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Chair

The Honourable Wayne Easter

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● (1535)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I call the committee to order. Before we go to the witnesses on the study of the Canadian real estate market and home ownership, we have a couple of budgetary items to deal with. The clerk has handed those budgets around.

The first one is a request for $23,900 for the study we're currently doing. We need this money to pay those witnesses, etc. Does somebody want to move that budget?

(Motion agreed to)

The Chair: The second budget deals with the postponed study on the comprehensive review of Canada's tax system.

The clerk feels that the amount of $9,600 is high, but we do have an obligation to cover those witnesses who may have already purchased tickets, and there are cancellation fees.

Do we have a mover for this budget as well?

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Since the government cancelled the study, I suggest they move that we cover those costs.

The Chair: It's postponed, Ron.

That's moved by Greg. All those in favour?

Do you have a question?

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Yes. So some people may have already expended moneys and cancelled their flights, and so we are going to be covering for that plus...or what exactly does this amount cover?

The Chair: Do you want to explain it, Suzie?

The Clerk of the Committee (Ms. Suzie Cadieux): It's for the witnesses who we've already confirmed for next week's meeting, those who have booked flights and things like that, which they will incur a fee to cancel. We'll cover that.

All those witnesses will be reinvited when the committee undertakes the study again, but since the committee does reimburse reasonable expenses as per the policy for their travel arrangements, we have to pay for those cancellation fees.

Mr. Dan Albas: Okay. Of course, we're saying we're very sorry. Is that correct?

The Clerk: Indeed.

Mr. Dan Albas: Okay.

The Chair: All right. All those in favour?

(Motion agreed to)

The Chair: Turning then to today's agenda and the witnesses who are here for the study on the Canadian real estate market and home ownership, I would like to thank all of the witnesses for coming.

We'll start with The Canadian Real Estate Association. We have Mr. Simonsen, chief executive officer, and Mr. Cathcart.

Go ahead, Mr. Simonsen.

Mr. Gary Simonsen (Chief Executive Officer, The Canadian Real Estate Association): Thank you, Mr. Chair.

The Canadian Real Estate Association would like to thank the committee for the opportunity to participate in the study on the Canadian real estate market and home ownership.

CREA represents over 120,000 realtors from across the country. As one of Canada's largest single-industry associations, we represent real estate brokers and agents, as well as homebuyers and property owners throughout the country.

Canada's housing market is a key component of Canada's overall economic stability and an important generator of jobs and economic security for the middle class. In 2016, each home sale generated over $52,000 in spinoff spending. This translates to one job for every three real estate transactions. In addition, resale housing transactions, through the multiple listing service, generated more than $28 billion in consumer spinoff spending and created more than 198,000 jobs in 2016.

Most Canadians see their home as a source of pride, satisfaction, and accomplishment, not to mention a safe environment in which to raise their family, create happy memories, and create a sense of community. This is why CREA has been advocating for the indexation and modernization of the homebuyer's plan, a program that allows Canadians to use their RRSP savings to purchase their first home. We were pleased to see that the plan was included in multiple election platforms in 2015, and we will continue to work with the government to ensure it remains a valuable program for all Canadians.

As all real estate is local, it is important to note that the housing markets in and around Toronto and Vancouver have different realities compared with markets elsewhere in Canada, most of which are either well balanced or amply supplied. It is crucial to consider and reflect upon different areas of the country when enacting policy that affects a wide swath of housing markets, including places not targeted directly by the government's recent regulatory measures.

Consumer demand in markets such as Toronto and Vancouver is at an all-time high, and there is a significant shortage in the housing supply. Various factors have caused an imbalance in the supply and demand of homes, which in turn drives up prices significantly. As this is a complex matter, CREA is encouraged that the federal government created a working group comprising federal officials as well as provincial and municipal representatives. The three levels of government will be able to focus on the challenges in each region and recognize the local reality for all markets.

While the provincial governments in Ontario and British Columbia have recently introduced measures to assist first-time homebuyers, the federal government has tightened national mortgage rules, thereby lessening affordability for those seeking to enter the market. If the federal government continues to tighten mortgage rules, will this force provincial governments to implement further programs to assist first-time homebuyers?

CREA and its realtor members urge all levels of government to continue to work together to reach a healthy, competitive, and stable housing market. We are prepared to share analysis of local housing market trends and apply our knowledge and data to help the government policy-makers at all levels better understand how changes to housing-market regulations may affect communities across Canada.

Assistance for first-time homebuyers should be top of mind for all levels of government. First-time homebuyers need support to overcome the obstacle of saving for a down payment in order to reach their home ownership dream. The plan's purchasing power is steadily declining and it has become less valuable due to the increase in home prices.

We recommend that the plan be indexed to inflation to preserve its purchasing power and so that it can continue to help first-time homebuyers attain home ownership. Easing affordability concerns is a key principle of the plan, and Canadians should be able to benefit from this program more than once. Canadians and their families who face sudden life changes, such as job relocation, the death of a spouse, a marital breakdown, or the decision to accommodate an elderly family member, may need support in order to maintain home ownership. Expanding the plan to enable Canadians to use their RRSPs as a zero-interest self-loan is a fiscally responsible way to support families through a difficult period of change.

● (1540)

In the last eight years, the federal government has implemented six rounds of changes to tighten the rules for new government-backed insured mortgages and to contain risks in the housing market. These measures have been implemented, some over a very short time period, and their full impact has yet to be determined.

We recommend that the government take a pause to fully evaluate the cumulative impact of the changes before looking at implementing additional measures.

Thank you for your time. I would be pleased to answer any questions the committee members may have.

The Chair: Thank you very much, Mr. Simonsen.

Turning to the Dominion Lending Centres, we have Mr. Mauris, president, and Mr. Teixeira, vice-president of marketing, public relations, and communications.

Mr. Gary Mauris (President, Dominion Lending Centres): Good afternoon, honourable members. Thank you for the opportunity to contribute to this important work you are all doing.

Dominion Lending Centres is Canada's largest network of accredited mortgage professionals, with over 5,000 active brokers nationwide.

Together with our affiliated companies, we facilitate approximately 38% of all mortgages brokered in Canada, more than any of the big five banks.

At DLC we pride ourselves on both being experts in the finances of real estate and having our ears to the ground, when it comes to the concerns of the Canadian consumer.

Each year our mortgage professionals work alongside lenders to provide Canadian families the opportunity to realize the dream of long-term financial security in a home.

Before we begin, I want to make it clear that mortgage brokers are neither part of a big bank nor monoline lenders. Mortgage brokers originate one-third of all new mortgages in Canada each year. We provide competitive tension between lenders, and choice and options for consumers, and we serve not only major urban centres but also the small underserved regional communities that make up the landscape of our country.

Our job is to find consumers the right mortgage for their family at the best rates. We are agnostic as to which solution is right for each family, and we are agnostic as to which lender funds that mortgage.

We are, however, an authority on value. We find, broadly speaking, that a lot of the new rules that have been proposed here would drive down affordability. Our biggest issue with these proposals is that the government did not consult with our industry, our brokers, our monoline partners, our credit union partners, our two competitive insurers, our real estate partners, our housing partners, or anyone outside of the big banks for that matter.

Policy-makers did not have the benefit of our intimate perspective when they made these changes unilaterally, something that will end up hurting all Canadians. These proposals skew consumers in the direction of the already dominant big banks, and while those may represent viable solutions for some Canadians, for many others, the monoline lenders better fit their needs.

When policy favours the big banks, it reduces overall competition in the mortgage marketplace, and that hurts Canadian consumers, regardless of what solution they use for their homes.

The other thing I want to emphasize before we begin is that these national-scale changes are impacting the entire country, whereas they're clearly directed at two hot housing markets, Toronto and Vancouver. We think that a smart policy would be to implement whichever proposals are enacted, on a regional basis, taking into account differences across the country.

While we understand and agree with the government's desire to protect consumers, Dominion Lending Centres disagrees with certain aspects of the recent mortgage rule changes as they make housing less affordable, not more affordable.

Let's begin with the stress test. The net effect of the stress test on many homebuyers is that their purchasing power has now been reduced by upwards of 20%. This has a significant impact not only on first-time homebuyers, but on many middle-class Canadians who need extra room for their growing families. As a result, housing is less affordable rather than more affordable, and individuals and families who have had their purchasing power reduced have to look at purchasing condos with monthly fees, or smaller homes in less desirable locations that require them to commute to work and school.

Others, who now must postpone home purchases to save more money, are falling further behind as house prices in many regions rise and become further and further out of reach.

We agree with the government's core objective of reducing the risk of a major rise in defaults should rates increase. We also agree that a stress test is the most prudent policy to achieve this. But what I can also tell you is that even with a hot housing market, there is a very low chance of the kind of defaults witnessed in the United States in 2008, given that the current default rate is 0.28%. That's right. It's roughly just one-quarter of one per cent. It's important to remember that when setting the rate at which the stress test is implemented.

Let's move to the restrictions on low-ratio mortgage insurance eligibility requirements. While traditional lenders, the big banks, have multiple revenue streams to finance mortgage loans, giving them the ability to effectively insure their own loans, the same cannot be said of non-bank or monoline lenders. Monoline lenders access funds through the mortgage-backed securities market, which can be accessed only with insured mortgages. They rely on portfolio insurance to finance their lending activity.

As a result of the new requirements, investors are less inclined to fund monolines that now must charge higher rates, as investors expect a risk premium that must be priced in and passed along to the consumer. This, again, puts the banks at a competitive advantage as the monoline rates and costs go up. Mortgage credit availability is reduced to the extent that some monolines will now be forced to close or merge with other institutions, also reducing competition in the marketplace. Again, just like the new stress test rules, the net impact on the consumer is negative, making housing less affordable.

Because the new rules prohibit insurance on non-owner-occupied properties, there is an added strain on the already tight rental market, as those who invest in rental properties now face higher rates and much fewer borrowing options.

