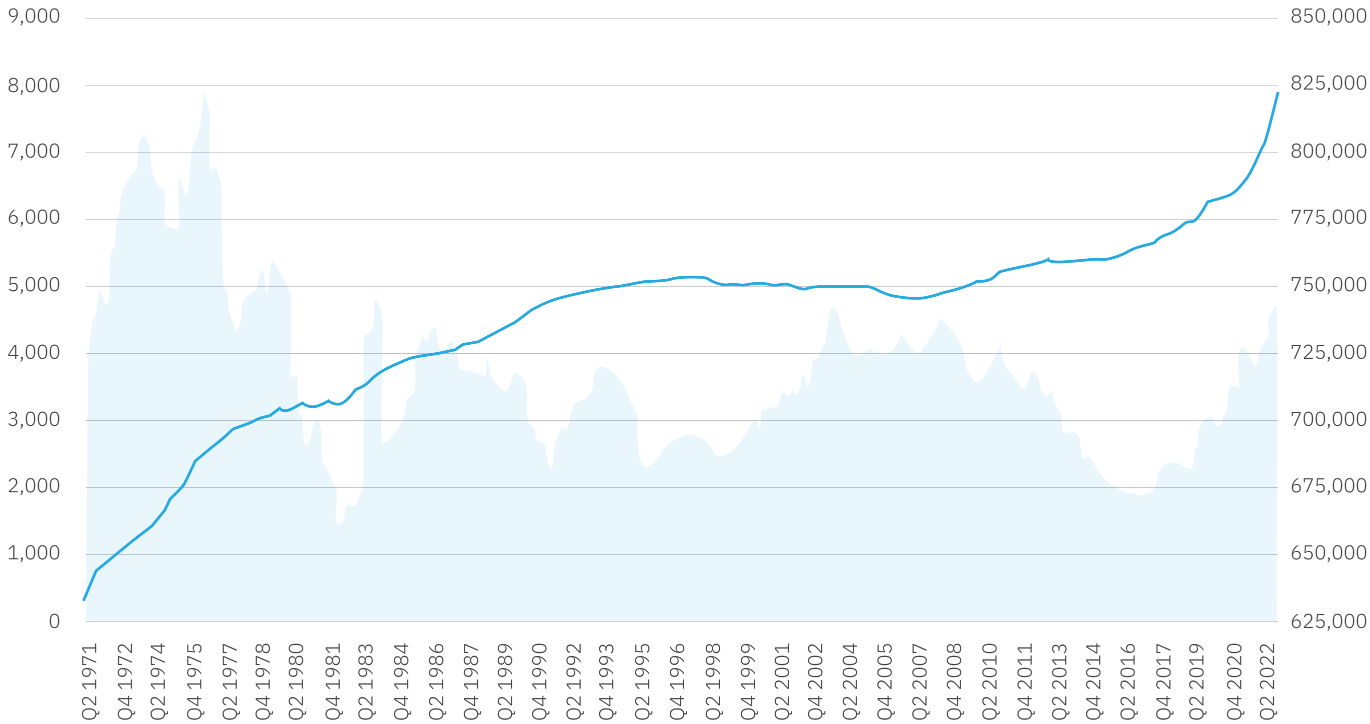


HOW IS THE CONSTRUCTION INDUSTRY RESPONDING TO STRONG HOUSING DEMAND?

New Brunswick's residential construction industry is clearly responding to much stronger demand for housing. This is visible in the skylines of our three largest cities, which are changing before our very eyes. It is also visible in the numbers. Chart 4 presents the data on housing starts and population growth in New Brunswick over the last half century. To eliminate the effect of seasonality, each quarterly data point on housing represents the total number of starts over the twelve-month period ending in the quarter. As the chart shows, housing starts are now hovering around 4,500 units annually, more than twice as many as during their recent low of about 2,000 units reached toward the middle of the last decade.

