HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

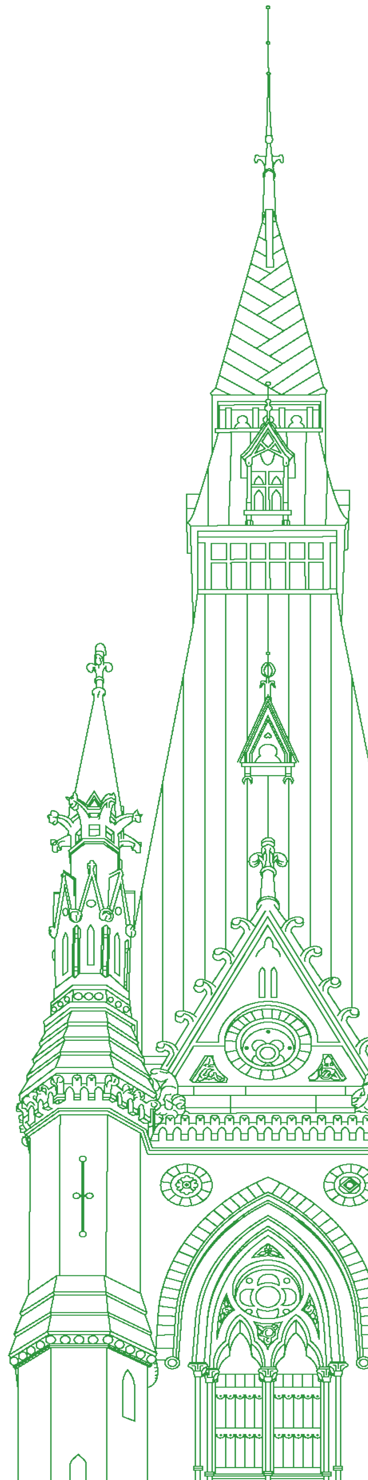
44th PARLIAMENT, 1st SESSION

Standing Committee on Finance

EVIDENCE

NUMBER 148

Tuesday, June 11, 2024



Chair: Mr. Peter Fonseca

Standing Committee on Finance

Tuesday, June 11, 2024

● (1105)

[*English*]

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

Welcome to meeting number 148 of the House of Commons Standing Committee on Finance.

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

Before we begin, I'd like to ask all members and other in-person participants to consult the cards on the table for guidelines on how to prevent audio feedback incidents.

Please take note of the following preventative measures in place to protect the health and safety of all participants, including the interpreters. Use only an approved black earpiece. The former grey earpieces must no longer be used. Keep your earpiece away from all microphones at all times. When you're not using your earpiece, place it face down on the sticker on the table for this purpose.

Thank you all for your co-operation.

Today's meeting is taking place in a hybrid format, pursuant to Standing Order 15.1.

In accordance with the committee's routine motion concerning connection tests for witnesses, I'm informed by the clerk of the committee that all witnesses have been tested, and I think everybody is good. That's for the second hour. For the first hour, everybody is here in person—oh, no, MP Sorbara is not.

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

Please wait until I recognize you by name before speaking. For members in the room, please raise your hand if you wish to speak. 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 understanding in this regard. I remind everyone that all comments should be addressed through the chair.

I'd now like to welcome our witness for our first panel today, in our first hour. From the Office of the Superintendent of Financial Institutions, we have the superintendent, Mr. Peter Routledge.

Welcome, sir. The members are looking forward to your opening remarks and to asking you questions.

The floor is yours.

[*Translation*]

Mr. Peter Routledge (Superintendent, Office of the Superintendent of Financial Institutions): Thank you very much.

Mr. Chair and committee members, hello.

Thank you for inviting me back today, this time in support of your analysis of the public policy decisions and market forces that have led to increases in the cost of buying or renting a home in Canada.

[*English*]

As outlined in our recently published annual risk outlook, we remain intently focused on the key risks facing the Canadian financial system, including real estate secured lending and mortgage risks, wholesale credit risks, funding and liquidity risks, and integrity and security risks related to the geopolitical environment.

With respect to the topic under investigation by this committee, I note that higher mortgage payments are taking up a larger part of some households' incomes, leading to more borrowers finding it difficult to pay their loans and debts. We expect rising debt service costs to be a key risk for financial institutions and their customers for the next two years. Having said that, I note that mortgage and household credit quality remains high by historical standards.

[*Translation*]

The Office of the Superintendent of Financial Institutions, or OSFI, along with its federal partners, wants Canadians to access and maintain mortgages throughout the ups and downs of market cycles.

Part of my role is to ensure that lenders exercise prudence in underwriting mortgages and sound risk management practices throughout the lifecycle of those loans.

• (1110)

[*English*]

We believe OSFI's prudential rules for mortgage lending foster a safe, stable financial system and will help keep Canadians in their homes over the long term.

It's our job to make sure that lenders remain resilient while adapting to evolving risks in financial markets.

With that said, I'll be pleased to take your questions.

The Chair: Thank you, Superintendent Routledge. I'm sure the members have many questions.

We are starting our first round with each party having up to six minutes of questions.

We'll start with MP Chambers for the first six minutes.

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

Welcome back, Mr. Routledge. Thank you for your service to the country and for keeping our financial system safe.

The Competition Bureau has recommended that we consider changing the stress test for people with uninsured mortgages. The government has changed the requirements or at least indicated that those who are insured don't have to do a stress test on renewal, so they can shop around and get a new, lower mortgage rate. Is OSFI considering changes?

Mr. Peter Routledge: Mr. Chair, the member is absolutely right in his facts. If you have an insured mortgage and you seek to renew it in an alternate lending institution, you don't have to go through a mortgage stress test or any other underwriting check.

By contrast, if you have an uninsured mortgage, you do, and that is an imbalance. The commissioner of the Competition Bureau and I have spoken about that. From our perspective, our job is to make sure institutions underwrite mortgages safely. One of the core principles of underwriting mortgages is that, when you have a new credit, you do all your underwriting discipline.

In our view, for uninsured mortgages, which guideline B-20 applies to, we ask lenders to underwrite new customers in full. That doesn't apply for insured mortgagors, because they have purchased a mortgage insurance policy.

Mr. Adam Chambers: I'm going to run out of time. The question is whether you are reconsidering that for uninsured mortgages.

Mr. Peter Routledge: Not at this time, no.

Mr. Adam Chambers: Do you believe the government made the right choice, or did you advise the government when they made the choice on insured mortgages?

Mr. Peter Routledge: From our perspective, the rules from an underwriting standpoint—what is sound underwriting—make sense to us. If you're taking new credit risk, you reunderwrite. If credit risk stays with the same counterparty, in the case of mortgage insurers, we don't think you need to reunderwrite.

Mr. Adam Chambers: Okay.

By definition, uninsured mortgage holders are less likely to default. They have more equity in the value of a house. Why are we asking uninsured mortgage holders to effectively cross-subsidize the mortgage rates of insured mortgage holders?

Mr. Peter Routledge: What we ask financial institutions to do is to underwrite new credit risks. I acknowledge that there is an imbalance from the experience of a borrower who doesn't have mortgage insurance, as opposed to one who does. It's an imbalance we accept because of the sound underwriting principles behind it.

Mr. Adam Chambers: If the government has made a choice on insureds, we're creating a two-tier kind of borrower, where the borrower who has less risk to default actually has more strenuous stress test requirements.

In 2021, when stress tests came in, I supported that. It made sense because rates were at an absolute rock-bottom level. We're now at the top of the rate cycle, according to the central banks. Shouldn't we be giving consumers a little bit more flexibility to shop to get a better rate?

Mr. Peter Routledge: Our mandate is prudential, to ensure that the lenders who provide mortgages are safe. We think that in maintaining sound underwriting policies, which includes reunderwriting or underwriting new credits, even if they're switching from another institution, is the appropriate thing to do.

Mr. Adam Chambers: Thank you.

I'd like to talk about Basel IV for a second.

The Fed has been very clear. They are making material changes that may even include delaying. They may even put out new rules for comment again. They said that they have never seen as much feedback as they have on these new rules.

Why is Canada sticking to an accelerated timeline to implement Basel IV?

Mr. Peter Routledge: In implementing the new changes from Basel IV—we also call it Basel III endgame—Canada is actually behind its initial schedule but ahead of most of its peers. We moved on these because they're based on sound prudential principles that lead to a more stable financial system, in our view.

With respect to the final leg of the changes we're making, which is known as the “standardized floor”—which is very complex but is basically a check on the models banks use to allocate capital—we are well ahead of our peers. Over the last nine months, it has become quite evident that our lead will at least stay the same or increase.

For that reason, we've been engaging with industry to consider what the right schedule should be for that rising floor, and we'll have more for you on that this summer.

● (1115)

Mr. Adam Chambers: Thank you very much.

You're aware that at least some banks have said that, in the Canadian context, it may require banks to shed about $270 billion of risk-rated assets. Do you dispute that this may occur?

Mr. Peter Routledge: My math doesn't quite align with that math.

However, what is indisputable is that a rising floor will increase risk weights, which will therefore increase capital. While we think that is a sound approach, it is imbalanced with our global peers. The industry players argue that it is an imbalance we need to look at. We would agree with that, and we've been looking at that.

Mr. Adam Chambers: Thank you.

I have a last question before the chair cuts me off.

Will you commit to not making a decision until we see what the U.S. decides to do?

Mr. Peter Routledge: I don't want to make any firm commitments here today until we're done with the due diligence behind this process.

