



# Time to Focus on Market Housing and Homeownership: CHBA 2018 Pre-Budget Submission

## August 2017

Since 1943, the Canadian Home Builders' Association has been "the voice of Canada's residential construction industry" - one of Canada's most vital and enterprising industries.

In 2016, the industry continued to support over 1 million jobs in new home construction, renovation and repair, and continues to be one of the largest employers in Canada. One of every 18 workers in Canada is employed, directly or indirectly, in residential construction. Total wages paid in 2016 were \$59.4 billion.

The investment value of new homes, renovations and repairs produced by the industry in 2016 exceeded \$138 billion.

Housing and residential construction are key to Canada's economy and the well-being of Canadians. Today, however, much of this is at risk, and it is time for action to protect this key sector of the economy and the assets of Canadians.

## Executive Summary

### Federal Measures to Truly Help Middle Class Canadians

Housing remains the most significant financial foundation for Canadian families. Housing and homeownership play a critical role in being "middle class" and in joining the "middle class". Changes in the housing environment now have homeownership at risk for the next generation of Canadians. Homeownership needs to be attainable if we are truly to support those aspiring to join the middle class.

The CHBA has identified a number of measures to increase the opportunities for well-qualified young Canadians to own a home; to increase the supply of homes and promote housing market stability:

- Pursue a comprehensive National Housing Strategy that addresses the full Housing Continuum - more than just a "social housing strategy". It needs to address the affordability challenges in market-rate housing where 94% of Canadians live, the vulnerabilities the market presents to Canada's financial system, and the role government has to support access to responsible homeownership
- Support Improved Access for First-Time Home Buyers
- Support affordable residential development with ready transit access

## **Federal Measures to Help Canadian businesses to be More Productive and Competitive**

The small- and medium-sized businesses that make up the majority of firms in the residential construction industry face a number of barriers in two major areas:

- Providing the types of housing that Canadians want to live in; and
- Providing energy-efficient features and technology to the mass market in an affordable way.

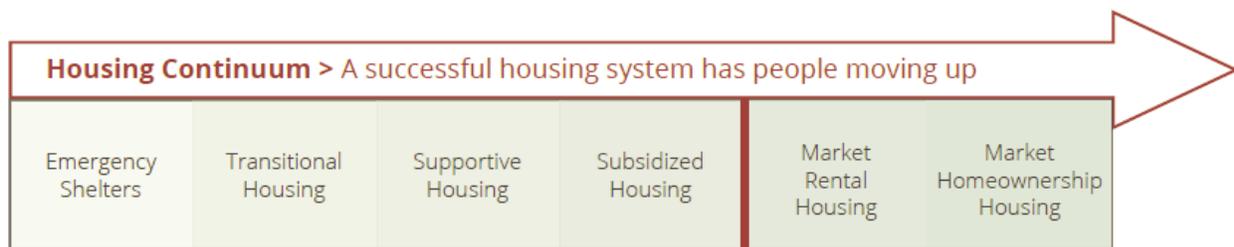
The CHBA has identified a number of measures to increase the supply and types of homes available to Canadians and their families; and to provide desirable energy-efficient housing and retrofit in an affordable manner, while helping the government achieve its climate change objectives:

- Fix Taxation that Inhibits New Market Rental Production
- Facilitate Market Adoption of Net Zero Housing that Canadians can afford
- Support Climate Change and Fight the Underground Economy through a Home Retrofit Program
- Encourage Energy Literacy by Bolstering the Government of Canada's EnerGuide Rating System

# A Comprehensive National Housing Strategy

When Canadians express concern about housing affordability, they are thinking about their children's ability to afford to buy a home. Action on market-based housing – where 94% of all Canadians live – needs to be a priority.

CHBA believes that while efforts to meet the housing needs of disadvantaged Canadians should be properly funded, a proper National Housing Strategy needs to focus on housing affordability on a whole-of-market basis.



