Submission to the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities' Study on the Financialization of Housing

Canadian
Home Builders'
Association

The Canadian Home Builders' Association (CHBA) is pleased to present our submission to HUMA's study into the financialization of housing.

Since 1943, CHBA has been the voice of Canada's residential construction industry. Representing one of the largest industry sectors in Canada that directly and indirectly employs more than 1.5 million Canadians, our membership is made up of some 8,500 member firms from coast to coast. Our members build low-rise, mid-rise, and high-rise homes for both ownership and rental. The bulk of our membership is comprised of small- and medium-sized enterprises. CHBA's mission is to support members' ability to meet the aspirations of Canadians for housing affordability, quality and choice.

Housing affordability has been the top priority for CHBA in terms of government advocacy for decades, as changes in government policy at local, provincial and federal levels have continually eroded Canadians ability to buy or rent a home. We are now in a housing affordability and affordable housing crisis, which has been many years in the making, and we need to be very realistic about the causes of this and also be realistic about the comprehensive approach needed to solve this complex challenge.

The entire housing continuum needs to be addressed, and we cannot fix our social/affordable housing needs without also fixing market-rate affordability. Ensuring better access to homeownership is an important part of that mix. Restricting access to homeownership, especially for first-time buyers, contributes to social inequity as it effectively boosts wealth and real estate concentration amongst a few - those who can leverage existing equity or who already have strong finances.

A comprehensive approach is needed and must work within Canada's fee-market system to leverage the private capital of Canadians and Canadian businesses to make the investments needed to build much more housing supply of all forms and tenure–we cannot make-up Canada's housing deficit by trying to stifle investment, limiting access to homeownership, and further messing up the taxation system around purpose built rental that already prevents more purpose built rental from being built. Successful access to homeownership in the past has led to the financial well-being of more than two-thirds of Canadians—this should be facilitated for more Canadians, not restricted. More rental units that Canadian can afford are also essential. We need to support those who will stay in the rental market, plus affordable rental rates enable savings for renters to potentially become homeowners one day if they so choose. The key is to help those needing rental units they can afford <u>without</u> damaging access to homeownership. We also need to ensure below market-rate units are funded without damaging affordability of market-rate units, either for rent or ownership.

The solution is to make the housing policy changes, at all levels of government, that: reduce the costs of new housing development and construction; ensure the mortgage and finance system supports investment, including that of first-time homebuyers, to support the construction of much more supply of all types; increase dramatically the number of housing units of all forms and tenure through these changes, plus make the necessary changes municipally to enable much more supply to move forward; adjust the tax system to enable the market to respond with more market-rate purpose built rental that Canadians can afford; and, by fixing affordability and taking action to help move people along the housing continuum, use government supports to aid those who remain in core housing need. This last part, of helping those in housing need, will of course need extensive support in the immediate term; but we cannot fix that issue over the longer term without fixing housing affordability in the market-rate housing stock, where some 95% of Canadians live. To fix our housing crisis, we need to address housing affordability and affordable housing. If Canada doesn't fix market-rate affordability, there will be a continually growing waiting list of those needing housing support, no matter how much social housing is built.

The federal government has recognized that Canada has an acute housing shortage, which it has rightly established has been a principal cause of escalating house prices and will continue to be an excessive driver of house prices until it is rectified. This element of housing affordability is economics 101: supply and demand; when demand dramatically outstrips supply, prices increase excessively. The need for much more supply to address housing affordability has been expressly supported by the International Monetary Fund. CMHC has determined Canada needs to build 3.5 million additional homes in the next ten years to house Canadians and make-up the housing deficit. This figure is over and above the 2.3 million Canada would normally build. The need for more homes continues to be driven by an existing deficit, plus a large millennial cohort household formation and increased immigration levels (which are now the highest in the G7 and needed to fill the labour shortage). This imbalance of supply and demand continues to drive up prices in both new construction home and existing housing.

Therefore, it is important to find the right balance of housing policy, fiscal policy and mortgage rules to maintain stability while also supporting the needs and goals of Canadians. The right balance encourages movement along the housing continuum by creating vacancies in rental that others can fill. 80% of available rental units on the market have historically come from first-time buyers vacating rental units. The inability to become a first-time buyer puts pressure on the rental stock.

Lack of supply, rising development taxes, more stringent building codes, municipal process delays and more, have driven up home prices; meanwhile rising interest rates and ever-tightening mortgage rules have made it much harder to finance housing purchases, preventing many would-be first-time buyers from entering the housing market. This keeps them in rental units and causes further shortages in the already overstretched rental market, reducing availability of rental units and driving up rents. The dream of homeownership is still important to most Canadians, and fulfilling it is essential in getting our housing continuum working again. But homeownership rates have dropped over the past decade, from nearly 70% in 2011 down to 66% in 2021, and this erosion is causing stress all through the continuum, right back into social housing.

