

Boosting the Economy by Supporting the Real Estate Development Industry

Background

The entire real estate development industry has experienced the effects of the global economic and financial crisis, yet it is the housing sector that has been most severely impacted. The housing sector is a bellwether for the national economy; and as residential projects are cancelled and consumers stop buying – the deeper the concern for the economy.

Conversely, the creation of new housing, along with other construction activity related to infrastructure, can lead the country out of difficult times. The cumulative contribution of the industry is in the order of hundreds of billions of dollars to the national economy annually.

Recognizing that a robust housing sector is also a vital source of economic activity in Canada as it promotes demand for labour, building materials and other goods, the federal government has implemented measures to help Canadians purchase and improve their homes in the 2009 Federal Budget. The initiatives that the federal government has implemented in order to stimulate housing construction include:

- A 15 percent Temporary Home Renovation Tax Credit (HRTC) on eligible home renovations performed after January 27, 2009 and before February 1, 2010 providing up to \$1,350 in tax relief.
- EcoENERGY Retrofit program provides home and property owners with grants of up to \$5,000 to offset the costs of making energy-efficiency improvements.
- Increasing withdrawal limits under the Home Buyers' Plan from \$20,000 to \$25,000.
- First-Time Home Buyers' Tax Credit of \$5,000.
- One-time federal investment of \$1 billion over the next two years to address the backlog in demand for renovation and energy retrofits.
- \$400 million over two years in targeted funding for the construction of housing units for low-income seniors that will be delivered through the Affordable Housing Initiative to be cost-shared with the provinces and territories.
- \$75 million over two years for the construction of housing units delivered through the Affordable Housing Initiative to be cost shared with the provinces and territories.
- \$400 million over the next two years to support on-reserve housing, dedicated to new social housing projects, remediation of existing social housing stock and to complementary housing activities.
- \$200 million over two years in dedicated funding to support the renovation and construction of social housing units in the Yukon, Northwest Territories and Nunavut.

- \$2 billion over two years in direct, low-cost loans to municipalities through the Canada Mortgage and Housing Corporation (CMHC) that can be used to fund their contribution for cost-shared federal infrastructure programming.

The Canadian Chamber Chamber believes that further opportunities exist to allow the housing industry to realize its full potential as a “powerhouse” for economic recovery in Canada.

Housing - A Cornerstone of the Economy

According to a report prepared for the Canada Mortgage and Housing Corporation by the Altus Group, for every 10,000 new homes that are built, \$3.3 billion in economic production across a broad array of industries is generated. This includes \$727 million in manufacturing output, and another \$307 million in wholesale, retail, transportation, and warehousing activities. In terms of jobs, 10,000 new homes support 19,300 person-years of employment throughout the economy.

Resale housing transactions across Canada also generate significant economic activity. The purchase and sale of homes via the Multiple Listing Service[®] (MLS[®]) generates fees to professionals such as lawyers, appraisers, real estate agents, surveyors, etc. as well as taxes and fees to government. Moreover, when Canadians move into a new house, they typically purchase new appliances or furnishings and undertake renovations that tailor the new home to specific household requirements.

According to a report prepared for the Canadian Real Estate Association by the Altus Group, over the 2006 to 2008 period, it is estimated that a total of \$46,400 in ancillary spending was generated by the average housing transaction in Canada.

As economic activity began to contract in Canada in the fourth quarter of 2008 due to the global financial crisis, home sales dropped, prices gave in to intense downward pressure and residential construction slowed substantially.

Protecting Housing Affordability with the GST New Housing Rebate

The federal government charges GST on the purchase of every newly constructed home. In order to provide some degree of tax relief and encourage new home ownership, the federal government has also instated a GST New Housing Rebate which reduces the actual rate of GST payable on eligible new homes from 5 percent to 3.2 percent.

Purchasers of new homes priced below \$350,000 receive the full GST rebate - i.e. the actual rate of GST on their new homes is 3.2 percent. Purchasers of homes priced between \$350,000 and \$440,000 receive a progressively reduced rebate - and the actual rate of GST rises accordingly. Homes priced at \$450,000 or more receive no rebate - i.e. the actual rate of GST for these homes is 5 percent. If the \$450,000 home were to receive eligibility for the rebate, the GST payable would be reduced from \$22,500 to \$14,400 - a reduction of \$8,100 - a significant difference.

