

ECONOMIC VIEWPOINT

Why Housing Market Easing Hasn't Pulled More Households off the Sidelines

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HIGHLIGHTS

- ▶ Despite a shift in housing market conditions in 2025, measures of housing activity have not rebounded proportionately, particularly in Canada's highest priced markets. One possible reason is that affordability is still too far out of reach for many people, preventing many from moving out on their own.
- ▶ Evidence suggests that this suppressed household formation was substantial in Canada—reflecting years of accumulated affordability constraints—even prior to the recent large influx of newcomers that outpaced homebuilding completions.
- ▶ At face value, easing housing market conditions in 2025 could be interpreted as evidence that Canada's housing shortages have cleared. However, aggregate market statistics aren't the best indicator of new household formation. Instead, we need to look at price points, locations and unit types accessible to suppressed households rather than in aggregate market statistics alone.
- ▶ In the rental market, even as headline indicators improved, lower-cost units remained scarce, potentially limiting the ability of some suppressed households to form.
- ▶ In the ownership market, affordability remained stretched by historical standards, while elevated rents in recent years may have limited down payment accumulation for many renters. Economic uncertainty in 2025 likely reinforced delayed household formation.
- ▶ Recent policy initiatives have helped support new supply, particularly in purpose-built rental construction. However, important gaps persist in how affordability is addressed and assessed.

Despite an easing in housing market conditions in 2025, measures of housing activity have not rebounded proportionately, particularly in Canada's highest priced markets. This suggests there may be factors constraining housing demand and supply from coming into balance. One possibility is that affordability is still too far out of reach for many people. This may have the effect of suppressing household formation altogether, as people live with family, friends or roommates longer than they typically would or would like. This report digs into this possible source of housing market rigidity and what it might take to get household formation back on a more sustainable path.

People Are Sideline'd by Unaffordability

Suppressed household formation refers to the gap between the number of households that would have been expected to form under affordable conditions and the number that actually exist. Text box 1 on page 2 provides several illustrative, though not exhaustive, examples of suppressed households (in other words, pent-up demand).

TEXT BOX 1

What Is Suppressed Household Formation?

Suppressed households are those who would live on their own if housing were affordable and available, but cannot under current conditions, whether in the rental or ownership market. Examples include:

- ▶ Young adults who continue to live with their parents because rent is too expensive relative to their take-home pay
- ▶ Roommates who would prefer to live alone, but rent for a one-bedroom apartment exceeds their budgets
- ▶ People who live in overcrowded or makeshift spaces, such as converted dining rooms, because they can't afford alternatives with fewer roommates
- ▶ Adults who move back in with parents specifically to accumulate savings for a future down payment since paying rent would leave them with little to set aside each month
- ▶ Couples who delay forming their own household and continue living with parents or roommates because moving into their first place together isn't financially viable
- ▶ Couples who delay separation or divorce because they can't afford to maintain two homes
- ▶ Recent newcomers to Canada who continue to double up with other families rather than moving into their own rental unit once their incomes have stabilized
- ▶ Seniors who move into their adult child's home due to the cost of living independently

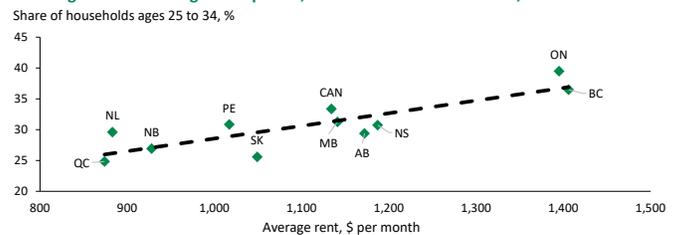
Canada has clear evidence of suppressed household formation. [The Parliamentary Budget Officer](#) (PBO) estimated that there were roughly 631k such households nationally as of 2021.¹ This estimate is based on the most recent census, which provides an order-of-magnitude sense of the unmet housing need that had accumulated prior to the recent influx of newcomers to Canada. When population growth outpaces homebuilding completions, a region can face the physical constraint that the number of households can't exceed the number of dwellings. As such, one can reasonably assume that the number of suppressed households is even higher now than in 2021 due to the surge in population over the past few years.

In practice, household formation can be constrained well before a region runs out of physical housing units. This often stems from limitations related to price, location, unit type, credit access and/or the stability of rental arrangements. Indeed, empirical evidence supports that lack of affordability can be a driver of suppressed household formation. For instance, the share of older youth (ages 25 to 34) living with a parent, other relative or roommates clearly rises as rents go up (graph 1).

¹ This estimate is based on age-specific headship rates observed in more affordable environments applied to regions facing tighter housing conditions.

