UNLOCKING THE DOOR TO HOMEOWNERSHIP

2019 RECOMMENDATIONS ON THE FEDERAL ROLE
The Canadian Home Builders’ Association (CHBA) is one Association at Three Levels: National, Provincial, Local

The CHBA Federation of Associations

Who we are
Representing some 9,000 member firms across Canada, CHBA members come from every area of Canada’s housing industry: new home builders, renovators, land developers, trade contractors, product and material manufacturers, building product suppliers, lending institutions, insurance providers, service professionals and other affiliated organizations. We are the voice of Canada’s residential construction industry.

What we build
CHBA members build low-rise houses, high-rise apartments.
We build homes for ownership and housing for rental purposes.
We build and develop in large cities and small towns.

A CHBA poll of Canada’s leading home builders & developers showed:

97% are concerned about young families’ ability to purchase a home
87% saw a decrease in prospective buyers this past year
“CHBA’s mission is to support members’ ability to meet the aspirations of Canadians for housing affordability, quality and choice. Canadians, and our industry, are concerned about the future of homeownership in Canada, an option being taken away for many—the federal government can play a big role in unlocking homeownership for more Canadians by adjusting policy to address affordability.”

Residential construction is a key economic driver in every community in Canada.

Bank of Canada
Real economic growth from housing investment in Canada has now been revised down to minus 0.1% in 2019 from the plus 0.1% forecast last October.

Forecast 4 months ago (Oct 2018)

Current forecast

-0.1%

But current policies are hurting economic growth for housing, which is now into the negative.

97% of builders and developers are worried about young families’ ability to become homeowners, and as a result 91% are worried about their business and jobs...

And Canadians are equally worried....
3 out of 4 think when you are **middle class** you should be able to **own a home**.

75% of Canadians view homeownership as a key to **financial security**.

Startlingly, 76% of Canadians think that the way things are headed, **only the rich will be able to own a home** in an area they want to live.

**But** they see that **homeownership** – and hence the middle class – is **under threat**.

Canadians expect **more from their government** on this issue.

**Only 1 in 10** Canadians think the government is doing a good job on this file. No government is thought to be doing a good job when it comes to housing affordability for the middle class.
They see the challenges now facing those who wish to become homeowners as a potential failing in Canada’s current socio-economic system.

94% of Canadians either own a home now or want to own a home.

68% own already + 80% who don’t own want to = 94%

2 out of 3 Canadians think that governments have an important role to play in helping Canadians become homeowners...

... and 2/3 also feel that young or new Canadians should be given more flexibility to get them into the market.

And the stress test has made things worse.

On a recent survey of CHBA members, 95% indicated that the stress test is having a negative impact on their sales.

Q: Is the stress test negatively impacting your sales?

Yes 95%
No 5%

And they are seeing a 33% drop in first-time buyers.
To fix the problem, we need to understand why more Canadians are being locked out of home ownership...

There are three factors that determine affordability.

All three factors have been working against young Canadians in recent years.

1. Millennials now have the financial means to buy, but...

Despite lagging incomes, having spent more on education, and delayed life-milestones, Millennials are now getting married and having children, and seeking homeownership. They now have the desire and income to buy their first home (sometimes helped by the Bank of Mom and Dad), but the other affordability factors have gotten still worse...

2. Mortgage rules have hit millennials the hardest.

A decade of mortgage rule changes, but especially those in the last couple of years, has had a cumulative effect, now beyond policy-makers’ expectations for slowing the market.

Coupled with rising interest rates, and the most impactful change of all—the B-20 stress test—the effects are now having a major impact nationally.

Amortization period from 40 to 35 to 30 to 25 years. Stress test for insured, then Stress Test for uninsured. Down payments go from 0% to 5% to 10% (for over $500K). Capital requirements. Foreign buyers tax. Speculation taxes. Empty Homes tax.
To fix the problem, we need to understand why more Canadians are being locked out of home ownership.

