POLICY BRIEF:
How to make housing affordable in Canada

Mark Milke | August 2022

Executive Summary

Buying a home is the most expensive and one of the most important purchases a person will ever make.

However, the dream of ownership has drifted away from many Canadians. Housing prices have soared in recent years, and homes are no longer affordable. This policy brief focusses on the lack of supply in Canada, examining existing research into the problem, feedback from industry and examines policy solutions.

Key policy options that could help make home ownership more affordable include:

- Raising the threshold for the GST on new homes from $450,000 to $750,000 (the Canadian average) could reduce costs for homeowners by $35,714. Scaling back land transfer taxes could also save homebuyers as much as $22,950 in cities like Toronto. Reducing other taxes and fees could further help to reduce the cost of homes.
- Currently, it takes too long to get project approvals for new developments. This could be remedied by streamlining approvals and creating a reverse onus on governments—projects would be automatically approved, not delayed at the end of the statutory time limit. This would pressure governments to work with developers to remedy potential concerns at a faster pace and prioritize the construction of new homes. Alberta and Ontario already have this in place with limits enforced by independent tribunals based on development applicant appeals.[1]
- Governments need to listen to industry. There are numerous reports on this issue that span the political spectrum and countless ideas have come forward from industry – including in this report. Acting on those ideas could help increase the supply of homes and bring down costs.

This issue has received significant attention in recent years. Many reports, commentaries and analysis have drawn attention to this problem and provided solutions. However, unless governments begin taking action, this problem will persist for years to come.

Introduction: The high cost of housing in Canada

A home is the most expensive purchase most people will ever make, but the data is clear that housing prices are an affordability issue in many Canadian markets. Nation-wide, home prices in Canada are among some of the most unaffordable in the world by almost any measurement.

- In their 2022 study analyzing home prices and incomes, Demographia International noted that of six markets surveyed in Canada, and based on the price of housing to income, none were categorized as Affordable.[a]
    - Instead, out of six markets surveyed, two markets were ranked as Moderately Unaffordable with fully four markets ranked as Severely Unaffordable.[2]
    - To grasp just how expensive Canada is for housing, in 1987, the median house-price-to-income ratio for all of Canada was just 3.0, i.e., Affordable. By 2020, the Median Market score for Canada as a whole was double that, or 6.0–Severely Unaffordable.

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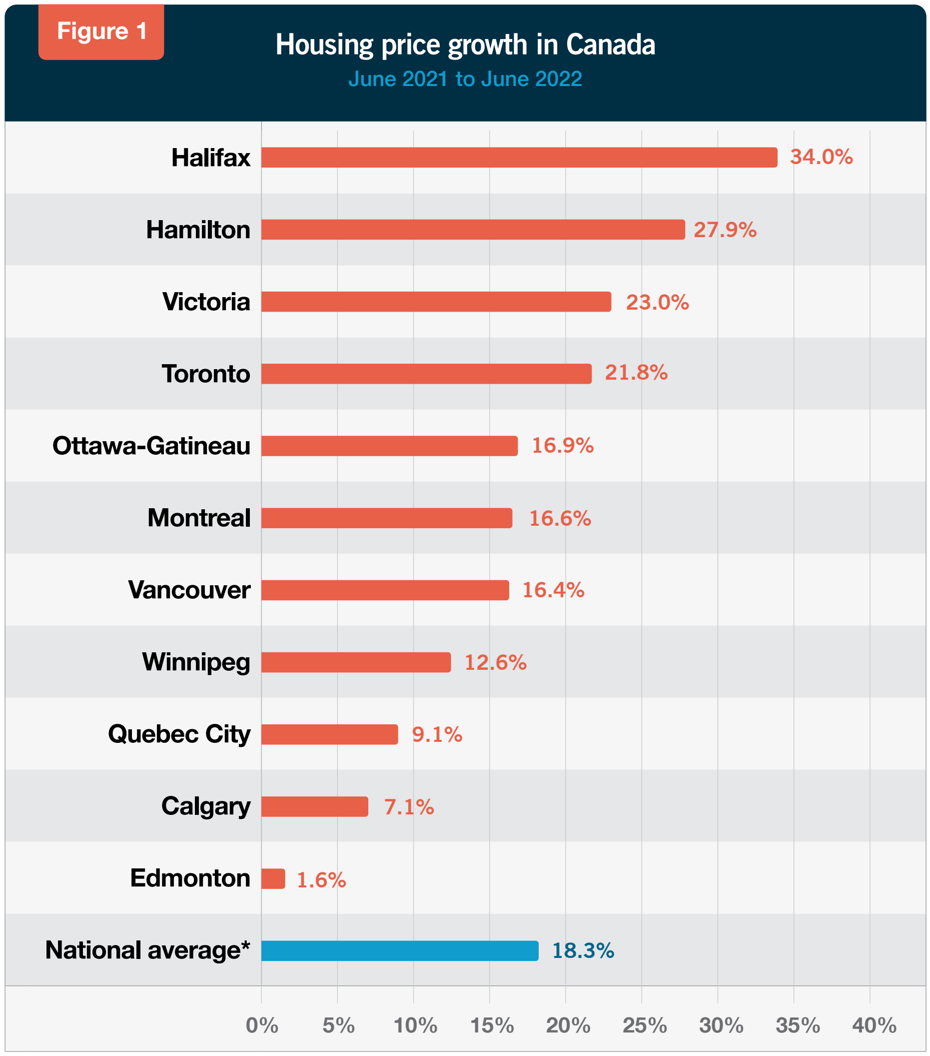
[a] Demographia categorizes markets according to the Median multiple, a price-to-income ratio of the median house price divided by the gross median household income. Affordable markets are those with a 3.0 and under; Moderately Unaffordable at 3.1 to 4.0; Seriously Unaffordable markets at 4.1 to 5.0, and with Severely Unaffordable at 5.1 and over.