● (1545)

We recommend that the government reverse these changes or at least allow refinanced mortgages and mortgages on homes valued at up to $1.5 million to be portfolio-insured, given that in some major markets homes over $1 million are commonplace and not a luxury. We would also be open to seeing the threshold reduced to a 75% loan-to-value ratio, rather than removing eligibility for these products entirely.

With regard to mortgage insurance rules and lender risk sharing, we believe that a lender risk-sharing program would raise the risk associated with funding mortgages and increase the amount of capital that lenders require. Again, while banks are sufficiently capitalized to retain loans on their books, smaller lenders are not and thus they would need to increase mortgage lending rates to offset additional risk, increasing costs to consumers. Even the banks are likely to pass off the costs of risk sharing to the consumer, increasing fees and mortgage rates, further reducing housing affordability.

In summary, Dominion Lending Centres recognizes and appreciates the government's legitimate concerns regarding the debt load of Canadians and housing affordability. Regardless of whether someone lives in a hot housing market, like the GTA, or in the Prairies, where house prices have remained flat for the past several years, it is important to remember, when setting and analyzing housing and mortgage policy, that 70% of households in Canada own their dwellings. Many Canadians are relying on equity in their home for their retirement cushion. By making housing less affordable and reducing demand—impacting home values and skewing the market in the direction of the large banks—we are unintentionally putting home ownership out of reach for many Canadians and making it more expensive for those already in their homes today.

It will be a sad day when the government unintentionally lops off more than 20% of Canadians' net worth by hastily instituting a policy that radically impacts one of the most admired housing markets in the world.

With regard to mortgage rules and recommendations, and in addition to the recommendations I've mentioned here today, we echo those put forward by Mortgage Professionals Canada, as well as many of the insurers and monoline lenders. We think that, as this is an industry that handles more than one third of all mortgages in Canada, it's important to consult mortgage brokers and industry stakeholders in advance, before setting these types of policies.

In summary, we have five proposals.

Number one, allow 12 to 18 months to study the impact of all changes made to date before considering any further changes.

Number two, modify the stress test to better reflect future rate expectations, and mandate that banks have to qualify all conventional mortgages at the same stress test threshold, eliminating the existing unlevel playing field.

Number three, given the number of further damaging consequences, do not proceed with the risk-sharing model.

Number four, reverse the decision and allow portfolio insurance on refinances and rental properties. If an 80% loan-to-value ratio is objectionable, reduce the threshold to 75% rather than removing that eligibility entirely.

Number five, continue to work closely with other levels of government and industry to study and address individual housing markets at the regional level.

One last point I would make, which I think is pertinent, is that it has to be clearly understood by everyone that we are not against the “big five” banks in Canada. They are great partners to us, and we do a lot of business. As a matter of fact, we do more loan origination through them than through any of their other partners. We're on their side, and we've been very supportive of every mortgage rule change since 2008, more than two dozen of them.

This is the only time ever that you've made a change unilaterally, and very quickly, without proper consultation, which is having a massive impact on Canadians and their families. This is the only time when the industry has come together universally and said, “Listen, we want to at least provide our feedback, because we think that there has been an error this time. We think that this is not prudent policy.”

I'll wrap by thanking all of you for the opportunity. Thank you for having us here today.

● (1550)

The Chair: Thank you.

The Alberta Mortgage Brokers Association is next, with Ms. McDowell, president, and Mr. Mawji, vice-president.

Go ahead, please.

Ms. Katherine McDowell (President, Alberta Mortgage Brokers Association): Thank you, Mr. Chair.

My name is Katherine McDowell, and I'm the current president of the Alberta Mortgage Brokers Association. With me is our past president Adil Mawji. We are both licensed and practising mortgage brokers in the province of Alberta. Also joining us is our executive director, Amanda Roy. We appreciate the opportunity to share our thoughts with this committee.

The Alberta Mortgage Brokers Association is the oldest mortgage industry association in the country. For more than 40 years, AMBA has been the voice of the province's mortgage community, including brokerages, lenders, insurers, and industry service providers. More than 2,200 mortgage brokers representing 377 companies make their living in our province by helping Albertans achieve their dream of home ownership.

Canadian mortgage brokers represent $80 billion in annual economic activity and are changing the landscape of mortgage borrowing for the next generation, with 50% of first-time homebuyers using brokers. In Alberta, our members contribute heavily to the provincial economy by arranging financing for new home constructions, resales, and refinances for home improvement and debt services. Mortgage approvals alone in the province generated more than $30 billion as far back as 2010, according to Statistics Canada. We are seeing first-hand the negative impact of the mortgage rule changes across Canada, especially to the Alberta consumer and economy.

The unintended consequence of what we believe were mostly unnecessary changes at this time is a weakening of the middle class through the transferring of wealth in the form of higher interest costs and mortgage insurance costs for the consumer.

Alberta has been the poster child for what regulators fear. There have been two years of solid recession. According to the regulators, these changes were made to protect consumers from any impact resulting from higher unemployment rates or interest rate increases. We are not against a stress test in some form, although not as it currently exists, but our province has already been a test environment for the effects of unemployment. Prudent underwriting rules previously put in place for those very reasons have already given us the ability to weather that storm.

In 2014, Alberta had an unemployment rate of 4.7%, and the number of households in arrears was 0.27%, which was just under the national average. By 2016, our unemployment rate had drastically increased from 4.7% to 8.5% by the fourth quarter, and the number of households in arrears was 0.41%. An 81% increase to unemployment between 2014 and 2016 resulted in a relatively moderate increase in delinquencies from 0.27% to 0.41% in that same time period, according to CMHC data.

At this time, we don't even know the impact of the wildfires in Fort McMurray in May of 2016, but according to that data, Q2 reported a 0.37% rate of delinquencies, and that number jumped those last few percentage points to 0.41% by the end of Q3. So we ask, what are these changes really protecting the taxpayer from?

We consider the stress test to be a prudent underwriting measure to protect the Canadian taxpayer. However, we do feel the newly introduced qualifying rate and the way it is calculated are too severe, at 200 basis points higher than the average contract rate.

For consistency across all mortgage applications and for consumer protection, we'd like the government to consider slightly tweaking the qualifying rate and how it's calculated in order to better reflect market conditions. As an example, a potential solution that could be explored is contract rate plus 1% to be applied across all mortgages.

Other presenters to this committee have previously explained how securitization works, but what hasn't been explained is how it directly affects the middle class. Since October 2016, those attempting to buy a home without default insurance have been adversely affected by the transfer of wealth due to increased interest rates from this policy. This is also true for those refinancing.

For example, a middle-class first-time buyer from ten years ago, who has equity in the home and needs funds to renovate in order to move his aging parents into a fully developed basement, is forced to pay more to do so now. Refinancing for this purpose or for other investments typically helps build wealth in the household. The policy change of removing refinances from portfolio insurance will cost these individuals more through increased interest costs, resulting in a decrease in the potential middle-class wealth.

Canadian consumers are now forced to pay more for their mortgages because of the new OSFI guidelines, which make mortgage insurance more expensive to the lenders. As a result of the requirement from mortgage insurers to hold more capital against mortgages they insure, we have seen mortgage insurance premiums increase for both low- and high-ratio mortgages. The effect of this increase on mortgage lenders, both bank and monoline, has been to build that cost into the interest rate charged to the mortgage borrower.

● (1555)

Today we are seeing discounted interest rates on all high-ratio insured mortgages. However, for any low-ratio insured mortgages and any uninsured mortgages, the cost of implementing the capital requirements has been passed on to the mortgage borrower to bear by way of increased interest costs.

Interest rates have been adjusted to reflect the added costs of portfolio insurance or the added cost of capital for lenders to hold these mortgages on their balance sheet. In some cases, these increased costs have almost negated increases to the Canada child benefit.

If a consumer claiming the Canada child benefit for a one-child family makes $90,000 a year, their tax savings would be approximately $1,120 per year. If they have an uninsured mortgage, they would have to earn nearly $1,100 more to pay the additional interest costs on a $400,000 mortgage.

For the high-ratio consumers putting 10% down, due to increased insurance costs their future home equity decreases by $2,700, which is reflective of the amount for an extra premium on a $400,000 mortgage as well.

In closing, we would ask the committee to consider making changes to the new rules in five areas.

We ask that you reconsider the reinclusion of refinances in portfolio insurance.

We recommend the modification of the current stress test to a more market-plus approach.

We ask that you review the increase to the capital reserve requirements and ask more questions about how it was balanced. Alberta, for example, had a significant increase to unemployment, topping at 9%. What was the increase in losses year over year for the insurers? Was it proportional to the increase in insurer capital requirements?

We also request a study into the potential ill effects of regional-based pricing for insurance and request that you consider the effects of regionality as part of the risk-sharing model. We believe that over time it will become very detrimental to Canadians in economically challenged areas where stimulus, rather than added costs, is needed.

In moving forward, we would also ask that the Alberta Mortgage Brokers Association as well as all stakeholders who have testified before the Standing Committee on Finance be considered key stakeholders to be consulted when the committee reviews all real estate finance changes in Canada.

Thank you, Mr. Chair, for your time. We are prepared to take any questions you may have.

The Chair: Thank you to all the witnesses.

Given that we have only one hour, we will go with five-minute rounds. That way we can get more people on, starting with Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thank you all for coming.

Let me start off with some questions. I'll ask all of you, and I hope you can give me yes-or-no answers.

The previous government implemented many changes to the mortgage market. There were changes in 2008, 2010, 2011, and 2012. Were any of you consulted prior to those changes?

Mr. Gary Mauris: I'll take a stab at that first. We were consulted via our associations, and our large national association in some of the situations, but not every time. When it was about insurance, as an example, they wouldn't necessarily reach out to us on that.

As I said earlier, the changes this time are so much more categorically damaging than they have ever been before. With the changes in the past, we never had this kind of push-back.

● (1600)

Ms. Jennifer O'Connell: Let me then follow up with you since you jumped in on that question. Is Dominion Lender Centres publicly traded?

