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Canadian Home Builders' Association
Association canadienne des constructeurs d'habitations

Impact of the Housing Market on the Economy and the Challenges Surrounding Access to Homeownership

February 1, 2017

The impact of the housing market on the economy and the challenges surrounding access to residential home ownership are important national topics.

Simply put: housing matters. It matters to the economy, it matters to our huge industry of small businesses that supports over a million workers, it matters to Canadians who recognize homeownership as the cornerstone of attaining the middle class, and it matters that all Canadians have the security of a decent roof over their heads.

Housing matters to Canada's Financial System, noting the identified risks of elevated levels of Canadian household indebtedness, and of imbalances in the Canadian housing market.

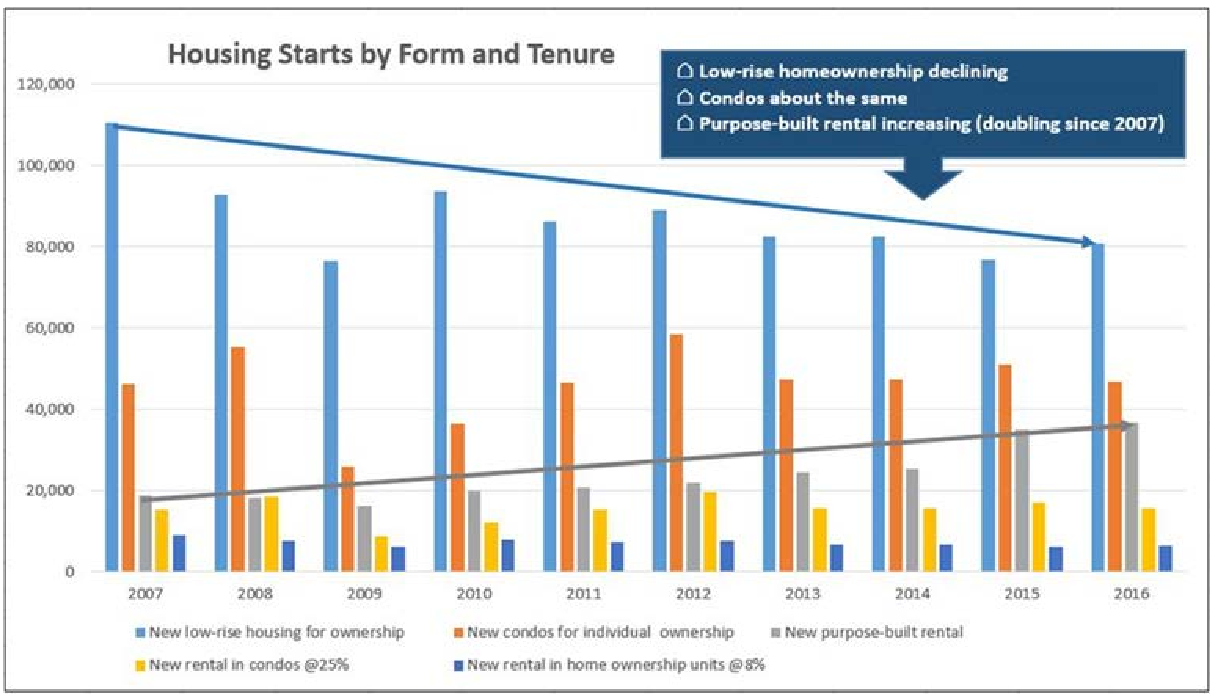
But there are ways to address stability concerns without causing damage to the residential construction industry or to the economy. Measures to cool markets can easily precipitate economic decline, triggering the very conditions they were intended to safeguard against.

It is also important that the Canada Mortgage and Housing Corporation continue to fulfill its important role under the National Housing Act—which is to ensure equal access to mortgage markets for all Canadians. The corporation has a key and well defined purpose to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing at low cost, and generally to contribute to the well-being of the housing sector in the national economy.

If restrictive mortgage measures lockout otherwise qualified homebuyers, affecting their financial futures, reducing economic activity and costing jobs, they can cause a downward spiral in local economies. This is because residential construction has been a major source of stability for Canada's economy in recent years. Today, residential construction supports over 1 million jobs; pays 58 billion dollars in wages; and generates over 128 billion dollars in economic activity, including over 41 billion in government revenues. Dampening this sector means dampening the economy. The Bank of Canada is now predicting slowing of residential construction will cause a 0.1% drag on the economy over the next two years. This at a time when growth is only projected to be 1.8%.

