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• (1105)

[English]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order.

Welcome to meeting number 102 of the House of Commons Standing Committee on Finance.

Members, there is some quick housekeeping. You all should have received a budget from the clerk's office last evening. I'm looking around to see if it's the will of the committee to adopt the supplementary travel budget.

(Motion agreed to)

The Chair: Pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, September 21, 2023, the committee is commencing its study of policy decisions and market forces that have led to increases in the cost of buying or renting a home in Canada.

Today's meeting is taking place in a hybrid format, pursuant to the Standing Orders. Members are attending in person in the room and remotely by using the Zoom application.

I would like to make a few comments for the benefit of the witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike, and please mute yourself when you are not speaking.

There is interpretation for those on Zoom. You have the choice at the bottom of your screen of floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

Although this room is equipped with a powerful audio system, feedback events can occur. These can be extremely harmful to interpreters and cause some serious injuries. The most common cause of sound feedback is an earpiece worn too close to a microphone. We therefore ask all participants to exercise a high degree of caution when handling these earpieces, especially when your microphone or your neighbour's microphone is turned on. In order to prevent incidents and safeguard the hearing health of the interpreters, I invite participants to ensure that they speak into the microphone into which their headset is plugged and to avoid manipulating the earbuds by placing them on the table away from the microphone when they are not in use.

I remind everyone that all comments should be addressed through the chair.

For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the "raise hand" function. The clerk and I will manage the speaking order as well as we can, and we appreciate your patience and understanding in this regard.

I'd like to welcome our witnesses with us here today.

From the Canada Mortgage and Housing Corporation, we have chief economist Bob Dugan, as well as deputy chief economist Aled ab Iorweth, and director of client development and government relations Chris Woodcock.

From the Department of Finance, assistant deputy minister for federal-provincial relations and social policy branch Alison McDermott has joined us, as has the associate assistant deputy minister for the financial sector policy branch, Nicolas Moreau; assistant deputy minister, tax policy branch Mr. Jovanovic; and Julie Turcotte, who's the acting assistant deputy minister, economic policy branch.

From the Office of Infrastructure Canada, we have Janet Goulding, senior assistant deputy minister, community policy and programs branch.

We are going to start off with opening statements of up to five minutes.

I believe we have Mr. Bob Dugan from CMHC.

Mr. Bob Dugan (Chief Economist, Canada Mortgage and Housing Corporation): Thank you, Mr. Chair.

Thank you for the invitation to speak to this committee once again on behalf of Canada Mortgage and Housing Corporation.

[Translation]

CMHC is pleased to offer the committee its trusted expertise, experience and knowledge on the housing market.

As this committee certainly knows, Canadians are struggling to pay their mortgages or rents. Housing prices have been escalating for some time. Now, inflation, higher interest rates and record levels of household debt are making matters worse.

More potential homebuyers are staying in the rental market. This has led to extremely low vacancy rates in most cities and towns and, as a result, a significant rise in rents.

There are many factors leading to Canada's housing affordability challenges. But the single biggest factor is a severe housing shortage.

[English]

Right now, we have a shortage of about two million homes across Canada. Basic economics of supply and demand are coming into play here and are driving the house prices and rents higher. Our studies show that to reach affordability by 2030, we need an additional three and a half million more homes than we are currently on track to build. Building that many homes would cost at least a trillion dollars. That's more than governments could ever hope to spend.

Yes, the federal government can continue to play a major role in supporting more community or social housing for low-income Canadians. However, we need private sector capital, so governments need to create the conditions necessary to attract that investment into housing.

There are some federal programs in place to incentivize this. For example, the rental construction financing initiative provides low-interest loans for developers at the early stages of the project. New measures like the housing accelerator fund, the new GST exemption for the construction of purpose-built rentals and the unlocking of new financing for this through the Canada mortgage bonds program are examples of such initiatives.

Still, we need to do much more, and we must do it in collaboration with the private sector, which currently provides more than 96% of rental housing in Canada. There are certainly challenges faced by some renter households, such as renovations and security of tenure. We can't minimize these or suggest that they're just the cost of doing business; they aren't. Every one of those cases is a personal crisis for a real household.

These are all symptoms of a larger problem of supply shortage. What we truly need is for all levels of government to come together around a policy framework, one that encourages the private sector to produce the right kind of supply while also respecting tenants' concerns and best interests. These policies also need to address other barriers to supply. For example, they can encourage the construction sector to innovate better building techniques, to make supply chains more reliable and to address labour shortages in the trades.

As many people have said, housing affordability is a complex problem. Targeting the investors who provide the overwhelming majority of the housing stock in Canada is not a solution; rather, we need a comprehensive and coordinated effort that combines private investment, social responsibility and government solutions. The perfect storm of these three elements can bring about transformative change and improve housing affordability for everyone living in Canada, now and in the future.

Now I would be happy to answer any questions from the committee.

• (1110)

The Chair: Thank you, Mr. Dugan. There will be a lot of opportunity to answer many questions.

Now we're going to the Department of Finance.

I believe, Ms. McDermott, you'll be speaking on behalf of your team.

[Translation]

Ms. Alison McDermott (Assistant Deputy Minister, Federal-Provincial Relations and Social Policy Branch, Department of Finance): Thank you for giving me the opportunity to appear before you today.

The introductions have already been made, so I'll begin with my remarks.

We are pleased to be here to discuss with you the issue of rising housing costs and public policy measures to address this issue.

[English]

Housing affordability is obviously a major issue in Canada. While there are many dimensions to the challenge, our overall assessment is that affordability remains stretched primarily because supply has not been able to keep up with strong demand. That's consistent with Mr. Dugan's views.

Encouragingly, there are record numbers of new housing units under construction in many cities across Canada, which means builders are responding to this challenge. However, the scale of the issue is great. You heard the numbers from Bob about the 3.5 million additional housing units that would need to be built to restore affordability by 2030.

That increase will be challenging and will need to overcome significant barriers to ramping up construction. Municipal rules and practices like restrictive zoning, high development fees and long approval times are widely recognized as major impediments to this needed supply. Supply chain bottlenecks and labour shortages are also increasing the cost and the time that it takes to build a home.

[Translation]

We know that this challenge cannot be solved by one level of government alone. It will require a strong, coordinated effort on the part of home builders and all governments involved. The federal government has taken a comprehensive series of measures to address these challenges and to be able to provide new affordable housing to Canadians. However, it will take time for these measures to stimulate supply to take full effect.

To help address municipal barriers, among other initiatives, the government launched the \$4-billion housing accelerator fund, or HAF. It encourages and helps municipalities to eliminate municipal barriers to housing and stimulate the creation of new housing.

As you know, the government also recently introduced legislation to implement a major tax change to increase the supply of rental housing. The proposal would temporarily eliminate the GST on new rental housing built for this purpose. This measure has been in effect since September 14, 2023, subject to the passage of the bill.

• (1115)

[English]

As FINA is well aware, housing affordability is a multi-faceted issue that affects all Canadians. The department is continually studying housing affordability issues and the effects they may have on financial stability and housing costs.

To address concerns that property flipping is driving up the cost of housing, budget 2022 introduced new rules to ensure that profits from properties held for less than 12 months are fully taxed, with certain exceptions for unexpected life events.

[Translation]

To ensure that homes would be owned by Canadians rather than foreign investors, the government announced a two-year ban on non-Canadians buying residential property in Canada in the 2022 budget. The ban came into effect on January 1, 2023.

Budget 2022 also included tax measures to make housing more affordable for first-time homebuyers. It enhanced the first-time homebuyers' tax credit and introduced the new first-time homebuyers' savings account, which financial institutions began offering this year.

[English]

Housing finance is another important part of the government's comprehensive suite of solutions to build more homes in Canada. Earlier this week, the Minister of Finance announced an increase in the annual limit for Canada mortgage bonds from \$40 billion to up to \$60 billion, which will be designated exclusively for funding mortgage loans on multi-unit rental projects insured by CMHC. This measure will increase access by developers and builders to cost-effective financing for multi-unit rental construction, which will in turn help to build up to an estimated 30,000 more rental apartments per year.

The government recognizes that rapid increases in interest rates have made it harder for some Canadians to make their mortgage payments. That's why the government has taken steps to ensure that federally regulated financial institutions are providing Canadians with fair and equitable access to mortgage relief measures appropriate to borrowers' circumstances. Notably, in July 2023, the Financial Consumer Agency of Canada published its guideline on existing consumer mortgage loans in exceptional circumstances following a public consultation process, which will assist financial institutions in adopting fair and consistent approaches when they offer relief measures to Canadian consumers.

Finally, the government is continuing to invest in affordable housing through the \$82-billion-plus national housing strategy, which includes more than \$48 billion in federal support for the construction and repair of rental housing, affordable housing and shelters; more than \$15 billion in allocated joint funding with provinces

and territories; more than \$11 billion to support community and social housing; nearly \$4 billion allocated for Reaching Home, Canada's homeless strategy; and more than \$3 billion in additional national housing strategy support, including the one-time top-up to the Canada housing benefit.

[Translation]

As you can see, the government has implemented a wide range of measures to address various aspects of the affordable housing issue. I'm pleased to be joined by colleagues from Canada Mortgage and Housing Corporation and Infrastructure Canada, who are leading the national housing strategy programs, as well as the colleagues mentioned earlier.

