



Finding a Place to Call Home

Housing Young Families in Canada's Least Affordable Cities

Bhav Bansi – Privy Council Office

Katherine Chan – Department of Finance

Megan Bowers – Innovation, Science and Economic Development

Ruby Sarkar – Employment and Social Development Canada

Canada 

The Policy Problem

Housing in a number of Canadian CMAs has become increasingly unaffordable for many young, middle-class families.

Challenges for the Federal Government

1. Housing market conditions differ substantially across the country, making a universal approach difficult
2. Lower house prices contribute to improved affordability, but will be considered a loss by many homeowners
3. Housing affordability is affected by many factors influencing supply and demand – no simple or single solution can address all these in the short to medium term
4. Provincial and municipal governments play a major role in housing policy, requiring significant coordination and engagement in setting and implementing policy

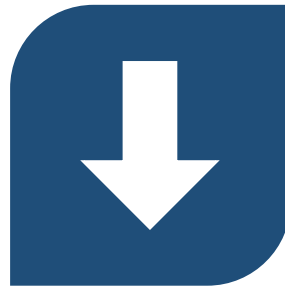
Principles for Policy Action



AVOID
INCREASING
HOUSEHOLD
DEBT



ENCOURAGE
THE "RIGHT"
SUPPLY



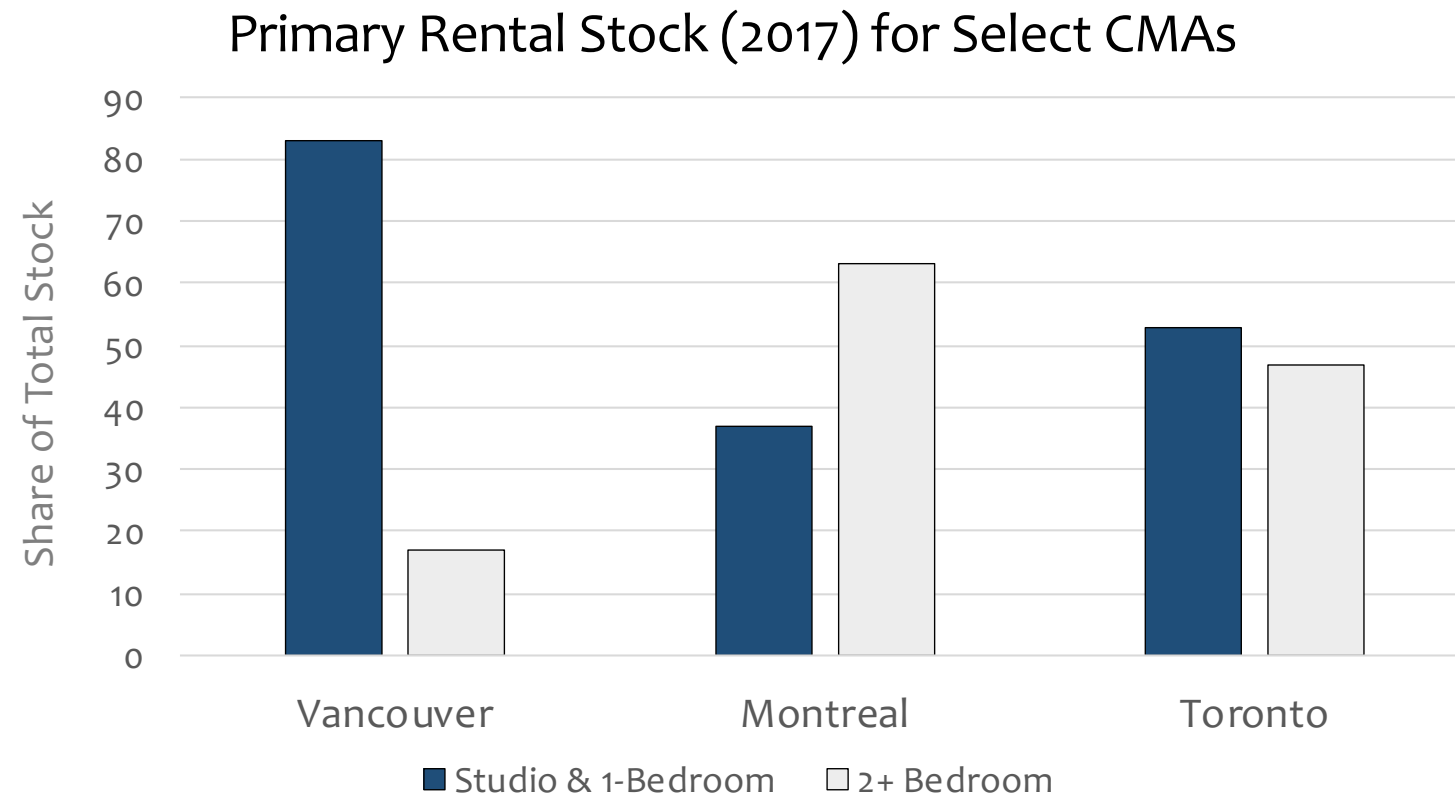
DISCOURAGE
DISTORTIONARY
DEMAND

Our Plan

1. Incentivizing family-oriented rental units through GST Rebate
2. Leadership on Speculation Tax for large CMAs

Nature of the Challenge in BC

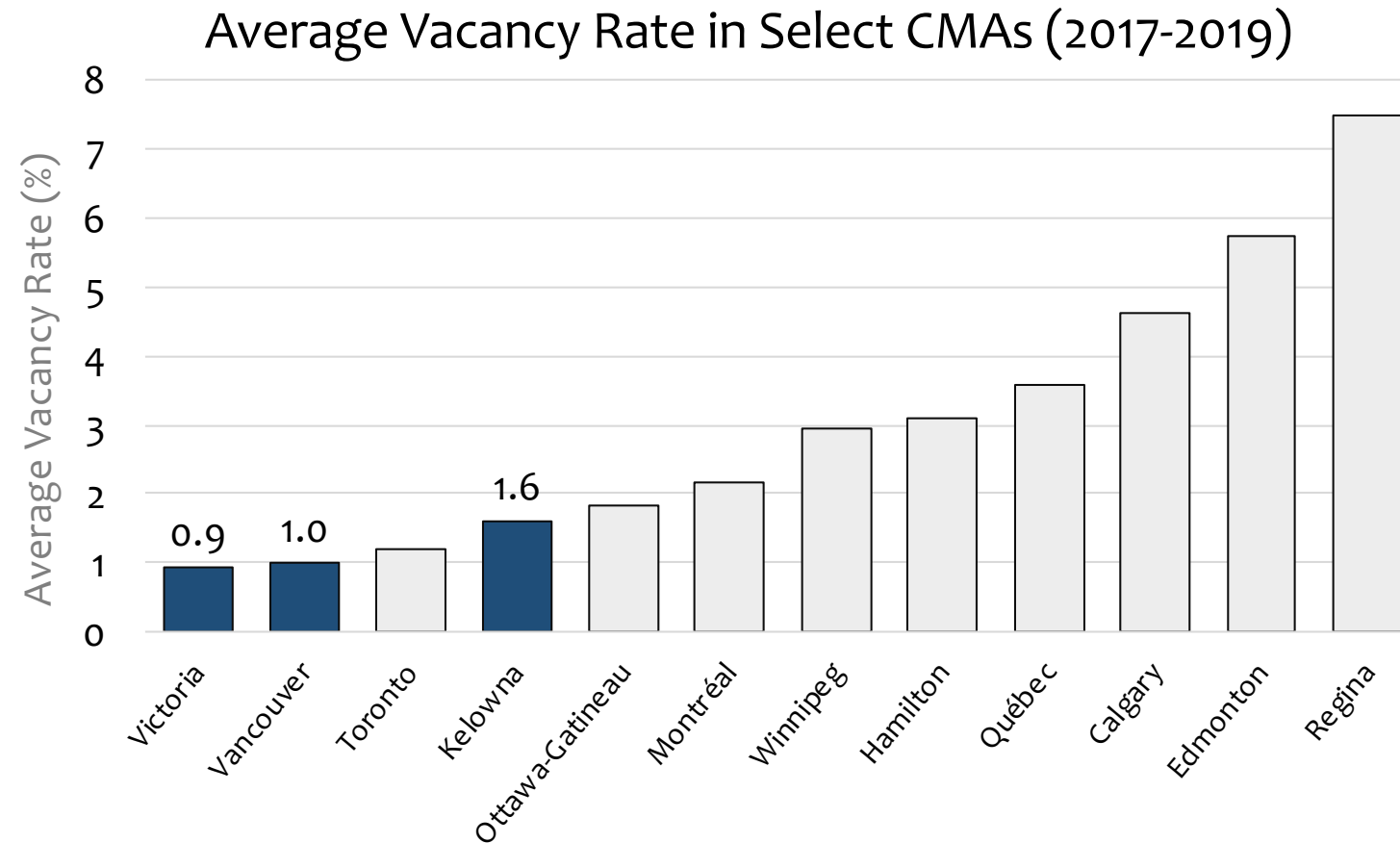
INADEQUATE SUPPLY OF FAMILY-ORIENTED UNITS