However, perhaps I could come back to that answer later this summer.

Mr. Adam Chambers: Thank you very much.

The Chair: Thank you, MP Chambers.

Now we will move to MP Baker.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thanks, Chair.

Thanks, Mr. Routledge, for being here today.

Just for the folks who are watching at home, for constituents and Canadians who aren't familiar with you and your organization and what you do at OSFI, could you just share very briefly what OSFI's role is? What is your supervisory and regulatory role?

Mr. Peter Routledge: Basically, Parliament asked us to do two things, ensure the institutions we supervise are in sound financial condition and ensure they have policies and procedures in place to protect themselves from threats to their integrity and security. That's it.

Mr. Yvan Baker: What would happen if they weren't in a sound financial position?

Mr. Peter Routledge: What would happen if they were not?

Mr. Yvan Baker: What would that mean to Canadians if they were not?

Mr. Peter Routledge: If we're doing our job right, we see that coming and we oblige boards of directors to take prompt corrective action to forestall that.

Mr. Yvan Baker: This may be a straightforward thing from your perspective, but just so people understand, what are the consequences of one of the banks, or multiple banks, not being in a sound financial position?

Mr. Peter Routledge: To answer that question just go back to 2007 and 2008 in the United States. You saw substantial across-the-board weakness and sometimes failure of financial institutions, which contracted the availability of credit, which then contracted the economy and led to unemployment.

Mr. Yvan Baker: Yes, so basically there would be a lot of economic hardship for Canadians if the banks aren't—

Mr. Peter Routledge: A lot.

Mr. Yvan Baker: —in a strong financial position. Yes. Okay.

What are some of the steps that you have taken to cool the housing market? Let's start there. What are some of the steps you have taken to cool the housing market because, as you know, my constituents, all our constituents, are struggling with rising housing prices?

Mr. Peter Routledge: I would reframe that slightly to say that we have taken steps to make the mortgage credit system a little bit safer, which in turn may cool the housing market, but our primary objective is credit quality.

What we have done is that we have put in place mortgage underwriting standards that we oblige all banks to follow, which causes them to make safer mortgages, which then sustains and makes their institutions more resilient.

The key thing that we do, and the most important thing we do, is that we set a common baseline. If all competitors in the system think they are all following OSFI's sound underwriting policies, then they themselves will follow sound underwriting policies. If we don't have those in place, they will think, “My competitor across the street is cheating so I'm going to cheat because I have to to compete,” so there is a game theoretic aspect to what we do. We put a baseline of sound underwriting standards in place to sustain the system through ups and downs.

Mr. Yvan Baker: That makes sense, but let me challenge that a little bit.

Some of my constituents have said to me, look, if we could make it easier for me to get a mortgage, or allow me to borrow more, then I could afford to buy a house I wouldn't otherwise be able to buy, or I would be able to stay in the house that I'm currently in and now can't afford to stay in because my mortgage rates have gone up.

Wouldn't it help Canadians if we effectively loosened the reins a little bit and made it easier for them to borrow?

● (1120)

Mr. Peter Routledge: Loosening the reins will typically mean, at least as I interpret it, lessening or lowering underwriting standards. In an individual's case, you're right, someone might be able to get a little bit bigger house or stay in a house that interest rates have made more difficult to afford, but over time we would be building credit risk in the system that would ultimately, in our judgment, metastasize into a broader financial stress event that would be costly to Canada in the long run.

Mr. Yvan Baker: What I hear you saying—and I don't want to put words in your mouth so tell me if this isn't correct—is that you're focused on making sure that the banks are in a secure financial position because, if they are not, we could face tremendous economic hardship as you described.

You described an example of that as what happened in 2008, but it is in pursuit of that goal that there are some restrictions that you require banks to put in place in terms of how much they could lend to certain individuals, even though that makes it harder for some Canadians. Is that correct?

Mr. Peter Routledge: I would agree with that. The years 2009 and 2010 taught us that this resilience of Canadian banks produced a less severe recession in Canada than for peers.

Mr. Yvan Baker: I understand the part about making sure the banks are in a strong financial position. I was working in the United States around that time, 2007 and 2008. I remember the banking crisis there and the economic hardship that Americans and Canadians, but especially Americans, felt around that time. I think what I'm asking is that it sounds like you need to find a balance, because you could be even more restrictive on the banks. Is that right? That would mitigate the risk of the banks having economic hardship even further, but that would make it harder for Canadians to get mortgages.

Am I right that you're trying to strike a balance at all times?

Mr. Peter Routledge: Yes, and our act obliges us to do so. It instructs OSFI to allow banks to compete and take reasonable risks, and that is a check on what we do.

Mr. Yvan Baker: I have a last question, then.

There are people out there who have been critical. How do you respond to criticisms that the recent guidelines OSFI put in place will end up hurting Canadian consumers, especially because they make home ownership more difficult to attain?

Mr. Peter Routledge: My response to that criticism would be that we're making home ownership more safe for Canadians over the long run so that the system, overall, produces long-term outputs that are good for the country: people buying homes, paying down their mortgages and staying in their homes even when there's a recession.

The Chair: Thank you, MP Baker.

We're now going to MP Trudel.

I'll just say that many members who are not permanent members of our finance committee always want to come to the finance committee. They know how hard-working we are here, and they know we have many special witnesses. MP Hoback and MP Kayabaga are with us.

I welcome all of you to the finance committee.

We'll now have MP Trudel for six minutes.

[*Translation*]

Mr. Denis Trudel (Longueuil—Saint-Hubert, BQ): Thank you, Mr. Chair.

Thank you, Mr. Routledge. I was very pleased to hear you speak French earlier. I'm not sure if you will be able to answer all my questions in French, but in any case at least you do speak it.

I would like to talk about the housing crisis. We know that housing is always the biggest household expense. If we help people with housing, we can help them live better and afford other things. For my part, I toured Quebec last year to get a feel for things and met people who help individuals with housing problems. It's really tough. Not a day goes by that we don't see encampments in Toronto, Vancouver or Montreal. The shocking thing is that we are often seeing them now in small municipalities in Quebec, in places where that had never been seen before.

I think it was Scotiabank that said we will need to build 5.8 million housing units by 2031. This is 2024, so that is seven years from now. In Quebec, we need about 1.2 million units, while the most units built in one year is 70,000. By 2031, we need to find some way to create an ecosystem, ideally with government support, to build three times the number of units that we have ever built. So it is a massive challenge.

It was the banks that conducted those studies. The figures are not from organizations advocating for social housing, but from the banks. They are the ones saying we have to build 5.8 million units.

And yet I have not heard a single politician to date say that we have to find a solution. We need a colossal plan, like a Marshall plan. Representatives of all organizations that build housing and of all orders of government need to sit down together to address this tremendous challenge.

Right now, there are people, families and single mothers living on the streets. Last year, a young pregnant woman gave birth in a tent, right downtown. That was very close to us, in Gatineau, Quebec. I don't know how we can accept that in a G7 country. I don't accept it, in any case.

What would the OSFI advise or what policies would it suggest to the government to achieve the target of 5.8 million units within seven years, or at least to get close to that?

● (1125)

Mr. Peter Routledge: I agree with what you said. We need a strategic plan to build more housing in Canada.

I am still working on my French, so I will switch to English now if you don't mind.

[*English*]

I agree with the notion that we need a national effort to bring our housing construction up to the level of household formation. In my first year as superintendent, I gave a speech where I said that a major potential risk is our household formation well exceeding the amount of household construction in the country. That presents a long-term potential risk to the financial system. I still hold to that.

There has been progress made, and I'm optimistic, but we have to do more to bring housing construction up to household formation. When that happens, the stresses in the housing market that make homes more difficult to afford will lessen.

[*Translation*]

Mr. Denis Trudel: Let's look at this from a more technical point of view, considering all the types of housing that are built. There is no question that housing is being built. In my riding, for example, condos are being built in Longueuil that go for $2,000, $2,500 or $3,000 per month. Those are for people with a significant income. The housing crisis is really only affecting people in the middle class or below. People who earn $100,000, $150,000 or $200,000 per year do not have any housing problems, in theory, because condos are being built that they can afford.

Do you think that just building housing units, regardless of the type, could reduce housing costs? If we had a strategy to build the 5.8 million units needed, would that help stabilize the market? Would that restore a measure of affordability for people with average or below average income?

[*English*]

Mr. Peter Routledge: Because of this imbalance between household formation and housing construction, housing has been imbalanced. When demand is greater than supply, prices go up.

If we had a constructive strategy that was useful for the federal government, as well as for the provinces and municipalities, and led to more homes being built in a responsible way, supply-demand pressures would abate, in my view, and price pressures would lessen. That would address the affordability concerns that Canadians face today.

[*Translation*]

The Chair: Thank you, Mr. Trudel.

[*English*]

Now we'll go to MP Davies for six minutes.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you, Mr. Chair.

Thank you, Mr. Routledge, for being here.

On May 22, OFSI's annual risk outlook for the fiscal year said:

> Of the mortgages outstanding as of February 2024, 76% will be coming up for renewal by the end of 2026. Canadian homeowners who will renew their mortgages during this time period could potentially face a payment shock.

Mr. Routledge, can you quantify the impact you expect this potential payment shock to have on the rates of residential mortgage loans falling either into arrears or into default by the end of 2026? In other words, are we facing a mortgage renewal cliff?