We will be happy to answer any questions you may have.

[English]

The Chair: Thank you, Ms. McDermott.

We have a lot of officials here with us today. Before we get into our rounds of questions, members, if the question is not specific to one of the witnesses, I'd ask whoever is best suited to answer the question. Please answer and let everybody know who you are and the department you represent.

On that, we are going to move to our first round. Each party will have up to six minutes.

We're starting with the Conservatives. MP Morantz, I believe, is up first.

• (1120)

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair. Thank you to all of you for being here today.

I have in front of me a report from the Canadian Alliance to End Homelessness, "A Multi-Sector Approach to Ending Canada's Rental Housing Crisis". Are any of you familiar with this particular report?

It's a very interesting report. I have to admit that I haven't read the entire thing, but I'm going through it. One of the authors is Tim Richter, the president and CEO of the Canadian Alliance to End Homelessness. Naheed Nenshi, the former mayor of Calgary, is a participant in the report. There are a number of recommendations, but what caught my eye was recommendation number 3. I'll just read it to you. It says:

The federal government should help reform CMHC fees and the federal tax system, including changes to capital cost provisions and eliminating the GST/HST on purpose-built rental housing to incentivize the construction of purpose-built rental housing.

Then it goes into some detail, points “a” through “f”. Point “a” is the removing of the GST on purpose-built rental housing, which the government has now introduced legislation to do.

There are a number of other recommendations here on which I want to get your opinion. I'd like to find out whether you've done any analysis of these recommendations. For example, one of them is:

Defer capital gains tax and recaptured depreciation due upon the sale of an existing purpose-built rental housing project, providing that the proceeds are reinvested in the development of new purpose-built rental housing.

That recommendation comes from a report entitled “Encouraging Construction and Retention of Purpose-Built Rental Housing in Canada”.

Do you have any thoughts about that particular measure? Is there any analysis that you've done?

Mr. Miodrag Jovanovic (Assistant Deputy Minister, Tax Policy Branch, Department of Finance): We do, in tax policy, continue to look at different potential approaches to try to alleviate the issues that we're facing in the housing market. Over the recent couple of years, we've announced a number of measures, in part to deal with some aspects of speculation and more recently, as you mentioned, to try to encourage supply of rental housing through the GST rental rebate exemption.

With respect to specific proposals, I'm not really in a position to necessarily go into the detail as to the state of our advice and analysis, but these proposals we are fully aware of. I have to admit that this one is not necessarily new per se, but my general answer is we're looking at everything, basically.

Mr. Marty Morantz: Then you have some analysis of it.

Point “c” in this recommendation is to increase the capital cost allowance, the CCA, on newly constructed purpose-built rental buildings above 4%. Have you had a look at that one?

Mr. Miodrag Jovanovic: Thanks again for your question. I believe my answer is the same. I'm not really in a position to go into the details on each one and where we are—

Mr. Marty Morantz: It's fair. I'm not asking for detail; I just want to know if you've worked on it.

Mr. Miodrag Jovanovic: As I've previously said, we are looking at everything in the tax system with respect to the tax treatment of housing capital gains, including capital cost allowance as well, so it's a broad review.

Mr. Marty Morantz: The next point in the recommendation, I have to admit, is something I don't know a lot about. It's more for CMHC. It says the CMHC should examine the point system in the MLI Select program. Do you know what that is?

Mr. Chris Woodcock (Director, Client Development and Government Relations, Canada Mortgage and Housing Corporation): CMHC's commercial—

The Chair: I'm going to interrupt. Could witnesses identify themselves for the members and those watching before they get into their answer?

Thank you.

Mr. Marty Morantz: Just to be clear, it says in the recommendation that this program is for new construction to increase the number of purpose-built rentals that are affordable. It sounds like an important recommendation.

Mr. Chris Woodcock: Mr. Chair, thank you for the reminder. I'm Chris Woodcock from Canada Mortgage and Housing Corporation.

Our MLI Select program was introduced fairly recently, with extensive demand. It is based on a point system that attributes a greater score to different social outcomes. I'm not familiar with the specific recommendation in the report that you're looking at, but it's definitely being looked at in terms of calibration to make sure it's effective.

● (1125)

Mr. Marty Morantz: That's good to know. I appreciate your telling me that.

The next one is this:

When selling to a non-profit operator, land trust or non-profit acquisition fund, provide a capital gains tax break to private owners of multi-purpose rental. This initiative would incentivize selling to non-profits and protect affordable purpose-built housing.

In other words, you get a capital gains tax break if you sell to a non-profit.

Have you done any analysis on that in your department?

Mr. Miodrag Jovanovic: This is Miodrag Jovanovic, in tax policy at the Department of Finance.

I don't want to necessarily repeat my previous answer—

Mr. Marty Morantz: That's okay. I'm happy if you want to repeat.

Mr. Miodrag Jovanovic: Again, when we look at a tax system.... The way you can use the tax system is to try to see how you can change the relative prices of things and make things a bit more attractive or less attractive, depending on the objectives you want to pursue.

Another important consideration is the incidence of what you're doing. When you get into a transaction like that, you have to understand who's benefiting.

That's one thing, and what—

Mr. Marty Morantz: I'm down to my last minute.

The Chair: You're out of time. We're just over six minutes.

Mr. Marty Morantz: Oh, I'm over six minutes. Okay, I'm sorry. Well, maybe I'll get back to it.

The Chair: Yes, there will be other opportunities, MP Morantz.

We're going over to MP Baker now for six minutes.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you all for being here today.

Over the course of the summer, I spent time knocking on doors in my community in Etobicoke Centre. I consistently heard from folks about the challenges they or their family members are facing in finding housing they can afford, whether the purchase of a home or the rental of a home. One thing many of my constituents asked me is, “Why has this happened? Why have prices gone up so much?”

Could I ask you to explain this, for the sake of my constituents who are watching? Why have prices gone up so much?

Mr. Bob Dugan: Thanks, Mr. Chair. That is a great question.

In our opinion, based on the analysis we've done, a lot of it has to do with the fact that supply has not kept up with demand for housing in recent years. We estimate that back in 2004.... That's the baseline for a lot of our study on supply gaps. That was a time when affordability was relatively good across Canada, at least from a historical perspective. Since that period of time, a supply gap has grown to reach about two million units as of right now, and we project that's going to grow in the years ahead to about three and a half million units by 2030.

That supply gap is one of the key reasons that we're seeing a deterioration of affordability. If something isn't done about it, I suspect you're going to continue to answer questions from your constituents in the years to come. As that supply gap gets larger, we're going to see more affordability pressures in terms of ownership of housing, but also within the rental market. We can't forget about that.

We're now collecting new data on rents, and not just on average rents. We look at rents for folks who stay in the same unit versus rents in apartments that turn over. In Toronto last year, the rent increase for people who stayed in place was about 2.3%. When a unit changed hands, the rent increase was a little above 29%. That gives you an idea of what happens when you have a supply-constrained market. People change units for whatever reason, or new people come to live in that market, and they're facing a market that's very supply-constrained, and that drives costs higher.

It is a big problem, but one that needs supply in order to fix.

Mr. Yvan Baker: As the bottom line, what I hear you saying is, “We don't have enough homes for all the Canadians who need them.” Is that correct?

Mr. Bob Dugan: Yes.

Mr. Yvan Baker: Okay.

To solve that problem, what I hear you saying is that we need to build a lot more homes as quickly as possible.

Mr. Bob Dugan: That is the key message we're putting out there. We need a lot more construction in order to alleviate this supply gap and restore affordability for Canadians.

Mr. Yvan Baker: If we build more homes and address that gap you're talking about—two million homes in Canada—presumably that will have a positive effect on the prices of homes.

Mr. Bob Dugan: Hopefully, what that does is stop the erosion of affordability and lead to an improvement, and not just in home prices. I like to emphasize that we care about rental markets as well.

We often talk about home prices as a big driver of the erosion of affordability, but what concerns me more is the rental market. Home ownership is more of a choice. When you have a higher income, you can make that move from rental to home ownership. However, for folks in the rental market who are there because their income is low, where do they turn when they can't afford the housing they're getting?

To me, the bigger concern—the one that keeps me up at night—is the deterioration of affordability in the rental market, because we're talking about lower-income Canadians who need more help.

• (1130)

Mr. Yvan Baker: Yes, there's a lack of affordability for those looking to purchase a home and there's a lack of affordability for those looking to rent a home. That's the bottom line. We have to build more homes to make sure that homes become more affordable in both those categories.

Let me ask this, as I have I think two minutes left, and I think I'll direct it to the officials from the Ministry of Finance, if I may.

In the context of what we just talked about, one of the things the government recently proposed is the GST rebate on the construction of new homes. Could you explain, again for the benefit of my constituents who are watching, how that is going to help or how it was meant to help address the affordability challenge and the supply gap that we just spoke about?

Mr. Miodrag Jovanovic: Thank you for your question. I'm Miodrag Jovanovic, tax policy.

That's an important question. It's an important measure. It is, I would say, mainly targeted at reducing the cost of construction of rental buildings and rental housing. It does so by providing an exemption of the GST upon the completion of these buildings, which is the current system, basically.