Mr. Gary Mauris: Sixty per cent of Dominion Lending Centres is owned by a publicly traded company. It is one company in a portfolio of many.

Ms. Jennifer O'Connell: Would you not see a risk if the government made market-sensitive changes that could impact industries that were publicly traded?

Mr. Gary Mauris: I don't understand the question.

Ms. Jennifer O'Connell: When changes like this are developed, there are market sensitivities. With an organization like yours, for example, which is 60% openly traded, do you not see that there could be a risk for things like a shorting of stock?

Mr. Gary Mauris: I think if you look at the mortgage landscape in Canada and any of the publicly traded companies, especially the monoline lenders, you will see that they have had severe pressure, and some of them have had much short-selling pressure over the past 12 months. I don't necessarily see how that ties in. We're talking about mortgage policy that's going to affect all Canadians now. We're talking about policy that is overreaching in an effort to cool down Vancouver and Toronto. It would be the equivalent of being a schoolteacher and having two misbehaving students, one named Vancouver and one named Toronto, and punishing the entire country. It doesn't make sense.

Ms. Jennifer O'Connell: Thank you.

Let me follow up on that line, then. These regulations and these changes actually are trying not to cool down markets but to limit risks to those who have higher debt levels. The changes do not go into effect one way in one region and another way in a different region. It's the debt ratio, not the price or value of homes. It's debt ratio. If you have low debt in a household in Alberta but high debt in Ontario, that's the factive point here, not the value of your home.

You said “overreaching”. The Canadian government helps and supports mortgage companies and lenders more than Australia, the U.S., and the U.K. do. If the Canadian government, with taxpayers' money, no longer backed your insurance, would you be able to operate under your business model?

Mr. Gary Mauris: If that happens, all you're going to have is the big five chartered banks in the country, and you're going to have devastation among monoline lenders and credit unions in the country. You're going to take away the entire focus around free trade and the competitive nature. By doing that, you'd actually be favouring a monopoly—a government-favoured monopoly—in the country.

Just so you know, in 1987 it was CMHC and the government that realized we were having these deep compressions and difficulty around the competitive landscape. In fact, that's when they came out and developed new lending criteria and gave additional lenders the ability to insure mortgage loans so that there were other alternatives for funding.

Ms. Jennifer O'Connell: Sure, but it certainly would be prudent, Mr. Chair, that since we're using taxpayer dollars to support that competition that we then support and limit risk in those insurances to those higher-risk borrowers who have high levels of debt, to ensure that their investment—

Mr. Gary Mauris: Yes—

Ms. Jennifer O'Connell: Sorry, but I didn't have a question yet.

It's to ensure that those investments are actually protected in an industry, to ensure the competition can continue. You can't have one without the other, so remember, we're using taxpayers' money here.

My last question to you, sir, is where is the evidence—

The Chair: Keep it quick if you can, Jen.

Ms. Jennifer O'Connell: Thank you.

Where is the evidence that you have, and if you have it, could you submit it to the committee? Where's the evidence you have that people have actually been pushed out of the market?

Mr. Gary Mauris: I can give you hundreds and hundreds of letters, emails, and phone calls; I mean, more than a hundred. Every month people are writing to us to say they can no longer qualify but they are close.

There were two teachers. They had been saving for five or six years. They finally got to a point where they had a down payment to qualify. Then all of a sudden these rule changes came in and the mortgage amount they thought they were going to qualify for was no longer available to them. They couldn't qualify, so they had a choice, which was, “I can't live in the city where I actually go to work and raise my kids and where our children go to school, so I have to move 30, 40, or 50 kilometres out or I won't get into the housing market at all.”

I want to make one point—

● (1605)

Ms. Jennifer O'Connell: I want to clarify.

The Chair: We're going to have to cut it here.

Ms. Jennifer O'Connell: I just want to know if he's saying that they were pushed out or were just not qualifying for the amount they thought they would, because my question was about being pushed out of the market completely. That was his statement. [

The Chair: If you want to answer that in this next round of questions, go ahead, Mr. Mauris.

Mr. Deltell.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

[*Translation*]

Ladies and gentlemen, welcome to the heart of your Parliament.

[*English*]

I will continue in English. It's all right with me.

First of all, before asking you any questions, gentlemen and madam, I want to say that I'm very pleased to see how cautious our colleagues from the government are, and so prudent, when they talk about debt and limiting the risk, while this government, if nothing changes, will go to a debt of $1.5 trillion in 2050. So what is good for Canadians will not be good for the Canadian government, and we have to be very concerned with that.

Gentlemen and madam, I have a question for every one of you. Were you consulted before the call of the minister in October?

Mr. Gary Simonsen: No, we were not consulted.

Mr. Gary Mauris: No, we were not.

Ms. Katherine McDowell: No.

Mr. Gérard Deltell: When were you informed and how were you informed of the call of the minister?

Ms. Katherine McDowell: It was by email.

Mr. Gérard Deltell: I'm sorry?

Ms. Katherine McDowell: It was via email and media.

Mr. Gérard Deltell: Was it an email from the minister or from...?

Ms. Katherine McDowell: It was sent out from CMHC.

Mr. Adil Mawji (Vice-President, Alberta Mortgage Brokers Association): It was communicated to the broker industry through an email to the industry.

Mr. Gary Mauris: Most stakeholders in the Canadian housing market—realtors associations, monoline lenders, the two secondary insurers in Canada, and the large distribution networks were notified via the media announcement.

Mr. Gérard Deltell: How were you notified, Mr. Simonsen?

Mr. Gary Simonsen: We were notified the same way.

Mr. Gérard Deltell: Okay. Thanks. We have good media people to inform you of the major decision.

And as you said a few minutes ago, Mr. Mauris, it has a huge impact.

We all recognize that we have a difficult situation in Toronto and Vancouver.

Gentlemen and madam, you said quite clearly that the new initiative didn't address the average people who want to buy their first house, but can we at least say that the announcement in October was good to address the problems we had to face in Toronto and Vancouver?

Go ahead, Mr. Simonsen.

Mr. Gary Simonsen: Just to make sure I'm understanding the question, were you asking if the mortgage rule changes that were made in October were helpful to the markets in Toronto and Vancouver?

Mr. Gérard Deltell: Yes.

Mr. Gary Simonsen: They had some impact. One reason we've stressed the importance of expanding the homebuyer's plan for those individuals who would be impacted is that it allows them to apply some additional funds to qualify under the revised mortgage rules and under the stress test. They would then be able to, hopefully, qualify for something whereby they would have a higher down payment but would ultimately have to pay lower interest payments. They would then also not have to incur the cost of mortgage insurance.

It would certainly have an impact in that regard.

Mr. Gérard Deltell: Would it be a positive one?

Mr. Gary Simonsen: No, it would not be a positive one in that circumstance.

Mr. Gérard Deltell: Mr. Mauris, it's your turn.

Mr. Gary Mauris: I don't know that they necessarily had a positive impact on Vancouver and Toronto. A lot of these policy changes really impacted first-time homebuyers. A first-time homebuyer today isn't a 19- or 20-year-old kid trying to trick the bank into giving them a mortgage loan. The profile of a first-time homebuyer is a young family, typically between the ages of 25 and 40. They have an incredibly high Beacon credit score averaging 752. They have a household combined income of between $80,000 and $100,000. These are real people who are raising kids, who make sacrifices to their community, who coach other children, and it was targeted at these people.

When I tie that back to Toronto and Vancouver, those first-time homebuyers, for the most part, are invisible in those markets. They are not buying in Toronto and Vancouver. They can't buy. The houses are so out of reach that they are buying in Chilliwack or they are buying in Guelph. They are buying in secondary markets.

Did it have a positive effect? I'm not sure that the tools the government implemented did much at all to really improve Toronto or Vancouver. I think what the provincial government did in British Columbia was very prudent. It was very regional and I think it had a very quick impact that was positive.

● (1610)

Mr. Gérard Deltell: At least if all those new rules could have had a positive effect on Toronto and Vancouver, we could say, "okay, it was not so bad."

Gentlemen, I understand that you are saying that there was no good effect, either in the big city or for the average Canadian.

The Chair: Go ahead, Mr. Simonsen.

Mr. Gary Simonsen: One of the themes we have heard here today is that we should take a pause. We need to assess what the impact truly is. We need to look at the data and look at the consequences in the marketplace, to let those play out and see what the results are. It's too early to truly understand what those results are. If you're going to be a data-driven organization and base decisions upon facts and data, then let's make sure we have that together. That's certainly one of the reasons we have strongly advocated taking a pause. Let's see what the impact is, not just in Toronto and Vancouver, but across the country.

The Chair: It's your turn, Mr. Caron.

[*Translation*]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you very much, Mr. Chair.

I would like to ask for some clarification, as a result of Ms. O'Connell's question.

It seems that you were not informed or consulted about that series of changes. Is it usual to consult you when there are changes to mortgage rules of that kind?

[*English*]

Mr. Adil Mawji: I can take that question if you like.

In most cases, it is common knowledge or common behaviour for government to consult the industry. I can speak on behalf of Mortgage Professionals Canada, which has been a witness at this committee before. On a regular basis, they were consulted and did lobby in Ottawa and did have representation speaking with the ministers in the previous government, unlike with these last changes which no one was consulted about.

[*Translation*]

Mr. Guy Caron: So you feel that it is usual for you to be consulted and you certainly wish to be, correct?

[*English*]

Mr. Adil Mawji: In Alberta, no, but we work very closely with our national association and yes, they are usually consulted.

Mr. Gary Mauris: For many of the changes in the past, we've been consulted via associations that have worked with the Department of Finance. Prior to this previous government, our association and our industry had a very good working relationship with the Department of Finance, with Ottawa, and with the regulators.

Mr. Gary Simonsen: In terms of all the previous changes, I can't state categorically that we were consulted on all of them. There was certainly some consultation on prior ones, but not on the most recent one.