**Lack of supply**
Municipal and provincial zoning and regulatory restrictions have reduced serviced land available. Infrastructure lags have also slowed development. Demand already outstrips supply, and at current trends, Canada will be 300,000 family-oriented units short over the next decade. Prices reflect this supply-demand imbalance.

**Red tape delays & NIMBY**
The myriad of government processes and regulations, and at times inefficiencies or lack of capacity, delay projects, slow down development and significantly increase costs. Often, development that aligns with municipal plans is delayed or derailed by local resident opposition (NIMBYism), driving up prices.

**Over-reaching codes and standards**
Proposed code changes, for a variety of broad policy goals—sometimes good, sometimes excessive—continually add to the cost of construction and this is reflected in higher prices for new homebuyers.

Meanwhile, policies have been driving up house prices.

**Development taxes**
Development Taxes (development charges, lot levies, amenity fees, etc.) have risen dramatically in recent years. Total government-imposed taxes on houses now can be as high as 25% of the sale price.

The result is too many Canadians, especially Millennials, are locked out...

The homeownership rate is dropping overall, but especially for younger Canadians, affecting their financial outlook for the future.

But it doesn’t have to be this way...
The Government of Canada can unlock the door to homeownership, and in so doing help all Canadians.

It is time to lead a true Federal, Provincial, and Municipal Commitment to Unlocking the Door to Homeownership for more Canadians.

The key is for the federal government to take a leadership role by making a true and legitimate commitment to market-rate housing affordability, while respecting the need to avoid financial system risks. From there, many actions can return Canada to a country where hard working Canadians can actually reach their dreams of homeownership and join the middle class.

ACTION 1: Fix the Stress Test and Mortgage Rules

**Stress test adjustments**
- With markets now cooled, and the cumulative effects of changes now surpassing the original policy goals, it is time for the federal government to update the stress test to better align it with current market conditions.
- Specifically, replace the current ‘blanket’ 2 point stress test with a declining rate stress test based on the mortgage term.
- The stress test would remain unchanged for mortgages with open terms and variable rates but be reduced for fixed-rate, locked-in terms, diminishing to 0.75 for terms of five years, and be eliminated entirely for 7 or 10 year terms.

**Return to 30-year mortgages for first-time buyers**
- First-time buyers have been inordinately affected by all the changes, yet they are the lowest-risk group of buyers and the financial future of Canada.
- Millennials should not be locked out of homeownership because debt levels of other age cohorts – thanks to low interest rates – have risen.
- It is time to reintroduce 30-year amortization for insured mortgages taken on by well-qualified first-time buyers.
- This will address growing inequities in mortgage access that disproportionately impact younger first-time home buyers trying to achieve the Canadian dream of previous generations.
- In turn, this will deliver financial benefits to these younger Canadians and Canada as a whole, while also returning more dollars to government through CMHC mortgage insurance.
The effects of the stress test and rising interest rates have knocked some 147,000 buyers out of the market.

Implementing CHBA recommendations would return the top 64% most qualified of the buyers to the market.

And would allow 89% of fist-time buyers, the lowest risk group, to come back and have a fair shot as first-time buyers.

Those returning would still be low risk as they would still need to pass the adjusted stress test, debt service ratios, downpayment requirements, credit rating scores, mortgage insurance requirements, etc.

Millennials are low risk, with by far the lowest arrears rate, and are best positioned to take longer term mortgages due to increasing incomes.
ACTION 2: Use the tax system to affect positive change for buyers

Increase limits to the First-Time Home Buyers Plan – this supports affordability and decreases homeowner debt.

Increase the GST/HST Rebate thresholds to reflect today’s market prices, thereby reducing house prices, especially in entry-level homes.

ACTION 3: Avoid adding more costs through code

Adopt affordability as a core objective of the National Building Code, to ensure that we are building better, more efficient and innovative houses for the same price or less.