The housing market is a continuum, of which social housing is only one part—early drafts of the National Housing Strategy suggest that action will only be directed at social housing. Addressing the entire housing continuum is essential to any successful housing strategy—if market-rate affordability is not addressed, not only will many be locked out of the middle class, others will slip the wrong way on the continuum into core housing need.

## Fix Market Affordability so that the Housing Continuum can function.

As stricter mortgage rules bite into the ability to become first-time buyers and access for them is squeezed, more demand will be generated for both available rental stock and for the very limited supply of social housing.

Historically, over 80 percent of rental units becoming available each year are from first-time homebuyers vacating their units. If renters can't move into homeownership, units aren't made available to others.

Deteriorating market-rate affordability and barriers to home ownership cascade right down to those in housing need.

If we do not fix affordability (both market-based rental and homeownership), no amount of “affordable” social housing investment will be able to keep up; conversely, Housing Affordability (houses people can afford) will also alleviate pressure on Affordable Housing (social housing).

Further, healthy housing markets and housing affordability are essential to a sound and equitable society. Unequal opportunities to access homeownership are creating an economy of winners and losers that's dividing Canadians by class and by region and reducing upward mobility.

# Support Improved Access for First-Time Home Buyers

Housing is a recognized cornerstone of the middle class and those aspiring to join it. But the current situation in the most attractive markets for young families has turned against potential first-time buyers.

Today's hard-working Canadians—especially our young people—should have the same chances to fulfill their dream of ownership as previous generations.

CHBA urges the government to consider the longer-term negative impacts on the economy and Canadian families of declining housing affordability and access to homeownership opportunities for first-time buyers.

Young Canadians are disproportionately affected by the mortgage rule changes. Measures to facilitate substantially more entry-level supply, especially the “missing middle” housing forms most sought today by first time buyers, would help reduce the pressure on prices more effectively than trying to suppress demand via mortgage rule changes.

A range of cost-effective federal policies and measures can facilitate increased access to home ownership by Millennials and New Canadians to keep homeownership and the middle class within reach without causing undue risk on the financial system:

## **Innovative, Risk-Free Ways to Support First-Time Homebuyers**

- Do no more to change mortgage rules to further lock-out first-time homebuyers.
- Avoid national measures to address one market that will negatively affect many others.
- Work with other levels of government to address root causes and create more effective solutions related to the other new fundamentals, such as new housing supply.
- Increase limits to the First-Time Home Buyers Plan;
- Allow intergenerational RRSP transfers;
- Support Shared Equity Downpayment Plans that enable third-party equity to increase down payments;
- Remove the “tax on tax” that new home buyers face when GST is applied on top of municipal development taxes buried in the land component of new homes; and,

It is essential to strike a balance between appropriate rules and oversight to protect taxpayers against severe macroprudential risks, and restrictions so extensive that they completely lock out first-time home buyers.

## Support Transit-Oriented Development, Complete Communities and the “Missing Middle” of Housing

Strategic infrastructure investment, as committed to by the government, can expand housing affordability by opening up new areas for fully-serviced development and reducing pressures to raise development-related taxes on new construction (now totaling over \$6B annually).

To ensure that Canadians get maximum benefit from federal infrastructure investments, the Government needs to support increased supply in the “missing middle” – whether “gentle intensification” via secondary suites, conversion of larger units or medium-density low-rise mixed-income housing, in walkable communities with ready access to public transit.



To support affordable residential development with ready transit access, the federal government needs to:

- Tie infrastructure investment to proven transit-oriented residential development plans, ensuring proper density around transit nodes to promote affordability and maximum ridership;
- Develop metrics, track and measure success (CHBA has developed such a system);
- Activate the policy to write-down federal land for family-oriented housing - mixed-income, mixed-use, complete communities.
- Focus non-transit investment on core infrastructure.

