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Submission for the Pre-Budget Consultations for the 2020 Budget

Canadian Home Builders' Association

INTRODUCTION

The Canadian Home Builders' Association (CHBA) is pleased to provide the Standing Committee on Finance with its recommendations for addressing climate change under two themes: **improving housing affordability to unlock the door to homeownership and avoid split incentives in energy efficiency;** and **accelerating energy efficiency adoption in new and existing homes across Canada by addressing affordability.**

SUMMARY OF RECOMMENDATIONS

A well known issue with rental property in both the residential and commercial building sectors is that the building owner pays for energy efficiency improvements to the property, but the tenant often pays the energy bills. This "split incentive" situation means there is often little to no incentive for rental property owners to invest in energy efficiency, as they are costly, and the benefit of energy savings accrues not to the property owner but to the tenant. The reverse is also true: If the landlord pays the energy bills, the tenant has no incentive to conserve energy.

Supporting homeownership by improving housing affordability therefore directly accelerates energy efficiency improvements by placing the benefit of energy improvements with the person who pays for them.

CHBA therefore recommends the following to **improve homeownership affordability:**

- **Recommendation #1:** Re-introduce 30-year amortizations for insured mortgages for well-qualified first-time homebuyers.
- **Recommendation #2:** Work with Office of Superintendent of Financial Institutions (OSFI) to adjust the stress test to better align it with current market conditions by making it a declining rate stress test based on the mortgage term.
- **Recommendation #3:** Adopt federal policies and programs to help increase housing supply by leveraging transit investments and land write-downs to support affordable, market rate, mixed-use communities, saving energy for both the built environment and transportation sectors.

Addressing climate change through innovation:

- **Recommendation #4:** Enshrine affordability as a core objective of the National Building Code, this applies to GHG mitigation and climate change adaptation, as well as all other aspects of the code.
- **Recommendation #5:** Robustly support and expand home energy labelling on all resale homes using its EnerGuide Rating System.
- **Recommendation #6:** Introduce a permanent renovation tax credit, based on the EnerGuide Rating System, to accelerate emissions reductions and combat the underground economy.

DETAILED RECOMMENDATIONS

Recommendation #1: Reintroduce 30-year amortizations for insured mortgages for well-qualified first-time homebuyers.

Reintroducing 30-year insured mortgages for well-qualified first-time homebuyers (*not all buyers*) will address the growing inequities in mortgage access and deliver benefits to all Canadians, and particularly millennials and new Canadians who deserve a fair shot at homeownership. Supporting homeownership increases investment in energy efficiency by avoiding the split-incentive issue of energy efficiency in rental properties.

It has been erroneously posited that first-time buyers are high risk; in fact, younger Canadians are the lowest risk group of buyers in terms of mortgage arrears, plus they have the longest timeframe to pay off their mortgages. Their incomes also tend to rise consistently and quickly, making mortgage payments increasingly affordable over time. And first-time buyers seeking entry-level homes do not cause excessive house price escalation in any regional market.

Data provided by Canada Mortgage and Housing Corporation (CMHC) reveals that returning to 30-year insured mortgages for first-time buyers would only increase prices by 1 to 2.4%, a range that reflects normal appreciation. At the same time, CHBA analysis projects this would allow some 34,000 well-qualified first-time buyers into the market annually.

A return to 30-year mortgages would also return more dollars to government through CMHC mortgage insurance. Options on how best to direct this additional revenue should be carefully examined: they could be used to support affordability in other ways and/or energy efficiency.

Recommendation #2: Work with OFSI to adjust the mortgage stress test to better align it with current market conditions by making it a declining rate stress test based on the mortgage term.

With the Toronto and Vancouver markets now stabilized, and interest rates higher, the negative economic impacts of reduced construction activity and locked-out buyers can be curbed through adjustments that would still limit risk but increase market access for well-qualified buyers.

Currently, the inability of renters to access home ownership, and of move-up buyers to sell their starter-homes, is stalling movement along the housing continuum, limiting rental unit availability, driving up rents, and causing more challenges for those in housing need as well as those organizations seeking to provide it.

The stress test is also increasing risk to Canada's financial system as an April 2019 CIBC report noted that "mortgage originations provided by alternative lenders rose by a cumulative 27% while originations in the market as a whole fell by 11%."[1] In sum, non-regulated lender activity is ramping up, increasing systemic risks as a direct result of the current design.

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[1] See CIBC Economics, "The Mortgage Stress Test: The Operation Was a Success, But…," April 16, 2019, at: https://economics.cibccm.com/economicsweb/cds?ID=7069&TYPE=EC_PDF

What these (and other numbers) tell us is that the stress test should be somewhat dialed back. It has helped take “froth” out of the Toronto and Vancouver housing markets, but its impacts have been far-reaching, hampering housing markets in more balanced and struggling regions. It should now be adjusted to bring about more widespread affordability, and can be done without inciting undue risk.

It is also important to stress that CHBA is *not calling on the government to discontinue the stress test*. We are recommending small changes that better align with current and emerging market conditions. Adjusting the stress test by replacing the current universal 2% with a declining rate stress test based on the mortgage term is an appropriate evolution of the test that can maintain its effectiveness and intent while also avoiding excessive negative economic impacts.