Invest in innovation and R&D for lower or neutral cost solutions that promote energy efficiency, climate adaptation and resilience, accessibility & visitability and health & safety. Before regulating, cost-neutral innovations are required.

ACTION 4: Address climate change through renovation

Address climate change through a reno tax credit & home energy labelling: the key to reducing GHG emissions in the housing sector is by addressing the existing housing market.

The federal government should increase support for the EnerGuide Rating System to get labels on every home, and pursue an energy retrofit tax credit, based on the EnerGuide Rating System, to inform and incent energy retrofits while also combating the underground economy.

Supporting Rental and the Complete Housing Continuum

The National Housing Strategy has focused on “affordable housing”—i.e. social housing—for those most vulnerable and in core housing need. While this is critically important, one cannot successfully address social housing challenges without addressing market-rate affordability. And certainly building more social housing units will not help young Canadians who should be becoming homeowners buy homes. The housing continuum is stalled. To get it moving, we need to fix affordability, including in rental, as follows.

Fix market-rate home ownership affordability to increase rental supply – Some 80% of rental units available for rent each year come from people vacating to become homeowners. High house prices keep people in rental units, driving up demand and rent, while reducing the number of rental units available and stalling the movement along the housing continuum.

Fix the tax rules for accessory suites such as granny flats and laneway housing to encourage more supply.

Amend the tax regime and appraisal rules to avoid GST discriminating against new “purpose-built” rental developments.

Housing Continuum > A successful housing system has people moving up
ACTION 5: Use federal policy levers to help increase supply

Better data for better supply
The federal government must continue to increase data collection and analysis on factors that are affecting the housing supply across Canada. This should include, for example, analysis of provincial and municipal zoning, available serviced-land supplies, regulations, approval systems, and social marketing to combat NIMBY.

Leverage federal transit investments and federal land write-downs to support affordable, market-rate, mixed-use communities
The federal government has an unprecedented opportunity to ensure infrastructure investment is tied to plans that will foster proper density around transit nodes to promote affordability and get more Canadians into the homes they want. Develop metrics, then track and measure success. CHBA has data and tools to help. Use federal land write-downs to do the same.

Governments need to support the “missing middle” – medium-density low-rise mixed-income housing, in walkable communities with ready access to public transit.

CHBA is leading the way with voluntary programming

Net Zero Home Labelling Program
A voluntary program to lead the way for Net Zero Ready and Net Zero homes.

Home Modification Council
Connecting Canadians with qualified renovators to modify homes for aging in place (or persons with disabilities).

Tackling the Underground Economy
CHBA’s Get It In Writing! campaign informs homeowners about the risks of hiring someone for cash without a written contract. CHBA RenoMark™ renovators are committed to always providing a contract. Government programs should reference RenoMark™.
CHBA is a three-level organization with constituent associations at the local, provincial and national level. We build low-rise and high-rise homes, for ownership and for rental.

Our industry represents 1.2 million jobs and $151 billion in economic activity.

But government policy is hampering the industry, jobs, and homeownership for Canadians.

CHBA’s consumer poll shows Canadians are extremely concerned about housing affordability: they link homeownership to being middle class and expect government to do better. This is clearly an election issue.

CHBA’s member survey shows the severe impact of the stress test and a 33% drop in first-time buyers.

Housing affordability is determined by three factors: incomes, house prices, mortgage rules. All of these have been working against Millennials.

Mortgage rule changes, especially the stress test, have locked out too many Canadians.

Many government policies drive up house prices: supply constraints, red tape delays, development taxes, and over-reaching codes and standards.

The Government of Canada can unlock the door to homeownership in a responsible fashion for more well-qualified Canadians through five key action areas:

ACTION 1 – Fix the stress test and return to 30-year insured mortgages for first-time buyers
ACTION 2 – Tax system adjustments
ACTION 3 – Avoid adding cost through codes
ACTION 4 – Address climate change through renovation
ACTION 5 – Use federal levers to help supply