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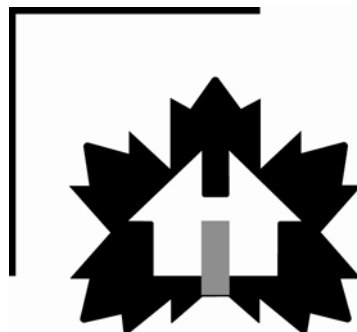
# ***Getting it Right in the “New Normal”***

## **INAUGURAL ADDRESS**

**Victor Fiume, Incoming President**

Canadian Home Builders' Association 67<sup>th</sup> National Conference  
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Minister Finley, ladies and gentlemen, friends and colleagues.

I am very proud to be standing here this morning, as the next President of the Canadian Home Builders' Association.

Over the next year I will be leading a great team – your national executive – builders who have tremendous industry experience and knowledge.

Minister, we look forward to hearing from you about the federal government's housing priorities – particularly after Thursday's Federal Budget.

Your participation is a very important part of our Conference. Thank you for being here today.

Before I talk about the year ahead, I want to recognize Gary Friend's truly exceptional leadership over the past year.

Gary, you've done a terrific job during a very challenging time.

You kept us focused on the issues that matter to our businesses, and to our customers.

You provided a steady hand and a calm voice.

You represented us very effectively and made sure that we were heard, and understood, by governments.

I know I speak for every CHBA member when I say "thank you" for your tremendous effort as CHBA President.

For those of you who don't know me, let me tell you a bit about who I am and what matters to me, as a builder.

I began working in our industry when I was still in high school. Over the years, I've had the opportunity to get hands-on experience in just about every aspect of home building – from being a site labourer when I was a student, to my current position managing a community-scale building firm.

I am very proud to be a home builder and a builder of communities.

We provide families with the places they call "home" – places where children grow up, where lifelong friendships are formed, where the fabric of Canadian society is created and recreated, generation after generation.

A home is more than just a product. It's the building block of our communities. It is the hub of our lives.

There are few occupations that are so fundamentally positive as home building, or that contribute so much to making our country such a great place to live.

I am also very proud to be a member of the CHBA.

We help each other. We share information. We talk about what is going on in our businesses and in our communities.

We share a tremendous passion for what we do.

And that is a good thing – because what we do matters.

This morning, I want to review some of the significant events of the last year, and lay out CHBA's priorities for the year ahead.

A year ago, when Gary delivered his inaugural address, we faced very uncertain times.

- Financial markets were still teetering on the edge.
- The world economy was still contracting rapidly.
- Housing markets and the stock market were still deteriorating, and
- We were waiting, and hoping, that the federal government's Economic Action Plan would get traction.

Today, things look a lot better.

Canada has weathered the storm better than most nations due, in no small part, to our industry.

Indeed, the crisis raised awareness of how important our industry is to the economy.

We demonstrated our tremendous capacity for "heavy lifting" in the face of very difficult economic conditions.

We pushed ourselves to find business opportunities.

We kept building. We kept renovating. We got on with the job!

Each of us faced tough choices in our businesses, and each of us saw our balance sheets take a hit.

Minister, through this period, we were fortunate to have a federal government that understands the importance of our industry and the key role we play in Canada's economy.

Its actions helped us to contribute to the economy under exceptionally difficult conditions.

Canada's Economic Action Plan placed considerable emphasis on housing as an engine of economic recovery.

- The Insured Mortgage Purchase Program protected the supply of mortgage financing.
- Measures like the Home Renovation Tax Credit were a resounding success.
- Significant federal investment in basic municipal infrastructure was a prudent use of public funds that will benefit Canadian communities for a long time to come.

Minister, in the face of economic crisis, your government got many things "right" for housing.

The challenge now is to maintain and build on this foundation.

The lessons of the financial crisis must guide us in achieving longer-term stability – stability based on a healthy, competitive housing market environment, not on government stimulus.

I look forward to working with you over the coming year towards this goal.

So where are we today?

The financial crisis has left a very different world in its wake:

- Massive public expenditures have been needed to sustain our economy.
- Government deficits have returned with a vengeance.
- Economic risks remain, both here in Canada, and around the world.

We are left with many economic challenges:

- Sustaining economic recovery as governments wind down their stimulus programs.
- Confronting the impact of more normal interest rates.
- Doing business in an environment where traditional sources of capital are more risk averse.
- Dealing with a constrained fiscal environment as governments rein in budgetary deficits.

These are elements of the “new normal” that our industry, governments, and consumers must adjust to.

The adjustment will not be easy – but it must begin now.

We are in a very uncertain period. There is cautious optimism that Canada is on the path of real economic recovery – one that will be driven increasingly by autonomous private sector demand, not government spending.

However, both the Governor of the Bank of Canada, and the Minister of Finance have cautioned that the recovery is fragile. In short – we are not out of the woods yet!