Home building and renovation is a vital part of every community, large and small, so effective housing policy is key to supporting Canadians, businesses and communities in achieving inclusive economic growth.

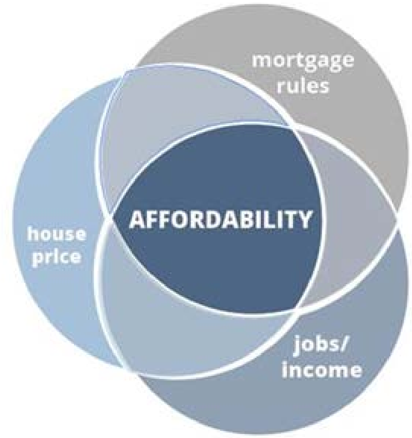
If we are going to support the middle class and those aspiring to join it, we need to ensure Millennials and new Canadians have a fair chance to attain that cornerstone of the middle class, homeownership. Current trends show that the fall has already started, as ownership home construction is falling and rental construction is rising. This has serious ramifications for the financial future of young Canadians and the economy at large.



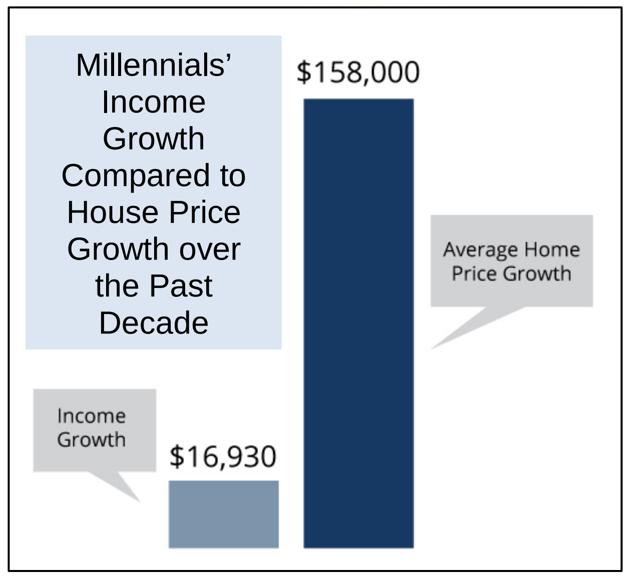
What's more, the current situation, if not curbed, will lead to a wider and wider gap between those who already have equity stakes, and those who do not, including among Millennials themselves. We are facing the potential of the homeownership situation creating social inequity within communities, between regions, and between rural and urban centres.

To effectively address our housing challenges, we need to understand what is driving markets. Why are so many Canadians now having a harder time becoming homeowners?

Housing affordability is determined by three factors, all of which have been conspiring against young Canadians in recent years. These factors are: income; mortgage rules; and house prices.



In terms of income, we know that millennials were hardest hit by the economic downturn and ensuing jobless recovery. Their income growth has been muted, yet house prices have escalated dramatically. We need to spur economic activity and income growth in all sectors, so that younger people can prosper, and to ensure the housing sector and the jobs it supports remain a strong component of the economy.



At the same time, to guard against financial system instability, mortgage rules have been tightening, making it much harder to finance a house. While many of these measures have been intended to cool the markets like Toronto and Vancouver, their application is national impacting markets like Atlantic Canada that were already in a bad state.

Newfoundland and Labrador	**-23.99%**
Prince Edward Island	**-1.47%**
Nova Scotia	**-23.47%**
New Brunswick	**-24.06%**
Quebec	**-6.43%**
Ontario	**12.51%**
Manitoba	**2.69%**
Saskatchewan	**-5.25%**
Alberta	**-24.61%**
British Columbia	**30.92%**

7 of 10 provinces had decreases in new housing investment last year, some very dramatic

Our recommendation on mortgage rules at this time is simply this: do no more. There have been many recent changes, the full effects of which have yet to play out. It is critical to let these impacts become fully evident before any further actions are taken. To do otherwise involves excessive risks.

