



# **Housing Markets and Affordability: Strategic Considerations**

for the  
**Minister of Families, Children and Social Development and  
Minister responsible for Canada Mortgage and Housing Corporation  
and  
Federal-Provincial-Municipal Working Group on the Housing Market  
and  
the National Housing Strategy**

## **Purpose**

This note puts forward evidence-based policy recommendations from the Canadian Home Builders' Association (CHBA) relating to Federal policy initiatives now underway within both Canada Mortgage and Housing Corporation (CMHC) and the Department of Finance. These initiatives seek data and information to guide federal and coordinated intergovernmental actions to help ensure stable and secure housing markets, while at the same time ensuring Canadians can continue to become property owners. Of particular interest is the issue of continued growth in property prices in several major Canadian centres, especially Vancouver and Toronto. This is very important information to inform the National Housing Strategy as well.

## **Shared Priorities between Government and Industry**

Minister Jean-Yves Duclos' June 27, 2016 letter to CMHC makes it clear that ensuring the long-term financial security of Canadians is at the heart of the Government of Canada plan to help the middle class and those working hard to join it. The Minister notes that the appropriate focus for developing CMHC advice should be on "policy tools that could keep home ownership within reach for more Canadians". These goals are long-time goals shared by the CHBA as well.

Actions in recent years, post the sub-prime crisis in the U.S., have given priority to reducing risks to Canadian taxpayers in relation to federal mortgage loan insurance, with resultant reduction in affordability and access for well-qualified first-time buyers seeking to enter housing markets. Both market stability and affordability are important, and it is important to recognize that addressing affordability can also greatly enhance market stability. It is also important to note that facilitating access to property ownership is after all the principal rationale for having a vital

## **About CHBA**

The Canadian Home Builders' Association (CHBA) is the voice of Canada's residential construction industry.

Our 8,500 member companies include new home builders, developers, renovators, service providers, trades and more, engaged in the construction and renovation of low-rise and high-rise housing for purchase or rent.

CHBA's members are deeply engaged in their communities, working to ensure that Canadians can achieve their housing aspirations.

public sector role in mortgage insurance and lending in the first place. Financial viability of the mortgage insurance industry should be seen as an essential *means to an end—specifically to enable Canadians to enter homeownership responsibly*—rather than an end in itself.

## **Context and Scope of this Brief**

The Minister's letter lays out five key points about identifying and filling data gaps in relation to housing market dynamics, and then communicating data-driven analyses to support decision-making by governments, the industry and Canadians. It requests CMHC recommendations, based on stakeholder engagement on “strategic tools that would enable Canadians to become property owners”.

As context for the rest of this brief, for some time CHBA has raised and documented serious concerns about the declining affordability of home ownership in Canada. The Association is very pleased to see federal, provincial and municipal governments working together in new ways to address housing market issues that affect Canadian families and the economy as a whole. As the Minister's letter indicates, this is a complex, multi-dimensional issue, requiring thoughtful, multi-level and multi-faceted responses.

Further, improving affordability of market-based housing is a key element to be included in the National Housing Strategy. Such a strategy must address all elements of the housing continuum. Some 94% of Canadians are housed in market-based homes. Further, in order to have Canadians moving “up” the housing continuum rather than “down”, affordability must be addressed. In order to address the social housing challenges in Canada, a National Housing Strategy needs to address reducing the number of Canadians that need social housing—addressing affordability is key to that. In simple terms, you cannot fix the social housing challenge without also fixing affordability—otherwise you will have more and more people in need.

With respect to affordability, CHBA members are particularly concerned that young Canadians and New Canadians are being hampered in their efforts to become home owners. CHBA also recognizes that most existing home owners are seeking to maintain the value of their home as their largest single asset. Homes collectively account for more than \$4 trillion worth of personal wealth for Canadians.<sup>1</sup> (2012 Statistics Canada estimate). Both sets of interests need to be factored into data-gathering, analysis, and final policy choices. In brief, whenever the word “housing prices” is used, the word “resale values” typically can also be invoked.

Given this reality, CHBA supports the Government in situating its actions on housing and home ownership within the Government's overall commitment to supporting middle class Canadians in *every stage of their lives*. Homeownership is at the core of a strong middle class, and ensuring Canadians can continue to become homeowners is critical to their socio-economic well-being and to the economic performance of our country.

Because of the direct day-to-day engagement of its members in housing markets, CHBA is intimately familiar with the range of factors that both CMHC and the intergovernmental working group are investigating. These include: supply and demand for housing; the issue of affordability and cost factors contributing to it; and the stability of housing markets.

As governments consider price acceleration against “market fundamentals”, it is important to recognize that there are in fact new and different factors in today's market. This paper sets out

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<sup>1</sup> See: Statistics Canada, CANSIM Table 026-0018, Residential property values, by province, territory and census metropolitan area (CMA).

CHBA's views on the "new fundamentals" at play in Canadian housing markets now, and particularly in the GTA and GVR, as understanding these factors is critical to setting proper directions in terms of policy (including avoiding problematic policy). CHBA then recommends a range of policy actions to address the national issue of affordability and support market stability, including those specifically addressed to the GTA and GVR, while avoiding negative impacts there or in other regions of the country.

## The "New Fundamentals" - Key Data Gaps

Sustained and significant home price escalation in the largest urban centres over the past several years has led to calls for governments to take action to "dampen" rising prices. Two reasons are cited as rationales to address this price escalation: affordability and market stability. Both issues are important. As the government has acknowledged, measures by government to address these issues must be very carefully considered to ensure they are effective, do not exacerbate problems, and do not have unintended consequences in those markets or in other regions.

Actions by governments to affect how markets perform will always involves significant risks. This highlights the importance of gathering and disseminating accurate data and information and understanding the factors at work in specific markets, so that policy options can better be weighed in relation to both the desired outcomes, and the inherent risks involved.

