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STUDY ON HOUSING AFFORDABILITY – INTERIM FINDINGS

Report of the Standing Senate Committee on
Banking, Commerce and the Economy

The Honourable Pamela Wallin, *Chair*
The Honourable Tony Loffreda, *Deputy Chair*

DECEMBER 2023

STUDY ON HOUSING AFFORDABILITY – INTERIM FINDINGS



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THE COMMITTEE MEMBERSHIP

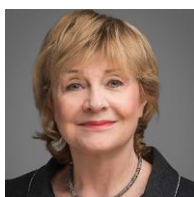


The Honourable
Pamela Wallin
Chair



The Honourable Tony
Loffreda
Deputy Chair

The Honourable Senators



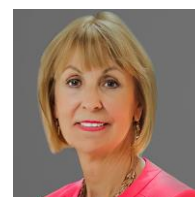
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Colin Deacon



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Elizabeth Marshall



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Iris G. Petten



Pierrette Ringuette



Hassan Yussuff

Ex-officio members of the committee:

The Honourable Senator Marc Gold, P.C., or Patti LaBoucane-Benson
The Honourable Senator Donald Plett or Yonah Martin

Other senators who have participated in the study:

The Honourable Rodger Cuzner
The Honourable Rosa Galvez
The Honourable Raymonde Saint-Germain

Parliamentary Information and Research Services, Library of Parliament:

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Brett Howard, Analyst

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Karine Déquier, Clerk
Osvaldo Lopes, Administrative Assistant

Senate Communications, Broadcasting and Publications Directorate:

Jérémie Spadafora, Communications Officer

ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Thursday, December 16, 2021:

With leave of the Senate,

The Honourable Senator Wallin moved, seconded by the Honourable Senator Quinn:

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to study matters relating to banking, trade and commerce generally, as described in rule 12-7(8); and

That the committee submit its final report no later than June 30, 2023, and that the committee retain all powers necessary to publicize its findings until 180 days after the tabling of the final report.

The question being put on the motion, it was adopted.

Gérald Lafrenière

Interim Clerk of the Senate

Extract from the *Journals of the Senate* of Tuesday, May 2, 2023:

The Honourable Senator Wallin moved, seconded by the Honourable Senator Verner, P.C.:

That, notwithstanding the order of the Senate adopted on Thursday, December 16, 2021, the date for the final report of the Standing Senate Committee on Banking, Commerce and the Economy in relation to its study on matters relating to banking, trade, commerce and the economy generally, as described in rule 12-7(10), be extended from June 30, 2023, to December 31, 2025.

The question being put on the motion, it was adopted.

Gérald Lafrenière

Interim Clerk of the Senate

INTRODUCTION

On October 5, 2023, the Standing Senate Committee on Banking, Commerce and the Economy resumed its study on housing, with a particular focus on housing affordability.

The Canada Mortgage and Housing Corporation (CMHC) estimates that, should nothing change in terms of rate of production in the housing sector, the stock of houses in Canada will increase by 1.7 million between 2022 and 2030, while the required increase in housing supply would need to go up by an additional 3.5 million beyond this projection to reach its affordability target. This means that the rate of production would need to more than triple to meet the affordability target.

The market is giving us signals right now that more has to be invested. The prices are rising in order to do that. At the same time, interest rates are rising, which are going to force additional savings. Markets are forcing an adjustment, however unpleasant that adjustment might be. [...] So there is not an easy solution to either building housing or making the investment in industry that we need in order to increase productivity in the future.

David Dodge, former Governor of the Bank of Canada

Over the course of seven meetings, the committee gathered recommendations from 13 witnesses and two written briefs on federal solutions for increasing housing supply in Canada. During the committee's study, the federal government released its 2023 Fall Economic Statement, which incorporated some of the suggestions made by the witnesses who appeared before the committee. These suggestions fell under four themes: alignment, innovation, people and capital. The committee asks that the federal government consider these when preparing its upcoming budget.

One of the challenges that I cannot believe how hard it is for some people to grip is people who live without a house are not homeless because of their ancestry or because of mental health or addictions or because they live in poverty. They are homeless because there is not enough affordable housing in their community. People do not choose homelessness.

The Honourable Sean Fraser, Minister of Housing, Infrastructure and Communities

ALIGNMENT

- 1. To encourage densification in urban centres, the federal government should consider taking actions such as attaching conditions to municipal funding for public transit that would require housing densification near those projects and waiving development charges on housing projects involving multi-unit rental buildings.**
-

Jon Love from KingSett Capital, Bob Dugan from CMHC and Randall Bartlett from the Desjardins Group recommended that federal funding for infrastructure projects should include conditions that promote housing densification, such as requiring municipalities to end exclusionary zoning and move to by-right approvals along public transit corridors.

