

Intelligence MEMOS



From: Benjamin Dachis

To: Housing Observers

Date: October 16, 2023

Re: THE PROPER FEDERAL ROLE IN HOUSING

Although housing is mainly a provincial jurisdiction, the federal government is seized with the pressing political and policy problem of how to increase the housing stock, and sooner rather than later. Its proper housing role is to focus on areas of direct federal control like taxes and immigration. Direct intervention on city-by-city zoning decisions would be unwise and would likely only worsen the housing crisis.

The federal government has made a good start on housing by exempting rental construction from GST. But it needs to do more. Ottawa's GST take from housing has been rising stealthily since the early 1990s because of inflation. To merely reverse the increases, it should inflation-index and nearly double the remaining GST rebates. Owner-occupied houses start to pay GST at \$350,000. In the 1990s, the vast majority of homes sold below that. Now, the vast majority are above that amount. At \$450,000, buyers pay the full GST freight. These thresholds need updating.

Ottawa has many more tax levers only it can pull. It could re-think depreciation thresholds for owners of rental buildings. It could treat rental income as it does capital gains. It could create a [rental-housing investment tax credit](#) of the type the U.S. has long had. Or it could expand the [Canada Housing Benefit](#), a housing subsidy that, co-delivered with the provinces, goes directly to people but is often oversubscribed.

Tax changes are the easy federal job. The tricky part is interaction with municipal governments, which are the [main source](#) of construction hold-ups. The federal government can use its resources to ensure municipal accountability. But it needs to do so cautiously.

Federal Housing Minister Sean Fraser has started [sending letters](#) to municipal governments concerning their specific plans. He is providing money from the [Housing Accelerator Fund](#) to cities willing to relax zoning. That's a move in the right direction. But the federal government cannot possibly peer into the detailed zoning bylaws of the hundreds of cities that together determine the speed at which the whole country can expand its housing stock.

Nearly all cities need to act to increase housing supply. But they need to do so in the way that works best for them. Some [cities should](#) build outwards to grow. Others should build upwards. Most should do both. But each plan will and should be different. For its part, Ottawa should focus on outcomes, not every detail of every plan. Direct federal intervention in municipal planning will only slow things further as cities jockey for money. Municipal governments won't know if their plans will pass non-transparent political tests in Ottawa.

In trying to increase housing starts, the federal government needs to work with the provinces, and its grants should carry the condition that provinces impose city-by-city housing growth targets, with strict enforcement on performance. Ontario has made a [good start](#), and BC is [beginning](#) as well, but only for a few cities. To get full federal funding, provinces should be on track in their housing pledges and be using [non-discretionary](#) enforcement tools to get their cities on track.

If Ottawa works out pledges with every province, the sum of the pledged construction is a de facto nation-wide goal for housing growth. With such a number in place, the federal government can then be held accountable for how it reconciles total housing growth with immigration – a key housing determinant it controls.

Adjusting immigration and deciding on targets for housing growth will take years to have effect. What needs to happen right away is for cities and provinces to start streamlining building permit approval times.

How will we know if cities are processing permits faster? We need nationally comparable figures of how long it actually takes to get a building up and occupied and how federal tax programs are working in support of this effort.

The World Bank runs a well-known [international comparison](#) of the difficulty of starting a business. Its teams simulate the full process of a local start-up, including working through all the red tape. Canada dramatically [lags](#) the rest of the world in time required to get both a building permit and an electricity connection to a new building. Unfortunately, to create its index the World Bank works only in the largest city in each nation. Canada's numbers are therefore for Toronto. But the Bank is willing to look at more of a country's cities if asked. Ottawa should seek assessments for as many Canadian cities as possible and use a rental apartment building as the hypothetical startup in each.

All federal parties are now seized with getting more housing built. That's a good start. But we need federal intervention that treads lightly and avoids doing inadvertent harm. Unintended consequences can be as serious in housing policy as in any other area.

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