GREATER VANCOUVER
BOARD OF TRADE

MORE HOMES, MORE CHOICES:

AN EXPANDED FEDERAL APPROACH TO INCREASING HOUSING OPTIONS IN GREATER VANCOUVER

boardoftrade.com/morehomes

August 2019

EXECUTIVE SUMMARY

The lack of available and affordable housing is a persistent challenge in many communities across Canada but is particularly acute in select urban centres, including Greater Vancouver. Housing affordability earned our region a "C" grade, ranking 12th out of 15 comparative jurisdictions, in the 2018 Greater Vancouver Economic Scorecard. Businesses are reporting that housing is a key challenge in attracting and retaining workers. 55 per cent of residents under the age of 45 and 37 per cent of businesses are considering relocating from Greater Vancouver according to affordability challenges.

All levels of government have a role to play in ensuring a properly functioning housing market. While much of the public debate in Greater Vancouver has centred on the actions of local and provincial governments, the federal government controls some key levers affecting our local housing market. Specifically, the federal government is responsible for monetary policy, mortgage insurance and related products, mortgage financing rules, tax policy, and investments in on-reserve Indigenous housing.

While affordable housing has not always been a consistent focus for the federal government, in recent years, Ottawa has made significant investments in the hopes of improving housing affordability, including the recently launched National Housing Strategy. In 2019, the federal government announced an Expert Panel on the future of housing supply and affordability, with a mandate to build on recent investments and initiatives to increase the supply of housing in British Columbia.

In this brief, we aim to explain the benefits of stable housing and provide options to the Expert Panel on how the federal government can expand its toolkit to improve the availability and affordability of housing options.

While the federal government, through the National Housing Strategy and other measures has made meaningful strides to support the availability of affordable housing, the federal government could unlock more housing — especially rental housing — by using a broader set of tools within their toolkit, including:

- consider incentives and options to align federal housing and transit investments;
- changing tax policy to support new rental construction;
- exploring creative ways to encourage new rental units within existing zoning; and
- doubling down on efforts to unlock federal lands and the proceeds from development to support affordable housing.

BENEFITS OF SECURE HOUSING

When discussing the federal government's role in housing affordability, especially in policy prescriptions, it is vital to highlight the rationale for policies supporting homeownership and stable rental housing.

A Macdonald Laurier Institute paper, A Home for Canada's Middle Class, provides a primer on the academic literature regarding homeownership and secure housing, noting the positive benefits to individuals and society from a health, education, and economic perspective[1].

Studies highlighted by their work include:

- Kulkarni and Malmendier (2015) analyze the link between homeownership and upward mobility and find a strong positive relationship for the children of homeowners that the two economists attribute to the stability and social capital that is associated with owning one's home.
- A post-recession update to past research on the broad economic and social benefits of homeownership by Rohe and Lindblad (2013) concludes that "there is considerable evidence that positive homeownership experiences result in greater participation in social and political activities, improved psychological health, positive assessments of neighbourhood, and high school and post-secondary school completion."
- Ni and Decker (2009) study the relationship between homeownership and crime and find not only that "homeownership itself has a strong and statistically significant negative effect on both violent and property crime rates" but that increases in homeownership rates reduce criminal activity over time.
- Rohe and Stegman (1994) find that low-income earners who recently became homeowners reported higher life satisfaction, higher self-esteem, and higher perceived control over their lives.
- DiPasquale and Glaeser (1998) inquire whether homeowners are more active citizens and conclude that "homeownership is strongly correlated with variables that attempt to measure good citizenship, such as membership in non-professional organizations and involvement in local politics."
- Haurin et al. (2002) study the link between homeownership and educational performance for children and find that it leads to a 13 per cent to 23 per cent improvement in a higher-quality home environment, greater cognitive ability, and fewer child behaviour problems relative to renting.

A 2012 study commissioned by Habitat for Humanity Toronto found similar results in its assessment of the "social impact" of homeownership. The findings are powerful: 95 per cent of respondents said that their families were stronger, 81 per cent reported an improvement in their child's social life, 76 per cent reported improvement in their children's grades, 72 per cent reported strong community and neighbourhood ties, and 50 per cent reported that they felt safer.

Much of the same benefits noted above can be attributed stable forms of rental accommodations. As the next section will show, a lack of available and affordable housing options leaves many in Greater Vancouver questioning their long-term future in the region.

> "*Homeownership and secure rental housing provide positive societal benefits.*"

GREATER VANCOUVER'S
HOUSING INSECURITY

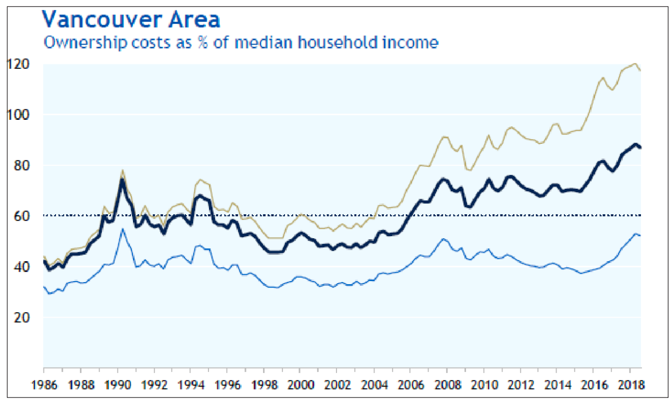
As noted in the Greater Vancouver Board of Trade's earlier report, "Unlocking Supply: Housing Affordability and the Missing Middle," our region's housing availability and affordability can be attributed to plenty of causes — limited availability of land, an attractive market for foreign investment, population growth, and constrained supply. Even noting those constraints, the cost of housing and the prospects of owning a home has spiralled out of reach.