Chart 4: Annual (twelve-month) housing starts and population growth New Brunswick, Q1 1971 to Q4 2022

(Statistics Canada, CANSIM tables 17-10-0009-01 and 34-10-0135-01)



There are, however, two telling signs in this chart that New Brunswick's construction industry may be overwhelmed by strong demand. First, although our population is growing at the fastest pace in at least a generation, the industry is struggling to bring housing starts in line with levels routinely reached in the 2000s, when our population was stagnant, even at times declining. Second, for much of the 1970s, when our population was growing at a pace roughly similar (even at times slightly slower) to that of the last three years, housing starts were much higher than they are today.

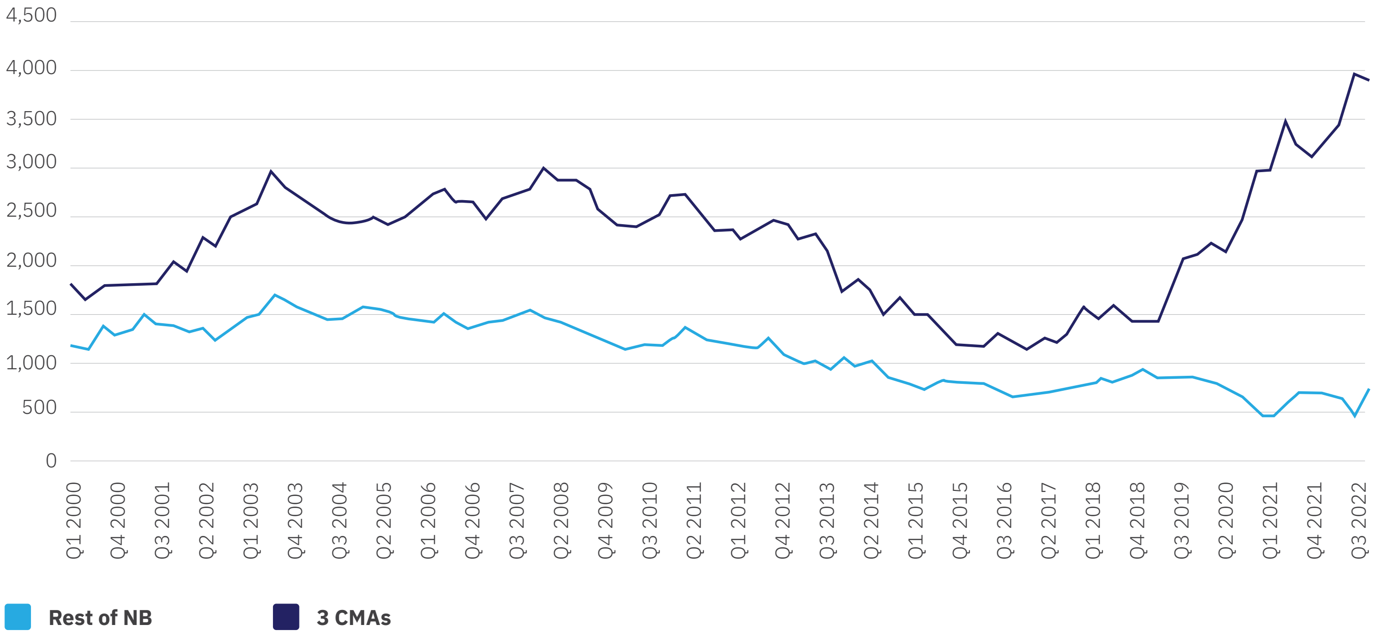
Another way to assess how the residential construction industry is responding to stronger demand is to look at the concentration of housing starts. In a housing market that is not facing severe supply strains, one would expect the industry to meet commercially viable demand in a relatively balanced way, not just across the territory, but also market segments. Conversely, in a market where demand outstrips supply, one can expect developers to focus on the most attractive projects, i.e., those that provide the best risk-adjusted returns.

