

**PRESENTATION NOTES TO THE
HOUSE OF COMMONS
STANDING COMMITTEE ON FINANCE
PRE-BUDGET CONSULTATIONS**

**Ron Olson, Acting National President
Canadian Home Builders' Association**

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Thank you Mr. Chairman for inviting us to be here today.

I am Ron Olson, Acting CHBA President. I'm a new home builder and developer in Saskatoon, Saskatchewan.

With me today is Victor Fiume, CHBA's Past President. Victor is a new home builder and renovator from Oshawa, Ontario.

Also, Dr. John Kenward, the Chief Operating Officer of the Canadian Home Builders' Association.

Let me just note at the outset that we have tabled two documents with you this morning.

I will begin my remarks with a brief summary of current market conditions and housing activity.

At the national level, new housing starts remain robust – at over 200,000 starts, seasonally-adjusted. Demand for home renovation services is also strong.

I would note that the current level of new home starts is influenced by high levels of condominium construction in Toronto and Vancouver.

In other markets, activity is softer. In some cases, below normal levels.

So current levels of new housing activity are not uniform across Canada.

On balance, the CHBA is pleased with our industry's performance. It means that our members continue to contribute significantly to Canada's economy, to create jobs and drive consumer demand for a wide range of goods and services.

Assuming generally positive economic conditions in Canada, and a near-term continuation of current interest rates, the CHBA expects housing demand to be in line with projected housing requirements in the 188,000 range.

However, this positive picture belies some significant issues. In relation to both new home and renovation activity, the current abnormally low interest rate environment is a major factor.

The outlook carries a strong note of uncertainty and caution, given significant uncertainties in the world economy.

The weak U.S. economy and the European debt crisis threaten continued economic growth in this country.

The central message of our presentation today is that homeownership affordability has deteriorated significantly.

By homeownership affordability we mean the relationship between housing prices and income levels.

Given the current record low interest rates, access to homeownership is extremely positive. However, overall affordability levels, as measured by the share of income required to purchase an average home, are markedly worse than in the decade prior to 2005.

To the point, today's artificially low mortgage rates are masking the ongoing deterioration of housing affordability.

As interest rates inevitably rise to more normal levels, the deterioration in affordability will become more evident – and will be reflected in a marked reduction in housing activity levels as would-be purchasers are priced out of the market.

It is imperative to take action now to improve housing affordability so that this does not happen.

The major factors in the erosion of housing affordability are government-mandated costs - which have escalated rapidly - and regulation.

Direct government-imposed costs come through the ever-growing array of taxes, fees, levies and other development-related charges on every new home. At the upper end, such costs now total well over \$100,000 per new home. In many communities, the total exceeds \$50,000 per home.

These costs are financed through the mortgages held by new home buyers.

In short, government-imposed costs effectively transfer public sector debt into household mortgages.

This is the most significant factor behind the serious decline in housing affordability. It will lead inevitably to lower housing activity and reduced employment in our industry overall.

As well, this decline will exacerbate intergenerational inequity. First-time homebuyers, in particular, will be faced with increased house prices due in part to government-imposed costs.

In this context, it is important to note that while overall employment has recovered to above pre-recession levels, the recovery has been uneven. The job losses during the recession were much more pronounced among young people (aged 15-24) than among workers aged 25+. And, the jobs recovered since the end of the recession have been predominantly among older workers.

All three levels of government drive up the cost of housing. I will briefly address the federal responsibility in this area.

The CHBA has called upon the federal government to introduce a single threshold/full rebate treatment of GST on new home purchases.

In 1991, the full rebate threshold was set at \$350,000 with an upper cutoff point of \$450,000.

The government made a commitment to review and adjust these limits over time. Twenty years later, this has not happened.

Today, in most urban markets few new homebuyers are eligible for a full, or even partial, GST rebate on their new home purchase. This undermines directly housing affordability.

Similarly, the federal government has not addressed the inequitable impact of the GST on home renovation costs. The CHBA has called for the introduction of a permanent Home Renovation Tax Rebate to restore fair treatment of homeowners who carry out renovation projects.

This would have the added benefit of addressing, directly, the problem of the underground 'cash' economy in home renovations – a problem driven, in large part, by high taxation.

Thank you.