When you look at places like Toronto and Vancouver, we estimate that 80% of the cost of a new unit is the land that the unit sits on, whereas in a place like Montreal, it's closer to 30%. When land accounts for that much of the price, the only solution is density. You have to get more people per cubic foot, not per square foot, to bring down the cost of that very expensive land and make it more affordable.

Bob Dugan, Canada Mortgage and Housing Corporation

Mr. Love also spoke about how municipal development charges are a huge burden on developers, being as high as \$148,000 for a three-bedroom apartment, in a similar way the Goods and Services Tax charge was previously for rental buildings. Mr. Love and Mr. Bartlett agreed that development charges need to be waived, lowered or somehow restructured to support the construction of greater density rental buildings. Mr. Bartlett also noted that this could result in lost revenue for municipalities.

We see in some of our larger cities that we penalize density. Flipping that on its head ensures that we can build more and increase density of our major cities in Canada.

Randall Bartlett, the Desjardins Group

- 2. The federal government should take a leadership role in establishing a permanent roundtable for all stakeholder groups for the purpose of reducing regulatory and administrative barriers in adding to the supply of affordable housing. The roundtable should include provincial governments, municipal governments, First Nations, academia and industry and advocacy groups.**
-

Although the Honourable Sean Fraser, Minister of Housing, Infrastructure and Communities was not supportive of creating a single entity tasked with identifying the problems and solutions related to housing supply, some witnesses advocated for a permanent roundtable that included all stakeholder groups.

Jon Love from KingSett Capital stressed that, when it comes to producing affordable housing, there is both will and capital available. However, uncertain, misaligned or overly burdensome regulatory environments often stall or prevent affordable housing projects from reaching completion. Bob Dugan from CMHC agreed that regulatory burdens should be decreased to improve housing affordability, citing a recent Statistics Canada survey that identified a relationship between low housing affordability and regulatory burdens at the municipal level. Witnesses also stressed that many of the solutions already in place, such as the National Housing Strategy, should be reviewed to ensure that policy intent is fully achieved, and that administrative burden is reduced.

Mr. Love recommended that all levels of government align, perhaps through a roundtable, to focus on short, medium and long term regulatory and administrative solutions. Witnesses noted that shorter term solutions might include increased flexibility and fewer restrictions to allow for the conversion of existing spaces such as shopping malls or office buildings and the addition of units to already existing structures such as basement apartments.

A written submission from Questrade Financial Group suggested that such a roundtable could also conduct semi-annual reviews of Canada's regulated mortgage ecosystem and develop a framework to assess proposed solutions to improve housing affordability in Canada and provide better data.

With respect to whether CMHC should lead the coordination of stakeholders, Carla Staresina from CMHC stated that CMHC does play a coordination role to a certain extent, for example through its co-investment fund which takes investments from all levels of government. She further indicated to the committee that CMHC could potentially improve in its coordinating role.

It is possible to deliver far more housing, far more quickly, if everybody — from the politician, to the regulatory environment, to the specific enabling legislation and every other piece of the puzzle — all got aligned around the same objective.

Jon Love, KingSett Capital

INNOVATION

- 3. As part of the permanent roundtable, the federal government should work towards the harmonization of building codes on an urgent basis to allow for innovation in the housing sector.**
-

Jon Love from KingSett Capital noted that innovation in the housing sector is very difficult as the differences in building codes and regulations, sometimes within the same city, prevent innovations, such as modular housing, from being implemented on a large scale.

We do have a lot of dysfunctionality that is standing in the way of innovation. The only way we can get to innovation in housing is not to have every housing be bespoke, with a carpenter measuring, cutting and nailing. There have to be manufacturing things and so on, which just do not work in Canada.

Jon Love, KingSett Capital

- 4. The federal government should focus on implementing and improving programs that increase productivity in the construction sector.**
-

From a broader and more long-term perspective, witnesses stressed the need for increased productivity in Canada to improve housing affordability. Witnesses explained that the current environment of low unemployment creates a situation in which the only way to reduce the cost of producing a home is to be more productive with the existing supply of labour and capital.

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Construction sector productivity has been lagging behind the general economy for about 20 years. From prefabricated homes to pre-approved plans made available by municipalities, there is a lot that can be done to improve construction sector productivity.

Randall Bartlett, Desjardins Group

There's been incredible innovation in home building over the last number of years. However, in my view, at its core, it's the industry that is most like the way it was 100 years ago.