[*Translation*]

Mr. Guy Caron: Okay, so—

[*English*]

The Chair: I have a follow-up on that point. I won't take from your time.

What's been going through my mind is that there's a lot of secrecy around a budget, and there's very good reason for that. On this specific decision, wasn't it important not to let out of the bag in any way the decision that was going to be made and the impact it might have on the markets? Was there a valid reason for not consulting with the industry on this specific question, in terms of what that might do to the markets?

Mr. Adil Mawji: Absolutely. I can speak on behalf of Albertans. My colleague Katie testified that for the past two years Alberta has been suffering. Unlike the rest of Canada, we were a hot market for many years, and for the past two years we've seen the complete opposite, a reversal of our fortunes. These new rule changes have just kicked our province while we're down. There's no better word for me to explain it.

To answer your question, Ms. O'Connell, I'd say we've pushed out the bottom 20% of homebuyers—I can speak on behalf of Calgary—as they just cannot afford to buy in Calgary. There are no homes priced at under $150,000, and they were previously qualifying for a $225,000 to $250,000 condo. They're being forced to go back and enter the rental market, where we are even seeing higher vacancies due to lack of jobs. People can't afford to pay rent. They're moving back in with their families. We're seeing multi-generational housing at the forefront of...I can speak on behalf of my business. I'm 32 years old. People my age are moving in with their parents, and their parents are legalizing their suites.

The Chair: That, Adil, though, is the consequence of the decision.

What I was asking is in terms of—

Mr. Adil Mawji: I was explaining why we should be consulted.

The Chair: —the secrecy around the decision, which may have been necessary.

Mr. Adil Mawji: I still feel that you can speak to associations in confidence.

Even if you need to close the meeting, I still feel that you need to be able to consult professionals. We are experts in our field, and we're here for a reason.

● (1615)

The Chair: Okay, that's fine.

You have four minutes left, Guy.

Mr. Guy Caron: Thank you.

On this I would say the Minister of Finance actually consults regularly prior to budgets, to get information.

The Chair: He does, in a general sense.

Mr. Guy Caron: It doesn't mean that the measures will be in there, but if he wants to include a measure in the budget, he might ask questions about that specific measure to some stakeholders as well. I think that's the point we're trying to get across here.

Quickly, especially for those who are involved in the Toronto and Vancouver markets, I guess it's too early right now to say what the consequences are in quantitative terms. Do you agree with this? Is it too early to say we have an impression? It might be efficient or it might not be efficient, but we can't really say at this point and we'll have to wait a bit.

Do we also all agree that those were two markets that were overheated? We don't even know if they constitute a bubble or not.

We've seen provincial measures in Vancouver—including a special tax for foreign buyers—that seem to have deflated the market, hopefully to a point where it might be seen as healthy. We'll see about that. In Toronto, I would say it's somewhat stabilized right now, but it hasn't decreased per se. Do you have a feeling that the provincial measures will actually be more efficient than the federal measures that were announced recently to try to address that situation? I'm just talking about those two markets, regardless of what happens in the rest of the country, because we all agree that the rest of the country is actually made up of different markets that will be impacted differently.

Mr. Gary Simonsen: Just speaking of the Vancouver marketplace, certainly based upon our data analysis, the market was already starting to slow down before any of the measures that were taken in B.C. How that would have played out is difficult to predict now, because those measures have been taken. Again, we're back to the importance of analyzing exactly what the impact is.

Mr. Guy Caron: Before you answer, I just want to tell you where I want to head with this. The fact is, we are in a bit of a conundrum. We're seeing that provincial measures might be more efficient than federal measures, because they don't cover wall to wall. On your side, those regulations, CMHC banking regulations, are federal in nature, so what should the federal government do to ensure that there is no formation of real estate bubbles in some markets? How much power should be given and what powers should be given to the provinces to more adequately address those local markets and the decisions in those markets?

Mr. Gary Simonsen: I think it goes back to the earlier comment made about the collaboration among all three levels. When we look at Toronto and Vancouver, we know that supply is a big issue. That's not an area of federal responsibility; it's more at the provincial and local levels. We think there are some opportunities there for a collaborative effort to make sure that whatever policies are adopted federally, provincially, and municipally, they complement one another and do not compete with one another. We are very encouraged by that initiative. Number one, we would certainly suggest that this is a very important approach to take.

Mr. Guy Caron: Would you say that this collaboration is lacking at the moment?

Mr. Gary Simonsen: I don't know. We know there have been two groups formed, but we have not been privy to the reports or any of the work that's been done. We're encouraged, however, that this initiative is taking place.

Mr. Gary Mauris: As Gary just mentioned a few minutes ago, back in April, Vancouver started coming off month after month. I think the tax on the vacant properties in Vancouver was very prudent. I don't even necessarily disagree with the foreign home-buyers tax. Certainly in those large urban centres, there is no question that they were driving up prices. I fully support the federal government working with its provincial counterparts to take a regional approach in markets as they become problematic.

Just to reiterate, from my perspective, I'm in a unique position. I'm not a lender. I'm not an insurer. I'm an originator and I can shift my business. I can send more of my business to the banks, and I have great relationships with them. I'm giving you someone who universally looks at almost 500,000 mortgage applications per year. I'm sharing boots on the street, real feedback. The changes made by this government were without consultation and were very quick. We in the industry all know that the government was attempting to solidify our Canadian housing market so that we would continue to be a country that worldwide markets look to with admiration. In this particular situation, I think they went a little too far.

● (1620)

The Chair: We'll have to cut you both off there.

We have time for two more questioners, Mr. Sorbara and Mr. Albas.

Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome, everyone. I believe this is the third session we've had on the housing market and we've heard some great testimony.

I'd like to make a couple of points before the question. First, in Canada we have a 69% home ownership rate, which is pretty good if you compare it with any G-7 country, or if you want to lump in a few other countries. We have a very high and healthy home ownership rate. We have a lot of people, about 40% of the market, who actually don't have a mortgage, which is another great thing. We've never had some of the lending practices that they had in the United States, such as NINJA loans, adjustable-rate mortgages, or collateral that was really never there. If you ever watched *The Big Short* , that's basically true.

Mr. Gary Mauris: Absolutely.

Mr. Francesco Sorbara: What happened in that movie was basically true. I lived it and I saw it.

We have a very resilient housing market. But we also have CMHC, which is effectively backstopped by the Canadian taxpayer. So any government, Conservative or Liberal, needs to be prudent.

In my last session, I said, “Looking at the trends, isn't it prudent for any government, when CMHC is effectively backstopped by the taxpayers of Canada, to implement measures designed to improve the quality of indebtedness for borrowers going forward?” I think it is prudent for any government, be it on the Liberal side or in the past on the Conservative side, to do so. I continue to believe it and I think many of the measures that were introduced by the federal government, Liberal or Conservative—because the changes started under the past administration—are prudent and need to be put in place.

I want to make that remark, because I think it's important to be on the record. We're not trying to not have people enter the housing market. We just want to make sure that the level invested is manageable. We do have regional markets, I agree.

On the consultation point, I remember in my past life that the past administration made a big change to something called the income trust market. They announced it about 4:45 p.m., after the market closed, and that market basically collapsed. Income trusts, at the time, were a pretty popular thing for a lot of companies to do, issuing cash to shareholders and so forth, and the market collapsed.

The Conservative party broke that promise. They said they would never tax income trusts and they did. They didn't consult, particularly when they didn't tax the prices of publicly traded securities. It affects behaviour.

Consultation is important, I agree; I get it. But when certain measures need to be introduced, when there is an impact and when there will be an impact on market behaviour, individual behaviour, sometimes measures need to be introduced. So let's put this on the record.

I have one question to end this. Thank you, Mr. Chair.

The Chair: That's good.

Mr. Francesco Sorbara: A lot of participants we've had have asked for a pause in further measures being introduced, whether risk-sharing or other measures. Who knows what they may or may not be? What timeline would we be looking at?

For the folks in Alberta, I hear where you're coming from. I grew up in a small town that was devastated by a pulp mill closure. The folks in Saskatchewan right now and in Newfoundland and Labrador are being impacted by the low commodity prices. My heart goes out to those families who are impacted, and our government is doing everything it can to get those people back to work and make sure middle-class Canadians have a good future in this country.

In terms of the pause, how long a pause would we be looking at?

Mr. Gary Mauris: I'll take that one.

I think a pause in the range of 12 to 18 months to review the existing changes would be prudent.

I want to comment on one of the comments you made. You talked about the high debt load of the Canadian consumer. About 73% of the Canadian consumer high debt load right now is mortgage debt, so 27% is outside debt: credit card debit, unsecured line of credit debt, auto loan debt. This is debt that is at a rate anywhere from four, five, six, to eight times the rate of their mortgage debt. Because we see so much activity, that is the debt in this country, when we see families stretched and not being able to put food on the table and looking to sell or refinance their homes, it's usually to retire their high interest debt at 16%, 18%, 19%, or 20%. I get it. It's not backstopped by the government. It probably isn't for this forum right here, but when I look at the disproportionate share of Canadian debt-to-income right now, much of it is that debt that, as I said, is five times higher than the mortgage debt. I'd like you to keep that in mind.

● (1625)

The Chair: I'm going to have to cut you off there, Mr. Mauris, or we'll not get Mr. Albas in.

We have to go to Mr. Albas's question.

Mr. Simonsen, if you want to answer that pause question, try to fit it in with one of these answers.

Mr. Dan Albas: Thank you, Mr. Chair.

I want to quickly address the point about consulting and publicly traded companies and how that might impact....and that kind of thing. Most of us, at least those of us who were there on the call in Kelowna just before doing pre-budget consultations, heard directly—because Mr. McColeman asked specifically if they consulted—Finance officials confirm that they did not do a formal consultation. They said they would not call it a consultation, but they did discuss it with some banks.

Mr. Chair, for anyone to say that this is all about keeping that protection so no one gets an advantage from it, that's ridiculous. We heard that, and I would just refresh that in some people's minds.