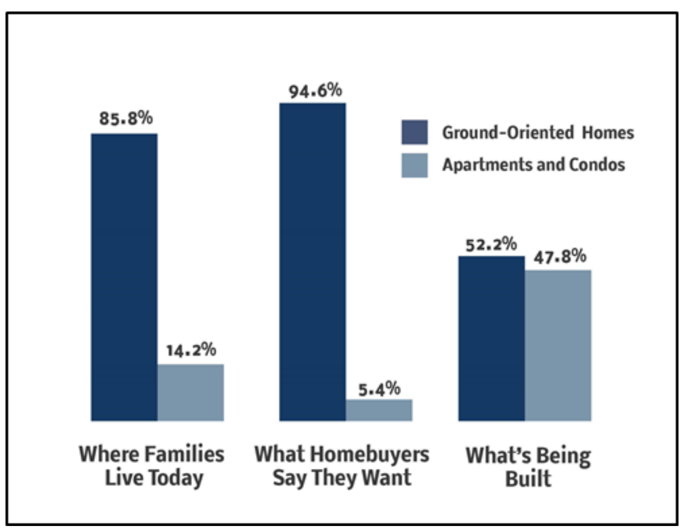
There are also mortgage-related tools at the government's disposal that can better support those aspiring to join the ranks of homeownership without increasing market instability or leveraging.

Increasing limits to the First-Time Home Buyers Plan, and allowing intergenerational RRSP transfers within the plan, could facilitate increased downpayments and decreased homeowner debt.

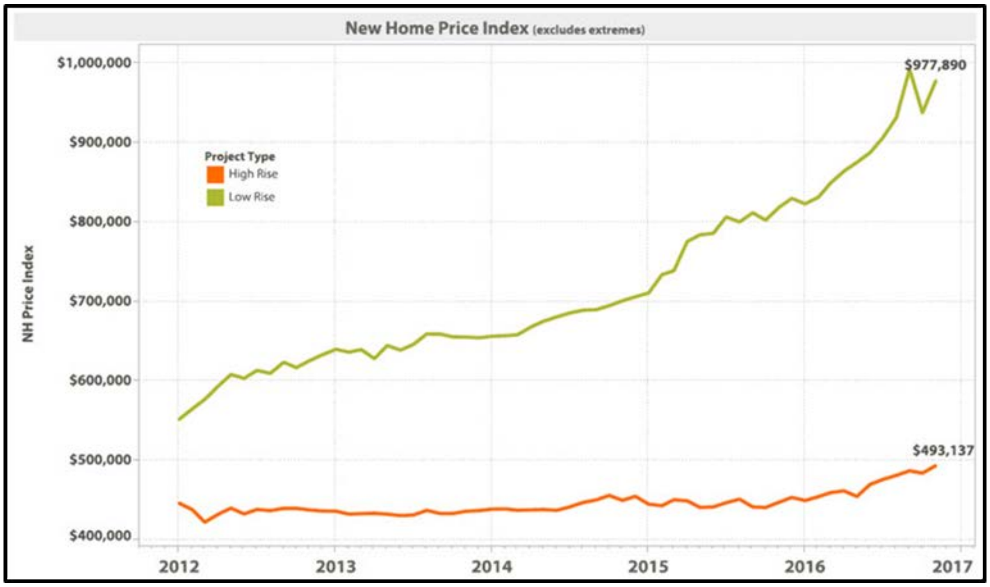
Perhaps the most interesting options are Shared Appreciation Mortgages, which would be more aptly be named Shared Equity Downpayment Plans. These tools, which have been successfully piloted for low-income families in some Canadian cities, should now be considered for helping first-time homebuyers get into entry-level housing across the country.

This approach provides third-party equity to increase the downpayment, giving qualified homebuyers a hand up into homeownership while reducing their leverage. The third party then shares in any house value appreciation, or depreciation, as the case may be. Originally designed for those in need of public supported homeownership assistance, these tools now merit consideration for mainstream buyers seeking entry-level homes.

The final factor affecting affordability is, of course, house prices. Mortgage rules that limit access may reduce the buying power of homebuyers, and in turn slightly impact prices, but that won't help affordability. What is needed are actions to bring down house prices so that more well qualified first-time buyers can qualify. To address this, we need to understand what is driving those prices up. At CHBA we term these factors the "new fundamentals".