The Honourable Sean Fraser, Minister of Housing, Infrastructure and Communities

Witnesses also noted that, compared to other sectors of the economy, the construction sector currently has relatively low productivity. Several programs, such as the Innovation Fund, are intended to help this issue. Improvements to these programs are needed to achieve the necessary increase in housing supply. Bob Dugan from CMHC noted that not having reliable supply chains is a further impediment to innovation in housing and federal leadership in that regard would promote innovation in the housing sector.

We don't have a lot of idle labour because the unemployment rate is so low. Interest rates have come up so it's expensive for builders who have to borrow money to build and material costs are high. There are just all these problems that make it very difficult right now. We have to find a way to do more with the existing labour force and capital that we have to improve the productivity in the construction sector.

Bob Dugan, Canada Mortgage and Housing Corporation

5. The federal government should work with stakeholders and Canadians to change current notions of social infrastructure and homes to normalize structures that are more compatible with higher density populations, including purpose-built rental units.

Bob Dugan from CMHC suggested that the federal government should incentivize the private sector to increase the stock of purpose-built rental housing to help increase affordability in Canada.

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Witnesses also spoke about the need for a shift in perspectives from Canadians in terms of what constitutes a home. Mr. Jon Love from KingSett Capital spoke about the culture of countries in Europe where less emphasis is placed on home ownership and where rental housing is well-accepted and normalized, noting that this model could help improve the impetus towards the densification of Canadian cities. He also noted that the traditional notions and regulations around what, for example, the construction of public schools, seniors' homes and daycares must conform to may no longer be feasible and that it might be necessary to adapt to existing infrastructure. As a result, these institutions may look a little different in the future.

Randall Bartlett from Desjardins noted that Desjardins has studied the possibility of converting existing office buildings into residential buildings. It estimated that, under the existing regulatory environment, only 10-20% of existing office space could be converted into homes. Mr. Bartlett promoted the notion of converting such spaces into congregate living spaces with centralized resources where kitchens and bathrooms might be shared among several individuals for such purposes as student accommodations or seniors' homes.

[...] maybe we have to start getting people used to the idea that living in such an expensive urban centre means more renting, and we have to accept that.

We have to also stop treating rental as a second-best option. It's not a second-best option; it's a perfectly legitimate way to house yourself. I think we have to promote that. We try to in our research and analysis, but that's a message that has to get across, absolutely.

Bob Dugan, Canada Mortgage and Housing Corporation

PEOPLE

- 6. To address the shortage of skilled labour, the federal government must attract immigrants that are trained in the skilled trades and provide support for domestic trade education programs, including provincial programs. As well, the supply of housing should be a consideration when developing immigration policies.**
-

Jon Love from KingSett Capital, Alex Ciappara from the Canadian Bankers Association (CBA) and Bob Dugan from CMHC agreed that to accelerate the construction of housing, Canada must prioritize attracting immigrants to the country with skilled trades and to develop a long-term strategy of encouraging Canadians to take up skilled trades. Mr. Love stated that Canada's housing shortage has been decades in the making and that with approximately 250,000 housing starts a year, Canada is only maintaining the existing stock of housing. He also suggested that Canada

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should develop a national strategy with the provinces and territories on skills training and the integration and interprovincial movement of skills and labour. Mr. Love also noted that young people in high school are not being presented with the benefits of being in a trade and the types of business opportunities that are available in this sector.

Bob Dugan from CMHC also highlighted that immigrants with skilled trades are needed to address the rapidly aging workforce in the construction sector.

The number one priority is the shortage of skilled trades. According to Statistics Canada, there are close to 64,000 vacant construction jobs in Canada, with a job vacancy rate of 5.1% as of August 2023.

Alex Ciappara, Canadian Bankers Association

With respect to higher levels of immigration contributing to housing demand, Mr. Dugan and Randall Bartlett from Desjardins agreed that the federal government must manage population growth so that it advances at a pace which is sustainable and does not further erode housing affordability. Mr. Dugan also indicated that it can be difficult to attract immigrants to Canada to address the labour shortage if the country does not have enough housing and infrastructure to accommodate them. David Dodge, former Governor of the Bank of Canada, and Mr. Bartlett mentioned that Canada should be reviewing the types of workers coming into the country and whether they can meet the needs of the housing market and improve Canada's average productivity.