Depending on whether the 36% rebate that exists now is claimed or not, the current GST rate may vary between 3.2% and 5%, so this proposed measure would eliminate that. It would give a break of between 3.2% and 5%, effectively.

Also, what is important to understand is that the GST right now is assessed on the basis of the fair market value of the building upon construction, not the construction costs. It's fair to assume that the fair market value would be higher than the construction costs, so when you now base everything on the basis of the construction costs, the benefit could be significant.

Mr. Yvan Baker: That makes sense.

I only have about 15 seconds, so I'll just make a comment, and there's a yes-or-no answer perhaps, if you can. What I hear you saying is that the GST rebate will make viable certain projects that weren't previously financially viable. In other words, it's incenting those who are building homes to build more homes.

Mr. Miodrag Jovanovic: That is the idea, and it is in consideration of the recent increase in financing costs through the last year or 18 months, which have been pretty steep. It would be a way to try to offset that and encourage these investments to happen faster.

The Chair: Thank you.

Thank you, MP Baker.

Now we have questions from MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

First of all, I would like to welcome my colleagues, particularly Mike Morrice, from the Green Party, who is joining us, as well as Francesco Sorbara and Peter Fragiskatos.

Mr. Fragiskatos, it was a pleasure to sit with you on the committee some time ago before you got promoted. So it's good to see you again.

The same is true for you, Mr. Sorbara. I hope there won't be any filibustering, since you are a master at it.

I'd like to thank all the witnesses for being here. Obviously, the housing issue is critical and of great concern to us. My questions will therefore be for the CMHC representatives.

First, I have a couple of technical questions about your most recent projections of the number of units that will need to be built by 2030, which were published a few days ago.

In your basic scenario, you take the average population growth over the last decade or so. According to the statistics, this average seems to have changed, and permanently. For example, today's headline in *La Presse* touts that Canada's population growth hasn't been seen since the baby boom. You have to go back to 1957 to see such high increases, especially when temporary workers and foreign students are taken into account.

Mr. Dugan, do you think that the projections for the baseline scenario for immigration, or for population growth, rather, have already been exceeded?

[*English*]

Mr. Bob Dugan: Thank you, Mr. Chair. This is Bob Dugan at CMHC.

I'll start, and then I'll turn it over to my colleague Aled, who is the author of that report.

With regard to our approach to estimating the supply gaps, you raise an important point about population growth, which is a key assumption. Also, a key to our approach is to include economic variables as well, because traditionally, when you just use demographics to project the needs for housing, those approaches always tend to undershoot. We try to augment that approach by using eco-

nomical factors such as income growth, interest rates and those kinds of things to come up with a better estimate of supply gaps.

When you look ahead.... When we looked at our population projections, we used information that we had available on the immigration targets that existed. Beyond that, we went to Statistics Canada's population projection, but we did try to look at alternative scenarios. One was with higher population growth, in order to assess what some of the upside risks could be in terms of how large that supply gap could become if population growth was stronger. We also had a lower-growth scenario to give an estimate of what it might be if we had slower economic growth in the years ahead, and that's important.

We include those economic projections, and that might add a little bit of volatility to our estimates. Having a range is useful. I still think it gives you a better estimate than ignoring the economic factors.

Aled, I'll pass it over to you, if there's more you'd like to add on our assumptions.

• (1135)

Mr. Aled ab Iorwerth (Deputy Chief Economist, Canada Mortgage and Housing Corporation): I don't think there's much to add. The baseline scenario was basically current government policy on immigration until 2025. Then, as Bob said, there was the reversion to prior growth rates. That's why we did an additional scenario with higher growth in population until 2030.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you very much for those clarifications.

Mr. Iorwerth, if we were to repeat this exercise and establish a scenario for the rate of population growth between now and 2030 based on the figures we have from Statistics Canada today, wouldn't we exceed even the high population growth scenario?

Mr. Aled ab Iorwerth: It's possible, yes. We've had the opportunity to examine the issue and, in principle, the gap between supply and demand could be even wider.

Mr. Gabriel Ste-Marie: That's great.

Given the Statistics Canada numbers we got this morning and the government's commitment to the immigration threshold for the coming decades, if we were to take these new scenarios, we might get a different result, one that would exceed the high population growth scenario. That's what I understand from what was just said.

Would it be very complicated for you to send our committee an update of your scenarios, taking into account, for example, last year's growth rate and applying it to 2030?

Mr. Aled ab Iorwerth: We could do that, but it would take a few weeks. We would also have to take into account the direction of the economy and general economic situation. The advantage of the model is that we could take into account the economics and demographics. In principle, we could do that.

Mr. Gabriel Ste-Marie: Okay.

Obviously, you're already overwhelmed.

Mr. Aled ab Iorwerth: That is our challenge, yes.

Mr. Gabriel Ste-Marie: The first thing is to address the housing funding needs. My understanding is that you don't have enough staff to properly respond to all the requests. If you can find the time to respond to this request, I would greatly appreciate it.

I wish I had four more minutes, but I only have 10 seconds left, so I'll stop there.

Thank you very much for sending us all this information with us.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we're going to go to MP Blaikie, whose motion actually got this study on housing started.

MP Blaikie, the floor is yours for questions for six minutes.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much, Mr. Chair.

I want to start with a question to Mr. Dugan. In respect of the Canada mortgage bonds, are the Canada mortgage bonds offered at the same rate as the Canada Savings Bond, or do they pay a different interest? If so, do you know what the difference is between interest on a Canada mortgage bond and a Canada Savings Bond?

Mr. Bob Dugan: I have not compared them to Canada Savings Bonds rates. I can say that they tend to trade at a slightly higher yield than Government of Canada bonds.

I could probably get a better answer from Nicolas, if he wants to chime in.

Mr. Nicolas Moreau (Associate Assistant Deputy Minister, Financial Sector Policy Branch, Department of Finance): Thank you, Bob.

When we look at the cost of financing a CMB—a Canada mortgage bond—we usually compare them to the Government of Canada rate, our GOCs. They are currently trading, on a five-year rate, around 30 basis points above, which is 0.3 percentage points, and 40 basis points if it's a 10-year loan. We need to understand that the CMBs are usually financed for five-year and 10-year sectors. Ten-year sectors are mostly for multi-unit projects. It's five years for the residential housing.

Canada Savings Bonds were completely cancelled many years ago. We do not issue Canada Savings Bonds anymore in the federal government. Basically, we only have a stock of Canada Savings Bonds that are gradually fading out right now in the market.

• (1140)

Mr. Daniel Blaikie: Okay, but the federal government does issue its own bonds. At what rate does it issue them, compared to CMHC?

Mr. Nicolas Moreau: Thank you for your question.

As I said, we are issuing our own bonds around 30 basis points below CMHC in the five-year sector, and 40 basis points below in the 10-year sector.

Mr. Daniel Blaikie: When the federal government wants to finance the construction of new housing, what is it getting for that differential between the two rates? If it's ultimately paying more interest out on the CMHC bonds, what is the advantage to the government or to the taxpayer for paying that extra, as opposed to issuing a Government of Canada bond at a slightly lower rate?

Mr. Nicolas Moreau: Basically, the way the CMB program, the Canada mortgage bonds program, works right now is that CMHC manages the program. They issue Canadian mortgage bonds to the market at a rate of 30 or 40 basis points above the GOC rate, but they go on the market and buy what we call NHA MBS, National Housing Act mortgage-backed securities. They are pools of mortgages that are basically bought back from the issuers, the banks. By doing that, they are increasing the liquidity in the market. Increasing the liquidity means those banks are able to provide lower rates to homeowners, basically. This is an implicit subsidy that's being provided by CMHC to that program.

Mr. Daniel Blaikie: CMHC recently announced that it would be issuing another \$20 billion of bonds annually in order to be able to provide low-cost financing for multi-unit rental construction.

I'm curious to know if there are any affordability conditions attached to that low-cost financing, or is that \$20 billion of low-cost financing being made available to developers who would be charging market rent?

Mr. Nicolas Moreau: I'll take that question. I'm Nicolas Moreau from the Department of Finance.

Basically that \$20 billion will be focused exclusively on multi-units. A builder could build an apartment building, a student apartment or an old age residence.

There are two phases to this program. There's one that is the normal stream, and any builder could apply. The other one is what we already talked about, the MLI Select program. If you meet specific criteria on affordability or on whether it's a green initiative, you'll be able to get specific points that will reduce the cost of that financing to CMHC. There's more benefit—

Mr. Daniel Blaikie: Okay, affordability isn't a hard condition of that stream; it's just one of the factors for scoring. Is that correct?

Mr. Nicolas Moreau: That's correct.

Mr. Daniel Blaikie: Okay, thank you.

My understanding is that beyond the current rapid housing initiative offering, there's no commitment by government to a subsequent offering. I understand that the co-investment fund has been depleted and that these are the two funds under the national housing strategy that non-profits can access if they want to build social or affordable housing.

If I'm a non-profit today with the wherewithal and the ambition to build affordable or social housing, what current pots of funding are available to me to apply for at the present moment?

Mr. Chris Woodcock: This is Chris Woodcock from CMHC housing programs.

At this time, the rapid housing initiative has gone through three phases. Phase three is fully awarded, so there are no further funds available at this time. We are continuing to accept applications through the national housing co-investment fund. We continue to work with non-profits across the country. We are looking towards the end of those funds, and we are certainly optimistic that we'll see further availability of funds in that space over the long term. Right now we have low-interest loans and grants that continue to be available through the co-investment fund.

