A Housing Policy Framework and Policy Options for the 2019 Federal Election

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Authors:

Dr. Paul Kershaw, UBC School of Population and Public Health

Eric Swanson, Executive Director, Generation Squeeze

On behalf of the Housing Research Collaborative & the Balanced Housing Supply Node of the Collaborative Housing Research Network

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HOUSING RESEARCH COLLABORATIVE

GENERATION squeeze

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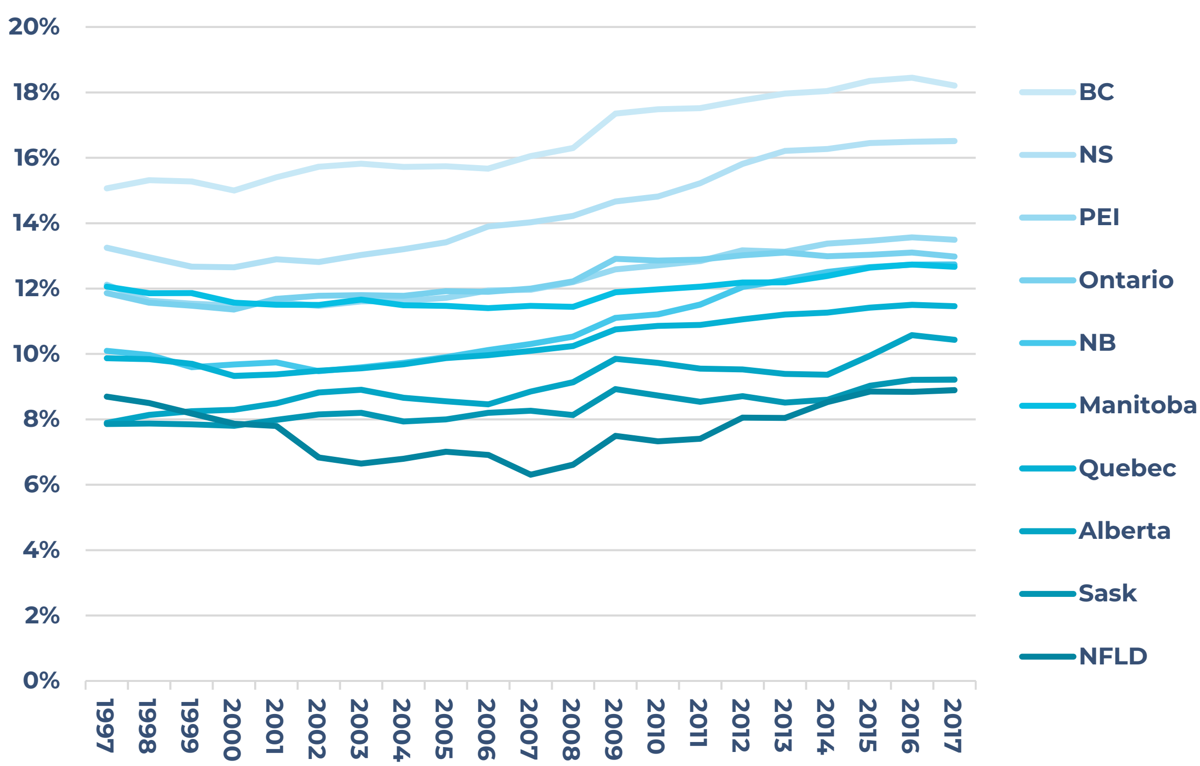
Introduction

The largest part of the Canadian economy is driven by real estate, rental and leasing. At 13% of our national gross domestic product (GDP) in 2019, this industrial sector is bigger than manufacturing; bigger than mining, oil and gas; bigger than construction; bigger than health care; bigger than financial services; bigger than professional, scientific and technical services; and so. Real estate has also grown as a share of gross domestic product in all provinces over the last two decades, and often has been the fastest growing part of provincial economies.

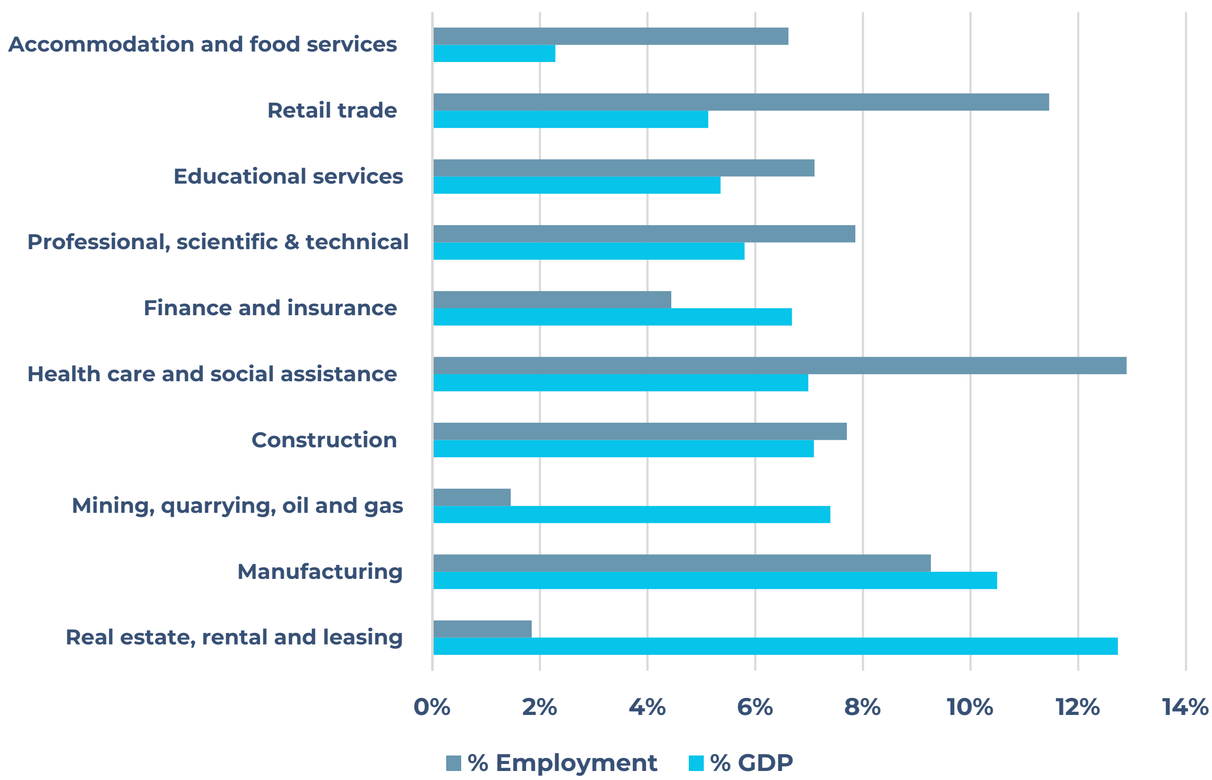
Real Estate as % of GDP:



Source: Statistics Canada Table: 36-10-0402-01 (formerly CANSIM 379-0030)

Anchoring our economic growth on real estate, rental and leasing would be a fine economic development strategy -- if Canada was also generating a large portion of its employment in this same industrial sector. But we don't. Canadians find less than 2% of employment in the real estate sector. No other industrial sector has such a big gap between its share of GDP and share of employment.

Canadian Economy, by Industry:



Sources: Statistics Canada Tables: 36-10-0434-02 (formerly CANSIM 379-0031); 14-10-0023-01 (formerly CANSIM 282-0008)

This highlights a problem. It signals that Canadians have been growing our economy by increasing the major cost of living, without generating jobs in that industrial sector at a rate that ensures local earnings keep pace -- especially in urban centres. It is therefore timely to revisit the place of the real estate sector in our strategies for economic growth. Instead of a strategy that relies on driving up the primary cost of living, it is time to imagine an economy that is stimulated by a housing system which reconnects the cost of living to local earnings in order to support employment and growth in other industries.

This report aims to assist all political parties to modernize housing policy in order to ground Canada's economic growth strategies on a stronger, more sustainable foundation.

Revamping outdated housing policy is not only important economically, it is important politically. Polling data show that housing affordability is now a top issue for the electorate, especially for younger Canadians.[1] As a result, federal party platforms that articulate comprehensive plans to relink home prices to earnings stand particularly good chances to determine whether voters turn out, and how they cast their ballots.

Who we are

The Housing Research Collaborative (HRC) includes housing researchers, providers and policymakers focused on understanding systemic impediments in the housing system with the aim to restore housing affordability. We are based at the University of British Columbia (UBC), and work together as academics and community experts in BC, Ontario and Quebec as part of the Balanced Housing Supply node of the Collaborative Housing Research Network. (More info at: http://housingresearchcollaborative.scarp. ubc.ca/).

In consultation with these experts, Dr. Paul Kershaw of UBC (paul.kershaw@ubc.ca) has taken the lead to consolidate this evidence-informed framework and list of policy

[1] For example, see Abacus data at: https://abacusdata.ca/housing-affordability-is-the-top-issue-for-millennials-who-are-looking-to-achieve-the-dream-of-homeownership/

options in partnership with Eric Swanson, Co-Executive Director of Generation Squeeze (eric@gensqueeze.ca) -- a community partner in the HRC. As leads, we take responsibility for shortcomings in the document.

Purpose of this document: A Federal Election is Approaching

The path to restoring housing affordability is complex, and will involve many policy levers, including measures tailored to specific regional contexts that governments design in light of the evolving evidence-base. Nevertheless, experts in the academy and the community know enough now to recommend a four-part framework to guide federal parties as they craft housing policy to include in their election platforms. Following the framework, we provide an annotated list of specific policy options for parties to consider as they design their housing plans. The options reflect a synthesis of evidence-informed policy ideas from a broad range of members of the HRC, although not a consensus.

Generally, the annotated list of policies provides summary outlines that would require elaboration by the next federal government. Given the high degree of interaction between housing policies, especially those that target the entirety of the housing market, there is reason to develop in tandem the implementation details for various policies.

Many of the policy options include links to further information, and we have a list of colleagues who can speak knowledgeably about the evidence-informed options. Parties looking for further information about policy options can contact Dr. Kershaw (paul.kershaw@ubc.ca), who can refer you to other experts in our network as necessary.

Framework

Recommendation #1 – Commit to a Phase II for Canada's National Housing Strategy

Canada's current National Housing Strategy ("NHS") is largely a social housing strategy. It focuses on shoring up and scaling up the Community Housing Sector in Canada and in helping the most vulnerable.

Its specific goals are to remove 530,000 families from housing need and to cut chronic homelessness by 50% over ten years.

This focus on community housing and serving the most vulnerable is important, and organizations such as the Canadian Housing Renewal Association have provided their top election recommendations for strengthening this focus.[2]

However, the Canada Mortgage and Housing Corporation (CMHC) estimates that there are an additional ~1.2 million Canadian households and voters in core housing need who aren't served by the current NHS. This includes many people earning decent incomes but nonetheless struggling to find affordable, secure housing.[3]

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[2] The CHRA recommendations are featured at the beginning of the policy options we share below.

[3] This figure is in addition to the 530,000 people who are targeted for support in the current phase of the National Housing Strategy. Core housing need is defined as spending more than 30% of pre-tax income on shelter. Estimates provided by CMHC. See: https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/chn-biml/index-eng.cfm

In addition, there are many more Canadians who may have secure housing, but who are frustrated that their earnings do not purchase the quantity or quality of housing that similar earnings did in the past in Canada. This is often true for younger Canadians who enter the market with less ability to rent or buy homes that provide enough bedrooms for their children, and/or access to the ground to facilitate children's play, especially near where they work or study. Simultaneously, although seniors enjoy home ownership at higher rates than younger residents, along with higher levels of housing wealth,[4] some seniors also struggle to access housing that adapts to their evolving needs as they age. Seniors who have been renters all their lives face similar challenges to young people and newcomers when coping with the growing gap between local earnings and housing costs.

The current National Housing Strategy is also silent on the issue of "wealth" accumulated as a result of rising home prices. Price escalation, especially in BC and Ontario, mean that housing wealth has become a primary driver of inequality, even when residents of those homes have "regular" or "low" incomes. The next phase of a national plan should include mechanisms to address housing wealth inequalities, both within, and between, generations.