Housing in Canada is becoming even more expensive. That 2022 survey was based on prices in 2020, since which they have escalated even further. As of June 2022, the Terranet-National Bank House Price Index reported that average housing prices[b] had risen 18.3% from a year earlier with growth in the following markets as follows.[3] (See Figure 1.)

What is true of national averages also applies to local markets. As an example, in 2021, the Final Report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability, headed by former B.C. New Democratic Party cabinet minister and leader Joy MacPhail, announced its findings.[4] The "MacPhail Report" found that:

- Between 2005 and 2020, home prices in British Columbia's largest housing markets rose between 101% and 157% with a knock-on effect on rentals property leases that saw rents rising between 64% and 82%.[5]
- The report also noted that housing is considered affordable when it costs no more than 30% of pre-tax household income.[6]



Source: Terranet/National Bank of Canada, House Price Index, June 2022.
**Composite average of 11 cities listed in chart.*

Voices across the spectrum are concerned

Various voices across the political spectrum have raised the issue of housing unaffordability for years.

- They include a left-leaning provincial government in British Columbia as well as market-friendly think tanks such as the Fraser Institute, C.D. Howe Institute, and the Frontier Centre for Public Policy.[7 8 9 10]
- The voices expressing concern include media from the *Globe and Mail* to the Sun newspaper chains.[11 12]
- The voices also include developer organization from BILD to the Canadian Home Builders Association and on to banks such as National Bank and Scotiabank.[13 14 15 16]

[b] Composed of 11 housing markets chosen by Terranet/National; Bank of Canada.

Why are housing costs escalating? A look at supply

Factors outside of this report that can also contribute to higher housing prices. They include low interest rates and relatively high immigration levels to Canada in recent years. Both of those spur the demand for housing.[c]

This report will focus only on the supply of housing, and for two reasons. First, interest rates in Canada are set by the Bank of Canada, which is independent of governments (federal, provincial and local). That means that policy prescriptions for governments cannot affect the Bank of Canada given its institutional independence. Second, immigration levels are set by the federal government and a variety of other factors unlikely to influence housing costs, including labour supply needs and other issues.

Factors that influence the demand side of housing are important and should be studied further. However, concentrating on the supply side of the equation does allow provincial and local governments – which are responsible for provincial and local regulation on housing and land – to move more quickly without waiting for possible changes from either the Bank of Canada, or the federal government. Here's why supply matters:

- Scotiabank found that Canada has the lowest supply of homes per 1,000 people of at the G-7 nations; to match the G-7 average, Canada would need to build 1.8 million more homes.[17]

On the supply side, two main factors seem to drive higher prices, and both are within the purview of provincial and local governments. The first factor involves regulations and bureaucracy, including how quickly housing developments are approved. The second factor is escalating fees and taxes.

- In 2020, the Canadian Home Builders Association (CHBA) provided data on residential construction. The CHBA notes that development approvals in Canada take an average of 1.5 to 2 years to obtain (and more in some cases) – an average of 20.3 months for multiple applications, and an average of 11.7 months for single applications.

