

Written submission to the Expert Panel on the Future of Housing Supply and Affordability

June 22, 2020

Dear Panelists,

Thank you for the opportunity to present some thoughts in writing. We focus our commentary on British Columbia, though much of the commentary is applicable nationwide.

We begin by noting some of the things that seem to be working well in B.C. to help restore housing affordability, and then proceed to note some things that are *not* working well.

We conclude with our top recommendation to improve housing supply, and our top three recommendations to ensure that all residents can afford a good home, either as renters or owners.

Thank you for your work on this critical topic.

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Table of Contents

Things that are working well	2
Things that are not working well	2
How to Increase Housing Supply	3
1. Provide bonus funding for municipalities who reach housing targets	3
Top 3 Actions to Improve Affordability	4
1. Adopt CMHC's 2030 goal on housing affordability	4
2. Strike a "Windfall Working Group"	4
3. Strike a "Soft Landing Working Group"	5

Things that are working well

In general, the current B.C. government has arguably moved faster on housing affordability than any other in Canada. Specifically, they have:

Reduced harmful demand from bad actors – e.g. via the ownership registry, the money laundering investigations, and the crackdown on fraud and shady practices in the real estate industry.

Reduced harmful demand more generally – e.g. via the expanded foreign buyers' tax, spec and vacancy tax, school tax increase, Airbnb tax application, and other associated measures seem to have combined with (a) local demand-side measures like Vancouver's empty homes tax and short term rental regulations and (b) federal demand measures – in particular actions related to the mortgage stress test – to rein in price escalation and cool the market.

Increased some types of supply – including progress towards the 114,000 target for families earning a median household income or less, Indigenous people, students, homeless people, and women and their children fleeing domestic violence. We defer to colleagues e.g. BCNPHA for specific commentary on the rate of delivery of specific types of units, but things are clearly moving. The BC Housing Hub is facilitating a diverse range of unit types and tenures and partnerships in a more coordinated fashion than elsewhere in the country, and the newly mandated Housing Needs Reports will set clear local benchmarks for contributing to provincial targets. Specific measures like the change to the building code to eliminate size restrictions on secondary suites are a good example of easy, cheap actions to help spur new supply along.

Protecting renters – e.g. via action to close fixed term lease loopholes and other measures laid out in the 30 point plan.

Things that are not working well

Despite significant progress over the past few years in B.C., including as outlined above, there is much left to do. Below, we identify some things that are not working well.

B.C.'s entire 30-point plan – in terms of achieving affordability – Zooming out, actions by the B.C. government have helped slow or halt price escalation, and cooled purchase costs somewhat in some places, but we're nowhere near actually recoupling costs with local incomes, even if we anticipate the most drastic COVID-related corrections e.g. as projected by CMHC. So the entire 30-point plan isn't working particularly well to solve the fundamental problem, even

as it has worked to slow the worsening of the problem.

Rent controls – in the absence of aggressive market rental incentivization – The newly-tightened rent control regime risks undermining progress towards rental housing construction goals in the absence of strong compensatory incentivization e.g. at the local level (which may or may not exist depending on the municipality). Without compensatory incentivization to build new rental homes, we risk a continuing overabundance of strata construction in some communities.

Absence of provincial or federal STR platform accountability – While all levels of government have a role to play in regulating short term rentals, there is a particular need for the province and federal government to step in and e.g. compel all STR platforms to (a) pay all relevant taxes, (b) cease advertising listings that are not in compliance with applicable local, provincial and federal regulations, and/or (c) share whatever information is required by government to enforce compliance on their own, (d) share certain host information with the Canada Revenue Agency to ensure that host rental income is being reported and taxed, etc.

Governments encourage homeowners to treat housing as an investment vehicle – Despite progress reining in some of the most harmful and obvious sources of excess demand, we continue to largely shelter housing wealth from taxation and in so doing continue to encourage ordinary British Columbians to treat housing as an investment vehicle. This bakes a catch-22 into the housing system: the more residents expect homeownership to be profitable, the more we make housing unaffordable. This catch-22 prevents us from achieving broad-based affordability.