RECOMMENDATION: Commit to an NHS Phase II -- one that goes beyond a social housing strategy to address factors in the broader housing market which have contributed to home prices leaving earnings behind in many regions of Canada.

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4 Kershaw 2018. "Policy Forum: A Tax Shift--The Case for Rebalancing the Tax Treatment of Earnings and Housing Wealth." *Canadian Tax Journal* 66,3: 585-604.

By addressing fundamentals shaping the entire housing market, including zoning and taxation, an NHS Phase II will help accelerate the work of the current NHS in a range of ways. These would include reining in land costs that make new social housing projects more expensive, and capturing land-value lift to contribute funding for new social housing projects.

Recommendation #2 – Adopt CMHC's 2030 Goal and Timeline to Restore Affordability

Good policy flows from clear goals. A clear, ambitious and inclusive goal will help motivate voters who are looking for bold action on housing affordability.

RECOMMENDATION: Adopt the Canada Mortgage and Housing Corporation's goal that "By 2030, everyone in Canada has a home that they can afford and that meets their needs."[5]

- CMHC defines "A home that they can afford" as one that costs no more than 30% of pre-tax income.
- "Meets their needs" refers, minimally, to adequate size (e.g. for families), adequate condition (e.g. structurally and environmentally safe), and accessible (e.g. for seniors or persons with disabilities).

[5] As stated by CMHC's CEO and discussed here: https://www.cmhc-schl.gc.ca/en/housing-observer-online/2019-housing-observer/president-ceo-evan-siddall-announces-ambitious-housing-target-2030

Other goals could be chosen, but the CMHC goal balances ambition with specificity, and has the credibility of being associated with Canada's national housing agency.

Parties may choose to couch CMHC's specific goal within broader rhetorical objectives such as "A Home for Everyone" or "A Place to Call Home."[6]

Recommendation #3 – Adopt "Homes First" as a Guiding Principle for Federal Housing Policy

There is a fundamental tension in the housing system between the use of housing simply as a place to call home, and the use of housing as a way for homeowners and others to make money: that is, to treat housing as an investment.

Governments have long encouraged Canadians to use mortgage payments as a kind of disciplined, scheduled savings plan to supplement private and public retirement funds. It likely remains wise to maintain policies that encourage the use of housing as a "piggy bank" by which many Canadians deposit regular mortgage installments for future retirement security.

But we get into problems when policy encourages homeowners to expect the value of their home(s) to increase faster than economic growth/local earnings (along with the value of any renovations). Once this becomes our expectation, housing ceases to be a "piggy bank" for incremental saving, and becomes an investment strategy where we hope that real estate will be a top performer in our portfolios akin to stocks or mutual funds. In addition to inflating housing prices, this expectation also risks drawing capital

[6] **A Home for Everyone** is the slogan used by the Canadian Housing and Renewal Association to accompany their top three election recommendations to strengthen the current NHS. **A Place to Call Home** is currently used by the federal government in communicating the existing NHS. Both phrases are strong.

away from more economically productive investments in other goods-producing and service industries.

We also get into problems when policy encourages individual Canadians to buy properties purely for rental income. There is no doubt that increasing the supply of rental homes is growing more important as ownership moves out of reach for more Canadians. However, reliance on the "secondary" market to grow the supply of rental homes risks unnecessarily inflating demand (and therefore costs) for principal residences, and results in market rental units that often offer less secure tenancy for renters than do purpose-built rental homes.

The bottom line is that we cannot make housing more affordable while simultaneously hoping home values will increase faster than local earnings.

RECOMMENDATION: Adopt "Homes First" as a guiding principle, which commits governments to design policies that treat housing and residential land primarily as places to call home, not regular commodities.

Homes First invites governments to set targets for housing policy that aim for home prices to grow no faster than economic growth and/or local earnings. Since the ratio of average home prices relative to the typical earnings of young Canadians has grown from less than 4:1 in 1976 to over 8:1 today,[7] policy makers should prioritize

[7] See Kershaw 2018. "Policy Forum: A Tax Shift--The Case for Rebalancing the Tax Treatment of Earnings and Housing Wealth." Canadian Tax Journal 66,3: 585-604.

home prices growing more slowly than earnings between now and 2030 in pursuit of the CMHC goal that all residents can afford a suitable home by that year.

Commentary regarding housing as a human right

The federal government is currently taking what they call a “human rights-based approach” to the development and implementation of the NHS.

This follows advocacy by many organizations that have been calling on Canada to enshrine a “right to housing” in legislation, following on, for example, the obligations contained in the International Covenant on Social and Economic Rights.

“Housing as a human right” can also be thought of as a guiding principle for the purposes of housing platforms.

Much of the existing dialogue around a legislated right to housing is largely about helping to compel – via legal or quasi-judicial means – all levels of government to do what is necessary to eliminate homelessness.

Focusing on housing “rights” is useful, and is an action under exploration by the federal government. However, if used as a guiding principle in housing platforms, we would encourage its interpretation to be broadened to focus on all aspects of the housing market (not just social housing), drawing a distinction between housing as homes vs. housing as a commodity/investment.

For example, the current UN Special Rapporteur on Housing articulates this principle by saying that “housing is a human right, not a commodity.”

Recommendation #4 – Commit to Comprehensive Action

Widespread housing affordability can be restored through some combination of higher incomes and lower costs. In many Canadian communities, housing costs have risen so sharply that it is unrealistic to expect many people's earnings to catch up over the next decade.[8]

Thus, while we must give serious consideration to the future of work and incomes in Canada, housing plans proposed by federal parties should focus on reining in home prices (both in the rental and ownership markets).

This requires federal parties to develop comprehensive plans that take advantage of "all tools in the toolbox." Strategies that focus only on supply-side policy adaptations at the expense of demand-side measures, or vice-versa, are incomplete. Incomplete strategies may exacerbate the problem by either delaying restoration of affordability by 2030, or, worse still, contributing to construction cost inflation, land cost escalation without mechanisms to capture land lift for the public good, and replacement of older, more affordable units with more expensive supply for which there is a local demand-supply mismatch.