Let's start with geography. Demand for housing in New Brunswick seems to be strong across most New Brunswick communities, big or small, in the North and in the South. This is visible in rental vacancy rates, which are historically low throughout the province. In fact, many smaller communities across New Brunswick have been reporting zero or near-zero vacancy rates for some time. Furthermore, some rural counties have been witnessing very strong demographic growth in recent years. Kent County, for instance saw its population increase faster than the New Brunswick average over the past three years (Statistics Canada, CANSIM table 17-10-0139-01).

Under such circumstances, it would be reasonable to expect residential construction activity to pick up across the province. Yet, this is not what's happening. The data actually tells a tale of two New Brunswicks (Chart 5). In the three CMAs, housing starts are booming. In the rest of the province, they remain stagnant, at about 50 per cent below the levels reached in the 2000s. This is particularly striking given that, back then, the population of rural and small-town New Brunswick was declining (it dropped from 411,000 residents in 2001 to 386,000 in 2011) while it has grown in recent years.

Chart 5: Total annual (12-month) housing starts Q1 2000 to Q4 2022

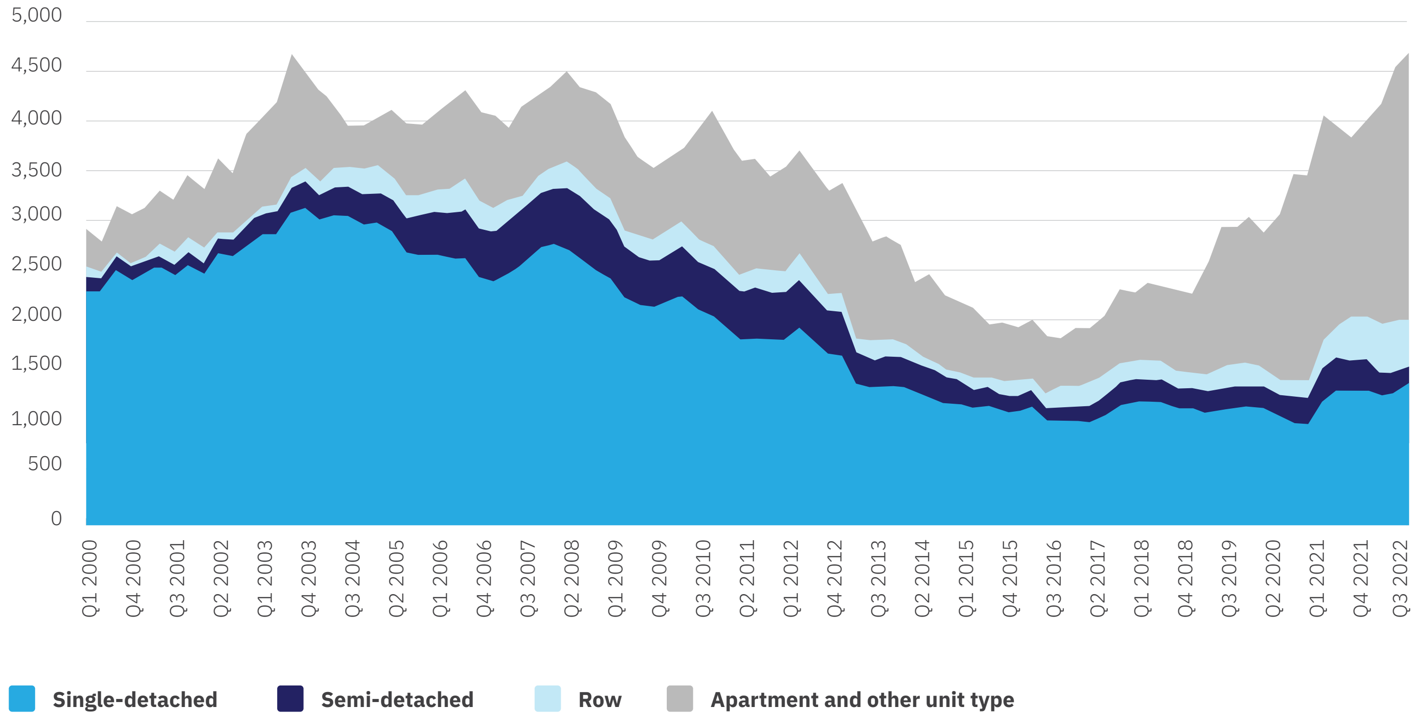
(Statistics Canada, CANSIM tables 34-10-0135-01 and 34-10-0151-01)