CAPITAL

-
- 7. To improve the Canada Mortgage and Housing Corporation's housing programs, the federal government should continue to streamline its application process and support the construction of more social housing. It should also provide clarity to investors with respect to the Canada Mortgage Bonds program.**
-

While Bob Dugan from CMHC told the committee that there are programs in place, such as the Rental Construction Financing Initiative, that promote the construction of affordable housing, some witnesses suggested that improvements are needed to accelerate housing supply. Jon Love from KingSett Capital proposed that CMHC's loan approval process be simplified and accelerated, by having one application form that is approved in a 30-day period and by recruiting banks to implement some CMHC programs due to their greater reach and resources. Mr. Love also recommended that CMHC loans for purpose-built rental and affordable housing projects include federal loan guarantees and that some of these loans be provided at lower fixed interest rates,

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such as the Government of Canada bond rate less 1%, and for longer periods, such as a 20-year term with a 50-year amortization. Mr. Love emphasized that developers would benefit more from federal loan guarantees than additional tax incentives or free government land.

Mr. Dugan noted various programs that support affordable housing initiatives and suggested that the federal government should continue to invest in the non-profit housing sector to create affordable housing for low-income Canadians.

While interest rates are elevated — which has put pressure on the industry and halted a lot of activity — it's less about the level of interest rates than about the uncertainty of the interest rates.

Jon Love, KingSett Capital

Alex Ciappara from the CBA asked that the federal government remove any uncertainties with respect to the Canada Mortgage Bonds program, which generates funds for residential mortgage financing by financial institutions. He also mentioned that Canada's stock of social housing represents 3.5% of its total housing stock, among the lowest in the Organisation for Economic Co-operation and Development, and therefore suggested that more funding for the construction of social housing be considered.

The Honourable Sean Fraser, Minister of Housing, Infrastructure and Communities indicated that the federal government will be announcing new policies as soon as they are ready, as these programs need to be implemented as quickly as possible. Furthermore, he noted that when it comes to implementing the suite of federal housing measures, the federal government will be dependent on other levels of governments as well as private sector developers and non-profit organizations to build these housing units.

8. The Office of the Superintendent of Financial Institutions should review banks' capital adequacy requirements with respect to loans for multi-unit residential housing projects.

Alex Ciappara from the CBA stated that, in order for the banking industry to be able to provide more financing for housing, the Office of the Superintendent of Financial Institutions (OSFI) needs to review banks' capital adequacy requirements for multi-unit residential property and development construction projects, as banks are currently required to set aside more capital for these types of loans. He also suggested that OSFI avoid adding to the domestic stability buffer for Canada's six Domestic Systemically Important Banks, as it requires these banks to hold additional capital. Of note, Peter Routledge, the Superintendent of Financial Institutions, indicated that OSFI has begun to adjust its capital adequacy rules to address the banks' concerns.

[...]for banks with standardized models, they are required to set aside more capital for multi-unit residential property and development construction than for other types of real estate, despite the increased structural demand for residential property.

Alex Ciappara, Canadian Bankers Association

-
- 9. The federal government, through the Office of the Superintendent of Financial Institutions and the Financial Consumer Agency of Canada, should strengthen consumer protection and ensure that financial institutions are offering safe mortgage products to Canadians and providing fair and reasonable relief measures to help those in financial distress.**
-

Tiff Macklem, Governor of the Bank of Canada stated that one of the main reasons why the Bank of Canada maintained its policy rate at 5% in its most recent rate announcement, rather than increasing it, was the concern over the large proportion of mortgage holders that will renew their mortgages at much higher rates in the near future.

Structural supply shortages in our housing market are boosting prices for shelter.

Tiff Macklem, Governor of the Bank of Canada

With respect to variable-rate mortgages with fixed payments, Peter Routledge indicated that, from OSFI's perspective, it is a "dangerous product" because it can put a homeowner in a position of making mortgage payments that are less than the interest being charged, resulting in a growing mortgage balance and therefore a higher risk of default. He indicated that the work OSFI has done with the Financial Consumer Agency of Canada (FCAC) to provide relief options to consumers facing financial difficulties should lessen the incidents of delinquency if they are provided fairly.

We think the system would be healthier with less of that product. We immediately addressed it by changing our capital requirements for negatively amortizing mortgages. That may make the product less attractive to the borrowers.

Peter Routledge, Office of the Superintendent of Financial Institutions

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Alex Ciappara from the CBA explained that the lengthened amortizations that are occurring with variable-rate fixed-payment mortgages are temporary, as at renewal the amortization will revert to the original amortization period. It noted that banks are reaching out to consumers to provide them with options to manage the increase in mortgage payments, which will happen with both variable-rate and fixed-rate mortgages. It also acknowledged that OSFI has made variable-rate fixed-payment mortgages more expensive for banks to hold, which is a consideration for banks in a competitive financial service marketplace.