  For those multiple unit buildings, the CBHA also notes that for every extra month the builder waits, for approval, the extra monthly cost is $351,500 for a low-rise project and $216,300 in costs per month for a high-rise project. Broken down by unit, that delay adds the equivalent of $2,812 per month per unit in the low-rise complex and $1,730 per month per unit in the high-rise complex.[18]

- In 2021, Richard Lyall, a building industry representative in Toronto, provided examples of higher regulation and delays in construction approvals for building a warehouse – 248 days for all permits in Toronto compared with 65 days in Denmark and Finland, 36 days in Singapore and just 28 days in South Korea. It is this kind of delay, Lyall asserts, that sees Ontario building 12,000 units of housing less than needed each year.[19] Delays in construction are routine and due to government.

- The 2021 MacPhail Report noted that on regulation, "provincial and local governments must better estimate and anticipate how many homes are needed to house a growing population with diverse needs. They must also clarify and speed up approval processes for the planning and construction of homes." As the Report notes, "the time needed to steer new housing projects from concept through to ground-breaking can take years" and adds that this delay can "can cost tens of thousands of dollars per new unit…."[20]

The MacPhail Report also found that "some of these fees—notably community amenity contributions—can be unpredictable or inconsistent, causing significant uncertainty, raising costs and compromising supply."[21]

[c] The Bank of Canada has only recently started to raise rates, which may impact home prices, or at least arrest the ever-upward rise.

Here's what industry thinks

The housing development industry has some informed opinion on the crisis in affordable housing. SecondStreet.org surveyed homebuilders and homebuilder associations, and nine respondents gave us their feedback. These respondents ranged from associations with memberships in the hundreds to developers with employees that ranged from 35 to hundreds of employees and to "Mom and Pop" builders who with a staff of six.

Note: The following comments are raw responses from industry participants. SecondStreet.org only fixed minor typos in responses provided.

About costs:

- "Off-site levies, development permit fees, Urban Design Review Panel, storm water discharge regulations are among a number of areas of concern in terms of examples of cost which concern our members."
- "HST was never adjusted for inflation as was supposed to happen. Development Charges have grown…. other construction-related fees have also jumped in recent years well beyond inflation. Finally, the cost of meeting regulations through the approvals process has climbed given the fact it takes longer than ever to get a project approved according to research in the subject.
- "PST on new home construction/annual increases in property taxes, permit application fees and increasing costs for development levies."

About regulatory delays and bureaucracy:

- "Subjective by regulators on interpreting their own policies at the Municipal Gov't. Uncertainty for project approvals. You can follow all the regulations, which require significant upfront investment and be rejected by local city council."
- The length of time it takes for city approval and denial of projects has become quite expensive in the delays. The amount of engineering and third-party consultants required on every project is currently unreasonable and this has led to a complete over-engineering of almost every faucet of building and renovating."
- "Government regulations/processes/fees that increase the cost of housing include:
  - Uncertainty with respect to the process and time required with respect to the municipal (and sometimes provincial) approval process,
  - Formal and informal controls on residential densities and starts (very low densities in some areas especially in the Capital Region and policy restrictions that effectively restrict building starts),
  - Some uncertainty with the costs, (the City of Winnipeg's development agreement parameters have not been revised since 2001 and it's not clear exactly what the City is proposing with impact fees);
  - Lack of an appeal process which increases uncertainty and reduces transparency.
- The province [of Manitoba]'s new Bill 37 may improve governance and regional planning and this could translate into a better balance overall [between] supply and demand, and less uncertainty [with regards to] process and less time to gain approvals."
- "City of Winnipeg Impact Fee; New National Building Codes; GST"
- "Land transfer tax, the stress test and GST."

About government-imposed limits on supply of housing and land:

- "Urban Containment Strategies that limit supply of new housing in the market. This has become a nationwide epidemic."
- "Municipal planning policies have become increasingly restrictive and are resulting in a lack of serviced or readily serviceable land, driving up prices that are ultimately borne by end consumers. Costly and time-consuming application processes add uncertainty to developers for ability to deliver serviced land to builders on time and affordably."

About hard costs added to each (single-family, detached or attached) housing unit because of government fees, government regulations and government delays:

We asked home builders about what all the fees, taxes and costs added up to per unit of housing. Readers should be aware that depending on the city in which a builder is located, answers varied dramatically and are not complete given we did not receive responses from some major cities such as Toronto or Vancouver.