Source: Room to Grow: Building Better Rental Stock for Vancouver Families by Alison Butler, MPP 2018

Nature of the Challenge in BC

TIGHT RENTAL MARKETS

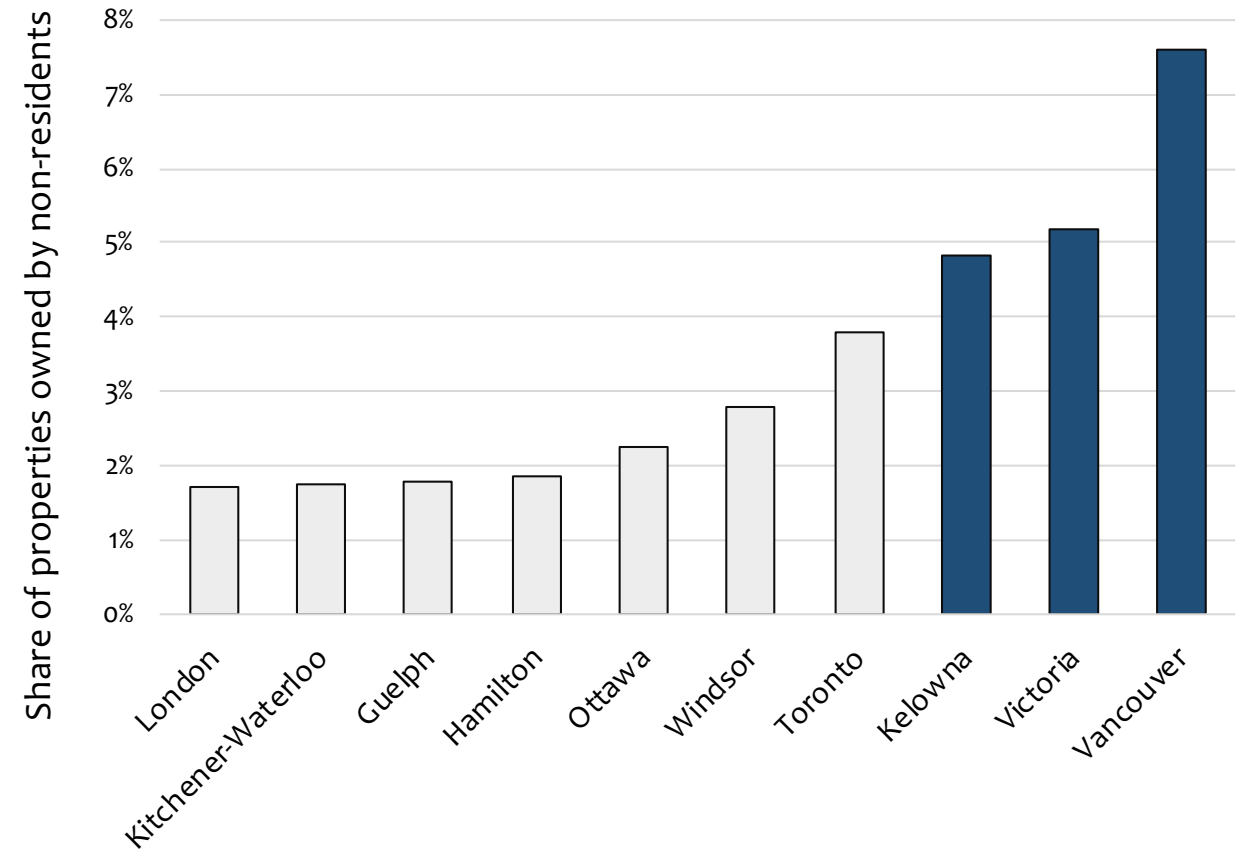


Nature of the Challenge in BC

FOREIGN MONEY AND SPECULATION