Recent higher levels of housing activity do not represent a return to health in our industry that is sustainable.

To achieve this in both the short- and longer-term, a number of steps are urgently required.

To be blunt, I don't want the wheels of this industry falling off on my watch!

Minister, that is what I want to focus on this morning – the unique opportunity that Canada has to “get it right” for housing, as we enter the “new normal”.

- First, I want to focus on the issue of housing affordability and choice.
- Second, I want to talk about the need for a new “smart” business model for how governments, at all levels, deal with housing – particularly in terms of government imposed costs, and how our industry is regulated.
- Finally, I want to talk about the environment, and the way forward to a greener future in the “new normal”.

So let me begin with my views on housing affordability and choice.

To understand fully what the “new normal” means, we have to focus on the singular importance of this issue.

Our industry's success in maintaining a reasonable level of business activity over the last year has been tied primarily to two factors:

- abnormally low interest rates, and

- price discounting by builders on their projects and inventory.

Neither of these factors is sustainable.

When we talk about housing affordability, we must focus on fundamentals – on what a home actually costs – not on conditions that are artificial or temporary.

Real, long-term affordability is tied to two things – incomes and prices.

Government actions to stimulate the housing industry during the financial crisis were temporary emergency measures and did not address policies that have been eroding housing affordability and choice for many years.

Minister, truly, we are at a crossroads.

In the “new normal” we can’t have it both ways – we can’t get the benefits our industry provides, while also shifting public costs onto the backs of home buyers. This was the game that was played out under the “old normal”. It simply won’t work anymore.

The assumption that public costs can be underwritten by dramatically increasing real estate values in perpetuity has been put where it belongs – in the economic trash heap.

Choices must be made. And a new, and “smarter” business model for governments is key to making the right choices.

Today, governments face a new economic reality, a “new normal” that demands a new model for how they do business, and work with each other.

Fundamental to this smart business model is the need for much more collaboration within and among governments, and with our industry.

What complicates our situation is the sheer number of government agencies involved in housing, at every level.

Many years ago, our industry could address housing issues at the federal level by talking primarily with just one agency – Canada Mortgage and Housing Corporation.

Today, we must deal with a significant number of federal department and agencies, and face the same situation at the provincial level.

This makes productive dialogue far more complex and challenging. And it makes silo thinking a near certainty.

Minister, in the home building business it takes a lot of different skills to get the job done – from the initial design work, until we hand the keys to the new owners.

At the end of the day, someone needs to bring everyone together if things are to be done properly.

For governments, we believe that the Federal/Provincial/Territorial Committee of Ministers responsible for Housing, or some other high level intergovernmental body, can provide such a forum, and be a tremendous resource, for governments, and for our industry.

By addressing the “big picture”, such an intergovernmental body can help to ensure that federal and provincial policy is better integrated and better informed.

This type of high level collaboration can lay the groundwork for new, more effective approaches to the full range of tax and regulatory issues that challenge housing affordability and choice.

And in CMHC, we have an organization uniquely capable of providing the supporting research and analysis that is required. An example is CMHC's research on government-imposed costs on new housing – work that is essential to a comprehensive understanding of the challenges confronting housing affordability.

Over the next number of years, demographic demand for housing should result in an average of 175,000 annual "starts". These are the new homes that will be wanted by young people and immigrant families who will be so essential to Canada's future economic well-being.

For our industry to deliver on this potential, we need a stable business environment – an environment that encourages innovation and creativity. And where the importance of housing affordability and choice is reflected in government policies.

Let me tell you a short story that illustrates what I mean.

In my business, the type of buyers I'm seeing is shifting: more single people, particularly women, and a new type of buyer – extended families that want to buy a multi-generational home, where older parents have a separate suite within the home.

The parents need a smaller home with some family support, and the adult children can't afford a home on their own. So they come up with a solution, and ask me if I can build it for them.

The problem comes with government-imposed costs and regulation that box everyone in.

If I add the basement suite with kitchen facilities, I need rezoning approval, and then pay an additional \$18,000 in development charges.

This makes a housing innovation that is beneficial to the buyer, the community and to governments through reduced social support costs, very difficult.

In the "new normal", we can't afford this sort of situation.

This leads me to the two priority areas where a smart business model for governments is essential:

- First, costs imposed by governments on new home buyers and home owners.
- Second, how regulations are developed and applied by all levels of government.

So, let me examine these two priorities, and outline what the CHBA sees as essential elements for a smart business model.

The CHBA has long expressed concern over the degree of governments dependency on housing-generated revenues.

The wide array of government-imposed costs loaded onto the backs of new home buyers escalated rapidly during most of this decade.

The financial crisis brought things to a head.

As housing starts fell, many governments, particularly at the municipal level, saw their budgets begin to unravel.