• (1145)

The Chair: Thank you.

Thank you, MP Blaikie. That's the time.

We are moving, members, into our second round of questions. We're starting off with MP Chambers for five minutes.

Mr. Adam Chambers (Simcoe North, CPC): Thank you, Mr. Chair.

Welcome. Thank you for coming.

I want to follow up on a couple of my colleagues' questions, but first with Mr. Ste-Marie's questions about demand.

Most people aren't willing to admit that closing the supply gap is almost fantasyland. We have to think about demand. You were talking about population growth, but how about the uses of property? How many properties in Canada today are now used as short-term rentals? Does CMHC track that data? Does it have access to that data? Is that something CMHC wishes it had?

Mr. Bob Dugan: With respect to short-term rental, of course, those are units that are not available for long-term residential uses. The counter side to that, though, is that these are maybe units that wouldn't be built if the availability of short-term rental wasn't there in the first place. The higher returns to putting out a unit for short-term rental probably incentivized a lot of purchases of units that then maybe wouldn't have been built had that demand not been there for those units.

At this point in time, there's maybe a potential windfall. If you were to take those units and say that we're going to get rid of short-term rental, that could increase supply to the rental market as a one-off, but it wouldn't necessarily lead to continued growth and supply in the long run. The rules have changed, and now the incentive to invest in those units is gone.

Mr. Adam Chambers: Indeed. I totally agree with you, but I think we're at a point in time where everyone's acknowledging a crisis and a one-off release.... I mean, there are some studies that suggest that in the city of Toronto alone—because the city started to actually regulate short-term rentals—10,000 units have been released to the market.

If you're telling me that the government doesn't have that information and would like that information, maybe that's something the committee could request. I'd like to hear from some short-term rental operators. These are individuals who are sometimes operating out of single-family detached dwellings. They're not all just condos. Yes, that's a part of it, and I'm sure it's a big piece.

I'll stay with you, Mr. Dugan, if that's fine.

The second question is this: Does CMHC have any analysis on the recent changes to the building code or proposed changes to the building code from NRCan about how much additional cost per unit that adds to housing?

Mr. Bob Dugan: We don't have any analysis that I'm aware of. It's not done in the area that I'm responsible for.

Mr. Adam Chambers: Can I make a suggestion?

We should want to know how much additional cost per unit is being loaded on because of government regulation. I'm not saying the regulation isn't needed, but we should understand and make the trade-off.

We're talking about reducing the GST on rentals, and that's going to be a monumental 5% change. Some studies suggest that the NR-Can changes are going to add \$30,000 per unit in additional cost. That's a significant amount that will all be borne by the purchaser. I would submit that it's a piece of analysis that would be very helpful for the committee.

I would like to follow up on Mr. Blaikie's questions about the CMB program, Mr. Moreau.

Does the Department of Finance have any analysis or any projection on what will happen to prices with the injection of liquidity into the market?

Mr. Nicolas Moreau: Thank you for the question.

Basically, we're adding \$20 billion in liquidity in the CMB program. This is a program of \$260 billion right now.

The Canadian market is a very liquid market, and these are AAA bonds—they are basically fully backed by the Government of Canada—so we don't believe this will have an impact, or any significant impact, on the yields that are offered right now.

Mr. Adam Chambers: We are increasing liquidity, right?

Mr. Nicolas Moreau: Of course.

Mr. Adam Chambers: You're also trying to wind down the CMB program at the same time. Is that not true?

Mr. Nicolas Moreau: As part of the last budget, we announced that we will be consulting the market on a potential consolidation of the CMB program on the Government of Canada bond program. Those consultations happened last summer. We're currently looking at the answers that we received. This is where we are right now.

• (1150)

Mr. Adam Chambers: Thank you very much.

I don't have time for an answer, but I'd like to make a request.

Can the Department of Finance provide an explanation of what is going on between OSFI and FCAC? OSFI's September 13 bulletin says that you have to go through the B-20 rules if you want to refinance; FCAC says you can extend amortization. Those are complete opposite purposes. I'd just like to understand what's happening.

Thank you.

The Chair: Thank you, MP Chambers.

Now we'll go to MP Weiler for five minutes, please.

Mr. Patrick Weiler (West Vancouver—Sunshine Coast—Sea to Sky Country, Lib.): Thank you, Chair.

I really appreciate the testimony from our witnesses already today.

I want to pick up on a line of questioning from Mr. Baker. This is a question for Mr. Dugan from CMHC.

I was hoping you could share with this committee your estimates on the impact on new purpose-built rental projects that will be built if Bill C-56 passes and GST is eliminated on purpose-built rentals.

Mr. Bob Dugan: Thanks very much for that question.

This being very new, we haven't had much of an opportunity to produce any estimates on the impact. We don't have anything. All I have is anecdotal evidence that a lot of builders seem to be suggesting that this can move many projects from unprofitable to profitable. I've seen some announcements by some builders, in the same news that you probably read, that this change will result in more units, but we don't have an estimate right now of how many units that could produce.

Mr. Patrick Weiler: Thank you.

I've seen some reporting out there—for instance, from the Smart Prosperity Institute—that it could be 200,000 to 300,000 more purpose-built rental units.

Maybe I'll ask the same question of the Department of Finance. They might be able to shed some light on that.

Mr. Miodrag Jovanovic: I think at this point I would not have anything to add to the answer already provided.

Mr. Patrick Weiler: Okay.

Perhaps I'll continue on with the Department of Finance.

In your opening you mentioned some of the tax measures and other measures that have been brought in to deal with the financialization of housing, such as the tax on property flipping and the ban on foreign buying for two years. The other area, of course, is the tax on property assignments.

I was hoping you might be able to speak a bit more to the impact you foresee from that, and the existing experience so far, given that many of these measures went into effect as of January 1 of this year.

Mr. Miodrag Jovanovic: With respect to assignment sales, there are two measures in place that are affecting the tax treatment.

First, with respect to GST application, the government has clarified that the GST will apply in all assignment sales. That's one thing.

With respect to the income tax treatment, the tax treatment of assignment sales done within 12 months has also been clarified. In all situations, it would be deemed to be business income and fully taxed, as opposed to potentially benefiting eventually from capital gains treatment.

With respect to the effect of these measures on assignments, it is too early to say anything. As you suggested, they were put in place relatively recently, so we don't have data on them yet.

Mr. Patrick Weiler: Thank you.

The one other area is change in the tax treatment for short-term rentals. Given that my colleague Mr. Chambers brought that up, I was hoping you could perhaps shed a little more light on that as well for this committee.

Mr. Miodrag Jovanovic: Thank you for your question.

With respect to short-term rental income, I'm not aware of a change in the tax treatment. Perhaps you could add a bit of clarity to your question. I'm sorry, but I'm not sure I can identify what you're suggesting.

• (1155)

Mr. Patrick Weiler: Okay, I'll change course a bit here.

The department mentioned the first home savings account that was brought in. I was hoping you might be able to share with the committee the take-up we've seen on this new measure that was brought in.

Mr. Miodrag Jovanovic: It has been in effect since, I believe, April 1, and we've seen a reasonably good take-up so far. I believe about 14 institutions right now are offering it. Most of the big six also offer it. I believe two of them are in the process and are about to. It may not be available right now, but based on their communications, it seems it's coming shortly.

The Chair: Thank you.

Thank you, MP Weiler.

It's now over to MP Ste-Marie for two and a half minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Mr. Dugan, I'm going to change the subject. I'm going to tell you about a specific case and then ask you a more general question.

In Joliette, social housing projects are currently under way. In one case, the building would be built on a landlocked site co-managed by the Société d'habitation du Québec, the SHQ, and CMHC. CMHC has orders to sell the land at market value, which, in the financial package, prevents the development of this project. This is currently one of the stumbling blocks. From what we've heard, the SHQ is prepared to donate the land. It's a landlocked site that can't be used for anything else under the circumstances.

As I said, my question is a general one. When you're ordered to sell land at market value, whether it's yours or not, can you, under the Financial Administration Act, sell the land or sell it below market value if the minister authorizes you to do so?

Mr. Bob Dugan: That's an excellent question, and I don't have an answer to it.

Mr. Woodcock, is that a question you can answer?

[*English*]

Mr. Chris Woodcock: I think we would have to respond in writing.

[*Translation*]

Mr. Gabriel Ste-Marie: Okay. Thank you very much. We look forward to receiving your written reply.

The housing accelerator fund provides \$900 million for Quebec, but it doesn't seem to be active yet.

What is the hold-up between Quebec City and Ottawa that's preventing people in Quebec accessing the \$900 million to build more social housing?

[*English*]

Mr. Chris Woodcock: This is Chris Woodcock from CMHC housing programs.

[*Translation*]

We recently had a very positive experience with the province of Quebec. We have reached agreements to distribute federal funds to the province. We are working very closely with Quebec to find an agreement on the housing accelerator fund, or HAF. I'm confident we'll find a solution soon.

[*English*]

I think we're going to reach an agreement this year, hopefully soon, that gives Quebec an appropriate share of those federal dollars and achieves the kind of long-term improvements to systems and processes that accelerate housing in Quebec.