There has been much media speculation about rising prices, particularly in the GTA and GVR, and the reasons for it. Single factors, like foreign buyers, are often suggested, rather than evidence based on looking at the broad range of factors affecting the situation. Together these factors seem to have created the "perfect storm" with respect to acceleration of housing prices in the GTA and GVR. *It will take action on all of these factors to return these markets to a healthier, more stable state.*

In this context, both government decision-makers and the industry recognize that "quick fixes" can be very risky, and involve significant unintended consequences, including destabilizing markets. That said, in CHBA's view, one fundamental arguably does override all others. If addressed effectively, it will have far reaching effects in addressing most other factors. However, it will take concerted government effort, at multiple levels, to achieve this. This key factor is *the lack of supply of family-oriented housing*. A full understanding of the main demographic, physical, regulatory, and local political elements contributing to restricted supply is essential to formulating policy to address this.

In CHBA's view, the "new fundamentals" driving up (and in some cases at an accelerating pace) house prices are as follows:

- **Supply and Demand Imbalances** – particularly in family-oriented housing;
- **Taxation of New Homes** – particularly development taxes paid by all new home buyers;
- **The Infrastructure Gap** – including the need to coordinate transit with associated development;
- **Regulations and Approval Processes** – increasing construction costs and delaying development, and increasing carrying costs;
- **Interest Rates and Mortgage Rules** – keys to keeping responsible homeownership within reach (or not);
- **Regional Economic Performance** – making one-size-fits-all national policy difficult;
- **Foreign Buyers** – with localized impacts, mostly in high-end homes;

- **Intergenerational Transfer of Wealth** – bringing the “Bank of Mom and Dad” into the picture and rendering affordability not just about income.

To support affordability and market stability, a thorough understanding of these new fundamentals is key. From there, measured and coordinated action can be taken by all levels of government to support sustained affordability and stability over the long-term, to the benefit of Canadians and the economy.

In each case above, *there are vital data gaps to be addressed* as well, which contribute both to a lack of comprehensive understanding of the issues at stake, and the dangers of inadvertent risks in taking decisions based on incomplete or even erroneous evidence. In brief, here are the main data gaps from a CHBA perspective, which are further elaborated in the policy-oriented sections following:

- **Supply/Demand Imbalances** – No detailed data on the supply of family-oriented housing are currently produced by price point and location in relation to jobs and services. No data on production of ground-oriented apartments or on bedroom counts of new apartment buildings are currently available. Demand for family-oriented housing affordable by Millennials and New Canadians is omitted from most planning for development in major urban regions. No data series exist on behaviour of family households denied their preferred housing choices, resulting in a discourse based on anecdotes alone.
- **Taxation of New Homes** – Ongoing tracking of development taxes paid by all new home buyers in urban areas by CMHC stopped in 2009. Statistics Canada data in this field are aggregated, incomplete and unavailable for urban geographic regions.
- **The Infrastructure Gap** – No data evaluating impacts of infrastructure investment on housing affordability are produced, nor are there data on the extent to which coordination of public transit with associated residential development is being achieved. Preliminary analysis by Ryerson University experts suggests that it is rarely being achieved in practice, at least in the GTA.
- **Regulations and Approval Processes** – No coherent data series exist on impacts of extensive local planning and development regulations on increasing construction costs, on carrying costs of delayed development, or on end prices charged. Again, this is a matter mainly for policy debate based on anecdotes, coupled with some case studies.
- **Interest Rates and Mortgage Rules** – No evaluation or assessment of the impacts of low interest rates coupled with tighter mortgage insurance and lending rules on different income groups among purchasers is available. Data series on borrower risks of Millennials and New Canadians may exist in privately-held data series but are not publicly available. Overall mortgage arrears data are published by the Canadian Bankers Association at a high level of aggregation only.
- **Regional Economic Performance** – No consistent assessment of the impact of federal mortgage rules on different regional market situations since 2008 is publicly available.
- **Foreign Buyers** – To date only Census-based data (from 2011) and short data runs based on sales and indirect indicators of foreign purchasers have been made available. No reliable measures of foreign buying over extended periods exist.
- **Intergenerational Transfer of Wealth** – No data series on the use of equity financing are available, even though this would appear to be an increasing factor in home-buying. No comprehensive studies of intergenerational transfers of wealth comparable to those carried out in Europe exist.

In brief, in the light of the above data gaps, and others, CHBA’s concern is that if the current federal and intergovernmental reviews result in short-term measures designed to dampen

selective housing markets, there is considerable risk of destabilizing markets, damaging the economy, undermining current homeowner equity, and negatively impacting younger and New Canadians long-term financial security for the longer term.

In contrast, there are many longer-term measures on which an immediate start can be made. Expanding and diversify housing supply, and investing in infrastructure that promotes affordability already have broad evidentiary support, and would appear to be “fail-safe”. Such initiatives present far less economic risk, and will promote more stable housing markets moving forward.

### **Factors Impacting Housing Markets, Home Prices, Affordability and Market Stability**

Based on a review of IMF and media reports, “affordability” has typically been assessed using standard economic “fundamentals”, such as price-to-income ratios, and price-to-rent ratios. Housing markets have also frequently been described as if they were exactly the same as, or at least analogous to stock markets.

CHBA contends that the standard measures of affordability need to be reassessed in the light of new fundamentals, and also that stock market analogies are often misleading, if not entirely off-base, as in the case of references to “50 percent market corrections”, a phenomenon that has never occurred in Canadian history.