A similar pattern of concentration applies to market segments. Chart 6 breaks down the distribution of housing starts for detached and semi-detached units, row houses, and apartments. It shows that housing starts in recent years were overwhelmingly concentrated in apartments and, to a much lesser extent, row houses. Moreover, although not shown in Chart 6, this growth was concentrated in the three CMAs. In 2022 housing starts in New Brunswick were up 2,356 units compared to five years ago. More than 19 out of 20 of these additional annual starts (95.6 per cent) consisted in apartments or row houses in the three CMAs.

Chart 6: Annual (12-month) housing starts | New Brunswick, Q1 2000 to Q4 2022

(Statistics Canada, CANSIM table 34-10-0135-01)



Conceptually, one could think of at least two reasons why real estate development in the three CMAs and their surroundings is less risky than in rural and small-town New Brunswick. For one thing, as their economies are more diverse and their population is generally younger, larger centres provide real estate investors with more stable markets in the long run. For another, these centres also host a large stock of older rental buildings, which are much more likely to be the first to run out of tenants should supply eventually outstrip demand.

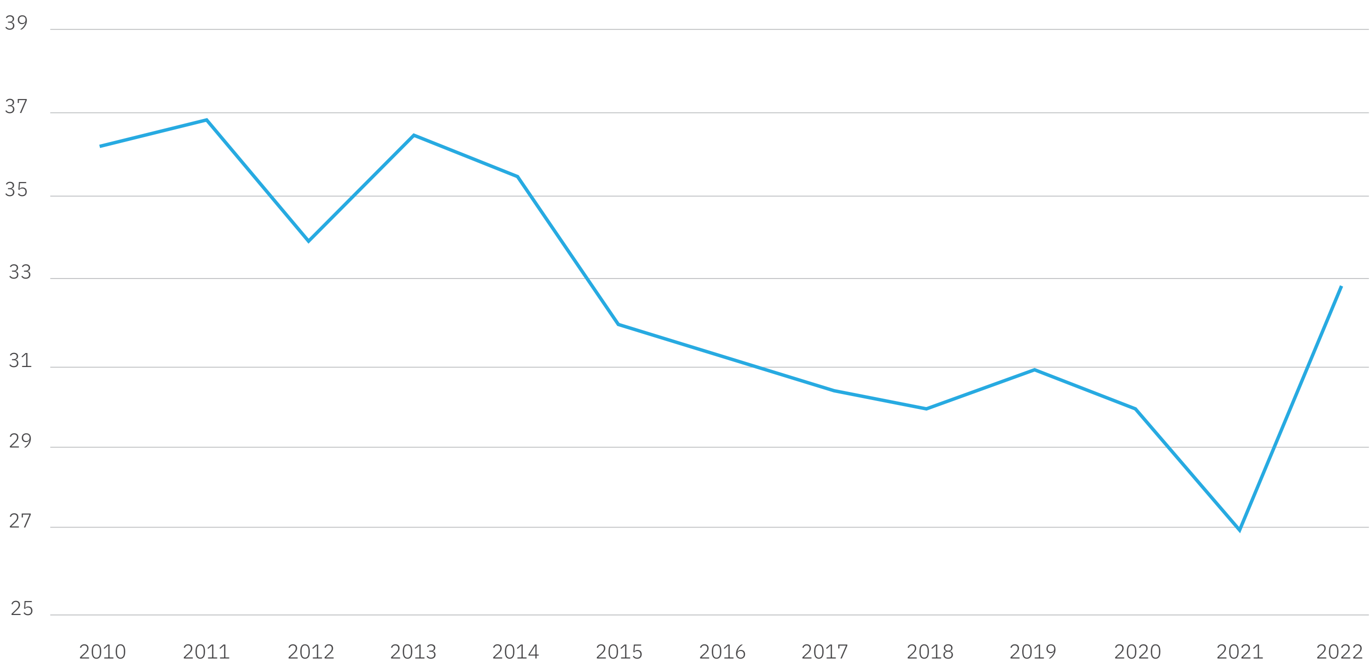
It has been suggested by some that the failure of housing activity to pick up outside the three CMAs could be related to the fact that average rents for existing units are too low. In a market with a high vacancy rate, such an argument would clearly have validity. However, in very tight markets, as is the case nowadays, this argument seems less persuasive as most prospective renters would have very little choice but to pay the going rate for new units in order to secure housing. This issue needs to be investigated further. Should it be determined that average rents for existing units are indeed a major obstacle to construction activity outside the CMAs, this would further bolster the case for policy intervention to support developers in building more affordable units to expand supply.

