

CHECK AGAINST DELIVERY

The Litmus Test

INAUGURAL ADDRESS

Deep Shergill, Incoming President

Canadian Home Builders' Association 70th National Conference

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President Kinsley, distinguished guests, ladies and gentlemen, friends and colleagues – it is an honour to be here today, as the next President of the Canadian Home Builders' Association.

President Kinsley, I welcome you today representing the Honourable Diane Finley and the Government of Canada.

We greatly appreciate the Minister's commitment to our industry. I look forward to continuing our strong relationship with Minister Finley and with the federal government over the next year.

Karen, as you approach the end of your term as President of Canada Mortgage and Housing Corporation, I want to thank you, on behalf of all of us, for your tremendous leadership of Canada's national housing agency.

Be assured that the CHBA has valued greatly your dedication to Canada's housing system, and the strong relationship we have had with you during your tenure.

Before getting further into my remarks this morning, I want to take a moment to recognize Ron Olson, our out-going President.

Ron, I look forward to your continued guidance and support as I try to fill your shoes over the coming year.

I am certain Ron will look back on his term with well-deserved pride, as the Association moves forward on the initiatives he began on his watch.

His steady hand has been very valued by all of us who work with him. I know I express the view of all CHBA members when I say, 'thanks for a job well-done!'

I have had the privilege to serve at all three levels of our Association. I'm very proud to be a home builder and a CHBA member, and very proud of what our industry contributes to this country, in so many ways.

As an Albertan, I have a front-row seat as Canada's future unfolds – I see the energy and optimism that make Canada such a great country.

And I have the privilege of participating in a competitive and progressive industry where each of us works hard to make every new day count, to always reach higher, to build great communities and to achieve more.

At all three levels, the CHBA draws us together to fulfill our aspirations. We may be competitors, but we are also colleagues. We know that there are things that can be achieved only by working together, towards common goals.

Our history demonstrates this.

For 70 years, our Association has provided members with the opportunity to make our industry stronger, for the benefit of all.

The Association is the right place to be for everyone in our industry who aims to achieve a higher standard and greater success.

As a young builder, this is where I learned so much – being mentored by those who had already made their mark. They were more than willing to help me by sharing their experience and expertise.

That is the truly unique character of our Association – that a group of entrepreneurs who are fiercely competitive, are also so generous and willing to help a newcomer learn the ropes – once they knew I was serious!

This morning I want to talk about our competitive spirit, and why it represents the very heart and soul of our industry.

In this context, I will examine the national challenges before us, and how we can take practical, sensible steps to address these.

Let me begin by touching on the bigger economic picture – and the various forces at work in Canada and elsewhere that will challenge us in the next few years.

We all know that our economic reality has shifted fundamentally, and permanently, with the 2008 financial crisis and Great Recession that followed it.

We also know that the conditions that led to that crisis are not behind us—not by a long shot. They will continue to exert their impact on both the world’s and Canada’s economy in forceful and unpredictable ways.

That is simply part of the new reality in an integrated world economy.

Current forecasts suggest we are not faced with a doomsday or ‘meltdown’ scenario – despite what some economic commentators might suggest – and our mid- and long-term prospects remain solid.

Housing demand has slowed, and nationally we expect 2013 starts to be below the levels of the previous three years, although some regions will buck this trend.

Given that demographic demand for new housing is in the 180,000 to 190,000 range, this is not unexpected.

A near-term return to housing starts more in line with underlying demand is a decidedly ‘soft landing’ – an outcome we have all hoped for.

While we adjust to this new level of activity and seek out business opportunities, our industry will continue to make a major contribution to Canada’s economic performance. We will continue to create jobs, and generate economic spinoffs for other sectors of the economy.

So where do we find ourselves today?

As the industry, we have tremendous strengths, the foremost of which is our competitiveness:

- The greatest progress is made where there is healthy competition. We are at the forefront when it comes to competition—there are no Fords or G.M.s in our industry – and this fuels intense competition within each of our markets.

- Competition spurs innovation in all areas, and has resulted in an ever higher quality of product, and greater consumer value, when it comes to new home quality and choice.

Our industry's remarkable environmental success is a prime example of what competition can deliver – higher quality and better performance through the forces of the market, more than through government regulation.

The second strength we bring to the table is that we are small, community-based businesses. Each one of us makes a tremendous contribution to the towns and cities where we are based.