Graph 1
Older Youth Are More Likely to Share Housing in High-Rent Provinces

Youth ages 25 to 34 living with a parent, other relative or roommates, Census 2021



Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Why Market Easing in 2025 Was Expected to Help

Housing market fundamentals shifted meaningfully in 2025, creating conditions that would be expected to reverse suppressed household formation. New home completions increased supply, while population growth slowed materially following federal policy changes introduced in late 2024. Rental markets broadly, and ownership markets in some regions, showed signs of easing: asking rents declined and resale home prices fell in several previously overheated markets. Rental vacancy rates climbed and ownership conditions shifted toward balanced conditions, and in some cases buyer's markets, with homes for sale remaining on the market longer.

At face value, these developments could be interpreted as evidence that Canada’s housing shortages have cleared.

However, aggregate market statistics aren’t the best indicator of new household formation. Instead, we need to look at price points, locations and unit types accessible to suppressed households rather than in aggregate market statistics alone.

Suppressed Household Formation Reflects Accumulated Unmet Need

Suppressed household formation represents housing demand that has been deferred, not eliminated. Some of these households may be positioned to form quickly when affordability conditions improve. Others may face deeper or more persistent constraints. As a result, cyclical improvements in selling prices or rents may not fully close the affordability gap for all suppressed households.

Vacant housing units play an important intermediary role in absorbing short-run mismatches between supply and demand.

Because population growth, household formation and homebuilding occur at different times and locations, some level of vacancy is both normal and necessary to allow households to search for and move to suitable dwellings. However, the [PBO](#) reported that the surge of newcomers in 2023, which far surpassed housing completions that year, drove Canada’s combined rental and ownership vacancy rate to a record low of 5.1%—well below its long-run average of 6.9%. This intensified pressure across both rental and ownership markets.

Rental Market Easing Helped, but Likely Not Nearly Enough to Fully Close the Gap

Rental market conditions improved in 2025, but not uniformly or enough for many suppressed households.

[Rent inflation](#) surged in 2022 and 2023 alongside a record number of newcomers (graph 2), a group that overwhelmingly [rents](#) upon arrival. At the same time, estimates of homebuilding completions fell short of the likely pace of new household

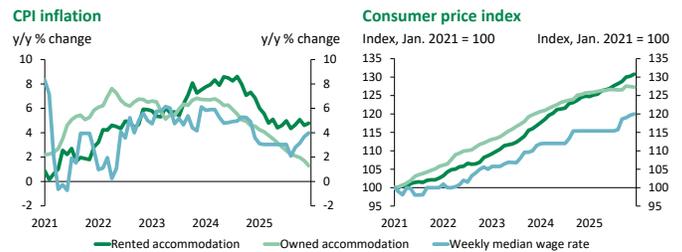
formation, driving the national rental vacancy rate to just 1.5% in 2023—well below the roughly 3% threshold typically associated with balanced conditions.

Following the slowdown in population growth spurred by federal policy changes in late 2024, national [asking rents](#) have declined for 16 consecutive months and counting.

Rented accommodation consumer price index (CPI) inflation moderated, and the national vacancy rate rose to 3.1% in 2025. These shifts marked a clear easing from peak tightness.

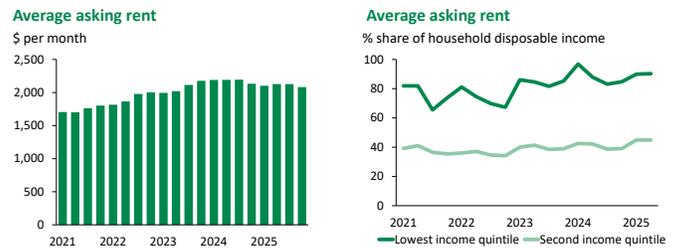
Yet affordability remained strained. Cumulative increases in housing costs since 2021 have far outpaced growth in median weekly wages, leaving affordability sharply eroded even after recent easing in shelter prices (graph 3). Household balance sheets tell a similar story. Average disposable income in the lowest quintile would have been barely sufficient to cover average asking rents, while households in the second-lowest quintile would still be allocating roughly 40% of disposable income to rent (graph 4).

Graph 3
Rented and Owned Accommodation Inflation Outpaced Wage Gains



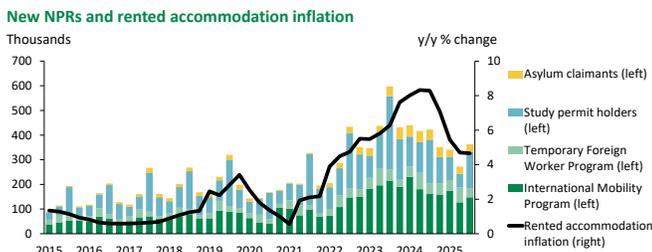
CPI: Consumer price index
Statistics Canada and Desjardins Economic Studies

