National Scene
CANADIAN HOME BUILDERS' ASSOCIATION
August 2017

CHBA Concerned About Additional Mortgage Rule Changes

Early this summer, the Office of the Superintendent of Financial Institutions (OSFI) released its *Revised Guideline B-20* for comment. OSFI provides a regulatory framework that controls and manages risk for federally-registered financial institutions. Guideline B-20 sets out OSFI's expectations for prudent residential mortgage underwriting practices and has the effect of 'setting the rules' for bank mortgage lenders.

The revisions being contemplated by OSFI would have broad impacts on mortgage practices across Canada, and CHBA is concerned that these changes go too far and too quickly, particularly in light of the various other mortgage tightening measures already taken by government. We continue to tell the federal government that it needs to 'do no more' until the impacts of past rule changes are fully understood and reflected in the marketplace.

The headline change proposed by OSFI is a requirement that all residential mortgages, whether high-ratio or conventional, be subject to a stress test using an interest rate two percentage points higher than that negotiated for the actual mortgage. CHBA is concerned that this change will have a disproportionate impact on younger, first-time home buyers trying to achieve home ownership. It may also push such buyers towards shorter-term and open rate mortgages in an effort to qualify, which would have the effect of increasing mortgage risk.

CHBA has submitted its concerns to OSFI and will continue to engage federal decision-makers on the need for a more measured approach that supports young families in achieving their home ownership dreams.

CHBA Opposing Proposed Tax Treatment of Private Corporations

On July 18, the Department of Finance released a consultation paper outlining measures intended to close various tax planning strategies currently available to owners of private corporations in Canada, stating that these amounted to "unfair advantages."

Though presented as a move to reign-in the use of corporate tax loop holes by professionals (think dentists, doctors and hockey players), these changes would have a significant impact on many in our industry.

The great majority of home building companies are small, privately-owned corporations.

As family companies, the ability to distribute profits among family members helps to compensate for the significant risks involved in starting and operating a business. Similarly, current Capital Gains provisions are important when company ownership moves from one generation to the next, and often make up the bulk of builders' retirement savings. And the ability to hold capital within the company, invested in 'safe' passive instruments, is critical to having the financial capacity to invest when market opportunities arise.

The Minister's proposals would significantly restrict all of these activities. In an effort to achieve greater 'tax fairness,' these changes would treat entrepreneurs as if they were employees when it comes to taxes. This ignores the risks and costs that are part of the entrepreneur's reality, which is why CHBA is vigourously opposing the proposed changes.

Renegotiation of NAFTA

CHBA was asked by the federal government for its perspective on the current renegotiation of the NAFTA agreement.

Canada's preparations for these important talks have been impressive. CHBA took the opportunity to reiterate some of the key trade-related realities and concerns in our industry:

- Many of the products and materials used in residential construction are produced within a highly integrated North American supply chain, and any disruption to this supply chain will harm our industry and its customers (as well as those South of the border). Canada's overall priority should be the efficient flow of goods and materials.
- As the recent issue of drywall duties illustrated, there is room for improvement to current trade dispute mechanisms (e.g. dumping and countervailing duties) to prevent economic harm to our industry and its customers.

The Canadian business community will follow the NAFTA talks closely, and we wish Minister Freeland and her team success in securing an improved and modernized agreement that will support Canada's economic growth going forward.

CHBA President 'Leading the Charge' with #CdnBuilt for Generations

National President Eric DenOuden exemplifies the spirit of #CdnBuilt for Generations, our campaign celebrating Canada's 150th and CHBA's 75th anniversary by showcasing what our industry gives back to communities. On June 26 in Vancouver, Eric began cycling nearly 7,000 kilometres over nine weeks along with 135 other riders to raise awareness and funds to fight poverty with **Sea to Sea**, a cycling project aimed at finding solutions to end local and global poverty.

"I feel strongly that living in one of the best countries in the world with all kinds of freedom and opportunity we are responsible to assist others, which is one of the reasons I have decided to ride," Eric stated.

To follow Eric's progress, and learn about the many other amazing projects carried out by your Association's colleagues across Canada, check out #CdnBuilt on Twitter, Facebook and Instagram.

2017 CHBA National Awards for Housing Excellence Launches Soon

It's almost time! Take pictures while the weather is great and your projects look their best – because we're getting ready to open the 2017 CHBA National Awards for Housing Excellence soon. Check out the changes and improvements for this year at chba.ca/housingawards, and expect the Call for Entries in early September.

