Canadian Home Builders' Association
Association canadienne des constructeurs d'habitations

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June 17, 2024

Hon. Sean Fraser, P.C., M.P.
Minister of Housing, Infrastructure and Communities
House of Commons
Ottawa Ontario, K1A 0A6

Dear Minister Fraser,

I am writing to you on behalf of the Canadian Home Builders' Association (CHBA) regarding recent changes to the Canada Mortgage and Housing Corporation (CMHC) MLI Select Program. We are deeply concerned with the changes themselves and the highly negative impact they will have upon the development of purpose-built rental units. We are also concerned about the lack of consultation. Industry reaction to the disastrous results this will have on purpose-built rental development has been expansive and immediate.

Last September, the government announced that a $20 billion increase in Canada Mortgage Bond issuance that is to be used to help support the construction of 30,000 additional rental units per year. In the face of Canada's housing affordability crisis, CHBA has explained how strings attached lowers return on investment, and we need to make funding as streamlined as possible in order to spur the housing starts we desperately need. While CHBA appreciates that MLI Select program has conditions to award loan flexibilities, making additional critical program changes that will render projects still less attractive to investment will unquestionably result in a significant drop in purpose-built rental housing starts—the exact opposite of government-stated goals.

Specifically, CHBA is concerned about the reduction in points awarded for energy efficiency within MLI Select's point system. MLI Select's top flexibilities are incredibly important to project viability in this challenging building environment. The reduction in energy efficiency points awarded will result in more projects being put on hold or canceled than it will incentivize the timely increase in affordable and accessible rental units—as defined by the MLI Select's criteria.

Changes to the point system fundamentally alter the cost-benefit trade- off of the MLI Select program. CHBA understands the change's intention is to get more builders to commit to more deeply affordable and/or accessible units. This requires the prospective builder to incur higher construction costs or reduced cash flows, over the current program design. A five-year lengthening of the possible amortization period does not materially change the present benefit to builders. Already low margin pro forma, with low capitalization rates, are now not viable under these changes. The result, as we are hearing extensively from our members, will not be more affordable units, but the complete shelving of many projects that are now being rendered infeasible—these projects barely penciled prior under the existing requirements, but with the new requirements, the projects will simply not be able to proceed. Margins are just too thin in today's financial environment.

Residential construction costs have risen rapidly and since the end of 2019, apartment construction costs are up 53 per cent according to the building construction price index. This is relative to the 25 per cent growth in median hourly wages between 2019 and 2024. As a result, committing 10 years to the program's definition of affordability is not feasible in many parts of the country. Both the rent set by the market and the economically viable rent for a new build may further outpace CMHC's definition of affordable rent. In discussing these changes with our members, they have said that that their options are to apply before the June 19th change to qualify under the current framework, or to cancel their development plans. Reworking project proposals to configure to the new requirements is not a consideration.

To address Canada's housing affordability crisis, the benefit to renters comes in the form of a demand-supply mix that leads to a healthy vacancy rate and slow predictable rises in market rents. We must increase supply at a rate that makes up for decades of rental underdevelopment and meets Canada's expanding population to achieve this. To do so, policy changes need to be evaluated on how they alter incentives to build, not simply picking a set of desired outcomes.

With program changes due to take effect on June 19, 2024, timing is of the essence and we would be happy to discuss this issue with you further. Please contact CHBA's Director of Government Relations, Nicole Storeshaw, at Nicole.Storeshaw@chba.ca to provide meeting times that are convenient for you.

Sincerely,

Kevin Lee, P.ENG., M.ARCH.
CEO, CHBA

cc: Ms. Colleen Volk, President, Canadian Mortgage and Housing Corporation