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September 11, 2024

Office of the Deputy Prime Minister and Minister of Finance
Department of Finance Canada
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RE: BUDGET CONSULTATION 2024 – MEASURES TO BUILD MORE HOMES

The Canadian Real Estate Association (CREA) represents more than 160,000 REALTORS® who contribute to the economic and social well being of communities across Canada. With our expertise and industry experience in the housing sector, we welcome the opportunity to offer insight and recommendations on Budget 2024's measures to build more homes.

For several years, REALTORS® have advocated in support of drastically increasing the supply of housing across the entire housing continuum. Housing is first and foremost shelter that provides a safe, sustainable, and quality living environment for families. It also helps improve the social, psychological, and cultural well-being of Canadians. It helps create communities.

We are encouraged by the Department of Finance Canada's decision to undertake this consultation on recent housing policy announcements from Budget 2024. These policy areas are of significant importance because they have the potential to help address the current housing crisis in both the short and long term.

Removing the GST for co-operative housing built for the long-term rental market

Taxes, fees, and levies on housing account for 30% or more of the cost of building a house in Canada. This has numerous consequences, including but not limited to: inflating the cost of building; raising the market price of homes; stifling supply; and increasing overall costs which are passed on to consumers and renters. When all levels of government impose tax on all aspects of homebuilding and purchasing, it exacerbates affordability challenges.

Since 2015, the government has made it clear that a key priority was to "remove the GST on new capital investments in rental housing." The fulfillment of this commitment is a positive and necessary step in addressing housing challenges. This policy has long been supported by most housing stakeholders and demonstrates sound judgment by recognizing that all governments must align their taxation policies with Canada's national housing needs.

Rental housing is one of the few types of businesses in Canada that are 'GST/HST exempt.' As such, rental housing operators pay GST/HST on their inputs, but do not collect GST/HST on their services (i.e. rents)—so they are 'stranded' with their GST/HST costs on inputs/operations. To address this economic challenge, owners of rentals have to charge higher rents to increase revenues to in order to cover the GST/HST costs. This is a cycle that can and should be broken. We believe that removing the GST on new rental housing projects, including co-operative housing is a great way to spur co-op housing development.

Furthermore, we urge the government to extend the existing HST/GST relief to also include non-profit affordable homeownership programs. This will enhance the sustainability of affordable housing initiatives, helping non-profit developers provide more units and maintain affordability for prospective homeowners.

Now more than ever, the government should be focused on better economic outcomes on both sides of the transaction in the rental market. This would be a step in the right direction.

Incentivizing more rental housing construction through a new 10 per cent Accelerated Capital Cost Allowance

All housing development is capital intensive, therefore the tax rules governing the use of capital in housing development is consequential. CREA welcomes the introduction of the accelerated capital cost allowance (CCA) as announced in Budget 2024 and believes it will be an important addition to the toolbox in order to support the development of greater housing supply.

By adjusting the capital cost allowance rate, this initiative benefits apartment owners by allowing eligible new purpose-built rental housing to be depreciated at a faster rate than was previously permitted. At the same time, it does not change the total capital cost allowance that can be deducted over the lifespan of the building. This measure can therefore be viewed as a revenue deferral rather than a permanent revenue reduction, as a recent study by the Parliamentary Budget Office (PBO) confirms. The PBO has also estimated this will help generate 241,000 units, which represents a much needed though still insufficient boost in supply.

Notably, this approach also effectively accelerates depreciation expenses for tax purposes for those projects with the hope that the increased after-tax returns/revenues will be reinvested or that "it will help make the math work" on more projects. To foster better outcomes in this regard, CREA recommends allowing for an even higher capital cost allowance rate on rentals which meet accessibility, affordability and energy efficiency/GHG reduction targets. This would be an approach similar to CMHC's MLI Select financing program, and it would provide additional incentives for projects with these qualities to get built.

We believe, however, there is an opportunity to go further and would suggest that as the Department considers input related to the draft tax legislation announced this summer that it consider the possibility of additional conditions that, in exchange for slightly greater generosity, provide a degree of guaranteed affordability for these projects. The current eligibility criteria as detailed in the draft tax legislation provides no conditions associated with the intended rent or profitability dynamics of eligible properties. Considering that vacancy rates remain tight in Canada, it is likely that the projects which this CCA class support will continue to be ones which foresee rents rising at or above prevailing market conditions, all while receiving important fiscal support from taxpayers.

It is evident that in introducing the CCA the government has sought to learn from past successes such as the Multiple Unit Rental Building (MURB) tax incentive which existed from 1974 to 1981. But as occurred to government at that time, additional tools were required to work in concern with MURB in order to provide additional guarantees of affordability. One such program, the Assisted Rental Program provide complimentary financing to MURB projects as a lever to receive additional concessions and oversight of projects, particularly related to financial performance of these buildings.

We believe a similar need and opportunity exists today. In a world where developers have said they are open to accepting additional conditions in exchange for reduced costs and improve project economics, we believe the government must seize the moment and maximize what it can achieve.

To this end, we recommend Finance Canada consider developing an additional Housing Supply Affordability Credit which would be open to provide a general purpose tax credit, eligible to both individual and corporate investors involved in projects which access the new CCA class. To receive this additional credit (which could be, for example, up to 20% of the value of CCA applied against the property) investors and owners would be required to submit annual returns on their properties and target an affordable return on equity that will help to lower new rental price pressures as this supply comes online. We will be conducting additional work to refine and further develop this idea but would welcome an opportunity to explore this with you further.

Modifying mortgage insurance rules to make it easier for Canadians to add secondary suites to their homes

CREA was pleased to see the Secondary Suite Loan Program announced in Budget 2024 and implemented by CMHC. We are eager to see the details of this program and its eligibility criteria, which if done correctly could have a notable effect on the Canadian rental market.

In a time of crisis, all options ought to be explored and all opportunities positively exploited. Allowing for greater flexibility or options in mortgage insurance rules to help homeowners develop and operate secondary suites is an opportunity worth exploring further. Moreover, it is a significant opportunity to help seniors unlock their single-family houses – and their equity – to make new rental and/or ownership homes available to younger generations in need. More importantly, it can provide seniors and families with a secondary source of income, while simultaneously helping to build density in existing neighbourhoods.

CREA recommends that existing homeowners who want to develop a secondary suite should be permitted to access their home equity at the time of re-financing to put it towards that purpose. In addition, the rental income from a secondary suite should be taken into consideration during a mortgage refinancing. Consistent with this approach, rental income from a secondary suite could be deducted from the maximum loan and home price, and homeowners interested in developing a secondary suite could be allowed to refinance at an earlier than scheduled time to help bring new rental supply online. These changes represent a holistic approach to policy reform and design; insofar as current mortgage rules act as a barrier to creating new rental supply, they should be examined and re-oriented toward the goal of creating more supply and resolving the housing crisis.

In conclusion, thank you for the opportunity to provide input on this consultation. We are heartened by the Department of Finance's interest in these topics. We have provided these recommendations to help guide the department as it determines impacts and appropriate solutions. We believe they should aid in addressing the challenge of desperately needed supply shortages across the housing continuum. REALTORS® will always focus on helping Canadians find homes and look forward to presenting the Department of Finance with input that will help make housing more affordable in the future.