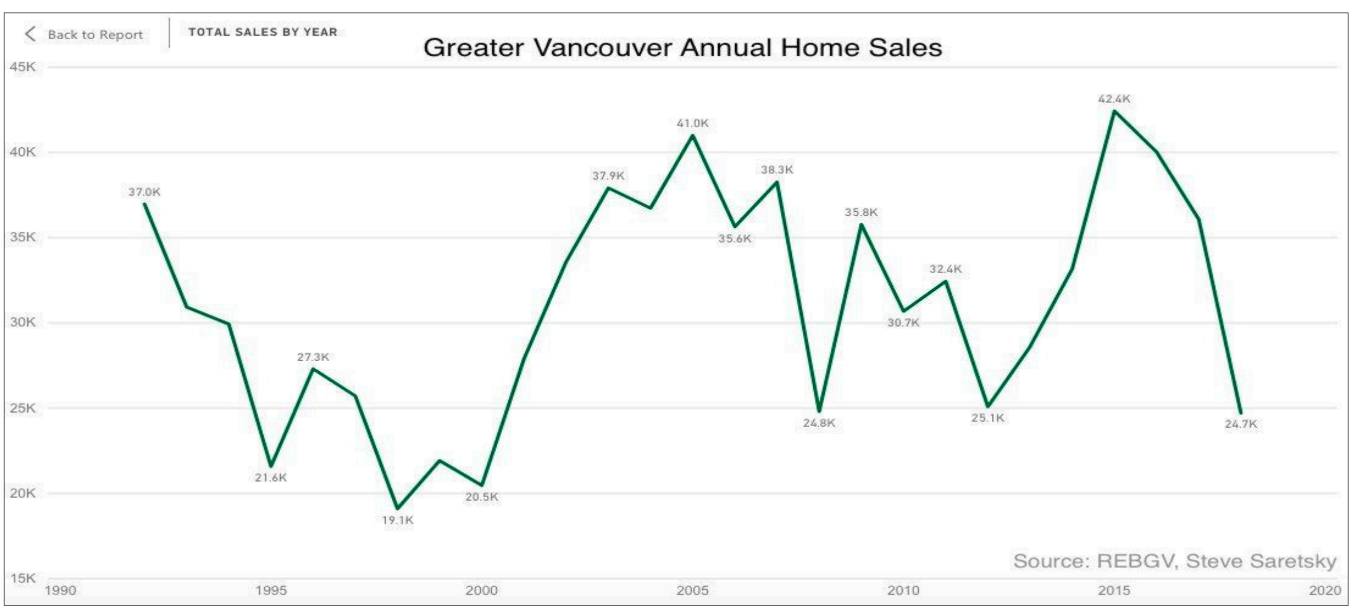
- Research by RBC suggests that in Vancouver, an annual income of $211,000 would be necessary to cover ownership costs and qualify for a mortgage on an average home.

- The 2019 annual study by Demographia reports that Vancouver is the second least affordable global city. The study measures average home price as a multiple of the average household income. The authors suggest that cities become severely unaffordable when the multiple is 5.1 or higher. Data as of the third quarter of 2018 showed that Vancouver was at 12.6.

- Research produced by Vancity from 2015, prior to a large uptick in prices, noted that our region's future growth prospects were threatened as housing costs continued to rise faster than salaries. Their research showed that by 2025, 85 of 88 in-demand jobs will be unable to afford a single-family home in Greater Vancouver.

While no measure is a perfect measure of housing affordability, by any statistical measure, housing in Greater Vancouver is not affordable to a large percentage of residents. More recently, sales and prices have dropped from record highs. Data from the Real Estate Board of Greater Vancouver, compiled by realtor Steve Saretsky, shows that home sales slow in 2018 to their lowest levels since 2000.





That said, even with the recent drop, home prices remain substantially elevated and unaffordable in relation to incomes in the region. For example, the average price of a townhome in the region has fallen by 7.6 per cent over the past year but, according to the same data, is up over 60 per cent in the last five years.

While the cost of homeownership means that it is out of reach for many, the rental market has not fared much better. As at October 2018, data from the Canadian Mortgage and Housing Corporation (CHMC), noted vacancy rate for Greater Vancouver was 1.0 per cent. The strong demand for rental housing led to a 6.2 per cent increase in average rents.

Data prepared for Metro Vancouver suggest that approximately 6,000 new rental housing units are required per year to catch up and satisfy demand. Further, CMHC estimates that 35 per cent of future demand[2] is expected to be in the form of rental demand. There were only 1,896 rental apartment units completed in 2018, and there are currently 5,629 units under construction, to be completed over the next few years. Further, there are 13,310 units either approved or proposed[3] in total, but there is no confirmation that construction will be completed. While these figures are far off the 6,000 units per year required, it represents a significant improvement. Since 1991, CMHC estimates that we have lost 6,000 purpose-built rental units.

Statistics Canada data shows that the Greater Vancouver metropolitan region had 1,602,590 people in 1991[4]. The most recent estimates for 2018 is 2,650,005. In other words, more than one million people additional people have moved to our region over the past 17 years. Regional population growth estimates vary, but with increased national immigration levels, the population is expected to grow by another million residents by the year 2050. So, while the region is already far behind on providing enough available rental housing, future population growth means the situation will continue to be a challenge.

HOW IS THE LACK OF AVAILABLE AND AFFORDABLE OPTIONS SHAPING THE REGION?

An Insights West poll from 2018 found that 90 per cent of Greater Vancouver residents decisively agree that there is a housing crisis. A near unanimity of renters and households with incomes $40,000 or less agreed. Anxiety over the availability and affordability of housing is residents to think twice about settling down long-term in the region. A 2018 survey in partnership with the Greater Vancouver Board of Trade, Mustel Group and FleishmanHillard Highroad found that 46 per cent of the population considering relocating away due to affordability[5]. This number rises to nearly 55 per cent for residents under the age of 45.

This anxiety is also affecting employers, with 73 per cent reporting that housing affordability has affected their ability to recruit and retain employees. 37 per cent of businesses are considering relocating from the region, with larger businesses, those with over 50 employees being most inclined to leave. If the region cannot provide secure and attainable housing options for residents and prospective residents, the future of our economy and social cohesion will be threatened.

Home Price Index for Greater Vancouver	Price Index	1 Month +/-	6 Month +/-	1 Year +/-	3 Year +/-	5 Year +/-
Benchmark - May 2019						
Residential - All Types						
$1,006,400	261.8	-0.4	-3.4	-8.9	10.9	57.7
Detached						
$1,421,900	261.6	-0.5	-5.4	-11.5	-6.5	46.2
Townhouse						
$779,400	250.1	0.6	-3.5	-7.6	20.4	60.4
Apartment						
$664,200	265.5	-0.5	-2	-7.3	31.8	69.4