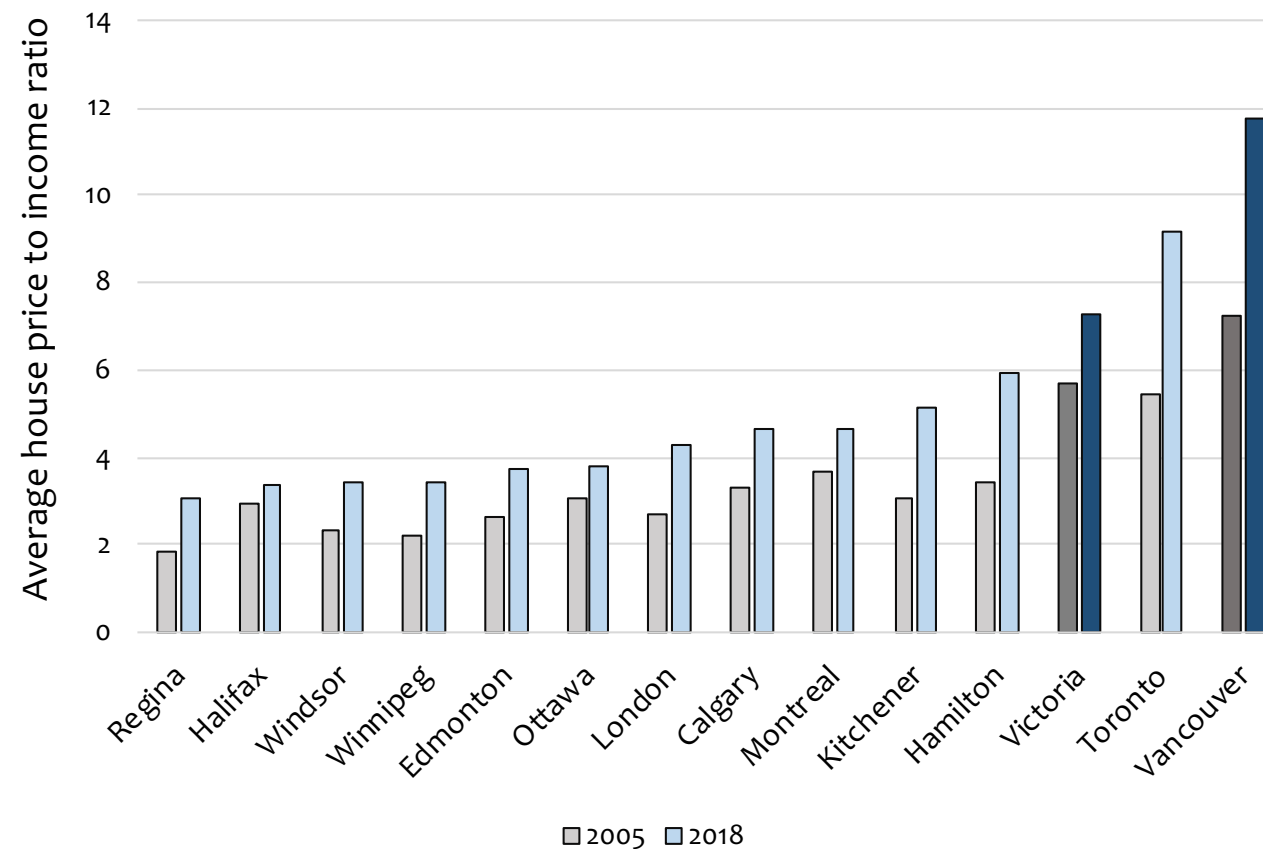
- Important driver of unaffordability, in Vancouver especially
- Increases competition for young families - and puts them at a disadvantage
- Helps create speculative expectations

Non-resident Ownership, select CMAs, 2018 (CHSP)



