



## Soaring Home Prices: Tesla Reminds Us Why it's a Problem for Businesses, Too

### Description

These days, with all the negative headlines and talk around soaring home prices, you'd think for homebuyers, real estate is the next pandemic.

But today, in Palo Alto, California, we're reminded that house prices don't just affect homebuyers. They can affect an area's economy, too.

### What happened?

On Thursday, October 7, Elon Musk announced that **Tesla** would no longer operate from Palo Alto, California, where it's had its headquarters since 2009.

While the details around the move aren't clear, Musk said he wanted to move Palo Alto's operation around 3,000 kilometres away to Austin, Texas.

The reason? Simple. It's more affordable there.

According to [BestPlaces](#), a digital cost of living calculator, Palo Alto is 294.7% more expensive than Austin, with housing costs being 699% higher. Yes, it's nearly seven times more expensive to live in Palo Alto than it is to live in Austin.

Musk cited other reasons for the move, too, (the Austin airport is 15 minutes away from the proposed building site), but affordability for his employees was clearly top of mind.

### What does this have to do with Canada?

When a company with a market cap of \$779 billion packs its bags and moves 3,000 kilometres away, you definitely want to take note. And for Canadians, there's a lesson to be learned.

We're currently on the brink of a substantial housing crisis. In fact, some might say we're in the middle of it. Last Tuesday, Canada Mortgage and Housing Corp (CMHC) issued its highest risk rating for the

entire country, meaning that the market is highly vulnerable right now. House prices are accelerating at an alarming rate, with many houses being overvalued, and the CMHC is concerned that we're heading for a market downturn.

For homeowners, the hike in home prices may have made them wealthy overnight. But overinflated home equity could have an adverse impact on the job market. Many workers just can't afford to live in metropolitan areas with high housing costs, such as Ottawa, Toronto, and Hamilton. And even though Canada added 157,000 jobs in September, many businesses are still heavily understaffed. At this rate, if workers are moving to cities where the housing costs are cheaper, guess what? Businesses won't be far behind.

Rising home prices could affect Canada's economy in another way: business investment. Right now, foreign businesses aren't exactly flocking to Canada to open up shop. In fact, since 2010, Canada's business investment rates have slowed down considerably, falling behind the United States and other developed countries. And with affordability going down, we may very well see less business investment in the next few years.

Just as a thought experiment, imagine if **Shopify**, currently headquartered in Ottawa, decided to move its operations to a city with cheaper housing, say, Cornwall, or to another territory altogether. It may seem outlandish, sure, but then again, who would have thought Tesla was going to move from Palo Alto to Austin?

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