Consulting can be a very good thing. Yes, we did take some measures after 2008, which, as many people pointed out to me, was the ultimate stress test. We heard from Ms. McDowell today. She says there's an 81% increase in unemployment in Alberta, and I think going from 0.26 of one per cent for default to 0.41 of one per cent shows there's huge resilience within the system.

For people to be saying this is about debt.... The prudence of the people in the business are what is giving us such a good system. Yes, it could be argued that some adjustments have not been well received by the industry. They have said themselves that they have never seen this.

I'm going to get right into my questions now.

First of all, we talked about refinancing and how many mortgage loan companies may not be in that market anymore because of the increased costs of a refinance. I've talked to a credit union. They've seen an uptick in second mortgages. Now, to me that's concerning. A second mortgage puts a person in a much more precarious state to achieve the same goal.

Mr. Mauris, since your mortgage brokers do about 39% of the business, have you seen anything?

Mr. Gary Mauris: Yes, you've nailed it bang on. Unfortunately these changes make it much more difficult for our monoline lenders, the lenders who actually develop and keep a competitive landscape. There's an inability to refinance, or if they can refinance, they have to do it at a substantially higher cost now. The biggest impact we see is the suspension of the ability to insure a portfolio. I can give you an example of what's happened because of that. On the secondary financing space, what we call the all-day mortgage space, so, second mortgages, private lenders, and mortgage investment corporations, three or four years ago about 3% of our overall national volume was done through these channels, and today it's 12%. It's growing very quickly. We're making it more difficult for Canadians. Our kids are out there just trying to retire some of that high-interest credit card debt. That's usually what they're refinancing their home for, or to maybe help their child go to university. They are actually going to secondary finance sources at rates or 8%, 10%, or 12%. It's actually costing them much more.

Mr. Dan Albas: People are still getting into debt but they are paying much more for it and it's putting them into a more precarious state because second mortgages are very expensive. Is that correct?

Mr. Gary Mauris: Yes.

Mr. Dan Albas: Okay, so you would say that the refinancing policy has not achieved its goal. In fact, it's actually pushing people into more precarious positions. Is that correct?

● (1630)

Mr. Gary Mauris: Yes. The biggest thing this government could do is reassess and review that portfolio insurance. Just changing that one dynamic itself, going back and allowing portfolio insurance so that monoline lenders can provide refinancing, would make a tremendous improvement and a huge difference to all the competition in Canada.

Mr. Dan Albas: Okay, I have a quick question. We had Carolyn Rogers from OSFI come in, and she told us that OSFI's policies are regionally neutral. It's my understanding that in the new capital requirements, they specifically use location in their formula. Is that correct?

Mr. Gary Mauris: It is.

Mr. Dan Albas: So what am I not getting here? They say it's regionally neutral yet they take and assess, as part of the formula, where a home is located.

Mr. Adil Mawji: The costs are not regionally neutral. The costs are spread across the country. Alberta may have a lower risk than B. C. does, but it's the same cost to refinance a home—an uninsured mortgage, too—or to purchase a home with 20% down or more, for somebody from British Columbia as it would be for someone from Alberta or anywhere else in the province. The cost to the consumer is the same.

The Chair: We're going to have to end it there.

Mr. Simonsen, you wanted in on the pause, so perhaps you can limit it to15 seconds.

Mr. Gary Simonsen: Thank you.

I just wanted to comment that certainly our outlook would be that you're talking, at best case, about having the data to really assess what kind of impact these changes would make beginning in the summer.

The Chair: Okay. Thank you all for your presentations and your direct answers. We will suspend for a few minutes while the next witnesses come to the table.

● (1630)

(Pause)

● (1635)

The Chair: We will come to order.

We will start with the Appraisal Institute of Canada. We have Mr. Brewer, the president, and Mr. Lancastle, the chief executive officer.

Go ahead.

Mr. Keith Lancastle (Chief Executive Officer, Appraisal Institute of Canada): Thank you very much, Mr. Chairman, honourable members, and ladies and gentlemen. My name is Keith Lancastle. I'm the chief executive officer of the Appraisal Institute of Canada.

Joining me is our national president, Dan Brewer, who is an AACI, P.App-qualified fully designated member of our association from the Toronto area. We are very pleased today to present our members' concerns and recommendations to the Standing Committee on Finance as you consider issues around the Canadian real estate market and home ownership.

The Appraisal Institute of Canada has over 5,200 members, who provide unbiased opinions of value on residential, commercial, and all other types of real property. Our members are university-educated and complete a rigorous program of professional study. The scope and the conduct of our members' services are defined by our Canadian Uniform Standards of Professional Appraisal Practice. As a self-regulatory body, we have a strong focus on consumer protection. We maintain a robust disciplinary process, and we offer a mandatory professional liability insurance program to help protect consumers. AIC is very supportive of the Office of the Superintendent of Financial Institutions' guidelines B-20 and B-21 and some of the other more recent measures that have been implemented to help stabilize the Canadian housing market. Today, however, we would like to discuss two areas of concern. First, we want to address the risk of potential dilution of sound mortgage underwriting practices across the marketplace. Our second concern is in the area of the increasing potential for, and risk of, mortgage fraud.

In the area of sound mortgage underwriting practices, we know that the majority of Canadian mortgage lending is still being done through federally regulated institutions, but the market share of non-federally regulated financial institutions continues to grow. The inherent risk is that the mortgage underwriting practices of these two categories of lenders may be inconsistent and may over time result in a two-tiered lending system.

The reality is that despite federal policies and procedures to cool the real estate market, there are still many Canadians who are very desperate and determined to enter or remain in the housing market. Some existing homeowners now find themselves in the situation where they must consolidate their debt. In either situation, if borrowers are turned away by a federally regulated institution, they are more likely to look towards other lenders to secure mortgage funding.

We recognize that non-federally regulated financial institutions are a very important part of the market. However, in some cases these lenders serve a cohort of the Canadian marketplace and Canadian consumer base that may be higher risk in nature. Unfortunately, there is limited information available on the full scope of who these lenders are or what their mortgage underwriting practices may be. Put another way, there is a growing share of the market that is not necessarily competing on the same basis and to which the same regulatory oversight may not apply. This scenario, in our opinion, is a potential risk to the financial system and to the housing market.

The absence of a level playing field could well have an unintended impact on the market: first, by essentially increasing the indebtedness of Canadians; second, with higher-risk borrowers entering or remaining in the market, which exacerbates issues around housing demand; and third, through the increasing likelihood of mortgage default in the event of a decline in the real estate market.

We are aware of non-federally regulated lenders that apply very stringent underwriting approaches to both borrower qualifications and collateral valuation. We are concerned, however, about the actions of lenders that may have less rigorous approaches to mortgage underwriting. Guideline B-20 has established a very sound and balanced framework, recognized throughout the world, that requires assessment of not only the borrower's capacity and willingness to repay but also a commitment to strong valuation fundamentals. As we have seen in other countries, the absence of a balanced and consistent approach can and will have a significant impact on the consumer and on the real estate market as a whole.

Like many of the other organizations that have appeared before this committee, AIC agrees that there is a need for the Government of Canada to take time to analyze the impact of recent policies before implementing new regulatory measures. That said, AIC is also recommending the expanded application of guidelines B-20 and B-21 as well as the recently announced measures to any and all organizations that are providing mortgage financing. This step will do much to ensure more consistent lending practices and make for a more stable marketplace.

Second, AIC would like to express our concerns about the potential increase in mortgage fraud. This concern is supported by a recent Equifax study that revealed that instances of mortgage fraud in Canada have risen along with the escalating prices in the Toronto and Vancouver areas. Equifax has noted that "the number of potentially dishonest mortgage applications has grown by 52 per cent over the past 4 years."

● (1640)

Appraisers have the expertise to raise red flags in a real estate transaction, helping lenders better detect any potential mortgage fraud concerns before they occur. On-site appraisals carried out by qualified professionals are an effective way to help all parties involved in mortgage underwriting to detect fraud and to better mitigate lending and property investment risk. To that end, our recommendation is that all organizations involved in lending work together to better detect potential incidents of fraud. The government can encourage and potentially facilitate sector-wide dialogue and engagement on this topic.

Mr. Chairman and honourable members, we are privileged to have been invited here today to share the perspectives of our members. We appreciate the chance to share our recommendations and would also be very pleased to respond to any questions or comments you may have.

Thank you.

The Chair: Thank you very much, Keith.

Now we have, from the Québec Federation of Real Estate Boards, Ms. Guy and Mr. Cardinal.

Ms. Pénéla Guy (Chief Executive Officer, Québec Federation of Real Estate Boards): Thank you, Mr. Chair.

[*Translation*]

Good afternoon, everyone.

First, let me introduce ourselves. My name is Pénéla Guy and I am Chief Executive Officer of the Québec Federation of Real Estate Boards. With me is Paul Cardinal; he is an economist and our manager of market analysis.

[*English*]

We would like to thank the committee for the opportunity to appear before you today on this very important matter.

[*Translation*]

The Québec Federation of Real Estate Boards is a non-profit organization that oversees the 12 real estate boards in the province of Quebec. Our organization seeks to defend, protect and promote the interests of real estate brokers in the province through the provision of services in the areas of professional practices, mediation and arbitration, public affairs and market analysis. In 2016, the 13,000 brokers whom we represent completed around 79,000 real estate transactions, with an economic impact estimated at $2.9 billion.

[*English*]

Although we acknowledge the government's good intention to address concerns raised by the Vancouver and Toronto markets, we believe it is important for committee members to understand the negative impacts the recent tightening of mortgage rules will have on the Quebec real estate market.

● (1645)

[*Translation*]

Mr. Paul Cardinal (Manager, Market Analysis, Québec Federation of Real Estate Boards): In 2017, in fact, we are forecasting a drop in residential sales in Quebec in the order of 7%. Those most affected by the new mortgage rules are mostly buyers with a down payment of less than 20%, meaning mostly first-time buyers.

