



March 30, 2021

The Hon. Chrystia Freeland
Deputy Prime Minister and Minister of Finance
House of Commons
Ottawa, Ontario, K1A 0A6

RE: Escalating house prices in Canada and a need for a housing supply lens to address them

Dear Minister,

On behalf of the Canadian Home Builders' Association (CHBA), I am writing today regarding escalating house prices across the country, to offer the perspective of the residential construction sector on how to address them, and to again share CHBA's recommendations for Budget 2021 and beyond.

There is no question Canada is experiencing unprecedented events; the health risk posed by COVID-19 is still a significant threat to Canadians and to our economy. The pandemic has also brought to the forefront the many complex socioeconomic issues facing our country, that will persist after the health crisis lifts, and could impact sustained and long-term recovery. Housing affordability is one of them, and it has only been exacerbated by the pandemic.

The Associations' concerns with the negative impact of overly strict, blanket macroprudential measures on housing affordability – particularly for first-time buyers - are well known. As the International Monetary Fund (IMF) has advised Canada since 2018, to tackle housing affordability in Canada, "Canada needs to build more houses". The IMF has rightly observed that to address housing affordability, regional and federal authorities in Canada need to work together to develop and implement a comprehensive housing supply strategy. While it is tempting to try to cool the market with demand-side measures, such activity only creates pent-up demand and limits supply, which can cause rapidly increasing house prices when conditions change and demand again outstrips supply, like we are seeing now.

I am writing to you today to ask that you to carefully consider the full impact of any macroprudential measures on prospective buyers, especially in the absence of sufficient action by all levels of government to support new housing supply, which is the real and more concerning driver of escalating prices across the country. This caution would also apply to any further mortgage rule changes or potential tax measures, especially any kind of rumoured capital gains tax on principal residences. Regarding a foreign-buyer vacancy tax, such a measure would have to be very carefully crafted to ensure it properly targets only unproductive housing demand and does not stifle much needed new housing supply. It is critical to avoid steps that either lock out more first-time buyers, disincentivize more housing supply for Canadians, or compromise the economic stability provided by homeownership—these will not help Canadians nor the health of our economy over time. This is especially true if we do not work to address the underlying housing supply issues that have created the situation we are in now.

CHBA has developed a series of recommendations aimed at increasing market-rate housing supply – both for rental and for owner-occupied homeownership, to better meet demand, stabilize prices, and take pressure off other parts of the housing continuum. CHBA recommends a housing supply lens to truly

address affordability and escalating house prices, and would like to see the federal government and its agencies focus on the following:

- Support provincial and municipal governments efforts to streamline permitting and approval processes to speed up construction, reduce project financing costs and get more housing supply online faster.
- Provide leadership on the key challenges to new construction: zoning restrictions, density limits, and NIMBYism (for all forms of housing, *including* market-rate housing).
- Invest in tracking best practices in supporting new supply across the country for provinces and municipalities to learn from each other.
- Support the development of a conversion guide for rapid retrofits of commercial properties to residential, developed in consultation with industry that could apply to both affordable and market rate housing.
- Extend the deadline for the Rapid Housing Initiative through to December 2022 to better reflect true construction timelines and maximize outcomes and scale up the program.
- Ensure that federal infrastructure funding for provinces and municipalities is used to support actions that can incent new housing supply, such as investments that increase new or upgraded serviced land or align with transit system plans and expansions.

CHBA also has several measures we believe would widen and diversify the pathway to homeownership, with minimal impact on prices. CHBA recommend that the government and agencies:

- Undertake a thorough review of the existing mortgage system through a lens of fairness and access for first-time homebuyers before implementing any macroprudential or policy changes that could further disproportionately impact first-time buyers (including the mortgage stress test). The government should also implement its changes to the stress test that were to take effect April 6, 2020 but were put on hold due to the pandemic.
- Support, through necessary regulatory changes and direction to financial institutions, longer mortgage terms, including 7 – 10-year terms, that can support longer-term affordability and protect Canadians against future increases to interest rates, economic instability, and job uncertainty, while bolstering Canada’s financial system. Longer terms should also be used to step down the stress test for the longer the term, increasing affordable access to homeownership while also providing more financial market stability.
- Return the option of 30-year amortizations to first-time buyers to offset some of the barriers to homeownership and disproportionate challenges to accessing the financial benefits related thereto.
- Update and index the existing GST/HST New Housing Rebate to better reflect house prices and reduce house prices for first-time buyers. Currently an eligible new home buyer can claim a rebate for 36% of the federal portion (5%) of the GST paid on a new home with a pre-tax price less than or equal to \$350,000 and gradually declines where the pre-tax price is more than \$350,000, but less than \$450,000, with no rebate for homes priced above \$450,000. Meanwhile the MLS HPI benchmark price for Canada is now over \$675,000. Continue to invest in and expand market housing data to support evidence-based decision making by governments and industry.

In recovery, we have a chance to build a housing system that supports all Canadians from aspiring first-time buyers to new Canadians looking to establish roots in their chosen communities. The residential construction

sector has supported jobs, economic growth, and has worked to meet the housing needs across the country during this challenging time. Now is the time to proceed with caution with any potential use of one-size fits all macroprudential measures, and to take a housing-system wide approach to creating a balanced housing market in Canada, with a particular emphasis on more housing supply.

Thank you again, and if you have any questions or would like to discuss further, please ask your staff to contact Alana Lavoie, Senior Director of Policy and Government Relations, at 613-230-3060 or alana.lavoie@chba.ca to set a meeting.

Sincerely,



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

Encl. *Rebuilding Canada 2021 - Home Construction and Renovation for a Healthier, More Resilient, and More Equitable Canada: CHBA Recommendations for Budget 2021 and Beyond.*

c.c. Tiff Macklem
Governor of the Bank of Canada

Jeremy Rudin
Superintendent of Financial Institutions