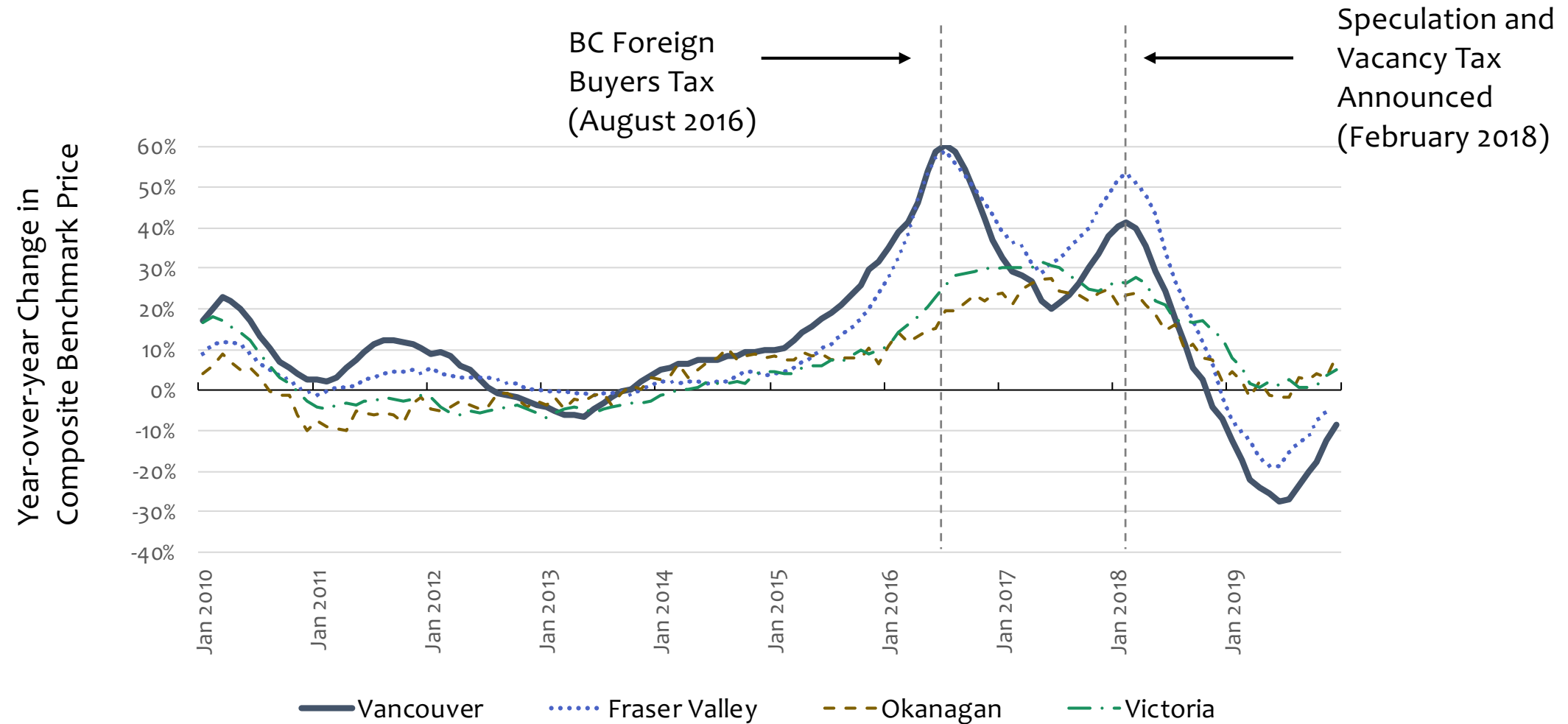
Nature of the Challenge in BC

EXTREME UNAFFORDABILITY IN THE OWNERSHIP MARKET



Nature of the Challenge in BC

VANCOUVER HOUSING MARKET IMPACTS OTHER BC MARKETS: RIPPLE EFFECT



Source: CREA

Existing Policies: BC

PROVINCIAL AND MUNICIPAL POLICY ACTIONS

Supply-side Interventions

Demand-side Interventions

Provincial

- | | |
|--|--|
| <ul style="list-style-type: none">• Investments in social and supportive housing• Affordable home ownership program | <ul style="list-style-type: none">• Tackling money laundering• Foreign Buyers Tax• Speculation and Vacancy Tax• Increased property transfer tax on high-end homes |
|--|--|

Municipal

- | | |
|---|---|
| <ul style="list-style-type: none">• Short-Term Rental Tax (Airbnb in Vancouver) | <ul style="list-style-type: none">• Empty Homes Tax (Vancouver) |
|---|---|