While the federal government's substantial investments in municipal infrastructure have helped to address this situation, in most communities across Canada, new home buyers still pay a far greater share of infrastructure costs than they should.

The investments required to support community growth and development should not be financed through the mortgages of new home buyers.

As we have said many times in the past, this is neither fair, nor sustainable, and makes little economic sense.

There are better approaches.

For example, the prudent use of debt is a responsible and fair way to finance long-term investments that benefit the whole community.

Municipalities should be encouraged to take this approach. I commend the federal government for recognizing this and introducing CMHC's Municipal Infrastructure Lending Program for residential developments.

I was also very pleased when my own municipality – Oshawa – moved to reduce its development charges on new homes last year. And yes, I did pass this saving along to our customers.

I only wish that more municipal governments had done the same.

The federal and provincial governments also have a significant role to play in reducing the excessive level of government-imposed costs on new homes and renovations.

Consider the impact that sales tax harmonization will have in Ontario and British Columbia.

While our provincial Associations achieved significant improvements to the new home buyer rebate, even after these hard-won improvements, over 50% of all the new sales tax revenues in these two provinces will still come from housing – both new home sales and renovation.

What HST "neutrality" actually means is billions of dollars of broad-based tax relief, paid for out of the mortgages of new home buyers and those renovating their homes.

Minister, when the CHBA expresses concern over the level of government-imposed costs on new home buyers, we're not talking about something that is abstract or theoretical. We're talking about something that is very real, and has a tremendous impact on people.

Let me put this in very clear terms.

When the GST was introduced in 1991, the federal government provided a full GST rebate on homes selling for \$350,000 or less. They did this, in their own words, "to protect housing affordability".

Today, that 1991 new home that sold for \$350,000 costs \$550,000.

Across Canada, government-imposed costs on a new home range as high as 18%, and continue to rise, as municipalities increase their taxes, fees, charges and levies. The introduction of HST in Ontario and B.C. will add to this, for homes priced above the rebate threshold.

As a result, I expect that we will see an increasing number of communities where government-imposed costs are more than 20% of the total price of a new home.

So what does this mean to families who buy a new home priced at the level where housing affordability, by the government's own measure, needs to be protected?

At the top of the current range, government-imposed costs, including tax on other taxes, will cost this family \$104,000 in total. 95% of this will be financed through their mortgage.

This will add \$630 to their monthly mortgage payment – a total of over \$190,000 over the life of their mortgage.

That's \$190,000 that can't be invested in their childrens' education, or put aside towards retirement, or invested in a business, or used to purchase other goods and services that generate employment and wealth in Canada.

When we talk about government-imposed costs eroding housing affordability and choice, this is what we mean. It is a very real, and very serious, problem – and one that should be addressed by an intergovernmental body.

Minister, in this regard, the CHBA has made two important recommendations to the federal government:

- The first calls for adoption of the single threshold/full rebate approach for the GST New Housing Rebate across Canada, and a commitment to review and adjust the threshold level over time.
- The second calls for the introduction of a permanent 2.5% GST Home Renovation Tax Rebate available to all homeowners.

These two measures will improve substantially the way housing is treated under the GST, and they will also contribute, significantly, to housing affordability.

The single threshold/full rebate approach is consistent with the provincial sales tax treatment of new homes adopted in Ontario and B.C. for the Harmonized Sales Tax.

A Home Renovation Tax Rebate will also provide the government with a powerful tool for combating the underground “cash” economy. We are making the same recommendation to all provincial governments for their provincial sales tax treatment of renovation under HST.

Over the last year, the stunning performance of the Home Renovation Tax Credit has provided us with important lessons.

The most obvious is that homeowners pay attention when the government acts to reduce the cost of maintaining and improving homes.

The Department of Finance estimates that as many as 4.6 million households took advantage of the HRTC, a remarkable response.

A second, and equally significant, lesson from the HRTC is that it effectively discouraged consumers from doing underground “cash” deals to avoid the GST.

Minister, the underground “cash” economy in home renovation is a massive problem in Canada – one that the Canada Revenue Agency has been largely unsuccessful in addressing.

- This hurts legitimate tax-paying companies.
- This undermines the fairness of Canada's tax system.
- And this costs governments, at all levels, billions of dollars each year in lost revenues.

The HRTC showed that there is a better way to address this problem – by providing a modest tax break that requires homeowners to get written receipts for their renovation work.

The CHBA believes that the introduction of a permanent GST Home Renovation Tax Rebate will boost government revenues at the expense of tax cheaters and illegal underground “cash” operators.

This is a great opportunity and a very good idea – one we ask your government to act on quickly.

Let me turn my attention to how our industry is regulated – we are one of the most heavily regulated sectors of the economy.

When it comes to the technical aspects of construction, the regulatory framework we operate in functions well.

Our system of national building codes is one of the best in the world. It is disciplined, transparent and science-based.