### **Supply/Demand Imbalances for Family-Oriented Housing**

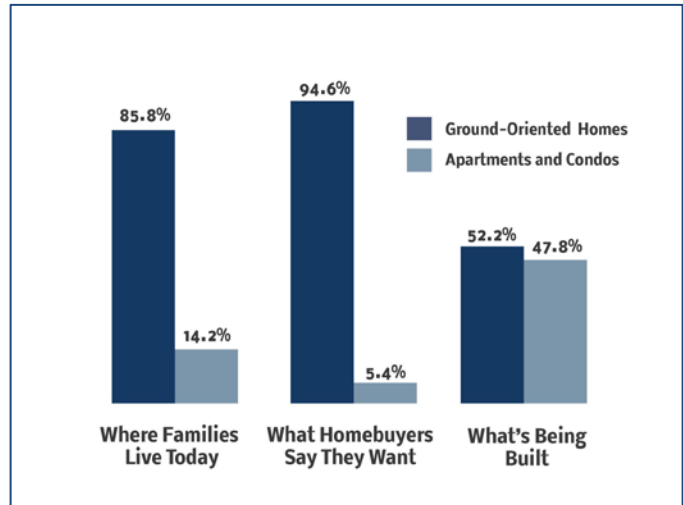
For some time, CHBA has been alarmed that most Canadian urban markets, and especially both the GTA and GRV, are experiencing chronic undersupply of family friendly, ground-oriented homes. This is the prime factor in ongoing price escalation in this segment of the market in both the GTA and GVR, and is also contributing in similar ways to higher prices in many other regions.

In brief, those with superior equity stakes, mainly among older Canadian households, including Baby Boomers, appear to be both competing for low-rise family-oriented housing, and also not following planners’ assumptions about making these units available for new generations of occupants.

In part, this situation reflects a general trend in Canadian cities towards more intensive residential development where less ground oriented construction is permitted, and where the value of land necessitates higher densities to be commercially viable, in the form of mid- to high-rise construction. This situation is even more pronounced in the GTA and GVR and is further exacerbated by the misalignment between increased volumes of this form of housing, and the high levels of demand for ground-oriented, ‘family- friendly’ homes by Canadians of all age groups. Research conducted for CHBA estimates that in the GTA, the ‘shortfall’ of ground oriented homes (demand less incremental supply) is running at about 10,000 units per year currently.

On a national basis, urban intensification has resulted in a growing divergence between what Canadian home buyers say they want, and what the residential building industry is allowed to construct, as shown in the graph here.

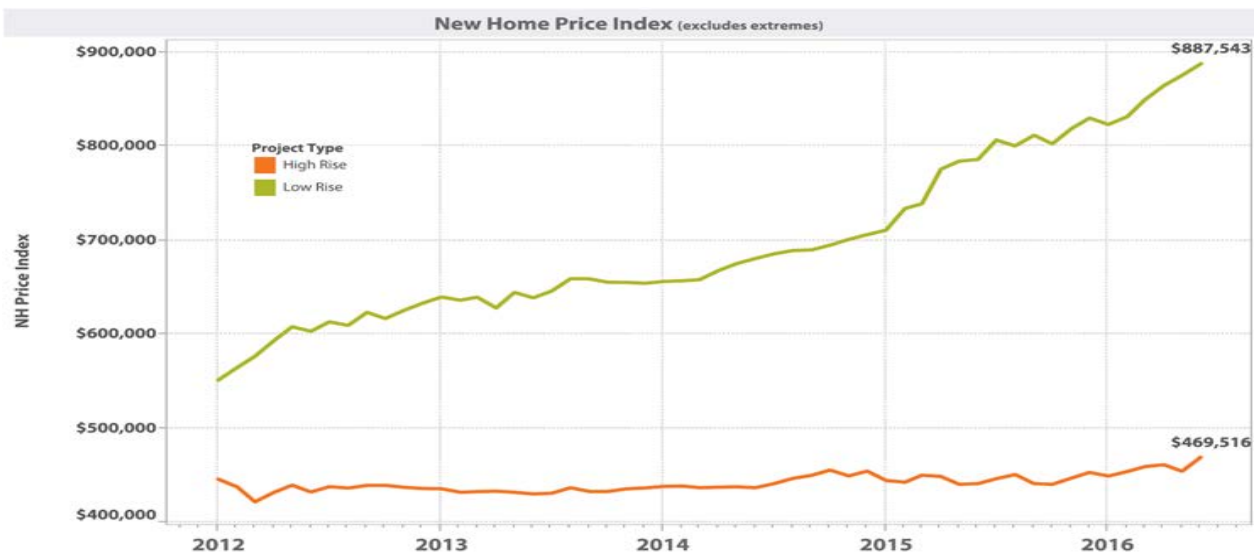
Over 85% of families lived in ground-oriented homes (single-detached, semi-detached, townhomes, stacked townhomes—i.e. homes with direct access to the ground and no need for elevators). Survey data also shows that this is the type of housing some 94% of Canadian new homebuyers want. Yet only about half of the housing being built today is ground-oriented; the rest is mid- and high-rise apartments and condos. This dramatic variance in what is available versus what homebuyers actually want is driving up prices for ground-oriented homes that are in short supply.



Demand for family-oriented housing is also currently on the rise. As the Millennial generation forms families with children, we are entering a “baby boomlet”. Over the past 15 years, numbers of births have risen by 20% in the fastest-growing urban regions. Over the next decade, if the current trends in construction continue, CHBA research estimates Canada will be “short” some 300,000 family-oriented homes.

This level of excess demand over limited supply will have direct impacts on the market price of the limited family-oriented stock available. This situation simply reflects supply and demand. In markets experiencing high demand for ground oriented homes without adequate supply of those homes, this divergence is manifested through increased competition among buyers for ground-oriented stock, and resultant significant price pressures.

To understand the role of undersupply, it is instructive to examine price trends for both high-rise and ground oriented units in the GTA. As shown below, high-rise condominiums, which have remained in good supply in the GTA, have not experienced the same level of price escalation that has occurred in the ground oriented segment, which is in short supply.



The supply of new low-rise housing in the GTA, especially for detached, single-family homes, has reached record low levels, resulting not surprisingly in record-high prices.

