Submission to the

Consultation on Confronting the Financialization of Housing

Canadian Home Builders' Association

Introduction

On behalf of the 8,500 members of the Canadian Home Builders' Association (CHBA), please find CHBA's submission to the consultation on Confronting the Financialization of Housing.

Housing affordability has been the top priority for CHBA in terms of government advocacy for decades, as changes in government policy at local, provincial and federal levels have continually eroded Canadians' ability to buy or rent a home. We are now in a housing affordability and affordable housing crisis, which has been many years in the making. We need to be very realistic about the causes of this and also be realistic about the comprehensive approach needed to solve this complex challenge.

The entire housing continuum needs to be addressed, and we cannot fix our social/affordable housing needs without also fixing market-rate affordability. Ensuring better access to homeownership is an important part of that mix. Restricting access to homeownership, especially for first-time buyers, contributes to social inequity as it effectively boosts wealth and real estate concentration amongst a few - those who can leverage existing equity or who already have strong finances. It also puts more stress on the rental market, including driving investors now to single-family homes.

Unfortunately, this consultation on so-called "financialization" is one in a long list of consultations undertaken by the federal government that indicates a lack of understanding of the barriers to homeownership in Canada and its repercussions. Financialization is a result of government policy and red tape limiting access to more supply, not vice versa.

Background

A chronic lack of supply is the reason that housing has become such an in-demand commodity—this is now extending to single-family homes as families struggle to afford homeownership but still seek single-family home options.

Lack of supply, rising development taxes, more stringent building codes, municipal process delays and more, have driven up home prices; meanwhile interest rates and ever-tightening mortgage rules have made it much harder to finance housing purchases, preventing many would-be first-time buyers from entering the housing market. This keeps them in rental units and causes further shortages in the already overstretched rental market, reducing the availability of rental units and driving up rents. The dream of homeownership is still important to most Canadians, and fulfilling it is essential in getting our housing continuum working again. But homeownership rates have dropped over the past decade, from nearly

70% in 2011 down to 66% in 2021, and this erosion is causing stress all through the continuum, including the rental market and right back into social housing.

A comprehensive approach is needed and must work within Canada's free-market system to leverage the private capital of Canadians and Canadian businesses to make the investments needed to build much more housing supply of all forms and tenure. Canada's housing deficit cannot be made up by stifling investment.

In fact, the government's own housing agency CMHC has stated: "Opinions on the topic of financialization of housing differ among actors and experts in the housing space and, as a collective group, we simply cannot assume that private ownership of rental housing is detrimental to affordability."

CMHC also goes on to say, "Given the positive role private ownership can bring, the activities of some bad actors need to be addressed through effective regulation rather than blaming the whole industry." However, this consultation, by aiming to "restrict the purchase and acquisition of existing single-family homes by very large, corporate investors", is indeed blaming the whole industry by assuming all large investors operate from a position of ill-will.

The fact is that housing policy has made access to homeownership so difficult that it has created an investment opportunity for investors in single-family homes. These homes are needed and wanted by Canadians, and now because they can't access them for ownership, investors are instead seeking to purchase them and rent them to the very people who should be able to buy them.

The solution is to make the housing policy changes, at all levels of government, that:

- Reduce the costs of new housing development and construction.
- Ensure the mortgage and finance system supports investment, including that of first-time homebuyers, support the construction of much more supply of all types.
- Increase dramatically the number of housing units of all forms and tenure through these changes, plus make the necessary changes municipally to enable much more supply to move forward.

The federal government has recognized that Canada has an acute housing shortage, which it has rightly established has been a principal cause of escalating house prices and will continue to be an excessive driver of house prices until it is rectified. This element of housing affordability is economics 101: supply and demand; when demand dramatically outstrips supply, prices increase excessively. Therefore, it is important to find the right balance of housing policy, fiscal policy and mortgage rules to maintain stability while also supporting the needs and goals of Canadians. The right balance encourages movement along the housing continuum by creating vacancies in rental that others can fill. 80% of available rental units on the market have historically come from first-time buyers vacating rental units. The inability to become a first-time buyer puts pressure on the rental stock.