WHY IS THE CONSTRUCTION INDUSTRY STRUGGLING TO MEET DEMAND?

To answer this question, one must recall that builders do not operate in a vacuum. To ramp up activity, they need more people. In turn, increasing the supply of workers is no easy task. Although it pays generally well, construction work is not easy and trades require training. Employers are finding it very difficult to recruit new workers, a reality that is reflected in the fact that the industry's workforce is aging fast. A decade ago, only 20 per cent of construction workers were 55 years old or over. Today this figure stands at 33 per cent. By contrast, the share of workers aged 55 years old or over in the remainder of the province's labour force rose from 20 per cent a decade ago to 24 per cent today (Statistics Canada, CANSIM table 14-10-0023-01).

Chart 7: Labour force in the construction industry | New Brunswick ('000s)

(Statistics Canada, CANSIM table 14-10-0023-01)



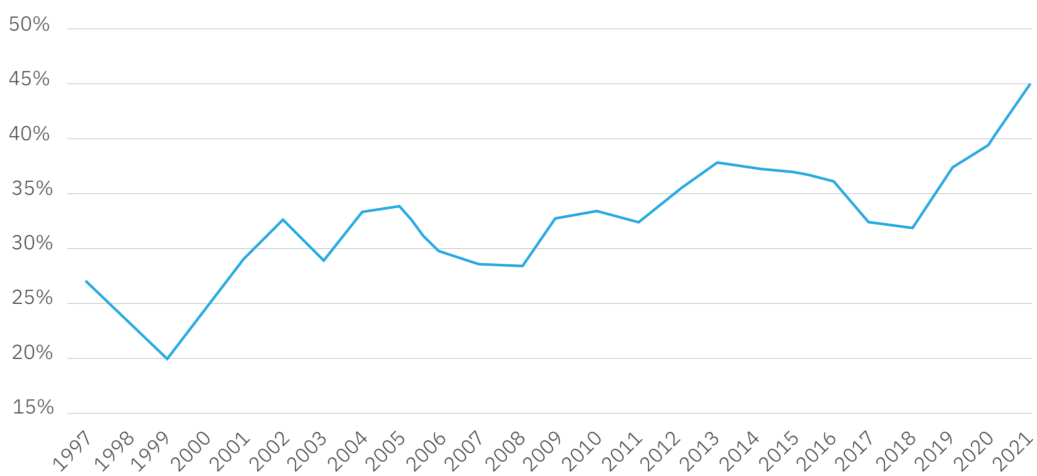
As Chart 7 shows, the number of workers in New Brunswick is lower than it was a decade ago, although residential construction activity was much lower back then. To be sure, the industry workforce did rebound in 2022. Although an encouraging sign, it must be recalled that this recent gain occurred in a context of exceptionally strong population growth fuelled in no small part by spectacular immigration numbers. Canada welcomed more than one million newcomers in 2022 (including more than 600,000 non-permanent residents), a pace that will be very difficult to sustain in the years ahead (Statistic Canada, CANSIM table 17-10-0040-01).