Monthly research conducted by Altus Group found that on March 31, 2016, across the entire GTA there were only 3,036 new low-rise homes available for sale in builders' inventory. In contrast, ten years ago, on March 31, 2006, just before the GTA Growth Plan came into effect, there were 16,757 low-rise homes available for sale in remaining inventory.

In Vancouver, similar conditions exist. One obvious indicator is the number of low-rise homes in the GVR today compared to a decade ago: due to demolitions and redevelopment, today there are over 17,000 fewer single-detached houses in the City of Vancouver compared to a decade ago. Prices for the remaining low-rise stock, which are in extremely high demand, reflect this reality.

While considerable attention has been paid to other factors impacting housing prices in the GTA and GVR, such as non-resident buyers and various speculative forces, the broader and more pervasive impacts generated by a large and growing supply/demand imbalance are unquestionably of far more significance.

### **Supply/Demand Imbalances - Policy Actions Indicated**

Addressing housing supply, and in particular family-oriented housing supply, is most directly a function of local government, with provincial influence. There are, however, several actions that the federal government can undertake to support action at other levels:

- The Federal Government's long-term investment in infrastructure, particularly transit, needs to be linked to local and provincial plans to increase housing supply and transit-oriented development. Metrics for this are available for this and a measurement system should be implemented and maintained to track success.
- 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 counter "Not-in-My-Backyard" opposition to mixed form and mixed-income development through public education. The forthcoming National Housing Strategy should include a "new neighbours" campaign to increase acceptance of new developments geared to first-time homebuyers and purpose-built rental developments.
- The government, likely via CMHC, needs to undertake research into supply issues (e.g. serviced land availability; evolving demographics of a "baby boomlet", homeownership rates of young families, etc.), so that data series are readily available and understood by all, to support sound local and provincial policy formulation.
- CMHC needs to better recognize housing supply and demand incongruences in its Housing Market Assessment reports—the current system does not reflect this and some other new fundamentals, which may lead to erroneous conclusions of overvaluation rather than high prices based on explicable supply conditions.

## Taxation of New Homes and Rental Construction

### New Homes

New home prices reflect land and construction costs, plus taxes.

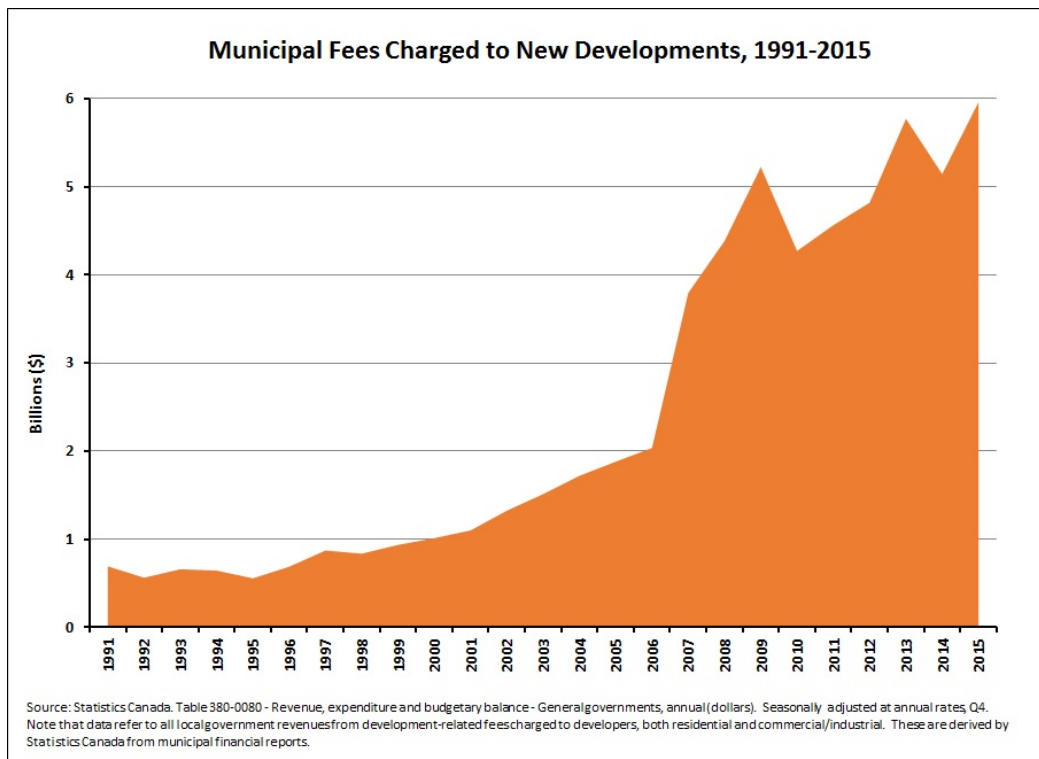
The effective level of taxation on new homes, comprised of all government-imposed costs, has increased dramatically in many communities. These costs are particularly acute in most GTA communities, comprising at times more than 20% of the selling price of a new home.



All such taxes, whether termed 'development charges', 'lot levies', 'amenity fees', or 'cash in lieu', end up in the price consumers pay for a new home. Their role in determining affordability is very clearly reflected in municipal concessions sometimes granted to "affordable housing" projects.

Some of these taxes are levied at a flat per-unit rate while others are proportional to selling price, and escalate as prices rise. In some cases, such as GST, federal tax is applied to taxes charged by other levels of government.

Coupled with restrictive development regimes that cause land costs to escalate, local taxes have a considerable impact on affordability. As shown in the graph below, development-related taxes have rapidly outpaced the actual cost of building a home in recent years. Such cost impacts are a direct result of government policies, primarily at the municipal and provincial levels.