According to our estimates, the interest rate stress test alone should exclude between 5,000 and 6,000 Quebec buyers from the market in 2017. That represents about $220 million less in ancillary expenses. In addition, since the purchasing power of a number of households will be cut off by the stress test, we forecast that Quebec property prices will not increase in 2017.

The Quebec real estate market should not suffer the effects of the overheating in Toronto and Vancouver. In fact, the Quebec real estate market is not the same, for the following three main reasons.

First, our property prices are much more affordable than in other Canadian provinces. In 2016, the average property price in Quebec was $281,000, compared to $471,000 in the rest of Canada. Even Montreal, where the average property price is approaching $350,000, compares favourably with the average property price in Toronto, which is $730,000, and in Vancouver, where the average is almost three times higher, at just over $1 million. In Quebec, the lower prices mean that excessive levels of household debt are less of a factor.

Second, far from seeing any overheating in a number of regions, current conditions for the Quebec real estate market shows the balance tilting towards buyers. For that reason, property prices have grown only 5% between 2012 and 2016, that is, since the maximum amortization period was tightened from 30 years to 25. The soft landing has been achieved and other measures are unjustified, if not harmful, because they could cause property prices to drop in a number of regions. Real property is generally a household's greatest asset.

Third, Quebec is significantly behind the other Canadian provinces in terms of the rate of home ownership. In fact, only 61% of Quebec households own their homes, whereas the rate in all the other Canadian provinces without exception is 70% or more. The new mortgage rules that have been in force since last October will put a major brake on ownership. For example, before last October 17, to qualify for a $300,000 loan, gross household income used to have to be about $59,000. Today, it has to be about $72,000. That clearly shows how the "stress test" will exclude a significant number of potential middle-class buyers.

On the heels of the stress test, which requires lenders to use a hypothetical rate of interest, comes a third increase in mortgage insurance premiums in four years and reduced competition in the mortgage market. Those three factors will come together and prevent a number of young families from achieving their dream of home ownership under the same conditions as the generations that went before.

Mrs. Pénéla Guy: By way of conclusion, the Québec Federation of Real Estate Brokers proposes two possible solutions.

First, just like the Canadian Real Estate Association and the Association des professionnels de la construction et de l'habitation du Québec, we ask the government to enhance and expand the Home Buyer's Plan.

[*English*]

Second, we propose that the government set up a task force to look into not only future changes to mortgage rules but also all types of consumer loans.

[*Translation*]

In closing, we offer the government our full co-operation in regard to any matter that affects the real estate market.

We will be pleased to answer questions from members of the committee.

Thank you.

[*English*]

The Chair: Thank you both very much for your presentation and for your recommendations.

We'll turn now to the Urban Development Institute of Nova Scotia.

Mr. Graham, the floor is yours.

Mr. David Graham (Director, Urban Development Institute of Nova Scotia): Thank you, Mr. Chair and honourable members.

I'm a representative and a board member of the Urban Development Institute. My name is David Graham. I'm also a developer in Halifax.

The Urban Development Institute board represents predominantly land, rental, condo, home, or building developers. In Halifax, we have experienced a decrease in the sale of new homes, single family homes, and detached homes over the course of the last four years. What had predominantly been a market of a thousand homes a year has decreased to a low in 2015 of 425 homes. This past year it was 550. It might caused by a variety of reasons. One of these is that we have an aging baby boomer population that's moving into rental accommodation. We also have immigrants who are coming in and moving into rental accommodation. As well, millennials, at this point, can't seem to get into the market in the way they would like to.

I think it's worth noting that 45% of the resale transactions in Halifax are for less than $250,000, and 75% of the housing resale transactions in Halifax are for less than $350,000. I emphasize that number because we're not Vancouver and we're not Toronto, and we don't want to have regulations imposed upon us that might be partly or entirely geared towards correcting a housing bubble in both Vancouver and Toronto.

To that end, we'd like the finance department to acknowledge or appreciate—and I'm sure it does—the very diverse and different markets that exist across the country.

While there are imbalances in the Canadian housing market, Halifax is a very stable market. It relies on first-time homebuyers to get into the market so as to generate a second round of home purchases, and in time, a third round and so on. Decreases in the number of first-time homebuyers in the market have a negative effect that will exacerbate a market that CMHC already categorizes as weak.

Because we believe that we have a balanced market, if the finance department is concerned about certain markets—and I emphasize Vancouver and Toronto—one way to avoid painting the secondary markets with that broad brush might be to properly apply regulations on home prices. Namely, we could potentially have a tiered system. We recommend that the finance department consider a tiered system in which the stress tests and new mortgage rules wouldn't apply to homes that are under a certain value—$350,000, for the sake of the argument. Such a policy would not be detrimental to markets that are currently in balance, which are predominantly secondary markets.

I will point out that the National Housing Act was expanded in 1954 to make home ownership more accessible to Canadians. New rules and modifications consistently reinforce this objective over time. In 1999, the National Housing Act and CMHC introduced a 5% down payment plan, removing a significant barrier for first-time homebuyers.

I will now draw on a hypothetical scenario. If defaults represented 0.5% of the market and we wanted first-time homebuyers to start asset accumulation at a young age in these low interest rate environments, then hypothetically, out of every 200 mortgages that would be recorded, 199 people would have the opportunity to be in asset accumulation at this time of historically low interest rates. One person would default.

We would like to ask the following questions to the finance department, if you would be kind enough to supply them for us: Can you provide more evidence on how you arrived at your conclusions to put new mortgage rules in place? Does data exist that follows the success—or the failure, as the case may be—of the initiative contained in the National Housing Act regulations of 1999 to have a 5% down payment plan? Is there data that can be used to compare any notable change in default rates as a result of this initiative or, conversely, the number of first-time homebuyers this initiative was able to get into home ownership?

Finally, in the context of getting first-time homebuyers into asset accumulation in the form of housing, have you modelled the consequences that come with the number of first-time homebuyers who are not able to buy a home and what their alternative spending habits are in the absence of such a forced savings plan?

Thank you for your time.

● (1650)

The Chair: Thank you very much, David.

We do have officials coming before the committee on Monday. You can look at the record then and see who will win the star from the committee members here who asked that question.

Right, Mr. Deltell?

Mr. Gérard Deltell: Sure.

● (1655)

The Chair: We turn now to Mr. Fergus for five minutes.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you very much, Mr. Chair.

I would like to thank all the witnesses who are with us today. I found their presentations very interesting and they caught my attention.

Before I ask some questions, I would like to make a comment.

My colleagues from the official opposition, who claim to be staunch defenders of the middle class, have voted against a number of measures designed to reduce taxes and to help families—

[*English*]

The Chair: Greg—

[*Translation*]

Mr. Greg Fergus: I know, Mr. Chair, I am off topic.

[*English*]

The Chair: —we went down this line in the first round, first with Mr. Deltell, then with Mr. Sorbara. We're not going down this line again.

[*Translation*]

Mr. Greg Fergus: I could not help myself, Mr. Chair. I am sorry.

My question goes to Mrs. Guy and Mr. Cardinal.

When my wife and I were young, when we were new university graduates starting our first jobs, we bought a house with a 25% down payment, as was the rule in 1995. We looked at the real estate market and we said to ourselves that, although our salaries were not very high, we could take out a normal mortgage, one that was not insured. After looking at our financial situation, we chose to be renters no longer and to buy a house.

I fully understand that it is important to provide easy access to first-time buyers, but I have to ask the following question. Is it a good thing for people to become owners when they are perhaps in a more precarious financial situation than was the case 5, 10 or 15 years ago?

Mr. Paul Cardinal: Thank you for the question, Mr. Fergus.

In terms of what borrowers are able to do, a lot of things have happened in the last few years. Mortgages have been tightened six times in the last eight years. When borrowers show a good ability to pay and have a good credit history, the minimum down payment of 5% certainly seems to be something that, up to now, has allowed people to buy a home without finding themselves in default. In cases of default, the first determinant is, of course, the ability to pay that comes from employment. There is the credit history too.

Mr. Greg Fergus: I imagine that it is preferable for borrowers to be much more stable and more able to sustain the external factors that can suddenly occur, such as a sharp rise in interest rates, for example.

Mr. Paul Cardinal: It is preferable, but, on the other hand, if the criteria required to buy a first-time home are too hard to meet, people are prevented from owning a home.

That is quite easy to demonstrate. According to the data that we have for the last 35 years, because of the forced savings and the appreciation of their property over time, those who have become owners have improved their financial situation much more than those who have remained as renters.

Mr. Greg Fergus: I would like to ask another question, but I do not know how much time I have left, Mr. Chair.

[*English*]

The Chair: You have a minute.

[*Translation*]

Mr. Greg Fergus: I will be very quick.

Nowadays, do more people qualify for a mortgage than in 1995, when I was 25?

Mr. Paul Cardinal: I cannot confirm that for you for 1995, but, before 2008, it was easier because, nowadays, the criteria are significantly more strict than they were then.

Mr. Greg Fergus: However, even with the tightened criteria, there seem to be a lot more buyers on the market today than there were 20 or 25 years ago.

● (1700)

Mr. Paul Cardinal: In terms of the number of people who want to buy a house, the demand is stronger in part because our interest rates are at historical lows.

[*English*]

Mr. Greg Fergus: I'm sorry, Mr. Lancastle and Mr. Brewer. I wish I had more time.

The Chair: Mr. Liepert.

Mr. Ron Liepert: Thank you all for being here. I have just one question. I'm going to share my time with my colleague.

For the witnesses, you're the last group of witnesses we're going to hear. Those of us on this side of the table would have liked to hear more, but your evidence has been so compelling that I think there are some people at the table who have heard enough. Let's say that.

The two gentlemen to the right of the chairman are analysts, and they take the evidence that is presented over the course of all these hearings, write a report, and bring it back to the committee. With my time I will summarize what I think I've heard, and I'd like each one of you to comment, and that might give our analysts a good running start on preparing their report.