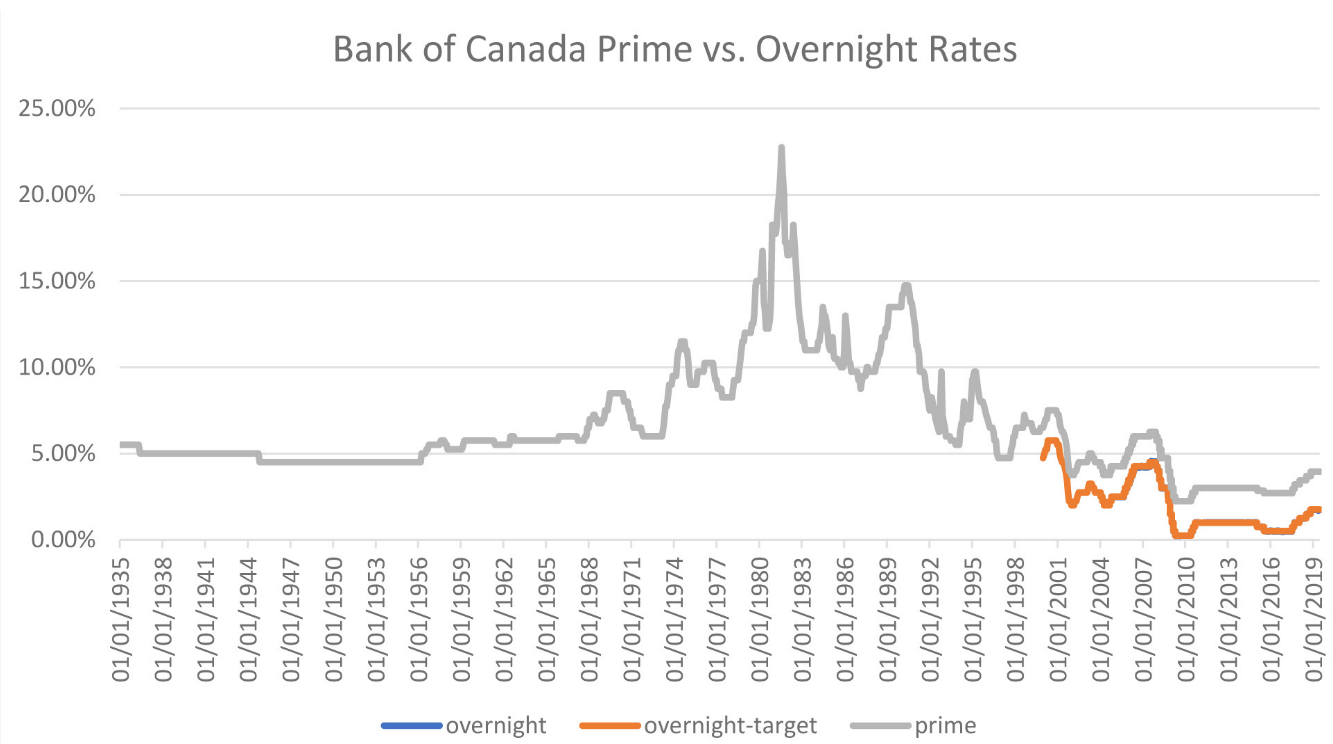
THE FEDERAL GOVERNMENT'S
ROLE IN HOUSING

The federal government's role in housing is guided by the objectives of the National Housing Act. The purpose of the Act is "to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing at low cost, and to contribute to the well-being of the housing sector in the national economy"[6].

MONETARY POLICY

One of the most direct ways the federal government affects housing is through the Bank of Canada's monetary policy. Variable and fixed mortgage lending rates are based on commercial banks' prime rates or longer-term yields of government bonds plus a yield for the lender. These are both affected by the Bank of Canada's benchmark interest rate. Since 2008, interest rates in Canada have been significantly below typical rates. For borrowers, a lower interest rate generally increases the amount of debt a consumer can borrow while paying a similar monthly payment. Alternatively, if the interest rate increases, borrowing is more expensive and, consumers borrowing capacity is reduced.

It is important to note that decisions by the Bank of Canada on their benchmark interest rate affect the entire economy, not just the housing market. In the past 18 months, the Bank of Canada has raised interest rates five times, following nearly eight years of historically low rates.



CANADIAN MORTGAGE AND HOUSING **CORPORATION**

The Canadian Mortgage and Housing Corporation (CHMC), is the primary federal agency responsible for policies that support homeownership. Initially established in 1946 to house returning war veterans, the CMHC expanded rapidly with the introduction of the National Housing Act in 1954[7], which introduced mortgage loan insurance in Canada. Private lending was unlocked for the middle class and first-time buyers with relatively small down payments at reasonable interest rates as mortgage insurance unlocked private lending. At various times throughout its history, the CMHC has been a more active participant in supporting affordable housing, notably from the 1950s to 1970s. More recently, the federal government launched a new housing strategy.

NATIONAL HOUSING STRATEGY

In late 2017, the federal government launched the National Housing Strategy, titled A Place to Call Home, with a focus on people, communities, and partnerships. It is a 10-year plan, initially valued at $40-billion, with additional investments in subsequent budgets taking the total to $55 billion. The targets laid out in the strategy include:

- 50 per cent reduction in chronic homelessness
- 530,000 households removed from housing need
- 300,000 homes to be renovated and modernized
- 100,000 new housing units created
- 385,000 households protected from losing an affordable place to live
- 300,000 households provided with affordability support through the Canada Housing Benefit

To meet these goals, the strategy has several new initiatives:

National Housing Co-Investment Fund: Provides low-cost loans and financial contributions to attract partnerships and investments. The fund's focus is to build new housing and repair or renew existing housing supply, covering a broad range of housing needs from shelters to affordable homeownership (emphasis on housing for those with the greatest need). The fund is a $15.9-billion suite of programming that includes low-cost loans and capital contributions for building, repairing and renewing affordable housing. There is also the Rental Construction Financing Initiative which encourages the construction of rental housing in Canada, where there is demonstrated need, through providing low-cost loans.

The Rental Construction Financing Initiative (RCFI) can make a meaningful difference for developers for market and non-market housing. By extending the government's low cost of capital and providing attractive financing terms many projects that were not economical can become economical or rental rates can become more affordable. Recently, a 145-unit mixed-use building in Vancouver developed by Catalyst Community Development Society, took advantage of the RCFI and land from the City of Vancouver to provide 120 homes at affordable rents lower than 30 per cent of Vancouver's median household income.

Federal Lands Initiative: Making federal lands available for affordable housing. In total, $200 million in federal lands will be transferred to housing providers over 10 years to encourage the development of sustainable, accessible, mixed-income, mixed-use developments and communities. Land discount depends on socio-economic and environmental outcomes.

New Canada Community Housing Initiative: This initiative focuses on the repair and renewal of the existing supply as well as the expansion of the supply of community-based housing. CMHC expects to maintain affordability for approximately 330,000 households in community housing nationally. Provinces and territories will be required to cost-match this funding.

New Federal Community Housing Initiative: Stabilize the operations of federally administered community housing providers. This $500-million initiative will put in place new operating agreements as old social housing operating agreements expire, allowing community housing providers to continue receiving funding to subsidize rents for tenants in need. Funding will also maintain the current federally administered community housing stock and its 55,000 households.