## **Rental Construction**

Affordable market-based rental stock offers Canadians housing choices that do not rely on ongoing public subsidies. To date, anomalies in the tax treatment of rental housing investment, especially between non-taxation of rents versus taxation of new rental buildings, appear to have been rejected by the federal government in favour of *programmatically* solutions such as those announced in the March 21, 2016 federal Budget. It is essential to make the new rental production initiatives introduced in Budget 2016 work effectively. CHBA is already engaged with CMHC and other stakeholders to support this outcome

Even in this limited context, at least two very modest GST-related revisions are still required. 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. Broader deployment of this new form of affordable infill rental housing should not be obstructed by a federal tax policy anomaly.

In addition, detailed rules for determining new rental property values upon which to base GST also 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. This change will increase certainty for new rental investment, facilitate the 2016 federal initiatives, and thereby increase market-based rental supply.

### **Taxation of New Homes - Policy Actions Indicated**

- CMHC needs to collaborate with Statistics Canada to improve tracking and reporting the development taxes levied by municipalities and other levels of government and its impact on affordability.
- Given that the GST is applied to the selling price of a home, which includes development taxes, there is currently a “tax on tax” applied. This should be corrected.
- Fix the tax rules for accessory suites such as granny flats and laneway housing to avoid discriminating against this important form of infill housing.
- Amend tax regime and associated appraisal rules to avoid GST discriminating against new “purpose-built” rental developments.

## The Infrastructure Gap: Affordability Impacts

As cities grow, so do infrastructure requirements. For decades, there has been inadequate investment in most Canadian cities to properly support the renewal and expansion of basic infrastructure, and to develop effective transit systems to ensure efficient movement of people.

This 'infrastructure gap' is now having broad impacts on housing affordability and quality of life for residents, particularly in our fastest growing urban centres – the GTA and GVR.

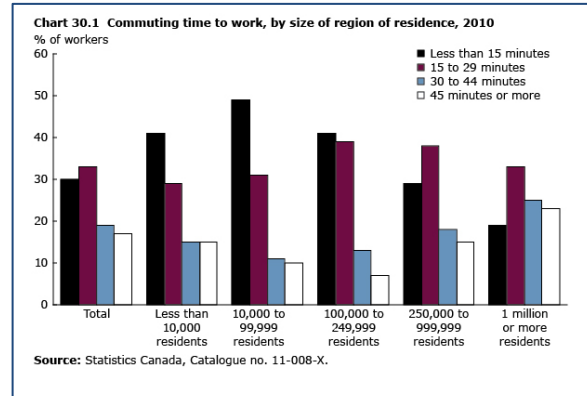
The impacts of the infrastructure gap are far-reaching. They fuel increased municipal reliance on development-related taxes. They impact planning policies and processes as the pace and scope of new development is bound by lagging infrastructure services.

They delay new development, further escalating land costs. And, as economies

and populations grow, they contribute to transportation gridlock and lost productivity. All of these factors increase the cost of housing substantially, particularly that which is located closer to the urban core. As transportation from outlying areas becomes more problematic, the prices of properties closer to the core rise accordingly.

Today, there is broad recognition for the need to substantially increase our collective investment in core public infrastructure, including public transit. The residential construction industry already contributes over \$6 billion to this effort each year – all of which is embedded in the cost of new homes paid by consumers.

As all governments work to create the broader funding base required to address the infrastructure gap, it is vitally important to ensure that these investments yield the results needed – improved affordability and greater access to homes that meet people's needs, while addressing the urban transportation challenges and gridlock that hamper the economic vitality of regions like the GTA and GVR.



Additionally, as expanded transit systems are constructed, there is a valuable opportunity to realign land development policies to ensure transit routes and nodes are more effectively utilized to accommodate growing populations. At present, the principles of such 'transit oriented development' are not generally in place.

### **Infrastructure Gap - Policy Actions Indicated**

The federal funding committed in Budget 2016 to core infrastructure projects is critical to Canada's future community prosperity. Strategic infrastructure investment can also support 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).

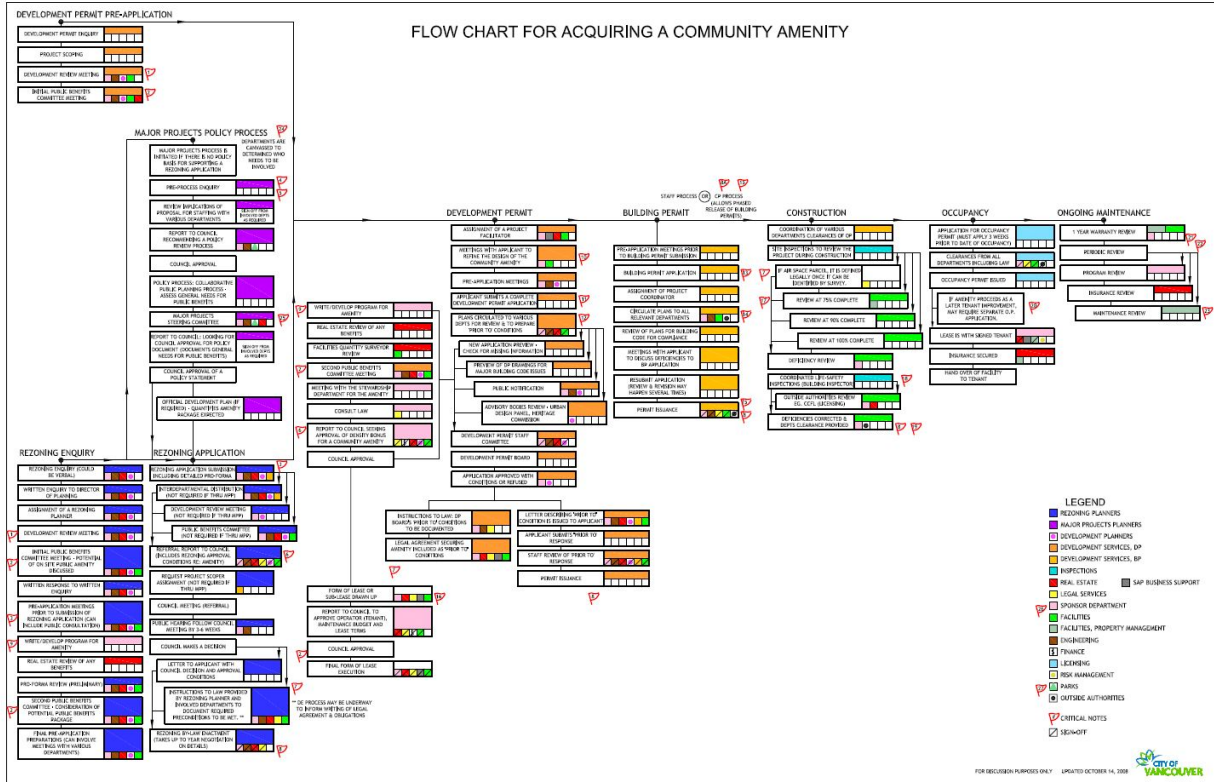
- To ensure that Canadians get maximum benefit from federal infrastructure investments, implementing authorities need to increase densities along transit corridors and at nodes. National economic growth and climate change objectives will both be addressed if this outcome is achieved.
- Federal data, information, and analysis is required to support decision-making and contribute to this outcome and also to measure efforts to close the "public infrastructure gap" over time.
- To support affordable residential development with ready transit access, federal land write-downs for family-oriented housing should be offered to support mixed-income, mixed-use, complete communities.