This is what I think I heard, and I would ask each one of you, if there are things in this that aren't correct, to please say so. If this pretty much summarizes where you feel you're at, I'd like to hear that.

What I've heard is that there has been no consultation by government with stakeholders. The changes to the mortgage rules significantly reduce the number of people who are eligible to purchase homes for the first time. The government implemented a one-size-fits-all model to try to fix problems that are primarily in Toronto and Vancouver. Communities outside Vancouver and Toronto are seeing fewer sales, especially to first-time homebuyers. There are fewer housing starts. There is increased pressure on the rental market due to the inability of first-time homebuyers to buy a home. Fewer people are buying homes, and therefore fewer homes are being built, which is actually reducing jobs in the country and not creating them. Arrears and delinquencies in home ownership are not a cause for concern in our country. And, frankly, the government should admit it made a mistake and reverse the decision made last October.

I would appreciate comments on that.

The Chair: Who wants to start?

Mr. Lancastle.

Mr. Keith Lancastle: Thank you very much, Mr. Chairman.

Our organization would say that we believe that Canada's real estate market has been exceptionally well served by the regulatory framework that has been in existence. We have the opportunity to interact with our colleagues internationally and have observed what has happened in other real estate markets when the fundamentals of mortgage underwriting are askew. When the process does not place adequate emphasis on the borrower's capacity and willingness to repay, higher-risk borrowers enter the market, which can have disastrous implications.

Our organization is perhaps somewhat unique in that our members have no vested interest in the outcome of the transaction. We're focused on the health of the marketplace, up markets and down markets. It is our contention and our belief that the consistent application of the type of regulatory framework that has existed in our country would continue to serve Canadians and the marketplace well.

That would be our comment in response.

The Chair: Ms. Guy, go ahead.

Ms. Pénéla Guy: We're going to share the answers to your questions and statements.

I have to agree with you that there was no consultation prior to the decision being made. When you talk about there being fewer first-time buyers, we've heard that it may be a little early to really come out with strong and reliable statistics. I can tell you that we're hearing from our members on the ground that, yes, there are a lot of people who were in the process of looking at homes and wanting to become homeowners who have decided to wait and postpone their decision.

[*Translation*]

Mr. Paul Cardinal: To expand on my colleague's reply about activity, it is indeed too soon to tell. From the November, December and January results, we have not yet seen a downward impact on the number of real estate transactions. However, we are expecting that to be the case in the spring, which is traditionally the time when first-time buyers are most active in the market.

However, if we go by the mortgage tightening in July 2012, when the maximum amortization period decreased from 30 years to 25, that caused an 8% drop in resales in Quebec, followed by a somewhat smaller drop in 2014. That shows that it did indeed have an impact on the market and, in our opinion, it could be somewhat similar to the impact that was expected in 2013.

You also mentioned mortgages that are in arrears. At the moment, that figure is very low in Quebec, where only three mortgages in one thousand are more than 90 days in arrears. As I said before, if we try to look into the future and suggest what the factor determining that variable will be, we can see that, in the first analysis, it is employment, much more than interest rates, that makes up the determining factor. So, during times when employment is slowing down, we have seen that rate increase, but there was not necessarily a correlation with major increases in interest rates.

● (1705)

[*English*]

The Chair: Thank you very much, Mr. Cardinal.

Mr. Graham, do you have anything to add?

Mr. David Graham: Yes.

I can't comment on your many questions, but I think that it affects our local market, and every market is regional. Our market is a secondary market. It's very, very different from that in Vancouver and Toronto. Preventing our first-time homebuyers from getting into the market, as I mentioned, has a second-round effect and third-round effect that are not good for our economy and not good for home ownership.

The predominant question that I would like to ask is what happens as an alternative to first-time homebuyers being able to put a mortgage in place and having a forced savings plan? What are their spending habits? Are they spending on an expensive car? Are they spending it on vacations—which I figure is a great way to spend your money. Are they being frivolous with their money? Are they not starting asset accumulation? I think that's very important.

With regard to high household indebtedness, it's much more difficult for us to comment on that. I think that if I were to take the value of a home and the substance of a home in Canada, which is backed by rigorous mortgage regulations, it couldn't be compared to those things in the United States. In the United States, at one time they could self-assess; they could put zero per cent down; they could write off their mortgages, and they could buy several homes at a time. It's a very, very different market.

I'd simply like those questions answered.

The Chair: Thank you, all.

Mr. Caron.

[*Translation*]

Mr. Guy Caron: Thank you very much, Mr. Chair.

Mrs. Guy, in one of the recommendations you made, you mentioned that the Home Buyers Plan must be expanded.

Could you tell us how you would like to see it expanded?

Mrs. Pénéla Guy: Actually, the Québec Federation of Real Estate Boards supports the demands made by the Canadian Real Estate Association. One of the ways of expanding the plan is to expand eligibility, meaning to be able to use more of one's disposable income in order to invest in real estate.

We also support the proposal that the APCHQ made to you, that is the ability to use income intergenerationally so that parents can help their children to buy a house and become homeowners. That is another example of the way in which the plan can be expanded. Other reasons have been put forward as well, such as changes in employment, divorce, and so on. Those are examples of ways in which the plan can be expanded. Of course, it is also important for it to be indexed, because that has not happened for a long time now.

Am I forgetting anything, Mr. Cardinal?

Mr. Paul Cardinal: No.

Mrs. Pénéla Guy: That concludes what I had to say.

Mr. Guy Caron: When the APCHQ representatives appeared before the committee, I asked them another set of questions. I also mentioned them to your representatives in a previous session. I am quite favourable to the idea and, basically, I feel that it's a good one. However, like all good ideas, there can be abuse.

I have become aware of reports of potential abuse with the HBP, the Home Buyers Plan. It happens when one person transfers money in the form of an RRSP to the other spouse or contributes to the other spouse's RRSP in order for them to buy a home. The money is not repaid afterwards. So the family now has a second home. However, the two properties belong to two different individuals.

The money may not automatically be repaid, but it is taxed. However, if the spouse is not working, the tax is practically zero. So there they are with two homes coming from the same source of money. It seems to be happening more and more.

Could you confirm whether you are aware of the HBP being used in that way? My fear is that RRSPs given to children might also be used in the same way.

Could you address those concerns? My feeling is that, by virtue of its mandate, the plan is useful and a significant factor in providing access to a first home. I just want to make sure that is not being misused.

● (1710)

Mrs. Pénéla Guy: It is difficult for me to make a judgment or comment on the situation you are describing to us. What we can tell you is that we consider that home ownership is very important and this is a tool that allows it to happen. Clearly, in all government decisions, controls must be put in place. I can also tell you that we do not hear from our members very often about the situation you are describing.

Mr. Guy Caron: Has any other organization heard comments about the matter, either in Nova Scotia, or from appraisers?

Mr. Keith Lancastle: No.

Mr. Guy Caron: I would like to go back to another question that I asked previously and that may affect Quebec, Nova Scotia or the appraisers. I will start with Quebec.

The overheated market issue is a priority. That is why the government has dealt with it. Overheated markets are more of a concern in Toronto, Vancouver and Regina than in Montreal or Quebec City. As you mentioned, those markets are going to suffer because of it. The problem is the regulations on banking and mortgages that are in federal jurisdiction. Quebec will be more able to come up with its own suggestions, however.

How can we get Quebec City and Ottawa, as well as Halifax and other governments elsewhere in the country, working better together, working hand in hand to come to grips with the overheating without affecting the other markets?

Mrs. Pénéla Guy: People often say that all politics is local. It is much the same for the real estate market. The market is local. It is true that mortgage matters are in federal jurisdiction. There, as in many other areas, there needs to be a way for the federal government to work with provincial or municipal authorities, even in areas of regional disparity.

I don't know if Mr. Cardinal has any other ideas on the subject.

My suggestion would be to keep analyzing the regional repercussions and the decisions to be made before doing anything.

[*English*]

The Chair: Thank you.

Do you have a comment, Mr. Lancastle?

Mr. Keith Lancastle: I would simply say that while real estate markets are local, there is interaction among national-level players, provincial-level players, and local-level players. It's important to engage all of those in developing solutions that respond to markets, whether they are particularly heated markets like Toronto and Vancouver or other markets that may be facing some challenges or that are more stable. Unfortunately, it's a very complex set of interactions.

Again, we fall back to the base principle that the regulatory framework that's been in place federally has served the Canadian market well, and building on that seems to make sense. History has shown that it has worked well in all Canadian markets across the country.

The Chair: Thank you, all.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair

Thank you to the witnesses for coming today.

The purchase of a home is the most important purchase that any Canadian citizen will make. I still hear stories about how my parents saved and saved and bought their first home in Brampton. They also complained about the double-digit interest rates they were paying in the housing market in the early 1990s, and the concerns they had back then.

The housing market in my neck of the woods doesn't come up in conversation on a regular basis, except for mention of how hot it is and how there's a shortage of supply that's driving up the price of homes and how people are concerned about that. Even for people who have paid off their mortgages, their house is still their number one asset, and they're still concerned about the overall housing market. They don't want what happened in 2008 in the United States to happen in Canada.

My question is on appraisals, because I've been hearing feedback, and you're the only witness who has brought up the concern of mortgage fraud—this comes through the appraisals as well. Homes are being appraised at over value so that people will qualify for a larger mortgage. Couple that with mortgage fraud and you're stretching yourself. You're very leveraged, and I feel that is the biggest concern in the market and it's not visible.

Your comments on that would be really appreciated.

● (1715)

Mr. Keith Lancastle: The issue of mortgage fraud is also very complex. From interactions with our members, we are aware of situations in which they've prepared an appraisal report and somewhere along the road the base amounts have been altered, so hypothetically a member prepares a report valuing the property at $750,000 and at the time of mortgage origination, the report has been altered to $850,000. In those types of scenarios our members are collateral damage, if you will, to the fraud. They're unwillingly involved in it.