A New Canada Housing Benefit: Launching in 2020, a $4-billion Canada Housing Benefit, delivered and cost-matched by provinces and territories ($2 billion from federal government that requires provincial/territorial cost matching) to provide support directly to those in housing need, including potentially those living in social housing and those on a social housing wait-list.

Housing Data and Research: A $241-million investment over 10 years to enhance housing research, data and demonstrations through a number of initiatives, including:

- Developing tools within the federal government to address data gaps and measure National Housing Strategy outcomes
- Building capacity for partnerships and housing research outside government
- Supporting researchers and research communities outside government
- Developing a network of housing experts to analyze housing challenges
- Introducing Solution Labs that bring experts together to solve housing problems
- Supporting demonstrations put forward by researchers and housing partners outside of government

Through the National Housing Strategy, the government is focusing on repairing and renewing existing housing agreements as well as providing some new funding to increase the supply of primarily affordable housing.

This comprehensive strategy, which was preceded by a robust consultation strategy, represents a reinvigoration of CMHC's mandate to support affordable housing.

MORTGAGE INSURANCE

One of the most direct ways CMHC supports homeownership is through mortgage insurance. Presently, if borrowing through a federally-regulated financial institution, mortgage insurance is typically required if a residential loan has a loan to value ratio of greater than 80 per cent. Lenders are charged these fees upfront, and they generally pass the costs to the consumer as part of the overall loan.

As the table below notes, between 2013 and 2017, premiums for the most utilized products, loan-to-values of between 80 and 95 per cent have increased by an average of 71 per cent. Using the benchmark purchase price for an attached unit in Greater Vancouver[8], the increase in premium rates from 2013 to present rates costs the homeowner more than $11,558 over the life of the loan[9].

In addition to mortgage insurance, CMHC also provides other financial products to support including but not limited to Canada Mortgage Bonds and mortgage backed securities.

Loan-to-value	Current premium on total loan (%)	Increase in insurance premiums since 2013	Percentage increase in premiums since 2013 (%)
Up to and including 65%	0.60	0.10	20
Up to and including 75%	1.70	1.05	162
Up to and including 80%	2.40	1.40	140
Up to and including 85%	2.80	1.05	60
Up to and including 90%	3.10	1.10	55
Up to and including 95% Traditional Down Payment	4.00	1.25	45
Non-Traditional Down Payment	4.50	1.60	55

MORTGAGE FINANCING RULES

Through the Department of Finance and the Office of Superintendent of Financial Institutions (OSFI), the federal government has oversight of the rules and standards that apply to federally regulated institutions. Some examples of these rules include mandating maximum debt service ratios, amortization periods, and more recently implementing "stress tests". Over the last decade, there have been multiple changes to the housing finance system, following a period when rules were relaxed. A non-exhaustive summary of the changes since 2008 are:

In 2008,

- The maximum amortization period was shortened from 40 years to 35 years.
- The requirement for a 5 per cent minimum down payment was established.
- New minimum documentation requirements were introduced so that lenders would be mandated to ensure sufficient evidence of a property's value and the borrower's sources and level of income.
- New rules established a credit score floor of 620 with some exceptions.

In 2010,

- Variable and fixed rate mortgages with terms less than five years were required to be qualified using the five-year posted rate (qualifying rate).
- The maximum amount for insured refinances was reduced to 90 per cent from 95 per cent.

In 2011,

- The maximum amortization period was shortened to 30 years from 35 years on insured mortgages.
- The maximum amount for insured refinances was reduced to 85 per cent from 90 per cent.
- Home Equity Lines of Credit no longer qualified for government mortgage insurance.

In 2012,

- The maximum amount for insured refinances was reduced to 80 per cent from 85 per cent.
- Mortgages on homes valued at more than $1 million would no longer eligible to be default-insured.
- The maximum amortization period was shortened to 25 years from 30 years on insured mortgages.
- New gross debt service and total debt service limits of 39 per cent and 44 per cent respectively, were implemented for borrowers with a credit score of 680 or more.

In 2016,

- For homes priced above $500,000, a 10 per cent down payment would now be required for the portion of the mortgage above the half-million mark.
- All high-ratio insured mortgages would now have to be stress tested using the five-year posted rate (qualification rate).
- The elimination of low-LTV insurance for certain mortgages.

In 2018,

- The Stress Test Regulation under the B-20 Guideline came into effect, which required potential borrowers (even those with uninsured mortgages) to qualify for underwriting using the higher of their contracted mortgage rate + 200 bps or the five-year benchmark fixed-rate published by the Bank of Canada.
- Federally regulated financial institutions were disallowed from arranging (or appearing to arrange) a mortgage or combination of mortgages secured by the same property that would circumvent the maximum LTV ratio as defined in a lender's underwriting policies or legal requirements.
- The B-20 Guideline also introduced greater due diligence, including the intended use of loan (e.g., purchase, refinancing), type of purchase (owner-occupied, recreational, investment, etc.), and type of refinancing (if applicable).

As can be seen from the previous list, there have been a substantial number of changes and modifications for lenders and consumers in the past decade. There continues to be a considerable amount of commentary on more recent changes, especially the stress tests under the B-20 guideline.

Given the significant amount of policy and regulatory changes, the federal government would do well to provide a comprehensive and transparent analysis of the effects of the changes made to date. CMHC has set an impressive standard of transparency in their risk management practices, including the release data that stress tests its own balance sheet in various scenarios. The Department of Finance, in conjunction with CMHC and OFSI, would do well to incorporate a similar ethos of transparency of past regulatory and policy changes. Stakeholders and the public would be well-served by having the opportunity to engage with public evidence and analysis. A June 10, 2019 release by OSFI, which detailed some of the impacts of the B-20 was a positive step.[10]

TAX INCENTIVES

The federal government also provides several tax incentives to homeowners. Published annually, the Tax Expenditure report estimates the foregone revenue from different tax policies.[11]

The table below details the foregone revenue from housing tax policy.

By far, the most significant incentive provided by the federal government is the non-taxation of capital gains on principal residences. The First-Time Home Buyers' Tax Credit offers a $5,000 income tax credit for buyers when they purchase a home.

In Budget 2019, the government announced an increase in the limits on withdrawals from the Home Buyers' Plan from $25,000 to $35,000, the first increase in around 10 years. With the advent of the Tax Free Savings Account, some financial advisors have suggested that the Home Buyers' Plan had become a less relevant down payment saving program, due to its restrictions and repayment provisions. The increase in the Home Buyer's Plan will provide more flexibility and options to those saving for their first home.