### **Regulations and Approvals Process Impacts**

As the Vancouver-sourced graphic below illustrates, residential development is one of the most regulated and approvals-bound sectors of the economy. While it is important that our communities are developed in a well-planned and forward-thinking manner, excessive regulation also has significant costs.

In relation to new residential development, protracted delays in moving designated lands into development adds costs to homes and constrains much needed supply in both the GTA and GVR. Lack of timely infrastructure capacity can also delay developments that are otherwise approved and needed.

Infill development that aligns with the plans and intensification goals of cities is too often delayed or derailed by local resident opposition. Municipal leaders who espouse these planning goals frequently fail to defend proposed developments that meet them, causing uncertainty and adding additional costs that future home buyers must bear.



Building codes and standards have become unnecessarily complex and, in some jurisdictions, are being used to achieve social objectives that add costs that erode affordability and are inappropriate for the market to bear through regulation—they would be better served as voluntary optional measures for those that need the benefits they bring. Inappropriate regulation transfers ever higher costs to new home buyers, often with little or no tangible benefit to them.

The national building code process remains evidence-based, transparent and disciplined, but not all provinces and municipalities adhere to these principles. To ensure the building code remains an appropriate minimum requirement for construction and does not place undue burden on new home buyers, comprehensive code processes are of paramount importance.

Housing has achieved significant quality, energy and other improvements through innovation and joint government-industry R&D over the years. This legacy of innovation – building better houses for the same or less cost – is being undermined by reduced government support for building science and technical research in recent years. R&D has long been a core element of the federal role in housing, and has supported housing innovations that benefit individual Canadians, their communities and the environment. As housing technology becomes more complex, lack of support for R&D can also pose serious consumer risks.

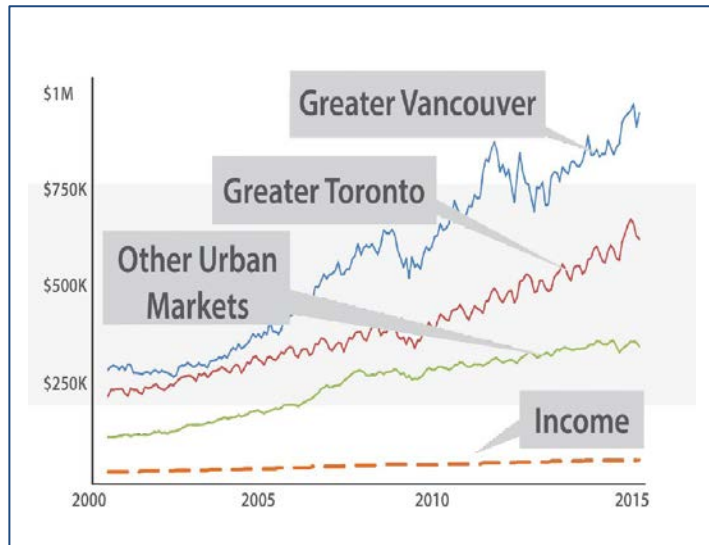
It is therefore essential for the government to reinvest in Canada Mortgage and Housing Corporation, the National Research Council and Natural Resources Canada in collaboration with industry, to build better houses for less.

### **Regulation and Approvals Processes - Policy Actions Indicated**

- Governments at all levels should ensure building codes adhere to an evidence-based, transparent and disciplined process like that of the National Building Code. Codes Canada needs increased funding to support its work and national harmonization.
- Proposed code changes need to consider the cost impact to the home buyer, and the cumulative impact of all code changes must not increase construction costs.
- Government needs to collaborate with industry on research to build better houses for less.
- CMHC should track municipal approval times and quantify the costs associated with increased delays.
- Counter “Not-in-My-Backyard” opposition to development through public education via a “new neighbours” campaign to increase acceptance of new developments geared to first-time homebuyers and purpose-built rental developments.

## Interest Rates and Mortgage Rules

Today's historically low mortgage interest rates are one factor in house price performance across the country. These rates allow buyers to service somewhat higher levels of debt, but only within the Gross Debt Service Ratio (GDSR) framework set out by lenders. It is thanks to lower interest rates that well-qualified Canadians have been able to continue to enter homeownership despite increasing costs of housing. CHBA has long warned that low interest rates, while a positive thing for homebuyers, have also been masking deteriorating affordability. Now that interest rates can go no lower, but house prices continue to rise, it is not surprising that there is now "suddenly" an affordability crisis.