One year after the mortgage stress test, CHBA members reported a 33% drop in first-time buyer activity. A second survey that CHBA commissioned in April 2019 revealed that approximately 65% of the 300 CHBA member companies responding have already laid off staff, and 40% expect to lay off more workers in the next few months. This is happening at a time when all orders of government recognize that we need more, not less, housing supply.

Recommendation #3: Adopt federal policies and programs to help increase housing supply by leveraging transit investments and land write-downs to support affordable, market rate, mixed-use communities and working cooperatively with other orders of government.

An enhanced federal government role, working with its provincial and territorial partners, is needed to increase housing supply across Canada.

At current rates, Canada will be some 300,000 family-oriented housing units short over the next decade. In order to address this challenge, we need the right kind of housing, in the right places.

Increased housing supply needs to come in the form of more entry-level and “missing middle” options for Canadians: medium-density low-rise homes in mixed-income, mixed-use, walkable communities with ready access to public transit. Getting more housing supply online across Canada will help keep prices down for all homes, while also freeing up rental properties as people move into their first homes.

Development taxes, NIMBYism (Not in My Backyard), outdated zoning, lengthy approval processes and other red-tape obstacles, have made housing more expensive and difficult to bring online in the forms needed, especially when it comes to “missing middle” housing that is ideal for first-time homebuyers. There is a federal leadership role to be taken in all of these areas.

The government has a unique opportunity to also ensure that federal infrastructure funds are tied to plans that will lead the way to proper density around transit nodes to promote affordability and get more people across Canada into the homes they want to live in, whether it be market rental housing or market homeownership housing.

Recommendation #4: Enshrine affordability as a core objective of the National Building Code, for all aspects of the code and particularly as it relates to GHG mitigation and climate change adaptation.

CHBA is a strong proponent of the National Building Code and is proud that Canada has one of the best building code systems in the world. Thanks to decades of industry/government collaboration, Canada's housing is of excellent quality and boasts energy efficiency levels some 50% better than 30 years ago—and this has been done through innovation, not regulation. Canada can continue to improve the energy efficiency of its new homes but given the already excellent performance of new-builds, additional energy efficiency should only be added as it can be shown to be cost- effective or innovation is achieved to make it so. There is a real danger that the current accelerated pace of change without providing affordable solutions is set to further impair housing affordability, adding many tens of thousands of dollars to the price of every new home that are not offset by energy savings.

The government should therefore ensure that affordability is a clear objective of the building code when considering code changes. Currently in the code process, costs may be looked at, but affordability is not a code objective. As a result, undue costs can be added without full and proper assessment. We have reached a point where the emphasis on costs is critical. By taking steps to address the affordability gap, we can ensure that innovation occurs before costly regulation, so that future energy efficiency requirements do not simply erect even higher barriers to those aspiring to join the ranks of the middle-class through homeownership.

All orders of government and stakeholders alike must strive to provide enough resources to help homes achieve higher levels of energy efficiency, including net-zero-ready performance, without negatively impacting affordability. Net-zero-ready performance is currently targeted for regulation by 2030, a target that is currently without consideration for cost. If we are to meet the goals for climate change, a true focus on affordability is critical.

Recommendation #5: Support home energy labelling.

Having the EnerGuide label on all houses at the time of resale has the potential to dramatically raise the energy literacy of Canadians, helping home valuations truly reflect energy efficiency and further encouraging Canadians to make energy efficiency and retrofit investments.

The advantages of having the EnerGuide label are numerous. For example, it provides homeowners with an accurate picture of their home's energy performance, and where the most cost-effective energy-efficiency improvements can be made. Further, the EnerGuide Rating System can serve as vehicle for federal tax credits (see next recommendation), and for all provincial and utility incentive programs to maximize energy efficiency and leveraging of federal dollars (as it has in the past). The end-result: it can maximize efficiency and effectiveness and keep homeowners on a continual path of energy improvements over time.

Recommendation #6: Introduce a permanent renovation tax credit, using the EnerGuide Rating System, to address emissions in the existing housing market.

Through a permanent 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. As noted above, investing the ERS would allow it to be a backbone for national, provincial, municipal, utility and NGO energy efficiency programs, as it was during the time of the ecoENERGY Retrofit Homes Program. This piggybacking has substantial savings and long-term benefits in ongoing retrofits and better consumer literacy leading to energy savings.

Further, government receipt-based incentive programs have a proven record of suppressing underground economic activity. When the tax revenues gained from reduced underground cash activity are included in an assessment of such a program, and all of the socio-economic benefits are also tallied, a well-designed program can more than pay for itself.

According to CHBA's analysis such as tax credit would be revenue positive for the government with net revenue of $56 million. A permanent tax credit would also allow homeowners to plan their energy retrofits in stages over years, as their budgets allow.

CONCLUSION

By adopting CHBA's recommendations, the standing committee can encourage the government to take concrete and meaningful action toward improving housing affordability and tackling climate change hand in hand.