In this context, one may ask where developers found the workers needed to scale up their activity in recent years. The answer, for the most part, seems to be elsewhere in the construction industry.

Besides the housing sector, the construction industry includes non-residential building construction, engineering and other construction activity (e.g., roads and bridges) as well as repairs. Statistics Canada does not publish a breakdown of the construction industry workforce for each segment. It does, however, produce numbers on the value of the output for each segment. Chart 8 shows the share of the housing sector in the construction industry gross domestic product (GDP) since 1997. This share has grown sharply in recent years, suggesting that many construction industry workers have migrated to the residential sector. Furthermore, the fact that this share is now at its highest in at least a quarter of a century cast a serious doubt on whether the residential construction sector can continue to feed its growth by drawing workers from other sectors. It may well be that the residential construction industry has benefited from a temporary lull in activity in other construction sectors in recent years.

Chart 8: Share of housing in construction industry GDP

(Statistics Canada, CANSIM table 36-10-0402-01)



WHAT HAPPENS WHEN HOUSING SUPPLY CAN'T KEEP UP WITH DEMAND?

To answer this question, let's start with the basics. In economics, the core function of the market is to balance supply and demand. It does so through the price mechanism: when demand exceeds supply, prices usually go up. Typically, a higher price for a given product will lead producers to supply more and consumers to demand less. The actual extent to which stronger demand will push prices up and for how long depends on the dynamics of both supply and demand. Typically, the price of a given product will increase the most when (1) supply cannot be expanded easily and (2) the product is an essential good that can hardly be replaced with another. Housing in New Brunswick today is a perfect example of such a product.

Let's start with supply. To be sure, some property owners will react to higher prices and strong demand by renting out a part of their property. As for the building of new housing units, even in the best of conditions, housing supply will typically respond to stronger demand with a lag since it takes time to build new units.

But conditions these days are far from ideal. We focused earlier on labour as a major constraint on New Brunswick's ability to expand housing supply. This is the most important bottleneck, one that could soon get worse unless bold action is taken. There are other constraints. Although the situation seems to be easing somewhat, supply bottlenecks for materials are slowing construction activity. Higher interest rates are also raising construction costs, a challenge that could very well lead some builders to cancel or at least delay some of their projects. If this happens on a sufficiently large scale, it could temporarily alleviate labour shortages in the industry. This reprieve, however, would most likely come at the cost of a worsening housing crunch as demand further runs ahead of supply.

Let's now turn to the demand side of the equation. When demand for a good exceeds supply and the latter cannot be expanded easily, the market will balance the two by raising prices in order to destroy some demand. In the case of housing, demand destruction is no easy task. As housing is a basic need, people will do whatever they can to stay housed. This means that prices typically will have to go up sharply to balance supply and demand.

New Brunswickers are not all equally affected by a housing market in which supply can't keep up with demand. For existing homeowners, it means rising property values, but higher taxes if rates are not adjusted accordingly. For municipalities, and to a lesser extent the provincial government, it means a rising tax base. As for homeseekers and renters, it means different things to different people. At the top end of the market, those with greater means can buy the home or rent the apartment they want by bidding up prices. Many home or apartment seekers, however, do not have that luxury. Faced with higher prices, some homeseekers are opting to purchase a smaller home than they would have previously, or to rent rather than to buy, thus exerting greater pressure on the rental market. As for renters, faced with higher prices[2], some are opting for a smaller place, while other are having to share their units with roommates. Finally, some of the most vulnerable among us end up priced out of the housing market altogether, effectively becoming homeless. In short, when demand outstrips supply, most New Brunswickers end up paying more to get less and the ranks of those who are inadequately housed—or not housed at all—swell.