Existing Policies: Federal

FEDERAL POLICY ACTIONS

Supply-side Interventions

Demand-side Interventions

National Housing Strategy

- Supporting Northern Housing
- Investments in Affordable Housing
- Canada Community Housing Initiative

- Canada Housing Benefit
- Implementing new measures to counter mortgage fraud

Other

- New Homeownership GST/HST Rebate

- Several iterations of Stress Test
- Working Group for Money Laundering and Tax Evasion

Our Plan: Key Considerations

Objectives	Criteria
Effectiveness	Increasing affordability for young middle-class families in CMAs
Administrative Ease	Difficulty of implementation and administrative cost
Equity	Addresses the needs of young middle-class families (horizontal equity) and has impacts across other income levels of housing need (vertical equity)
Political Feasibility	Provincial buy-in and public support
Budgetary Impact	Net revenue implications



AVOID
INCREASING
HOUSEHOLD
DEBT



ENCOURAGE
THE "RIGHT"
SUPPLY



DISCOURAGE
DISTORTIONARY
DEMAND

Policy Options

- | | |
|--|-----------------|
| 1. First-Time Home Buyers' Incentive Enhancement | Not Recommended |
| 2. Family-Oriented Rental GST Rebate | Recommended |
| 3. Leadership on Speculation Tax for Large CMAs | Recommended |

Option 1: First Time Home Buyers Incentive Enhancement

- Amend eligibility in targeted CMAs by increasing maximum household income threshold to \$160,000 and borrowing of up to 5x income
- Key Performance Indicators: Number of participants and change in median debt-income ratio
- Estimated cost: \$132 million over 10 years*

Advantages

- Existing program
- Assists with affordability
- CMAs are supportive

Disadvantages

- Potential to drive up demand and increase housing prices
- Encourages debt
- Still exclusionary of some homebuyers in some CMAs
- Provincial concerns

**Estimated from Parliamentary Budget Officer: Cost Estimate of Election Campaign Proposal*

Option 2: Family-Oriented Rental GST Rebate

- Enhancement of the GST New Residential Rental Property Rebate
- Extending eligibility to include developers building 2+ bedroom units at maximum \$850,000 price in select CMAs
- Key Performance Indicators: Number of participants and change in new 2+ BR rental units available
- Estimated cost: \$100 million/year*

Advantages

- Builds off existing program
- Targeted to increase rental supply of family-sized units
- Expected provincial support

Disadvantages

- Foregone revenue
- No guarantee that benefit will primarily reach target population

**Estimated from Canada Mortgage Housing Corporation, Housing Market Information Portal 2019*

Option 2: Family-Oriented Rental GST Rebate Costing

CMA	Estimated Number of Eligible Housing Starts	Total GST Rebate Cost
Vancouver	641	-\$27 million
Abbotsford-Mission	17	-\$1 million
Victoria	47	-\$2 million
Toronto	667	-\$28 million
Montreal	1,052	-\$45 million
Estimated Total Cost (2019)		-\$103 million

**Estimated from Canada Mortgage Housing Corporation, Housing Market Information Portal 2019*

Option 3: Leadership on Speculation Tax for Large CMAs

- Redesign of proposed speculation tax only for CMAs of Vancouver, Toronto, and Montreal
- Backstop design: empowers jurisdictions and offers flexibility
- Only applies to foreign owners and satellite families
- Key Performance Indicators:
 - Change in average house price
 - Change in average rent price

	Owner-Occupied	Rented	Vacant (for 6+ months)
Canadians	No Tax	No Tax	No Tax
Foreign Owners & Satellite Families	1%	No Tax	2%

Option 3: Leadership on Speculation Tax for Large CMAs

Advantages

- Empirical evidence of effectiveness
- Generates revenue
- Public support in relevant CMAs
- Backstop design allows some flexibility

