

Ontario's Fair Housing Plan

The Ontario government has released a suite of measures to address deteriorating housing affordability in the province and, in particular, in the Greater Golden Horseshoe region (GGH). A total of 16 measures were introduced, aimed at the homeownership and rental markets. Some measures will have an immediate impact and, in some instances provide relief, while others are of a longer term nature. None of the measures will end the current housing price cycle in the GGH, which is driven by strong market fundamentals.

The plan's main measures are:

1. A new 15 per cent Non-Resident Speculation Tax (NRST) on the price of homes in the GGH purchased by individuals who are not citizens or permanent residents of Canada, or by foreign corporations. The proposed tax would apply to transfers of land that contain at least one and not more than six ownership residences. The NRST would be effective as of April 21, 2017, upon the enactment of the amending legislation. Refugees and nominees under the Ontario Immigrant Nominee Program would not be subject to the tax and there would be a rebate for those who subsequently attain citizenship or permanent resident status, as well as foreign nationals working in Ontario and international students.
2. Expanding rent control to all private rental units in Ontario, including those built after 1991. Develop a standard rental lease, tighten provisions for landlord's own-use evictions, and other measures to protect tenants. These changes apply to the entire province.
3. Use surplus provincial land to develop a mix of market housing and affordable housing.
4. Allow the City of Toronto and other interested municipalities to introduce a vacant homes property tax.
5. Introduce a \$125-million, five-year program to encourage the construction of new

rental apartment buildings by rebating a portion of development charges.

6. Provide municipalities flexibility to use property tax tools to help encourage development.
7. Create a Housing Supply Team to identify barriers to housing development projects and to find solutions.
8. Curb assignment sales, or "paper flipping", in which an agreement to buy a residential unit is sold to another person prior to closing.
9. Review the rules real estate agents are required to follow to ensure that consumers are fairly represented in real estate transactions, notably practices such as double ending.
10. Establish a housing advisory group which will meet quarterly to provide the government with advice about the state of the housing market and discuss the impact of the measures in the Fair Housing Plan.
11. Partnering with the Canada Revenue Agency to explore more comprehensive reporting requirements so that correct federal and provincial taxes, including income and sales taxes, are paid on purchases and sales of real estate in Ontario.
12. New provisions will include requiring that municipalities consider the appropriate range of unit sizes in higher density residential buildings to accommodate a diverse range of household sizes and incomes.

The GGH region includes: Brant, Dufferin, Durham, Haldimand, Halton, Hamilton, Kawartha Lakes, Niagara, Northumberland, Peel, Peterborough, Simcoe, Toronto, Waterloo, Wellington, and York.

Tax measures and expanding rent control are the main levers to rein in market forces and improve housing affordability.

The NRST is modelled after B.C.'s experience and its market impact is likely limited and centred on specific market segments. The lack of hard data on the extent and type of foreign housing purchases in the GGH makes a firm assessment impossible. But if Vancouver is any guide, high-end, single-detached properties in prime areas will experience the greatest negative impact. But this market will adjust and see higher prices over time. The drop in high-end, single-detached prices will temporarily pull down the overall average sale price in the GGH, but not necessarily the benchmark price computed by the Canadian Real Estate Association (CREA).

Other taxation measures such as a vacant property tax will increase supply on the market at the margin, but again the extent of this supply source is largely unknown. Some of this supply may come onto the sales market and some onto the rental market. Details of the tax matter. How is a vacant unit defined? In Vancouver, residential property is considered to be vacant if it has been unoccupied for more than 180 days during the vacancy reference period, with specific exemptions. It is too early in Vancouver to assess its market impact because this bylaw came into effect in 2017 and property owners must make a property-status declaration before February 2018.

The expanded rent control provision is potentially problematic for new rental supply. A variety of factors influence new market rental supply production, notably financing and land costs as well as market rental rates. Market rental starts have been rising recently in Ontario, though from low levels and well below requirements. However, a significant source of new market rental supply comes from investor-owned condominiums. With low interest rates, market rental supply may not be negatively affected in the near term but in the longer term individual investors and developers will take into account these limitations on market rental rates and may shift their interests elsewhere.

Other measures to encourage housing supply such as using surplus government lands, reducing the regulatory burden for new construction, better land-use planning, and assisting with lowering development cost charges for new rental apartment buildings are beneficial and will have a longer-term impact.

The bottom line is these measures will not end home price escalation in the GGH because market fundamentals remain strong and will power this housing cycle higher until there is an economic recession or crisis event. The lack of supply – active listings on the market – will not materially change as a result of these measures, at least not in the near term. Other factors need to come into play to increase listings on the market. When sales are high due to low mortgage rates, income growth, population in-migration, consumer confidence, and the desirability of homeownership, in a tight market supply situation, the result is strong price increases.

It is difficult for government policies to stop the housing cycle, short of draconian measures to kill sales and, in any case, no government would introduce such measures. Government housing policies are best addressed to long-term supply, some of which are in the Fair Housing Plan, but others are needed to increase the supply of low-income and social housing, which is dependent on funding and policy goals.

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