Through the appraisal process we are able to help identify some of the potential red flags. For example, our standards require our members to provide a detailed three-year sales history of a subject property, so if incidents such as flipping are creating a fraudulent situation, those can help raise red flags. Certainly we can do things like identify the occupancy of the home. If the property is being appraised as an owner-occupied development and you find out when the appraiser arrives that the owner is not occupying the development, that too is information that can provide insight to the lender to help address fraud.

When we're looking at the 52% increase that Equifax quotes, it is important to recognize as well that mortgage fraud is a very broad term. I've heard it phrased as shelter fraud, whereby I provide a gift letter to my children indicating there is no expectation that they will pay me back, but behind the scenes they have every intention of paying me back. They're doing that to acquire shelter. They're not doing that to defraud the system, but technically and notionally that is, in fact, mortgage fraud.

It's good to have the understanding that appraisers can be part of the process to address that. Again there are numerous examples we've been informed of in which our members have been collateral to that. They have not been involved in the process but have found out later in the process that their work has been doctored to help perpetrate a fraud.

Mr. Raj Grewal: From a practical perspective, let's say you appraise someone's home. Does your appraisal report go directly to the mortgage lender? Would it go directly to the bank?

Mr. Dan Brewer (President, Appraisal Institute of Canada): It depends on your client. In most cases it will go to the lender because it will be the intended user of the report. It will be the one relying on it.

Mr. Raj Grewal: What would be another scenario? Would the real estate agent get it?

Mr. Dan Brewer: That's highly unlikely. In most cases it is prepared for the intended user, who would ultimately be the client, who would be the lender, typically.

Mr. Raj Grewal: Is it rare for the lender to verify the report, or do they take it as a report with a checklist of their required documents and that's the end of it?

Mr. Dan Brewer: Many lenders have safeguards and policies in place whereby original documentation must be received from the appraiser, so there are some safeguards, such as electronic signatures digitally secured. They have some mechanisms with respect to policies to protect that process.

Mr. Keith Lancastle: One of the efforts our organization has been involved in, for instance, has been to work with lenders to help them better understand how they can look at an appraisal and make sure a fraud has not been perpetrated as a result of it. Those are some of the things they might potentially want to consider.

The Chair: Do any of the other witnesses want to add a comment on this segment? We're out of time.

David, do you?

Mr. David Graham: No, I'm fine.

The Chair: Mr. Albas.

Mr. Dan Albas: Thank you, Mr. Chair.

I thank all of our witnesses for being here today. When we had OSFI and the Canada Mortgage and Housing Corporation here, they never once used the word “fraud”, so I hope the government members aren't trying to spin any of this to say these rules are being put in place to prevent fraud.

However, I'll go right to you, Mr. Lancastle. I appreciate your being here. On page 3 of your briefing note, you say:

> Despite federal policies and procedures to cool the real estate market in recent years, there are still many Canadians who are determined to enter the housing market. If they are turned away by federally [...]regulated institutions due to newly implemented policies and OSFI regulations, the unintended consequences may be that borrowers are turning towards less regulated (including second tier) lenders to secure funding at a higher interest rate.

Now, in the earlier session, I asked about this specifically, because I've heard from a credit union that it's seeing a large uptick in second mortgage activity. Is that the kind of behaviour you're talking about, sir?

● (1720)

Mr. Keith Lancastle: Anecdotally, our members are informing us that they are now seeing an increased level of activity in appraisals for second mortgages that seems to coincide with the introduction of the change to some of these requirements. It's for that reason we believe that all organizations that are involved in providing mortgage financing, whether it be first, second, or third, should comply with the same level of rigour in terms of the assessment of the borrower's capacity to pay and the valuation of the collateral.

The concern is that there are people in the second mortgage space that apply very stringent underwriting criteria. That is not the same degree of risk as it would be with someone who would not necessarily apply that degree of rigour. We think that levelling the playing field across the mortgage market is the most sensible approach and is ultimately the best tool to preserve the stability of the Canadian market.

Mr. Dan Albas: Thank you.

I'm going to go to you, Ms. Guy. In British Columbia, we have what we call “stratas”. That's what we call condominiums where someone will take the shared ownership and pay a strata fee every month. I understand that you have something similar in Quebec. Is that correct?

[*Translation*]

Mrs. Pénéla Guy: Yes, shared ownership exists in Quebec.

[*English*]

Mr. Dan Albas: Okay. Just so we're on the same page, that's what I'm speaking about.

Earlier, Ms. O'Connell mentioned people being pushed out of the market.

Well, some people may stay in the rental market, and of course there are unintended consequences that will happen because that economic activity won't happen, as Mr. Graham mentioned in his comments. Other people may find out that they have 18% less purchasing power and may say that instead of buying a single detached dwelling in a suburb, they'll go with a strata or condominium. Oftentimes, the perverse reality of it is that there will be strata fees that end up being more expensive than a single dwelling, so this actually puts more pressure on their household income, and they don't get what they want.

Have you heard of this kind of thing happening?

[*Translation*]

Mr. Paul Cardinal: I'm not convinced that shared ownership increases costs for those people who choose it. Geographically speaking, it always depends on where you are. That said, as you mentioned at the end of your question, it may not be the choice these people want to make.

Take the example of a couple expecting their second child, and who would have liked to have bought a single-family home with a certain number of bedrooms and a small backyard, but whose borrowing capacity doesn't allow them to do so. Under these conditions, these people may have to opt for something a little smaller—an apartment or a townhouse, for instance. This doesn't correspond to their first choice, which they might have made before October 17, 2016.

[*English*]

Mr. Dan Albas: I have a lot of anecdotal cases of friends over the years in Vancouver who made the decision to go to a strata because they just couldn't afford to get into the market, and now that's going to make it even worse for the next generation of homeowners.

Mr. Graham, there's been a lot of talk about how we need to focus on supply and not just on demand, and one thing that is within the Government of Canada's own sphere of influence on this is the GST or HST rebate on new home construction. We want to maybe start talking about ways we can do this. Would that be a way that the federal government could possibly incentivize new home construction through the tax system?

Mr. David Graham: I would say very much so in the eyes of the Urban Development Institute and the Nova Scotia Home Builders Association. We both advocate for that.

Over the last 10 or 15 years in Halifax, there have been increased regulations. There have been increased fees. We're trying to do our best to assess exactly what that amounts to in terms of the dollar amount that takes away from the narrowing profit margin for house builders. House builders have left the market, either willingly because they've decided they can't make any money in that industry in Halifax—and I'm speaking of Halifax in particular, the biggest region in Atlantic Canada—or because they've gone bankrupt. A number of fees, taxes, and regulations have culminated in that. They come from a variety of different government bodies—they could be provincial or municipal—and they accumulate. They've really taken a bite out of the profit that allows people to stay in the business.

I am very much in favour of your point as an idea.

Mr. Dan Albas: Thank you.

The Chair: Go ahead, Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

I'll just follow up on that with Mr. Graham. I come from the GTA region outside of Toronto. We hear about the pressures on building and the fees, etc. However, we also have an issue. In the study, we've talked a lot about people entering the market, but there is a difference between the average person being able to afford something and people who just can't even afford a roof over their head. I don't know the specifics in your province regarding that ratio, but I'm just wondering about something that would involve even more of a provincial or municipal type of approach. If there was an approach to look at reducing fees according to the type of development, whether that was affordable or accessible homes or high-rises for seniors and things like that, and whether it was built by your organization or by you as a developer, do you think a target for reducing these fees for that type of development would be well received?

● (1725)

Mr. David Graham: I think it would. The Nova Scotia government, in its last budget, talked about an incentive plan that it was going to initiate. It's being modelled very similarly to the Newfoundland incentive that's being provided. British Columbia came out with one recently that involves considerably more than what Nova Scotia is willing to do or talking about at this point in time, but at a much lower percentage of the value of the home. I think those are good initiatives.

Ms. Jennifer O'Connell: Thank you. Again, part of drawing up these questions is that we need to consider that we do have to make recommendations. The earlier panel talked about the working group with the federal, provincial and municipal governments. Those conversations are the types of things you see regionally, that help us understand how we can try to address from your side, the supply side, some of the barriers to building these targeted homes or apartments, whatever the case might be.

Mr. David Graham: There's a new president at Housing Nova Scotia who is very much interested in doing the things you're talking about and he seems like an innovator.

Ms. Jennifer O'Connell: Thank you. Do I have time?

I apologize that I don't speak French well enough to ask you a question, but feel free to respond in French if that's more comfortable for you.

I would ask you a similar question about Quebec. Where are those types of pressures on the supply side and are there the types of incentives that, through a working group and further consultation, you would like to see? The housing market is not something that the federal government alone can control fully. We've heard that testimony in terms of supply. Is there an area in Quebec that you see...? Would you agree with having incentives at different levels of government to focus on actual affordability, for people who just need homes or roofs over their head?

Ms. Pénéla Guy: There is the ongoing Parlons logement initiative by the government, which we hope is going to address some of those concerns. I think, from our perspective, that looking at all consumer loans, and not just mortgage rules in isolation, would be a great idea.

[*Translation*]

Mr. Paul Cardinal: Yes, we forget—

Mrs. Pénéla Guy: Is there anything else to point out?

Mr. Paul Cardinal: We often forget about supply. We always consider demand, which is very strong, given that mortgage interest rates are at an all-time low. That said, any measure that would facilitate supply, and therefore the construction of more housing—affordable or otherwise—would be welcome.

That said, we probably don't have the same constraints as areas like Toronto or Vancouver. Indeed, supply is perhaps more limited there than it is on the Quebec side. That's one reason why our property prices are a bit more affordable in Quebec.

Of course, we are in favour of anything that can help to increase housing construction.

[*English*]

Ms. Jennifer O'Connell: Thank you.

The Chair: Thank you, Ms. O'Connell.

Does anybody want to make a quick closing statement?

Are we okay? All right.

On behalf of the committee, I want to thank the witnesses for their presentations, their answers to questions, and their recommendations.

That will wrap up this meeting.

The meeting is adjourned.