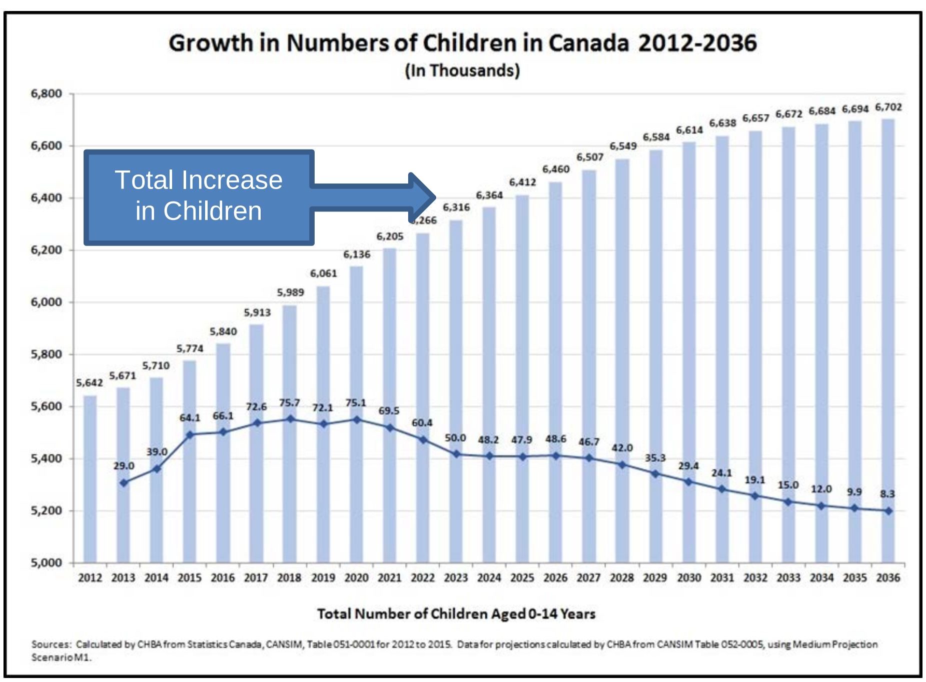


At the top of the list of new fundamentals is lack of supply, particularly of family-oriented housing. Simply put, municipal and provincial zoning and regulatory restrictions in our major urban centres have dramatically reduced the amount of serviced land available. For example, monthly research conducted by Altus Group found that at the end of 2016 in the GTA there were 1,878 new low-rise homes available for purchase, of which 742 were single-family detached homes. Ten years ago, there were 17,529 low-rise units available for purchase, of which 11,602 were single-family detached homes. Those are drops of 89% for low-rise housing availability overall, and 94% for single-family detached homes. As the CEO of Building Industry and Land Development Association (BILD) states: “Housing is selling as quickly as the industry can bring it to market, and the lack of developable land that is serviced with infrastructure, excessive red tape, out-of-date zoning and NIMBYism are hindering our ability to bring more to the market.” GTA price trends reflect this disconnect between what the homebuying public wants, and what is available.



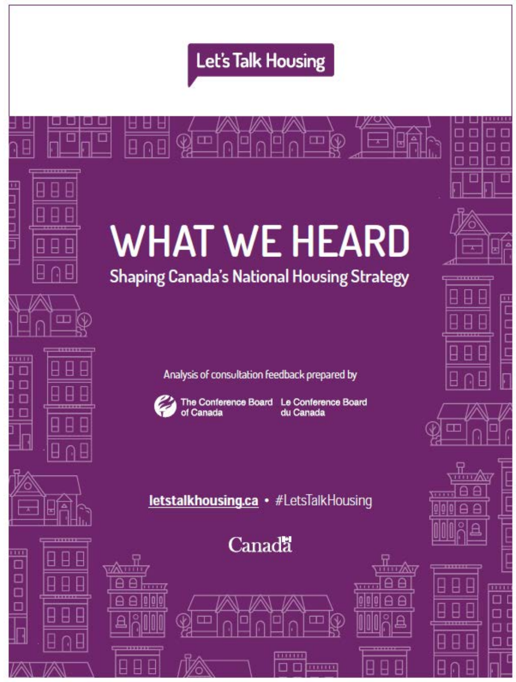
Source: Altus Group, *My Informed Advantage Newsletter,* New Homes Price Index

With high levels of immigration and a significant increase in the birth rate over the last decade, our largest cities have a serious shortage of family oriented housing. CHBA estimates that at current development rates, Canada will be ‘short’ over 300,000 such homes in the next decade.



Governments at all three levels need to work together to address this problem. So long as demand is outstripping supply, our most successful economic centres will continue to see price pressures and falling affordability—this simply reflects supply and demand.