Member Webinar on CHBA's Home Buyer Preference Survey

Each year CHBA, in partnership with Avid Ratings Canada, conducts the largest homebuyer preference survey in Canada. Participation is limited to CHBA home builders and developers. This September 8th webinar will explore the most recent survey results, and demonstrate how members can benefits from the survey's incredible, and easy-to-use, online analysis tool to 'mine' the data most relevant to their market, product type and target buyer. Join CHBA CEO Kevin Lee and Avid's Tim Bailey for an in-depth look at how this survey can help you make better home building decisions. Go to chba.ca/surveywebinar to sign up for this webinar.

The first half of 2017 was very good for the Canadian economy overall and housing starts on a national basis, but regional variation remains and headwinds are expected to slow performance in the second half of 2017 and going into 2018.

Economic Fireworks in the First Half of the Year…

In its quarterly outlook the International Monetary Fund upgraded its 2017 growth forecast for Canada to 2.5%, from 1.9% in its spring outlook, making Canada the leader in economic growth for G7 countries.

TD Economics reports that Canada's GDP has grown at an annualized average of 2.5%, and 290,000 jobs have been created so far this year. Meanwhile, housing starts in July 2017 were at their third-fastest monthly pace since 2012. Starts in the first half of the year put the industry on pace for its best year since 2007.

… Possible Hangover in the Second Half

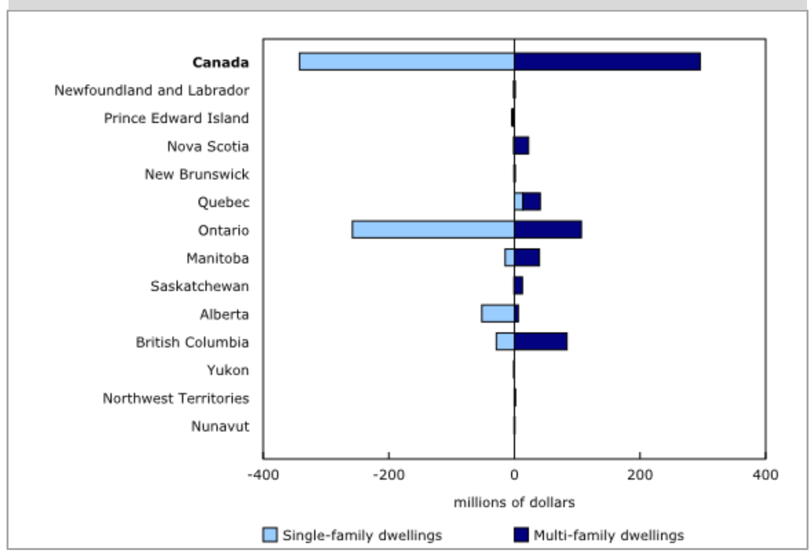
Glen Hodgson, senior fellow at the Conference Board of Canada, says that current and structural factors point to a slower-growth world in 2018 and in the decades ahead. He highlights the lack of growth in private investment and commodity prices, forecasts for poor US and global GDP growth, and slower labour-force growth due to Canada's aging population as significant factors.

Gordon Isfeld of the Financial Post reports that Canada is moving from a post-recession, post-energy-collapse environment to other economic challenges — such as the slower-for-longer pace of growth, withdrawal pains from years of cheap money and the re-balancing of government books to erase fiscal red ink.

Residential building permits, meanwhile, pointed to an increase in starts but a decrease in overall value, due to the investment in multi-units over single-family.

Statistics Canada reports that the value of residential permits fell in June, the fourth decrease in five months. This is attributable to the decline in the value of single-family permits. Multi-unit value saw a third consecutive monthly increase. The number of dwelling permits issued increased 7.2% from May 2017 to June 2017, and 24.7% year over year, all due to gains in multi-units outpacing declines in single-family.

Month-to-month change in value of residential building permits, June 2017



At the same time, CREA reports that national home resales fell 2.1% from June to July, the fourth consecutive monthly decline. Declines in resales are most prominent in Western Canada. CREA also reports that the national average resale price edged down by 0.3% year-over-year in July, with significant price declines in Toronto.

With new construction activity typically lagging behind that of resale, permit and start numbers are not expected to continue at their current pace.