● (1130)

Mr. Peter Routledge: I wouldn't use that analogy to talk about the refinancing risk that's present.

For mortgagors who have taken out three- to five-year fixed mortgages and face renewal over the next two to three years, the stair-step up in higher mortgage costs will be more manageable—in the 15% to 30% range—just depending on the timing of their last mortgage.

So far, it appears to us that Canadians are managing that increased cost.

There is a small component of the mortgage market of mortgagors who, particularly during the pandemic, took out variable rate mortgages that had fixed payments. Those folks could face mortgage payment increases of around 50%. It varies by mortgage and timing, but 50% is a good ballpark. That is a very significant shock to monthly finances, and it's one we're very concerned about.

We have an early indicator on that risk, and that is people who took variable rate mortgages with variable payments. By and large, they're managing that rising cost of interest, but their delinquency rates are higher than those for people with fixed payments. It is not dramatic; it is incremental.

Mr. Don Davies: What impact, if any, do you expect an increase in residential mortgage loans falling into arrears or default will have on housing prices in Canada?

Mr. Peter Routledge: It's hard to predict the future, but I'll try to give some perspective on that.

The issue right now, which the previous member spoke about, is a supply-demand imbalance. It means that, if we have a more than normal level of foreclosures and, therefore, greater supply on the market, demand conditions will be such that they will likely take up much of that supply, and housing price pressure will not be as significant.

I would point folks to the house price indices. Although they've been flat for two to three years, they haven't fallen, despite a very substantial increase in interest rates.

Mr. Don Davies: I want to shift to other kinds of credit, if I can.

On May 29, a news release from the Canadian Mortgage and Housing Corporation said:

> For the first time since the beginning of the pandemic, mortgage delinquency rates are trending up. Vulnerabilities first detected in credit card and auto loan markets are therefore moving into the mortgage market as well.

It goes on to say:

> This suggests the financial buffers built up during the pandemic are becoming exhausted for some households.

Do you agree with that assessment? What comments do you have on that?

Mr. Peter Routledge: Yes, I do. That's what the data indicates.

What we're seeing is that rising mortgage costs and rising interest rates first are impacting households that tend to have a little less income. That's in the lowest quintile of households. Those households typically do not own homes, but they do have credit cards and car loans. We are seeing rising delinquencies in that space, and that is a concern.

What I can tell you is that the financial institutions we regulate are absorbing those higher credit costs without material threat to either their earnings or their capital.

Mr. Don Davies: OSFI also commented in May and said the following:

> Changes to the economic environment, such as weakening labour markets and declining rates, could reduce the payment shocks outlined above.

Could you elaborate on how the combination of weakening labour markets might impact the risk associated with real estate, secured lending and mortgages?

Mr. Peter Routledge: Weakening labour markets would, if history is a guide, likely be followed by falling interest rates, which would then in turn lower the refinance risk faced by current mortgage holders.

Mr. Don Davies: If interest rates are reduced, does this not have a risk of restarting the cycle of cheaper money, putting more people in the market and, therefore, putting additional price pressure on housing?

● (1135)

Mr. Peter Routledge: The answer to that question is, yes, it does. We implemented a policy recently on mortgage underwriting that will check the tendency of banks and homeowners to lever up in that environment. That check is known as the loan-to-income ratio test.

Mr. Don Davies: Mr. Routledge, you talked about the impact of variable rate mortgages. In your view, have Canadian financial institutions taken sufficient steps to date to mitigate the risk associated with variable rate mortgages, especially those with fixed payments?

Mr. Peter Routledge: My answer to that would be a qualified yes.

The folks we're particularly worried about are folks who have that product that have negatively amortizing mortgages or interest-only mortgages. The numbers over the last 18 months have fallen from about 270,000 households to about 175,000 households. That is the result of households and financial institutions taking pre-emptive steps to avoid more problems later down the road.

The Chair: Thank you.

Thank you, MP Davies.

Mr. Don Davies: Thank you.

The Chair: That is the time.

Now, members, I'm just looking at the time. We do have enough time for a full second round.

In this round, we're starting with MP Lawrence for the first five minutes.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you, Mr. Chair.

Thank you for coming today, Mr. Routledge. I really appreciate it. I think Canadians will be glad to hear from you as well.

There are risks and challenges whether the housing prices go up or go down. Keeping it on that narrow path, I believe, is one of your goals there. I want to talk specifically about capital gains, though, and, of course, the increase in the inclusion rate of capital gains and the impact this will have on the housing market.

First of all, I want to talk about the way the Liberals designed the implementation. Of course, that's creating the conditions for a fire sale up until June 25, which is just around the door. In my mind, if you're a cottage owner and you want to get the lower rates of the inclusion, you'll want to sell before June 25.

Do you think this will have any material impact on the prices? Obviously, if the housing prices go down, that puts the risk of mortgages going underwater....

Mr. Peter Routledge: I think it's a little dangerous for me to comment on tax policy, but I'll address the question about the housing market and the effect of a sudden burst of supply.

If there were a sudden burst of supply in any particular regional market and the demand was the same, there would be downward price pressure. We have not seen that phenomena yet in any of the major markets we cover. I'd have to come back to you on specific or more local markets.

Mr. Philip Lawrence: Thank you for that.

Maybe I'll frame this question more towards generalities. It might be a little bit easier for you to respond to. The other question I want to ask is also relative to tax increases. This is on homebuilding. Your testimony earlier was that we need greater housing construction in order to bring housing prices back to reasonable levels of affordability.

If, in fact, a government increases taxes of any sort, that of course will reduce or limit supply, depending on the amount of taxation and various other factors. Is that correct, sir?

Mr. Peter Routledge: You're asking me an economic tax policy question. I'm just a superintendent. Marginal increases in the cost of housing construction...I have not seen cases in which that has materially impeded supply.

Mr. Philip Lawrence: To just go a bit further on that, if it's not marginal, though, but it's material cost, the increase in the inclusion of the capital gains rate can cost a developer millions, if not tens of millions of dollars, and often these projects are marginal. They might be a million or two either way, whether you go ahead or not. Surely you agree with me, Mr. Routledge, that now is not the time to put in additional barriers for builders to build houses when, as the president, I believe, of the home builders said there's “not a chance” we're going to hit our target.

Mr. Peter Routledge: I'm going to politely refrain from entering debate around tax policy. I will stand by my earlier statements about the importance of bringing supply into line with demand in terms of housing and household formation.

Mr. Philip Lawrence: Thank you for that, and I appreciate you're trying your best there.

I just want to switch subjects a bit to the sensitivity of interest rates with respect to the housing market. Like I said, we can get in trouble if we have houses go too low or too high. Are you concerned that a dramatic decrease—we have 0.25%, which is barely anything—if, in fact, the Bank of Canada were to move too quickly, that might drive the housing prices too high?

Are you comfortable with the four and a half rule, or the 450% rule, that we'll be able to protect ourselves from buyers taking on too much?

● (1140)

Mr. Peter Routledge: I think the advantage of this LTI requirement that we're putting in.... I should mention that it's just for institutions. It doesn't affect individual borrowers. However, what it will do, if rates do fall very low, is that it will act as a backstop to the mortgage stress test and will tend to limit the amount of excessive risk-taking in the mortgage space.

Mr. Philip Lawrence: What about right now, for the payment shock you talked about in your report? If, in fact, the housing market catches fire again because of the interest rates or whatever, what's your level of discomfort? Is it that if the housing market goes up 10%, 20% or 30% we will start seeing issues with the housing market?

Mr. Peter Routledge: If we see a significant increase in prices, the problem I spoke to, with respect to variable rate mortgages with fixed payments, will actually lessen because people facing those higher payments will have a more robust market in which to sell their homes and, therefore, cure their debt service issues.

The Chair: Thank you, MP Lawrence.

Now we go to MP Dzerowicz, please.

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

Thank you, Mr. Routledge, for being here today, and thank you for your service to our nation.

At a breakfast that a number of us attended yesterday with Bank of Canada officials, we were talking about housing. I learned that, in a number of different countries, they do very different things with mortgages. Some countries allow you to port mortgages over 80 years and a number of generations. In some countries, like the U.S., you can lock into a 30-year mortgage but you have tons of flexibility in terms of how much to pay off your mortgage at any one time.

My question to you is this. Have you been in touch with other regulators around the world? Is there anything we can learn from them, or are there ideas that we perhaps might want to consider adopting here as we struggle with the affordability and housing crisis we have right now, that you might be able to contribute to this conversation here today?

Mr. Peter Routledge: Every country's mortgage system is a reflection of its history and regulatory policy. I start by saying that Canada's mortgage system has worked quite well. Many of my peers are envious of the track record or credit quality in our mortgage system. A hallmark of it is that we have relatively shorter amortization periods, so people pay down their mortgages, and the lower your debt goes the less risky your financial situation is. When you have longer mortgages your debt stays around for longer and it is a higher-risk issue.

The Bank of Canada did interesting work on how to improve our marketplace to make longer-term mortgages available so that, if households so choose, they can term out their mortgages for longer than five years at a reasonable price. They can do it right now; it's just the prices are fairly expensive. I refer you to them. They did a lot of good work, and they have a lot of good ideas. In aggregate, if the product set evolves in that way, that will be a net benefit to the system because it will give mortgagors more choices to manage their personal financial risks.