Most new or recent immigrants coming to New Brunswick are renters. Many of them earn relatively modest incomes and are therefore looking for affordable renting options, thus exerting extra pressure on this segment of the rental market and pushing up prices. The impact of strong rental demand is visible in Chart 9, which shows a loss of nearly 9,000 rental units previously considered affordable (i.e., with shelter costs below $750 per month) between the 2016 and 2021 census.

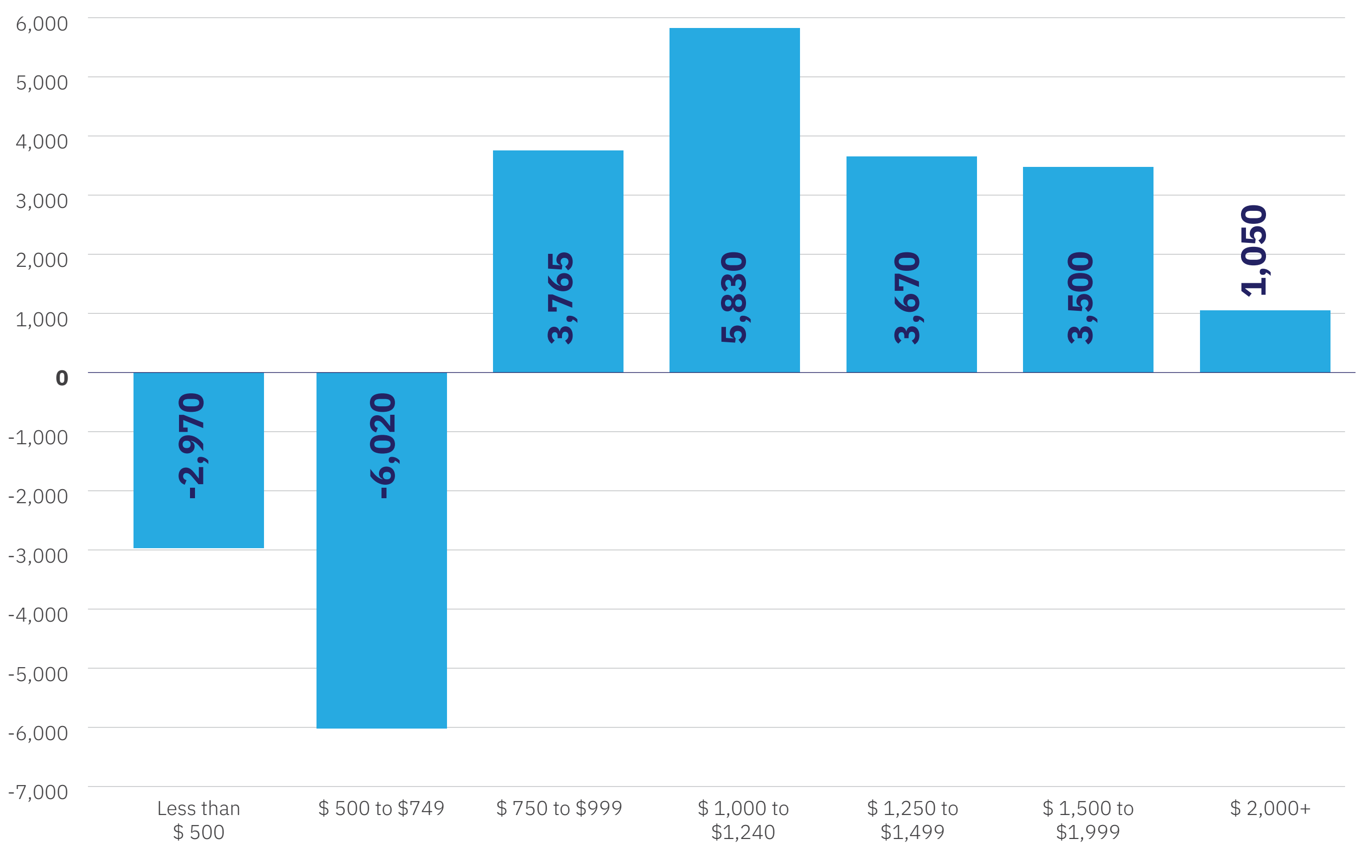
Of note, New Brunswick's housing crunch does not just affect individual households; it also has an impact on communities, and indeed, the whole province. Recently, the media has been awash with stories of employers and other stakeholders, from post-secondary