All of these new fundamentals are issues that need to be addressed in the National Housing Strategy. The current “what we heard” report from CMHC is focused almost exclusively on social housing. While social housing is important–it’s only part of the story.



The final National Housing Strategy needs to address market-rate housing where 94% of Canadians live. If we don’t fix affordability, we will never meet the social housing challenge, and a National Strategy that identifies the roles for all three levels of government is key—let’s not miss this opportunity.

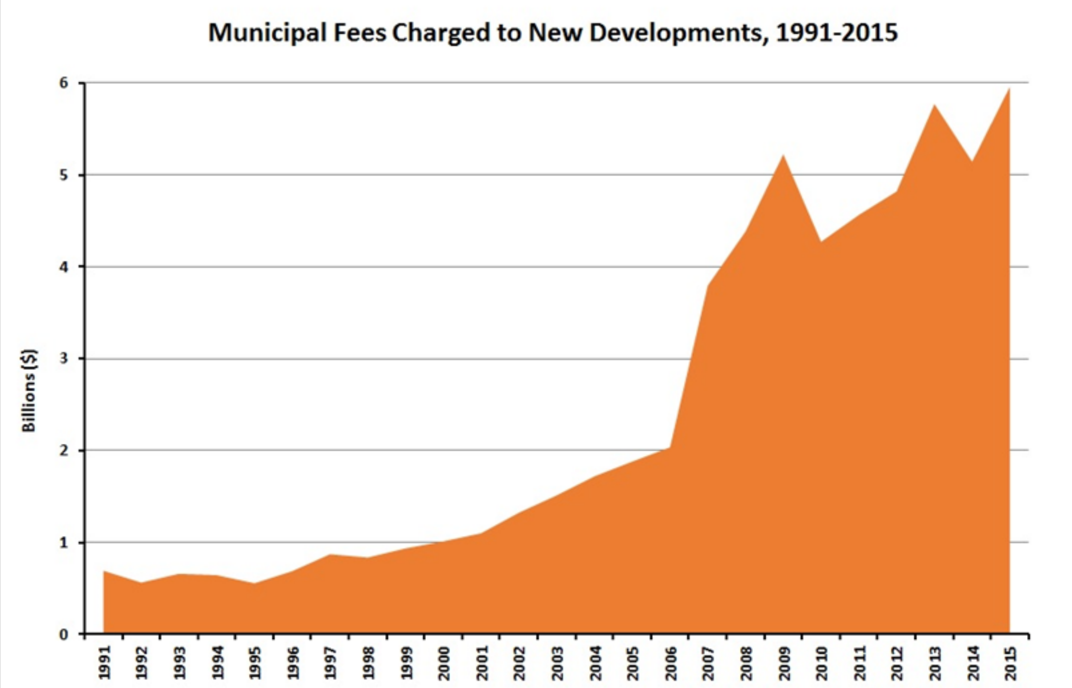
Another key ‘new fundamental’ is the current lack of infrastructure, especially transit. CHBA strongly encourages continued investment in infrastructure, and that this be tied to transit oriented development. Specifically, that future transit nodes are surrounded by higher density, mixed income developments.

The Federal government is in a position to help ensure this happens by tying investment funding to delivery of solid, inclusive residential development plans. To ensure that Canadians get maximum benefit from federal infrastructure investments, implementing authorities need to increase densities along transit corridors and at nodes—and Federal conditions on funds can ensure this happens. National economic growth and climate change objectives will both be addressed if this outcome is achieved.   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.

Increased density and mixed income developments are a necessary part of the inclusive communities of the future. However, NIMBYism—not in my backyard—is a common barrier to success in such residential development. The Federal Government has an important role to play in a national campaign to fight NIMBYism and educate the public about the positive benefits of intensified, inclusive community growth.

Federal investment in infrastructure can also help alleviate the problem of municipalities seeking to meet their overall infrastructure costs solely on the backs of new home buyers. Growth can pay for growth, but existing residents must pay their fair share toward renewal of existing infrastructure as well. Federal infrastructure investment will hopefully reduce further exponential growth in such development taxes.

To make matters worse, where development taxes are concerned, GST is currently levied on top of development taxes which are buried in land costs. This practice should be ended.