[*Translation*]

Mr. Gabriel Ste-Marie: We look forward to that happening.

Thank you very much.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we go to MP Blaikie for two and half minutes.

Mr. Daniel Blaikie: Thank you very much.

I'll just make a quick callback to earlier discussions. I know a colleague asked about the number of rental units the government projects the GST exemption will help to create. Those numbers don't yet exist, but I wonder if either the department or CMHC could commit to preparing an estimate for the committee and delivering it in time for our study, which is projected to report back to the House in February. To be maximally useful, some kind of analysis would be welcome by the end of next month, let's say.

Is that a realistic request of either party at the table today?

Mr. Miodrag Jovanovic: I have to admit it's difficult for me to commit at this point on this request. What I would say is that this would be an extremely complex exercise that may take a while to arrive at assumptions that make sense. Given the complexity of the issue, there are so many factors at play.

We know for sure that we're going in the right direction in terms of reducing building costs. As I mentioned, it's between 3.2% and 5%; that's the GST value. Some provinces may also jump in. It would be an extremely difficult exercise. I wonder whether the number we would end up with, based on the quality or lack of quality of assumptions because of the lack of data, would really be informative.

● (1200)

Mr. Daniel Blaikie: What I'm hearing is that if we want to measure the opportunity costs of certain kinds of investments in housing, whether that's through tax policy or direct spending, the government's plan is to wait to have data and only be able to evaluate investments retroactively. Is that a fair understanding of the approach to evaluating value for money?

Mr. Miodrag Jovanovic: In the specific case of the GST rebate, we would need to determine whether we would be able to retroactively assess. Again, it suggests that you know retroactively what has been a determinant, and the increment. I think it goes back to my first response, which is that it is an awfully complicated exercise. That does not mean we cannot come up with estimates; the caveat here is that I have doubts about the quality and reliability of these estimates.

The Chair: MP Blaikie, that's the time.

Members, when you're hearing an answer from a witness, could you just put yourselves on mute? We've heard from the interpreters that otherwise it causes interference and some challenges.

We're off to MP Lawrence for five minutes.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you, Mr. Chair. Thank you for the witnesses who are appearing today.

I will read from the CMHC's mandate here: “to promote the efficient functioning and competitiveness of the housing finance market”.

While I'm pleased that we have acknowledged the issue, one that our party has been pointing out for some time, I'm not nearly as pleased—in fact, I'm profoundly disappointed—that we've come to this point. We are two million homes behind, and it's going to be 3.5 million homes.

Did the CMHC or did the Department of Finance advise the government eight years ago that this issue would be occurring?

Mr. Bob Dugan: Thank you very much for that question, and it's a fair one. I'm lucky I have my colleague Aled here, since he led a lot of this work.

In 2018 we published a fairly extensive study on house price escalation. To my knowledge, that is probably one of the first pieces of work that really identified supply, or the lack of supply, as a key determinant of the escalation in house prices.

Aled, I don't know if you wanted to say more about that.

Mr. Aled ab Iorwerth: Yes, Bob is right. The report was published in early 2018.

To summarize briefly, it said that the demand for housing is going up because of rising income, rising population growth and, at the time, lower interest rates. There were significant supply responsiveness challenges, particularly in the Vancouver and Toronto areas.

Mr. Philip Lawrence: Thank you.

Since 2018, has the problem stayed the same? Has it improved or has it gotten worse? Has the housing crisis worsened since 2018?

Mr. Bob Dugan: I think it's fair to say that we're moving in the wrong direction in terms of affordability. Affordability has gotten worse.

We think supply is the solution. Unfortunately, supply takes time. For example, in the Toronto area, if you want to build a multi-residential rental building, it can take eight years from the time you have the idea that you want to do that until people are moving in.

Those kinds of supply lags are some of the reasons for things like the housing accelerator fund to look for efficiencies. We always say that we need to find innovative ways of building and innovative solutions so that we can get supply on the ground more quickly, because it is a problem.

Mr. Philip Lawrence: Thank you for that, sir.

I agree that we definitely need more supply.

With respect to barriers for that supply, have you published or do you have available or could you make available to the committee the impact from additional costs or barriers that arise from changes to municipal building codes, whether they're slow in releasing them or just not releasing them, or other municipal barriers?

Finally, what would the impact of the carbon tax be on the cost of building homes?

• (1205)

Mr. Bob Dugan: I am not aware of any studies that we have that quantify those measures right now. I don't think I have anything I can provide. I can check when I get back to see if anything has been done.

The only thing I can maybe point to is a recent survey done by Statistics Canada that outlined some of the key local-level impediments to supply. It doesn't quantify in terms of additional cost, but it identifies, at the local level, some of the impediments that have the biggest impact on the supply response.

Mr. Philip Lawrence: Thank you for that.

It's your position, then, that in 2018, CMHC at least started to lay out the issue to the government. I know you can't jump into partisan politics and I wouldn't ask you to, but it has been your evidence that despite that report in 2018, the housing crisis worsened. Is that correct?

Mr. Bob Dugan: Yes.

Mr. Philip Lawrence: Second, my colleague Mr. Chambers referred to hitting the target of 3.5 million additional homes as “fantasyland”. Given the GST rebate and the current actions, if we looked on trajectories, has anything changed that would, in your mind, give Canadians any confidence that we would bridge that 3.5-million home gap?

Mr. Bob Dugan: The 3.5 million is an enormous undertaking. It's not something that CMHC or the federal government can do alone. Basically, an all-hands-on-deck effort has to happen with the private sector and different levels of government.

I think it's a very ambitious goal. It's going to be difficult to attain. I don't see how we'll attain it with the current environment. We have high interest rates and high material costs. The unemployment rate has come up a bit, but it's still 5.5%, which is very low. There's not a lot of labour.

We need to come up with very innovative ways to build by using existing capital and labour in order to get this job done. Because innovation hasn't happened yet, it's hard to point to a solution. It's going to be difficult, but hopefully we can do it. It's an important objective, because affordability is so important.

The Chair: Thank you, MP Lawrence.

Now we go to MP Dzerowicz, please, for five minutes.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Mr. Chair.

I'm just going to finish off with that, because I think there seems to be an implication that in 2018, a report came out and all of a sudden now we're in a worse crisis situation because the Government of Canada didn't listen to that 2018 report. I do not believe that is true.

Can you confirm that the housing crisis we have today is one of inaction for probably about 20 to 30 years from all levels of government, which is how we've reached the situation today? Would you agree with that, Mr. Dugan and Mr. ab Iorwerth?

Mr. Bob Dugan: I think you're quite right to point that out. Affordability has been deteriorating for much longer than just since 2018. I would say that as a result of a lot of our work, a lot of the discussion around policy to solve housing has shifted from demand-based initiatives before then to more of a focus on supply.

I think there's been responsiveness, but as I said earlier, unfortunately, supply takes time. You can't just create it out of thin air.

Ms. Julie Dzerowicz: Can I also have you confirm that since 2018 we had a massive global pandemic? We've had major global shifts. We've had huge inflation. We've had a number of factors that have impacted the ability for any level of government to move as aggressively as possible on a lot of the housing initiatives that were originally planned.

Can you confirm that this is true?

Mr. Bob Dugan: Absolutely, it's been a challenging environment in recent years, for all the reasons you mentioned.

Ms. Julie Dzerowicz: Thank you.

We're talking about the financialization of housing. It's one of the things we're talking about right now. If I asked a Davenport resident what they think financialization of housing means, I'm not quite sure they would know.

Can you confirm that it means basically buying housing as an investment versus as a place to live?

• (1210)

Mr. Bob Dugan: That's a very broad definition of it. I think it's very important to recognize that financialization of housing has been around for a long time. Earlier in my opening remarks—

Ms. Julie Dzerowicz: Could you define it for the average Canadian?

Mr. Bob Dugan: I was agreeing with your definition. If you buy housing as an investment as opposed to using it for shelter, that could be an example of financialization of housing.

There are many definitions, and different people use different definitions. That's one I like to work with. There's probably some merit in coming up with some standardized definition that we all agree with.

I think it's important to note that with regard to financialization, 95% or so of the rental market is owned by investors. It's not government-provided; it's investor-provided units, and that is the most affordable part of the housing market.

We need more financialization. We need more investment dollars in order to increase the rental supply, because I think that's where the affordability crisis is the most acute.

Ms. Julie Dzerowicz: Okay. I think a lot of people feel that when people are buying housing as a way to invest, it tends not to benefit Canadians in general. There's a general thinking around that. That is versus the need to have private investment to help to create additional spaces. Do you see that there's a little bit of dis-

connect for the average Canadian? Can you maybe find a way to explain what we're actually looking for from the private sector?

Mr. Bob Dugan: I think what we're looking for from the private sector is more investment dollars making their way into the construction of more units.

It's very important to also point out that people will blame financialization for the lack of affordability, but really, I think the lack of supply is the main issue that's creating the affordability crisis. We have to encourage more investment in order to get beyond this and have more supply, so that the market is supplied well enough to get shelter costs back in line with income and people can afford the units they live in.

I fear that solutions that don't encourage that investment can lead to short-term improvements in affordability, possibly, but in the long term, if they discourage investment, we never get the supply we need to restore affordability on a sustainable basis.