Ms. Julie Dzerowicz: I appreciate that and the work that the team at the Bank of Canada is doing around this. I think it's at a time when we're moving into a different era, where house prices are very high and will probably continue to be very high moving forward. How is it that we can provide flexibility for Canadians in a way that doesn't sacrifice the credit quality of our banks but allows us to live in an affordable way and continue to own homes?

My colleague earlier today was talking to you about the stress test. In the early days of the pandemic, we heard from the head of CMHC then, and we talked about that test and how important it was to ensure that, during a time of global emergency and global crisis, many people would continue to be able to keep their homes because of that stress test.

Would you agree that the test helped us during the pandemic and, thereafter, continued to allow Canadians to be able to afford their homes?

● (1145)

Mr. Peter Routledge: The mortgage stress test did improve credit quality during the pandemic. More critically, I have been pleasantly surprised at the very low level of delinquencies in the Canadian mortgage space, and I attribute that to six years of the mortgage stress test, primarily.

Ms. Julie Dzerowicz: Thank you. I appreciate that.

Our latest budget has introduced open banking. Most countries have had open banking for a number of years. I think Australia is on their third or fourth version right now. I wonder, from your perspective or from the Aussie perspective, whether there's any additional work you need to do to continue to ensure credit quality within our financial institutions, because of open banking or any other work that you feel you need to be doing or thinking about, moving forward?

Mr. Peter Routledge: There's a two-part answer.

The first part is that we saw it coming, and we developed a regulatory guideline on third party risk management, which should help the banks we regulate manage new relationships that will come as a result of open banking.

Longer term, we have to be watchful that, if those new players do decide to innovate beyond their immediate business model, which is to enable, effectively, customers to own their own banking data, and move from that model to one that involves taking deposits and making loans, they do that in a regulated space. If we let that activity go unregulated, we see it usually leads to bad outcomes.

Ms. Julie Dzerowicz: Thank you.

The Chair: Thank you, MP Dzerowicz.

We go now to MP Ste-Marie for two and a half minutes.

[*Translation*]

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

To begin, I have a point of order.

When the Governor of the Bank of Canada appeared before the committee, Ms. Dzerowicz, Mr. Morants, Mr. Chambers and I asked him some questions that he promised to answer in writing. We received his answer last Friday. I want to check with you, Mr. Chair, that the committee agrees to publishing those answers and using them as though the Bank of Canada had provided them during the committee meeting.

[*English*]

The Chair: I'm looking to the members.

Some hon. members: Agreed.

The Chair: Monsieur Ste-Marie.

[*Translation*]

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

Hello, Mr. Routledge. I want to thank you for all your work and for being here today.

According to the Canadian Bankers Association, 0.19% of mortgages in Canada were delinquent in February, meaning that no payments had been made for at least three months.

To what extent do you expect that this proposal will increase the delinquency rate owing the high number of mortgages that will be up for renewal between now until 2026?

How likely is it that this increase in defaults will lead to losses for financial institutions?

Finally, what steps are you taking to limit those risks?

[*English*]

Mr. Peter Routledge: That's correct. The delinquency rate is 0.19%. To put that into context, we've seen that rate go as high as 1.00%, so it's still fairly low.

Yes, unfortunately I do expect that rate to continue to go up as Canadians renew, and some have difficulty with that. What we've done is put in place some pretty serious capital rules or capital expectations to ensure that banks have buffers to absorb losses bigger than they expect. From what we're seeing, the delinquencies and the losses they're producing are at a low enough level that the banks, particularly the large ones, will handily absorb those losses through their earnings.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

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

[*English*]

We will hear from MP Davies for two and a half minutes.

Mr. Don Davies: Thank you.

I think I have it right that there's been a recent decision to increase amortization periods to 30 years. What impact might that have on your analysis?

Mr. Peter Routledge: I believe the member refers to budget 2024. In some cases, first-time homebuyers will be able to take 30-year mortgages out if the mortgage is insured. Net-net, that will increase the buying power of homebuyers. It's a very limited increase. It's first-time homebuyers. If your mortgage amortization period goes up from 25 to 30 years, your monthly payment goes down, so you can afford more house.

● (1150)

Mr. Don Davies: Doesn't it also bring more people into the market, thereby increasing demand?

Mr. Peter Routledge: Yes, at the margins, that would lower the monthly mortgage costs, and therefore you might open up the market for more buyers. However, home sellers know this. I would expect that a rational home seller, in realizing that the people looking through their house at an open house have a little bit more buying power, would increase prices. I think the benefit will be relatively short-lived.

Mr. Don Davies: Thanks.

Finally, I think we've recently, in the last couple of years, put a ban on foreign buyers in the residential market. I'm curious to know whether you have any comment on that. Are we seeing any consequence or impact of that yet?

Mr. Peter Routledge: That ban is fairly limited, so we haven't seen any real effect on housing demand from it.

Mr. Don Davies: I'll flip that around. What's been the impact of foreign capital in our residential markets in Canada over, say, the past 10 or 15 years?

Mr. Peter Routledge: Not to be overly technical, but what is foreign capital? Certainly, it's someone who doesn't live in Canada buying a house in Canada, but—

Mr. Don Davies: That's what I mean.

Mr. Peter Routledge: Yes. That's low. What's driving demand for housing, though, are new Canadians who come in with financial resources and who then buy a home. I don't consider that foreign capital, but it is sourced from outside Canada. It is adding to demand for housing in Canada.

The Chair: Thank you.

Thank you, MP Davies.

Mr. Don Davies: Thank you.

The Chair: We'll hear questions from MP Morantz for five minutes.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair.

Thank you for your testimony today, Mr. Routledge. It's been very interesting.

One thing that OSFI regulates is basically the capital reserves of the banks, what I think you would call the domestic stability buffer. It's what ordinary Canadians could think of as money set aside for a rainy day. I note that last year, I assume out of concern for the stability of the banks, you increased that requirement from 3% to 3.5%.

Now, the language you use in your recent report for when people refinance or have these variable rate mortgages and their new payments get locked in is “payment shock”. That's very strong language. You don't use that language unless you're really concerned about something. Today it sounds to me like you've poured a little water on that, because you've narrowed it down to just people who are on the variable rate without locked-in payments.

I have a couple of questions. Are you concerned enough to increase the domestic stability buffer again this year, or are you satisfied that people are coping with their payments sufficiently that you could actually reduce it back to 3%?

Mr. Peter Routledge: Mr. Chair, we intend to make an announcement on the domestic stability buffer next week, so I won't scoop myself—

Mr. Marty Morantz: Oh, come on. Just tell us.

Voices: Oh, oh!

Mr. Peter Routledge: What I can refer you to is that in December of this year we said that the vulnerabilities had stabilized, so there was no need to raise the buffer any further. On empirical data, vulnerabilities have not worsened since that time.

Mr. Marty Morantz: Why use that language? It's clearly inflammatory language in a public report.

Mr. Peter Routledge: Payment shock...?

Mr. Marty Morantz: Yes. Why use that language? I mean, you don't use it unless you're concerned about something. It doesn't sound like you're all that concerned, based on your testimony here today.

Mr. Peter Routledge: I guess we used the language because that's how we talk about it with the institutions we regulate. That's the language they use.

Now, on payment shock, the folks who are exposed to particularly acute payment shock are relatively.... It's not a lot of people. I mean, 170,000, I acknowledge, is too many, but there are five million Canadians with mortgages. The issue we have with that risk concentration is that it will harm the Canadians who have those mortgages if they do suffer that payment shock. It will strain the earnings of the institutions. It is an unnecessary risk concentration that, all else equal, I would rather have avoided.

I used the term because that's what we use in the industry, to be honest.

● (1155)

Mr. Marty Morantz: I just want to circle back to a line of questioning that Mr. Chambers was asking about earlier. You admitted that there's an imbalance and that people with uninsured mortgages have to have their credit reassessed more than those with insured mortgages. It really is kind of backwards, as Mr. Chambers pointed out, that people who have better credit and more equity in their homes have to go through that. You're saying here there's an imbalance, but at the same time you said you don't plan to do anything about it.

Are you okay with a certain group of Canadians being treated unfairly when it comes to their mortgages compared to people who have insured mortgages? Is that okay with you?

Mr. Peter Routledge: I'm okay with banks applying underwriting standards equivalently across the system. If we were to lighten underwriting standards vis-à-vis the MQR, that would come from guideline B-20, which also calls for new credits to have the collateral appraised and to have the income of the borrower checked.

In other words, if you loosen one underwriting standard, you're probably going to loosen more. Our mandate calls on us to be fairly vigilant on this. My recognition that there is an imbalance from the perspective of homeowners who have insured versus uninsured mortgages is one I hold to. From the perspective of those homebuyers, if I were a homebuyer facing that, I would feel like it was an imbalance. The commissioner of competition and I have spoken about that, and I think it is a legitimate challenge to ask OSFI if it can do something different so that the imbalance goes away. We are thinking about it, and I think it's a fair critique.

Mr. Marty Morantz: Great. Thank you.

The Chair: Thank you, MP Morantz.

For our final five minutes with the superintendent, we have MP Sorbara, please.

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

Peter, it's nice to see you again. I think if I age you and age myself, we would go back about 12 years. I know you've had a number of roles from being a bank analyst at Moody's to, now, this position at OSFI. Congratulations on your career path and your appointments. They're very well-deserved. I still remember listening to you on the bank analyst conference calls with the bank earnings when I was on the bond side and you were on the equity side.

Peter, one thing we know about the banking industry is with regard to liquidity and funding. We know that when there's a banking crisis it always comes down to liquidity and funding. You can even take that to the consumer side as well.