As a result, Canadian home buyers are well served and can have confidence in the integrity and safety of the new homes they purchase.

This same disciplined approach should be applied right across the board, to all areas of housing regulation, including the municipal planning processes. This is the best way to identify practical alternatives to regulation, reduce regulatory costs to governments, and lower house prices for consumers.

In the “new normal”, such “smart” regulation is the key to doing more, with less.

“Smart” regulation will also guard against another, more insidious risk – the attraction of using regulation as a means to generate revenue, or to transfer public costs onto new home buyers.

Inclusionary zoning is a prime example. This scheme is an effort to transfer the cost of addressing a serious social issue from the community as a whole, to a small number of new home buyers.

Minister, regulatory reform is a challenge that requires the attention of all levels of government – both individually and collectively – when it comes to housing.

Let me turn to my final topic – the environment.

Today, we have a tremendous opportunity to build on over two decades of industry leadership.

When it comes to the environment, we have made far more progress than virtually any other sector of our economy. We know how to get the job done.

To achieve more, we have to do it the right way.

This means respecting the purpose of building codes, and the discipline of the model National Building Code development process.

And it means harnessing the power of market-driven, voluntary initiatives that go beyond what provincial building codes require.

I am an ENERGY STAR builder.

ENERGY STAR provides standards of performance that allow me to exceed code requirements and to benefit from decades of building science developed through the R-2000 Initiative.

I invest the resources necessary to create demand for ENERGY STAR homes – because this is what it takes in a competitive marketplace.

I am not alone in this – new home builders across Canada are making the same investment.

Minister, our green agenda in housing has five distinct components, or “pillars”:

- First, building codes will establish, through a disciplined, evidence-informed process, an acceptable minimum level of energy efficiency for all new homes,
- Second, the “next generation” EnerGuide Rating System will provide a sound and reliable basis for measuring the energy efficiency of any home, new or old,
- Third, voluntary, market-driven initiatives like ENERGY STAR, and regional green initiatives such as Built Green, will offer consumers a significantly higher level of performance, representing the “best in class” for production-built homes,
- Fourth, an updated R-2000 Standard will target the “leading edge” of performance that is commercially viable today, and
- Fifth, initiatives like EQUilibrium Homes and EQUilibrium Communities will continue to support the research, development and demonstration of future technologies and building innovations that hold commercial potential.

Together, these five pillars form a system that supports innovation and can be adjusted upwards over time, as new technologies mature. It avoids unnecessary risks and costs. It harnesses the power of the marketplace.

And it allows us to manage properly the risks that come with technical innovation while ensuring that greener homes remain within the financial reach of Canadian families.

Minister, your government is taking significant steps to support this approach. The CHBA very much appreciates the work being done by Canada Mortgage and Housing Corporation, Natural Resources Canada and the National Research Council's Institute for Research in Construction. Their work is essential to our future success on the environmental front.

We now need to reach out to other levels of government.

As we move forward to use energy and water more efficiently, and to reduce the amount of waste we produce, disciplined evidence-informed analysis will be essential.

Today, there is no intergovernmental body that can undertake this work – a body, of national stature, that can focus on the future, provide objective technical and analytic support, and work with our industry as it strives to become greener.

We need such a body. Without better research and information, particularly in terms of the integrated “big picture”, our progress on the environmental front risks being unfocused, ineffective, and undermined by governments working at cross-purposes. Unfortunately, this is already happening.

From CHBA's perspective, this effort needs be supported and resourced properly. Such a capacity would most logically be created within the National Research Council, given the NRC's mandate and expertise in relevant areas.

Minister, I'd like to pursue this idea with you, and your Cabinet colleagues, in the months ahead. Progress in building greener cities and communities will require better ways to anticipate future developments, get the research and analysis that is needed, and integrate our thinking.

It is also the key to harnessing our industry's potential to contribute even more to the economy.

Minister, I look forward to working with your government to ensure we take the best road forward to a greener future, including measures to make certain we have the skilled people needed to get the job done.

In closing, let me summarize my comments this way.

We have come through an extraordinary period of economic change, and it's not over yet.

In Canada, while we all felt the impact of the financial and economic crisis, we have managed things well.

The federal government has acted responsibly and prudently, and this has made a positive difference.

We are now facing new challenges.

The world as we knew it has been transformed. And our collective future will be different – we face a “new normal”.

In the home building business, we will seek out new ways to operate, and new models to achieve success.

Minister, it is no different for government. The old ways of doing business have been swept away by events. A new path forward is needed.

This economic transformation offers us the opportunity to set a new course – to find new and better ways to build on our capacity, and maximize our potential.

As a builder, I am an optimist. I see this as a unique opportunity to get it right.

Over the coming year, as CHBA's National President, this is the message I will be taking across the country, and to governments at all levels.

Thank you.