In addition, the federal government can help provinces and municipalities counter “Not-in-My-Backyard” opposition to mixed-income development through **a National NIMBY-to-YIMBY Campaign**. New developments (especially densification) and new forms of housing, even when aligned with community plans, are often met with local public opposition. The government can promote “Yes-in-my-Backyard” for new “missing middle” development geared to first-time homebuyers, purpose-built rental developments, and affordable housing.

# Fix Taxation that Inhibits New Market Rental Production

Affordable market-based rental stock offers Canadians housing choices that do not rely on ongoing public subsidies.

However, there are two GST-related “glitches” that are inhibiting the production of private infill/accessory rental units and new for-purpose rental construction.

## Accessory Suites

Current rules for determining GST on accessory suites such as granny flats and laneway housing discriminate in favour of those with family ties to the owner of the main unit.

- The current GST rules require home owners to include estimated land value rather than just construction costs for tax calculation purposes, *but only when they intend to rent to non-relatives*.
- All types of detached accessory suites should be charged GST on the same basis as new suites within an existing building envelope, i.e., based on construction costs only.

These innovative infill projects can increase the number of homes in established neighbourhoods and increase affordability and choice for renters.

## Purpose-Built Rental

Rules for determining new rental property values upon which to base GST discriminate against new “purpose-built” rental developments. They are valued as if they were condominiums. Instead, valuations need to be based on actual project costs plus profit.

- Revise the federal tax regime to exempt new “purpose-built” rental developments from GST/HST, also called “zero-rating” these developments.
- Change GST rules regarding the “self-supply” of multi-unit residential buildings to more appropriately be based on “cost plus profit” at the option of the developer.

# Facilitate Market Adoption of Net Zero Housing that Canadians can Afford

CHBA's Net Zero Home labelling program supports leading-edge innovation in the residential construction industry as a voluntary and affordable choice for consumers.

Providing leading edge voluntary programming is key to advancing energy efficiency and supporting innovation in housing, while protecting choice and affordability.

CHBA's Net Zero initiative is leading Canadian energy efficiency not through code (which can degrade affordability), but through innovation and market transformation.



Canadian governments are seeking to regulate Net Zero Ready levels of energy efficiency by 2030. In order to do so without significantly hampering the affordability of houses for Canadians, significant innovation will be required.

Investment in research and development is needed, as is support to overcoming one of the most difficult barriers in the adoption of innovative technology and energy-efficiency features, which is the commercialization gap – the period between development and wide-scale (and affordable) market adoption.

The Federal Government needs to:

- Invest substantially in research to build more energy efficient houses that do not cost more, but cost only the same or less to construct
- Continue to invest in initiatives to support the commercialization gap (like NRCan's LEEP initiative) and fast-tracking codes/standards and building-official acceptance of innovations

# Facilitate Market Adoption of Energy-Efficient Retrofit

To meet Canada’s climate change goals, the key in the housing sector is not new construction but renovation. Supporting the energy retrofitting of existing homes will build on the housing sector’s already substantial contribution to national climate change objectives, without damaging affordability.

A dollar invested in improving energy efficiency of existing homes will yield four to seven times more GHG reductions than the same level of investment in a new home.

## Support Climate Change and Fight the Underground Economy through a Home Retrofit Program that:

- offers a permanent, refundable renovation tax credit;
- uses the EnerGuide Rating System; and,
- complements provincial and territorial home energy retrofit programs.

Such federal-provincial partnership increases affordability via operating cost reductions, and fight the underground economy— government receipt-based programs have a proven track record of suppressing the underground economy and can be cost neutral.

## Encourage Energy Literacy by Bolstering the EnerGuide Rating System

More value needs to be placed on the “invisible” energy efficiency of homes. The government’s EnerGuide Rating System for homes is a world leader that is under-resourced. It should be supported more and promoted as the single, standardized national system for rating and comparing home energy performance. Like nutrition labels on food packaging, this will support informed decision-making by buyers.