Graph 4
Asking Rents Have Eased but Remain Unaffordable at Lower Incomes



Rentals.ca, Statistics Canada and Desjardins Economic Studies

Graph 2
The Sharp Inflow of New NPRs Helped to Drive Up Rent Prices



NPR: Non-permanent resident
Immigration, Refugees and Citizenship Canada, Statistics Canada and Desjardins Economic Studies

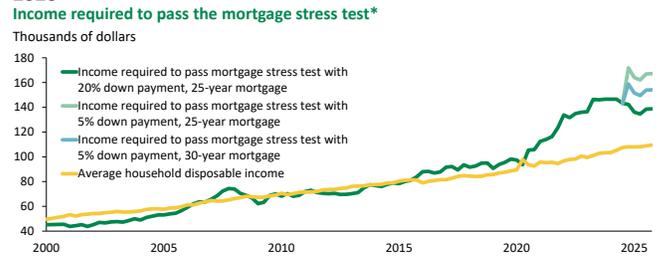
Moreover, conditions remained uneven across the rental market. CMHC figures show that in 2025, vacancy rates for units renting below \$750 per month were just 1.6%, and those renting between \$750 and \$999 were even tighter at 1.3%—well below balanced conditions. In contrast, the vacancy rate was 2.6% for units renting between \$1,250 and \$1,499, and 4.4% for those renting at \$1,500 and above. This suggests that even as headline indicators improved, lower-cost units remained scarce, limiting the ability of some suppressed households to form.

The Ownership Market Is Easing but Entry Barriers Persist

As in the rental market, improving conditions in the ownership market didn't guarantee an immediate or broad-based release of suppressed households. National housing markets shifted toward balanced conditions, influenced by buyer's markets in Ontario and BC. Yet ownership affordability remained stretched by historical standards in every province (graph 5). Mortgage rates declined meaningfully from their recent highs but settled well above any level observed since the Global Financial Crisis—and are expected to remain at this level through 2026 (graph 6). Even in places where home prices fell, elevated starting levels meant large mortgage balances and high monthly payments for new buyers.

Entry barriers compounded these challenges. Elevated rents in recent years likely limited down payment accumulation for many renters. The federal government enacted policy changes in late 2024 that raised price caps for insured mortgages, thereby reducing minimum down payment requirements. But for the same home, a higher loan-to-value ratio would increase qualifying income thresholds under the mortgage stress test—even for those pairing lower down payments with 30-year amortizations (graph 7).

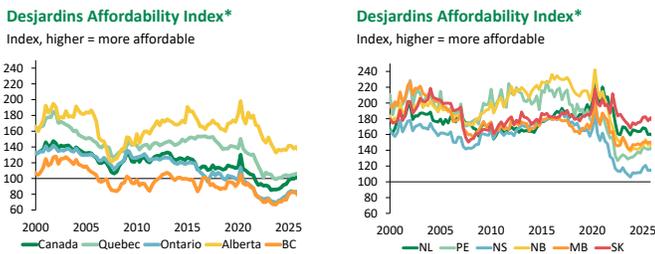
Graph 7
The Income Needed to Pass the Stress Test Has Risen Dramatically Since 2020



* Based on the maximum 39% gross debt service ratio of a mortgage payment calculated on a home purchased at the average selling price, with an interest rate of 5.25% or the contract rate +2% (whichever is larger), plus property taxes and fees. Canadian Real Estate Association, Canada Mortgage and Housing Corporation, Statistics Canada, Bank of Canada and Desjardins Economic Studies

Shifting trends in the distribution of income and wealth further polarized the ability to enter the housing market. While affluent households have benefited disproportionately from asset appreciation since 2021, partly reflecting gains in real estate and financial assets, net worth among lower-income households—central to future household formation—declined moderately over this period (graph 8). As a result, the households best positioned to take advantage of modest improvements in homeownership affordability weren't necessarily those whose formation had previously been suppressed.

Graph 5
Homebuying Affordability Isn't Expected to Improve Much Next Year



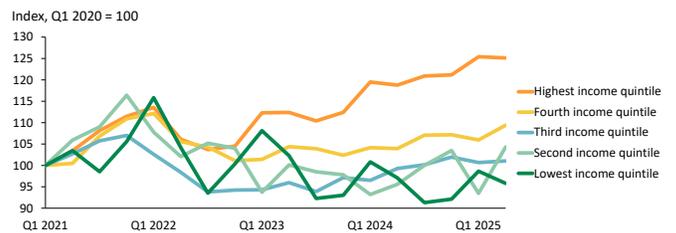
* Assumes a 20% down payment
Canadian Real Estate Association, Statistics Canada, Bank of Canada and Desjardins Economic Studies

Graph 6
Mortgage Rates Are Expected to Remain Above Pre-Pandemic Levels



Bank of Canada and Desjardins Capital Markets

Graph 8
Recent Gains in Net Worth Were Concentrated in the Highest Income Households



Statistics Canada and Desjardins Economic Studies

Economic Uncertainty and Further Suppressed Household Formation

Beyond prices and rates, economic uncertainty in 2025 likely reinforced delayed household formation. Escalating [trade tensions](#) between Canada and the US heightened concerns about job security, particularly in trade-exposed sectors. For some would-be buyers, this uncertainty may have reduced their willingness to commit to long-term financial obligations, even as market conditions improved. While survey data don't identify the specific reasons for hesitation, the [Bank of Canada](#) recently reported that fewer than 15% of renters plan to purchase a home within the next twelve months—the lowest share since the survey began in 2020.