Ms. Julie Dzerowicz: For my last question, I was very shocked to hear that when people are changing units, rent increases are 29% versus 2.3% when they are staying in their units.

It's at the provincial level that they can actually have some sort of rent control for the changing of units. Is that correct? Would it be at the provincial level that they could actually manage that?

Mr. Bob Dugan: It's a provincial-level jurisdiction to set rent controls in Canada.

Ms. Julie Dzerowicz: They don't have that in place right now for the change in units.

Mr. Bob Dugan: In Ontario, I gave the example for Toronto, where the rent increase was 29% for units that change hands. That would be rent control that is set by the Province of Ontario. The current approach in Ontario is to set a guideline for units that people remain in, but rent can change and move up to what the market can bear when a unit changes hands during the year.

Ms. Julie Dzerowicz: The province can control that if they like.

Mr. Bob Dugan: I believe so, yes. It's their jurisdiction.

The Chair: Thank you.

Thank you, MP Dzerowicz.

Members and witnesses, we're moving into our third round and we're starting with MP Hallan for five minutes.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thank you, Chair. Thanks to the witnesses for being here.

My first question is in relation to the IMF announcement that Canada not only has the most indebted households in the world but also has a real risk of a mortgage default crisis.

We know through the Governor of the Bank of Canada that government deficits make it harder to fight inflation. We also know through the current finance minister that deficits fuel inflation, which makes interest rates go up. We've seen inflation go up again, up to 4%, double the rate it should be currently. That could have another impact in the form of another interest rate hike.

I'd like to have both the Department of Finance and CMHC give their thoughts on this looming crisis, which seems as though it's going to be massive.

• (1215)

Mr. Bob Dugan: I can start. I'm Bob Dugan from CMHC.

You bring up some concerns that we share and things that we monitor very closely, in particular with respect to household debt.

We keep an eye on that because Canadian households do have a very high level of debt compared to those in many other countries. That is a vulnerability that can make us more susceptible to a downturn, so if some sort of shock leads to higher unemployment in Canada, the fact that we have a lot of household debt can make that downturn a lot more severe in Canada than it would be if household debt were lower. That's a concern we always share.

Luckily, with respect to mortgage defaults, so far arrears rates remain very low. I think the latest number is about 0.25%.

Mr. Jasraj Singh Hallan: It's there, but we haven't really seen the full picture yet, because some of those renewals are going to start now, and in some cases, the new rate people are going to be paying will be double or triple what they were paying, which is why the IMF has identified this as a default crisis.

Mr. Bob Dugan: Yes.

Mr. Jasraj Singh Hallan: If we're looking forward, isn't that factor a bigger concern?

Mr. Bob Dugan: Thank you very much for the question. I was just about to get there.

With the interest rates, the Bank of Canada has tightened from about a quarter of a per cent as of March 2022. They've now tightened up to 5% in terms of their policy rates, with the risk that those could go higher, for sure, if inflation persists. These are things that are going to lead to, and have already led to, increases in variable interest rates on mortgages, with people reaching their trigger rates and having to either face higher payments or get behind on their amortization.

Eventually that's going to lead to a reset of mortgage payments that could be more difficult for many households. Luckily, the mortgage rate stress test was in place, which protected against some of that increase, so most households that got a mortgage in the last four or five years—I don't know the exact start date—have had to qualify at a rate that's about 200 or more basis points above the contract rate—

Mr. Jasraj Singh Hallan: Fair enough, and I'd like to get Finance Canada's thoughts on this too, but we're not looking at just a 5% increase. The rates that banks charge for variable rate mortgages could be up to 6% or 7%.

When people go to renew, putting the stress test aside, what's going to happen to those who won't be able to renew? What's that going to do to the market? What's that going to do to our economy?

Mr. Bob Dugan: It's certainly a risk. A lot of these households are going to have to dedicate more of their income to paying those debt service costs.

I've been answering this, so I don't know if the Department of Finance wants to weigh in with anything on that.

Ms. Julie Turcotte (Acting Assistant Deputy Minister, Economic Policy Branch, Department of Finance): Thank you for your question. I'm Julie Turcotte from the Department of Finance.

It's true that many households are going to face some financial pressure in the coming years as they renew their mortgages. What we know is that so far, one-third of households have seen their mortgage payments go up, and that will increase in the next year or two to about two-thirds.

I think there are some mitigating factors, including that the labour market has remained quite strong, so we haven't seen unemployment increasing by a whole lot, and income growth is also quite solid—

Mr. Jasraj Singh Hallan: I'm sorry. I wanted to get in one more question for both of you before I end.

My question is on how we recently found out that the government has lost track of a million people. There's no surprise, but is there any change in your opinion on what that would do to the supply and demand sides of this housing crisis we're in?

Mr. Bob Dugan: I believe we were talking about that a bit earlier in terms of the recent numbers and what that does to our projection of supply gaps between now and 2030.

Time permitting, I think what we committed to do is to try to see if we could come up with an estimate of how that might change our estimate of the supply gap.

We do have a high population growth scenario that results in a supply gap of about four million units by 2030, which compares to our three and a half million units in our base case scenario. I guess the question under these assumptions of higher population is whether the estimate would go above even four million. I don't have an answer for that right now, but it's something that we can try to look into.

Mr. Jasraj Singh Hallan: Could you table that, please?

The Chair: Thank you, MP Hallan. We'll go to MP Sorbara.

Welcome, MP Sorbara, to the committee.

• (1220)

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair. It's great to be with my esteemed colleagues.

Welcome to all of the CMHC officials today.

Mr. Dugan, thank you for your frank assessment of the Canadian housing market. You've been an economist at CMHC for a very long time. You've seen what I would call a few housing cycles. On where we are now, if you had to define it, where would you characterize we are in the housing cycle in Canada?

Mr. Bob Dugan: That's a great question about where we are in the cycle right now.

We're in an environment where interest rates have come up, of course, and that's been dampening housing demand, especially home ownership demand. In the past year or so, obviously, since interest rates have come up, we've seen a bit of downward pressure on house prices. That doesn't mean that housing is more affordable, because with the rise in interest rates, mortgage carrying costs have been higher.

In terms of the housing cycle, what worries me is that in the short term, with higher interest rates, we might see less robust housing market conditions than we saw, say, before interest rates came up, but in the longer term, my bigger concern is that because of the lack of supply, the long-term trend in housing markets is for a deterioration in affordability as rents and prices continue to increase.

In the short term, there could be some relief because of short-term cyclical, but in the long run I really worry about affordability and price increases because of the lack of supply.

Mr. Francesco Sorbara: If I can add to that, a normalization of rates has happened and is happening on yields on both sides of the border at whatever part of the curve you want to look at. I think that's why there was the announcement yesterday or the day before to increase the size of the CMB program to be very liquid. I think the number was some \$200 billion, backed by Canada's AAA credit rating, with very good assets behind it, to incrementally build another 30,000 units, I believe it was, in rentals. It was very significant

On top of that, there's the lifting of the 5% GST. Some of the provinces have come on board to remove the HST portion, so you're not just getting the 5% uplift; you're actually getting up to the double digits, which is great.

I think the gap between supply and demand that exists right now is just a stock-and-flow number, right? We have a stock of housing, and it takes time to build, but we have a flow of demand that we're trying to catch up on. Can we catch up?

Mr. Bob Dugan: That's a great question.

I have to believe that we will eventually, with all the efforts that are being made, but it's going to be a challenge, and I think it will be really big challenge to build the three and a half million units by 2030. I think I've said that.

I don't know, Aled, if you want to add to that in any way. It's a hard goal to achieve.

Mr. Aled ab Iorwerth: I think the one encouraging sign is that now, after these recent reports, everybody is starting to talk about supply. Supply is getting the focus and the attention, and we think this is where the solution lies.

Mr. Francesco Sorbara: If I can, I'll just add another tangent. At this moment in time, there are more cranes in the city of Toronto

than in any other North American city. Actually, you can combine a couple of North American cities, and they still wouldn't reach that. In my area, in the city of Vaughan, an area where the subway has gone to, we've gone from a population of zero to where there will be 40,000 within the next couple of years. There are cranes everywhere as it's being built.

I want to do a shout-out to the builders out there and to all of the workers that are building everything across this country, whether they're skilled trades from Local 183 or Local 506, the carpenters in the IBEW or all the folks in between. They are the folks who are going to have to build this, and they actually do it quite efficiently. Great products are put out to the market for Canadians on the entire housing continuum, from affordable housing down to selling a detached home in the Canadian markets.

How much time do I have left, Mr. Chair?

The Chair: You have one minute.

Mr. Francesco Sorbara: Okay.

The first-time homebuyer account that was mandated has seen great pickup. It is a demand-side function, but in the longer term I think it's a...

Do we have any statistics on how many Canadians have opened that account?

Mr. Miodrag Jovanovic: I don't believe we necessarily have numbers now. Probably it may take a bit of time to have that understanding of what institutions are offering. I can take that with me and see if there's a way to get some information on this aspect.

Mr. Francesco Sorbara: Thank you, Mr. Chair. I'll stop there.

• (1225)

The Chair: Thank you, MP Sorbara.

Now, we will go to MP Ste-Marie, please, for two and a half minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I have more questions for the people from CMHC.

I'd like you to provide us with data, broken down by province, that would give us a current picture of the programs you manage.

