Submission for the Pre-Budget Consultations for the 2019 Budget

# Canadian Home Builders' Association

**Recommendation #1:** That the government support access by first-time homebuyers to enhance Canada's overall competitiveness.

**Recommendation #2:** That the government improve competitiveness of Canadian communities by guiding with authoritative data and analysis integrated multi-governmental efforts to remove barriers to housing supply.

**Recommendation #3:** That the government improve national competitiveness by linking federal infrastructure investment to effective transit-oriented development, reducing the growing need for transit subsidies and increasing workforce efficiency of movement.

**Recommendation #4:** That the government enhance competitiveness by ensuring that building codes protect affordability when addressing other public policy goals.

**Recommendation #5:** That the government enhance competitiveness by tackling climate change goals in housing through an energy retrofit tax credit.

**Recommendation #1:** That the government support access by first-time homebuyers to enhance Canada's overall competitiveness.

The quality of life offered by Canadian communities – frequently rated as among the highest in the world – is a competitive advantage, and is closely tied to the reasonable prospect of owning a home of your own. Canada's enviable quality of life contributes directly, and substantially, to our Nation's desirability and ability to attract and retain the world's best and brightest.

This national competitive advantage is under threat. Due to declining affordability and more limited mortgage availability, the rate of homeownership in Canada is falling. Younger Canadians, those with families and new Canadians face the greatest challenges when it comes to purchasing a home that meets their needs at a price they can afford. As affordability of homes and access to mortgages has declined, so has the dream of homeownership, and the desirability of larger, more competitive Canadian communities.

In a recent CHBA national survey, three of four Canadians polled said that owning a home is the hallmark of being middle class. Yet 80 percent believe that becoming a homeowner is more difficult than it used to be. Three-quarters of those polled think that the way things are going, only the rich will be able to own a home in an area they want to live in. And 81 percent see today's housing affordability problem as a potential failing of Canada's socio-economic system.

For a number of years, the federal government has been focused on rising household debt, implementing policies making it more difficult for middle-class Canadians to qualify for a mortgage. By not recognizing the value Canadians and potential Canadians place on homeownership, this has inadvertently crimped the future of key workers and managers in all industries. Governments can address macro-economic concerns about debt management without locking Canadians out of responsible homeownership and access to the middle-class.

Two-in-three of Canadians think that governments have an important role to play in helping Canadians become homeowners. The same number feel that younger or new Canadians should be given more flexibility when it comes to buying their first home. But only one-in-ten Canadians think the federal government is doing a good job in this important area.

The federal government can act to address the affordability problems of younger Canadians. It can facilitate more accommodating mortgage rules for well-qualified first-time home buyers, back innovative financing tools like shared-appreciation mortgages, and expand the federal Home Buyers Plan. Rapid action is needed to protect one of Canada's most compelling economic strengths, our quality of life.

**Recommendation #2:** That the government improve competitiveness of Canadian communities by guiding with authoritative data and analysis integrated multi-governmental efforts to remove barriers to housing supply.

The federal government is responsible for ensuring the stability of Canada's financial system, a vitally important task. Low interest rates have resulted in considerable growth in household debt of all types. This has been particularly true in Canada's largest cities, where house prices have escalated dramatically over the past decade.

In addressing rising residential mortgage debt, the government has largely focused on measures to constrain demand for new loans. These measures have made it more difficult for many Canadians to become homeowners, making Canadian communities less attractive. But they have not resolved the problem of decreased housing affordability and lack of housing supply, negatively impacting those working hard to join the middle-class and undermining Canada's economic competitiveness.

Unfortunately, tighter mortgage rules overlook the primary driver of home prices in the largest markets – a prolonged and significant shortage of homes in greatest demand. Addressing a supply problem through demand-limiting measures involves unnecessary economic and national competitiveness risks. It also does little to address the underlying factors fueling home price increases. Recently published analysis by American researchers estimates that U.S. economic growth would have been 36 percent higher from 1964 to 2009 if housing supply restrictions in the highest productivity urban regions had been reduced.[1]

The chronic shortage of more modest and affordable family-friendly, ground-oriented homes in the Greater Toronto Area and B.C.'s lower mainland results mainly from policy and planning decisions of provincial and municipal governments. Lack of serviced land coupled with high new-home taxes and complex regulatory processes at these levels significantly reduce industry's capacity to respond to market demand. The result is higher home prices: too many buyers and too few homes.

The federal government need to provide objective data and analysis so that the other levels of government can properly recognize the challenge, and develop effective policies to create the solutions. At present, local policies are politicized and rarely evidence-based; their impacts are not measured or tracked. Solid data and analysis are needed to support policy-making for housing affordability and choice, particularly for younger Canadians and new Canadians working hard to achieve homeownership and a middle-class life.

Through Statistics Canada and Canada Mortgage and Housing Corporation, strategic research is needed to quantify how provincial and local zoning, regulations, processes and approval times affect housing supply. Such research can also provide insights into 'best practices' that other levels of government can adopt to address specific problems within their jurisdiction. At present, both a fine-grained picture of supply in relation to demand, and long-term projections of requirements are lacking.