Disadvantages

- Potential resistance from provinces
- Upfront implementation efforts

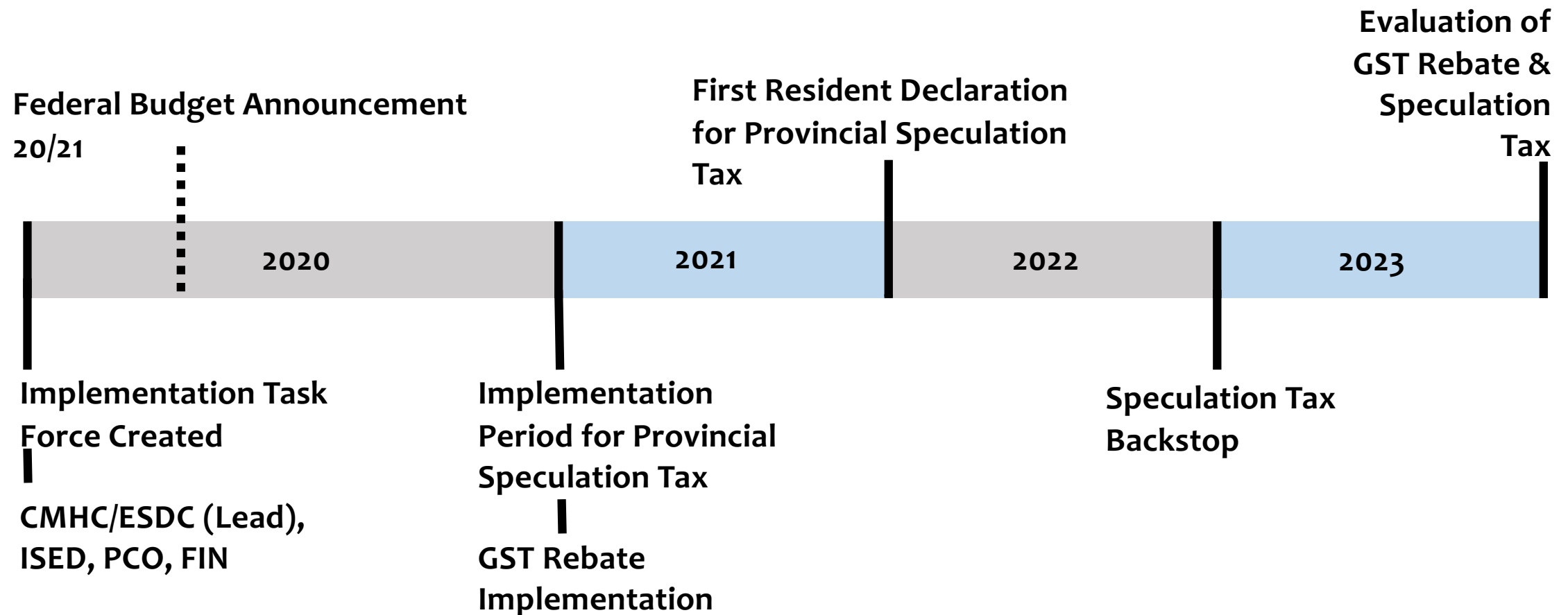
Option 3: Leadership on Speculation Tax for Large CMAs Costing

CMA	Estimated Number of Units Subject to Tax	Estimated Revenue to Province or Federal Government (in case of backstop)*
Vancouver	5,000	\$65 million
Toronto	6,000	\$45 million
Montreal	3,000	\$15 million
Estimated Total Revenue		\$125 million

**Conservative estimate – from British Columbia Ministry of Finance, Speculation and Vacancy Tax Technical Briefing 2019*

Implementation Plan and Announcements

FAMILY-ORIENTED RENTAL GST REBATE & LEADERSHIP ON SPECULATION TAX FOR LARGE CMAS



Risk Analysis

Severity	Risk	Mitigation Strategy
Family-Oriented Rental GST Rebate		
<u>Low</u>	Lack of developer uptake	<ul style="list-style-type: none"> • Work with provinces to identify supportive developers
<u>Low</u>	Developers pocket rebate	<ul style="list-style-type: none"> • Post-implementation evaluation in Year 4 • Canada Revenue Agency audits the current GST Rebate for non-compliance in the real estate sector
Leadership on Speculation Tax for Large CMAs		
<u>High</u>	Provincial pushback	<ul style="list-style-type: none"> • Emphasize strong public support
<u>Low</u>	Burden of annual declarations to identify Canadian and foreign owned households	<ul style="list-style-type: none"> • Reassure public based on B.C. experience