I've read the annual report and I've skimmed over it. On the funding and liquidity risk side, what's your view on that with regard to the Canadian banking system?

Mr. Peter Routledge: We had a stress test of that in 2023, and I don't think it would be right to say I'm surprised, but I was certainly reassured that, during that period, Canadian banks by and large were safe-haven investments. In other words, they tended to see positive inflows. That would extend to smaller and medium-sized banks that, to be candid, we had extra vigilance over, and we saw very stable funding flows to those institutions.

A safe, regulated system with a lot of capital and liquidity buffers is viewed by international investors as a safe-haven system. It's an asset that I want to do my part to protect.

Mr. Francesco Sorbara: With regard to digitization and any sort of digital currency, open banking and portability, which of those things, if I can use this term, keep you up at night and make you think about them? OSFI has a mandate. You can try to quantify risks, and that's the best we can do with arrears and domestic stability buffers and so forth.

How should we as legislators think about that side?

Mr. Peter Routledge: The risk that keeps me up at night is that you'll get unregulated business models emerging that compete directly with regulated institutions. For example, there are some stablecoin arrangements that, when I look at their balance sheets, look an awful lot to me like banks. They take deposits for a very short period of time and they make long-term investments. Those institutions, if they have balance sheets that look like those of banks, should be regulated like banks. That's what keeps me up.

● (1200)

Mr. Francesco Sorbara: I also would like to add that, if there's an asset-liability mismatch on those balance sheets, that would obviously be a cause for concern—would it not?

Mr. Peter Routledge: One needs only look at the crypto winter or the case of Silicon Valley Bank to answer affirmatively yes to that.

Mr. Francesco Sorbara: Okay.

I have one final question. Regarding arrears in Canada, we know that Canadians' mortgage debt is backed by an asset. It's a very good asset. The arrears, the trends, if I had to qualify them, I'd say they are very stable. Would that be a fair term?

Mr. Peter Routledge: I wouldn't use “very stable”. I would use very low and deteriorating incrementally and not dramatically.

Mr. Francesco Sorbara: Thank you, Chair. I'll stop there and turn it over.

The Chair: Thank you, MP Sorbara.

We want to thank Superintendent Routledge.

Thank you very much for coming before the finance committee on our housing study. We wish you the best with the rest of your day. Thank you. We appreciate it.

Members, we'll suspend now as we transition into our second panel.

● (1200)

(Pause)

● (1205)

The Chair: Members, we are back with our second panel on policy decisions and market forces that have led to increases in the cost of buying or renting a home in Canada.

With us for our second panel, from BMO, Bank of Montreal, we have Mr. Robert Kavcic, who's a senior economist there. We are having technical challenges, I understand, with Desjardins Group, so Monsieur Jimmy Jean may not be able to be with us for this panel. From the Royal Bank of Canada, we have assistant chief economist Robert Hogue. From Scotiabank, vice-president and head of inclusion and resilience economics, Rebekah Young is with us; and from TD Bank Group, we have economist for TD Economics Rishi Sondhi.

Welcome.

With that, we're going to hear opening remarks first from Mr. Kavcic, for up to five minutes, please.

● (1210)

Mr. Robert Kavcic (Senior Economist, BMO Bank of Montreal): Thank you, Mr. Chair.

Honourable member, thank you for the invitation to appear at the House of Commons finance committee.

My name is Robert Kavcic, senior economist, BMO, covering analysis of housing market issues in Canada. My remarks and commentary today come from that perspective, as a macroeconomist on the housing market.

Housing affordability is pretty clearly a significant economic and social issue, and largely reflects the imbalance between demand and supply in the market. By most measures, housing affordability hasn't been this difficult from the perspective of a new homebuyer since 1990. Rent growth has also accelerated well in excess of income growth, and looking back at these measures, affordability, I would say, has really become an acute problem over the past three years or so.

In fact, when you look at our affordability measure that accounts for income, interest rates and home prices, it was more or less right in line with the 40-year average as recently as 2019.

The question is what has changed in that short period to cause a major supply-demand imbalance and drive such a dramatic deterioration in affordability. I think one popular narrative is that Canada just isn't building enough homes, but my takeaway from the housing data, from the labour market metrics and in speaking with industry participants across the country in homebuilding is that the industry has been running at pretty well full capacity.

In other words, we're already building almost all the housing that we possibly can in a natural response to market conditions. In the five years through 2019, just as an example, housing completions have averaged just over 190,000 units. In the last three years, as affordability was deteriorating, housing completions rose by about 20%. The current number of units under construction is at a record high in absolute terms or, if you adjust it, in per capita terms.

The supply side of the market isn't getting worse. It's just a matter of not being able to keep up with demand. Part of that demand growth is fundamental. We have very strong demographic demand from the millennial cohort. At the same time, we've seen international immigration rise from about 450,000 per year before the pandemic to almost 1.2 million people in the past year. This is a historic demand shock that does present a challenge to infrastructure, including housing.

To be very clear on this, I do believe that there are long-run benefits to a robust international immigration program. They are significant, and they should be maintained. We've shown an ability to meet housing demand created by that robust permanent resident program, but an additional 800,000 non-permanent residents in the past year has pretty clearly been difficult for the market to absorb on the supply side, and that is acutely reflected in surging rents.

Separately, on the demand side, interest rates were cut to historic lows when the Bank of Canada was easing them during the pandemic shock, until they began tightening policy in March of 2022. Deeply negative real interest rates drove outsize gains in house prices, which bred some speculative psychology in the market. That market psychology drove prices well in excess of underlying income, interest rate and demographic fundamentals, which we think are the root of house prices in the longer term.

Higher interest rates have since broken that psychology and have pulled prices down by 20% or more in some markets, but affordability won't necessarily improve until rates fall further, prices fall further or incomes are allowed to gradually catch up over time. They are, but it takes time.

Putting this all together, in summary, the demand-supply imbalance in housing has been created most acutely by surging demand, and the supply side is really doing all it can to keep up. Measures to improve the responsiveness of housing construction are certainly encouraged. The demand curve, though, seems like it is much easier to move in the short run, so appropriately calibrating demand to match our ability to provide adequate housing supply over time is probably where we have the biggest and, importantly, most achievable impact on affordability pressure in the near term.

Thank you for the opportunity to provide opening remarks. I'd be pleased to answer any questions later on.

● (1215)

The Chair: Thank you, Mr. Kavcic.

We'll now hear from Mr. Hogue from RBC.

Mr. Robert Hogue (Assistant Chief Economist, Royal Bank of Canada): Good afternoon, Mr. Chair and committee.

Thank you for the opportunity to be speaking to you today. It's always a curse going second because a lot of the points that were raised beforehand are part of my opening remarks here.

What I would add is—

The Chair: I'm going to have to interrupt, Mr. Hogue. We're having some challenges with your mic or headset. We're getting a lot of crackling coming through.

If you can unplug your headset and then plug it in again, we'll see if that will help.

Mr. Robert Hogue: Is that better now?

The Chair: No, the quality is still very poor, and it's not possible.

I'm sorry, Mr. Hogue, but we're not going to be able to hear from you.

Mr. Robert Hogue: Okay.

The Chair: We'll go to Scotiabank now, and we'll hear from Rebekah Young, please.

You have up to five minutes.

Ms. Rebekah Young (Vice-President and Head of Inclusion and Resilience Economics, Scotiabank): Thank you very much. I'm pleased to have this opportunity to provide comments today.

My name is Rebekah Young. I'm vice-president and head of inclusion and resilience economics in Scotiabank Economics. I'll be providing perspectives from a macroeconomist perspective.

Also in my role, I provide thought leadership on sustainable economic growth by taking a longer-term look at structural forces impacting Canadian welfare. Clearly, housing is one of those issues.

Housing affordability in Canada has clearly been on a path of deterioration over the past few years, but the erosion of affordability has been going on for decades now. Market forces have been a big part of this story.

Picking up on some of what my colleagues said, household income has been a positive story. Household income for the average Canadian household has been outpacing inflation fairly consistently over the past few decades. This has increased their purchasing power.

While interest rates are currently high, they have been trending down structurally for decades, making it cheaper for Canadians to finance homes over time and, again, increasing their purchasing power.

Demographics are another obvious side of the demand equation. This includes both a growing population but also an aging population. What we see is that occupancy, or the number of individuals per household, has been declining over the past few decades. As a result, the demand for homes has, in fact, outstripped population growth over the past few decades.

I would just note on aging, because we are aging as a society in Canada, that it's important to acknowledge that many more Canadians want to age in place, and in some cases, alternatives like downsizing to a condo can, in fact, be more costly than staying in place, even if it means more bedrooms sitting empty.

Supply has no doubt been a major binding constraint against these demand-driven and demographic-driven forces. Again, looking past the last few years to the past few decades, there has been an erosion of the elasticity or the responsiveness of supply to housing demand. The reasons are numerous and well documented elsewhere, from regulatory to zoning issues to escalating development charges.

Labour is another one of the challenges. Despite record-high numbers of workers in the construction industry, the number of homes that we're building in Canada has not substantially changed on a trend basis. We see that CMHC has attributed this both to productivity declines in the sector as well as regulatory hurdles along the way in a very highly fragmented sector. However, the net effect is that it is taking longer, and it is more costly to build homes of all types in Canada today.