To this end, we suggest federal platforms design housing plans that tick all of the boxes in the following basic framework:

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[8] Canadian earnings have been relatively stagnant over the past several decades, especially for younger Canadians, and there is no indication that this is likely to change dramatically. See:

Kershaw 2018. "Policy Forum: A Tax Shift--The Case for Rebalancing the Tax Treatment of Earnings and Housing Wealth."*Canadian Tax Journal* 66,3: 585-604.

Strengthen the Current NHS

- **Scale up permanently affordable housing,** especially to serve the most vulnerable. This includes social, non-profit, co-op, and other forms of community housing whose costs are in some way sheltered from regular market forces.

NHS Phase II

- **Dial down harmful demand** to give homebuyers an advantage — or exclusive access — over investor buyers in the regular housing market (recognizing that in the current housing market, these two activities are often infused into the same buyer).

- **Dial up the right supply,** including purpose-built market rentals and missing middle housing, especially in existing single family zones and with an eye to simultaneously advancing climate change goals.

- **Rebalance housing and income taxes** to influence both supply and demand-side incentives, and to address how runaway housing values have become a driving force of inequality in wealth.

- **De-risk the market against a decline in home prices** both for highly leveraged individuals, and the economy more generally

Data

- **Address gaps in national real estate data** to ensure more effective action across the board.

RECOMMENDATION: Commit to a comprehensive plan of action that leverages continually improving data to address supply, demand, and underlying wealth inequalities in the regular housing market, while simultaneously scaling up the stock of permanently affordable housing.

Policy Options

The Canadian housing policy landscape has yet to catch up to the continuing affordability crisis, and is somewhat fragmented between "camps" focusing on, for example, supply-side or demand-side factors; or between non-profit and market housing solutions.

We therefore recommend the above framework in order to get clear on goals, fundamental principles and major categories of action before diving into specific policies.

What follows is a range of specific policy options designed to help parties "tick all the boxes" required by a comprehensive housing plan.

Academics generally like to have a peer-reviewed paper to which to refer before making a policy recommendation "public." However, many peer-reviewed papers don't explore concrete policy implications of their findings, nor specific details pertaining to the Canadian context. This can leave a gap in information for political parties as they design their platforms.

In response, the options we present below reflect a synthesis of evidence-informed federal policy ideas generated by a broad range of members of the HRC. The list does NOT reflect a consensus of the HRC.

This document does NOT imply that platforms should adopt all policy options in the list.

This list includes some policy options that exist in tension with others. A variety of options are included in recognition that different parties may prioritize some policy levers over others, and/or be motivated by different values.

The list is NOT final. HRC members are all constantly learning from the policy experiments that have occurred, or are now taking place, in Canada and elsewhere.

Options to Strengthen the Current NHS / Scale up Permanently Affordable Housing

- **Continue to implement the current NHS,** which has generated significant positive momentum and is widely lauded as a step in the right direction.
- **Strengthen the current NHS**
  Adopt the three top recommendations of the Canadian Housing and Renewal Association (www.ahomeforeveryone.ca), a national umbrella group representing the community housing sector:

- o **Develop and implement an urban, rural and northern Indigenous Housing Strategy** to raise housing standards for Indigenous peoples to that of the non-Indigenous population.

- **Preserve the existing stock of social and non profit housing** by making federal rent subsidies permanent and increasing federal investment in social supports.

- **Increase the supply of social and non profit housing** through greater access to capital for new construction,[9] and expand the Federal Lands Initiative.[10, 11] Do **NOT** sell federal owned lands to support development in the short term. Provide lease and landbank options instead, so the land remains a public asset on which housing affordability can (more likely) be secured permanently.

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[9] Capital could be delivered through a revolving housing construction loan fund for nonprofits operated by CMHC. The fund could make zero or low interest loans available for capital/construction equity financing of long-term affordable housing projects that target low and middle income households. Additional funding could be made available for municipalities or provinces that match funds. This could leverage the federal government's access to low-interest money, and could be combined with an expanded Federal Lands Initiative.

[10] The current Federal Lands Initiative (https://www.cmhc-schl.gc.ca/en/nhs/federal-lands) could be expanded and strengthened into a broader Public Land Trust program by (a) allocating additional budget, and (b) switching to a public land lease model. The current federal lands initiative sells public land to e.g. non profit providers, and only guarantees the use of that land as affordable housing for 25 years. In addition, the federal lands initiative could be used to (c) offset/match costs to incentivize the allocation of much-needed provincial and municipal land for affordable housing and/or additions to a public housing land trust. Currently, some provinces and municipalities are simply liquidating surplus land to generate revenue.

[11] As we increase the supply of social and non profit housing, we should also consider the benefits of a complementary/subsidiary Refugee Housing Strategy to ensure adequate housing for new arrivals to Canada, especially in Canada's major arrival cities and in light of potential future increases in climate refugees to Canada .

NHS Phase II - Adjust the dials of the broader market

Options to Dial down harmful demand

There is growing evidence that recent increases in Canadian home prices have been catalyzed by an influx of investor-buyers, both domestic and foreign, individual and corporate, as well as illegal money laundering.

Thoroughly understanding and reining in this kind of harmful demand can help free up existing supply to be used as homes (rather than left empty or made available for short-term visitors/vacationers), and ensure maximum accessibility and affordability from newly constructed supply.

- **Stop money laundering in the Canadian real estate market**
  The Expert Panel on Money Laundering in BC Real Estate estimates that over $40 billion is laundered in Canada annually, across all provinces. Much of the laundering occurs via the real estate market, again across provinces. It concludes that successfully reducing money laundering investment in BC real estate "should have a modest but observable impact on housing affordability," reducing prices by approximately 5%. The report makes clear that provinces cannot solve money laundering alone, and a federal plan is overdue. A comprehensive federal plan to reduce money laundering would include the following components: urgent reformation of core federal anti-money laundering legislation, including enhanced opportunities for FINTRAC to collect and analyze reports of suspicious real estate transactions; enhanced beneficial ownership disclosure; enhanced data sharing across institutions within and between governments, etc.

