Advice for the New Government

Provincial mortgage broker associations urge the new federal government to act on the following affordability recommendations

BY **SAMANTHA GALE**

The new Trudeau-led minority government has an opportunity to collaborate on housing solutions with MPs from the other, mostly regionalized, parties. Chances are a Liberal minority government will either leave current housing policies in a holding pattern or proceed with its pre-election plan to impose a national version of B.C.'s vacant housing tax on non-residents. The NDP makes a likely partner for the Liberals for collaborating on issues such as housing. It is worth noting that two elements of the NDP election platform on housing include waiving the GST/HST on the construction of new rental units and the "reintroduction of 30-year terms to CMHC-insured mortgages on entry-level homes for first-time home buyers."

CMBA will continue to advocate for sensible, meaningful change on the housing affordability front. CMBA consists of four provincial mortgage broker associations, united under the Canadian Mortgage Brokers Association umbrella. Following the recommendations of CMBA-BC, which collaborated with other B.C. real estate association sectors, CMBA urges the new federal government to adopt the following recommendations:

ADJUST THE MORTGAGE STRESS TEST AND AMORTIZATION RULES

In 2018, the federal government enacted new mortgage rules, requiring borrowers to qualify for a mortgage at the higher of either the rate they've negotiated with their bank plus two per cent or the Bank of Canada's five-year rate. This B-20 stress test has had a pronounced impact in B.C., Ontario, Quebec and the Atlantic provinces, causing well over a billion dollars in lost economic activity.

The B-20 stress test should be a flexible policy that is adjusted regularly to respond to economic trends. B-20 is now due for an adjustment for the following reasons:

- the debt burden has increased for people unable to access conventional financing who must resort to more expensive alternative mortgage financing;
- personal incomes nationally have risen by 12.5 per cent over the last five years; and
- a borrower's equity position increases throughout the term of a mortgage due to principal payments.

Changing the stress test would help achieve the government's goal of ensuring Canadians don't take on more debt than they can bear, while acknowledging ongoing economic trends.

WE RECOMMEND:

■ reinstating 30-year amortizations for insured mortgages to make monthly payments more manageable;

■ qualifying all borrowers at their contracted amortization period (e.g. 30 years) instead of a 25-year period;

■ excluding the stress test for low-risk mortgages, including:

a. mortgages with terms greater than five years, which do not present borrowers with risks of debt overload due to payment stability and principal reduction over longer terms, and

b. mortgage transfers and switches, which better enable borrowers to shop for competitive mortgage terms at renewal time; and

■ reducing the risk buffer for stress testing to one per cent plus the contract interest rate for all other mortgages.

REMOVE GST AS A MAJOR BARRIER TO NEW RENTAL HOUSING

Many urban areas throughout the provinces have a shortage of rental housing options. For instance, Metro Vancouver's overall rental vacancy rate has hovered at one per cent or lower for the last five years. CMHC estimates the region has had a net loss of 6,000 purpose-built rental units since 1991, while at the same time Metro Vancouver's population has grown by over one million people and is forecast to grow by an additional million in the next 20 years. This scarcity of rental housing has resulted in increased rental prices and stress for renters. This untenable situation will continue to be a significant challenge unless decisive action is taken.

A barrier to addressing the lack of new rental options is the punitive application of the five per cent GST on new purpose-built rental buildings. Under the current GST rules, a rental builder pays GST on the "self-supply" of a purpose-built rental building when construction is completed. This means that while a rental developer intends to keep, manage and operate the new purpose-built rental homes, GST rules require that they pay GST on the market value of the building and property at completion as if they had sold it. This is essentially a sales tax on an artificial transaction that adds millions of dollars to the cost of new rental buildings, even for non-profit home builders. A recent analysis of a 117-unit project in the City of Vancouver showed how removing the GST could reduce monthly rents between 3.04 and 6.06 per cent. Ultimately, this additional tax negatively impacts renters, because rental providers must recoup the costs through increased rents.

Removing the GST would make purpose-built rental projects more financially viable and could provide lower rental rates for affordable housing projects.

WE RECOMMEND:

■ Fully rebating or exempting the application of GST on new rental housing.

LINK FEDERAL TRANSIT INVESTMENTS WITH FEDERAL HOUSING TARGETS

The federal government can encourage effective land use and transportation decisions by linking the need for more housing options with the significant federal transit funding that is planned. Setting new land-use guidelines with housing targets for transit investments would unlock additional home options by supporting the regional and local plans related to transportation.

WE RECOMMEND:

■ leveraging contributions to local rapid transit projects by requiring housing targets;

■ providing preferred terms/rates to projects within CMHC's Rental Construction Financing initiative that are within a certain distance from a current or planned frequent

■ topping up federal cost-share ratios for rapid transit projects, currently up to 50 per cent of non-land related capital costs, by a modest percentage for projects that meet or exceed housing targets; and

■ working with provincial and local governments to explore a transit-oriented affordable housing fund to encourage more purpose-built rental housing with a deeper level of affordability near existing and new transit. MB