- "$50,000."
- "On the average home $15,000-$20,000."
- "$10,000 - $30,000"
- $8,000 to $15,000"
- "The best example of fees we view as excessive is offsite levies. At nearly $450,000 per ha [hectare] Calgary's fees are on average double those of adjacent communities."
- "20-25% of the cost of new housing is taxes, fees and charges."
- "$30,000"
- "From the perspective of a developer in the City of Winnipeg, new fees, increasingly onerous processes, and unnecessary new construction specs have added an estimated minimum $10K to $15K per serviced single-family lot. Or approximately 11% of the cost of a building lot."

About hard costs added to each condominium or townhouse unit because of government fees, government regulations and government delays:

We asked home builders about what all the fees, taxes and costs added up to per unit of housing. Readers should be aware that depending on the city in which a builder is located, answers varied dramatically and are not complete given we did not receive responses from some major cities such as Toronto or Vancouver.

- "Some of the costs are hidden in delays in the approvals process. The costs in the GTA are amongst the highest in North America according to research on the topic. A reasonable number should be 10%. Housing has become a cash cow given new home buyers do not have the political clout of ratepayer associations and rental organizations."
- "$25,000"
- "$10,000 to $15,000"
- "$3,000-$6,000"
- "$6,000 to $8,000"
- "$20,000"

About possible changes to the National Building Code of Canada and its impact:

- "Depends on how far and how fast. Moreover, the focus on new housing stock is misguided. Most new houses are energy efficient. Most older homes and buildings are less so. Changes to the building code will just make new homes and buildings more expensive and direct buyers to older less efficient homes.

  Higher cost building code standard will also make renovations less likely. Of the total housing stock, the annual additions are a small % compared to existing stock. If a real impact is desired, policy and support need to be focused on changing existing housing stock.

  Also, the apparent path to elimination of fossil fuels will almost certainly have enormous electricity grid and power generation costs added. This may or may not find its way into the price of a home but will ultimately come out of homeowners pockets."
- "Code changes are expected to increase costs. Some of those changes will be incorporated into the Ontario Building Code. Codes continue to evolve with higher standards. That is to be expected. But they should be subject to rigorous cost benefit analysis; that is not always the case."
- "Net Zero Energy Homes are approximately $35,000 to $50,000 more than todays newly built home under NBC 9.36. NZE will be required for NBC 2030."
- "Many changes in the code can lead to cost escalations as these changes can equate to additional materials, more expensive processes or added labour."
- "Hopefully they are good and appropriate changes however they have the potential to become quite expensive."

Fees and taxes in perspective

Critically, higher fees and taxes are not needed when the wider and deeper perspective on Canadian government revenues is considered. This is fundamentally a question of prioritizing government spending. For example, as a previous SecondStreet.org study found in September 2021, despite reductions in pay in the private sector during recessions and in industry-specific downturns such as in Alberta's oil and gas sector since 2014, one has to go back decades to find pay reductions in the government sector.[22] That lack of spending discipline means taxpayers—directly or via developers and at all levels of government—are forced to pay more.

In total, government revenues in Canada already surpass the G-7 average as a percentage of the economy. Canadian governments at all levels collect revenues equivalent to 41.9% of the economy, nearly five percentage points higher than the G-7 average at 36.0%, with some nations such as the United Kingdom (36.6%), United States (30.6%) and Japan 34.8%) significantly below Canada.[23] In other words, prudence on government spending could reduce the "need" for punitive taxes imposed on housing in Canada.

Remedies: Streamlined development approvals and more supply can help moderate prices

Two key reforms appear to have been agreed on by industry and a report from a centre-left government in British Columbia. The first is that too much regulation is slowing down needed housing development and thus constricting housing supply. Second, that high development fees and other taxes are adding to the high cost of housing. Thus, there is little question that supply needs to be increased.

The 2021 MacPhail Report makes it clear in three of five recommendations that supply bottlenecks and higher fees are driving higher prices with two of those applicable to market-priced housing.[24] The MacPhail Report recommends:

- Creating a planning framework that proactively encourages housing;
- Reforming fees on property development; and
- More government and more community housing (i.e., non-profit housing).

Similarly, the Canadian Home Builders Association recommends the following:

- Pre-zoning systems (community planning permits) to help reduce required processes;
- Delegated approval authority for certain applications;
- Simplifying certain planning amendments;
- Increasing transparency and predictability of application process;
- Improved communication regarding application requirements; and
- Online application submissions where not already in place.

One need not agree with the MacPhail Report on every item. More private housing supply, for example, would moderate housing and rental costs, and reduce the need for government-owned housing. Non-profit housing is another matter; the preference for government housing could instead be applied to non-profit housing as the non-market remedy, as it too addresses non-market needs such as severely low incomes.