For a comprehensive list of recommendations to reduce money laundering, see Expert Panel on Money Laundering in BC Real Estate: https://news.gov.bc.ca/files/Combatting_Money_Laundering_Report.pdf

- **Establish a Capital Flows data program**

  Establish a federal data program, perhaps housed within CMHC's Housing Statistics Program, to better understand the total flow of investment capital into Canadian residential real estate. This flow may occur through individuals purchasing investment properties, corporations, investment funds or other entities, and may target detached, strata and rental housing. Excess investment activity inflates costs and can decrease security for those simply seeking a place to live.[12]

  Further evidence available at:

  Dr. Josh Gordon: https://www.sfu.ca/content/dam/sfu/mpp/pdfs/Vancouver%27s%20Housing%20Affordability%20Crisis%20Report%202016%20Final%20Version.pdf

- **Establish a Federal Ownership Registry**

  Establish a federal ownership registry to track who owns residential real estate in Canada. This could build on and be integrated within CMHC's Housing Statistics Program.

  Whereas a Capital Flows data program can help us understand the estimated real-time and cumulative flow of investment capital into the housing system, an

[12] In some cases, this program may have to rely on proxy/suggestive data. For example, the number of years a given buyer has been a tax resident of Canada may be used to estimate the portion of a property purchased with domestic vs. globally sourced income.

ownership registry gives us a snapshot of who actually owns housing in Canada. This could be based on the newly-adopted ownership registry in British Columbia. The federal government could create the program in conjunction with provinces in such a way as to minimize or eliminate duplication of processes and red tape. In addition to understanding better the impact of global capital on local real estate, the Expert Panel on Money Laundering in BC Real Estate identified a pan-Canadian ownership registry as the most important measure required to combat money laundering.

Further resources at:

BC registry: https://www2.gov.bc.ca/assets/gov/housing-and-tenancy/buying-and-selling/land-owner-transparency-act-consultation/lota-white-paper-june-2018.pdf

Expert panel on Money Laundering in BC Real Estate:
https://news.gov.bc.ca/files/Combatting_Money_Laundering_Report.pdf

- **Extend Non-resident buyers taxation**

  The provinces of BC and Ontario have introduced surtaxes to discourage the purchase of residential real estate by non-residents. The federal government could learn from these examples, and scale up a related approach to privilege existing stock, and new developments, for local residents in markets across the country. Such policy could disincentivize foreign speculation in housing markets, including in agricultural areas, in regions which do not currently have non-resident buyers taxation. A well-designed policy should still welcome foreign investment in purpose-built rental projects, given the growing need for rental supply.

Further resources at:

Ontario tax: https://www.fin.gov.on.ca/en/bulletins/nrst/

BC tax: https://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/additional-property-transfer-tax

- **Expand the percentage of capital gains from second homes that are subject to taxation**

  Presently, 50% of capital gains from the sale of second homes are subject to income taxation. Federal policy could discourage treatment of residential real estate as an investment vehicle by raising the percentage of capital gains from the sale of second homes that are taxable.[13]

  Further resources at:

  Former Ontario Finance Minister Sousa: https://www.cbc.ca/news/canada/toronto/capital-gains-tax-house-sales-1.4032902

- **House flipping tax**

  The federal government could set federal capital gains tax rates on both primary residences and secondary properties on a "sliding scale" to be highest within 6 months to a year of purchase, declining through additional duration-of-ownership brackets such as 2 and 3 years, etc. This would disincentivize the short-term, speculative holding of housing.[14]

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[13] Many Canadians own second homes as vacation or work-related properties. While this practice would continue, changing the share of capital gains earned from the sale of such units would discourage investment in these properties by comparison with alternative investment opportunities, including stocks and bonds.

[14] This policy would complement and interact with provincial measures such as B.C.'s Speculation and Vacancy tax which applies an *annual surcharge* on select properties to achieve a similar effect.

Further info at:

Dr. Paul Kershaw, p. 35 of: https://www.gensqueeze.ca/worst_economy_in_canada_for_young_people

Dr. Rhys Kesselman: https://vancouversun.com/opinion/opinion-closing-the-loop-on-housing-taxation

- **Stop Tax Evasion in Pre-Sale Condo Reassignments**

  Contract assignments in the condo pre-sale market stand out among the loopholes that people use to avoid paying capital gains taxes. As a result of the sale and resale of contract assignments, a condo unit can be sold multiple times before the unit is even lived in. Each buyer often inflates the price, without necessarily paying the appropriate tax. To ensure the people flipping these pre-sale condos pay their fair share of taxes, the federal government should coordinate with the provinces to build a database on pre-sale condominium assignments to support federal and provincial tax authorities to ensure taxes are paid. This would include requiring developers to collect and report comprehensive information about the assignment of pre-sale condo purchases. The government of BC has already moved in this direction, and provides an example from which to build.

  Further resources at:

  BC plan: *https://www2.gov.bc.ca/gov/content/housing-tenancy/real-estate-bc/condo-strata-assignment-integrity-register/developers*

- **Scale up Vacant Homes Taxation**

  Homes that are purchased but left empty run contrary to the Homes First principle. The federal government could scale up new measures implemented by the city of Vancouver and the province of BC, which levy surtaxes (or higher tax rates) on properties that owners leave unoccupied and/or do not rent out for the majority of the year (with a broad range of exemptions to accommodate owner travel, illness, renovation, etc.). Taxation of empty homes aims less at revenue generation, and more toward incentivizing existing stock to be used for homes for locals as efficiently as possible. Whereas it can take years to build new rental stock, even when subsidized by government coffers, an empty homes tax can nudge existing supply back into the rental or resale market within a calendar year, and at no cost to the public purse.

Further resources at:

BC tax: https://www2.gov.bc.ca/gov/content/taxes/property-taxes/speculation-and-vacancy-tax

Vancouver tax: https://vancouver.ca/your-government/vacancy-tax-bylaw.aspx

- **National guidelines for regulation of short-term rentals**

  While the sharing economy is worth encouraging, the use of entire suites or principal residences as hotels for visitors rather than homes for locals runs contrary to the Homes First principle. A number of cities, including Vancouver, Toronto and Montreal have introduced new regulations for short-term rentals. The federal government could learn from these examples to develop national guidelines for the regulation and taxation of short-term rentals to support other municipalities to dial down use of existing stock, or the purchase of new stock, for short-term rentals.