How to Increase Housing Supply

1. Provide bonus funding for municipalities who reach housing targets

The [Housing Needs Reports](#) mandated by B.C. will provide excellent data on how much housing – of different types – is projected to be needed in each community over the next five years. One can think of this newly-quantified need as being the de facto housing target for each local government (because our target should be to meet the need).

Without compelling local governments to do anything, it would be very useful to provide a provincial incentive for local governments to make rapid progress towards these housing targets. This incentive could be in the form of bonus funding made available to local

governments who demonstrate some predetermined level of progress on building the kind of supply outlined in their own Housing Needs Reports.¹

Top 3 Actions to Improve Affordability

1. Adopt CMHC's 2030 goal on housing affordability

B.C.'s current 30-point housing action plan is limited to sub goals. If we stick to sub-goals, we'll restrict ourselves to achieving sub-goals. Similarly, the goals of the federal National Housing Strategy can be thought of as half-goals (e.g. reducing chronic homelessness in half rather than eliminating it entirely; removing ~500,000 households from core housing need instead of all ~1.7 million households).

In contrast, CMHC has adopted the right topline goal that **“by 2030 all Canadians can afford a home that meets their needs,”** either as renters or owners (defined as spending <30% income on shelter costs, living in homes that are in an adequate state of repair and of a suitable size for household composition; i.e. no Canadian is left in a state of core housing need). Though there are limitations of the current CMHC definitions, this goal nonetheless sets a clear, high benchmark. It has a clear timeline, it's measurable, it aligns with the UN Sustainable Development Goals, and is fully inclusive.

We recommend that all governments adopt the CMHC 2030 goal as their own topline goal on housing.

As a follow-up to the work of this Expert Panel, we identify two complex and controversial topics that require urgent and special consideration via provincial or joint provincial/federal working groups (or similar entities). If we fail to address these topics, we believe it is highly unlikely that B.C. or Canada will ever achieve broad-based affordability.

2. Strike a “Windfall Working Group”

One of the ways governments currently encourage residents to treat housing as an investment vehicle – and in so doing set up the catch-22 described above – is by sheltering housing/land wealth from taxation, which can lead some home/landowners to benefit from massive, unearned windfalls.

¹ If B.C. adopted the CMHC 2030 goal to ensure all residents could afford a home that meets their needs (as renters or owners), this 2030 goal could then cleanly and explicitly guide the Housing Needs Reports, whether those reports have a five-year time horizon or longer (e.g. all the way to 2030 and beyond).

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These windfalls are not only bad in the sense that they contribute to inequality and reflect unaffordable conditions; they're bad in that they cultivate a sense of unfairness that can contribute to a lack of social license for much-needed new supply. That is, some begin to believe that the purpose of new housing isn't to house people (!), but to make a lucky few rich.

We recommend setting up a windfall working group to explore how policy can be adjusted to capture more of these gains for public good, in so doing putting downward pressure on land/home values and leveling the playing field between renters and owners, and young and old.

3. Strike a “Soft Landing Working Group”

If we want to make it so that all British Columbians can afford a good home as renters or owners, and we assume that (a) earnings are unlikely to catch up with the current inflated marketwide costs on an acceptable time frame, and (b) that the pace of expansion for non-market or subsidized housing options – on any kind of realistic timeline – is unable to meet the full need, then we must contemplate policies that lead to a marketwide reduction in costs/values.

But that requires contemplating who is most vulnerable to such a correction, e.g. people who are especially dependent on an expected resale value or level of rental income, and designing policy to mitigate the household-level and economy-wide risk.

We recommend establishing a special multi-Ministry working group to explore policy options to help cushion potential negative impacts from a marketwide downturn (a.k.a. a marketwide increase in affordability), whether that downturn is by design or created by external forces.

Thank you for your work and consideration.

Sincerely,

The Generation Squeeze team