Returning to the bigger picture, all of these factors have been amplified over the past three years to push what's been a slow-burning affordability path to an acute one. There is no panacea to restoring affordability. We do think that priorities should be placed on supply, with a broad definition to include related housing infrastructure, and that care is needed when we look at demand-side measures given the risk of further exacerbating affordability. We should also be noting changing societal preferences and needs, and those should be taken into consideration.

Canada should be able to slow the acceleration of home prices over time, but this is going to take concerted and coordinated action across all levels of government and collaboration with private sector and social-purpose organizations. However, even if the home price appreciation is slowed or even decelerates modestly, there will be a subset of Canadians, namely lower, fixed-income Canadians, for whom appropriate shelter will still be unaffordable. Canada will likely need targeted solutions there.

I'll just elaborate very briefly on this point. We published a paper last year titled “Canadian Housing Affordability Hurts”, which has been raised by this committee a few times.

I underscore that a key finding was that first-best solutions still involve dismantling supply barriers and harnessing market forces to massively scale up housing across the market-based spectrum. However, that trickle-down effect will not reach—at least fast enough—a small subset of Canadians with little or no market income under most reasonable paths. Those gaps are wider than governments can reasonably alleviate through transfers alone on an ongoing basis. A do-nothing scenario is also not fiscally appropriate, as the knock-on effect on other social infrastructure from shelters to hospital beds to prisons is even more costly than the provision of subsidized or social housing.

I would reinforce, though, that the paper makes the case that it's not an either-or situation. It's not social housing or market housing, and it's not avoiding a polarization of public versus private provision. Rather, it's about the right mix that would serve all Canadians.

● (1220)

Just stepping back, I would point out through an economic lens that housing is part of a bigger system and there are trade-offs and opportunities to consider. The income investment and capital that go into housing are income investment and capital not going elsewhere. These do warrant full deliberation.

Just as a final point, I would also note that Canada is not unique and that, in terms of home prices to income as a ratio, Canada is about the middle of the pack relative to our OECD peers. More responsive supply is first-best, but we may need to consider more broadly how markets are structured to ensure suitable, adequate and affordable shelter for Canadians without stifling the economic growth drivers that ultimately secure welfare gains.

I'll stop there. Thank you.

The Chair: Thank you, Ms. Young.

Now we'll go to our final witness before questions.

Mr. Sondhi from the TD Bank Group, go ahead, please.

Mr. Rishi Sondhi (Economist, TD Economics, TD Bank Group): Thank you, Mr. Chair.

My opening statement will be brief relative to those of my fellow panellists.

My name is Rishi Sondhi, and I'm an economist at TD Bank. I'm the economics group's housing-market expert, and I'm responsible for publishing research on housing and generating quarterly forecasts for home resales, average home prices in the resale market and housing starts.

The TD economics team's last official forecast was in March 2024, and we're right in the middle of updating our projection, which will be published on June 18. However, briefly I can say that conditions in housing markets have evolved broadly as we had anticipated in March during the spring season.

Last of all, I'd like to say that the views expressed today represent those of the TD economics team, including me, but do not necessarily represent the views of TD Bank more generally.

I look forward to your questions.

The Chair: Thank you, Mr. Sondhi.

We've had some technical challenges, so if there are any questions for Mr. Hogue, I would ask that you pose the question and Mr. Hogue could send the answer to the committee in writing. That's what can be done at this time.

Members, we're going to get into questions right now.

In the first round, I have MP Morantz for the first six minutes.

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

I want to thank all the economists for being here today.

Perhaps I'll start with you, Ms. Young. The Government of Canada announced in its budget that it's going to be increasing the capital gains inclusion rate from 50% to 66.66%. Just yesterday morning they introduced legislation to make that happen.

From an economist's perspective, do you think that the capital gains change as proposed by the Liberal government will lead to more or less investment in homebuilding?

● (1225)

Ms. Rebekah Young: Thank you for the question.

You know, I haven't seen details of the legislation, so maybe what I will talk more broadly about is the impact of the costs of some of the headwinds to supply right now.

Very obviously a big one right now is high interest rates, so that—

Mr. Marty Morantz: I'm sorry. I hate to interrupt, but I have a fairly focused issue that I'd like to try to get a response on. The government has said they're increasing the capital gains inclusion rate, which means that builders will pay more tax in capital gains when they sell the projects they've built.

From an economist's perspective, doesn't that put a damper on risk-taking in terms of building new residential projects? Aside from knowing the details of the legislation, just in principle, as an economist, don't you think that increasing the capital gains tax would make it less likely that someone might build an apartment building or a tract of homes?

Ms. Rebekah Young: We certainly know right now in the industry that development charges are a very big component in some sites—anywhere from 20% to 30% of the cost of new supply. That certainly, as a big chunk of what it costs to build, has been a deterrent to new supply.

Mr. Marty Morantz: Mr. Kavcic, maybe I'll try the same question with you. Do you think the increase in the capital gains inclusion rate will lead to more or less investment in homebuilding?

Mr. Robert Kavcic: Thank you for the question.

In the context of the overall investment activity within real estate, there is potentially an impact, either when sellers look to list properties in advance of a tax change or if the long-term economics of a tax increase alter the expectations of return going forward. I personally haven't seen the exact details of the legislation either, so I don't want to comment too deeply on it. Also real estate's a very long-dated asset, so the impact may or may not be as significant as it would be in some other asset classes.

More broadly speaking, I think for an investment asset class today, macroeconomic conditions are playing the overriding factor here. Because interest rates have increased, expectations of house price growth have decreased and current levels of rental yield don't stack up very well against risk-free government assets. As well, as an investment asset class today, real estate has kind of fallen back in terms of overall activity.

How a capital gains tax change fits in that broader context of weakening activity would already be very hard to flesh out and put a precise estimate on, I would think.

Mr. Marty Morantz: Okay. Let me ask you a question maybe in a bit of a different way.

If you were going to advise the government on the type of policy it should bring in to deal with the housing crisis, which is what this committee is studying right now and is why you're here, would you suggest increasing the capital gains tax would be one of those policies?

Mr. Robert Kavcic: With all honesty, I don't want to project the impact of a specific tax measure I haven't fully studied in this context.

Mr. Marty Morantz: Okay.

Mr. Sondhi, quickly, I'll ask you the same question. Do you think increasing the capital gains inclusion rate will lead to more or less investment in homebuilding?

Mr. Rishi Sondhi: We wrote on this. We released a report that was a fulsome take on the latest federal housing plan. The capital gains inclusion rate was rolled into that report. In it we said the impact would be highly uncertain. It's difficult to know now because we don't have a line of sight with respect to how the legislation will be fully rolled out, but there's some risk that it will be a negative factor for investment going forward, which would potentially weigh on rental supply. That's a potential impact. Again, we have to wait to see how the details roll out and wait to see how the market reacts to the information.

In the resale market, our thought was that it could cause a near-term boost in listings and supply, as potential sellers work to get ahead of the June 25 deadline, which could supply some modest downward pressure on average home prices in the near term.

Mr. Marty Morantz: Thank you.

The Chair: Thank you, MP Morantz.

Now we're going to MP Dzerowicz, and I guess you're sharing your time with MP Thompson.

Ms. Julie Dzerowicz: Thank you so much, Mr. Chair.

I will be asking one question, and then passing the baton for the rest of my time to Ms. Thompson.

First, I want to start off by saying thanks to all the economists who've presented today. I'm very sad Mr. Hogue wasn't able to present to us, but we'll move forward.

I want to state very clearly that we have heard a number of testimonies at a number of different meetings that, for over 30 years, it was the lack of investment of all three levels of government, who didn't do enough to continue to build homes in Canada, that has led to the current housing crisis. I'm very proud our federal government has released a very comprehensive housing plan. It's a plan that's going to be building more single homes, it's going to be building more rental homes and it's going to be putting in far more investments to ensure there is deeply affordable housing that is created.

However, it's going to take more than just all three levels of government investing, so my question is for Ms. Young.

What role do you see banks have in potential solutions to the housing crisis?

● (1230)

The Chair: Before Ms. Young goes, I'll stop the time because we have Mr. Hogue. We're just going to test really quickly to see if it's possible.

Could you just start speaking?

Mr. Robert Hogue: Hopefully this time you can hear me okay without any noise in my microphone.

The Chair: I'll look to the interpreters.

Could you raise the boom on your headset.

Mr. Robert Hogue: How's that? Is that a little better now?

The Chair: Okay. That's perfect.

Mr. Hogue is also available.

You got the question from MP Dzerowicz, but it was for—

Ms. Julie Dzerowicz: It was for Ms. Young.

Ms. Rebekah Young: Thank you very much.

First, I would separate two separate issues from the.... Obviously, banks provide capital. They provide capital to individuals to buy homes and also capital to developers to produce homes. Right now you also have to think of demand. What we heard from earlier testimony was around the rules and regulations. For example, chartered banks are subject to the risk-adjusted provision of capital for these activities versus the demand that's out there. Obviously, the banks we represent have a very big role through both of these channels, in both helping Canadians purchase homes and helping project developers build them.

What we've seen, including from the economics department, is that we have taken more of an advocacy role in the policy space as well, weighing into looking at some of these issues, some of the numbers, in terms of that longer-term trajectory that we're on and looking for policy solutions that benefit all Canadians, because a thriving economy is good for Canadians and it's good for banks.

Ms. Julie Dzerowicz: Thank you, Ms. Young.

Ms. Joanne Thompson (St. John's East, Lib.): Let's see how many questions I can get in within my time.