We know our success is tied closely to the success and growth of our communities – unlike many other industries, we can't simply pull up stakes and move to Mexico or China if the local economy 'tanks'.

So, we invest in building our businesses and reputations, and in contributing to the health and prosperity of our communities.

As has been reinforced in recent years, a robust housing sector contributes greatly to Canada's economy.

Strong and competitive housing markets are key to the prosperous future we all want.

At the same time, a robust housing sector depends on achieving two fundamental conditions: rising levels of employment and rising household income.

At the end of the day, as a new home builder, what I want to see is a national economy that is growing and creating good, well-paying jobs everywhere. This is particularly critical for younger people, whose unemployment levels remain unacceptably high.

We can't grow our economy on the basis of low interest rates.

Private investment, productivity gains and innovation are the surest path to better jobs and rising incomes. These are the foundations for greater national prosperity, and durable housing demand.

The federal government places great importance on a prosperity agenda – recognizing the critical need for growth in private-sector jobs and household income. We welcome this.

For new home builders, renovators and developers, and for all of those who depend on the success of our businesses, opportunity is on our side.

- There will be continuing demand for single-family homes.
- An aging population will create demand for different types of housing.
- Compact and highly livable urban centres will continue to be in demand, as will infill development.
- There will be growing demand for purpose-built rental housing.

- The home renovation market will remain a critically important part of our industry as Canada's housing stock ages and homeowners demand more efficiency and comfort from their homes.

Our industry will seize these opportunities

During my presidential year, seven issues will form my platform for action. These are the matters I will pursue with government, and where I will push for tangible action.

In laying out this platform, I am acutely aware that the issues are intertwined, and that all levels of government are involved, one way or another.

What makes these issues important, and connects them, is their direct relevance for housing affordability and choice.

Let me review the issues in order.

Our industry supports a regulatory environment that measures up to the principles of Smart Regulation—an environment that is evidence-informed, that supports competition, innovation and increased productivity.

In such an environment, regulation is viewed as a last resort, not the first option, in achieving public objectives.

The federal government has been clear that cutting red tape, on a 'one-for-one' basis, is a priority.

This is the approach to regulation that we support.

It is the approach we expect from all levels of government.

Today, many government regulations serve to reduce competition, to deny consumers the full benefits of increased productivity, to hold back innovation, and to undermine housing choice.

The pervasive impacts of bad regulation have a number of aspects.

First, in relation to competitiveness, I can speak from personal experience.

I began my first home building project, some 22 years ago, with \$18,000 in my pocket – it was enough to get my first home started and my business going.

Today, in some jurisdictions, I'd need closer to \$1 million to do the same thing – 55 times as much capital.

Simply put, today an ambitious young builder cannot enter the industry easily, if at all.

Limiting land use by intention, or less overtly through ill-conceived regulation, also limits competition and creates the potential for monopolistic pricing.

Second, regulation hampers innovation. By severely limiting what we build, where we build it, and how it is built, regulation presents a significant barrier to new ideas, innovative approaches and increased productivity. As a result, a great deal of potential value is lost.

Third, regulation is a major factor in limiting housing choice.

Planning approaches focused on restricting single-family home construction are often thinly disguised attempts at social engineering—at trying to prevent consumers from getting the home they actually want.

To paraphrase British Prime Minister David Cameron, we need “to get the social engineers off our backs”.

It is time to roll back the chronic over-regulation of our industry.

Today, government policies, at all levels, assume that housing affordability can be maintained in the face of endlessly rising taxes, fees, charges and levies extracted from new home buyers.

The housing sector’s significant support to Canada’s economy following the fiscal meltdown and the Great Recession was tied to the stimulative effects of historically low mortgage interest rates.

The low cost of mortgage money, however, has blinded governments to the fact that house prices continue to be pushed ever higher through taxes, fees, levies and charges.

So long as governments persist in confusing the effect of low interest rates with real housing affordability, they will fail to recognize the steady erosion of housing affordability.

In a number of urban centres, the relationship between house prices and household incomes has reached a crisis point.

This issue was raised recently by Tiff Macklem, Senior Deputy Governor of the Bank of Canada, in a speech delivered at Queens University.

The Senior Deputy Governor noted that:

“Over the past decade, the price of the average home has risen from 3.5 times disposable income to more than 5 times, and the house-price-to-rent ratio has increased from 1.3 to 2.3. Both of these measures are now well above their historical averages.”