That said, it is not because of low interest rates that house prices have risen, nor have they reduced affordability. Lower interest rates have improved affordability. The evidence available to assess the impact of lower interest rates on actual home prices suggests that this was limited in scope, national in nature, and largely occurred at the time rates initially moved into historically low levels – following the financial crisis of the mid-2000s.

While virtually all markets saw house prices increase during this period, most have seen much more modest price escalation since then, with the exception of the GTA and GVR, where price growth is ongoing. The fact that house prices have continued to escalate dramatically in the GTA and GVR, but not in the rest of the country, shows that it is not due to low interest rates that these two housing markets are seeing such a boom.

In an effort to stabilize the market and reduce taxpayer exposure, the government has been tightening mortgage rules for several years (e.g. reducing amortization periods from 40 down to 25 years for CMHC-insured mortgages).

These measures have reduced government exposure to government-backed mortgage insurance, but have clearly not been an effective tool to limit price growth of housing.

Further, given that the moves by CMHC and OFSI do not affect the shadow-banking market, many otherwise traditional mortgages have moved into less traditional vehicles, with the potential of destabilizing the market even more.

Where affordability is concerned, several measures have a proven track record stretching back decades in supporting access to home ownership by well-qualified first-time home buyers. Indeed, the main public policy purpose of federal mortgage loan insurance since World War II has been to facilitate access to housing credit by middle-class Canadian households.

It is essential to strike a balance between appropriate rules and oversight to protect taxpayers against macro-prudential risks, and restrictions so extensive that they serve to lock out first-time home buyers. Continued orderly and responsible access to home ownership by younger and

New Canadians is essential to the future health and stability of housing markets in the longer term.

Specific measures to address this issue could potentially be implemented without generating undue risks, including support via the Home Buyers Plan, insuring mortgages based on low down-payments (i.e. 5%) for entry-level housing, and returning to 30-year amortization periods for well-qualified first-time buyers of homes priced under \$500,000. There may be other, preferable alternatives, but so far, they have not been put on the table by federal policy-makers.

### **Interest Rates and Mortgage Rules - Policy Actions Indicated**

- Low interest rates have not been the main driver of recent price increases or deteriorating affordability in the largest markets, since they apply in all markets—do not look to them to fix it.
- Mortgage rules and other measures to help well-qualified first-time-buyers get into entry-level housing are required.

## **Regional Economic Performance**

It is not a coincidence that the two urban areas experiencing the strongest home price increases are also the two most economically successful Canadian cities. Both the GTA and GVR are seeing sustained in-migration from other provinces and abroad as new businesses and jobs are created. Both Toronto and Vancouver are 'world-class cities'.

The GTA sees the addition of some 50,000 jobs each year, driving in-migration and demand for additional homes both to rent and to buy. The GTA is projected to continue to be the fastest growing region of Ontario, accounting for over 68 per cent of Ontario's net population growth to 2041. The GTA's population is projected to increase from 6.6 million in 2015 to almost 9.5 million in 2041. The GVR is experiencing proportional population growth, also fueled by its economic success.

The fact that the GTA and GVR are performing well, economically, is very positive for Canada. That this success brings with it challenges in relation to housing supply and affordability is primarily a function of how government is responding to this success.

Vibrant, economically successful cities like Toronto and Vancouver attract new residents. These new residents need somewhere to live. Most who have families and financial means want to live in ground-oriented homes. In the face of a dwindling supply of such homes, price pressures will continue to increase.



At the same time, other regions of Canada have very different housing market conditions. The International Monetary Fund describes Canada’s housing market as “trifurcated”, with some markets booming, others steady, and others depressed. As the government knows, any national measures need to be weighed heavily in terms of the impact they will have across all markets.

### Regional Economic Performance - Policy Actions Indicated

- Understand Canada’s housing markets continually vary regionally across the country—this is a strength and a weakness
- Avoid measures to address one market that will negatively affect others.
- Work with other levels of government to address root causes and create permanent solutions related to the other new fundamentals, for example new housing supply

### Foreign Home Buyers

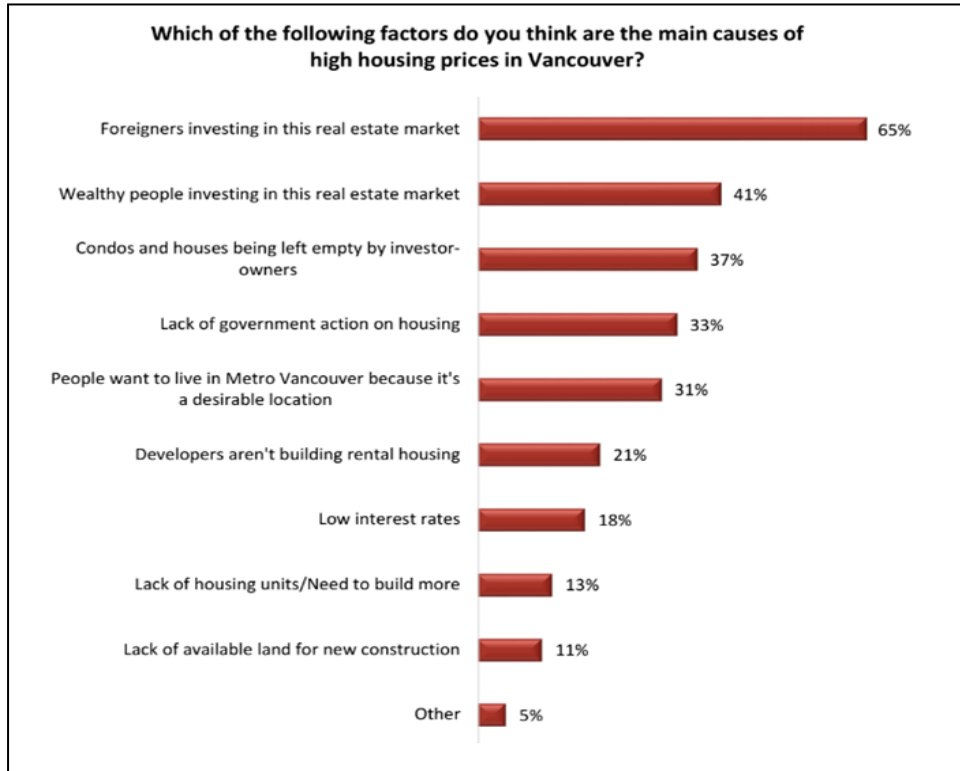
In the GVR, and to a somewhat lesser extent in the GTA, much public discussion has focused on foreign buyers of homes as the ‘driving force’ behind escalating prices. While available data in this area is scant, that which does exist suggests foreign buyers make up a fairly small proportion of all buyers and are far from being a dominating force overall.