First, how many projects have been announced? Of these, how many are currently under construction? Second, how many units and how much money is involved?

We'd be grateful if you could provide the committee with this information.

Mr. Bob Dugan: I'll make a note of it.

Mr. Gabriel Ste-Marie: Thank you.

I have another question for you. I referred to it a little earlier. The government is asking you to manage a wide range of housing construction programs. Historically, it seems to me that this is not what CMHC was essentially doing. This is new, from my perspective. By inference, I imagine it takes a lot of resources and requires finding new ways of doing things. I'm concerned that CMHC does not have enough resources to carry out all these new mandates.

For example, regional projects—those outside urban centres—could be at a disadvantage because it would take too much time to analyze each small project in detail and, as a solution to the lack of resources and to save time, it would have been decided to take care of the biggest projects. Can you reassure us that this is not the case or, on the contrary, tell us that there are concerns and that you don't have enough resources to meet the needs?

[English]

Mr. Chris Woodcock: I'm Chris Woodcock with the CMHC housing programs.

There was a lot in that question.

To start, we certainly look at our resourcing on an ongoing basis. We have had a lot of success moving internal resources between programs. For example, just as an anecdote, when we were wrapping up the delivery of the rapid housing initiative this year, we were very successful in retraining and redeploying a significant number of staff from the rapid housing initiative to support the housing accelerator fund and in developing training to support that work, and the timing worked out. That's the type of workforce planning we look at overall to make sure that we leverage the available resources we have in the best possible way and the capacity we do have as flexibly as we can to support the various programs that we're delivering.

Certainly I would agree with your statement that in recent years we've been delivering many housing programs that are different from historic programs that would have been worked on. The most recent one, the housing accelerator fund, is a very different kind of program. There's involvement in municipal processes and regulations, which is very new to us, and it's certainly a learning process. If you go back a few years, the introduction of the co-investment fund and the rental construction financing initiative were also very new to CMHC, and we were able to ramp up very quickly. Again, there were lessons learned, and there are certainly opportunities to continue refining, but that's been an ongoing process.

The Chair: Thank you, MP Ste-Marie.

[Translation]

Mr. Gabriel Ste-Marie: Thank you.

The Chair: Thank you.

[English]

Now we will go to MP Blaikie for two and a half minutes, please.

Mr. Daniel Blaikie: Thank you.

I was hoping that either the department or CMHC could provide the committee with a list of projects that have a social or an affordable component that are in part federally funded in some way,

shape or form, whatever the mechanism, and that began construction prior to September 13, 2023. That's to get an idea of projects that have stalled as a result of higher interest rates.

If those projects are going ahead in any event, so be it. I'm interested in the ones that, due to escalating interest rates, had to pause construction after they began. Is that a list that can be provided to the committee?

Mr. Chris Woodcock: Thank you for the question.

We will take that away and we will do our best to provide that information.

I can't confirm at this time that we would have the lens specifically around projects that have stalled due to interest rates. We can certainly take a look to see what we do have and what we can provide.

Ms. Alison McDermott: It's Alison McDermott from the Department of Finance.

I'll just add that there is a fair bit of built-in flexibility in a lot of those CMHC programs that would allow them to take small measures to improve the viability of individual projects, so I don't think there's a very large list of projects that are stalled at this point. I think what you would find is that funds have been used up faster on fewer projects than may have been originally anticipated.

Mr. Daniel Blaikie: Okay. Well, that's why the list would be very helpful, because we've certainly heard anecdotally from the sector that there are non-profit or co-op housing projects that receive federal funding that have been put on pause just because the numbers don't work for the budget. I think to have a list of what those projects are, what their value is and what the federal contribution represents would be useful to the work of the committee.

We know that among OECD members, Canada has the lowest number of social housing units as a percentage of its housing stock. We've heard a lot from the CMHC today about supply and about market supply. I wonder if CMHC could speak specifically to the need to increase social housing stock in Canada and what mechanisms they believe are the best in order to significantly increase Canada's social housing stock.

• (1230)

Mr. Bob Dugan: Thank you very much for the question.

I can confirm that we have a low level for that housing stock. Social housing makes up, I think, about 4% of the housing stock in Canada, which is well below OECD averages. I would completely agree that there's a need to build more social housing stock, as well as housing stock across a continuum, in order to improve affordability for all Canadians. That is most definitely an important part of it.

In terms of the mechanisms, that's not my area of expertise to answer, but I can confirm that we have a low stock and that it's something we should improve in order to promote affordability, especially for the most vulnerable households in Canada.

The Chair: Thank you, MP Blaikie.

Mr. Daniel Blaikie: Whose responsibility is that within government, would you say?

The Chair: MP Blaikie, we have gotten to the time, but I do believe Mr. Chris Woodcock might have that information.

Mr. Chris Woodcock: I was going to respond on preservation of social housing units. We could provide an answer on that off-line.

The Chair: Okay. If you could provide that to the committee, that would be great. Thank you.

Thank you, MP Blaikie.

We now go to MP Morantz for five minutes.

Mr. Marty Morantz: Thank you, Mr. Chair.

I have a quick question for you, Mr. Chair, before I start. I'm just wondering if the finance minister has accepted our gracious invitation and when she'll be appearing at this committee.

The Chair: We're working on our schedule.

Mr. Gabriel Ste-Marie: That's good news.

Mr. Marty Morantz: Okay. I'll wait for you to advise, then.

Mr. Dugan, on defaults again, IMF and The Economist have both published that Canada is at the highest risk for defaults of any country in the G7. It's a very serious situation.

I note that the Royal Bank published a proof point earlier this year, in which they said, "This poses a particular risk in 2025-2027 for a specific group of borrowers: those who bought a home between late-2020 and early-2022—when the market was at its peak and interest rates hit rock bottom."

For you, as a mortgage insurer, this obviously has to be on your radar. How concerned are you about this? Also, has CMHC done any analysis as to what the loan losses might be? Are you increasing your provision for loan losses on a go-forward basis, given the concerns with what might happen over the next couple of years?

Mr. Bob Dugan: It's a great question. I don't work in the mortgage insurance area. I know they do stress testing of these kinds of things in order to assess our capital levels and I can try to get back with a more precise answer, but I share the concern that in an environment of rising interest rates and with mortgages resetting at higher rates, there is risk in an environment in which Canadians are heavily indebted. It's something we monitor. It's something we want to have a handle on.

Mr. Marty Morantz: Thank you. If you could find something on that to table with the committee, it would be very interesting to have it.

In my first round I was asking the Department of Finance about various tax measures that would incentivize housing construction, and having heard your comments, I think that is first and foremost on your mind. You want to see more houses built as quickly as possible.

I remember that when I was a young lawyer, one of the programs at the time was something called the MURB program, the multiple-unit residential building program, which basically allowed investors who would risk their capital on new builds to write off the soft

costs and the capital cost allowance against their personal or professional income. That program in the 1970s and 1980s got hundreds of thousands of units built. That's why I'm harping on these recommendations in Mr. Richter's report. It seems to me that although it's good that the government is taking the GST off purpose-built rentals, there are so many other things you could do with the capital gains tax deferrals and various tax credits that are outlined in this report.

I know the Department of Finance doesn't want to talk about it, but I'm wondering if you could provide your thoughts on those types of measures.

• (1235)

Mr. Bob Dugan: Thank you very much for the question.

I have to start by saying that I'm not a tax expert and that it's not the kind of analysis that we do at CMHC, but just as a general statement, I think it's important to look at all avenues to increase the attractiveness to investors and builders to provide more supply in the housing market.

I'm in favour of analyzing all of those possibilities to have a handle on how best we can respond to this housing crisis and get units built. In terms of that suggestion versus others, I don't have the infrastructure at CMHC to study those tax estimates, so I don't have a very educated opinion on one versus the other, but I think—

Mr. Marty Morantz: Maybe this would be more of an apt question for an economist. Do you think that increasing taxes on those who risk capital to build housing would incentivize more builds?

Mr. Bob Dugan: Whether increasing taxes would...?

Mr. Marty Morantz: Yes.

Mr. Bob Dugan: No. I think the opposite would be the case.

Mr. Marty Morantz: Would you state that as being the obvious?

Mr. Bob Dugan: As an economist, that would be my answer, yes.

Mr. Marty Morantz: Thank you.

We had Professor Ian Lee here last week from the Sprott School of Business. I have his quote here. I want to read it to you. He said:

If you look at the sheer magnitude and you accept CMHC's number for a shortfall of 3.5 million units by 2030...the idea that governments, plural, can handle the majority of that 3.5 million...is preposterous.

He goes on:

What it means is that it is going to be fundamentally the private sector that's going to have to be involved...[for] the vast majority of housing that needs to be built....

He goes on, but do you generally agree with that sentiment?

Mr. Bob Dugan: Thank you very much for the question.

Absolutely: I don't think the government can do it alone. It's too monumental a task. The private sector has to be involved. That explains my position on financialization. I think we have to find ways to incent money to flow into the housing sector in order to get more of it built so that we can supply more housing to Canadians.

Mr. Marty Morantz: Thank you, Mr. Chair. Those are my questions.

The Chair: Thank you, MP Morantz.