In rental markets, tenant mobility also remained subdued. Data from [Yardi](#) show that in Q4 2025, turnover rates (the share of tenants moving out as a percent of total units) were little changed from a year earlier, suggesting that easing conditions didn't immediately prompt widespread changes in living arrangements. Rent control may have further reduced incentives to move for tenants in long-standing below-market units.

Housing Policy Shows Progress but Significant Gaps Remain

Federal immigration targets resulting in [slower population growth](#) may introduce a downside risk to housing supply over the medium term. While easing demand pressures can improve near-term affordability, lower immigration levels could reduce expected absorption, weakening the financial viability of particularly marginal projects. In the rental sector, lower projected population growth may reduce confidence in lease-up timelines and achievable rents. In ownership markets, it could dampen investor demand for condominium units, which in some markets has historically played a meaningful role in financing new supply—a dynamic already evident in exceptionally low presales in Toronto and Vancouver, popular destinations for newcomers to Canada. Demand-side restraint, if not carefully calibrated, could weigh on homebuilding even as underlying affordability gaps persist.

Closing Canada's housing gap will require construction well above recent norms, alongside clearer affordability outcomes. Estimates of required housing starts range from roughly 290k per year ([PBO](#)) to eliminate the housing gap, to nearly 500k ([CMHC](#) and [Build Canada Homes](#)) in order to restore housing affordability over time. By comparison, Canada's historical high-water mark was just under 275k new housing starts in 2021—a pace that may have reflected catch-up from pandemic disruptions. However, [Desjardins Economic Studies](#) expects that housing starts may increase only modestly over the next two years—a far cry from the pace required to restore affordability. And as [we recently reported](#), elevated construction

costs and weak productivity growth continue to constrain homebuilding, limiting the extent to which elevated new supply may be able to translate into materially better affordability.

Recent policy initiatives have helped support supply, particularly in purpose-built rental construction. Programs such as CMHC's [Apartment Loan Construction Program](#)—which lowers financing costs—and the federal [GST rebate](#)—which eliminates GST on purpose-built rental construction—have reduced overall building costs for developers. Over time, this additional supply could help moderate rents without undermining project viability, potentially enabling more formation of currently suppressed households.

Historically, policies have focused more on increasing unit counts than on ensuring affordability. [Build Canada Homes](#), launched in September 2025, represents a larger shift toward direct public provision of below-market housing. But its impact will depend upon the scale, speed and geographic location of projects.

Municipalities have limited revenue tools to fund the infrastructure and services needed to support new housing. However, much of the demand for new homes has been driven by population growth stemming from federal immigration decisions. Programs such as the [Housing Accelerator Fund](#) and the [Canada Infrastructure Bank](#) represent steps toward addressing this mismatch. More explicit and predictable federal participation in growth-related infrastructure funding, including support tied to or scaled with local population growth, could further ease pressure on local governments and improve housing delivery capacity.

Moreover, important gaps persist in how affordability is assessed and addressed. Many programs define “affordable” relative to local market benchmarks such as average rent rather than household incomes, particularly at the lower end of the income distribution. Additionally, programs are typically evaluated using limited and lagged data. These gaps make it difficult to assess whether recent initiatives are meaningfully unlocking suppressed household formation.

Conclusion

Canada's experience in 2025 suggests that short-term housing market easing shouldn't be interpreted as evidence that suppressed household formation has been resolved. Rental conditions improved, but lower-cost options remained scarce. While ownership affordability has improved since 2022, it has remained elevated by historical standards. Slower population growth has eased near-term demand pressures but could weigh on medium-term residential construction.

Releasing the stock of suppressed households is likely to require more than meeting numerical construction targets. Durable progress should depend on better aligning population growth with construction capacity and implementing policies that materially improve affordability across both rental and ownership segments while ensuring project viability for developers. Absent meaningful productivity and efficiency gains in the construction sector, progress on affordability could entail difficult trade-offs, including sustained public subsidies or reduced profitability that could ultimately discourage supply. Without sustained progress on affordability, suppressed household formation may remain latent—even during periods when headline housing indicators point to improving market balance.