I thank my colleague for sharing her time.

Mr. Hogue, I have to go to you. I'm delighted we were able to solve the technical issues.

Could you speak to the committee and, certainly, Canadians about your perspective on what led to the housing crisis and the different elements we need to address in order to move through this predicament? In this specific lens of the elements is also the all-of-government approach, one part being the focus on labour force and really expanding skill sets in the housing construction sector.

Thank you.

Mr. Robert Hogue: This housing crisis has been—I would argue—decades in the making in some parts of the country. Before the pandemic, there was already tremendous stress in the Toronto and Vancouver areas, for example. What happened during the pandemic was that the stress spread out across Canada. Now you can arguably say that what we have is a national housing crisis. It's no longer a localized one.

Fundamentally, as was said before, it is an imbalance between demand and supply. The supply side has been unable to adjust or respond quickly enough to the very strong demand we've had over the last many years.

Our view is that the policy side should continue to focus on.... We're happy to see that all levels of government, now, are talking about the supply side, but we need to grow the housing stock in Canada to accommodate all that demand. When I say, “housing stock” here, I mean the entire spectrum. This is not just on the ownership side. This is also on the rental side. This is also on the social housing side.

We need to address this nationwide issue now with a big push to grow that housing stock to accommodate that demand.

● (1235)

Ms. Joanne Thompson: Thank you. I appreciate the language around it being a spectrum.

Ms. Young, you also spoke about housing on a continuum. It's about being mindful of the need for social housing, as well as market and everything in between.

I'm going to ask this of you both, quickly.

Could you speak about the cultural changes needed to ensure we do everything we can to address the housing challenge—what these look like in urban areas, how we live in places, how we look at shared space and how we look at the way we live within our space?

I know I'm running out of time, but I'd like a quick answer from both of you around what we need to look at culturally, as well, to ensure every Canadian has the right to dignified spaces to live in.

Mr. Robert Hogue: Do I go first on this one?

I think, especially in the urban areas, we're talking about denser housing. That means more housing in terms of footprint and addressing the missing middle. It's mid-size housing, so space will be more limited. This is where I think Canadians, especially in urban areas, will have to adjust their housing expectations.

Ms. Joanne Thompson: Ms. Young.

Ms. Rebekah Young: I'd like to very briefly pick up on that.

First of all, use the footprint we have already. That builds on the densification but also the infrastructure that is out there.

Also, we are a very decentralized country, so we have to figure out how to make that work. A lot of the needs are going to be local and on the ground. That's why either local governments or local non-profits will be able to best identify their specific and culturally appropriate needs.

Those would be two quick thoughts.

The Chair: Thank you, MP Thompson.

Now we're going to MP Trudel.

[*Translation*]

Mr. Denis Trudel: Thank you, Mr. Chair.

My first question is for you, Mr. Kavcic. I arrived shortly after you began speaking, taking over from my colleague from the Bloc Québécois, but I heard something that intrigues me: You think we have reached our maximum construction capacity in Canada. That is a problem nonetheless. In 2023 in Quebec, only 39,000 housing units were built, compared to 67,000 in 2021. So that is a decrease from the record in 2021.

How can we improve house-building capacity in Canada in general?

[*English*]

Mr. Robert Kavcic: Thank you for the question.

I agree that when you look at the Quebec numbers or the Canadian numbers broadly, we have seen, counterintuitively, new construction activity actually fall over the last two years, despite our push to continually build more. Part of that is the reality that we just have broad macroeconomic conditions that ultimately dictate what the market does.

When you have a very aggressive tightening cycle that triggers a decline in housing activity and a pullback in investment activity, you're naturally going to see a market response where construction falls. It's very difficult to push home builders to, first of all, build in an environment that's not favourable for them or that perhaps offers them a lot of risk going forward. It's also very difficult, when you have an industry that is already at capacity, to push further beyond those constraints.

In terms of a policy response, I fully agree with my colleagues that any kind of measure that can improve the elasticity or the responsiveness of supply or the productivity with which we build housing is absolutely a positive for this country and for housing supply going forward, because it can make this market dynamic play out faster.

Keep in mind that home builders take time to bring projects to market and to bring units to completion. If we have an acute demand shock on the ground today, it might be two, three or four years before we actually complete units to satiate that demand and bring rents back down to a more appropriate level.

I think that any measures on the supply side, in that context, are very important avenues to keep pushing on.

[*Translation*]

Mr. Denis Trudel: Thank you very much.

Mr. Sondhi, according to a study you conducted, 3.8 million housing units have to be built to restore some degree of affordability.

It's as though there are two housing crises right now. First, access to housing is a problem. The second issue is housing affordability, meaning it is hard for people to find housing they can afford.

On a housing tour in Quebec, I kept hearing that federal programs focus primarily on affordability right now. In other words, money is being lent to builders to build housing at 80% of market value. That means however that taxpayers' dollars raised from government taxes are being used to build one-bedroom units in Longueuil going for $1,300 per month—which I find absolutely unacceptable—and two-bedroom units in Montreal for $2,000. Through our taxes and income tax, we are all paying part of the construction costs for housing for the rich.

Building housing is not enough; we absolutely need to build reasonably priced housing, something people can afford. We need housing at $600, $700 or $800 per month, social housing.

How can this problem be solved, Mr. Sondhi?

● (1240)

[*English*]

Mr. Rishi Sondhi: With respect to overall housing affordability, I would share some of the views of Mr. Kavcic on that.

I would say that a relatively quick way whereby we could handle that would be to work on the demand side. We could slow population growth. In the past few years, population growth has been quite strong. We could implement measures to slow population growth and bring it more in line with fundamental demand.

One factor I'll touch on as well is construction productivity. Productivity in the construction industry, according Statistics Canada, lags that of other industries. It's my belief that this is not a very well-studied phenomenon. I would dedicate some resources toward studying that. If we can improve construction sector productivity, we can boost housing supply without having to bring in more individuals.

Of course, another pillar to address our labour supply would be, in fact, bringing in more individuals. That would help in that respect.

Those are the levers I would pull to help with respect to housing affordability. I think those would bear fruit.

[*Translation*]

Mr. Denis Trudel: I have a related question.

The countries in Europe that are dealing with the housing crisis most effectively include Holland, France and Austria. Compared to Canada, those countries have a larger share of off-market or public housing. I am referring to non-profit housing organizations, true social housing and co-operatives, for example.

In France, more than 20% of all rental housing is off-market housing. In Canada, it is just 5%. So we are really a long way off.

I know that the Minister of Housing, Infrastructure and Communities, with whom I have spoken, has a target of about 8%. I don't know if he will reach that next year, but I don't think that is very ambitious.

Do you think we could learn from those countries and work toward a larger share of off-market units in our rental market?

[*English*]

Mr. Rishi Sondhi: I think that's a fair point, given the affordability challenges we see in the current environment.

I will note that the latest federal budget earmarked some funds towards offering low-cost loans for prefabricated units and for student housing and the like, and some investments in the affordable housing fund, for example, so there is some movement in that respect.

I do think that the point you make is fair, but I will note that my expertise has more to do with other types of housing starts—detached, semi-detached, townhouses, row houses and the like—and not so much with the affordable housing space, unfortunately.

[*Translation*]

The Chair: Thank you, Mr. Trudel.

[*English*]

Now we'll go to MP Davies for six minutes.

Mr. Don Davies: Thank you.

Maybe I'll address this to Ms. Young, if I can.

In September 2022, the office of the federal housing advocate released a series of research reports that explore the growing trend of financial firms using housing as a commodity to grow wealth for their investors. The reports confirmed that this phenomenon, known as the financialization of housing, is contributing to unaffordable rent increases, worsening conditions and a rise in evictions. They note that the greatest impact of this is on disadvantaged groups, such as seniors, low-income tenants, people with disabilities, recent immigrants and lone-parent families. They estimate that about one-third of all seniors' housing in Canada has been financialized, along with 20% to 30% of purpose-built rental buildings.

First of all, do you agree with that? Are you concerned by it? What policy responses, if any, do you think the federal government should take towards organizations like REITs and others that are financializing residential housing?

● (1245)

Ms. Rebekah Young: I published a report early last year in which we did say that the government should set a target for social housing. We did see that there is a real issue, particularly for Canadians with fixed incomes, who aren't on market incomes, for whom housing affordability is going to be elusive, regardless of what policies are taken on the market side. We do think that we need to double the stock.

When we use the term “social housing”, it still requires all parties. It requires the private sector. It requires non-profits. It requires government. However, it becomes a different mix of what roles...and there are distinct roles between providing the financing, if it's construction or renovation, versus operations and managing at the individual level.

If we look at the social housing space, for example, one very positive development has been in British Columbia, and now the federal government is moving in this direction. It's basically the acquisition fund idea. We do have a lot of aging stock that, if it is going to be upgraded and renovated at market rates, is likely going to be higher value, higher rent—

Mr. Don Davies: If I could, though, Ms. Young, I want to focus on the REITs. I'm going to go to social housing—you've anticipated where I want to go next—but I know that REITs, for instance, don't pay any corporate income tax. Is there a sound policy basis to try to curb this trend towards increasing the financialization of housing? That's really what my specific question is.

Ms. Rebekah Young: I think that we should be looking at how to leverage capital markets to build more housing supply across the spectrum. We also need to have a very focused, specific strategy at the social end because it isn't driven by market forces. I do see a role.... A number of these aging structures are with REIT companies, so I think there is a role to harness—

Mr. Don Davies: Okay.