2. In its March 2022 budget, the government of New Brunswick implemented a one-year ceiling on rent growth for existing units, capping it to the previous year's inflation rate (3.8 per cent). This measure has sheltered existing tenants from much of the effects of the province's housing crunch, provided they did not move to a different location or were not "renovicted." That said, supply and demand for rental units still had to be brought into balance, which meant much greater pressures on rents for the limited number of units available on the market. Put differently, the burden of adjustment through demand destruction, which rested previously on the entire market—and allowed some landlords to raise rents sharply on existing tenants—shifted largely to apartment seekers competing to secure the limited number of available units. The latter notably included students, people needing to move to a different community for employment reasons and newcomers to New Brunswick.

education institutions to chambers of commerce and municipalities, sounding the alarm that they can't welcome as many newcomers as they'd like due to a lack of housing. When employers can't find the workers they need, some employers inevitably ending making difficult decisions, such as not expanding locally, moving some or all of their activities elsewhere—including outside the province—or closing shop. When education institutions cannot welcome as many students as they'd like, not only do we lose the immediate economic benefits from their presence in our communities, but our talent pipeline is also smaller than it otherwise could be. It is New Brunswick's very prosperity and ability to deliver much-needed public services that are impaired by a lack of adequate housing.

Chart 9: Change in Rental Units 2016-2021 by Monthly | Shelter Cost, New Brunswick

(Data compiled by the BCNPHA from census 2016 and 2021)



Many stories about how a lack of housing is preventing communities from attracting more newcomers take place in rural and small-town New Brunswick. This should not come as a surprise given that housing starts outside the three CMAs remain flat despite evident signs of tightness, such as zero or near-zero vacancy rates in smaller communities. To date, no one has provided a definitive explanation as to why the market is not responding to strong demand in rural and small-town New Brunswick. It is logical to assume, though, that with labour in short supply across the province, developers are focusing their efforts where risk-adjusted returns are greatest. Judging by the data, it would seem that those returns are to be found at the higher end of the rental market in the three CMAs.

SUMMARY

Until recently, New Brunswickers had little reason to be concerned about the state of their housing market. Home prices were low and rising slowly, apartments were plentiful and rents were rising at or below inflation.

This has changed in recent years. With our population expanding at its fastest level in at least four decades, demand for housing has grown rapidly. Unlike in the past, New Brunswick's housing supply is struggling to keep up with growing demand, resulting in an escalation in home prices and rents. With demand running ahead of labour-constrained supply, developers are understandably focusing on the opportunities that present the best risk-adjusted returns, which are in the multiple-unit segments in the three CMAs. In rural and small-town New Brunswick, residential construction activity remains flat despite evident signs of tightness.

In this context, New Brunswick is increasingly being divided between the housing "haves" and "have-nots." This divide applies not only to the province's households, but also to our communities, separating the three CMAs from rural and small-town New Brunswick. For New Brunswick to live up to its potential as a growing, prosperous, inclusive place with an excellent quality of life, we must ensure adequate and affordable housing for existing and future New Brunswickers throughout the province. Unless we tackle our housing crunch head on, New Brunswickers could at some point turn sour on the province's demographic strategy.

The aim of this paper was to scope out New Brunswick's housing challenge and identify the key bottlenecks to expanding supply across the province. The next two papers, to be released shortly, will examine the magnitude of the housing "gap" across the province and identify a series of concrete steps for moving forward on this vital file.

Over the last few years, New Brunswick went through one of its most transformative periods in its history. Our new reality as a fast-growing province presents much opportunity, but also new challenges, with housing being at the forefront. By working together, we can meet this challenge and pave the way for many more years of inclusive, balanced prosperity in all corners of our beautiful province.

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