A First-Time Home Buyer Incentive was also announced. According to the government, "eligible first-time home buyers could share a part of the cost of buying a home with the Canada Mortgage and Housing Corporation (CMHC). For eligible buyers, the program would both reduce the size of their insured mortgage and lower monthly mortgage payments." This incentive would be equivalent to five per cent of the value of the home, rising to 10 per cent if the home purchased is newly-built.

To qualify for the program, family income must be $120,000 or less, and the amount you can borrow is limited to four times your salary. As a result, the maximum house price under this program is around $505,000, assuming a five per cent down payment. With the benchmark price of an apartment at $664,200 in Greater Vancouver[12], this program's applicability is likely limited to a small number of first time home buyers who could generally already qualify and afford to purchase their first home. The program is expected to be launched in September 2019.

($M)	2016	2017	2018	2019
First-Time Home Buyers' Tax Credit	115	110	110	110
Non-taxation of capital gains on principal residences	7,900	7,565	5,335	5,960
Home Buyers Plan [11]	n/a	n/a	n/a	n/a
Total	**8,015**	**7,675**	**5,435**	**6,070**

FEDERAL ROLE IN
HOUSING SUPPLY

In March of 2019, the Governments of Canada and British Columbia announced an Expert Panel on the future of housing supply and affordability. When announcing their intention to launch a panel, the work of the panel would be to:

…Examine housing trends for rental and homeownership, exploring what could be done so British Columbians can have further access to housing that they need and can afford. The Expert Panel will be comprised of leaders and specialists in a range of fields with relevant expertise who will be jointly selected by Canada and British Columbia in the coming months.

The Expert Panel will consult with stakeholders to identify and evaluate measures that could build on recent investments and initiatives to increase the supply of housing in British Columbia to meet demand. The Panel will also identify additional measures that could be undertaken to deter unwarranted demand.[13]

The following section offers a few ideas for consideration the federal government could undertake to support the availability of housing options in Greater Vancouver.

LEVERAGING AND ALIGNING FEDERAL HOUSING AND TRANSPORTATION INVESTMENTS

There is wide-ranging literature noting that key factors exacerbating affordability challenges are related to local constraints on supply and zoning. Research from the C.D. Howe Institute estimates that “zoning regulations, development charges and housing limits in and around southern Ontario’s Greenbelt have added around $168,000 to single-family houses in the Greater Toronto Area and about $644,000 to the cost of others in Vancouver.”[14]

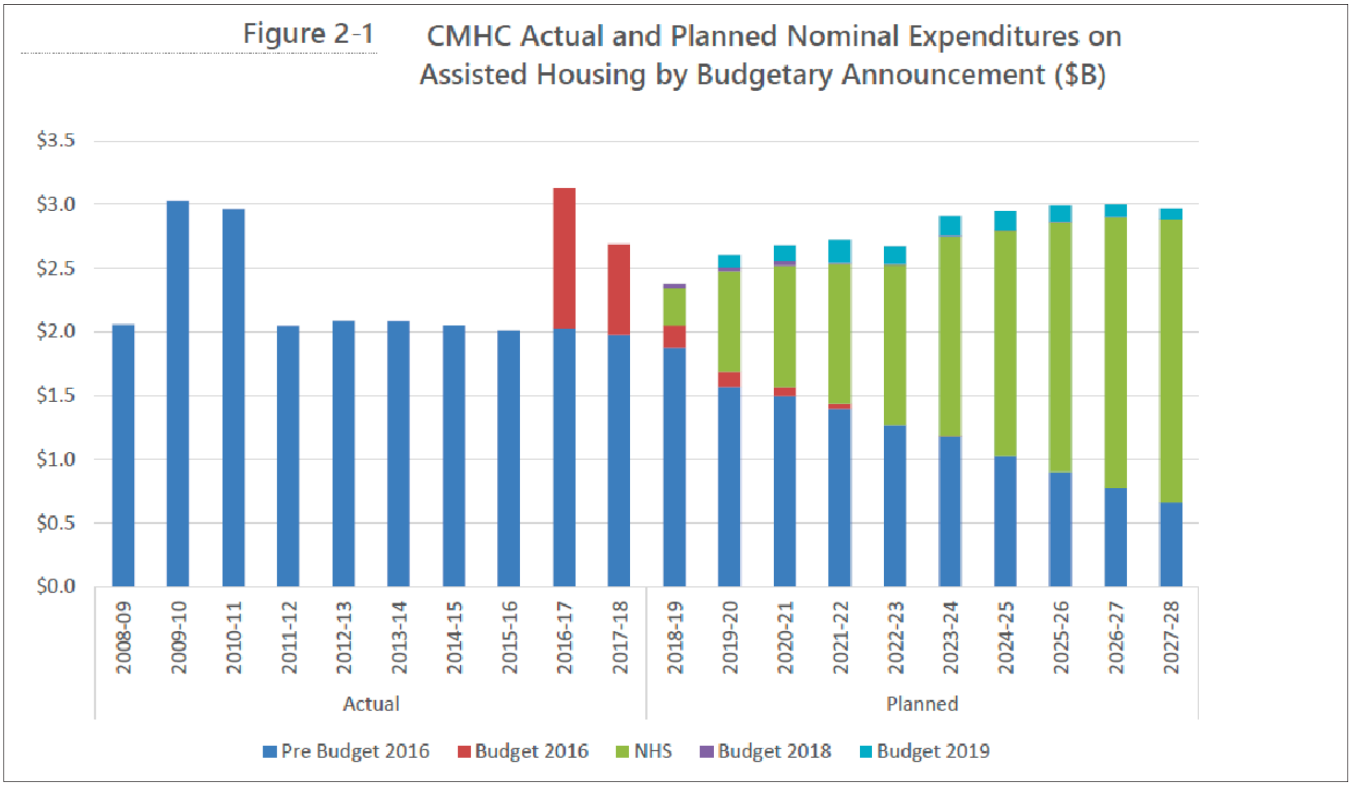
Given that these issues fall under local and provincial authority, the federal government has traditionally chosen not to influence these policies. That said, they have not been shy in some other areas of policy to seek to effect provincial or local affairs. Given the gravity of the housing situation, in Greater Vancouver and some other urban centres, Canada should reassess their hands-off approach. The federal government has two key levers that could provide both a carrot and a stick in unlocking additional homes of all type and tenure: the National Housing Strategy and public transit investments.