When the GST was introduced in 1991, the federal government made a commitment to adjust the thresholds to reflect changes in the housing prices, and thus to protect housing affordability over time.

Currently, new home buyers are paying more GST than would be the case had the rebate thresholds been indexed to rising house prices. This has had a negative impact on housing affordability.

During the 1990's, immediately after the introduction of the GST, housing prices were relatively stable in most parts of Canada, so there was little need to adjust the thresholds to reflect changes in housing prices. As a result, no mechanism was put in place for the regular adjustment of the thresholds. In the past decade, housing prices have increased significantly; however, there have been no adjustments to the thresholds. In the first half of 2008, less than 45 percent of new houses qualified for the full GST housing rebate. In contrast, in 1991, over 90 percent of new houses completed in major centres in Canada qualified for the full GST housing rebate. Had the GST New Housing Rebate Thresholds been adjusted to take account of the increase in new house prices over the years, the thresholds in 2008 would have been roughly \$550,000 - \$700,000.

With the majority of new houses in many major centres now ineligible for the GST rebate action by the federal government to fulfill its original commitment and index the thresholds for the GST New Housing Rebate to the New House Price Index is needed to help protect housing affordability across Canada.

Improving Environmental Regulation

The federal government regulates Canada's environment through many pieces of legislation. The Fisheries Act, the Species at Risk Act, the Canadian Environmental Assessment Act, and the Canadian Environmental Protection Act are only a few examples of major pieces of legislation that have significant impacts on urban Canada, business (including the development industry), and the quality of life of Canadians.

Multiple environmental assessments by multiple levels of government often replicate the same work resulting in unnecessary "red tape" for the real estate development industry that often creates delays and higher costs for businesses and new homebuyers. This in turn has a negative impact on the economy, deters investment and makes housing less affordable. The current process is also confusing and complicated to many developers and even to the consultants that are hired to assist through the environmental assessment process.

One specific area that is taking a tremendous amount of time and energy and does not have a linear process is marina applications and the use of the water. The environmental red tape is enormous and does not have a lot of rhyme or reason to it. Often times it is not clear, even to the different levels of government how these applications should be treated.

In terms of enforcement, the federal government has made efforts to embrace smart regulations, which reduce delays and the use of government resources by relying on proponents to utilize qualified professionals to ensure environmental requirements are followed. For example, one particular smart regulation that harmonizes environmental regulations between Federal and Provincial jurisdictions in British Columbia is the Riparian Areas Regulation (RAR). It regulates buffers along watercourses, and has received widespread support from the Urban Development Institute (UDI), the Department of Fisheries and Oceans (DFO), the BC government and several

municipalities because it is a science-based framework. This regulation increases the expediency and efficiency of the approval process for fish habitat protection and allows government resources to be better used for critical environmental priorities instead of being wasted on a cumbersome approval process. At the same time, fish habitat and the environment are protected.

It is critical to have effective science based public policy that responds to all aspects of sustainability - environmental, social and economic objectives, otherwise unintended consequences can result. It is also important to develop a single window process for environmental assessments requiring multiple government approvals. Today, over \$1.6 billion worth of projects in BC, for example, have their provincial Environmental Assessment Certificates but are still awaiting federal approval.

The federal government should explore further opportunities for expediting and streamlining the environmental approval process by examining existing federal legislation, and working with provincial/territorial governments to develop modern frameworks that protect the environment without undue costs or unnecessary jurisdictional overlaps. The ideal solution would involve having one environmental approval application with clearly defined pre-requisites and restricted timelines, handled by one agency with approval authority.

Recommendations

That the federal government:

1. Index the thresholds for the GST New Housing Rebate to the New House Price Index to protect housing affordability across Canada.
2. Work with Provincial/Territorial Governments to harmonize environmental regulations to increase the efficiency and expediency of the approval process.