  Further resources at:

  Montreal regulations: http://ville.montreal.qc.ca/portal/page?_pageid=44,142590130&_dad=portal&_schema=PORTAL

Toronto regulations: https://www.toronto.ca/community-people/housing-shelter/rental-housing-standards/short-term-rentals/

Vancouver regulations: https://vancouver.ca/doing-business/short-term-rentals.aspx

- **Phase out mortgage interest deductions for investor-owners of individual rental units**

  Small landlords can currently deduct interest payments on mortgages or home equity lines of credit when paying for non-principal residences. This incentivizes the provision of rental housing through the secondary rental market (e.g. investment condos being rented out). While there is a growing need for rental supply, the secondary rental market often provides less security of tenure and fewer tenant protections than do homes made available as purpose-built rental units. Phasing out these deductions could be accompanied by policies that scale up the supply of purpose-built rental so that renters have alternatives to the secondary market, and could be targeted in a number of ways to avoid unintended consequences: e.g. by initially targeting properties purchased in the current or future tax years, eventually phasing out the deduction on previously purchased properties.

Options to help first time buyers, while dialing down harmful demand

- **Resist calls to relax mortgage stress tests or increase amortization periods**

  Relaxing mortgage requirements may seem to help first-time homebuyers in the moment, but it does so by encouraging Canadians to take on even more debt and inflating demand. The results are higher home prices, when we need prices to stall/fall; and new entrants into the market pay higher sticker prices for homes, along with larger mortgages. Not only does this give rise to greater transfers of wealth from buyers to sellers, often from younger to older generations, it makes many Canadian households and the economy even more vulnerable to interest rate hikes and other shocks.

  For more information, see the policy recommendations of the CMHC study "Examining Escalating House Prices in Large Canadian Metropolitan Centres": https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/examining-escalating-house-prices-in-large-canadian-metropolitan-centres

- **Monitor, and scale up, new CMHC shared equity program for first-time buyers**

  Although still being defined, the shared equity program announced by the federal government in Budget 2019 is a more target-specific tool to help first-time homebuyers without adding as much inflationary pressure on home prices or debt risk. Informed by CMHC modelling, the shared equity program is not expected to inflate home prices in Canada beyond a maximum of 0.2-0.4%. By contrast, CMHC estimates that a reduction of one per cent in the mortgage insurance stress test or an extended amortization limit of 30 years would add to indebtedness and result in house price inflation that is 5-6 times higher than the shared equity intervention.

Further resources at:

CMHC: https://www.cmhc-schl.gc.ca/en/media-newsroom/making-housing-more-affordable-first-time-home-buyer-incentive

- **Ensure child care, parental leave, transit and postsecondary debt don't add up to rent-sized costs**

  As home prices left behind local earnings, reliance on dual earner households has been a common adaptation strategy among many younger Canadians. While it is very difficult for federal policy makers to recouple home prices to local earnings (without causing hardship to many existing home owners, and the economy more generally), it is well within reach of federal policy makers to ensure that child care and time on parental leave don't add up to rent-sized costs for young families. Thus, while skyrocketing home prices for renters and aspiring owners are the primary driver of growing levels of unaffordability in Canada, many now encourage policy makers to tackle the resulting challenges by reducing non-housing costs in the lives of young people, newcomers and older renters.

Further resources at:

Dr. Paul Kershaw: https://www.gensqueeze.ca/worst_economy_in_canada_for_young_people

Canadian Centre for Economic Analysis: https://www.cancea.ca/cancea/news/125/homeowners-under-45-struggling-afford-homes

Metro Vancouver: http://www.metrovancouver.org/services/regionalplanning/PlanningPublications/HousingAndTransportCostBurdenReport2015.pdf

- **Allow first time home buyers to borrow from their accumulated Canada Public Pension (CPP) contributions**

  While several governments have increased the amount of RRSP savings on which first time home buyers can draw for a down payment, many buyers don't have sufficient savings in their RRSP to take advantage of the policy. A variation on this theme would be to permit first time buyers to draw from their accumulated CPP contributions (with the Quebec Public Pension having the option to follow at its discretion). The upside is that first time buyers would be more likely to save tens of thousands of dollars in mortgage insurance by making down payments that are 20% of the home value. However, the risks of inflating home prices now and compromising future retirement security later would need to be considered very carefully.

  Further information at:

  Professor Emeritus, Ryerson University, Ross Macnaughton: http://www.fixcpp.ca/details.pdf

Options to dial up the right supply: all housing forms

The supply of new housing is fundamentally shaped by zoning policies and development approval processes that govern land use. Although local governments have primary responsibility for zoning policies, policy makers should use federal levers to encourage density and mixed-use in urban land already reserved for residences (while protecting land required for industry, farming and green-space in support of complete communities).

Infrastructure investments provide the federal government key policy levers with which to incentivize cities to add density urgently by linking housing, transit and other investments to density targets. Municipalities could be incentivized to pursue "top-up" or "bonus" levels of federal transfers by creating additional return on public investment through the implementation of municipal changes that facilitate the development of a diverse supply of new housing. For example:

- **Provide federal transportation and housing grants that are conditional on municipal zoning reform and/or density targets**

  Offer federal grants for affordable housing and public transit network improvements conditional on Municipal zoning reform to allow apartment buildings and missing middle ownership housing in existing low-density residential neighbourhoods, especially those well-served by infrastructure (transit, schools, parks, libraries, water and sewers, etc). To this end, the federal government could encourage municipal development policies to be based on market prices that incentivize more housing per lot, rather than the current system of exclusionary zoning restrictions and regulations that: (a) result in pricing out many citizens from the majority of residential lands in urban centres, and squeezing them into the residential land leftover that already has very high density rates; (b) involve lengthy negotiations to achieve development approvals by developers; and (c) don't often include approval "sunset" clauses to prevent private land-banking. Zoning reform could include rental only zones, inclusionary upzoning, and/or conditional upzoning near transit.

  As the federal government makes infrastructure investments conditional on zoning reform or density targets in cities, it should also develop modeling tools to help cities counter NIMBYism and support better-informed dialogue about how new supply proposals may influence real estate pricing, neighbourhood character, and other local objectives.