Key Questions for Consideration

- **Are you aware of specific examples or data, either in Canada or in other jurisdictions, highlighting activities by large corporate investors that have contributed to harmful financialization of single-family homes?**
- The fact that this submission has been launched to seek such information indicates the federal government currently lacks sufficient proof that that corporate investors are contributing to "harmful financialization." If there is indeed solid evidence that this is truly happening, then please release it. Otherwise, do not crowd source data which will most likely be anecdotal in nature.
- **What impacts, whether positive or negative, has the financialization of single-family homes had on Canadians who rent, on Canadians looking to buy their first home, and on existing homeowners?**
    - In addition to the paragraphs above that explain the lack of understanding about the role and reason for financialization in housing, CMHC has stated, "We need both a range of government policies and investments and increased participation from the private sector. The scale of the challenge is so large that the private sector must be involved — governments cannot do this on their own." CMHC also goes on to say, "Private investment in housing (i.e., financialization) can play an important and essential role in solving our housing affordability challenges when it operates within a sound regulatory framework that addresses poor actions." If the government wishes to avoid investors playing a larger role in the single-family market, the government needs to take more steps to make single-family homes accessible for homeownership.
- **To what extent do large corporate investors currently report on their housing investments?**
    - Should the federal government not have this information via Revenue Canada or is it relying on the public to fill in the blanks? It is difficult to fathom that a consultation would be undertaken without firm data already showing the answers to this question. However, Statistics Canada has recently released some data that builds upon earlier work that focused on

investor ownership in the overall housing stock. It is strongly suggested that the federal government review the results which includes:

- Investors accounted for a higher share of condominium apartment buyers than single-detached house buyers.
- In the CMAs in Nova Scotia and New Brunswick, the median price paid by most investor types for houses was lower than that paid by non-investor buyers, whereas in British Columbia the median price paid by most investor buyer types was higher.
- Most individual investor buyers owned fewer than three properties after their purchases. Around one-third of investor buyers owned three or more properties.
- Immigrants were overrepresented among investor buyers relative to their share of the population in all the large urban centres analyzed.

What types of large corporate investors could be included as part of potential restrictions and how could these actors be defined?

- **What tools would be most effective for the federal government to implement to deter the financialization of housing? Which tools would be more suitable for implementation by provincial or municipal governments?**
  - The focus of the consultation is misdirected. Instead of trying to prohibit investment in housing (investment that the government's own housing agency says has an important role) it should be focussed on why this is taking place.
- **How could new tools impact the pace of new home construction, and how could we mitigate for potential impacts?**
  - Restricting/prohibiting investors does not address the many reasons for low housing starts. There are several reasons for a lack of supply, many of which are the result of poor government policies, planning, and red tape. Chief among these reasons are delays in municipal processes such as slow approvals, zoning restrictions, skyrocketing development charges, and NIMBYism. These all contribute to the cost of a home. The home construction sector is also struggling with labour shortages, a prolonged period of high interest rates, and buyers are finding themselves unable to qualify for a mortgage due to overly restrictive mortgage rules.

- **What types of investment activities could be restricted and how could these activities be defined, in order to distinguish between productive investment in housing supply and harmful financialization of housing?**
    - The system needs to be fixed to help the majority of the next generation become homeowners, as our Canadian system did so successfully in the past. A consultation on restricting financialization does not address the many affordability challenges that currently exist along the housing continuum.

Conclusion

Much like the other Finance Canada consultation currently underway on a proposed tax on vacant land, this consultation originates from a lack of understanding of the issue. Simply put, investors buying existing single-family homes is a result of a problem in the market created by government policy. The majority of Canadians still aspire to the dream of homeownership but find they cannot afford to do so for a variety of reasons such as ever-tightening mortgage rules and high development taxes. Governments at all three levels need to use the tools at their disposal to address these issues and to make homeownership more affordable and more attainable. Should Finance Canada have any questions or would like to have more information, please contact Nicole Storeshaw, Director, Government Relations at nicole.storeshaw@chba.ca.