The National Housing Strategy (NHS) provided new funding for housing affordability programs over its ten-year term from 2018-19 to 2027-28. Calculations by the Parliamentary Budget officer, based on CMHC data, estimate an “average of $2.8 billion/year on assisted housing programs over the ten-year term of the NHS.”[15] Transfers to the provinces and territories, support for federal community housing, and direct support for new construction and renovation totals $22.8 billion.

Over the last 20 years, the federal government has substantially increased funding for public transit. The current government’s Investing in Canada Plan will invest $25.3 billion over the next decade, including $5 billion invested by the Canada Infrastructure Bank. This is on top of $3.4 billion over three years invested through the Public Transit Infrastructure Fund in 2016.

Public transit ridership in the region is exploding, with TransLink reporting total boardings up 7.1 per cent in 2018 — the largest increase in the authority’s history. Greater Vancouver residents increasingly desire to live closer to public transit. A recent Ipsos poll indicated that 80 per cent want more housing options close to transit hubs.[16]

Over the next decade, funding through the National Housing Strategy and public transit funding (not including the Canada Infrastructure Bank) is estimated to be an average of $5.3 billion per year. Aligning these two major investments could provide many benefits in addition to increased housing availability and affordability, such as reducing greenhouse gas emissions (GHG) and congestion. Many commentators note the substantial environmental benefits from integrating land use decisions and transit investments. For example, California’s Sustainable Communities Act (Senate Bill 375) mandates that local governments develop environmentally appropriate plans that link regional transportation, land use, housing, and climate change together. Regional land use and transportation planning have been increasingly coordinated in recent years in Greater Vancouver, including agencies responsible coordinating long-term planning efforts.



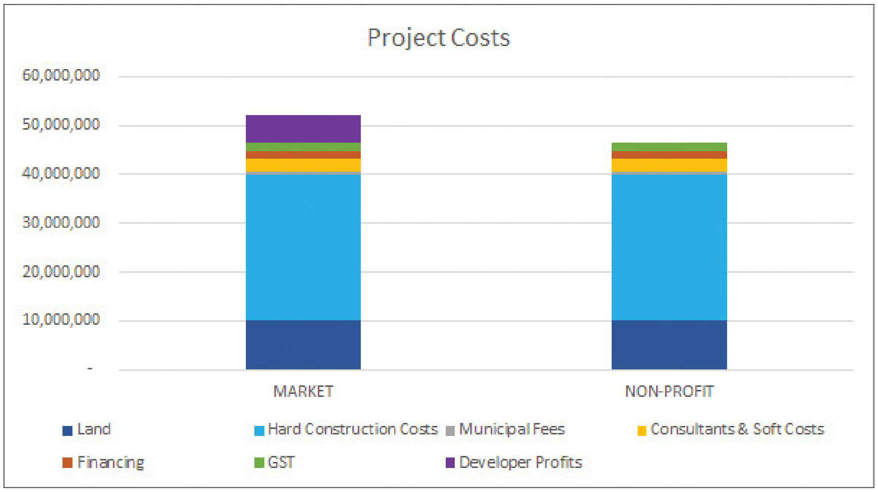
One issue has been translating good planning down through to local decision making. One useful tool, used by local transportation agency, Translink has been to develop transit-oriented community guidelines to guide transportation decisions. Additionally, there are now Supportive Policy Agreements, such as the one signed by TransLink and the City of Vancouver for the Millennium Line Broadway extension project.[17] The objectives of the agreement are broadly to support the regional and local plans related to transportation as well as encouraging the new supply of housing options adjacent to the transit extension.

Given the large federal investments and the shared climate priorities of the various jurisdictions, the federal government should consider the role in encouraging effective land use and transportation decisions. There are many options the government could consider:

- Work within existing program, such as the Rental Construction Financing initiative, to provide preferred terms/rates to projects that are within a certain distance from a current or planned frequent transit network.
- Consider ways to entice and support transit-oriented developments at underutilized rapid transit stations.
- Top-up federal cost-share ratios for rapid transit projects, currently up to 50 per cent of non-land related capital costs, by a modest percentage for projects that meet or exceed newly set housing targets.
- Utilize a more aggressive approach to transit funding that would leverage contributions to local rapid transit projects to require certain housing targets, using a tool similar to the supportive policy agreements.

A more cautious first step would be to undertake a study, focused on metropolitan areas with housing availability constraints, on the effects of previous federal public transit investments on unlocking housing supply. Another positive step would be for CMHC and Infrastructure Canada, other federal agencies, the provincial government and local housing and transportation agencies to coordinate their efforts in Greater Vancouver within current programming.

RECOMMENDATION: Align the National Housing Strategy and public transit funding and explore options to encourage additional housing units near rapid transit through supportive land-use policies.



Removing GST Reduction of Monthly Rent : Vancouver Example

MARKET	3.04%	NON-PROFIT	3.33%
MARKET w/incentives	3.88%	NON-PROFIT w/incentives	6.06%

Incentives for Market are preferred interest rates & amortization
Incentives for Non-Profit are no land cost, preferred interest rates & amortization

TAX POLICY

This paper has detailed several personal tax credits and benefits related to homeownership but opportunities remain to improve the tax treatment to incentivize rental housing. The Liberal party's platform in the 2015 election included a commitment to provide a full rebate or an exemption of the GST on new capital investments in purpose-built rental housing.

There is broad support across industry and non-profits for this policy change, which would go a long way to making more rental housing viable and affordable. A 41-unit purpose-built rental project studied by LandlordBC estimated that removing the GST could reduce hard costs by six per cent and four per cent for hard and soft costs combined.[18] The table about shows another 117-unit project developed by Catalyst Community Development Society and Marcon in the City of Vancouver further showed how removing the GST, could lead to a reduction in monthly rents of between 3.04 and 6.06 per cent, depending on overall project costs.

Removing the GST could meaningfully assist in making purpose-built rental projects economical and provide lower rental rates for affordable housing projects. If the government was not inclined to remove the GST entirely, it could consider removing the GST on the land value and instead only apply to the new building/housing units.

Other tax-based incentives that could be considered include:

- Inclusion of GST Input Tax Credits on the ongoing operation of Rental Housing.
- Deferral of capital gains tax and recaptured Capital Cost Allowance (CCA) upon the sale of a property and re-investment in new rental housing.
- Increase in CCA for all new rental housing including mixed-use buildings.
- The extension of eligibility for the use of CCA losses to all investors in new rental housing.

RECOMMENDATION: Review and reassess federal tax regime affecting purpose built and rental housing and report on options to incentivize the building of more rental units.