We're going now to MP Baker for five minutes. When MP Baker concludes, we won't have enough time to go through another round, but we do have a bit of time, and I'm going to allow each party to ask one question of the witnesses. We're going to go into that round before we suspend.

MP Baker, you have five minutes.

Mr. Yvan Baker: Thanks very much, Mr. Chair.

We've been talking a fair bit today about the government's plan to provide a GST exemption on new rental builds. There has been a proposal by Pierre Poilievre, the Leader of the Opposition. He has presented a private member's bill in which he proposed to provide the GST exemption on new rental builds only to below-market units.

My question is this: What would be the difference in impact between providing a GST exemption only on the new rental builds, as Mr. Poilievre has proposed, versus the plan the government has put forward?

Mr. Miodrag Jovanovic: Thank you for your question.

I'm going to start by replying at maybe a higher level.

The proposal on the GST exemption put forward by the government is relatively simple. It's simply an exemption, a temporary one, and it's broad-based. There's no phase-out. There are no specific conditions, really, other than making sure it's directed at purpose-built rental construction and so on. That is made with the intent to ensure that it's not complex and it increases certainty for investors and therefore tries to maximize the potential effectiveness of this measure.

What I would say is that when you start from that basis and you start adding conditions, generally the effect would be to add complexity and uncertainty for investors, because they may not know up front exactly whether they're going to get it or not, and therefore that would potentially significantly reduce the effectiveness of the measure.

That would be my answer.

• (1240)

Mr. Yvan Baker: When you say it would significantly reduce effectiveness, are you saying that it would therefore result in the construction of fewer homes?

Mr. Miodrag Jovanovic: Yes, it would, because of that uncertainty. That typically would be factored in up front as part of these upfront decisions by investors. If there's more uncertainty and the

likelihood of getting the benefit may be in doubt because of the complexity or uncertainty, that could reduce it, yes.

Mr. Yvan Baker: Then it would have less impact and therefore it would build fewer homes. That's what I'm hearing you saying. It would result in the construction of fewer new homes and therefore do less to address the supply gap that we talked about earlier. Is that correct?

Mr. Miodrag Jovanovic: Yes. Potentially, yes.

Mr. Yvan Baker: There's another thing that I want to ask you about.

We are here at the finance committee of the House of Commons, and you are representatives of.... You work within the federal government. I used to be a member of the provincial parliament in Ontario. I know that when I served as a member of the provincial parliament, there were a number of initiatives related to housing, whether they were rules around development and growth plans or whether they were rules imposed on municipalities around development, etc. There were a whole series of things. There were incentives to build homes and all those sorts of things. Therefore housing is, in my opinion, largely the jurisdiction of the provinces and the municipalities, because they make the decisions—whether they're in terms of regulations or incentives, etc.—that really impact how many homes are being built.

I guess I have a two-part question, and I think I have about 60 seconds left. Is my statement correct that municipalities and provinces have the most significant impact on the number of homes that we can build across Canada in the coming years to help us address that supply gap? If so, what can they do to help ensure that we build more homes so that homes can be more affordable for Canadians?

I think I have about 60 seconds.

Mr. Aled ab Iorwerth: The short answer to your question is that, yes, I agree: It's mostly within the provinces and the municipalities. They set the rules and the regulations that roughly determine how many housing units get built.

Obviously the private sector puts a lot of capital up and it wants to build a lot of housing. However, the rules of the game are set, for the most part, by the provinces and municipalities. That's why we conducted a survey jointly with Statistics Canada. The results were published in June or July. The survey looked at regulatory burdens across Canada, and it found that the burden was quite heavy in the Toronto area and in the Vancouver area, which correlates fairly well with the lack of affordability in those areas.

Clearly, anything to accelerate approvals, speed up processes or create certainty—all of those actions—would really help. I think one of the concerns is that if there were, hypothetically, tax provisions that would be brought forward, builders would still have to face the reality of uncertainty in the regulatory processes at the local levels.

The Chair: Thank you. Thank you, MP Baker.

As I said, members, we don't have much time, but we want to squeeze as much time as we can out of the witnesses because they've been great witnesses, so it's one question per party. We're going now to the Conservatives and MP Chambers.

Mr. Adam Chambers: Thanks very much, Mr. Chair. I really appreciate the candour.

Mr. Dugan, I just want to leave an idea with you.

Forty cents of every dollar today already goes into real estate. We have a productivity problem in the country. If we want to drag more investment dollars into real estate, that's going to create some other challenges.

I would submit that we should be looking at the level of retail investment activity in the real estate market. If we want to stop that and want to release houses, forget about new construction for a second. Why do we still allow borrowed money for down payments? If we stopped that today, we would wipe out a ton of retail investment activity and release units, already built units, onto the market.

The Chair: Thank you, MP Chambers.

Go ahead, Ms. Bendayan.

Ms. Rachel Bendayan (Outremont, Lib.): Mr. Chair, I'd like to hand over my time to my friend and colleague Mr. Morrice, from the Green Party.

The Chair: Go ahead, Mr. Morrice.

Mr. Mike Morrice (Kitchener Centre, GP): Thank you. That's very kind.

I want to start quickly with a brief comment. I'm concerned that in this conversation the term “financialization” has been conflated with investments in the housing market. Financialization has led to the loss of 15 affordable units for every one new unit created.

My question is for the CMHC.

I have a local organization in my community that's been waiting for MLI Select insurance since July 2022. That is putting into question a building in which 60% of the units would be affordable that has been purchased by the community. At the same time, we have large real estate investment trusts that have received over a billion dollars in loans through the RCFI, and 80% of the units could be unaffordable.

My question is this: What can be done at the CMHC to better make sense of the program offerings so that communities like mine across the country get to report back to say that more is being done to address the affordability crisis?

● (1245)

Mr. Chris Woodcock: I'll be candid. The MLI Select program is outside of my direct responsibilities, but I do know that we're well aware of the challenges with wait times and processing times in that program. We've been putting significant efforts into moving staff in, training staff, upgrading our capacity, shortening the process and really trying to accelerate it as quickly as we can.

There are completely different processes and teams involved in RCFI—the rental construction financing initiative—and MLI Select. Wherever we have the ability, we've been pouring resources in

to shorten those timelines from MLI Select. It is not a prioritization or a distinction between the type of applicant; it's simply a matter of a different program.

Mr. Mike Morrice: Thank you.

The Chair: Thank you, MP Morrice.

Now we go over to MP Ste-Marie for a question.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I thank Ms. Bendayan for letting Mr. Morrice speak. Actually, I think that Parliament should review its procedures and fully recognize parties with fewer than 12 members. That would be a great help to democracy.

I have a question for the Department of Finance on the GST portion of Bill C-56. We've talked about this at length. The bill contains no specifics on the type of buildings or housing that will be covered, nor any affordability requirements to qualify for the GST rebate, but it does give the government the authority to clarify these matters through regulations.

Why aren't the eligibility criteria for the rebate in the bill? It's unusual in terms of taxation.

Mr. Miodrag Jovanovic: Thank you for the question.

The decision to proceed in this way was made by the government, which determined that it was the best way to proceed in the current context. At the same time, the government has announced its intention to proceed by regulation to define which rental housing units will be eligible. It has already provided some details. For example, we're talking about dwellings with at least four units or 10 rooms, as the case may be. Then 90% of the units must be used for long-term rental housing. Basically, those will be the conditions.

Mr. Gabriel Ste-Marie: Thank you very much.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Our final question will be from MP Blaikie to our witnesses today.

Go ahead, MP Blaikie.

Mr. Daniel Blaikie: I just want to take a moment to express concern at the way in which financialization has been described by the CMHC today. I think for folks who are concerned about turning housing into an asset class first and foremost, as opposed to shelter that all folks in Canada should have a right to.... Examples of financialization that I think are particularly nefarious have to do with large companies or trusts purchasing buildings where there are already affordable units, renovating those suites and evicting tenants who depend on those buildings to provide affordable rent. The companies are doing that for the sake of shareholder profit. We can't meet the needs of housing in Canada if we accept that as a model.

I do think that we need more private investment, but it has to take certain forms. I think financialization is often used to describe that morphing of housing from shelter to asset class. I think this speaks a little bit to what Mr. Woodcock was going to start to speak to. I'm happy to give him the floor briefly to go back to what he was going to talk about at the end of my last segment with whatever time I have remaining, Mr. Chair.

Mr. Chris Woodcock: During my prior answer, I was simply going to say that through the NHS, we have a bilateral housing framework in place with the provinces and territories.

In most cases, decades ago the federal government transferred responsibility for social housing to the provinces, along with financial

resources to support those units over the long term. We have targets for preservation of those units. Those are looked at on an annual basis with the provinces that have signed the agreements; Quebec and P.E.I. have not. We work very diligently with our provincial and territorial partners to make sure that we're preserving those units at all costs.

That is also a big part of the work we do on a regular basis. We can provide some statistics surrounding that as a follow-up.

● (1250)

The Chair: Thank you. Thank you, MP Blaikie.

Thank you to all our officials as the witnesses who were here to answer many questions here today from our members.

We had some guests join our committee. They were MP Morrice, MP Sorbara and PS Fragiskatos, along with all our regular members. We thank you for your testimony. This was the first meeting of our study on housing. Thank you.

At this time, members, we're going to suspend before we go in camera.

[Proceedings continue in camera]

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