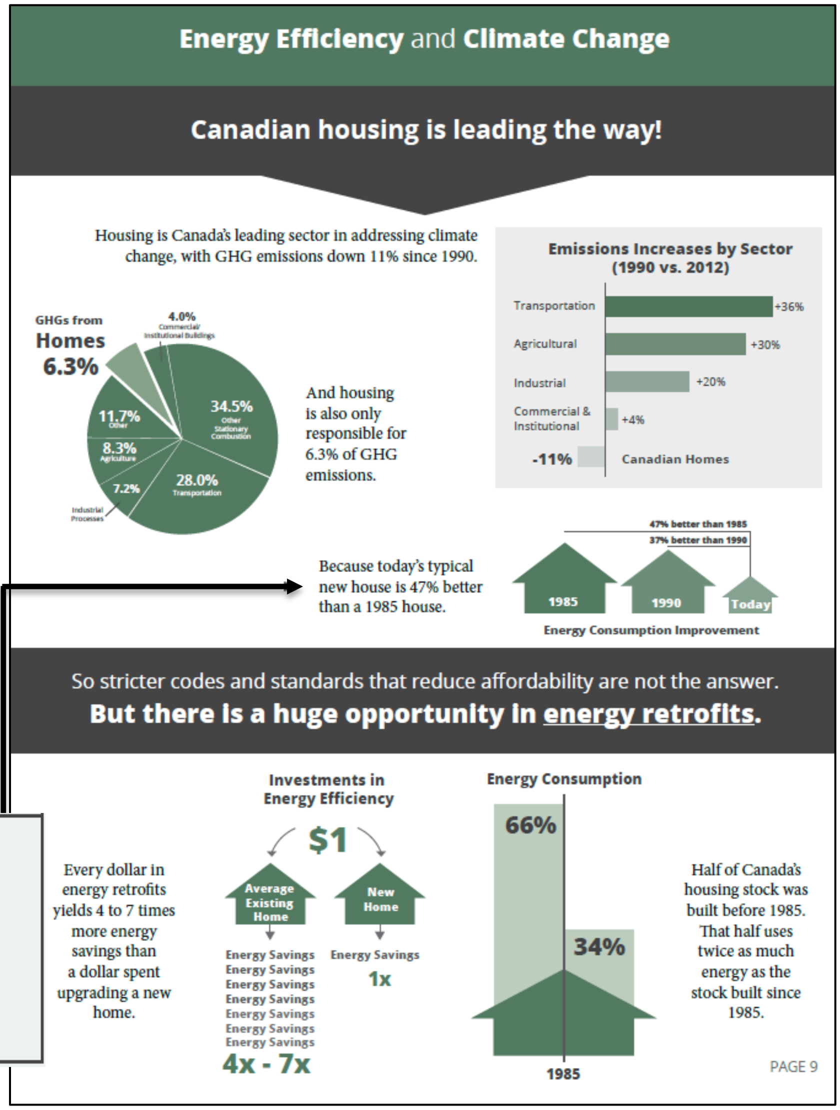
Source: Statistics Canada. Table 380-0080 - Revenue, expenditure and budgetary balance - General governments, annual (dollars). Seasonally adjusted at annual rates, Q4. Note that data refer to all local government revenues from development-related fees charged to developers, both residential and commercial/industrial. These are derived by Statistics Canada from municipal financial reports.

A final new fundamental is regulation tied to the building code. Many parties, including governments, now look to the building code to address various social or environmental objectives. Unless done in a cost-effective way, this will only add to the costs faced by new homebuyers. A case in point is energy efficiency. Builders can construct energy efficient Net Zero Ready homes today. The problem is that they cost a lot more, which makes sense for some, but is not yet affordable for all.

The message here is simple: such dramatic changes to building code should only come after collaboration to find ways to build these better homes for less.

CHBA is very active on its Net Zero Home program for exactly that reason: we want to provide this level of performance to homeowners who want to invest in this option today. At the same time, the program helps us find better and less expensive ways to deliver this option at scale to Canadians in the future.

Given the government's aspirations around regulation, it should invest heavily in the R&D needed to build these "better" houses for the same price or less. CHBA is more than willing to collaborate to this end, as we have for decades. If we want better houses for Canadians, and governments want to regulate this at some future point, then industry and government must work together now find innovative ways to achieve this, without sacrificing affordability.



CHBA's Net Zero Energy Housing Initiative:

Leading Canadian housing energy efficiency — not through code, but through innovation and market suasion.

Canada is at a crossroads where homeownership is concerned, and affordability is at the crux of it. But there is lots that we can do to address this challenge. The Canadian Home Builders' Association looks forward to working with the government to make that happen to the benefit of all Canadians.