INCREASING AVAILABLE HOMES WITHIN CURRENT ZONING

Given the complex challenges to build enough supply and diversity of housing in the region, creativity is required to unlock new rental supply. Statistics Canada data, estimates that 56 per cent of Greater Vancouver owner-occupied households are either single detached or apartment-duplex, approximately 250,900 and 91,800 dwelling units, respectively.

CMHC estimates that 35 per cent of future demand [19] is expected to be in the form of rental demand. Estimates prepared for Greater Vancouver suggest that approximately 6,000 new rental housing units are required per year to catch up and satisfy demand. Data compiled by the Goodman Report there were only 1,896 units completed in 2018, and there are currently 5,629 rental units under construction, to be completed over the next few years. Further, there are 13,310 units either approved or proposed[20] in total, but there is no confirmation they will be constructed. While these figures are far off the 6,000 units per year required, it represents a significant improvement. Since 1991, CMHC estimates that we have lost over 6,000 purpose-built rental units, while our region's population has grown by nearly 1,000,000 people.[21]

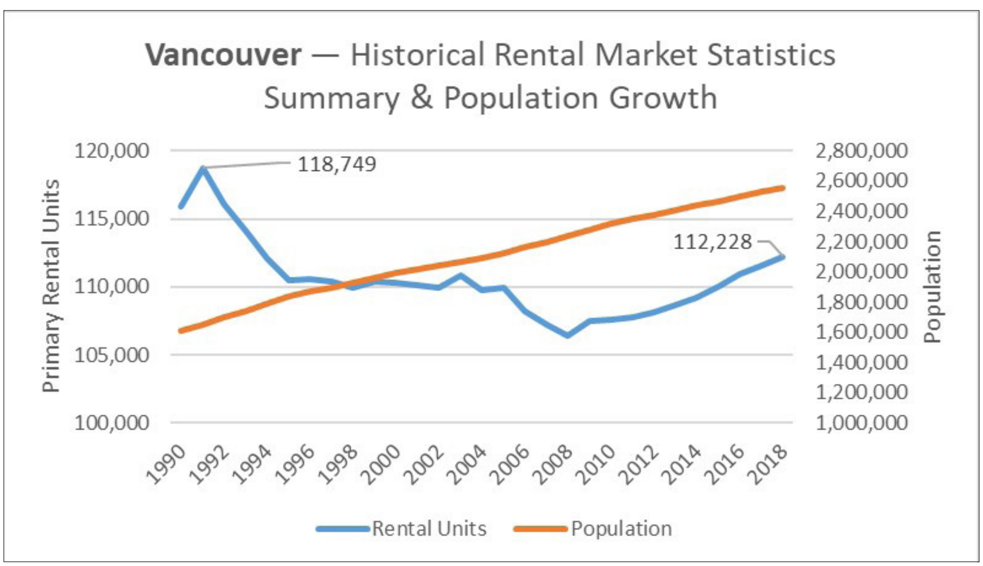
While there is a strong demand for rental housing, the difficult economics, relative lack of available and affordable land, and long and expensive permitting processes should have governments looking at out of the box solutions, modelled off of the Home Renovation Tax Credit.

One idea is to provide a tax credit or loan to homeowners to encourage building or renovating, for the purposes of making available to rent out, a secondary suite and/or alternative dwelling unit (for example, laneway home). Careful design features could be considered to ensure the required outcomes. Some examples of design factors to consider would be:

- Requiring a minimum timeframe to rent out the suite (e.g. five years).
- Maximum rental rates or increasing the generosity of the benefit for providing below-market rental rates.
- Targeting incentives to areas with a low vacancy rate.
- Ensuring the home is owned and occupied by the individual claiming the credit and rental income.

In addition to relieving pressure on vacancy rates and providing more availability of rental stock, the program could have the added benefit of ensuring that rental income is reported to taxing authorities. Any program would need to be carefully designed and studied to ensure good taxpayer value for forgone revenues.

> *"We have lost over 6,000 purpose-built rental units, while our region's population has grown by nearly 1,000,000"*



RECOMMENDATION: Consider a tax credit or loan program to incentivize additional rental units in current dwellings.

UNLOCKING FEDERAL LAND AND THE PROCEEDS FROM FEDERAL LAND

As part of the National Housing Strategy, the federal government announced a $200-million Federal Lands Initiative. This program plans to make available surplus federal land for affordable housing. According to CMHC, the discount on the property will depend on the level of social outcomes provided and the process is estimated to take 12 to 48 months.

The current process for how surplus federal property is made available for use as housing is:

1. Property is identified: Federal government departments and Crown corporations identify property that is no longer needed.

2. Due Diligence: Federal property owners perform necessary due diligence on the property (Indigenous consultations, environmental/physical condition assessments, etc).

3. Property Assessment: Federal property owners determine whether land and building(s) are suitable for use as affordable housing.

4. Property review: Federal lands Initiative team reviews evaluated properties and expresses interest in a suitable property. Re-zoning or pre-development work may be done at this stage.