For more information, see:

The policy recommendations of the CMHC study "Examining Escalating House Prices in Large Canadian Metropolitan Centres": https://www.cmhc-schl.gc.ca/en/data-and-research/publications-and-reports/examining-escalating-house-prices-in-large-canadian-metropolitan-centres

Ontario's Housing Supply Action Plan: https://files.ontario.ca/mmah-housing-supply-action-plan-en-2019-05-02.pdf

- **Plan for health implications when incentivizing density**

  When incentivizing zoning reform and density-targets, air pollution and other health-related research suggests that the bulk of density should be developed a block or two away from major transit corridors to minimize population health risks. We can achieve maximum good by not putting housing directly on major arterials with air pollution; and instead build new housing within walking distance to frequent transit networks. This could mean prioritizing residential buildings in the zone between 100 and 500 metres from major corridors with transit.

  Further resources at:

  Dr. Michael Brauer: http://www.cmaj.ca/content/185/18/1557.long

  Dr. MJ Nieuwenhuijsen MJ: https://www.ncbi.nlm.nih.gov/pubmed/26960529

- **Integrate climate and energy sustainability when incentivizing density**

  Incentives for density could also promote federal sustainability goals (lower-carbon cities) by matching housing density and affordability to existing urban areas to allow mode shift and shorter trips, more energy efficient built form, infrastructure re-use and efficiency, and preserving green space.[15]

Further resources at:

Sustainable Canada Dialogues "key policy orientation" #6 and #7: http://www.sustainablecanadadialogues.ca/files/PDF_DOCS/SDC_EN_30marchlr.pdf

- **Acknowledge "hidden" density and affordability in low density zoning**

  Another key consideration as we revise zoning to add new supply is that there often exists "hidden" affordability in secondary market rental suites. Many of these may be in the same single family (or low density) zones we may wish to prioritize for rezoning and redevelopment.

  Further resources at:

  Andy Yan, Director, SFU City Program: https://www.theglobeandmail.com/real-estate/vancouver/vancouvers-myth-of-the-single-family-house/article34908030/

[15] Similar initiatives are being proposed in the US: e.g. in California for climate action.

State overrides on municipal zoning are common in some US states: eg. Massachusetts has 40-B which permits an affordable housing developer to proceed without municipal approval on sites in towns where less than 10% of units are affordable.

Policy makers should recall that facilitation of new supply in the absence of demand-side measures and tax reform can worsen affordability and stoke speculation through the capitalization of public subsidies and zoning decisions into land values, and by other mechanisms. New supply is therefore best incentivized in the presence of demand-side measures and the related taxation of housing wealth windfalls, or other land-value capture strategies for the public good.

Options to Dial up the right supply: Rental

Homeownership has grown out of reach for many Canadians. If earnings continue to remain relatively flat — as they have over decades — we cannot count on earnings to close the gap. Bringing homeownership costs back within the reach of local earnings in the hardest hit markets will take time and care. In the meantime, we must ensure Canadians have access to a diversity of secure rental housing options that meets their needs.

With vacancy rates at low levels in many of Canada's cities, policy should incentivize the development of more secure, purpose-built rental homes. The non-profit sector can provide some of these homes, but the projected need for rental housing will also require participation by market developers.

- **Scale up and improve CMHC involvement in rental projects**

  The federal government now subsidizes rental projects that meet certain social objectives through low-interest loans. Going forward, federal policy makers could increase the dollars available, and insist on a fair rate of return for the provision of the low-interest loan, which may include a direct equity stake in the project. Federal policy could also require local governments requesting assistance with housing affordability to approve some of these projects at higher than typically allowed zoning. This would enable the program to proceed at greater scale.

  Recommendation informed by:

  Dr. Tsur Sommerville: https://www.researchgate.net/publication/5151515_Residential_Construction_Costs_and_the_Supply_of_New_Housing_Endogenity_and_Bias_in_Construction_Cost_Indexes

Dr. Guillaume Chapelle: https://www.tresor.economie.gouv.fr/Ressources/File/426533

Dr. James Porterba: https://www.jstor.org/stable/2117407?seq=1#page_scan_tab_contents

- **Incentives/guidance for public sector pension funds to invest in purpose-built rental**

  The federal government could create incentives for public sector institutional investors to invest in the construction of purpose-built rental housing for low and middle income households at all life stages. This would align the interests of public sector pension funds for stable, long-term, reliable-yield investments with society's need for purpose-built housing construction. This approach could incorporate a matching program to encourage Municipalities and Provinces to also include this incentive. As much as possible, these incentives should encourage pensions to fund new development, not replace existing older rental stock that is often some of the most affordable in our urban centres. There is a fine balance between updating older stock and maintaining affordable rental supply.

- **Waive GST on all new purpose-built rental**

  Current federal rental incentive programs target or otherwise show preference to the community housing sector and non profit providers. That approach has clear benefits. However, if a policy goal is to increase rental vacancy rates to healthier levels in major urban centres, a much larger influx of purpose-built rental housing is needed than the community housing sector is likely able to provide, even if CMHC scales up its involvement in rental projects (per the previous policy options). Waiving GST on all new PBR construction could help eliminate a problematic differential between condominium construction costs (where GST is passed onto the end buyer) and rental construction costs (where GST is paid by the developer).[16]

Further resources at:

LandlordBC: https://gallery.mailchimp.com/100b5d728947a06a9c0a392f2/files/82fd1a4d-b253-446b-9bbd-34b7260c6ad3/UNDERSTANDING_BC_S_HISTORY_OF_RENT_CONTROLS_AND_TAX_POLICY_LR.pdf

Options to rebalance taxes on income and housing wealth to reduce inequalities, and gain efficiencies

The previous policy options signal that tax policy can be used to both dial up the right kind of supply (eg. incentivize purpose-built rental) and dial down harmful demand (eg. discourage empty homes).

However, a comprehensive housing strategy must also contemplate tax reform to address growing inequality driven by the escalation in home values.