Questrade Financial Group also recommended that the federal government allocate adequate resources to the FCAC so that it can deliver objective and timely financial literacy programs to Canadians who are concerned about the rising cost of living and housing affordability.

10. The federal government should consider provincially regulated financial institutions and open banking when developing solutions for the housing crisis and to promote competition in the financial services sector.

Michael Hatch from the Canadian Credit Union Association stressed that the federal government needs to consider provincially regulated financial institutions and their role in a competitive financial services sector when developing policy to address housing affordability. To encourage competition, Questrade Financial Group recommended that an open finance strategy, which would include open banking, be swiftly implemented.

Competition should be the principle that underscores all policy that comes out of Ottawa so that ultimately, we can play our part in solving not just the housing crisis but the cost-of-living and affordability crisis that exists in the country as well.

Michael Hatch, Canadian Credit Union Association

APPENDIX A – Recommendations from Witnesses and Advice from the Committee

Alignment

1. To encourage densification in urban centres, the federal government should consider taking actions such as attaching conditions to municipal funding for public transit that would require housing densification near those projects and waiving development charges on housing projects involving multi-unit rental buildings.
2. The federal government should take a leadership role in establishing a permanent roundtable for all stakeholder groups for the purpose of reducing regulatory and administrative barriers in adding to the supply of affordable housing. The roundtable should include provincial governments, municipal governments, First Nations, academia and industry and advocacy groups.

Innovation

3. As part of the permanent roundtable, the federal government should work towards the harmonization of building codes on an urgent basis to allow for innovation in the housing sector.
4. The federal government should focus on implementing and improving programs that increase productivity in the construction sector.
5. The federal government should work with stakeholders and Canadians to change current notions of social infrastructure and homes to normalize structures that are more compatible with higher density populations, including purpose-built rental units.

People

6. To address the shortage of skilled labour, the federal government must attract immigrants that are trained in the skilled trades and provide support for domestic trade education programs, including provincial programs. As well, the supply of housing should be a consideration when developing immigration policies.

Capital

7. To improve the Canada Mortgage and Housing Corporation's housing programs, the federal government should continue to streamline its application process and support the construction of more social housing. It should also provide clarity to investors with respect to the Canada Mortgage Bonds program.
8. The Office of the Superintendent of Financial Institutions should review banks' capital adequacy requirements with respect to loans for multi-unit residential housing projects.

STUDY ON HOUSING AFFORDABILITY – INTERIM FINDINGS

9. The federal government, through the Office of the Superintendent of Financial Institutions and the Financial Consumer Agency of Canada, should strengthen consumer protection and ensure that financial institutions are offering safe mortgage products to Canadians and providing fair and reasonable relief measures to help those in financial distress.
10. The federal government should consider provincially regulated financial institutions and open banking when developing solutions for the housing crisis and to promote competition in the financial services sector.

APPENDIX B – Witnesses

Thursday, October 5, 2023

David Dodge, Senior Advisor, Bennett Jones LLP, and former Governor, Bank of Canada

Wednesday, October 25, 2023

Jon Love, Chief Executive Officer, KingSett Capital

Thursday, October 26, 2023

Randall Bartlett, Senior Director, Canadian Economics, Desjardins Group

Bob Dugan, Chief Economist, Canada Mortgage and Housing Corporation

Neil Levecque, Vice-President, Housing Operations, Canada Mortgage and Housing Corporation

Carla Staresina, Vice-President, Commercial Products, Canada Mortgage and Housing Corporation

Wednesday, November 1, 2023

Tiff Macklem, Governor, Bank of Canada

Carolyn Rogers, Senior Deputy Governor, Bank of Canada

Thursday, November 2, 2023

Peter Routledge, Superintendent, Office of the Superintendent of Financial Institutions

Thursday, November 9, 2023

Alex Ciappara, Vice President, Head Economist, Financial Stability and Banking Policy, Canadian Bankers Association

Michael Hatch, Vice President, Government Relations, Canadian Credit Union Association

Aaron Meyer, Advisor, Household Finance and Mortgage Markets, Canadian Bankers Association

Thursday, November 23, 2023

The Honourable Sean Fraser, P.C., M.P, Minister of Housing, Infrastructure and Communities, Infrastructure Canada

Bob Dugan, Chief Economist, Canada Mortgage and Housing Corporation

STUDY ON HOUSING AFFORDABILITY – INTERIM FINDINGS

Briefs are available online: BANC, [Briefs and Other Documents](#)

Launi Skinner, Chief Executive Officer, First West Credit Union

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