So we need to fix the system to help the majority of the next generation become homeowners, as our Canadian system did so successfully in the past. But we also need to create much more rental housing that Canadians can afford too. The fundamental problem with the lack of rental housing units in Canada, which has limited availability and increased rents, is that thanks to the changes to the taxation system over the past decades, the business model for building purpose-built rental has been broken for a long time. This means that developers have turned to building condominium buildings, where the financial model makes sense, and in many cases the units in these buildings are in turn purchased by investors and rented out, making up an important part of the rental housing stock. Having a secondary rental market in condos is still a good way to provide rental, but we need much, much more purpose built rental, and especially rental units lower-income Canadians can afford.

Further, with the shortage of purpose built rental units in Canada, and the extreme need for more, rental units in many cases have become very attractive investments—though this still requires long-term patient capital, given the low but steady returns, which is why larger rental buildings tend to be purchased by institutional investors. Like all older housing, older rental units do need updating and maintenance, so in many cases buildings are purchased and then retrofitted, which in turn increases rents. There is a market for those higher priced rental units, given the shortage of these too (and the inability of would-be buyers to buy homes), which is why this is happening. We therefore need to build much more purpose-built rental at various rental price points so that we have much more of all of the different kinds of housing the market needs. There are also taxation approaches that can encourage older, less expensive rental properties to be transitioned to the not-for-profit sector to maintain lower rental stock, while encouraging the development of new rental stock.

To encourage the building of more rental stock, the federal government needs to address issues that are fundamentally undermining the business model and preventing the market from being able to provide more purpose-built rental. To that end, CHBA recommends:

1. Zero-rate purpose-built rental housing for GST/HST (at least for development costs, if not also operating costs.)
    a. Or, at minimum, defer GST/HST collection until the time of sale of the building.
2. Defer Capital Gains Tax and Recaptured Capital Cost Allowance on the sale of rental housing if reinvesting in rental housing.
3. Introduce a "Rental Retention Vendor Tax Credit" for private owners selling to not-for-profit groups and reinvesting in new purpose-built rental.

Fixing the GST will go a long way towards fixing the business model for purpose built rental, enabling the pro formas for such buildings to proceed as purpose built rental buildings rather than condominium buildings. There would be some loss of revenue to the federal government, but there is a strong case to be made that housing, especially rental housing, should not be taxed at all in the first place, just like other essentials like groceries.

Fixing the Capital Gains Tax and Recaptured Capital Cost Allowance will improve the business model but also encourage the sale of older buildings and the reinvestment of those funds into more purpose built rental, especially for larger buildings and organizations looking to continue develop more rental stock.

Introducing a vendor tax credit would provide benefits to smaller private sector owners that have assets with moderate rents and who could sell to non-profit housing corporations. This would avoid the need of private sector building owners to retrofit to improve the marketability of units by retrofitting units and needing to raise rents, causing erosion of the existing relatively more affordable stock. Transferring ownership to the not-for-profit sector is an effective way to preserve these existing assets at affordable rental rates. Canada has a long history of community-based not-for-profit housing organizations providing affordable housing. Because their mission is to provide affordable housing, rents can generally be kept at lower levels.

Finally, as Canada, and particularly municipalities, look to increase the stock of below-market and social housing units, many are looking towards inclusionary zoning (IZ), which can be fraught with unintended consequences that reduce affordability and housing supply. IZ is a tool that requires a certain portion of new developments to be made affordable to people with low incomes. This can be part of the solution, but it is critical to understand that, if done wrong, it can drive up prices and reduce much needed supply. For municipalities or other organizations looking to IZ to provide part of the solution, it is essential that such initiatives ensure IZ does not cannibalize market-rate housing by reducing the number of market-rate units, thereby reducing supply continuing the supply shortage (e.g. if a building is to have 100 units, and there is a 20% requirement for affordable units, 100 market-rate units should still be built, and an additional 20 affordable units should be allowed). Initiatives must also ensure IZ does not increase housing costs by having market-rate housing subsidize “affordable” units directly or indirectly. Anytime the costs must be borne by the development, those costs inherently must be recovered in the sale or rental of the market-rate units. This will drive up unit prices or render the project unviable, resulting in no units. The costs to support below market-rate units should not come from those owning or occupying associated market-rate units, but from the entire tax base through offsets from the municipality.

CHBA would be happy to appear before the Committee to expand on the above. For more information, please contact Nicole Storeshaw, Director, Government Relations (nicole.storeshaw@chba.ca; 613-230-3036 ext. 241).