In an article in the Globe and Mail over Christmas, Professor John Andrew at Queens University is quoted as saying:

“There is no question that in Canada, we are in a real affordability crisis right now.”

“There is going to be a very rude shock to the system when mortgage rates move up. Rates have been low for enough years that people have forgotten how unaffordable houses really are.”

In the same article, Professor Paul Kershaw, at the University of British Columbia, is quoted as follows:

“Take the average 25 to 34 year old in 1976, working full-time and making the average wage. That person had to save for five years to build up a 20% down payment for the average home.”

“Today, the same 25 to 34 year old has to save for 10 years. And in B.C., it is 15 years.”

Research carried out by Altus Group reports that:

“Between the late 1990s and early 2000s, the proportion of total housing starts composed of single-family homes fell from about 80% down to 70%. More recently that trend has continued, and in 2011 fewer than 60% of new homes started were single-family.

“By contrast, potential homebuyers in Canada prefer single-family homes overwhelmingly in comparison to apartments.”

Is it any wonder that CHBA continues to call for adjustment to the GST Home Buyer Rebate thresholds?

Is it any wonder that we continue to call upon provincial governments to get rid of such insidious taxes as the Property Transfer Tax?

Is it any wonder that we continue to call upon municipal governments to reduce their taxes, fees, charges and levies on new homes?

The same cost pressures that add to the price of a new home also inflate the value of existing homes, with no ‘value added’.

There is a ‘multiplier effect’ through the resale market every time a new charge, fee or levy is applied to new development.

And it ends up in homeowner mortgages, to be paid over the next quarter-century.

This situation is made even worse by tax policies which have the effect of pyramiding taxes on taxes.

What has happened is quite simple—governments have come to view new homes primarily as a source of revenue, not as an essential part of a healthy and growing community.

We have reached the point where it is insufficient for government simply to stop adding to the financial burden on new home buyers.

Government-imposed costs on new homes must be rolled back, and actually reduced.

It is also worth emphasizing that we get less and less for our social housing dollars as housing affordability deteriorates.

New Zealand’s Deputy Prime Minister has observed:

“Fiscal pressures increase because financial assistance for housing is tied to market price.”

And:

“Worsening affordability increases demands for direct intervention through rent controls and public housing. We are aware of the results of those sorts of interventions overseas and must avoid them.”

And let me not ignore the impact of government-imposed costs when it comes to the affordability of home renovations.

In this area, the growing underground ‘cash’ economy is tangible testimony of exactly what Canadians think about the rising tax burden. It is time to introduce a 2.5% permanent Home Renovation Tax Rebate to reduce this unjustified burden.

Our industry welcomes training investments and immigration policies that contribute to a skilled and productive workforce.

We congratulate the federal government for putting immigration policies and programs in place to do just that. It has recognized, specifically, the urgent need to bolster the construction trades, including those in the residential sector.

We look forward to seeing these policies go into effect, and deliver the results anticipated.

Moving forward, additional measures are needed.

We will continue to emphasize to the federal government that grants and incentives should be expanded to include provincially-designated trades essential to the residential construction sector, not just Red Seal trades.

Competitive land markets are absolutely key to housing affordability and choice—and this requires sustained and strategic infrastructure investment in critical basic services.

The federal government is in the process of developing a long-term infrastructure plan for Canada, one based on consultation with all interested parties, and collaboration with provincial and municipal governments.

The CHBA has laid out a number of essential elements for achieving success.

In doing so, we have pointed out that calls for new development to ‘pay its own way’ deflect from the fact that political leaders chose not to invest in basic municipal infrastructure, over a period of many decades.

Through their decisions, they created a significant financial liability that has now come home to roost.

This was no accident, or act of God, it was the predictable and inevitable outcome of decisions taken by those elected to manage our communities properly.

What some call an ‘infrastructure deficit’, should more correctly be recognized as a legacy of failed leadership.

To require today's new home buyers to 'pay the bill' for bad decisions made in the past is unacceptable. To require them to pay for new infrastructure that benefits the whole community is unjustified.

We look forward to the next federal Budget, and the emergence of a national plan for infrastructure investment, one that will give priority to housing affordability and choice.

In today's business environment, knowledge is the key to success.

Canada is a dynamic country, going through enormous changes as it develops.

Informed business decisions depend on knowledge about how markets are evolving and what opportunities are emerging.