Incomes are only one factor shaping inequality. Wealth is another factor, and home equity is a particularly common kind of wealth in Canada. The escalation in home prices, especially in BC and Ontario markets, means that housing wealth has become

[16] One of the criticisms of such an approach is that it is a public subsidy/transfer to private rental developers. However, the current differential between strata and rental development costs - as influenced and regulated through tax policies and rent controls - might also be seen as a public preference for new condominium developments, which provide less public benefit in the current context than new PBR. If the non profit sector could meet all of the demand for new rental accommodation, there would be less need to debate this kind of policy. However, if it is not able to meet all of the demand, then we need to ensure private, multi-family rental construction can proceed apace. If a broad, market-wide measure such as a GST rebate is not provided to help achieve this, federal parties should demonstrate how other policies do.

a primary driver of inequality, even when residents of those homes have "regular" or "low" incomes. Unfortunately, the current National Housing Strategy doesn't once mention the "wealth" that many have accumulated as result of rising home prices.

- **Pursue a Tax Shift**

  Reduce taxes on income (perhaps especially for renters) to stretch the purchasing power of regular earners, while offsetting forgone revenue by raising taxes on high home values. Income tax cuts could come in the form of lower tax rates for targeted income brackets, or in the form of specific tax credits. Forgone income tax revenue would be offset by additional revenue from the following two options for windfall taxes paid upon the sale of primary residences.[17] Both options respond to the fact that wealth accumulation through owner-occupied housing is presently sheltered from taxation like few other assets.

  Surtax on high value principal residences, paid at sale of home: Annual revenue from municipal property taxation is down $4.4 billion (measured as a share of GDP) by comparison with 1976, despite the $2.6 trillion in additional net wealth accumulated in principal residences over that time period. This leaves fiscal room for federal policy makers to add an annual, deferrable property surtax to capture wealth windfalls. The surtax could be assessed on housing value

17 This policy would both address inequality created by housing wealth windfalls and decrease harmful demand for home ownership as an investment. It would help level the playing field between renting and owning. The change would disincentivize home ownership as investment, thereby reducing policy support for home ownership as a tax-sheltered investment that has helped to fuel housing unaffordability. This revenue could be directly tied to income tax relief to help Canadians' earnings stretch a bit further and/or be used to fund other affordability initiatives.

above a stated threshold (say $1 million or higher), leaving the vast majority of Canadians unaffected by the tax. The tax could be a flat rate above that threshold, or have progressive rates. Like capital gains taxation, this surtax would not be owed until the value of the asset is liquid, but the tax bill would be calculated annually based on the value of the home while the resident lives in it. As a result, a low-income resident of a high-value home would not be at risk of being unable to afford to live in the home because of new taxes due.[18]

Further resources at:

Dr. Paul Kershaw: https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3247140_code160791.pdf?abstractid=3247140&mirid=1

Dr. Rhys Kesselman: https://www.cdhowe.org/intelligence-memos/rhys-kesselman-attacking-high-housing-prices-making-property-tax-progressive

Mark Lee, Centre for Policy Alternatives: http://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2016/05/CCPA-BC-Affordable-Housing.pdf

BCGEU: https://d3n8a8pro7vhmx.cloudfront.net/bcgeu/pages/8362/attachments/original/1536791619/housing-plan-FINAL-CUPE.pdf?1536791619

- **Capital gains taxation of principal residences**

  The annual federal tax expenditure budget estimates that non-taxation of capital gains from principal residences will cost the federal coffer around $6

[18] Virtues of a federal surtax paid upon the sale of the home (but incurred annually) by comparison with a capital gains tax include that it calculates the tax liability based on one's current housing wealth, regardless of when one purchased the most recent home. By contrast, calculation of capital gains on principal residences introduces arbitrary inequities that result from the date according to which gains are calculated. For example, do we calculate the tax retrospectively? If no, we ignore the large wealth windfalls that have already been gained by many as a result of the dramatic escalation of home prices. If yes, someone who bought their current home last year (with funds accrued from home equity gained from a lifetime in the housing market) will be taxed less than another who entered the housing market at the same time, but lived in one house for the entire duration.

billion in 2019, with corresponding losses to provincial coffers as well. This tax shelter shapes investment decisions, and contributes to the treatment of housing as commodities. The introduction of a capital gains tax on principal residences could be in the form of a flat tax rate, or applied to taxpayers' marginal income tax brackets. Life-time capital gains exemptions could be provided as an ongoing shelter for some capital gains on principal residences, while ensuring that larger wealth windfalls contribute to the public good via government revenue. Shifting toward taxation of capital gains on principal residences would likely entail permitting the deduction of some borrowing costs, as is the practice in the United States.

Further information at:

Dr. Rhys Kesselman: https://vancouversun.com/opinion/opinion-closing-the-loop-on-housing-taxation

BC Green Party: https://www.bcgreens.ca/affordable_homes

De-risking the market against a decline in prices

Many of the policies outlined above in the policy categories of supply, demand, and taxation reflect the need to carefully rein in housing and land costs for first-time and other homebuyers - and indirectly for renters - because it is unrealistic to expect earnings to grow enough to close the gap with home prices by 2030.

While a measured decline in housing and land costs is arguably necessary to restore affordability for all Canadians, declining home values create risks for highly leveraged households and the Canadian economy.

It is timely for federal parties to consider policy measures that reduce these risks overtime. The recently announced federal shared equity program, the“ First-time homebuyers incentive” (FTHBI), anticipates a pathway to achieve this outcome.

- **Canada Home Equity Share program**

  The new CMHC shared equity program (the First Time Home Buyers Incentive (FTHBI)) program is policy narrowly targeted at new entrants to the housing market, and for homes that are below $600,000 in value. It invites CMHC to take a share of the equity in homes that new buyers purchase, with potential to grow public equity in the regular real estate market (along with potential to incur losses). After carefully monitoring its initial implementation, and assuming no unintended consequences materialize, there is an opportunity to scale up the role of the federal government in sharing equity with homeowners. A Home Equity Share Program (HES) would allow **any homeowner** to convert a portion (say 10%, up to some to be determined absolute cap) of the debt secured against their home into equity that would be owned by the government (either directly or through an investment vehicle or crown corp). Similar to the FTHBI, the HES would apply at the start of a new mortgage, or upon the renewal of an existing mortgage. This approach can reduce risks that result from falling home prices by targeting homeowners and new home buyers who are particularly leveraged, and exposed to the most risk.

  Further resources at:

  Duncan MacRae: https://d3n8a8pro7vhmx.cloudfront.net/gensqueeze/pages/1021/attachments/original/1557767053/Home_Equity_Share_Program_Brief.pdf?1557767053