It appears that foreign buyers are undoubtedly having some impact in these markets, particularly in luxury or high-end homes, and certain established upper-end neighbourhoods when such purchases are geographically concentrated. Moreover, foreign buyers unlike domestic buyers, typically do not open up supply for other households when they vacate a home to enter the Canadian market.



CHBA's concern is that public discourse, frequently abetted by local elected officials, often takes a binary view in which foreign buyers are portrayed as the primary, or sole, cause of price escalation. This view is neither rational, nor supported by evidence.

However, it may deflect attention from many of the other factors contributing to the situation, as evidenced in a recent Angus Reid Institute survey on housing prices in Vancouver, shown in this chart.



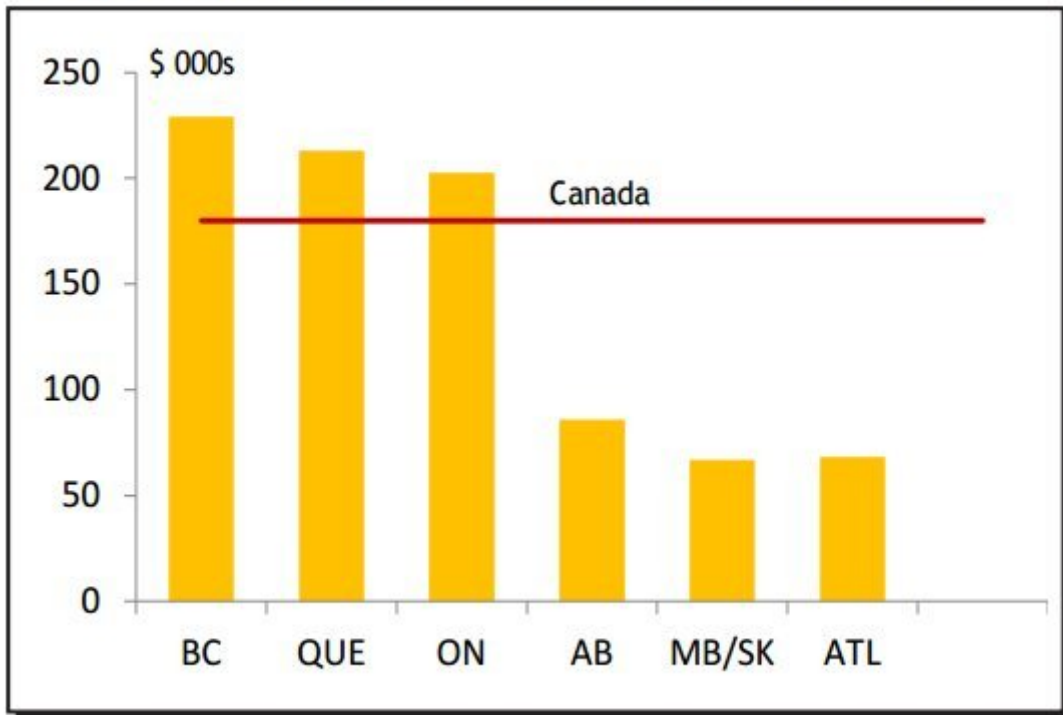
### Foreign Buyers - Policy Actions Indicated

- Extensive data series are needed on foreign buyers.
- Given all of the other factors at play, policy and government communications need to focus on other areas as well, especially housing supply, which would also reduce any impact on price escalation from foreign buyers.
- Any policy action needs to balance access to housing for Canadians with the economic benefits of foreign investment in Canada, while also respecting international trade law.
- Expand support for CRA audits to detect flipping, to identify those who don't comply with filing regulations or who under-report GST, and to measure compliance with non-resident filing requirements. This is a welcome move to "level the playing field" between those operating within the rules and those effectively working in the underground economy.

## Intergenerational Transfer of Wealth

The phenomena of the transfer of wealth from the older generations to the Millennials is well documented and has been extensively forecast. So too is increasing reporting that this is playing out in “the Bank of Mom and Dad” helping out first-time homebuyers with their down payments.

### Average Inheritance Received in the Past Decade



Source: CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs)

This is an important reality in today's market that needs to be accounted for in market assessments. It also means that affordability right now is not based solely on income, but also on access to other financial resources. This will also contribute for further inequality in terms of access to homeownership.

#### Intergenerational Transfer of Wealth - Policy Actions Indicated

- Investigate intergenerational transfer of wealth effects; include them in CMHC's market analyses
- Consider whether there is a need to expand home ownership assistance initiatives currently funded via the Investment in Affordable Housing to address the needs of Millennial and New Canadian households who are simply unable to assemble an adequate equity stake to enter today's housing markets. Shared Appreciation Mortgages could be a viable tool.