Governments must have this same knowledge in order to 'get it right' in when it comes to policies and regulations.

We look to CMHC as the most credible source for filling knowledge gaps related to opportunities in rental construction, trends for first-time buyers, and the housing options for older Canadians.

The CHBA has provided the federal government with detailed analysis of where critical knowledge gaps exist.

We look forward to seeing progress in this important area.

It is widely recognized that Canadians are among the best-housed people in the world.

It is less widely recognized that this has everything to do with collaboration between an entrepreneurial and innovative industry, and federal investment in, and support for, critical housing research and development.

A simple comparison provides a useful measure of this success.

CHBA recently analyzed the energy performance of a home in Ottawa built in 1975, and how this same home would perform, if built today.

- Over that period, the energy efficiency of the home went up by 66% – fully two thirds!
- Comparing similar models of family cars over the same period shows efficiency improvements ranging from a 'high' of under 16% to a 'low' of less than 4%.

So, when it comes to energy efficiency, new home builders have outperformed the auto industry by a factor of four.

Perhaps the most revealing aspect of this remarkable performance is that most of these improvements came before building codes adopted energy performance requirements – it wasn't because of regulation.

Instead, innovation resulted from solid collaboration with industry, supported by government research and development efforts.

This collaboration must continue.

We welcome the federal government's investment in the renewal of the R-2000 Initiative, and in the development of 'Next Generations' of the EnerGuide Rating System and ENERGY STAR for Homes.

And we welcome the continued housing research activities of Natural Resources Canada's CanmetENERGY labs, CMHC's Housing Research Division, and the National Research Council Canada's Construction Division.

Success in our business depends on having a stable and competitive financing environment.

We are extremely fortunate to have a federal Crown Corporation – CMHC – that has played such a central role in maintaining stability within mortgage markets, particularly since the financial meltdown in 2008.

A well-regulated and stable mortgage market is critical to keeping our industry functioning effectively.

CMHC's continued capacity to insure mortgages for both home buyers and developers of rental accommodation is critical to such stability.

We are extremely pleased that the federal government recognizes CMHC's importance, and has moved to reinforce the Corporation's continued effectiveness.

We expect similar clarity within the federal government in relation to the household debt situation.

To be blunt, it seems less than forthright to constrain consumers' ability to buy a new home – a real asset, while allowing usurious credit card interest rates to bury many consumers in non-asset backed debt.

Having intervened four times to moderate the housing market through adjustment to mortgage lending rules, the federal government should now refrain from further measures of this kind.

These measures represent a 'hammer' that impacts all housing markets, both those with high levels of demand, and those yet to fully recover from the Great Recession.

Having intervened, the government must be prepared to take appropriate action if housing activity falls below demographic demand or threatens price stability and home values.

The interests of both home purchasers and home owners are at stake, as is consumer spending.

Having the right priorities in place is a critical 'first step'.

We commend the federal government for moving forward in many of these critical areas.

At the same time, there remains much to be done. I have laid out CHBA priorities in the coming year, in each important area.

Where government policy is lacking, it must to be put in place.

Where policy is in place, it needs to be acted on—with vigor.

So, how will we measure progress on each issue?

I suggest we will know that we are making progress when governments, both individually and collectively, ask a simple and fundamental question when considering their policies—how will housing affordability and choice be affected?

This is the complete opposite of what I call the ‘Canada Post Approach’.

And we will know that this question is being answered with serious intent when it becomes possible, once again, for the average young first-time homebuyer to save for five years and build up a 20% down payment for the average home.

That is the Litmus Test.

In closing, let me reiterate my key points.

Periods of economic change are transformative – they alter our assumptions, and they open our minds to see things differently.

If there is a benefit from the financial crisis and Great Recession, it is this opportunity.

Going forward, our industry has clear strengths – our competitive spirit, our willingness to try out new ideas, our desire to succeed, and our commitment to our communities. These qualities have not changed.

The performance of housing markets over the last number of years demonstrates, clearly, that Canadians continue to view home ownership as an important milestone in their lives, and that they want a full range of housing choices.

We are challenged by a growing housing affordability crisis, one created by governments through poor policies and short-term financial thinking. This must be addressed—now.

Owning a home remains the Canadian dream. It is the foundation of our communities, and our enviable quality of life. Both government and industry must work together to keep this dream alive and achievable.

As Canada’s home building industry, we stand ready and willing to do our part.

God bless the CHBA and God bless Canada.