Your quote was that “Market-priced housing will likely never be affordable for a serious share of households”. That was your quote in your 2023 report. Can you quantify that for me, please?

What's “a serious share of households”?

Ms. Rebekah Young: I'm sorry; I apologize.

Mr. Don Davies: I was just going to ask how many we are talking about.

Ms. Rebekah Young: In this report, what I looked at was the income quintile of the renters. The really acute situation right now is in renters because, in an economic cycle, normally what happens when home prices and interest rates are high is that we see more people renting, and renting is a more of a relief valve. It's a cheaper option. However, what is very unique about this cycle is that renting, because of that population influx, hasn't been that relief valve. Consequently, the real vulnerability and affordability crunches are in those renter Canadians.

I quantified it by looking at the bottom two income quintile renters. If you think one-third of Canadians are renters, it would be two-fifths of that, so those tend to be.... One-third of those is a material number of Canadians, and they are the ones who are not securely attached to the workforce, so that—

Mr. Don Davies: I probably should have continued your quote. You said, “and easily those in the lowest income quintile—based on current trajectories”.

You don't raise, maybe, the two lowest income quintiles. Are we talking about 40% of Canadians?

Ms. Rebekah Young: I'm sorry, but it's a third. I think 10% is a good number. That is a number that would be classified as core housing need, so 10% of Canadian households.

Mr. Don Davies: I wanted to move into social housing.

You also, in the same report, said, “Canada's current stock of social housing—defined as subsidized rental units—is among the lowest across OECD peers at just 3.5% of total dwellings”.

Can you situate us in terms of our OECD peers and maybe give us some context for that? If we're at 3.5%, what is an example of a good OECD-member peer who is doing better? What kind of percentage do they have?

Ms. Rebekah Young: At the very high end we have in the double digits, from 20% to 30%. We certainly have half of the OECD peers at the lower end.

I would say that the market constructs are quite different. We admit it's very simplistic to say we're very mediocre, if not poor, relative to OECD. We said double.... Again, there wasn't a lot of science behind that, other than we really have to do something here and market forces aren't going to work for these Canadians.

Doubling is pretty ambitious, but it's a start. It's not likely going to solve all of the problems, but we have to start thinking about it. We have to start thinking about this sector.

● (1250)

Mr. Don Davies: In that same report—

The Chair: MP Davies, we're over time.

We're transitioning, and we're going into our second round. It will be a truncated round.

Members, Mr. Hogue from the Royal Bank of Canada was not able to give his opening remarks as we had technical difficulties, and I think we'd want that on record.

If you're ready, Mr. Hogue, you could deliver those to the committee members.

Mr. Robert Hogue: All right. It's not so much whether I'm ready, but it's whether the microphone is ready.

It is clear by now that Canada is in a housing crisis. It is now a nationwide issue and no longer an issue that's localized in the expensive markets like in the GTA and Vancouver.

A lot happened in that. Essentially, a perfect storm occurred during the pandemic when you had housing needs that changed very quickly. The policy response to the health crisis provided tremendous firepower for lots of households to buy homes, at least in the initial part of it. The Bank of Canada cut interest rates.

All of this really started a fire for housing demand and caused home prices to spike. Home prices had increased more than 50% nationwide in the space of 24 months. Once inflation really flared up, the Bank of Canada hiked interest rates in a historic way. From a home ownership perspective, it now had this double whammy of higher prices and a higher interest rate that really hammered housing affordability.

Today, what we're dealing with is home ownership affordability that has now gotten away from many Canadians. Many of them now are pushed into the rental market. That's created tremendous pressure on rent, and vacancy rates have reached historical lows. We're dealing with a very broad-based issue that's very complicated, so we'll need a very concerted effort to address this issue from all levels of government.

The Chair: Thank you, Mr. Hogue.

Members, I'm looking at the time. We did have some interruptions. We'll go a bit over three to four minutes for each party.

We'll start with MP Lawrence.

Mr. Philip Lawrence: Thank you, Mr. Chair. I will be splitting my time with Mr. Epp.

Ms. Young, I'd like to read a quote that you gave on a podcast not too long ago, and I wanted to make sure you agree with it. It's specifically with respect to the capital gains. You seemed unwilling to go into those waters, despite Mr. Morantz's questions. However, you did before, and I wanted to confirm that you feel the same way.

You're talking about capital gains, and you said, “And yet we have measures like this that are clearly punitive to an investment in Canada. So it is a big change. And, the signal probably doesn't sit well with a lot of folks in terms of what it means for the competitiveness and agility of Canada's landscape.”

Do you still agree with those comments?

Ms. Rebekah Young: Thank you for the question.

Yes, I still agree with those. I agree with the comments that my other colleagues made as well—first of all, situating in the bigger picture what is creating some of the headwinds and the uncertainty around it.

I'd also go back to my opening points about seeing housing as a system. This is one example where we do need to look overall at our tax structure and—

Mr. Philip Lawrence: Thank you.

My time is limited, especially since I'm splitting it with Mr. Epp.

Could I get just a brief answer to this? Do you believe, as I do, that capital gains taxation is unhelpful and that a capital gains increase is unhelpful?

Ms. Rebekah Young: I think certainly the signal is negative in that we need to look more broadly at our tax system to reorient it towards growth enhancements.

● (1255)

Mr. Philip Lawrence: Thank you, Ms. Young.

I'll give the rest of my time to Mr. Epp.

Mr. Dave Epp (Chatham-Kent—Leamington, CPC): Thank you, Mr. Chair.

At this time I'd like to move the following motion:

> That the committee order a fully redacted copy of the government's economic analysis on the impact of the federal fuel charge and the output-based pricing system, referenced as information request IR0776 in the Department of Environment and Climate Change Canada's letters to the Parliamentary Officer dated May 14, 2024, and given that this information is already produced, the committee order this file within 24 hours of this motion being adopted and report this finding to the House.

Thank you, Mr. Chair.

The Chair: Thank you, MP Epp.

I have MP Lawrence, and then MP Baker to speak to this.

Mr. Philip Lawrence: Thank you.

I'm hoping this will be a relatively quick discussion and then we can move to a vote and carry forward with what I believe has been some excellent testimony.

Of course, we heard in discussion with Mr. Yves Giroux, the Parliamentary Budget Officer, that in fact there exists a report that, at least in accordance with Mr. Giroux's comments, would validate his findings that six out of 10 Canadians are paying more into the carbon tax than they are receiving.

I should point out that Liberals do say that it's eight out of 10, but they only tell half the story, as is often the case. That eight out of 10 is only with respect to financial or direct payment. When taking into account the economic or the indirect payments...and what do we mean by that? We mean the cost the carbon tax adds to trucking the food and adds to the farmers, and that will all funnel its way down eventually to the Canadian consumer. As Mr. Giroux said, the majority of Canadians will face a net loss.

Of course he did make a clarification on the 17th, and when asked by the parliamentary secretary for finance how he knew that his numbers were correct, he said that they were the same as theirs, which was quite telling.

Then Mr. Morantz, in an excellent round of questions, asked him to confirm that there was a report. He confirmed that there was a report, and further he went as far as to say that there was a gag order that restricted him from providing the full analysis.

I have—

[*Translation*]

Mr. Gabriel Ste-Marie: A point of order, Mr. Chair.

I'm sorry to interrupt you, Mr. Lawrence.

Given the number of people who want to speak to the motion, I would like the committee's consent to let the witnesses leave.

[*English*]

The Chair: Members, I think that may be a good idea, because I do have MP Lawrence, MP Baker, MP Ste-Marie, MP Dzerowicz and then MP Morantz on my list.

On that, we do want to thank Mr. Hogue, Mr. Sondhi, Mr. Kavcic and Ms. Young. Thank you so much for coming before our committee on this housing study and for all the information that you've provided committee members. You are released. We wish you the best with the rest of your day.

Members, we will move to our speaking list.

Mr. Philip Lawrence: I'll conclude shortly, because I want to give the courtesy of allowing a response, and also, hopefully, we can get right to a vote.

I would just conclude by saying that transparency is the best disinfectant. If this report does exist, as Mr. Giroux, the Parliamentary Budget Officer, states it does, and it does validate Conservatives' conclusion that the carbon tax is causing Canadians to suffer a net loss, I would respectfully ask that we all vote yes and get this report to our committee.

The Chair: Thank you, MP Lawrence.

I'm going to MP Baker now.

Ms. Julie Dzerowicz: I was on the list.

The Chair: You are on the list. I have MP Baker, MP Ste-Marie, MP Dzerowicz, MP Morantz and MP Sorbara.

Mr. Yvan Baker: Chair, I note the time. We're almost at the end of the meeting. It's one o'clock.

I also wanted to note that, just recently, all parties came to an agreement on the work this committee will do going forward, the issues we will study and how we will allocate our time, and we came together on a programming motion. For those watching at home, it's basically a motion that lays out the plan of how we're going to spend our time and what we're going to study.

Given that we agreed to that plan, I think we should remain focused and stick to it. I think this is a new addition of a new topic, either for debate here or for further study. I don't think that's appropriate, given that all the parties came together and came to an agreement.

That said, I move that we adjourn debate.

(Motion agreed to: yeas 6; nays 5)

● (1300)

The Chair: The debate is adjourned.

Members, we have released the witnesses, so shall we adjourn?

We are adjourned.