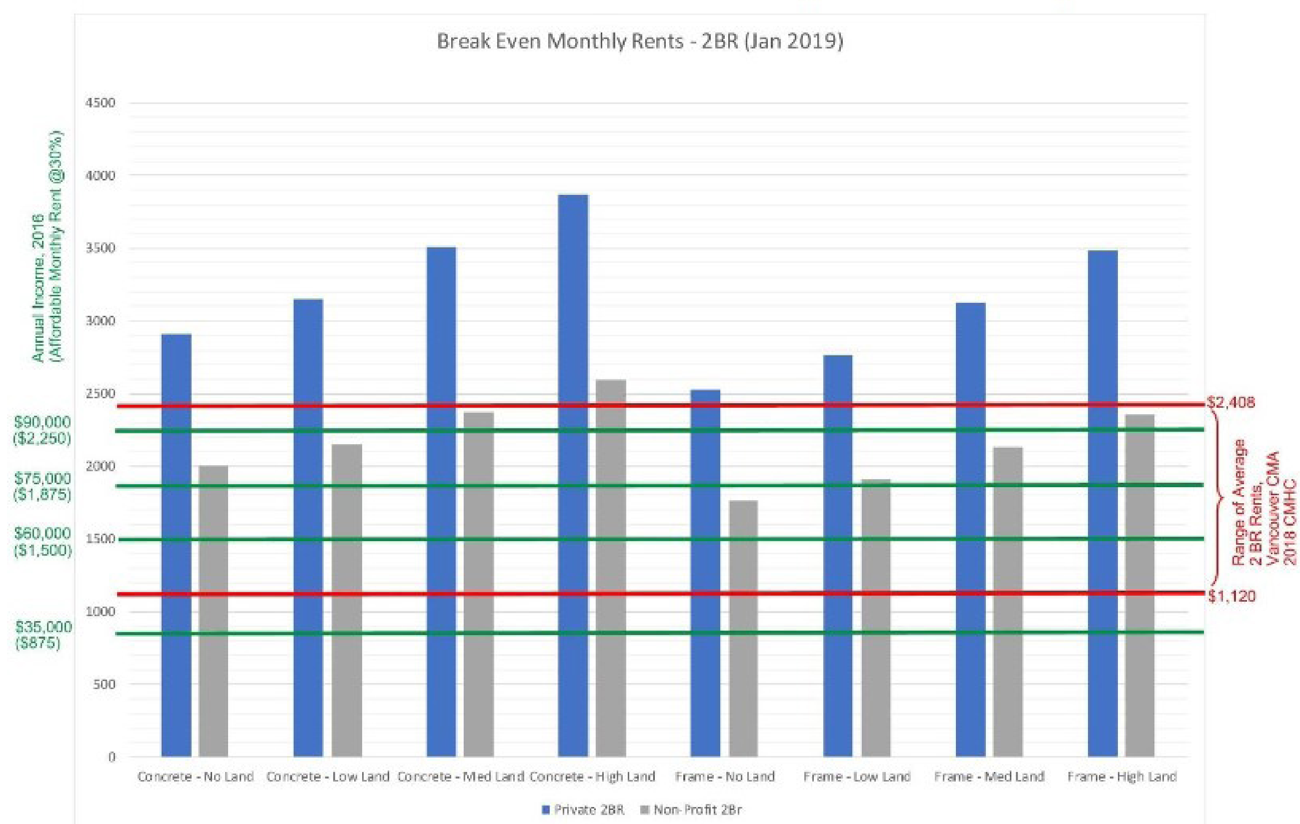
5. Property for Sale: Suitable property is made available for sale through the Federal Lands Initiative and posted to the CMHC-NHS website.

6. Applications Accepted: Housing providers apply to purchase property for an affordable housing project. Proposals are evaluated based on accessibility, affordability, environmental efficiency and community need.

7. Project Selected: Winning application is selected and the property is sold at discounted to no cost. Cost is based on the project's social outcomes, proponent experience and project proposed. Agreements are signed to ensure the property is developed and maintained as affordable housing for no less than 25 years.

8. Housing is built or renovated: Affordable housing is created or rejuvenated to the benefit of the community.

Exhibit 2: Financial Barriers to Affordable Rental Construction (Two Bedroom Units)



Even without including the cost of land, building new affordable rental housing in Greater Vancouver is a challenge. A recent study prepared for Metro Vancouver titled Reducing the Barrier of High Land Cost, provided a sobering assessment of the prospects of creating new rental units at affordable rates, defined as 30 per cent of gross income.[22]

The study specifically dove into different income bands and assessed the financial barriers to different forms of construction by private and non-profit housing providers. In nearly all cases, it was not possible to build units at affordable rents for the median Greater Vancouver income of $75,000. The study noted that free or very low-cost land was required, and, for some incomes, still not enough to ensure affordability. Making available federal lands for rental development in Greater Vancouver through the Federal Lands initiative would be beneficial.

Given the stark need for land to be made available for rental housing, the government could consider, in jurisdictions where housing affordability is particularly acute, requiring that departments justify why underutilized properties should not be transferred instead of land needing to be declared "surplus" by the department.

Currently the federal government, through the Canada Lands Corporation (CLC), along with various partners, is developing two prominent properties in the city of Vancouver: the Heather Street Lands and Jericho Lands. The current proposal for the Heather Street Lands includes providing a range of housing types for mixed incomes. The planning process for the Jericho Lands is just beginning. There is potential that these developments will be quite profitable. The government could consider reinvesting Canada Lands Corporation's portion of profits from developments to housing needs in the region.

SOME ADDITIONAL COMMENTS

While not the direct focus of this brief, we want to make two additional comments. First, governments and citizens need good, publicly available data and analysis on housing. While housing issues have consistently been important, public consciousness and attention to housing have significantly increased, especially as housing prices rose. Investing in good housing data is one of the best things the federal government can do to serve the public interest. It will support good decision making and enable innovative thinking among relevant stakeholders, including the media and academics. Through the National Housing Strategy, the government made a significant investment in data with over $200 million over 10 years. While it is not headline-grabbing, the data produced and analyzed by the government can support productive solutions and improve discourse on housing issues.

Second, there remains significant debate about the role of non-resident ownership of real estate in Greater Vancouver (and across Canada) and the resulting contribution of those owners to rising housing prices. Without reigniting the debate in these pages, there is a clear role for the federal government to bridge the gap between the two sides of that debate.

There is risk in both igniting the flames of the debate and ignoring it entirely. If the issue is ignored, there is a risk that public support for immigration and international students, who are required for the future growth and prosperity of the region, will decrease. We see a clear federal role in providing good data, ensuring sufficient enforcement, compliance, and reviews of tax laws, and coordinating with jurisdictions around the world to provide insights on trends and efficacy of policy actions. Recent action taken with the assistance of increased data from the province to enhance tax compliance has been a positive step.

RECOMMENDATION: Consider design improvements to the process to potentially unlock more federal land and focus resources and potentially mandate of Canada Lands to consider how profits might be used to increase the availability of rental and affordable housing units.

CONCLUSION

The lack of available and affordable housing is a persistent challenge in many communities across Canada but particularly acute in select urban centres, including Greater Vancouver. Housing affordability earns a “C” grade and ranked 12th out of 15 comparative jurisdictions in the 2018 Greater Vancouver Economic Scorecard, with businesses now seeing housing as a key challenge for attracting and retaining workers. The lack of secure, available, and affordable housing options is negatively affecting the future economic growth of Greater Vancouver and making it particularly difficult to attract and retain talented young workers.

While provincial and municipal governments are responsible for many aspects affecting the housing market, the federal government controls several key levers including, monetary policy, mortgage financing rules, loan insurance, and tax policy

The federal government launched an Expert Panel on the future of housing supply and affordability, with a mandate to build on recent investments and initiatives to increase the supply of housing in British Columbia. Given the affordability issues and demographic shifts of the population towards more urban centres, especially in land-constrained regions like Greater Vancouver, this is a laudable goal.

Some examples that should be considered are coordinating federal housing and transit investments, changes to the Income Tax Act to support new rental construction, exploring creative ways to encourage new rental units within existing zoning, and doubling down on efforts to unlock federal lands and the proceeds from federal lands to support regional housing investments.

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