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[1] See C. Hsieh and E. Moretti (2018), "Housing Constraints and Spatial Misallocation" at: https://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf.

**Recommendation #3:** That the government improve national competitiveness by linking federal infrastructure investment to effective transit-oriented development, reducing the growing need for transit subsidies and increasing workforce efficiency of movement.

The federal government is providing significant and much-needed infrastructure funding to provincial and municipal governments. If applied effectively, this investment can make Canada's communities more efficient and economically competitive while supporting a high quality of life for Canadians.

To achieve desired results, federal infrastructure investment must support housing affordability while addressing other pressing urban issues such as traffic congestion. The government should link the availability of its funding to specific outcomes, where this makes sense.

A key example relates to transit system funding. The long-term success of public transit is based on ridership levels. To achieve these levels, transit corridors need to be zoned for appropriate densities as part of transit-oriented development. Proper density around transit nodes and along corridors can promote affordability, achieve sustainable levels of ridership, and foster mixed-income, mixed-use communities that contribute to vibrant, economically competitive cities.

CHBA has developed an analytical tool that provides insight into the ridership viability of proposed transit expansions. In many cases, with current zoning in place, planned system expansions fail to achieve levels of ridership required to sustain them, or to optimize land use. CHBA encourages the government to apply this or similar tools when evaluating transit funding proposals.

In addition, Federal non-transit infrastructure investment should be focused on core infrastructure: pipes, treatment plants, roads and other hard assets that, in many Canadian cities, require significant upgrading if they are to provide the standard of service Canadians expect and deserve.

Finally, the federal government has significant urban land holdings, some of which are no longer required or which can be repurposed to multi-use developments including federal facilities. The value of this land can be written down as required to stimulate development of family-oriented housing suited to a range if incomes, including those in housing need. To act on this opportunity, federal efforts can target redevelopment that supports mixed-income, mixed-use, complete communities tied to transit, along the lines of Canada Lands Company pilot projects now underway.

**Recommendation #4:** That the government enhance competitiveness by ensuring that building codes protect affordability when addressing other public policy goals.

The government supports the development of the National Building Code (NBC) through a rigorous, open and evidence-based process. In turn, provinces rely on this model code in implementing their own building codes. CHBA is fully engaged in this system and process.

Building codes seek to establish minimum acceptable standards for all aspects of building construction. This safeguards the health and safety of Canadians, as well as their housing investments. Canada is widely regarded as having one of the best building code systems in the world.

Currently, an unprecedented number of changes are contemplated for the NBC. Some of these follow commitments made under the Pan-Canadian Framework on Climate Change. Others relate to equally important public policy goals: accessibility, increased resilience and adoption of improved technology.

The NBC has always been a 'living document' intended to change and evolve in response to both public policy and technological development. However, there is a real danger that an accelerated pace of change will further impair housing affordability, adding many tens of thousands of dollars to the price of every new home. When housing affordability falls, Canada becomes less economically competitive.

CHBA supports change and evolution in building codes, and many of the public policy objectives currently influencing proposed code changes. At the same time, the pace of such change can largely determine the costs involved. Change happening too quickly comes at an unnecessarily high cost, and hurts Canadians and Canada's economy. It may also stifle needed technological innovation.

The government, through consultation with its provincial and territorial partners, should ensure that affordability is a clear objective when code changes are considered. In practice, this would serve as a lens through which both scope and timing of proposed code changes are reviewed. It would mediate the rate at which changes are implemented in order to optimize affordability, protecting affordability and the economic benefits this delivers.

**Recommendation #5:** That the government enhance competitiveness by tackling climate change goals in housing through an energy retrofit tax credit.

Within the government's aggressive climate change goals, there has been an emphasis on *changes to the building code*. Without innovation and an eye to cost effectiveness, these have the potential to drive up housing costs dramatically, decrease housing affordability, and lock still more Canadians out of homeownership.

The emphasis on energy efficiency is being placed on the wrong part of the housing stock: new housing is very efficient and will continue to get even better (as it has for years on a voluntary basis). The existing housing stock, on average, is very inefficient and holds great potential for cost-effective improvement through retrofits.

Given the inefficiency of much of Canada's older housing stock, Canadians are wasting money on energy bills; investment in more energy supply continues.

Through an energy retrofit tax credit, based on the use of Natural Resources Canada's EnerGuide Rating System (ERS), Canadians would improve the energy efficiency of their homes, benefitting themselves, the economy, and national competitiveness.

A tax credit need not simply be a cost to government either—CHBA analysis has shown that much of the cost of such a program could be recovered through conversion of underground economy cash jobs to tax-revenue-generated above-board jobs.

The importance of a single, trusted national home energy rating system, NRCan's ERS, cannot be overemphasized. The ERS can continue to educate Canadians' energy literacy over time, with further improvements and value recognized in energy-retrofitted homes. The government needs to continue to invest in ERS, so it can be the backbone of all national, provincial, municipal, utility, NGO programs, as it was during the time of the ecoENERGY Retrofit Homes Program. This piggy-backing has substantial savings and long-term benefits in ongoing retrofits and better consumer literacy leading to energy savings.