Our recommendations

Based on cross-spectrum input from industry and selected reports from both industry and government and from across the spectrum, we have three broad recommendations:

1. **Encouragement of more supply via streamlined approvals and with a reverse onus on governments—projects get automatically approved, not delayed.**

   This would include statutory time limits on the development process where they do not already exist, which would serve to guarantee that projects are approved at the end of the statutory time limit. Local governments would not be able to delay projects beyond the time limit. The developer would have a right to develop at the end of the process regardless. Alberta and Ontario already have this in place with limits enforced by independent tribunals based on development applicant appeals.[25]

   Even independent tribunals are not enough. We recommend that the developer have a right to proceed after the timelines noted above and that it is the government, not the developer, who must appeal to a tribunal if there is a cause for concern. This would reverse the onus from the developer to the government, and from the homebuilder to the bureaucracy.

2. **Lower fees and taxes on new homes and sales of existing homes**

   Among G-7 nations, Canada is near the top when it comes to tax revenues as a percentage of the economy. Further, while governments often exempt essentials from taxes (food, kids' clothing, etc.), taxes and fees on housing can be quite costly.

   One tax option for governments would be to raise the threshold for the GST rebate on new homes from $450,000 to $750,000 (the average selling price in April 2022) and revise the rebate to cover 100% of the GST, not the current 36%.[26] Currently, a $750,000 new home would include approximately $35,714 in GST. $35,714 in GST.

Second, provincial and municipal land transfer taxes have become quite punitive for home buyers. According to ratehub.ca, the purchase of a $750,000 home in Toronto will cost consumers another $22,950 in total land transfer taxes. In Vancouver, such a home would cost another $13,000.[27]

Raising the threshold for the GST and eliminating or scaling back land transfer taxes could save consumers nearly $50,000 on the purchase of a new home in Toronto.

Additionally, development charges in new subdivisions differ city-by-city and province-by-province, but in cases where such charges exceed the cost of infrastructure for such developments, governments could scale such fees back to a cost recovery level.

3. **Listen to those who build homes for Canadians, i.e., home builders**

In the section on comments from home builders, we provided the feedback we received on current problems. This feedback gives advice to governments on potential remedies from industry respondents. We do not necessarily endorse every recommendation but they are worth reviewing.

- "Be more transparent on disclosing the costs they add to housing, be willing to adapt their approaches to be more market sensitive, understand that the real risk takers are industry and attraction of investment capital requires that developers, builders, etc. are treated as customers and recognized as supporting economic growth and employment."

- "The government will only adjust fees and levies if the market were to severely correct. Other than that, government needs to play a leadership role in streamlining and modernizing the development and building approvals process. Doing so involves limited costs and the estimated time savings would increase housing supply and reduce costs. To do so the process needs to be digitized and a data exchange open standard needs to be created. This process has started but it is taking too long. There is little incentive for entrenched bureaucracies to change as the institutional players are not rewarded for the corresponding increase in efficiency."

- "The permitting process needs to be expedited and improved in an effort to help eliminate costs and long lead times for everything."

- "Governments can consider several different measures including:
  - Working to balance supply and demand for housing;
  - Streamline approval processes to ensure less delay and [less] cost and greater predictability and transparency;
  - Ensuring that any so-called impact fees only reflect municipal costs of servicing land and that they do not single out new home builders and buyers to contribute to regional costs, or constitute tax in support of general tax masquerading as a regulatory fee."

- "Remove the GST from new homes."

- "Municipal governments could ensure a greater supply of designated and readily serviceable land for new communities."

Conclusion

A home is the most expensive purchase most people will ever make but ever-more Canadians face unaffordable housing prices. Home prices in Canada are among some of the most unaffordable in the world by almost any measurement.

Governments could help alleviate the problem, in large part, by simply getting out of the way – by reducing taxes on the purchase of homes, implementing a faster approval process for new builds and working more closely with industry to find ways to make it easier for the private sector to get new housing units online.

About the Author

Mark Milke, Ph.D., is Executive Director of the Aristotle Foundation for Public Policy, a new Canadian think tank that hopes to publicly launch in later 2022. He is also a keynote speaker, author, and columnist with six books and dozens of studies published across Canada and internationally in the last two decades. Mark's work has been published by think tanks in Canada and internationally, including the Fraser Institute, the Montreal Economic Institute, American Enterprise Institute, Heritage Foundation, and Brussels-based Centre for European Studies. A regular columnist, his commentaries have appeared in the *Globe and Mail, National Post,* and *Maclean's*.

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