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## **Opening Statement by Kevin Lee, CEO, Canadian Home Builders' Association to the Liberal Party House of Commons Housing Affordability Caucus**

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Thank you.

And thank you very much for forming this caucus. This has been something that CHBA has been recommending for some time, so it is great to see it come to fruition. It is truly excellent that you are coming together to seek to address this hugely important issue of housing affordability.

And today I will focus my remarks squarely on that issue and what needs to be done to address it.

First, it's important to understand how this issue is negatively impacting Canadians. I don't think we can overstate how huge an issue this is for millennials and I want to give you some of our CHBA data that demonstrates this.

Second, we need to look at what can be done to address affordability, while also respecting the government's fiscal and economic concerns around housing markets and household debt, and at the same time remembering the socio-economic benefits, well recognized by Canadians, of home ownership. From CHBA's perspective, all of this is quite possible.

I'll begin by explaining why getting this right is so important.

The quality of life provided by Canadian communities – which is frequently rated as among the highest in the world – is closely tied to the reasonable prospect of owning your own home.

Quite simply, for the vast majority of Canadians, being middle class is synonymous with being a home owner.

But this traditional and valued linkage is under threat.

Declining affordability and an array of mortgage rule changes have resulted in the rate of homeownership in Canada actually falling.

As the dream of homeownership declines, particularly in our largest and most economically vibrant cities, larger economic and competitiveness concerns emerge.



Declining affordability does not just impact Canadians today; it can properly be viewed as a long-term threat to Canada's continued economic success. The forced savings embedded in housing equity keep Canadians well positioned into retirement. Statistics Canada data show that net worth is much greater for owners than for renters, for all age groups, both young and old. As ownership rates fall, there are serious questions to be asked about the fiscal impact on future government social programs.

It is important to recognize that what is frequently referred to as Canada's "housing affordability crisis" has very disproportionate impacts on younger Canadian families and new Canadians – those who are working hardest to become home owners.

Last spring, CHBA conducted a national survey on the issue of affordability. We learned that three of four Canadians polled said that owning a home is the hallmark of being middle class.

Yet the same proportion also think that the way things are going, only the rich will be able to own a home.

Some 81 percent see today's housing affordability problem as a potential failing of Canada's socio-economic system.

And it was clear that Canadians expect governments to do better—only one in ten of those we polled think governments, at any level, are doing a good job addressing this problem.

Those we surveyed are looking to government to provide solutions when it comes to affordability: two-in-three said that younger and new Canadians should be given more flexibility when it comes to buying their first home.

Simply put, the number one concern for millennials today is housing affordability.

The federal government can, and should, act to address this situation.

And this can be accomplished without creating undue risk in the financial system or fueling price increases.

There are two major actions which would directly address the challenges faced by younger, first-time home buyers.

The first of these is to re-introduce mortgage insurance coverage for 30-year amortization mortgages. This measure could be limited to first-time home buyers buying entry-level homes, and it may also be prudent to require minimum terms for such mortgages, for instance of five years.

CHBA estimated that when the move was made to reduce the maximum the amortization period from 30 to 25 years, some 80,000 potential homebuyers were knocked out of the market. It's time to get some of those back.

The other major opportunity to assist first-time home buyers lies in updating the mortgage stress test. Its impacts have been disproportionate, both regionally and on younger first-time buyers.

We know, from our discussions with banks and mortgage specialists, that the current test is disqualifying a significant proportion of prospective first-time buyers, many of whom have exceedingly good credit scores and would otherwise be considered prime borrowers by financial institutions. We also know from Equifax data that young Canadians have the lowest rate of arrears of any group—they are low risk.

For those who do qualify, the structure of the test itself tends to push borrowers toward open and short-duration mortgages; not an ideal outcome from a macroprudential risk management perspective.

Initiating a five-year term at a fixed rate presents a different level of risk than someone with an open mortgage subject to immediate impact when rates increase. We think it's time the stress test recognized this.

And now that interest rates are higher, it is clearly time to lessen the severity of the stress test by lowering its period.

These two measures—re-introduction of 30-year insured mortgages and the development of what I'll call "Stress Test 2.0"—provide the biggest opportunity to provide relief. The measures I've discussed have some common features:

- they can be acted upon very quickly by the government,
- they have no direct cost to the government, and
- they would provide immediate relief for those most disenfranchised under the current rules around mortgages – younger, first-time home buyers.

Beyond mortgage rules, there are housing supply actions at the federal government's disposal.

It is clear that a primary driver of home prices in our larger urban centres is a prolonged and significant shortage of housing supply, coupled with ever-increasing development taxes.

The chronic shortage of more modest and affordable family-friendly, ground-oriented homes in our largest cities results mainly from public policy at the provincial and municipal levels.

More and more reports are showing how lack of serviced land coupled with complex regulatory processes make it virtually impossible for our industry to respond to market demand in a timely manner.

The result is higher home prices: too many buyers and too few homes, particularly in relation to more modest, entry-level homes for families.

CHBA analysis from one of our published reports shows that if we continue building—or more accurately not building—at current rates, we will be 300,000 family-oriented units short over the next decade, further damaging affordability as supply shortages persist.



Although supply is principally affected by municipal governments, the federal government has an important role to play in undertaking data collection and research to quantify how provincial and local zoning, regulations, processes and approval times affect housing supply. Ever-growing municipal taxation on new homes also needs to be measured. This sort of objective reporting will help all levels of government properly recognize the challenges involved, define the key roadblocks, and develop effective policies and solutions to truly address the root causes of deteriorating affordability.

Success in this area can only make our cities more competitive and economically vibrant.

CHBA also encourages the federal government to ensure that its own investments with municipal governments support adequate housing supply across the full price spectrum. This can be done by tying requirements to the release of any crown land, and to any infrastructure investments, to community development plans and reporting requirements that demonstrate smart transit-oriented development of mixed-use, mixed-income, family-oriented neighbourhoods.

Thank you very much. I look forward to answering any questions you may have.