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CONDOBUSINESS

CHBA pres to talk housing affordability with feds

Canadian home builders want to see mortgage rules relaxed

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By Michelle Ervin

Bob Finnigan, president of the Canadian Home Builders' Association, or CHBA, heads to Ottawa this week to talk to the federal finance committee about housing affordability. Of particular concern for the group is one of the latest changes to mortgage rules, which expanded an existing stress test from a limited pool of prospective home buyers to all insured borrowers.

The stress test raises loan eligibility rules by requiring prospective home buyers to qualify for mortgages at a higher interest rate than what they will actually pay, as a way to gauge their ability to absorb interest-rate hikes. In some cases, the move disqualified prospective home buyers who qualified for mortgages under the old rules, said Finnigan, and it has adversely affected markets outside of active regions such as Toronto and Vancouver.

"People in Calgary and people in St. John's saw their traffic stop or slow down substantially for new homes," he said. "We're hoping to have some input into hopefully regionalizing those amounts."

Finnigan, who is also COO of Herity Group of Companies, represents 8,500 companies across the country that are involved in all aspects of residential construction as president of the CHBA. The federal government pressed ahead with the recent change to mortgage rules despite the opposition of the home builders, he said.

“It was tempered a little bit, but it’s definitely having an effect on the ability of young people getting into their first home,” said Finnigan.

In hot markets such as Toronto and Vancouver, average house prices have risen dramatically and disproportionately to median millennial incomes, according to a CHBA report. As planning policies have restricted land supply in certain regions, the shift from producing more low-rise homes to producing more high-rise homes has not been matched by a shift in consumer preferences, Finnigan said.

Consumers still overwhelmingly want low-rise homes, the CHBA has found, and the competition over their shrinking supply is believed to be a major factor in escalating prices. What’s more, demand for housing in popular urban centres such as Toronto is only going to grow, as roughly one-third of the 300,000 immigrants who arrive in Canada every year locate to the Golden Horseshoe, Finnigan said.

In these markets, where there may be the temptation to stretch budgets, the CHBA president allowed that there is room for rules to prevent prospective home buyers from taking on mortgages they can’t afford. But he pointed out that the debt-to-income ratio, 1.65, has remained fairly static and mortgage defaults are relatively rare at 0.3 per cent.

The CHBA is also advocating that the federal government bring back 30-year amortization rates for well-qualified first-time home buyers looking to purchase properties for less than $500,000.

Finnigan returns to Ottawa this week fresh off of an important win for home builders in the western provinces. The Canadian International Trade Tribunal recently issued a report calling for a temporary freeze and scaling back of drywall duties imposed on U.S. imports last September in response to an anti-dumping complaint. The federal government expedited the report at the urging of the CHBA, whose members mobilized within days of learning that duties would raise their drywall costs by two to three times what they were paying at the time.

“When they (the Canadian Border Services Agency) put up the tariff on drywall, they looked at the drywall industry,” explained Finnigan. “They didn’t look at the end users, or the home builder or buyer.”

Another recent gain for the Canadian home building industry was the federal government’s commitment in its 2016 infrastructure programs to fund up to 50 per cent of eligible projects. That’s an increase from the 33.3 per cent that lower levels of government had to match in the past. And lack of infrastructure has contributed to delays in the delivery of new homes, which has constrained the supply of low-rise homes further still, Finnigan noted.

“Theoretically, that should provide more cash, take a little bit of burden off municipalities and provinces and expedite that land,” he said. “Now we need to make sure the growth policy acknowledges that that money’s available and expedites projects.”

The suspicion that developers are simply sitting on pieces of land as housing prices increase is unfounded, the CHBA president added, because the business of building homes hinges on being able to turn over inventory. The longer a developer has a piece of land languishing on their books, the more it costs them, he said, and buyers eventually see those additional expenses reflected in their purchase prices.

Labour is one of the costs subject to increases, inching upward with inflation. This cost is also increasing due to shortages in the low-rise homes segment, which is losing skilled workers such as carpenters to the high-rise homes segment, Finnigan said. The CHBA is asking various levels of government for assistance in attracting replacements for the 125,000 skilled workers expected to retire in the next 10 years, for whom the industry will help set up apprentice and training programs.

Other issues on the CHBA's radar include the national building code, which serves as a model for provincial buildings codes. Politicians musing about moving to net zero homes ahead of a 2031 deadline for making homes net zero ready have raised concerns for home builders, Finnigan said. There is a major distinction between making homes net zero and making homes net zero *ready*, he clarified, the former being more expensive, with additional costs for features such heat pumps and solar panels.
The CHBA's position is that new homes are far more energy efficient than they once were, up 37 per cent from 1990 and 47 per cent from 1985, and that money invested in conservation strategies would be best spent on existing homes, where it generates greater energy savings. The home builders are recommending that the federal government make permanent the home renovation tax credit, using it to promote energy efficiency improvements in those existing homes.

As the industry prepares to produce net zero-ready homes on the current timeline, perhaps earlier, the CHBA would like to see new building code standards limited to safety and technology issues. All the small costs associated with each of those requirements add up, Finnigan said, which ultimately affects housing affordability. It will become cheaper to get to net zero as technology advances and gains traction, he predicted.

"We've got a crisis already in terms of housing prices," he said. "Right now, to go to net zero would cost somewhere between $50,000 and $70,000 a house, which nobody can afford."

Michelle Ervin is the editor CondoBusiness.