Communications Strategy

Overarching Messaging

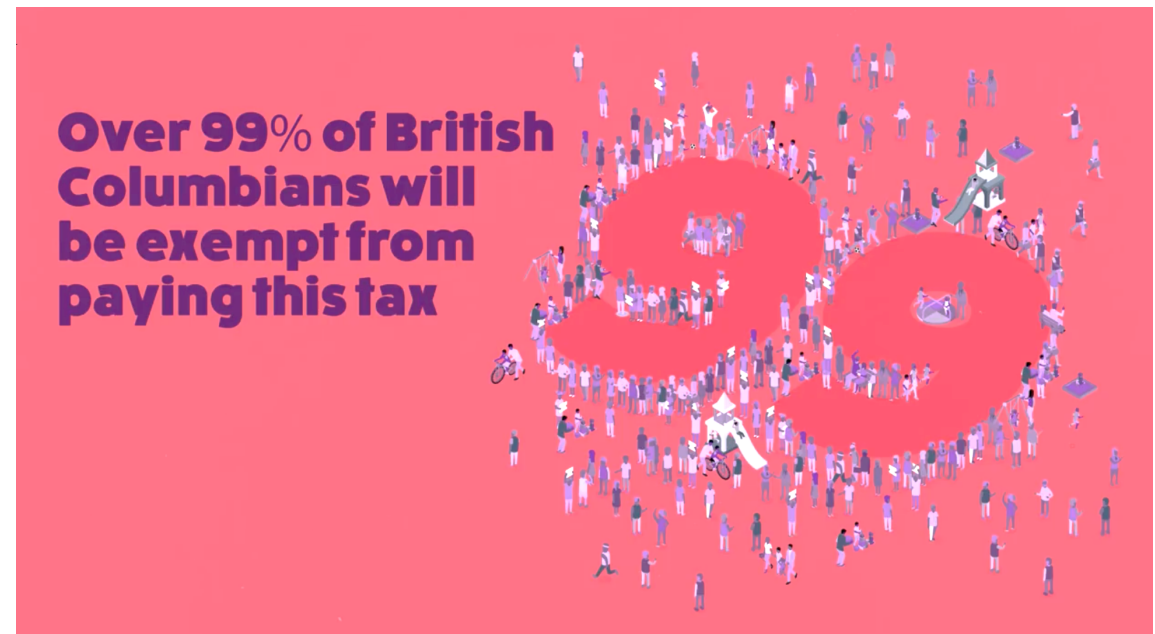
- Build on existing NHS branding and policies
- “Homes First”

Family-Oriented Rental GST Rebate

- Building the “right” supply

Leadership on Speculation Tax for Large CMAs

- Make housing more affordable for Canadians
- Evidence of effectiveness
- Canadians will not pay
- Campaigns in multiple languages



Final Recommendations

1. Incentivizing family-oriented rental units through GST Rebate
2. Leadership on Speculation Tax for large CMAs



AVOID
INCREASING
HOUSEHOLD
DEBT



ENCOURAGE
THE "RIGHT"
SUPPLY



DISCOURAGE
DISTORTIONARY
DEMAND

Appendix A - Jurisdictional Speculation Tax Comparison

BC Speculation and Vacancy Tax	Owner-Occupied	Rented	Vacant (unused for 6+ months)
Canadians	No Tax	No Tax	0.5
Foreign Owners & Satellite Families	1%	No Tax	2%

Current Federal Proposed National Speculation Tax	Owner-Occupied	Rented	Vacant (unused for 6+ months)
Canadians	No Tax	No Tax	No Tax
Foreign Owners & Satellite Families	No Tax	No Tax	1%

Proposed Speculation Tax for Large CMAs	Owner-Occupied	Rented	Vacant (unused for 6+ months)
Canadians	No Tax	No Tax	No Tax
Foreign Owners & Satellite Families	1%	No Tax	2%

Appendix B – Policy Evaluation Matrix

Objective	Criteria	First Time Home Buyers Incentive Enhancement	Family-Oriented Rental GST Rebate	Leadership on Speculation Tax for Large CMAs
Effectiveness	Increasing affordability for young middle-class families in CMAs	LOW	MEDIUM	HIGH
Administrative Ease	Difficulty of implementation and administrative cost	HIGH	HIGH	MEDIUM
Equity	Addresses the needs of young middle-class families (horizontal equity) and has impacts across other income levels of housing need (vertical equity)	MEDIUM	MEDIUM	HIGH
Political Feasibility	Broad Provincial support	MEDIUM	HIGH	MEDIUM
Budgetary Impact	Net revenue implications	MEDIUM	MEDIUM	HIGH